

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan Bonilla, Chair

WEDNESDAY, MARCH 13, 2013
4:00 PM - STATE CAPITOL ROOM 126

CAL GRANTS: PAST ACTIONS AND IMPACTS

I. OPENING REMARKS

Assembly Member Susan Bonilla, Chair

Committee Members

II. PREVIOUS ACTIONS, IMPACTS AND LOOKING FORWARD

Judy Heiman, Higher Education Analyst, Legislative Analyst's Office

Diana Fuentes-Michel, Executive Director, California Student Aid Commission

Deborah Cochrane, Program Director, The Institute for College Access & Success

III. SEGMENT PERSPECTIVES

David Alcocer, Interim Direct, Financial Student Support, University of California

Robert Turnage, Assistant Vice Chancellor for Budget, California State University

Rhonda Mohr, Specialist, Student Financial Aid, California Community Colleges Chancellor's Office

Catherine Graham, Director of Financial Aid, Loyola Marymount University

IV. STUDENT PERSPECTIVES

Christian Rodriguez, Loyola Marymount University

Danielle Parsons, California State University, Sacramento

Tanay Kothari, University of California, Berkeley

Rachel Baltazar, De Anza College

CAL GRANT BACKGROUND

The Cal Grant program is the primary financial aid program run directly by the State. Modified in 2000 to become an entitlement award, Cal Grants are guaranteed to students who graduate from a California high school and meet financial, academic, and general program eligibility requirements. About 269,000 students received new or renewed Cal Grant awards in 2012-13, totaling about \$1.6 billion.

Administered by the California Student Aid Commission (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 \$1,473 for book and living expenses for the first year and each year following for up to four years (or equivalent for 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 community college students transferring to a qualifying baccalaureate degree granting college or university. To qualify, students must be an eligible high school graduate, younger than 28 years of age, with a community college GPA of at least 2.4 on a four-point scale.
- **Cal Grant Competitive Award Program** provides 22,500 Cal Grant A or B awards available to eligible applicants who do not qualify for Cal Grant A or B entitlement awards. Half of these awards are reserved for students enrolled at a community college. There is no age limit for the Competitive Cal Grant A and B awards.
- **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 \$2,462 and the allowance for training-related costs is \$547.

*The maximum tuition awards for Cal Grant "A" and "B" are equal to the mandatory system wide tuition fees at the UC (\$12,192) and CSU (\$5,472), and \$9,223 at private for-profit and independent non-profit institutions.

The Cal Grant program is a key component of California's higher education system and the goals of affordability and access to colleges and universities. It is a major piece of funding for the state's public higher education systems: about 30 percent of students at the University of California receive a Cal Grant, for example. According to information compiled by The Institute for College Access and Success, California students' higher education loan debt is third lowest in the country, in part because of the Cal Grant program. In addition, one in-depth study published in 2004 found that Cal Grant students have a much higher rate of staying in college than other similar students.

The Governor's 2013-14 Budget proposes no major new policy changes regarding the Cal Grant program. Costs for the program have increased dramatically during the past eight years, both due to increased participation and UC and CSU tuition increases. Participation grew about 40 percent from 193,000 students in 2004-05 to 269,000 students in 2012-13. Costs more than doubled from \$720 million to about \$1.6 billion during that period. The charts below display the number of students receiving the various types of Cal Grant awards, and how Cal Grants are dispersed throughout the state's higher education system.

Cal Grant Award Granted & Funding Levels

(Dollars in Thousands)

	2011-12 Actual	2012-13 Projected	2013-14 Proposed
Entitlement Awards			
Number of Recipients	204,182	222,433	241,538
Amount	\$ 1,366,180	\$ 1,461,798	\$1,569,028
Competitive Awards			
Number of Recipients	37,868	38,510	39,183
Amount	\$ 128,236	\$ 124,255	\$ 117,405
Cal Grant C			
Number of Recipients	7,910	7,936	7,899
Amount	\$ 8,964	\$ 8,212	\$ 7,947
Total			
Amount	\$1,503,380	\$1,594,265	\$1,694,380

Figure 5
Cal Grant Recipients and Funding by Segment

(Dollars in Millions)

	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change From 2012-13	
				Amount	Percent
Number of Recipients					
California State University	77,485	88,645	97,426	8,781	10%
California Community Colleges	76,062	80,786	87,926	7,140	9
University of California	57,394	60,687	64,885	4,198	7
Private nonprofit institutions	23,798	25,483	26,840	1,357	5
Private for-profit institutions	15,220	13,278	11,542	-1,736	-13
Totals	249,959	268,879	288,619	19,740	7%
Funding					
University of California	\$691	\$733	\$782	\$48	7%
California State University	394	454	509	55	12
Private nonprofit institutions	219	226	238	12	5
Private for-profit institutions	104	90	66	-24	-27
California Community Colleges	88	91	99	9	10
Totals	\$1,496	\$1,594	\$1,694	\$100	6%

CAL GRANT ACTIONS IN PREVIOUS TWO BUDGET ACTS

Six major budget actions were enacted during the previous two budgets to modify Cal Grant program policies. Below is a description of each change:

- TANF Shift.** The 2012 Budget Act redirected \$804 million in Temporary Assistance for Needy Families (TANF) block grant funds from the California Work Opportunity and Responsibility to Kids (CalWORKs) program to the California Student Aid Commission (CSAC) to be used for expenditures in the Cal Grants program that are allowable under federal rules that govern the use of TANF funds. According to the Administration, the use of TANF funds in the Cal Grant program falls within federal rules for TANF funds that allow funding to go to low-income, unmarried students age 25 or younger for programs that could prevent and reduce out-of-wedlock pregnancies. Reduced TANF funds in CalWORKs were replaced dollar for dollar with General Fund monies from CSAC, resulting in no net impact on funding levels for Cal Grants and CalWORKs due to this swap.

However, the swap enabled a cut of \$470 million in General Fund from the CalWORKs program that dramatically shortened the amount of time a Cal Works recipient may remain eligible for supportive, educational and employment services such as child care from 48 months to 24 months. The swap of General Fund and TANF funds between CalWORKs and the Cal Grant program allowed this cut to occur without impacting federal maintenance-of-effort (MOE) funding levels for TANF, which would jeopardize the federal TANF block grant.

The Governor's 2013-14 Budget proposes to continue this strategy by using \$942.9 million in TANF funds for the Cal Grant program, meaning more than half of the Cal Grant program would be supported by TANF.

- Annual Income/Asset Test.** Previously, Cal Grant recipients only had to meet certain eligibility criteria when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years), although they did need to prove financial need annually. Changes enacted in the 2011 budget now require Cal Grant recipients applying for renewals to meet income and asset requirements that previously were only required when they first applied. For example, a renewal applicant's family income and assets must fall below specified levels, as shown below, for 2013-14. Should a student's income or asset situation change during the course of their college attendance, they can lose their Cal Grant, even if they still meet the annual financial need requirements.

Income		
Family Size	Cal Grant A and C	Cal Grant B
6 or more	\$96,100	\$52,800
5	\$89,100	\$48,900
4	\$83,100	\$43,700
3	\$76,500	\$39,300
2	\$74,700	\$34,900
Asset Ceiling		
Dependent Students	\$60,500	\$60,500
Independent Students	\$30,600	\$30,600

This policy change in 2011 led to an unintended consequence that was addressed in the 2012 budget. Under the new policy, about 5,000 students who were initially eligible for both Cal Grant A and Cal Grant B awards received a Cal Grant B award and then became ineligible for renewal under Cal Grant B eligibility thresholds, which are tighter than those for Cal Grant A. These recipients were unable to renew their awards, even though they continued to meet the eligibility criteria for Cal Grant A. The 2012 budget clarified that students in this situation may receive Cal Grant A renewal awards.

- Cohort Default Rates and Cal Grant eligibility.** Changes enacted in both the 2011 and 2012 budgets remove some higher education institutions from eligibility to participate in Cal Grant programs. The 2011 budget disqualified institutions from the Cal Grant program if 24.6 percent or more of their former students defaulted on federal student loans within three years of loan repayment, as defined and calculated by the federal government. This impacted about 76 institutions, mostly private career and technical schools. The change allowed students at ineligible institutions to obtain renewal awards, but at only 80 percent of the original award amount. The 2012 budget tightened the default rate limit and added a graduation rate requirement as well. Specifically, a school must have a three-year cohort default rate below 15.5 percent and a graduation rate above 30 percent to remain eligible for Cal Grants. There are 157 ineligible schools for the 2012-13 year based on these

changes. These requirements do not apply to institutions with fewer than 40 percent of undergraduates borrowing federal student loans, and institutions with a default rate below 10 percent and a graduation rate above 20 percent are exempt from the graduation requirement until 2016–17.

- Awards Reductions for Accredited Non-Profit and For-Profit Private Institutions.** The 2012 budget reduced Cal Grant awards 2 percent for new recipients at non-profit colleges and universities as well as for-profit institutions accredited by the Western Association of Schools and Colleges (WASC). The reduced amounts will grow in 2014–15, when new awards at non-profit and WASC-accredited for-profit institutions are reduced by an additional 11 percent. Renewal awards in future years will be based on the award amount in place when the recipient first received a Cal Grant.
- Award Reductions for Other Private For-Profit Colleges.** The 2012 budget also reduced Cal Grant awards by 57 percent for new recipients at all other for-profit colleges.
- 2012 Vetoes Made Further Reductions.** Using his veto authority, the Governor in the 2012 Budget Act reduced new and renewal Cal Grant awards by 5 percent from their 2011–12 levels. The reduction applied to the maximum Cal Grant A and B tuition and fee award for students at private institutions. In addition, it applied to the Cal Grant B access award (a stipend for books and supplies), the Cal Grant C tuition and fee award, and the Cal Grant C book and supply award for students at UC,CSU and community colleges. The Governor assumes these new amounts in his 2013-14 budget proposal.

The chart on the following page developed by the LAO displays the changes in the award amounts. The chart assumes the Governor's veto amounts remain in place for 2013-14 and 2014-15:

Lower Maximum Amounts for Many New Cal Grant Awards					
	2011-12	2012-13	2013-14	2014-15	Cumulative Change
Maximum Initial Cal Grant A and B Tuition Awards^{a,b}					
Nonprofit and WASC-accredited for-profit institutions	\$9,708	\$9,223	\$9,084	\$8,056	-17%
Non-WASC-accredited for-profit institutions	9,708	9,223	4,000	4,000	-59
Other Maximum Awards					
Cal Grant B access awards	1,551	1,473	1,473	1,473	-5
Cal Grant C tuition and fee awards	2,592	2,462	2,462	2,462	-5
Cal Grant C book and supply awards	576	547	547	547	-5

^a Represents new award amounts. Current law allows renewal awards up to the maximum amount in effect when the student first receives a Cal Grant award.

^b Maximum award amounts at public universities continue to cover full systemwide tuition and fees as established by the universities' respective governing boards. As of March 2013, these amounts are \$5,472 for California State University and \$12,192 for the University of California.

WASC = Western Association of Schools and Colleges.

The following chart depicts the changes made that impacted students, the legislation that included the change, the reduced cost to the Cal Grant program, and the number of students who were impacted. The Governor's 2013-14 budget proposal continues all of these changes. Data was provided by the California Student Aid Commission.

Change	Legislation	Reduced Cal Grant Cost	Students Impacted
Annual Income/Asset Test	SB 70 (2011) and SB 1016 (2012)	\$68.4 million in 2011-12; projected \$52.2 million in 2012-13	19,913 students lost Cal Grant eligibility in 2011-12 and 2012-13
Cohort Default Rates	SB 70 (2011) and SB 1016 (2012)	\$8 million in 2011-12; projected \$39.2 million in 2012-13	About 24,000 new or renewing Cal Grant recipients were attending a school that became ineligible in 2011-12 and 2012-13.
Private Reductions (Both Accredited Non-Profit and For-Profit, and other For-Profits)	SB 1016 (2012)	Projected \$16 million in 2013-14	13,330 students are expected to receive reduced Cal Grant amounts.
Vetoes	AB 1497 (2012)	Projected \$26.7 million in 2012-13	183,000 students received reduced Cal Grant amount.

STAFF COMMENTS

In all, more than 170,000 students were impacted by the changes made to the Cal Grant program during the previous two budgets. The changes are projected to have cut the program's costs by at least \$194.5 million in 2011-12 and 2012-13.

Analysis of the cuts and their impacts raises the following concerns:

- ***The 2012 vetoes impacted the most-needy students at public and private institutions, while sparing the least-needy.*** The Governor's 5-percent cuts to Cal Grant B and C students at all public and private institutions and 5-percent cut to Cal Grant A students at private institutions impacted the Cal Grant students with the lowest incomes, as the following chart indicates:

Students Impacted by Veto

Segment	Number of Students	Average Income
CCC	69,250	\$15,280
UC	12,545	\$16,728
CSU	59,698	\$17,586
Independent Colleges and Universities	24,571	\$32,782
Private Career Colleges	7,166	\$20,598

Students Not Impacted by Veto

Segment	Number of Students	Average Income
UC	47,437	\$35,231
CSU	22,601	\$52,234

The size of the cuts per student were relatively small. For example, Cal Grant B students received \$1,473 for book and living expenses, instead of \$1,551, or a reduction of \$78. That's about the cost of one textbook, or half of one textbook. Nonetheless, the Legislature may wish to consider in the future whether changes to the Cal Grant program should be developed in a way that does not harm the most-needy students.

- ***The annual income/asset test creates uncertainty for both students and schools.*** Nearly 20,000 students have now received a Cal Grant in one year and then lost eligibility for Cal Grant in a subsequent year due to changes in their income or assets, even though they still demonstrated financial need. Losing financial aid that can be worth more than \$13,000 in the middle of a student's college attendance could have devastating impacts. A key selling point to students and their families in the past regarding the benefits of the Cal Grant was that once you received it, you were guaranteed to continue receiving it for four years as long as you had financial need, thus allowing students and families to plan accordingly. This is no longer true. In addition, financial aid officials with both private and public schools noted that this uncertainty for some of their students impacts their ability to plan as well.
- ***The annual income/asset test exacerbates the "cliff effect."*** The Cal Grant program currently has an all-or-nothing approach: if students' incomes and assets are below a specific level, they receive the entire Cal Grant. This is unlike some other financial aid programs; in which students receive differing amounts based on need, with students with greater need receiving more and students with less need receiving less. Under the income/asset change made to the Cal Grant program in 2011, students who still have the financial need to qualify for Cal Grants now face losing a large grant if they or their families increase their incomes by a small amount. According to data provided by CSAC, 1,218 students lost their entire Cal Grant because their earnings grew by less than \$1,000.

- ***Cuts to independent non-profit institutions come despite the fact that these colleges provide good value for the state.*** The state provides General Fund to public higher education institutions that support teaching costs for every student but does not provide similar funding to private institutions. Thus, Cal Grant recipients who choose to attend an independent non-profit institution school are less costly for state taxpayers than other students. According to estimates provided by the LAO, the 2012-13 average state subsidy for UC Cal Grant students is \$24,151 per student, while the average state subsidy for a CSU Cal Grant student is \$12,636. The average state subsidy for a Cal Grant student at an independent non-profit college or university is \$8,800.
- ***Cuts to the Cal Grant program can have broader financial aid impacts.*** Financial aid officials at both public and private, accredited institutions note that Cal Grants are often packaged with other types of financial aid, including federal Pell Grants and institutional aid. Reduced Cal Grant dollars may mean some students will require more institutional aid, which reduces the amount of that type of aid available per student. One financial aid officer at a private, accredited college noted the college may consider enrolling fewer California students because of the change to the income/asset test, which could leave a student without a large amount of financial aid midway through their college attendance. The official noted many schools would likely step in to backfill the missing Cal Grant dollars, but because schools will now have to plan for that, it may mean less aid overall and hamper colleges' abilities to enroll financially-needy California students.
- ***TANF would support more than half of the Cal Grant program.*** The Governor's 2013-14 proposal continues to use funding from the Temporary Assistance for Needy Families for the Cal Grant program. The proposal calls for using \$942.9 million of TANF for the \$1.7 billion in expected expenditures for Cal Grants. The Legislature may wish to consider whether this is an appropriate long-term strategy for both the CalWORKs and Cal Grant programs.

LEGISLATIVE PROPOSALS TO IMPROVE THE CAL GRANT PROGRAM

There are several proposals to improve the Cal Grant program being offered through legislation this year, including:

AB 1318 (Bonilla). Links the Cal Grant award amount for students attending private nonprofit colleges and universities to the average cost of educating students in the public sector. This bill increases the Cal Grant award for students attending private nonprofit schools to 80 percent of the average cost of education at UC and CSU. This formula would be phased in over time and would require participating institutions to provide a 50 percent match in institutional aid.

AB 1364 (Ting). Deletes the provision authorizing the adjustment of the Cal Grant B access award amount in the annual Budget Act and would reset the Cal Grant B access award at \$1,551, the amount of the award prior to the Governor's 5 percent veto in the 2012 Budget Act. Additionally, this bill would require that the maximum amount of the Cal Grant B access award be annually adjusted, commencing with the 2014-15 academic year, to include the percentage increase, if any, in California per capita personal income, as specified. In the event of a decrease in California per capita personal income, no adjustment would be made to the maximum Cal Grant B access award.

AB 1241 (Weber). Extends the Cal Grant High School Entitlement program period of eligibility by 3 years, allowing an applicant for Cal Grant A and B Entitlement Awards to submit a complete financial aid application no later than March 2 of the 4th academic year after his or her high school graduation or its equivalent for an award the academic year following the application. Currently, to be eligible for the Cal Grant High School Entitlement program, a student must apply during either their senior year in high school or the year after. The bill would have the effect of allowing students who may missed the initial eligibility window to apply for Cal Grant consideration and would allow older students to access the program.

AB 1285 (Fong). Eliminates the inequity between the Cal Grant A and B program, by allowing Cal Grant B students to have their first year of tuition or fees paid by the Cal Grant at Cal Grant participating postsecondary institutions. Currently, only 2 percent of Cal Grant B students are allowed to have their first year tuition or fees paid while Cal Grant A students have four year of tuition or fees paid by the Cal Grant.

AB 1287 (Quirk-Silva). Allows students who lose their Cal Grant due to the annual income/asset/need test to be subsequently reevaluated in each of the following years they attend a Cal Grant participating postsecondary institution after Cal Grant disqualification to determine if they might regain their Cal Grant eligibility. If they regain eligibility, the student would be allowed to receive a Cal Grant.

AB 303 (Calderon). Entitles an otherwise eligible student who is a member or former member of the Armed Forces of the United States, as defined, who meets prescribed requirements, including, but not limited to, enrollment in a qualifying undergraduate certificate or degree program, to a Cal Grant A Entitlement Award or a Cal Grant B Entitlement Award.

AB 1085 (Gaines and Morrell). Increases Cal Grant maximum tuition award amounts for recipients attending private for-profit and nonprofit postsecondary educational institutions to \$9,708. This bill is an urgency measure, and would go into effect immediately.