

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Al Muratsuchi, Chair

WEDNESDAY, MARCH 5, 2014  
4:00 PM - STATE CAPITOL ROOM 126

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#### OVERVIEW OF THE CAL GRANT PROGRAM

##### I. OPENING REMARKS

Assembly Member Al Muratsuchi, Chair

Committee Members

##### II. CURRENT ISSUES IN THE CAL GRANT PROGRAM

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

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

Ian Johnson, Principal Program Budget Analyst, Education Systems Unit,  
Department of Finance

##### III. IDEAS FOR IMPROVEMENT IN THE CAL GRANT PROGRAM

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

Tamika Butler, California Director, Young Invincibles

Orville Jackson, Senior Research Analyst, Education Trust-West

Kristina Gonzales, Student, Sierra College

##### IV. PUBLIC COMMENT

**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 285,000 students received new or renewed Cal Grant awards in 2013-14, totaling about \$1.7 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 UC (\$12,192) and CSU (\$5,472), and \$8,056 at accredited private for-profit and independent non-profit institutions.*

The following chart, prepared by the Legislative Analyst's Office, shows Cal Grant spending trends during the past three years, including the 2014-15 proposed budget, by segment, by program, by award type, by new and renewal awards, and the funding sources for the program.

| <b>Cal Grant Spending</b>   |                   |                    |                     |                     |           |
|---|-------------------|--------------------|---------------------|---------------------|-----------|
| <i>(Dollars in Millions)</i>  |                   |                    |                     |                     |           |
|   | 2012-13<br>Actual | 2013-14<br>Revised | 2014-15<br>Proposed | Change From 2013-14 |           |
|   |                   |                    |                     | Amount              | Percent   |
| <b>By Segment:</b>  |                   |                    |                     |                     |           |
| University of California  | \$721             | \$781              | \$822               | \$41                | 5%        |
| California State University   | 437               | 501                | 552                 | 51                  | 9         |
| Private nonprofit institutions  | 222               | 240                | 238                 | -1                  | -1        |
| California Community Colleges   | 88                | 100                | 107                 | 7                   | 7         |
| Private for-profit institutions   | 50                | 35                 | 37                  | 2                   | 6         |
| <b>Totals</b>   | <b>\$1,518</b>    | <b>\$1,656</b>     | <b>\$1,756</b>      | <b>\$100</b>        | <b>6%</b> |
| <b>By Program:</b>  |                   |                    |                     |                     |           |
| High School Entitlement   | \$1,234           | \$1,331            | \$1,418             | \$87                | 7%        |
| CCC Transfer Entitlement  | 185               | 214                | 217                 | 3                   | 1         |
| Competitive   | 95                | 105                | 114                 | 9                   | 9         |
| Cal Grant C   | 4                 | 6                  | 6                   | 1                   | 11        |
| <b>Totals</b>   | <b>\$1,518</b>    | <b>\$1,656</b>     | <b>\$1,756</b>      | <b>\$100</b>        | <b>6%</b> |
| <b>By Award Type:</b>   |                   |                    |                     |                     |           |
| Cal Grant A   | \$868             | \$985              | \$1,059             | \$74                | 7%        |
| Cal Grant B   | 646               | 665                | 691                 | 26                  | 4         |
| Cal Grant C   | 4                 | 6                  | 6                   | 1                   | 11        |
| <b>Totals</b>   | <b>\$1,518</b>    | <b>\$1,656</b>     | <b>\$1,756</b>      | <b>\$100</b>        | <b>6%</b> |
| <b>By New or Renewal:</b>   |                   |                    |                     |                     |           |
| New   | \$471             | \$541              | \$525               | -\$16               | -3%       |
| Renewal   | 1,047             | 1,115              | 1,231               | 116                 | 10        |
| <b>Totals</b>   | <b>\$1,518</b>    | <b>\$1,656</b>     | <b>\$1,756</b>      | <b>\$100</b>        | <b>6%</b> |
| <b>By Funding Source:</b>   |                   |                    |                     |                     |           |
| General Fund  | \$630             | \$1,016            | \$1,151             | \$135               | 12%       |
| Student Loan Operating Fund   | 85                | 98                 | 60                  | -38                 | -64       |
| Federal TANF  | 804               | 542                | 545                 | 3                   | 1         |
| <b>Totals</b>   | <b>\$1,518</b>    | <b>\$1,656</b>     | <b>\$1,756</b>      | <b>\$100</b>        | <b>6%</b> |
| TANF = Temporary Assistance for Needy Families.<br>Posted January 2014. |                   |                    |                     |                     |           |

Among current Cal Grant program issues for the Subcommittee to consider are:

- ***Cal Grants are a critical tool to help low-income students attend college and graduate with low student debt.*** Data indicates how important Cal Grants are to providing the possibility of upward mobility for low-income California students:
  - 53% of Cal Grant recipients' parents have a high school degree or less than a high school degree;
  - 65% of new Cal Grant recipients who are considered dependents come from families earning less than \$35,999 per year.

- Graduating California college students left school in 2012 with an average student debt of \$20,269, which is the third lowest debt load in the country and far lower than the national average of \$29,400, according to a report released in December by The Institute for College Access and Success (TICAS). TICAS attributes this low student debt in part to the Cal Grant program.
- **Cal Grant participation and costs have grown significantly.** The number of Cal Grant recipients grew by 47 percent between 2007-08 and 2014-15 projections, and costs have grown by 116 percent during that period. A large portion of the increase in Cal Grant spending is due to tuition increases in the UC and CSU systems. Tuition grew during this same period by 44 percent at UC and 51 percent at CSU.
- **The Dream Act will allow nearly 10,000 students to receive Cal Grants in 2014-15.** Chapter 604 (AB 131, Cedillo) makes students who are not legal residents of California but have attended California high schools for at least three years and graduated from a California high school eligible to receive publicly funded financial aid, including state aid and campus-based aid at the universities and community colleges. The measure, referred to as the Dream Act, went into effect January 1, 2013. The chart below shows the number of projected new and renewal Cal Grant recipients using the Dream Act for 2014-15. The Dream Act will account for 2.8 percent of the 2014-15 Cal Grant budget.

| Segment                           | # of Recipients | Cost (in millions) |
|-----------------------------------|-----------------|--------------------|
| California Community Colleges     | 4,108           | \$4.8              |
| University of California          | 1,895           | \$22.8             |
| California State University       | 3,643           | \$19               |
| Independent Colleges/Universities | 263             | \$2.1              |
| Private Career Colleges           | 39              | \$0.2              |
| <b>Total</b>                      | <b>9,948</b>    | <b>\$48.9</b>      |

- **Cal Grant amounts for accredited private for-profit and independent non-profit schools are scheduled to be reduced in 2014-15.** The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2014-15 budget proposal accounts for the continued reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the California State University system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools. It is unclear how these changes will impact the schools' interest and ability to accept Cal Grant students.

|                              | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Cumulative Change |
|------------------------------|---------|---------|---------|---------|-------------------|
| Cal Grant Amount Per Student | \$9,708 | \$9,223 | \$9,084 | \$8,056 | -17%              |

- **The Governor's 2014-15 budget for the Cal Grant program proposes one policy change and reflects continuing growth in participation.** Under current practice, a Cal Grant recipient must reapply for aid each year. Based on action taken in the 2011 budget, Cal Grant students applying for renewals must annually meet income and asset

requirements. If a recipient's family income exceeds the Cal Grant income cap in any year, that student is no longer eligible for renewals. (This led to 8,817 students losing their Cal Grant before the 2013-14 school year, according to data from the Student Aid Commission.) The Governor proposes to change this so that students who become ineligible because they exceed the income cap can become eligible again in a subsequent year if their income falls below the cap. The policy would apply only to students who reapply no more than three academic years after receiving an initial award. This is somewhat similar to legislation (AB 1287, Quirk-Silva) approved by the Legislature last year but vetoed by the Governor. The Department of Finance estimates the cost for this expansion at \$15 million.

The Governor's Budget proposes continuing growth in the Cal Grant program due to increased participation. The Cal Grant program would grow by about \$100 million in 2014-15 when compared to 2013-14, a 6 percent increase. The number of recipients would grow by more than 19,000, or a 7 percent increase. The proposal would award Cal Grants to nearly 305,000 students.

### STAFF COMMENTS/QUESTIONS

The Cal Grant program is robust, but there are concerns about the program for the Subcommittee to consider as it determines the 2014-15 higher education budget. Among the concerns:

- ***The Cal Grant program's focus on tuition largely ignores the considerable living expenses that students face.*** As the Legislative Analyst notes in its analysis of the higher education budget, living expenses such as food and housing, transportation and other personal expenses make up the majority of undergraduate student expenses. These costs are relatively high in California – about 20 percent higher than national averages, according to the LAO. These expenses are similar for students at community colleges, California State University and the University of California. The following chart, with average costs developed by the LAO, illustrates this issue.

| 2013-14 Student Budgets          | UC              | CSU             | Community College |
|----------------------------------|-----------------|-----------------|-------------------|
| Tuition and Fees                 | \$13,227        | \$6,647         | \$1,380           |
| Housing and Food                 | \$10,496        | \$9,103         | \$7,378           |
| Books and Supplies               | \$1,504         | \$1,723         | \$1,710           |
| Transportation/Other Expenses    | \$4,486         | \$2,665         | \$4,222           |
| <b>Total Costs</b>               | <b>\$29,713</b> | <b>\$20,138</b> | <b>\$14,689</b>   |
| Tuition/Fees as % of Total Costs | 45%             | 33%             | 9%                |

Despite this fact, Cal Grants remain largely focused on covering tuition for students. Only the stipend associated with the Cal Grant B program provides some aid for living expenses, and at \$1,473 annually, the stipend does not come close to meeting total expenses. Accounting for inflation, the Cal Grant B stipend is worth one quarter of what it was worth when it was first introduced in 1969-70.

To cover living expenses, many students must work part-time or even full-time jobs. This can have a detrimental effect on student outcomes: research by the American Council on Education indicates that students working more than 15 hours per week are more likely to drop out of college than those working fewer than 15 hours.

- **Many low-income California students are not served by the Cal Grant program.** According to research done by The Institute for College Access and Success (TICAS), only 23 percent of very low income students who apply for aid receive a Cal Grant. This is largely due to age restrictions on the Cal Grant entitlement program, which is reserved for recent high school graduates.

The Cal Grant competitive program offers a limited number of Cal Grant A or B awards to older students who do not qualify for the entitlement program. The number of grants has been limited to 22,500 per year in statute, despite tremendous demand: more than 317,000 Californians applied for and were eligible for this grant in 2012-13, according to the California Student Aid Commission (CSAC). Only 8 percent of applicants received the award.

In addition to the statutory limit, CSAC has struggled to distribute all 22,500 awards that it is allowed each year. The chart below indicates the number of Cal Grant competitive awards actually paid each year.

| Year            | Total Paid Recipients | % of 22,500 |
|-----------------|-----------------------|-------------|
| 2013-14 to-date | 16,591                | 73.7%       |
| 2012-13 to-date | 15,576                | 69.2%       |
| 2011-12 to-date | 17,078                | 75.9%       |

There are several reasons why the total amount of awards available has not been reached. Students who receive the awards are allowed to defer the award and some community college students who receive the Cal Grant A award wait to receive the award until they transfer to a four-year university. CSAC data indicates the commission typically offers the award to more than 22,500 students; offers went out to 28,970 students in 2013-14, for example. CSAC is currently examining the Cal Grant competitive program to determine why more students who are offered the award are not receiving it.

- **The number of California students applying for federal financial aid and Cal Grants could be improved.** According to research released in February by the Education Trust-West, 61 percent of California 12<sup>th</sup>-graders applied for federal financial aid in 2013 and 58 percent applied for Cal Grants. While this is an increase over the previous year, the data shows that more than 170,000 12<sup>th</sup>-graders did not apply for Cal Grants in 2013.

Many middle- and upper-income California students are not eligible for federal financial aid or Cal Grants. But research cited by Education Trust-West notes that students who apply for financial aid are twice as likely to enroll in college as students who do not, and are more likely to persist in college once they have enrolled; thus, policies that encourage applying for financial aid appear warranted.

Education Trust-West makes several recommendations to increase the number of students applying for federal financial aid and Cal Grants, including having school districts automatically submit graduation verification and student GPA's to CSAC, having school districts track students' application progress using the electronic WebGrant system, and having CSAC annually report application data by high school to the public.

In addition to these issues, CSAC also oversees two outreach programs designed to help inform students and parents about college and financial aid opportunities. Created in 1978, the California Student Opportunity and Access Program (Cal-SOAP) is designed to increase postsecondary education opportunities for low-income and underrepresented elementary and secondary school students. The program provides special tutoring, counseling, and information services to participants. Funds support 15 local consortia, each consisting of a local high school and community college. Consortia also include representatives from nonprofit educational, counseling, or community agencies as well as postsecondary education institutions. The second outreach program—California Cash for College—provides free workshops across the state to help students and their parents complete the federal financial aid application.

Both programs have been funded at times from the General Fund, the Student Loan Operating Fund, and federal funds. Since 2008–09, they have been supported by the federal College Access Challenge Grant, which is set to expire in 2015–16. The Governor's budget proposes \$7.7 million for Cal-SOAP and \$328,000 for California Cash for College, which are the same funding levels as the current year.

The LAO recommends the Legislature direct CSAC to report on outcomes and effectiveness of these programs by October 2014, stating the Legislature could use this information to determine whether to continue funding these outreach efforts (including whether to backfill with state funds if the federal grant is not renewed).

Potential questions for the panelists include:

- Are there obstacles for students applying for Cal Grants through the Dream Act in terms of receiving the award?
- Are there projections for the next five years regarding Cal Grant participation?
- What issues should the Legislature consider as it seeks to better enable Cal Grant students to successfully complete college?
- How could the Cal Grant program be improved or re-focused to better address the living expenses that California college students face?
- What impact will the reduction in Cal Grant values for nonprofit independent and accredited for-profit schools have in terms of California students' access to higher education?
- Are their ideas for improving the Cal Grant competitive program to ensure that at least 22,500 students receive the award each year?
- What are the biggest reasons why students do not apply for financial aid? How can those obstacles be removed?
- What can the state do to improve outreach to students and parents to ensure they are aware of financial aid opportunities?