

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

WEDNESDAY, MARCH 18, 2015

4 PM - STATE CAPITOL ROOM 126

ISSUES TO BE HEARD

ITEM	DESCRIPTION	PAGE
6600	HASTINGS COLLEGE OF LAW	2
ISSUE 1	HASTINGS BUDGET AUGMENTATION	2
ISSUE 2	HASTINGS ACADEMIC BUILDING REPLACEMENT	4
6980	CALIFORNIA STUDENT AID COMMISSION	6
ISSUE 3	GRANT DELIVERY SYSTEM MODERNIZATION	6
ISSUE 4	SB 1028 IMPLEMENTATION	8
ISSUE 5	FUNDING FINANCIAL AID OUTREACH AND LOAN ASSUMPTION PROGRAMS	10
ISSUE 6	MIDDLE CLASS SCHOLARSHIP UPDATE	13
ISSUE 7	UNMET NEEDS IN STATE FINANCIAL AID	17

ISSUES TO BE HEARD

6600 HASTINGS COLLEGE OF LAW

ISSUE 1: HASTINGS BUDGET AUGMENTATION

The issue for the Subcommittee to consider is the Governor's Budget proposal for Hastings College of Law. The Governor proposes increasing General Fund support by \$1 million as part of the multi-year funding plan for Hastings.

PANELISTS

- Jillian Kisse, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- David Seward, Hastings College of Law

BACKGROUND

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. Based in San Francisco, Hastings is the oldest law school and one of the largest public law schools in the western United States. Hastings is affiliated with the University of California; its employees are members of the UC Retirement Program, for example, and students receive the Juris Doctor degree granted by the UC Board of Regents.

Despite this affiliation, policy for the college is established by an independent Board of Directors and is carried out by the chancellor and dean and other officers of the college. The Board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Hastings has a historic commitment to providing legal education to individuals from social and economic status that are not well served by other law schools.

Due in part to a weakening labor market for attorneys, Hastings has reduced student enrollment during the past three years, moving from more than 1,200 full-time equivalent students to a projected 970 in 2015-16. Hastings plans on maintaining this enrollment level for the next few years. The enrollment reduction has allowed Hastings to reduce its student-to-faculty ratio to 14:1, which is more in line with other law schools.

The Governor's 2015-16 Budget

The Governor's proposed budget provides \$10.6 million in General Fund support for Hastings, a 10% increase over the current year. The Governor has provided General Fund increases to Hastings during the past two years, including Hastings in his multi-year funding plan for the higher education segments.

The amount of the increases has been a higher percentage for Hastings when compared to the University of California and the California State University in light of the small General Fund amount provided to Hastings. The Governor's Budget Summary notes the funding increase for Hastings is to mitigate the need to increase student tuition and fees and "can be used by the law school to meet its most pressing needs."

Fund Source <i>(Amounts in millions)</i>	2013-14 Actual	2014-15 Estimated	2015-16 Proposed	% Change, 2014-15 to 2015-16
General Fund	\$8.4	\$9.6	\$10.6	10%
Tuition/Other	\$61.5	\$62.8	\$59.9	-5%
Lottery	\$1.5	\$1.7	\$1.7	0%
Total	\$70.0	\$72.6	\$70.7	-3%

Source: Governor's Budget 2015-16

STAFF COMMENTS/QUESTIONS

Hastings faces some of the same cost pressures as the UC: retirement and health care costs have risen. In addition, lowering student enrollment has lowered revenue from tuition, making General Fund support more critical to maintaining operations. (Total tuition and fees for students in 2015-16 will be \$44,186.)

Staff has no concerns with the Governor's proposal.

Staff Recommendation: Approve the Proposed Augmentation

ISSUE 2: HASTINGS ACADEMIC BUILDING REPLACEMENT

The issue for the Subcommittee to consider is a Capital Outlay Budget Change Proposal to issue \$36.8 million in lease revenue bonds to build a new, 57,000-square-foot academic building at 333 Golden Gate Avenue in San Francisco. The new facility would replace Hastings' primary academic building, which was built in 1953 and has several outdated systems.

PANELISTS

- Jillian Kissee, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- David Seward, Hastings College of Law

BACKGROUND

Hastings operates a single campus comprised of four buildings in downtown San Francisco, and the school also owns a vacant lot on Golden Gate Avenue. The academic building at 198 McAllister is a 76,000-square-foot, four-story building that serves as the primary academic building, housing 18 classrooms with a total capacity of 877 seats. The building also houses 80 offices. It was constructed in 1953.

Adjacent to this building is a 61,000-square-foot annex which was built in 1969. Part of the annex was renovated in 2010.

Hastings officials note that many of the academic building's features are outdated:

- The heating, ventilation and air conditioning (HVAC) system has an estimated 7-10 years of useful life left, according to a 2011 report.
- The hot water system has 5 to 7 years left.
- The roof and electrical systems also are outdated.
- And the elevators in the building are too small to accommodate a wheelchair, making them non-compliant with the Americans with Disabilities Act.

The Governor's 2015-16 Budget

The Governor's proposed budget provides \$36.8 million in lease revenue bonds to construct a new, 57,000-square-foot building on a vacant lot already owned by Hastings, as well as modernizing the annex. Hastings has conducted preliminary pre-design studies and cost analyses, and prepared a detailed cost estimate, which the Department of Finance has reviewed. The proposal breaks down costs in this way:

- \$853,000 for preliminary plans;
- \$2.8 million for working drawings;
- And \$33.2 million for construction.

The project will result in debt service payments of approximately \$2.5 million annually, beginning in Fiscal Year 2018-19.

Hastings would ultimately tear down the old academic building and potentially build new student housing, although there is no current proposal for that project.

The Budget Change Proposal notes that Hastings considered three other alternatives before determining this proposal was the most cost effective. The other options considered were tearing down the current building and rebuilding on site, partially demolishing the building and rebuilding, or fully modernizing both the building and annex.

Hastings analysis found that none of these three options were cost effective, largely due to very high relocation costs during the rebuilding or modernizing phases of the current building. Moving students, staff and faculty to other locations during this process are estimated to be between \$15 and \$20 million.

STAFF COMMENTS/QUESTIONS

The need for new or renovated space for Hastings is apparent, and it appears that four options were thoroughly scrutinized before settling on the proposal. While the new building will have less square footage than the one it is replacing, Hastings has recently reduced its enrollment and plans to maintain current enrollment levels into the future.

This project is included in the Administration's Five-Year Infrastructure Plan, which was released with the budget in January.

Staff notes that it is somewhat unusual for the administration to make one request for three phases of a capital outlay project. The Legislature typically approves preliminary planning, working drawings, construction and equipment phases separately, which allows for more public input and scrutiny of projects as they advance. The administration notes that existing lease revenue bond proceeds are already available for this project, however, and that to utilize bond funding for the entire project, it is necessary to approve all three phases at once.

To ensure appropriate legislative oversight of this project, the Subcommittee may wish to require that the administration provide the Joint Legislative Budget Committee with an update on the project and a 30-day review period before beginning the construction phase.

Staff Recommendation: Approve the Academic Building Replacement Project and require a 30-day Joint Legislative Budget Committee review period before the construction phase begins

6980 CALIFORNIA STUDENT AID COMMISSION**ISSUE 3: GRANT DELIVERY SYSTEM MODERNIZATION**

The issue for the Subcommittee to consider is a Budget Change Proposal to provide \$840,000 General Fund and four positions to begin an information technology project aiming to update the California Student Aid Commission's financial aid processing system.

PANELISTS

- Matthew Saha, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

BACKGROUND

The California Student Aid Commission (CSAC) oversees numerous financial aid programs, including the Middle Class Scholarship and entitlement and competitive Cal Grant awards. Each of these programs have different eligibility requirements.

CSAC's current IT collects student data, verifies eligibility, and must communicate with students and campuses. CSAC processes an estimated 7 million student grant applications and nearly \$2 billion in various financial aid. CSAC officials note that due to outdated technology, each program is maintained separately, requiring students, campus administrators and CSAC staff to log into different systems separately. The system cannot communicate with students via text-messaging, which has become a preferred means of communication among college students.

CSAC's current IT system is based upon business rules and processes that were established in the 1980s and 1990s; the core system is about 30 years old. Policy changes related to Cal Grants and the implementation of the Middle Class Scholarship have created difficulties in changing the system to meet new expectations, requiring numerous work-around and manual processes.

The Governor's 2015-16 Budget

The Governor's proposed budget provides \$840,000 General Fund to CSAC for four new information technology positions and three consultants to begin the process of creating a new financial aid delivery system. The consultants will include a Project Manager, Independent Verification and Validation, and Independent Project Oversight. Provisional language in the budget requires CSAC to work with the state Department of Technology, and CSAC has agreed to follow Department of Technology procedures as they develop this project.

Preliminary estimates provided by CSAC indicate the project could take five years to implement and cost as much as \$28 million, with \$17 million in new costs and \$9 million in redirected funds. The consultants are limited-term, but the four new positions would remain.

This request is to begin the planning process. Planning will entail:

- Developing requirements for a new system that will better organize various grant programs and better communicate with students and campuses;
- Preparing a Request for Proposal (RFP) based on the system requirements;
- Based on responses to the RFP, selecting a vendor;
- Developing a contract with the selected vendor.

Once these steps are taken, CSAC and the Department of Finance will ask the Legislature for approval to appropriate funds and implement the project.

STAFF COMMENTS/QUESTIONS

The need for an updated financial aid distribution system is clear. CSAC's current antiquated system has led to communication issues with campuses and students that delay getting critical financial aid dollars to students. The new system should allow much quicker distribution of funds, and allow students and campuses to log into the system and view various financial aid programs and accounts simultaneously; the programs currently are siloed.

Staff has asked CSAC to work closely with all higher education segments and students as it develops this system. Whatever new system is developed must be compatible with campus financial aid programs. CSAC has held meetings with various stakeholders and has pledged to continue working closely with the segments throughout this development process. Before the Legislature commits major new resources in a future budget year, it will need to ensure the new system enhances communication with the segments and students, instead of complicating communications.

Staff Recommendation: Approve the Grant Delivery System Modernization planning process

ISSUE 4: SB 1028 IMPLEMENTATION

The issue for the Subcommittee to consider is a Budget Change Proposal to provide \$95,000 General Fund and one position to implement SB 1028 (Jackson), Chapter 692, Statutes of 2014. The new law reforms the Cal Grant C program, including requiring CSAC to consider economic hardship and applicants' employment status when it distributes Cal Grant C awards, and requiring CSAC to consult with workforce agencies to identify priority occupational areas when it develops criteria for the awards.

PANELISTS

- Matthew Saha, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

BACKGROUND

The Cal Grant C award provides up to \$2,462 for tuition and fees and up to \$547 for other costs for eligible low- and middle-income students enrolled in an occupational, technical, or vocational program that is at least four months long. A total of 7,761 awards is authorized in statute. Funding is available for up to two years or the length of the program, whichever is shorter.

Awards are based on supplemental information provided by applicants, including educational history, work experience and occupational goals. Priority is given to students pursuing occupational or technical training in areas that have high employment need, high employment growth, or high wages. Examples of current priority occupations include automotive service technicians, computer specialists, registered nurses and fire fighters.

SB 1028 (Jackson), Chapter 692, Statutes of 2014, makes changes to the program by requiring CSAC to also consider family income and household size, whether the applicant is a single parent or child of a single parent, and give greater weight to someone who has been unemployed for more than 26 weeks. The law also requires CSAC to update the priority areas of training by January 1, 2016, and requires CSAC to consult with the Employment Development Department (EDD), the Economic and Workforce Development Division of the California Community Colleges Chancellor's Office (CCC EWD), and the California Workforce Investment Board (WIB) to publicize the existence of the Cal Grant C award program and to make students receiving awards aware of job search and placement services available through EDD and local workforce investment boards.

The Governor's 2015-16 Budget

The Governor's proposed budget proposes \$95,000 General Fund for CSAC to create a new Associate Governmental Programs Analyst position to fulfill the new responsibilities created

by SB 1028. CSAC notes the position will help develop a new scoring matrix for the Cal Grant C award, prepare outreach and informational materials, work with workforce development agencies and update the priority occupation lists.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal. When this legislation was approved by the Appropriations Committees in both houses in 2014, it was understood that implementation would require a new position for CSAC.

Staff Recommendation: Approve the funding and position to implement SB 1028

ISSUE 5: FUNDING FINANCIAL AID OUTREACH AND LOAN ASSUMPTION PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposal to use \$15 million General Fund to support the California Student Opportunity and Access Program (Cal-SOAP), Cash for College program and Assumption Program of Loans for Education (APLE.) These programs have recently been support by federal funding, but that funding is expiring.

PANELISTS

- Matthew Saha, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

BACKGROUND

Cal-SOAP was established in 1978 to increase postsecondary education opportunities for students who are from low-income families, first-generation college students, or students who come from schools or regions with low college-going rates. Projects are operated through consortia that involve at least one secondary school district, at least one four-year college or university, at least one community college, and at least one nonprofit educational, counseling or community agency or accredited private vocational or technical school. All projects are required to increase the availability of information on postsecondary schooling and raise the achievement levels of students to increase the number of high school graduates eligible to pursue postsecondary opportunities. Projects include tutoring programs and outreach efforts.

CSAC currently contracts with 14 consortia to conduct projects in specific regions of the state.

Cal-SOAP has received \$7.2 million annually through the federal College Access Challenge Grant in recent years, though the program has been funded by the state in the past. Cal-SOAP also receives \$500,000 to help promote the Middle Class Scholarship program.

The Cash for College program operates free workshops in schools across the state designed to help high school students and their families fill out the Free Application for Federal Student Aid (FAFSA) form, which is the form required for most federal and state financial aid programs. The program has received \$586,000 in federal funds.

APLE was created in 1983 and allowed students who used federal student loans and worked in specified areas, such as teachers in low-performing schools or nurses in state prisons, to access state funds to repay the loans. Most of the program focused on teachers, and provided up to \$11,000 in loan forgiveness for someone who taught for four consecutive years in a qualifying school.

New APLE warrants were suspended through a gubernatorial veto in the 2012-13 budget. No new students have entered the program since then, as the existing statute is subject to an annual appropriation in the budget and the administration has proposed no new funding. At the time of the veto, nearly 11,000 people participated in the program, almost all of them being teachers, at a cost of about \$35 million General Fund. Students with existing agreements with the state have been allowed to continue in the program. About 5,600 people are projected to participate in the program in 2015-16, at a cost of about \$19 million. Federal funds had been used to cover about \$7.2 million of these costs.

The Governor’s 2015-16 Budget

The federal College Access Challenge Grant is set to expire. The Governor’s budget proposes \$15 million General Fund to backfill this lost federal funding to support the Cal-SOAP, Cash for College, and APLE programs, as the chart below indicates. The proposal would maintain current funding levels for each program.

Program	2014-15 Federal Funds	2015-16 Proposed General Fund Backfill
Cal-SOAP	\$7.2 million	\$7.2 million
APLE	\$7.2 million	\$7.2 million
Cash for College	\$586,000	\$586,000
Total	\$15 million	\$15 million

STAFF COMMENTS/QUESTIONS

Each of these programs meets a critical need in the state.

Cal-SOAP consortia appear to have favorable outcomes. Both the Cal-SOAP and Cash for College programs provide support, outreach and information to students to help boost college-going levels. Cal-SOAP is present in more than 300 elementary, middle and high schools and involves 9 of the 10 general campuses of the University of California and 18 of the 23 campuses of the California State University. Consortia efforts reached almost 200,000 students and families during the most recent reporting period. Members of the consortia are required to match state or federal funds dollar-for-dollar, allowing the funds to leverage other public or private funds.

According to a recent draft Cal-SOAP study, 85% of graduating seniors served by Cal-SOAP consortia attended college, which compares favorably to the statewide college-going rate of 62%. About 60% of Cal-SOAP students completed the FAFSA, which is 5 or 10% higher than statewide FAFSA completion rates.

The Legislative Analyst's Office suggests the Legislature require a more thorough Cal-SOAP evaluation going forward, however, and seek a similar evaluation of the Cash for College program.

Cal-SOAP funding has fluctuated, current program is limited. Funding for CalSOAP has fluctuated in recent years, ranging from \$8.6 million in 2002-03 to \$6.3 million in 2007-08. The Governor's proposal of \$7.2 million would maintain recent funding levels. Staff notes that

the Student Aid Commission submitted a budget request to the administration in the fall to increase the budget by \$3.25 million to improve current services and add consortia in areas of the state that are not currently covered. The expansion would provide services in the city of Los Angeles, the Inland Empire and parts of Northern California, including El Dorado and Placer counties.

APLE remains in statute but unfunded. Statutes regarding the APLE program remain in law, but are subject to annual budget language describing how many new loan assumption agreements will be funded in the coming year. Since the veto in the 2012-13 budget, the annual budget process has not included authorization for any new loan agreements.

This is despite mounting evidence of a teacher shortage. With about a third of the teaching force nearing retirement, the Center for the Future of Teaching and Learning estimates that California will need an additional 100,000 teachers over the next decade.

The Subcommittee may wish to ask the following questions:

- What types of activities do Cal-SOAP consortia typically sponsor? Are there specific types of activities that have been shown to be the most effective?
- Where are the 14 Cal-SOAP consortia located, and how have they been developed? How many students could be served through an expansion?
- How has reduced or status quo funding impacted the current consortia?
- How has Cal-SOAP used the extra funding to inform students about the Middle Class Scholarship program?
- Why hasn't the administration proposed funding for the APLE program?
- If the APLE program were to be revived, could it be more narrowly focused to better serve the state and better serve students?

The Subcommittee may wish to hold this item open to continue discussion on these topics and their appropriate funding levels.

Staff Recommendation: Hold Open

ISSUE 6: MIDDLE CLASS SCHOLARSHIP UPDATE

The Subcommittee will discuss the implementation of the Middle Class Scholarship. This is an informational item.

PANELISTS

- Matthew Saha, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission
- Agatha Gucyski, Senior, California State University Long Beach

BACKGROUND

Between 2003-04 and 2010-11, tuition grew at the University of California from \$4,984 annually to \$12,192 – an increase of 145%. During the same period, tuition grew at California State University from \$2,046 to \$5,970 – an increase of 191%. In addition to tuition, students face considerable other costs, ranging from books to housing. The average cost of attendance this year for UC is \$33,100; while at CSU it is about \$23,000 for students not living at home.

Rising tuition and other costs have forced more and more California students to borrow to pay for college: California's class of 2012 graduated with an average student debt level of \$20,269, according to data published in 2014 by The Institute for College Access and Success.

While federal and state financial aid programs have long focused on increasing access and affordability for low-income college students, relatively few public aid programs have sought to support students whose family income was too high to qualify for programs such as the Pell Grant or Cal Grant but who still must borrow significantly to pay for college.

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, created the Middle Class Scholarship Program. 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 will 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 to be phased in over four years, beginning in the current fiscal year. The phase-in period is:

- In 2014-15, students received up to 14% off of tuition;
- In 2015-16, students will receive 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.

AB 94 set appropriation amounts for each of the first four years: \$107 million was set aside for the program in 2014-15. The legislation calls for a \$152 million appropriation in 2015-16, \$228 million in 2016-17 and \$305 million in 2017-18 and beyond.

Students are required to fill out the Free Application for Federal Student Aid (FAFSA) or California Dream Act Application to become eligible for the program.

The budget also provided 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.

SB 860 (Senate Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2014, made adjustments to the program based on input from CSAC and the two segments. The changes include:

- A change to the definition of other financial aid, to ensure the award goes only to students paying tuition/fees.
- A new requirement that students seeking the scholarship fill out the federal financial aid application by March 2, which is the same deadline as other financial aid programs.
- Language that limits the award to a student's first bachelor's degree or teaching credential, similar to Cal Grant policy.
- Language that allows part-time students to also receive the scholarship, but bases scholarship on the amount students are paying for tuition.

CSAC provided the following information regarding Middle Class Scholarship participation at its Feb. 19 hearing. CSAC officials may provide more up-to-date information at the hearing.

Segment	Awards	Average Award Amount	Total Award Amounts
UC	17,361 students	\$1,206	\$19,174,322
CSU	63,677 students	\$584	\$38,845,936
Total	81,038 students	\$895	\$58,020,258

The Governor's 2015-16 Budget

The Governor's budget proposes \$152 million General Fund in 2015-16 to support the second year of the program. Additionally, the Governor continues to earmark 2 positions and \$141,000 General Fund in CSAC's operations budget to administer the program, and continues to provide \$500,000 General Fund to Cal-SOAP for outreach efforts. The Governor proposes no new policy changes to the program.

STAFF COMMENTS/QUESTIONS

Staff provides the following comments on the program:

First year provides benefit to more than 81,000 California students. So far, more than 81,000 students have received aid. About 11% of UC students and 20% of CSU students qualified for the award. The program reduced the number of California students paying full tuition at UC to 34% and at CSU to 24%.

The program addresses tuition hikes in a concentrated manner. As UC and CSU tuition rose dramatically during the last decade, federal and state need-based aid did provide protection to low-income students. Middle-class and upper-class students were forced to pay higher rates. The Middle Class Scholarship can help shield middle-class students from tuition increases, while leaving families who can afford high tuition to pay full rates. This is perhaps a better way to address future tuition hikes than "buying out" proposed tuition increases by UC and CSU.

The program benefitted lower income students as well. According to CSAC data, some Middle Class Scholarship recipients had family income levels below the targeted level of \$80,000. CSAC indicates 4,180 Middle Class Scholarship recipients at UC – or about 24% of UC recipients - had annual family income levels of less than \$80,000, while 27,605 CSU students – or about 43% of CSU recipients – had annual family income levels of less than \$80,000. These are the type of income levels that can qualify a student for need-based federal or state financial aid programs such as the Pell Grant or Cal Grant, depending on family size and the program.

CSAC notes that the reasons some students may have had lower incomes than anticipated include that they were too old to qualify for the Cal Grant entitlement program, missed the Cal Grant and federal aid deadline, or had assets higher than the Cal Grant limits allow.

Participation could be boosted. Preliminary estimates from UC and CSU indicated there might be more students eligible for this program than have participated this year. There are many reasons why participation might have been limited in the first year: students were unaware of the program, for example, and many middle-class families may be unfamiliar with the FAFSA, which is the form students must fill out to qualify. Additionally, many students receive various types of financial aid that already cover up to 40% of their tuition and fees, making them ineligible.

It is imperative that CSAC and the Cal-SOAP consortia continue to improve outreach efforts.

It appears that per-student payments could be increased in 2015-16. Based on current projections, it appears that some of the 2014-15 funding will be unspent. This raises the question of whether the Subcommittee could consider speeding up the implementation process to increase per-student levels. The initial legislation calls for students to receive up to 20% off of tuition in 2015-16, 30% off in 2016-17, and 40% off in 2017-18. It could be possible to stay within the current appropriation level in 2015-16, but move ahead a year in the discounted amount per student. This would provide a bigger benefit to individual students without an increased cost for the state.

The chart below was provided by CSAC and includes estimated costs associated with per-student funding levels based on current participation rates. These estimates are based on current tuition levels at both segments.

Segment	Estimated Recipients	20% off of Tuition	30% off of Tuition	40% off of Tuition
UC	17,191	\$27.1 million	\$40.6 million	\$54.1 million
CSU	66,387	\$58.4 million	\$87.8 million	\$116.9 million
Total	83,578	\$85.5 million	\$128.4 million	\$171 million

Parts of the program could be adjusted to emulate Cal Grant program. Unlike the Cal Grant program, the Middle Class Scholarship does not have an asset test. An asset test works in conjunction with an income test to determine eligibility for many financial aid programs. For example, the asset ceiling for Cal Grant recipients in 2014-15 is \$67,600 for dependent students. (Home value is excluded.) CSAC data indicates that some Middle Class Scholarship recipients appear to have high asset levels. About 8,400 recipients reported assets of more than \$200,000, for example. The Subcommittee could consider whether implementing some type of asset test could better focus the program on the neediest recipients.

Additionally, the Cal Grant program adjusts income and asset ceilings annually according to cost-of-living adjustments. The Middle Class Scholarship program currently caps income levels at \$150,000. The Subcommittee could consider adding language that would adjust this ceiling in a similar manner to the Cal Grant program.

The Subcommittee may wish to ask the following questions:

- How did the Cal-SOAP consortia conduct outreach regarding this program? How can outreach be improved?
- What would be an appropriate asset test to ensure the program is focused on middle-income students and their families?
- How can processing be improved to provide students' funding more quickly?
- Based on current participation rates, should the Legislature consider moving to a higher per-student amount?
- Are there other issues the Legislature should consider as it funds this new program?

The Subcommittee may wish to hold this item open to continue discussion on potential improvements to the program.

Staff Recommendation: Hold Open

ISSUE 7: UNMET NEEDS IN STATE FINANCIAL AID

The Subcommittee will discuss the impact of state financial aid programs and how the programs could be improved to better meet students' needs. This is an informational item.

PANELISTS

- Hans Johnson, Public Policy Institute of California
- Deborah Cochrane, The Institute for College Access and Success
- Diana Fuentes-Michel, California Student Aid Commission

BACKGROUND

California will spend more than \$1.6 billion General Fund on financial aid programs and administration in the current year. State-supported financial aid, including the Cal Grant and Middle Class Scholarship programs, are a major source of income for the University of California and California State University: UC is projected to receive more than \$938 million in financial aid payments on behalf of students in 2015-16, while CSU will receive more than \$643 million. Most state financial aid spending is through the Cal Grant program, which is providing support for an estimated 331,000 California students this year. The charts below and on the next page are prepared by the Legislative Analyst's Office and describe the various Cal Grant programs and costs.

Figure 33

Summary of Cal Grant Program Requirements and Awards

High School Entitlement Program	<p>This program guarantees awards to recent high school graduates who meet income and grade point average (GPA) requirements. Depending on income level, a student may get a Cal Grant A or B award.</p> <ul style="list-style-type: none"> • Students must have a GPA of at least 3.0 for a Cal Grant A award, which covers full systemwide tuition at UC and CSU and provides a fixed amount toward tuition at private California colleges. (For 2014-15, the maximum tuition awards are \$9,084 for students at nonprofit or Western Association of Schools and Colleges-accredited for-profit colleges and \$4,000 for students at other for-profit colleges.) • Cal Grant B awards are for students with greater financial need who have at least a 2.0 GPA. Cal Grant B awards provide up to \$1,648 toward books and living expenses in the first year. Beginning in the second year, the B award is this amount plus tuition support (in the same amounts as Cal Grant A awards).
Transfer Entitlement Program	<p>This program is for graduates of California high schools who transfer from a CCC to a qualifying baccalaureate degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 upon transferring. As under the high school entitlement, transfer entitlements include both A and B awards, with the same maximum awards for tuition, books, and living expenses.</p>
Competitive Program	<p>This program is for students who meet the basic income and GPA criteria of the entitlement program (such as income and GPA), but are not recent high school graduates or transfers. A total of 22,500 awards is authorized in statute. Recipients are selected for A and B awards through a competitive process with special consideration for disadvantaged students. Because of limited funding, only about 6 percent of qualified applicants receive awards.</p>
Cal Grant C	<p>This program provides up to \$2,462 for tuition and fees and up to \$547 for other costs for eligible low- and middle-income students enrolled in an occupational, technical, or vocational program that is at least four months long. A total of 7,761 awards is authorized in statute. Funding is available for up to two years or the length of the program, whichever is shorter.</p>

Cal Grant Spending					
<i>(Dollars in Millions)</i>					
	2013-14 Actual	2014-15 Revised	2015-16 Enacted	Change From 2014-15	
				Amount	Percent
Total Spending	\$1,677	\$1,905	\$2,034	\$129	7%
By Segment:					
University of California	\$781	\$852	\$900	\$47	6%
California State University	519	621	688	68	11
Private nonprofit institutions	237	255	258	3	1
California Community Colleges	102	132	144	12	9
Private for-profit institutions	38	44	43	-1	-3
By Program:					
High School Entitlement	\$1,334	\$1,516	\$1,641	\$125	8%
CCC Transfer Entitlement	237	242	223	-19	-8
Competitive	100	133	149	16	12
Cal Grant C	6	13	20	7	55
By Award Type:					
Cal Grant A	\$968	\$1,080	\$1,143	\$63	6%
Cal Grant B	703	811	870	59	7
Cal Grant C	6	13	20	7	55
By Award Component:					
Cal Grant A, B, and C Tuition	\$1,442	\$1,603	\$1,706	\$102	6%
Cal Grant B Access (Stipend)	232	296	322	26	9
Cal Grant C Book and Supply	3	5	6	1	26
By New or Renewal:					
New	\$567	\$587	\$603	\$17	3%
Renewal	1,110	1,318	1,430	113	9
By Funding Source:					
General Fund	\$1,037	\$1,527	\$1,747	\$220	15%
Federal TANF	542	377	286	-91	-24
Student Loan Operating Fund	98	—	—	—	N/A
TANF = Temporary Assistance for Needy Families.					
Posted January 2015.					

The Governor's 2015-16 Budget

The Governor's budget proposes no new policy proposals regarding financial aid programs. The budget provides \$2.2 billion in funding for the California Student Aid Commission, with \$1.9 billion General Fund, for financial aid programs and CSAC operations. The budget estimates a 9% increase in Cal Grant recipients between the current year and budget year, although this estimate will be revised in May.

STAFF COMMENTS/QUESTIONS

The panelists will provide their thoughts on the state's financial aid programs and offer recommendations for improvement. Staff provides the following comments on the programs:

Federal, state and institutional support helps many students cover tuition. According to the LAO, more than half of undergraduate students at UC and CSU receive aid sufficient to

fully cover systemwide tuition and fees. Additional UC and CSU students receive partial tuition coverage from these sources. At community colleges, 45 percent of students receive fee waivers accounting for more than 60 percent of all instructional units taken.

State provides little support for other costs of college. State-supported aid programs mostly target tuition, and not the other costs of college, including living accommodations, books and supplies, and transportation. These costs are significant: UC estimates that students will spend \$20,500 on non-tuition costs in 2015-16, for example. The Cal Grant B stipend, which was increased last year to \$1,648 per year, does provide some cost-of-living support for the lowest-income students, but the stipend has not kept pace with inflation.

The high cost of living in California means that low-income students, even those receiving Cal Grant, Pell Grant, and other aid, still face significant financial pressures when they attend college. The chart below was prepared last year by The Institute for College Access (TICAS) and Success and indicates that low-income families must dedicate a significant portion of their discretionary income to pay for students' costs.

Income Range	What does college <u>cost</u> ?			Is the cost of college <u>affordable</u> ?					
	2011-12 Net Price by Family Income			Share of Total Income Required to Pay the Cost			Share of Discretionary Income Required to Pay the Cost		
	UC	CSU	CCC	UC	CSU	CCC	UC	CSU	CCC
\$0 - \$30,000	\$8,808	\$6,563	\$5,815	29%	22%	19%	64%	48%	42%
\$30,001 - \$48,000	\$10,126	\$8,945	-	21%	19%	-	32%	28%	-
\$48,001 - \$75,000	\$13,771	\$13,387	-	18%	18%	-	23%	23%	-
\$75,001 - \$110,000	\$21,234	\$18,572	-	19%	17%	-	23%	20%	-
> \$110,000	\$28,282	\$20,021	-	19%	13%	-	21%	15%	-

(For data sources and methodological notes, please see the full document, "College Costs and Affordability in California," available at http://www.ticas.org/pub_view.php?idx=930.)

Many low-income students do not receive Cal Grants. The Cal Grant entitlement program allows any California high school student within one year of graduation to qualify for the program if they meet income and asset criteria. Low-income students who graduated from high school more than one year ago must instead apply for the competitive Cal Grant program. Odds are very low of receiving a competitive Cal Grant, which are limited to 22,500 per year in statute. CSAC reports that more than 300,000 people have been applying for competitive Cal Grants in recent years; thus only about 6% of qualified applicants receive such an award.

Income levels for the applicants who are turned away for a competitive Cal Grant have an average age of 27, an average family income of \$21,000 for a family of three and a high school GPA of 2.9.

FAFSA completion rates could be improved. Filling out the FAFSA is the gateway to most financial aid programs. Yet only about 60% of California high school seniors complete the

form, indicating a need for further outreach to students to ensure every student who might qualify for any financial aid program completes the form.

Cal Grant support for students at private colleges set to drop. The Governor's Budget reduces the Cal Grant amount for students attending private and accredited for-profit schools from \$9,084 in the current year to \$8,056 in 2015-16. The 2012 Budget Act put in place scheduled reductions to the Cal Grant award amounts for students at these colleges. The 2014 Budget Act delayed by one year the final reduction, but the administration proposes to make the final reduction in 2015-16. About 28,000 students at private schools currently receive a Cal Grant. It is unclear what impact this reduction will have, although it is possible that some private schools will admit fewer Cal Grant recipients in the future due to the lower amount offered by the state.

Signed bills addressing student loans are unfunded in the Governor's budget proposal. AB 2377 (Perez), Chapter 816, Statutes of 2014, created the California Student Loan Refinancing Program, which is intended to help California college graduates refinance private student loan debt at favorable rates. Graduates are eligible for the program if they have completed a bachelor's degree, are employed in a public service program or by a nonprofit, and are able to repay the loan. While the program would eventually become revolving and not need state funding, funding is needed to launch the program. The Governor signed the legislation but does not provide any money.

SB 1210 (Lara), Chapter 754, Statutes of 2014, created the California DREAM Loan Program, which is intended to provide low-interest loans to Dream Act students who are accessing the Cal Grant program and attending the University of California and California State University. These students are not eligible for federal student loans, making it difficult for some to cover the total costs of college. The legislation requires the state and UC and CSU to split the costs of launching the program. The state would need to provide about \$4.7 million General Fund to begin the program; the Governor signed the legislation but does not provide funding in the 2015-16 budget.