Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, April 19, 2012
9:30 a.m. or upon adjournment of floor session
Room 3191, State Capitol

7980 CALIFORNIA STUDENT AID COMMISSION

Department Overview. Established in 1955, the California Student Aid Commission (CSAC) is the state's principal provider of state-authorized intersegmental financial aid programs that provide grants and other specialized financial aid to help undergraduate and graduate students pay postsecondary educational expenses. CSAC's primary programmatic responsibilities include administration of the Cal Grant program, the Chafee Grant program, and several targeted state scholarship and loan assumption programs. CSAC also administers the California Student Opportunity and Access Program and the Cash for College program, both of which are financial aid awareness and outreach programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate; two members are appointed by the Senate Rules Committee, and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

2012-13 CSAC Budget Overview. The January budget accounts for an additional $83.6 million GF in 2011-12, and $181.2 million GF in 2012-13, to fully fund Cal Grant programmatic costs. The cost increases are driven largely by tuition fee increases at UC and CSU. In addition, at least $50 million of the $181 million year-to-year workload adjustment increase is attributable to Chapter 7, Statutes of 2011 (SB 70), savings that were one-time in nature.

Figure 1 – CSAC Historical Budget Detail for Personnel and Expenditures

	PERSONNEL YEARS				EXPENDITURES (dollars in thousands)		
	2010-11 Actual	**2011-12 Estimated**	**2012-13 Proposed**		**2010-11 Actual**	**2011-12 Estimated**	**2012-13 Proposed**
Financial Aid Grant Program	94.4	105.2	109.7		$1,398,130	$1,574,078	$1,364,472
California Loan Program	6	-	-		548,138	-	-
Administration	28.4	30.2	28.5		2,952	3,158	3,199
Distributed Administration	-28.4	-30.2	-28.5		(2,952)	(3,158)	(3,199)
TOTAL, POSITIONS & EXPENDITURES (All Programs)	**100.4**	**105.2**	**109.7**		**$1,946,268**	**$1,574,078**	**$1,364,472[1]**

[1]Of CSAC's total 2012-13 funding, $567.9 million is GF. However, this funding level is offset by the proposed shift of $736.4 million of Cal Grant costs from the GF to federal Temporary Assistance for Needy Families Program funds. The remainder of CSAC's 2012-13 funding is a mix of the Student Loan Operating Fund, the Federal Trust Fund, and Reimbursements.

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Item 1: State Operations – Implementation of 2011 Legislation

Governor's Budget Proposal. The January budget requests increased GF expenditure authority to comply with two recent statutory changes, as follows:

1. **AB 131 Dream Act (Chapter 604; Statutes of 2011 – AB 131)**

   Summary. The January budget requests $746,000 GF, of which $262,000 is ongoing, and four positions, three of which are ongoing and one of which is one-year limited-term, to comply with the requirements of Chapter 604, Statutes of 2011 (AB 131), related to eligibility for the Cal Grant program.

   Background. Existing law exempts specified California nonresidents from paying nonresident tuition at UC, CSU, and the CCC if they meet all of the following: (1) attended a California high schools for three or more years; (2) graduated from California high schools or attained an equivalent degree; (3) registered for or are attending an accredited California higher education institution not before fall of the 2001-02 academic year, and (4) filed an affidavit, if an alien without lawful immigration status, stating that the student has filed an application to legalize their immigration status or will file such an application as soon as they are eligible to do so. Effective January 1, 2013, Chapter 604 enables these students to be eligible for all state-administered financial aid programs, including the Cal Grant program.

   The activities necessary to implement Chapter 604, as supported by the resources in this request, include establishing procedures and developing forms to enable the newly eligible students to apply for, and participate in, the Cal Grant program while attending a Cal Grant eligible institution. The new application forms and award processing must be ready by January 2013 in order for these students to be considered for a 2013-14 Cal Grant award.

   The $484,000 in one-time funding in 2012-13 is for consulting services to backfill the five state programmer positions temporarily redirected to implementation of Chapter 7. This redirection of existing staff was necessary, as implementation of the solution began in November 2011 in order to meet the January 2013 deadline. However, continuing this redirection without a backfill in 2012-13 is not sustainable due to the other workload demands of CSAC's existing information technology systems.

2. **Cal Grant C – Occupational or Technical Training Priority (Chapter 627, Statutes of 2011 – SB 451)**

   Summary. The January budget requests $46,000 GF and one half-time position on an ongoing basis to comply with the requirements of Chapter 627, Statutes of 2011 (SB 451), related to prioritization of awards in the Cal Grant C program.

   Background. The Cal Grant C Program provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,592 and the allowance for training-related costs is $576. Chapter 627 established priority in selecting Cal Grant C recipients to eligible students pursuing occupational or technical training in areas with high employment and high growth potential.

The activities necessary to implement Chapter 627, as supported by the resources in this request, and beginning in 2012, center on the need to modify the Cal Grant C selection process to give priority to students pursuing occupational or technical training in areas with high need, high growth, and/or high wages. These activities include the development and regular review and update of areas of occupational or technical training to provide priority in granting awards. In addition, beginning in the 2014-15 academic year, Chapter 627 requires CSAC to examine the graduation rates and job placement data of eligible programs to give priority to students seeking to enroll in programs that rate high in those areas.

Staff Comment. Staff notes no concern with the programmatic specifics of these two requests, as they are consistent with the legislation that was enacted last year. With regard to the requested budget resources, staff notes that they are consistent with the information contained in the Appropriations Committees analyses of the bills last year.

Staff Recommendation. Approve the budget requests.

Vote:

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Item 2: Adoption of SB 70 (2011) Institutional Reporting Regulations

Item Description (Informational). The CSAC will present to the Subcommittee the timing of its plans to comply with Chapter 7, Statutes of 2011 (SB 70).

Background. Chapter 7, Statutes of 2011 (SB 70), which was enacted in March 2011 as a budget trailer bill, established tighter eligibility criteria for Cal Grant renewals. In addition, Chapter 7 required beginning in 2012, and as a condition of its voluntary participation in the Cal Grant Program, each participating institution to report to CSAC certain information about its undergraduate programs. This data includes: (1) enrollment, persistence, and graduation data for all students, including aggregate information on Cal Grant recipients and (2) the job placement rate and salary and wage information for each program that is either (a) designed or advertised to lead to a particular type of job or (b) advertised or promoted with any claim regarding job placement.

To implement these reporting requirements, CSAC is required to pursue a formal rule-making process through the Office of Administrative Law. This process takes an estimated six months to complete. CSAC staff indicates that the required first step is for the Commission to vote to authorize staff to proceed with the regulatory process. However, at this juncture, a full year after enactment of the statutory requirement, this item has not been brought before the Commission for its action. The next regularly scheduled Commission meeting is April 26-27, 2012.

Staff Comment. CSAC points to several competing demands that have prevented its ability to begin the Chapter 7 regulatory process, including workload related to the California Dream Act (ABs 130 and 131; Chapters 93 and 604, respectively, Statutes of 2011), other Chapter 7-related workload such as switching Cal Grant B eligible students to Cal Grant A (discussed as Agenda Item 3), and the need to process Cal Grant awards in a timely fashion. While staff generally agrees CSAC has competing workload demands, staff notes that the Commission held a two-day hearing in February 2012 to "*examine the impact of 'Wild West' online degrees on Cal Grants*." Further, during a January 2012 teleconference meeting to discuss, among others, the status of the current Institutional Participation Agreements (IPAs) which expire on June 30, 2012, the Commission heard concerns from participating institutions that absent any detail on the Chapter 7 reporting requirements, the institutions would have no other choice but to sign the IPA to remain in the program with uncertainty about what reporting specifics they might be agreeing to.

Subcommittee Questions. Based on the above information, the Subcommittee may wish to ask the following question:

1. What is the Commission's current plan to ensure that the information is collected beginning in 2012, as required by statute?

Staff Recommendation. None; this is an informational item.

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Item 3: Trailer Bill Language – Cal Grant B to Cal Grant A "Switches"

Governor's Budget Proposal. The January budget proposes budget trailer bill language to correct an unintended consequence of Chapter 7, Statutes of 2011 (SB 70), which established tighter eligibility criteria for Cal Grant renewals.

Background. Prior to the enactment of Chapter 7, which was a 2011 Budget Act trailer bill, Cal Grant recipients had to meet certain financial eligibility criteria only when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years). Cal Grant recipients applying for renewals now must meet several of those requirements. Applying these requirements to renewals disqualify an estimated 16,000 recipients who would otherwise be eligible for awards, reducing 2011-12 Cal Grant expenditures by about $100 million. To mitigate the impact on students, CSAC is required to use the higher of the limits in place at the time of a student's initial award and those in place at the time of renewal. Since the adoption of Chapter 7, a significant unintended consequence has arisen.

As shown in Figure 5 below, Cal Grant A and B awards have different income ceilings. They also have different academic requirements; i.e., students must attain a high school GPA of 3.0 for an A award and 2.0 for a B award.

Figure 5: 2011–12 Cal Grant Renewal Income Ceilings for Dependent Students

Family Size	Cal Grant Award Type	
	A	B
Six or more	$92,700	$50,900
Five	85,900	47,200
Four	80,200	42,200
Three	73,800	37,900
Two	72,100	33,600

Source: Legislative Analyst's Office

Some students are co-eligible; i.e., they qualify for both types of awards. For these students, CSAC selects the award that would give each student the greatest benefit over four years depending on the student's choice of institution. Students at UC and private institutions benefit more from Cal Grant A's four years of tuition coverage, for example, while students at CSU benefit more from Cal Grant B's four years of access awards plus three years of tuition coverage.

Under Chapter 7, a co-eligible student who is assigned a Cal Grant B may become ineligible for a renewal award due to increased family income, even if that student remains well within the eligibility range for Cal Grant A. This is because current CSAC policy does not permit students to switch to a different award type once they have received a grant payment. As a result, this year, more than 5,000 students who initially qualified for both an A and B award and received a B award lost their Cal Grant entitlement awards, even though many of them continue to meet the eligibility requirements for Cal Grant A. This is an unintended consequence of the new Chapter 7 requirement resulting from a technical issue that was not evident when the Legislature approved the new policy.

LAO Recommendation. The Legislature should adopt statute to ensure that co-eligible students can switch from Cal Grant B to Cal Grant A if they meet all eligibility requirements for Cal Grant A awards.

Staff Comment. CSAC has administratively revised its policy in the 2011-12 academic year to correct this unintended consequence of Chapter 7. This is crucial, given that students in the current academic year were caught in this unfortunate situation. CSAC reports that an estimated 5,100 of the roughly 10,000 withdrawn Cal Grant B awards have been reinstated as Cal Grant A awards in 2011-12. This effectively increased Cal Grant expenditures by about $29.7 million based on current-year tuition levels, an erosion of the roughly $100 million in total savings attributed to Chapter 7 in 2011-12. CSAC has not yet finalized its 2012-13 estimate of this modification. This updated information will be included in the May Revision.

Staff agrees that a permanent change to statute is warranted, to make clear the Legislature's intent and remove any uncertainty as to the budgetary actions taken in 2011 to modify eligibility for Cal Grant renewal awards. Adopting the proposed statutory clarifications also avoids the potential that someone might conclude that a Cal Grant A to Cal Grant B "switch" is also permissible. Under this scenario, a student could initially qualify for a Cal Grant A (because income was too high for a Cal Grant B) and receive payment for tuition coverage in year one. If, due to a drop in income, that student then converted to a Cal Grant B, this could result in that student receiving tuition coverage for four years plus four years of access awards – more than either a Cal Grant A and B awardee typically receives.

Staff Recommendation: Approve the proposed budget trailer bill language.

Vote:

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Item 4: CSAC Program Administration – Proposed Budget Trailer Bill Language

Governor's Budget Proposal. The January budget requests proposed budget trailer bill language to require that CSAC obtain written approval from the Department of Finance before implementing changes in policy or practice that would have a fiscal effect of $500,000 or more on any program administered by CSAC.

Background. The Administration indicates that this statutory change is necessary to provide greater clarity to CSAC program administration, particularly with regard to the potential budgetary impacts of commission actions. In support of this statutory change, the Administration points to a number of recent situations where the commission was considering a change in policy or practice that could result in significant new costs that were not included in the state budget, including:

- ✓ Decision to expand access to CCC transfer entitlement awards and thereby create an estimated $70 million in new unbudgeted GF costs for the Cal Grant program. *This issue is discussed further in Agenda Item 7.*
- ✓ Administrative actions to modify Cal Grant eligibility for renewing students, resulting in an estimated $29.7 million erosion of the total $100 million in 2011-12 savings. *This issue is discussed further in Agenda Item 3.*

Staff Comment. CSAC is unique in that it administers an entitlement program; therefore, its actions can drive new Cal Grant program costs in the state budget that neither the Legislature nor the Administration has considered or approved. This dynamic is illustrated in the above examples and raises the question of whether the appropriate budgetary "checks and balances" are in place. The Administration's proposed solution is the adoption of a statutory restriction with a cap of $500,000 and no role for the Legislature. Staff notes that this approach could be improved upon.

The Cal Grant program is strongly supported by the Legislature because it provides a crucial lifeline for hundreds of thousands of California students who could not otherwise afford to attend or complete college. Therefore, in establishing an appropriate budgetary check, the Subcommittee may instead wish to consider an approach that does not penalize or otherwise hamstring CSAC, but rather ensures: (1) proper alignment with the budget process and (2) legislative consideration of the issue(s). For instance, a budget control section could instead be used. Generally speaking, budget control sections are used to provide additional authorizations or place additional restrictions on one or more of the itemized appropriations contained in the budget. A budget control section would also allow for notification to the Joint Legislative Budget Committee, consistent with ensuring legislative consideration which is not addressed in the Administration's proposal. Finally, staff notes that a cap of $500,000 is overly restrictive for a program with a total appropriation of $1.5 billion.

Staff Recommendation. Adopt placeholder budget control section language to institute an appropriate budgetary check on administration of the Cal Grant program.

Vote:

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Item 5: Fund Transfers – Temporary Assistance for Needy Families and Student Loan Operating Fund

Governor's Budget Proposal. The January budget proposes two fund transfers, with no programmatic effect on financial aid programs, as follows:

1. Shift $736.4 million of Cal Grant Program costs from the GF to federal Temporary Assistance for Needy Families (TANF) Program funds available due to proposed reductions in the CalWORKs program.
2. Offset $30 million GF due to surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program.

Background. Historically speaking, the Cal Grant program has been funded primarily with GF support. In recent fiscal years, the Administration has proposed fund transfers, with no programmatic effect on financial aid programs. The Governor's January budget again proposes this approach.

With regard to the TANF funds, these funds are available for administration of the Cal Grant program because of reductions the Governor is proposing separately to the CalWORKs program. This approach has been proposed in the past but not adopted by the Legislature. According to the Administration, this shift is an allowable use of TANF funds because support for low-income, unmarried students age 25 or younger could prevent and reduce out-of-wedlock pregnancies, which is one purpose of TANF. The Administration notes that New York funded a tuition assistance program with TANF dollars, which was reported to and approved by the federal Administration for Children and Families. Note, these CalWORKs-related budget proposals are pending consideration before Subcommittee No. 3.

With regard to the SLOF transfer, the SLOF receives proceeds from the federal guaranteed student loan program. In 2010, the federal government transferred management of this program from CSAC to ECMC, a national loan servicing organization. ECMC has agreed to contribute SLOF support to offset Cal Grant costs for several years, but the number and amount of transfers are unspecified. The 2011 Budget Act scored $62 million in surplus SLOF funds, thereby effectively "freeing up" a like amount of GF for other purposes. The ECMC Board is scheduled to meet on May 17, at which time it will update the SLOF figure available for 2012-13.

LAO Recommendation. The SLOF receives proceeds from the federal guaranteed student loan program to offset GF Cal Grant costs. The amount of the offset is determined each May by ECMC, the organization administering the loan program. For the current year, ECMC provided $62.25 million in proceeds. The Administration's 2012-13 estimate is $30 million. The Administration's estimate is conservative. The current-year contribution of $62 million provides a more reasonable estimate and would increase projected savings by $32 million. The Legislature can adjust this number during the May Revision process after ECMC determines the amount available for this offset.

Staff Comment. Both of these fund transfers have no programmatic impact on the Cal Grant program. However, with regard to the TANF shift, any action by this Subcommittee would be conforming to the action(s) of Subcommittee No. 3. With regard to the SLOF offset, the final figure of available funds will not be known until shortly after the release of the May Revision. Therefore, the Subcommittee may wish to hold this aspect of the transfer proposals open, pending ECMC Board action and receipt of updated information from the Administration.

Staff Recommendation. (1) Conform to the action(s) of Subcommittee No. 3 regarding the CalWORKs program and available TANF funds and (2) hold open the SLOF offset, pending receipt of updated information from the Administration at the time of May Revision.

Vote:

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Item 6: Phase Out of Loan Assumption Programs

Governor's Budget Proposal. The January budget proposes to phase out existing loan assumption programs for savings of $7 million in 2012-13. The proposed phase out would: (1) authorize no new program participants; (2) continue payments for students who have already received at least one payment and who complete additional years of qualifying employment; and (3) authorize no payments for participants who have been approved for the program but have not yet received their first payment.

Background. CSAC operates several loan assumption programs that were developed in response to workforce shortages in certain occupations and work settings (for example, teachers in low-performing public schools and nurses in state prisons). Under these programs, the state agrees to make loan payments on behalf of eligible students who borrow federal loans and work in specified occupations and settings after graduation. Payments are made for three or four years, as students complete years of qualifying employment. Teachers and college faculty can receive from $6,000 to $19,000 and nurses can receive from $20,000 to $25,000 in total loan payments, depending on a participant's subject area, position, and work setting.

The annual budget act specifies the number of new loan assumption agreements (or "warrants") that CSAC may issue to current students. The 2011-12 Budget Act authorized 7,400 new warrants and includes $40 million for payments on warrants issued in previous years.

LAO Comment. Legitimate concerns have been raised regarding the cost-effectiveness of the state's loan assumption programs. In particular, it is unclear whether these incentives lead to behavioral change or simply reward participants for what they would have otherwise done. The LAO's recent evaluation of the State Nursing Assumption Program of Loans for Education found that direct compensation (such as signing bonuses and other incentives) can be a more effective employee recruitment and retention tool than promises of future loan payments. Additionally, the targeted workforce shortages have largely abated in the current economy (though some shortages may return once the economy recovers).

However, it is possible that some current participants entered a lower-paying occupation, assumed more debt, accepted a lower-paying or more difficult job, or otherwise changed their behavior from what they may have done absent the promise of loan repayment. The LAO is concerned about the prospect of canceling payments these students have already earned by completing a portion of their qualifying employment obligation.

LAO Recommendation. The Legislature should adopt the Governor's proposal to eliminate the loan assumption programs, but with one modification. The LAO recommends honoring existing agreements for all students who have begun their qualifying employment prior to enactment of statutory changes. This would reduce estimated GF savings by about $7 million in 2012-13 and delay the phase-out of loan assumption programs by one year.

Staff Recommendation. Staff recommends that this request be held open, pending the May Revision.

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Item 7: Cal Grant Program Savings – Governor's Proposals

Governor's Budget Proposal. The January budget proposes several changes to the Cal Grant program, for total savings of roughly $261.3 million if all proposals are adopted, as follows:

- $52.9 million by reducing the award amount for new and continuing students attending private for-profit colleges and universities to $4,000, a 59 percent reduction in the award level. This change affects approximately 5,400 new and 6,600 renewing Cal Grant A and B recipients, for a total of 12,000 recipients.
- $111.2 million by reducing the award amount for new and continuing students attending independent, non-profit schools to the current CSU award amount of $5,472, a 43 percent reduction in the award level. This change affects approximately 10,500 new and 20,100 renewing Cal Grant A and B recipients, for a total of 30,600 recipients.
- $97.2 million by raising the minimum grade point average requirement for new applicants; the Cal Grant A Award GPA increases from 3.0 to 3.25, Cal Grant B Award GPA increases from 2.0 to 2.75, and CCC Transfer Award GPA increases from 2.4 to 2.75. This change affects approximately 24,700 students, of which 46 percent are at CCC, 34 percent are at CSU, eight percent are at non-profit independent colleges and universities, seven percent are at private for-profit colleges, and five percent are at UC.

The January budget also proposes budget trailer bill language to avoid two Cal Grant program expansions, as follows:

1. Reverses the recent CSAC decision to expand access to community college transfer entitlement awards. Currently students must begin university studies in the academic year immediately following community college enrollment to qualify for the transfer award. The CSAC decision would allow an interruption in studies prior to transferring. By reversing this decision, and requiring transfer students to be enrolled in a CCC in the year prior to transfer, the Administration estimates it will avoid $70 million in new GF costs for the Cal Grant program.
2. Halts the planned increase in allowable student loan default rates at Cal Grant eligible institutions. The default limit is currently 24.6 percent but is scheduled to increase to 30 percent for 2012-13. The January budget would retain the current limit, which prevents institutions with higher rates (primarily private for-profit colleges) from participating in the Cal Grant program.

Background. The Cal Grant program is the primary financial aid program run directly by the state. The Cal Grant program was modified in 2000 to become an entitlement award, thereby guaranteeing Cal Grants to students who graduate from high school in 2000-01, or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, Cal Grant programs include:

- ✓ *Cal Grant A** high school entitlement award provides tuition fee funding for the equivalent of four full-time years at qualifying postsecondary institutions to eligible lower and middle income high school graduates who have at least a 3.0 grade point average (GPA) on a four-point scale and apply within one year of graduation.

- ✓ *Cal Grant B** high school entitlement award provides funds to eligible low-income high school graduates who have at least a 2.0 GPA on a four-point scale and apply within one year of graduation. The award provides up to $1,551 for book and living expenses for the first year and each year following for up to four years (or equivalent of four full-time years). After the first year, the award also provides tuition fee funding at qualifying postsecondary institutions.

- ✓ *Community College Transfer Award* provides a Cal Grant A or B to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.

- ✓ *Cal Grant Competitive Award Program* provides 22,500 Cal Grant A and B awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards are reserved for students enrolled at a community college and who met the September 2 application deadline.

- ✓ *Cal Grant C Program* provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,592 and the allowance for training-related costs is $576.

*The current maximum award for Cal Grants A and B are equal to the mandatory systemwide tuition fees at the UC ($12,192) and CSU ($5,472). With regard to private for-profit and independent non-profit institutions, the maximum award has been $9,708 since 2000, with the exception of two years (2004-2006), where the awards levels were reduced by 14 percent, to a total of $8,322.

Figure 2: Cal Grant Program Award and Funding Levels (dollars in thousands)

	2009-10	**2010-11**	**2011-12**	**2012-13**
Entitlement Awards				
Number	171,526	188,698	199,436	168,116
Amount	$911,366	$1,188,319	$1,369,143	$1,167,471
Competitive Awards				
Number	38,599	38,871	36,766	35,909
Amount	$119,166	$128,237	$127,887	$124,694
Cal Grant C				
Number	8,473	8,587	7,848	7,848
Amount	$9,835	$11,167	$9,002	$9,702
Totals	**$1,040,367**	**$1,327,723**	**$1,506,032**	**$1,301,867**

Figure 3 – Cal Grant Recipients and Funding Amount by Segment, 2011-12 Estimates (Dollars in Millions)

	Recipients		Funding	
Post-Secondary Segment	**Number**	**Percent**	**Amount**	**Percent**
CSU	75,524	31%	$382	25%
CCC	72,248	30%	$87	6%
UC	55,759	23%	$680	45%
Private Non-profit Institutions	26,854	11%	$246	16%
Private For-profit Institutions	14,664	6%	$112	7%
Totals	**244,049**	**100%**	**$1,506**	**100%**

Source: Legislative Analyst's Office

As part of the 2011 Budget Act, the Legislature adopted two significant changes to the Cal Grant program:

(1) Tighter Eligibility Criteria for Renewals. Previously, Cal Grant recipients had to meet certain financial eligibility criteria only when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years). Cal Grant recipients applying for renewals now must meet several of those requirements. Applying these requirements to renewals disqualified an estimated 16,000 recipients who would otherwise be eligible for awards, reducing Cal Grant expenditures by about $100 million in 2011-12. To mitigate the impact on students, CSAC is required to use the higher of the limits in place at the time of a student's initial award and those in place at the time of renewal.

(2) New Restrictions on Student Loan Default Rates. A second change removes some postsecondary education institutions from eligibility to participate in Cal Grant programs. Specifically, institutions may not participate if a high proportion of their former students default on federal student loans. For 2011-12, the threshold is set at 24.6 percent of an institution's students defaulting within three years of loan repayment, as defined and calculated by the federal government. For subsequent years, the ceiling increases to 30 percent. These ceilings apply only to institutions with 40 percent or more of undergraduates borrowing federal student loans. For 2011-12, about 76 institutions are affected, and most of these are career and technical colleges. There is a limited exception for continuing students at institutions that become ineligible; these students may qualify for renewal awards reduced by 20 percent.

LAO Recommendation. The Legislature should consider a more nuanced approach to setting Cal Grant award amounts for students at different types of institutions. This would involve reestablishing a rational policy basis for award amounts and recognizing differences within each sector. For example, awards could reflect a student's qualifications and choice of academic program (such as baccalaureate or associate degree). However, significantly more work is needed to examine the effects of various changes on total state costs and overall access to postsecondary education. Rather than adopting the Governor's proposal in its current form, the Legislature should explore alternative approaches as part of its budget deliberations.

The Administration's GPA proposal has some merit, but it goes too far. It would result in eliminating one third of entitlement awards and would have a disproportionate impact on students with the greatest financial need. The Legislature should make more modest changes to GPA requirements. The LAO has recommended an alternative GPA proposal, discussed as Agenda Item 8.

Finally, avoiding new costs makes sense in the current budget environment. The LAO recommends that the Legislature approve the Governor's proposals to halt the removal of the CCC transfer time limit and the raising of the default limit. In the future, when the state fiscal condition has improved, the Legislature could consider whether to prioritize these two program expansions.

Staff Comment. The Administration cites dramatic increases in Cal Grant costs since adoption of the entitlement programs in 2001 as the reasoning for its proposed changes in the program. It is correct that overall expenditures for the Cal Grant program have increased in recent years. As high school graduation levels have been relatively flat, these increased expenditures can be primarily explained by two factors that have increased the number of students eligible for financial aid: (1) tuition fee increases at public universities and (2) decreased family incomes due to economic conditions and the state's high unemployment rate.

As noted earlier in this agenda, the Cal Grant program is strongly supported by the Legislature because it provides a crucial lifeline for hundreds of thousands of California students who could not otherwise afford to attend or complete college. The January budget proposes $261.3 million GF in savings in the Cal Grant program, and avoids new costs of approximately $70 million GF by limiting program expansions. Should the Legislature choose not to adopt all or part of the savings proposals, or the limitations on program expansions, the charge will then be to find additional savings elsewhere in either the Cal Grant program or in other GF-funded state programs. Last year the Legislature considered, but did not adopt, reform proposals to limit all new Cal Grant Competitive awards to the CCC and limit the time allowed on academic probation while still receiving a Cal Grant. Other LAO-identified savings proposals are discussed in Agenda Item 8. None of these alternatives, or the proposals contained in the January budget, present easy choices for the Legislature.

Finally, staff notes that the deadline for financial aid applications is March 2. High School Entitlement recipients are notified as early as the beginning of February. Transfer Entitlement recipients and Competitive recipients are notified in April-May. Renewal award recipients are notified in June. The Cal Grant award letter states the award is dependent upon the final budget, which is not finalized until the summer. In prior years, such as in 2010 when the budget was not finalized until October, many postsecondary institutions covered tuition and even advanced access awards from other funds. This was done because there was a good expectation that the funds would eventually come through. This year the dynamic is different – given the depth and breadth of the proposed budget reductions, including those impacting renewing students at private for-profit and independent non-profit institutions, as well as the GPA changes impacting new applicants – it is possible that many students could be awarded provisional grants only to have them canceled.

Subcommittee Questions. Based on the above information, the Subcommittee may wish to ask the following questions:

1. Beyond controlling costs, what other rationale(s) can the Administration provide for its savings proposals?

2. What explains the disparity in the reduction of the award levels for private institutions, where the maximum award for for-profits is reduced by 59 percent while the maximum award for independent non-profits is reduced by 43 percent?
3. Has the Administration modeled the potential state budgetary impacts of the proposals to reduce award levels for students attending private institutions; i.e., if these students instead opt to attend public institutions, won't the state's costs increase?
4. The current program structure is need-based with some merit requirements. The Administration's proposals to modify GPA levels increase the emphasis on merit, targeting aid on those financially needy students with higher grades. What is the rationale for this change in approach?
5. The proposed CCC transfer entitlement award trailer bill language would require students to be enrolled within a year of leaving a CCC. Given CSU's recent announcement about potentially closing spring enrollment to all but SB 1440-eligible transfer students, is the Administration concerned that its language is too restrictive? Is the Administration considering any modifications to ensure that a student not lose eligibility if they fail to gain admission through no fault of their own, perhaps by modifying the existing deferral process which allows students to defer their grants for one year?
6. The January budget does not recognize the CSU fee increase effective for the fall 2013 term. Separately, the budget includes controlling language that accounts for any tuition fee increase at CSU. This translates to an estimated $28 million deficiency in the Cal Grant program. Does the Administration plan to address this inconsistency?

Staff Recommendation. Staff recommends that these requests be held open, pending the May Revision.

7980 CALIFORNIA STUDENT AID COMMISSION

Item 8: Cal Grant Program Savings – LAO Alternatives

Description (Informational Item). The LAO will provide a brief overview of the alternative Cal Grant program savings proposals it has identified. In proposing these alternatives, the LAO has reported that preserving the state's comprehensive system of student financial aid, including Cal Grants, university grants, and CCC fee waivers, is key to maintaining the affordability of higher education in California. Some aspects of these programs, however, could be improved. In addition, certain smaller financial aid programs do not necessarily improve affordability for students.

Figure 4 -- LAO-Identified Alternative Cal Grant Program Savings Proposals

Eliminate Non-Need-Based Tuition Waivers. Savings of $30 million (assumes one-half of current recipients would qualify for state need-based financial aid programs).	State law requires all three public higher education segments to waive fees for survivors and dependents of deceased and disabled veterans and deceased public safety workers. Federal assistance programs provide education benefits to these same populations. Some of these federal programs reduce awards by the amount of other governmental assistance, including fee waivers, that a student is eligible to receive. As a result, by providing fee waivers to these students the state is using state and institutional funds for costs the federal government would otherwise pay. In addition, California's tuition waiver programs are available to students who are not financially needy. Because they provide benefits to non-needy students or duplicate existing benefits, these programs do not improve affordability of higher education. These mandatory waivers account for more than $60 million in forgone tuition revenue at public colleges and universities.
Limit New Competitive Cal Grant Awards to Stipends Only. Savings of $30 million ongoing.	CCC students receive three-quarters of new competitive Cal Grant awards but only one-third of new funding. Students at UC, CSU, nonprofit colleges and universities, and private career schools receive one-quarter of awards (about 4,000) with the majority of funding. This is largely because CCC students do not receive fee coverage as part of their grant awards. Instead, they qualify for campus-based fee waivers, and receive a $1,551 annual stipend to cover expenses other than fees. Restricting all new competitive awards to this amount would not affect the three-quarters of new recipients who are CCC students. Other students would have the option to attend a community college with fee waivers and stipends, or seek additional financial aid at other institutions.
Adjust Cal Grant Financial Eligibility Criteria. Savings would depend on the particular income or EFC level selected.	For 2012-13, a dependent student from a family of four may qualify for a new Cal Grant A or C award with a family income up to $80,100. (The threshold is lower for Cal Grant B awards.) This is approximately the median income for a family of four in California. The Legislature could adjust financial eligibility criteria to reduce the number of students who qualify for Cal Grants. For example, it could set maximum income levels at a lower amount, such as 80 percent of median family income, or a multiple of the federal poverty guideline (such as 250 percent). Alternatively, it could eliminate income and asset ceilings and use only the Expected Family Contribution (EFC), calculated through the federal aid formulas. The EFC reflects family resources (income and assets) as well as costs (including the number of family members attending college.) Cal Grant eligibility could be based on a maximum EFC, ensuring that funds are

	targeted to the students with the fewest financial resources.
Increase Minimum GPA for Cal Grant Eligibility. Savings would depend on the particular GPA level selected.	Under the Cal Grant High School Entitlement program, students must attain a high school grade point average (GPA) of 3.0 to qualify for Cal Grant A awards, which provide full fee coverage for four years. Students may qualify for Cal Grant B awards, which provide stipends of $1,551 each year and full fee coverage after the first year, with a 2.0 GPA. Students with a GPA of 2.0 have extremely low rates of persistence and success in college. Estimates show fewer than 20 percent of CSU students who earned high school GPAs of 2.0 or less graduate from college. The LAO recommends raising the minimum GPA for Cal Grant B awards to 2.5. The LAO also recommends raising the minimum GPA for Cal Grant Transfer Entitlement awards, currently 2.4, to 2.5. These actions would reduce the number of Cal Grants by about 17,000 and save $21 million. The Legislature could phase in changes over a period of time to allow students an opportunity to improve their grades.
Reduce Maximum Awards. Savings would depend on the percentage reduction in the award level selected.	As an alternative to eliminating some awards entirely or disproportionately reducing others, the Legislature could reduce all awards by a specified amount. This would be less likely to result in reduced college access. A 10 percent reduction in the tuition portion of award amounts (preserving access awards at $1,551) would provide more than $100 million in savings.
Reduce Amount of Tuition Revenue Redirected to Campus Aid Programs.	In recent years, UC and CSU have redirected one-third of new revenues from tuition increases to augment campus aid programs. The universities provide more than $1.5 billion in campus aid to undergraduates—far more than their students receive in Cal Grants. Each segment sets its own policies for awarding campus aid, reflecting different priorities at UC and CSU. Because they divert a portion of tuition revenue to aid programs, the segments must set tuition levels higher than they otherwise would in order to achieve a given revenue target. This higher tuition, in turn, raises Cal Grant costs. Diverting somewhat less of the revenue to aid would permit lower tuition and reduce the impact on Cal Grants. The segments could adjust the redirection of fees while preserving the structure of financial aid programs, requiring modest increases in all student contributions or targeting reductions to those with the least financial need.
Establishing a Limit on Awards for Lower-Division Studies.	Currently a student can use all four years of Cal Grant eligibility at a CCC, leaving none for the junior and senior years at a university. Restricting utilization to the first two years at a CCC could create an incentive for students to complete their lower-division studies and move on to a senior institution. While this change could increase costs in the short term, it could also reduce state spending on students who are taking excess course units and improve program completion rates and time to degree.

Staff Recommendation. None; this is an informational item.