

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE NO. 2  
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, MARCH 15, 2016  
9 AM, STATE CAPITOL ROOM 444**

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**CALIFORNIA STUDENT AID COMMISSION/FINANCIAL AID ISSUES**

<b>ITEMS TO BE HEARD</b>		
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## ITEMS TO BE HEARD

### 6980 CALIFORNIA STUDENT AID COMMISSION

#### ISSUE 1: FINANCIAL AID OVERVIEW/CURRENT ISSUES

The Subcommittee will hear an update on state financial aid programs and current issues and needs regarding financial aid. The Governor's 2016-17 Budget does not include any new financial aid proposals.

#### PANELISTS

- Jack Zwald, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Lupita Cortez Alcala, California Student Aid Commission
- Debbie Cochrane, The Institute for College Access and Success

#### BACKGROUND

***Cal Grant program offers about \$2 billion in support for students.*** The state's largest financial program, the Cal Grant program has both an entitlement and competitive component.

One type of award, Cal Grant A, covers full systemwide tuition and fees at the public universities and up to a fixed dollar amount toward costs at private colleges, while a second type, Cal Grant B, covers tuition and also offers stipends (known as access awards) for students with the lowest household income. A third type, Cal Grant C, provides up to a fixed amount for tuition and fees and other costs for eligible low- and middle-income students enrolled in career technical education programs. A student generally may receive awards for up to four years of full-time study.

The chart on the next page, prepared by the Legislative Analyst's Office, provides information on Cal Grant spending by segment, program, award type and funding source. The spending chart projects 2016-17 spending based on the Governor's Budget proposal, which assumes no policy changes.

<b>Cal Grant Spending</b>					
<i>(Dollars in Millions)</i>					
	2014-15 Actual	2015-16 Estimated	2016-17 Projected	Change From 2015-16	
				Amount	Percent
<b>Total Spending</b>	\$1,809	\$1,966	\$2,103	\$137	7%
<b>By Segment:</b>					
University of California	\$824	\$887	\$943	\$56	6%
California State University	594	669	734	65	10
Private nonprofit institutions	241	253	261	9	3
California Community Colleges	122	137	146	9	7
Private for-profit institutions	27	21	19	-2	-11
<b>By Program:</b>					
High School Entitlement	\$1,457	\$1,595	\$1,711	\$116	7%
CCC Transfer Entitlement	221	209	204	-5	-2
Competitive	123	157	184	27	17
Cal Grant C	8	5	4	-1	-18
<b>By Award Type:</b>					
Cal Grant A	\$1,037	\$1,115	\$1,178	\$63	6%
Cal Grant B	764	846	921	75	9
Cal Grant C	8	5	4	-1	-18
<b>By Renewal or New:</b>					
Renewal	\$1,247	\$1,365	\$1,480	\$115	8%
New	562	601	624	22	4
<b>By Funding Source:</b>					
General Fund	\$1,425	\$1,443	\$1,276	-\$167	-12%
Federal TANF	377	521	826	305	58
Student Loan Authority Fund	6	—	—	—	—
College Access Tax Credit Fund	—	2	2	—	—
TANF = Temporary Assistance for Needy Families. Posted January 2016.					

**Recent state budgets have increased funding for the Cal Grant program.** The Budget Act of 2014 increased the stipend received by Cal Grant B students from \$1,473 to \$1,648 annually. Subsequent legislation increased the amount to \$1,656 per year. The stipend helps students cover book expenses and other living costs. The Budget Act of 2015 increased the number of competitive Cal Grants from 22,500 to 25,750 annually. Competitive Cal Grants are awarded to students who apply for a Cal Grant but are not eligible for the entitlement award, typically because they graduated from high school more than one year after applying for the award.

**Middle Class Scholarship in second year of implementation.** Created in the Budget Act of 2013, the Middle Class Scholarship program took effect in the 2014-15 school year. The program provides aid to undergraduate students with family incomes up to \$150,000 to attend the University of California or California State University. Students with family incomes up to \$100,000 qualify to have up to 40% of their tuition covered when combined with other public financial aid. The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student with a family income of \$150,000 will qualify to have up to 10% of tuition covered.

The program is being phased in over four years. In the current year, students are receiving up to 20% off of tuition; in 2016-17, students will receive up to 30% off of tuition; and in 2017-18 and beyond, students will receive up to 40% off of tuition. Students are required to fill out the Free Application for Federal Student Aid (FAFSA) or California Dream Act Application by March 2 to become eligible for the program.

Through statute, the state has budgeted \$82 million General Fund for the program in the current year, \$116 million General Fund for the budget year and \$159 million General Fund for 2017-18 and each year after that.

The budget also provides the California Student Aid Commission (CSAC) with two permanent positions and one limited-term position to launch and oversee the program, as well as \$500,000 in ongoing funding for the California Student Opportunity and Access Program (Cal-SOAP) to conduct student outreach and ensure students are aware of the new program.

**Program changes may lower participation.** According to data compiled by the Student Aid Commission, there will likely be fewer Middle Class Scholarship recipients in 2015-16 than there were in 2014-15. Changes to the program for the 2015-16 school year included an application deadline – March 2 – and an asset ceiling, which made students with family assets of more than \$150,000 (excluding primary residences retirement accounts) ineligible. The chart below indicates spending totals for both the 2014-15 and 2015-16 school years, although 2015-16 data is not final.

#### Middle Class Scholarship Awards, 2014-15 and 2015-16

2014-15 School Year		
Segment	Awards	Offered Award Amount
UC	15,788	\$16,608,690
CSU	66,402	\$37,651,844
<b>Total</b>	<b>82,190</b>	<b>\$54,260,734</b>
2015-16 School Year		
Segment	Awards	Offered Award Amount
UC	8,948	\$12,202,052
CSU	44,413	\$37,850,544
<b>Total</b>	<b>53,361</b>	<b>\$50,052,596</b>

Note: 2015-16 data as of 12/31/2015

**Segments also offer significant institutional aid.** In addition to Cal Grants and Middle Class Scholarships, UC and CSU operate institutional need-based programs. UC and CSU pay for these programs largely by redirecting a portion of tuition revenue. When packaging financial aid, UC first applies any applicable federal and state aid on a student's behalf and assumes each student must contribute \$9,500 through work or borrowing. It then uses institutional aid to fill any remaining gap between available resources and the cost of attendance. UC's average gift aid per recipient from all sources exceeds tuition by about \$4,600—meaning the average aid award pays for some living costs. By comparison, CSU uses its State University Grant program to cover full tuition for certain students. It does not cover other costs of attendance.

At community colleges, the Board of Governors (BOG) Fee Waiver program fully covers enrollment fees (but not other costs of attendance) for financially needy students. Though commonly considered institutional aid, as it is unique to community colleges, the state effectively funds the BOG fee waiver program through apportionment.

Between 2007-08 and 2015-16, institutional aid spending more than doubled at the universities, growing from \$313 million to an estimated \$735 million at UC and from \$241 million to an estimated \$581 million at CSU. At community colleges, spending on BOG Fee Waivers has nearly quadrupled from \$221 million in 2007-08 to an estimated \$777 million in 2015-16. The increases at each segment primarily occurred as a result of increases in tuition and fees over this time.

**Total cost of attendance is significant in California.** In its analysis of the 2016-17 Higher Education Budget, the Legislative Analyst's Office notes that the overall cost of attending college in California – including books, housing, transportation and other living expenses – is higher than other states. The chart below was prepared by the LAO and reflects cost of attendance at the three segments for students in three different living situations.

**Figure 6**  
**Cost of Attendance Varies by Segment and Living Arrangement<sup>a</sup>**

2014-15

	On Campus	Off Campus (Not With Family)	Off Campus (With Family)
UC	\$31,300 to \$34,800	\$26,700 to \$30,000	\$24,500 to \$26,100
CSU	\$19,600 to \$26,200	\$21,700 to \$25,000	\$10,100 to \$13,200
CCC	\$11,000 to \$15,400 <sup>b</sup>	\$14,400 to \$28,200	\$5,400 to \$12,300

<sup>a</sup> Reflects the range across campuses, rounded to the nearest hundred.  
<sup>b</sup> Only 9 of 112 colleges report a cost of attendance for students living on campus.

#### STAFF COMMENT/QUESTIONS

The following section provides brief summaries of various issues in financial aid and potential questions the Subcommittee could ask panelists.

**Cal Grant program still missing hundreds of thousands of low-income students.**

The Cal Grant program provides access to college for more than 340,000 low-income Californians, mostly through the entitlement program. Californians who are graduating from high school or graduated within one year and had a high school GPA of 2.0 (Cal Grant B) or 3.0 (Cal Grant A) and meet income and asset standards are *entitled* to a Cal Grant.

Students who have been out of high school for more than one year are not eligible for an entitlement award. Instead, these students must seek a competitive Cal Grant award. While the Budget Act of 2015 increased the number of annual competitive Cal Grants to 25,750, this number still falls far short of meeting demand.

In 2014, for example, 309,403 students had the income and asset level to qualify for a competitive Cal Grant. Less than 10% of eligible Californians actually receive a competitive Cal Grant, meaning hundreds of thousands of low-income students miss out on this critical financial aid.

**More focus on supporting students' living costs is needed.** The Cal Grant program has mostly focused on covering tuition costs for students. There is growing concern, however, about how students handle other living expenses, which in California are quite high. Research indicates that students who work more than 20 hours per week to cover living expenses are much less likely to graduate than those who work less than 20 hours per week. Yet the state's only significant funding for living expenses – the Cal Grant B Access Award – only provides \$1,656 per year.

Recent research by The Institute for College Access and Success (TICAS) has focused on the high living costs that many community college students face, with little support from the state or colleges. Because UC and CSU have institutional aid that can help offset some living expenses, and community colleges generally do not, TICAS found that in most of the nine California regions surrounding UC undergraduate campuses, low-income community college students actually face a higher net price for college, when compared to UC and CSU students. This is despite the fact that low-income community college students typically do not pay tuition via the BOG Fee Waiver program. TICAS will discuss their research during the hearing.

The Assembly sought to address this issue last year, and successfully created a new stipend for community college students. The Full-Time Student Success Grant provides about \$600 for low-income community college students. More could be done to help support living expenses for both community college students and UC and CSU students.

**Cal Grant C program could provide more support for community college students.** The Cal Grant C program provides financial aid to support California students pursuing occupational and technical training. Statute limits the number of new annual awards to 7,761, which has not changed since 2000/01. Annual Cal Grant C awards are worth up to \$2,462 for tuition and \$547 for books and supplies, and may provide support for up to two years. Students attending community college programs are only eligible to receive the smaller stipend for books, not the tuition grant, whereas students attending other schools receive a combined grant.

Students who do not qualify for the entitlement Cal Grant program may become eligible for Cal Grant C if they indicate on their FAFSA that they are entering a vocational program and submit a supplemental form to the Student Aid Commission. Based on statute, the Commission prioritizes Cal Grant C applicants pursuing training in occupations that meet strategic workforce needs and those coming from disadvantaged backgrounds.

In its recent analysis, the LAO states that there is no policy reason to provide less of a stipend to Cal Grant C students than Cal Grant B students, and suggests the Legislature consider changing the Cal Grant C program. The LAO suggests some options, including raising the award amount for all Cal Grant C recipients, or providing a targeted increase for community college students. Costs to increase the award for all students, including those at private colleges, would range from \$3 million in General Fund support, for a \$600 annual supplement for full-time Cal Grant C recipients, to \$9 million for a \$1,700 supplement that would equalize the total book, supply, and living expenses awards for full-time Cal Grant B and Cal Grant C recipients. Providing the same increases only for community college students would cost about \$2.5 million and \$7 million, respectively, according to the LAO.

***Cal Grant support for students attending private, non-profits set to decrease in 2017-18.*** The Budget Act of 2013 scheduled a reduction in the Cal Grant award for students who attend private non-profit colleges accredited by the Western Association of Schools and Colleges from \$9,084 to \$8,056 annually. The Budget Act of 2015 delayed that reduction until the 2017-18 fiscal year.

About 28,000 Cal Grant recipients attend these schools. The Association of Independent California Colleges and Universities (AICCU) has requested that the Legislature eliminate the upcoming reduction and restore the award amount to its pre-recession level of \$9,708. AICCU notes that their schools provide an important options for students seeking access to colleges, and that 59% of Cal Grant students at their schools graduate within four years.

Restoring the Cal Grant award for students attending these colleges to \$9,708 annually would cost \$5.4 million in 2016-17, with the costs increasing in subsequent years to \$43.5 million in 2019-20. The Subcommittee has received letters supporting this proposal from the Campaign for College Opportunity, the California Chamber of Commerce, College OPTIONS, the California Urban Partnership and the University of the Pacific.

***Lower participation in Middle Class Scholarship program may allow for higher per-student support.*** Based on current projections for 2015-16, it appears that some of the allocated amount for the program - \$82 million – may go unspent. Assuming there are no new policy changes to the program for 2016-17, the Subcommittee may wish to consider whether it could speed up the phase-in by one year. Current statute calls for students to receive up to 30% off of UC or CSU tuition in 2016-17, and then 40% off of tuition in 2017-18 and beyond.

Data below, provided by the Student Aid Commission, shows the maximum award for UC and CSU students in 2016-17 and 2017-18 based on current tuition. The Commission is currently researching costs associated with moving to the 2017-18 discount level based on current participation.

Fiscal Year	Scheduled Tuition Discount	UC Maximum Award	CSU Maximum Award
2016-17	30% Off	\$3,672	\$1,641
2017-18	40% Off	\$4,896	\$2,189

*Note: Maximum awards based on 2015-16 tuition levels*

**Request for improvements to Chafee program.** The Chafee Education and Training Voucher program provides financial aid for foster youth attending college. The program provides up to \$5,000 in grants to foster youth. The budget for the program is \$11.6 million, which is evenly split between federal funds and the state General Fund. State funding for the program is accounted for in the Department of Social Services budget, although the funding is distributed to the Student Aid Commission, which in turn directs money to students. The program serves about 2,228 students, although more than 4,000 annually apply.

The John Burton Foundation, the National Center for Youth Law and the Children's Advocacy Institute are seeking improvements to the program this year, including:

- Recreate the program as an entitlement, as long as students apply by August 31 for the upcoming school year. The groups estimate this would require an additional \$3.6 million General Fund but would allow every qualifying foster youth to receive a grant.
- Adopt the same minimum requirements for post-secondary institutions to receive the Chafee as are required for institutions to receive Cal Grant funding. These requirements include a 30% graduation rate and a cohort loan default rate of 15.5% or lower. This would not require additional funding and would ensure that students attend quality post-secondary institutions.

The advocacy groups are pursuing these changes both in legislation – AB 2506 (Thurmond) – and through the budget. This issue also will be discussed in Assembly Subcommittee No. 1, which oversees the Department of Social Services budget.

**State and institutions set to spend about \$4.7 billion on major financial aid programs. Is funding organized in the best way to support students?** As the chart below indicates, institutional aid provided by the segments and funding for the two major state-supported financial aid programs add up to about \$4.7 billion in need-based aid for students in 2016-17. Each of these programs has somewhat different eligibility criteria and rules, which can be difficult to oversee from the state perspective, and confusing for students and their families. The Subcommittee may wish to consider whether changes to this structure could simplify financial aid programs in the state and better serve students.

<b>Grant Program</b>	<b>2016-17 Projected Amount</b>
Cal Grant	\$2 Billion
Middle Class Scholarship	\$116 Million
UC Institutional Aid	\$1.1 Billion
CSU Institutional Aid	\$668 Million
Community College BOG Fee Waiver	\$800 Million
<b>Total</b>	<b>\$4.7 Billion</b>

### Potential Questions

- Are there more current numbers for competitive Cal Grant applicants? How has Commission implemented increased number of competitive Cal Grants for 2015-16 and beyond?
- How have recent changes in Middle Class Scholarship impacted participation?
- Based on current trends and allocated funding for 2016-17, could the state skip the final phase-in year for the Middle Class Scholarship and offer up to 40% off of tuition in 2016-17?
- Are there ideas for better supporting students' living expenses?
- How can the state better support community college students, who do not receive the same kind of institutional aid as their peers at UC and CSU?
- How can we improve the Cal Grant C program to better support community college students?
- If we could start over with the \$4.7 billion currently planned for financial aid programs in 2016-17, how would we structure financial aid to best serve the most students? How could the Assembly investigate this question?
- There has been recent focus on improving student completion rates and improving time to degree? How could financial aid be used to support those goals?

**ISSUE 2: STUDENT AID COMMISSION FUNDING REQUESTS**

The Subcommittee will hear two funding augmentation requests from the Student Aid Commission. One would support improved information technology security and continued planning for the Grant Delivery System Modernization Project, and the other would add 5 positions to Commission call centers. Neither of these proposals was included in the Governor's Budget, but both are top budget priorities for the Commission.

**PANELISTS**

- Lupita Cortez Alcala, California Student Aid Commission
- Jack Zwald, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office

**BACKGROUND**

***IT project.*** The Budget Act of 2015 provided the Student Aid Commission with \$840,000 and three positions to begin planning for a new information technology system to administer financial aid programs. The Grant Delivery System Modernization Project is intended to replace a 30-year-old system that currently holds 10 million records as the Commission distributes about \$2.3 billion annually in financial aid to more than 450,000 students.

Last year's funding allowed the Commission to conduct a thorough assessment of security risks related to its current legacy system. That assessment was completed in February, and found multiple high-risk vulnerabilities. Problems include code flaws, a lack of audit controls, a lack of security controls, and lack of a separate disaster recovery site for production servers.

***Customer service.*** The Commission operates two units which interact with students and their families and secondary and post-secondary institutions.

The Customer Assistance and Processing Unit is the contact center for all student, parent and general public inquiries. Staff duties include responding to calls and emails, updating student accounts, and maintaining unit statistics. The Commission reports that in 2015, this unit received 123,000 phone calls, but were only able to respond to 73,000 or those calls.

The Institutional Support Unit is the contact center for all inquiries and requests from California high schools and colleges. Staff duties include responding to calls and emails, updating student accounts based on school information, and providing internal and external training.

**FUNDING REQUESTS**

**IT security improvements and project planning.** The Commission is requesting \$8.8 million General Fund, including \$5.7 million in one-time funding, to address current security issues and support the next two phases of the Grant Delivery Modernization Project. The proposal includes 21 positions, although many are limited-term or contract positions.

Security issues addressed with this request include recoding, organizational restructuring to have proper separation of duties for security purposes, implementing audit controls, purchase of security monitoring and testing equipment, and creating a disaster recovery site for production servers in the California Department of Technology Fairfield data center and a business continuity site for Commission offices in the Sacramento area.

Additionally, funding will allow the Commission to support Stage 2 and 3 of the Grant Delivery Modernization Project. Stage 2 includes market research to determine current products that could be used and recommend solutions for the project, developing a procurement and staffing strategy, a project schedule, a change management plan, and establish testing teams and other teams. State 3 revolves around developing the Request for Proposal that would solicit proposals from vendors.

**Customer service.** The Commission requests \$428,000 ongoing General Fund and \$65,000 in one-time General Fund to add 5 positions. Of the 5, 3 positions would be assigned to the Customer Assistance and Processing Unit and 2 would be for the Institutional Support Unit.

The Commission notes that an upcoming federal change will allow students to begin submitting FAFSAs on October 1, instead of January 1. This will increase workload for the Commission. They also note steadily increasing workload during the past several years. The chart below indicates the Commission's authorized positions in 2009-10 and 2014-15, as well as some workload during this period.

**CSAC Positions and Activity, 2009-10 to 2014-15**

	2009-10	2014-15	% Change
<b>Authorized Positions</b>	108.5	114.5	6%
<b>FAFSAs Recived</b>	2,672,977	6,018,225	125%
<b>Dream Act Applications Received</b>	NA	40,532	NA
<b>Calls Received</b>	73,176	123,307	69%
<b>Calls Answered</b>	62,555	73,289	17%
<b>Response Delay for Emails</b>	2 Weeks	Up to 8 Weeks	

#### STAFF COMMENTS

Both proposals are worthy of legislative consideration, although both must be weighed by the Subcommittee and Assembly against other General Fund priorities.

Regarding the IT request, the Commission's security audit, which was finalized after the release of the Governor's Budget, is concerning. The Commission's 30-year-old legacy system holds critical student information, including social security numbers and financial data. Ensuring that this data is secure appears to be a pressing issue. The Legislature funded the first stage of the Grant Delivery Modernization Project last year, and clearly a new system is needed. The Subcommittee may wish to ask the Commission, however, whether all of the tasks it is seeking funding for will be completed in 2016-17, and how much funding will be needed during the next few years. The Commission is still completing Stage 1 of the project.

Regarding the customer service request, the data supplied by the Commission appears to show that a key state agency is not providing adequate service to students, their families, and schools. Increases in FAFSA applications among California students is a positive sign, as more students are seeking aid to go to college. But if Commission is missing nearly half of the calls coming in from students and schools, access to college is threatened. The Commission does report 14 vacant positions, however, so the Subcommittee may wish to ask whether those positions could be filled first to handle this workload.

The Subcommittee may wish to wait to vote on these items until after the May Revision, to determine if the Administration also supports these requests.

**ISSUE 3: STUDENT PERSPECTIVES ON FINANCIAL AID**

The Subcommittee has asked students from the three public higher education segments to provide their perspectives on the financial aid needs of California students.

**PANELISTS**

- Kevin Sabo, President, University of California Student Association
- Taylor Herren, President, California State Student Association
- Dahlia Salem, President, Student Senate for California Community Colleges