

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan A. Bonilla, Chair

WEDNESDAY, MARCH 7, 2011

4:00 P.M. - STATE CAPITOL ROOM 126

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### OVERVIEW HEARING ON THE GOVERNOR'S PROPOSED FUNDING FOR THE STATE'S FINANCIAL AID PROGRAMS

#### Overview of the Governor's 2012-13 Higher Education Budget Proposal

- *Steve Boilard, Higher Education Director, Legislative Analyst's Office*

#### Background on the State's Financial Aid Programs

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

#### The Governor's Budget Proposal for the State's Financial Aid Programs

- *Ian Johnson, Education Budget Analyst, Department of Finance*
- *Judy Heiman, Higher Education Analyst, Legislative Analyst's Office*
- *Diana Fuentes-Michel, Executive Director, California Student Aid Commission*

#### Perspective from Independent Stakeholders

- *Deborah Cochrane, Program Director, The Institute for College Access & Success*
- *Dr. Mary Lyon, President of University of San Diego and Chair of the Association of Independent California Colleges & Universities*
- *Laura Brown, President, California Coalition of Accredited Career Schools*
- *Alana Armstrong, Student at Saint Mary's College*
- *Kimberly Whetsone, Student at University of Phoenix*

#### Public Comment

**BACKGROUND**

Background on the Governor's 2012-13 Higher Education Budget Proposal  
Summary of the Governor's Budget Reductions to the Cal Grant & Student  
Loan Assumption Programs

**ITEMS TO BE HEARD**

Issue 1	CSAC State Operations - Budget Change Proposals	11
Issue 2	Funding Shifts with no Programmatic Impacts to the Cal Grants	15
Issue 3	Cal Grant Participation Proposals	16
Issue 4	Eliminating Student Loan Assumption Awards	17
Issue 5	Reducing the Maximum Award Levels for Private Cal Grants	19
Issue 6	Limiting Eligibility by Increasing Required G.P.A	25

## BACKGROUND

### GOVERNOR'S 2012-13 HIGHER EDUCATION BUDGET PROPOSALS

This agenda item is to provide the Subcommittee background on the Governor's 2012-13 budget proposals for higher education.

#### PANELIST

- Steve Boilard – Legislative Analyst's Office

#### THE STATE'S HIGHER EDUCATION SYSTEM

California's public higher education system involves three "segments": the University of California, the California State University, and the California Community Colleges (CCC). It also includes the Hastings College of the Law. The State's Master Plan for Higher Education, originally adopted in 1960, ascribes distinct missions to each of the segments and expresses a set of general policies for higher education in the state, including the state's intent that higher education remain accessible, affordable, high-quality, and accountable.

##### ***University of California (UC)***

Drawing from the top 12.5 percent of the state's high school graduates, the UC educates approximately 237,800 undergraduate and graduate students at its ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools and handles more than 3.8 million patient visits each year.

##### ***California State University (CSU)***

Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, the CSU provides undergraduate and graduate instruction through master's degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. With 23 campuses and approximately 412,000 students, the CSU is the largest and most diverse university system in the country. It also is one of the most affordable. The CSU plays a critical role in preparing the workforce of California.

##### ***California Community Colleges (CCC)***

The CCC are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.6 million students. The CCC system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for adults across the state through basic skills courses and adult non-credit instruction.

**Hastings College of the Law (Hastings)**

Hastings was founded in 1878 and on March 26, 1878, the Legislature provided for affiliation with the UC. Hastings is the oldest law school and one of the largest public law schools in the West. Its mission is to provide an academic program of the highest quality, based upon scholarship, teaching, and research, to a diverse student body of approximately 1,150 students.

**Higher Education Funding.** From 2008-09 through 2011-12, the State reduced funding for UC, CSU, CCC, and Hastings by \$2.65 billion General Fund (as illustrated in the chart below). The most notable consequences of these reductions have been significant student tuition fee increases and declining course offerings, which have made it difficult for students to complete their certifications and degrees in a timely manner.

**OVERVIEW OF THE GOVERNOR'S 2012-13 BUDGET**

For 2012-13, the Governor's budget proposal provides \$9.4 billion for higher education. This amount is \$348 million, or 3.6 percent, less than the revised current-year level. When comparing the Governor's higher education funding level with that provided in 2007-08 (known as the last "normal" budget year), the proposed General Fund support for higher education declines by 21 percent. When all core funding is included, higher education would increase by 1.2 percent.

**Higher Education General Fund Support**  
(Dollars in Millions)

	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Revised	2012-13 Proposed	Change From 2011-12		Change From 2007-08	
							Amount	Percent	Amount	Percent
UC <sup>a</sup>	\$3,257.4	\$2,418.3	\$2,591.2	\$2,910.7	\$2,273.6	\$2,570.8	\$297.2	13.1%	-\$686.6	-21%
CSU <sup>a</sup>	2,970.6	2,155.3	2,345.7	2,577.6	2,002.7	2,200.4	197.7	9.9	-770.2	-26
CCC	4,272.2	3,975.7	3,735.3	3,994.0	3,276.7	3,740.2	463.5	14.1	-532.0	-12
Hastings <sup>a</sup>	10.6	10.1	8.3	8.4	6.9	8.8	1.8	26.2	-1.8	-17
CPEC	2.1	2.0	1.8	1.9	0.9	—	-1.8	-100	-2.1	-100
CSAC	866.7	888.3	1,043.5	1,251.0	1,481.7	567.9	-913.7	-61.7	-298.8	-34
GO bond debt service	496.2	591.4	762.0	809.3	724.9	330.8	-394	-54.4	-165.4	-33
<b>Totals</b>	<b>\$11,875.8</b>	<b>\$10,041.1</b>	<b>\$10,487.</b>	<b>\$11,552.9</b>	<b>\$9,767.3</b>	<b>\$9,418.9</b>	<b>-\$348.3</b>	<b>-3.6%</b>	<b>-\$2,456.8</b>	<b>-21%</b>

<sup>a</sup> 2012-13 appropriation for UC, CSU, and Hastings include general obligation bond payments of \$196.8 million, \$189.8 million, and \$1.8 million, respectively. General obligation bond debt service was funded outside of those segments' budget in prior years.

<sup>b</sup> General obligation bond debt service for UC, CSU, CCC, and Hastings, and Center for Regenerative Medicine. Does not include amounts for UC, CSU, and Hastings in 2012-13.

The Governor's budget proposal for higher education reflects three broad themes:

1. ***New Approach to Segments' Budgets.*** The Governor's proposal reduces various restrictions on the three segments' budgets, including the elimination of enrollment targets and other requirements. At the same time, it promises funding increases in subsequent years, contingent on the segments' meeting as-yet undefined performance standards. For the universities, the proposal also would change how bond debt service and retirement costs are funded.
2. ***Budget Solutions Concentrated in State Financial Aid Programs.*** Virtually all of the Governor's proposed General Fund savings in higher education - \$1.1 billion – is concentrated in the state's financial aid programs. Almost two-thirds of this amount comes from replacing General Fund support with other fund sources, and thus would have no programmatic effect on students, but impacts low-income families and children because of the proposed level of reductions made to the CalWORKs program. The remaining one-third of his General Fund savings is achieved by tightening financial and academic requirements for receiving aid, reducing the size of some grants, and eliminating some smaller programs.

### Governor's Proposed General Fund Reductions to Financial Aid Programs

*(Dollars in Millions)*

Proposal	Savings	Estimated Number of Students Affected
1. Use federal Temporary Assistance for Needy Families funds to offset Cal Grant costs (Funding Shift, no programmatic impact exempt to CalWORKs)	\$736	—
2. Use Student Loan Operating Fund to offset Cal Grant costs (Funding Shift, no programmatic impacts to Cal Grants)	30	—
3. Raise Cal Grant grade point average requirements	131	26,600
4. Change Cal Grant award amount for independent, nonprofit colleges and universities from \$9,708 to \$5,472	112	30,800
5. Change Cal Grant award amount for private, for-profit colleges and universities from \$9,708 to \$4,000	59	14,900
6. Restore uninterrupted enrollment requirement for transfer entitlement awards	70	9,000
7. Phase out loan assumption programs for teachers and nurses	7	2,670
8. Maintain maximum student loan default rate at 24.6 percent	Minimal	Minimal
<b>Source: LAO</b>		

3. ***Segments' Budgets Linked to Fate of Tax Package.*** While the Governor seeks no General Fund savings from the segments in his main budget proposal, all three segments would be subject to midyear cuts if the Governor's proposed tax increases are rejected by voters in November 2012. Specifically, the University of California and California State University would each receive midyear General Fund reductions of \$200 million, while general purpose funds for the California Community College would be cut by almost \$300 million.

According to Department of Finance, some of the major details of the plan are still not available, and may be introduced, as part of the Governor's May Revise process, but the basic elements of the plan include:

- **Long-Term Funding Plan for Each of the Public Higher Education Segments.** Although the Administration does not use the term "compact" to describe its proposed funding commitments, the proposal is similar to multiyear funding pacts developed between the segments and previous Governors. Governor Brown's proposal includes no new cuts for the colleges or universities in 2012-13 (assuming the passage of his tax package), and would provide annual General Fund increases of at least 4 percent for each of the segments beginning in 2013-14. These augmentations would be contingent on the segments' meeting improvement standards in such areas as graduation rates and enrollment of transfer students.
- **Addressing Affordability in terms of Increased Tuition Costs.** The Governor proposes to "curtail" tuition and fee increases at the public segments. The budget assumes no such increases for 2012-13. However, the governing boards of UC and CSU have the authority to set tuition on their own.
- **Modifying the Debt Service Repayment & Retirement Costs to the Segments' Base.** The proposed budget moves into UC and CSU's base General Fund appropriations some costs that until now were treated separately. Specifically, in 2012-13 debt service payments for UC and CSU facilities, as well as the State's share of UC and CSU retirement costs, would be included in their respective base budget. These amounts would not be separately adjusted in future years, although the entire, enlarged base budgets would be subject to the 4 percent annual increase described above.
- **Budgetary Flexibility.** The Governor's budget seeks to increase flexibility for the segments in several ways. First, in moving retirement and debt service costs into the universities' base budget, the Governor proposes to remove restrictions on those funds. In addition, the Governor's budget deletes longstanding provisional language and budgetary schedules that in prior budgets had tied portions of the universities' appropriations to specific programs or expenditures. Similarly, the budget consolidates over \$400 million of CCC categorical funding into a single appropriation that can be used for a wide variety of purposes.

**BACKGROUND OF THE STATE'S FINANCIAL AID PROGRAMS**

This agenda item is to provide the Subcommittee background on the State's higher education financial aid programs administered by the California Student Aid Commission.

**PANELIST**

- Judy Heiman – Legislative Analyst's Office

**THE CAL GRANT PROGRAMS**

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. Over 91,000 students received new Cal Grant awards, and over 144,000 students received renewal awards in 2010-11.

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 \$1,551 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 high school graduates or students younger than 28 years of age, who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.
- **Cal Grant Competitive Award Program** provides 22,500 Cal Grant A or B awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards are reserved for students enrolled at a community college and who met the September 2 application deadline. 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 \$2,592 and the allowance for training-related costs is \$576.

The maximum award for Cal Grant "A" or "B" are equal to the mandatory systemwide tuition fees at the UC (\$12,192) and CSU (\$5,472) and \$9,708 at private for-profit and independent non-profit institutions.

**Cal Grant Award Granted & Funding Levels**  
(Dollars in Thousands)

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

**2011-12 BUDGET ACT CHANGES**

As part of the 2011-12 Budget Act, the Legislature adopted two significant policy changes to the Cal Grant program:

1. **Tighter Eligibility Criteria for Renewals.** Previously, Cal Grant recipients had to meet certain financial eligibility criteria only when they first applied for a Cal Grant (and when they renewed the grant in subsequent years). Cal Grant recipients applying for renewals now must meet several of those requirements. Applying these requirements to renewals disqualify an estimated 16,000 recipients who would otherwise be eligible for awards, reducing Cal Grant expenditures by about \$100 million. To mitigate the impact on students, current law requires CSAC to use the higher of the limits in place at the time of a student's initial award and those in place at the time of renewal.
2. **New Restrictions on Student Loan Default Rate.** A second change removes some postsecondary education institutions from eligibility to participate in Cal Grant programs. Specifically, institutions may not participate if a high proportion of their former students default on federal student loans. For 2011-12, the threshold is set at 24.6 percent of an institutions' student defaulting within three years of loan repayment, as defined and calculated by the federal government. For subsequent years, the ceiling increases to 30 percent. These ceilings apply only to institutions with 40 percent or more of undergraduates borrowing federal student loans. For 2011-12, about 76 institutions are affected, and most of these are career and technical colleges. There is a limited exception for continuing students at institutions that become ineligible; these students may qualify for renewal awards reduced by 20 percent.



**WHERE ARE CAL GRANT RECIPIENTS ATTENDING?**

The Cal Grant expenditures are expected to reach \$1.5 billion in General Fund support this year, an increase of 85 percent over the past four years, closely following the rate of increase in public university tuition.

**Cal Grant Recipients and Funding Amounts by Segment, 2011–12 Estimates**  
(Dollars in Millions)

	Recipients		Funding	
	Number	Percent	Amount	Percent
California State University	74,524	31%	\$382	25%
California Community Colleges	72,248	30	87	6
University of California	55,759	23	680	45
Private non-profit institutions	26,854	11	246	16
Private for-profit institutions	14,664	6	112	7
<b>Totals</b>	<b>244,049</b>	<b>100%</b>	<b>\$1,506</b>	<b>100%</b>
Source: LAO				

**WHAT IS THE COST DRIVERS?**

**What is Causing the Increased Costs?** The Administration's 2012-13 budget proposals on Cal Grant reductions cites dramatic increases in Cal Grant costs since adoption of the entitlement programs in 2001 as the reasoning for its proposed changes in the program. It is correct that overall expenditures for the Cal Grant program have increased in recent years.

As high school graduation levels have been relatively flat, these increased expenditures can be primarily explained by two factors, that have increased the number of students eligible for financial aid: (1) tuition fee increase at public universities, in response to the magnitude of General Fund reductions, (in the current year, both UC and CSU experienced a \$750 million funding reduction); and, (2) decreased family incomes due to economic conditions, and the State's high unemployment rate.

**HOW CAL GRANTS INTERACT WITH UC AND CSU FEE POLICIES**

***Interaction of UC & CSU Tuition Fee Increase with the Budget.*** By statute, Cal Grant awards amounts keep pace with tuition fees at UC and CSU. The budget cannot always take into account increases in Cal Grant costs that the State incurs when the UC and/or CSU raise tuition fee levels. For example, in 2011, UC and CSU both raised tuition fees further after passage of the 2011-12 budget. These actions, largely explain why the budget accounts for an additional \$83.6 million in 2011-12 and \$181.2 million in 2012-13 to fully fund Cal grant programmatic costs.

In 2012-13, the situation is different. While the CSU Board of Trustees voted in December 2011 to raise tuition fees by 9.1 percent effective fall 2012, this tuition fee increase *is not* recognized in the Cal Grant programmatic cost calculations in the budget. Separately, the budget includes language to account for any tuition fee increase at UC and CSU. With the budget language controlling, there is an estimated \$29.9 million deficiency in the budget.

**TIMING IS A FACTOR TO CONSIDER**

***Timing Issues Present Uncertainty for Students, both New & Continuing.*** The deadline for financial aid applications is March 2<sup>nd</sup>. High School Entitlement recipients are notified as early as the beginning of February. Transfer Entitlement recipients and Competitive recipients are notified in April-May. Renewal award recipients are notified in June. The Cal Grant award letter states the award is dependent upon the final budget, which is not finalized until the summer.

In prior years, such as in 2010 when the budget was not finalized until October, many postsecondary institutions covered tuition and even advanced access awards from other funds. This was done because there was a good expectation that the funds would eventually come through.

This year the dynamic is different – given the depth and breath of the budget reductions, including those impacting continuing students at private for-profit and independent non-profit institutions, as well as the GPA changes impacting new applicants – it is possible that many students could be awarded provisional grants only to have them canceled.

**ISSUES TO CONSIDER**

The Governor's budget proposes to save \$302 million in General Fund by reducing the Cal Grant programs, and avoids new costs of at least \$70 million in General Fund by limiting program expansions. Should the Legislature choose not to adopt all or part of the savings proposals, or the limitations on program expansions, the charge will then be to find additional savings elsewhere in either the Cal Grant program or in other General Fund-funded state programs. None of these alternatives, or proposals contained in the budget, present easy choices for the Legislature.

**ITEMS TO BE HEARD**

**ISSUE 1: CSAC'S STATE OPERATIONS PROPOSED BUDGET CHANGES**

As part of every budget year, the Administration approves Budget Change Proposals (BCPs) to amend the state operation funding or workload for each agency. The following Budget Change Proposals are requested to comply with the requirements from enacted legislations. There is also a trailer bill language proposal to modify the California Student Aid Commission's expenditure authority.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- Student Aid Commission

**3 YEAR EXPENDITURE & PERSONNEL YEARS**

California Student Aid Commission	Personnel Years			Personnel Years		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
Financial Aid Grant Program	94.4	105.2	109.7	\$1,398,130	\$1,574,078	\$1,364,472
California Loan Program	6	-	-	548,138	-	-
Administration	28.4	30.2	28.5	2,952	3,158	3,199
Distributed Administration	-28.4	-30.2	-28.5	(2,952)	(3,158)	(3,199)
<b>TOTAL, POSITIONS &amp; EXPENDITURES (All Programs)</b>	<b>100.4</b>	<b>105.2</b>	<b>109.7</b>	<b>\$ 1,946,268</b>	<b>\$ 1,574,078</b>	<b>\$ 1,364,472</b>

FUNDING	2010-11	2011-12	2012-13
General Fund	\$1,251,036	\$1,481,658	\$567,939
Federal Student Loan Reserve Fund	542,374	\$0	\$0
Student Loan Operating Fund (SLOF)	105,764	62,250	30,000
Federal Trust Fund	26,000	15,034	15,035
Reimbursement	21,094	15,136	751,498*
<b>TOTALEXPENDITURES (All Funds)</b>	<b>\$ 1,946,268</b>	<b>\$ 1,574,078</b>	<b>\$ 1,364,472</b>

\*The 2012-13 Budget proposes to shift \$736.4 million of Cal Grant costs from General Fund to federal Temporary Assistance for Needy Families Program funds.

**STATE OPERATION PROPOSED CHANGES**

1. **AB 131 – Dream Act:** The Commission requests \$746,000 (including \$484,000 in one-time funds), and four positions (one limited-term) to implement requirements per AB 131 (Cedillo), Chapter 604, Statutes of 2011, by establishing procedures and developing forms that enable AB 540 (Firebaugh), Chapter 814, Statutes of 2001, students who are exempt from paying nonresident tuition or who meet equivalent requirements adopted by the University of California Regents to apply for, and participate in the Cal Grant Program.
2. **SB 451 – Cal Grant C:** The Commission requests \$46,000 from the General Fund for a half-time Associate Governmental program Analyst position for the Commission's Program Administration and Services Division (PASD) to comply with SB 451 (Price) that requires the Commission to give priority in selecting Cal Grant C recipients to eligible students pursuing occupational or technical training in areas with high employment and high growth potential.
3. **Restricting Expenditure Authority:** The Administration proposes trailer bill language to require that the Commission obtain written approval from the Department of Finance before implementing changes in policy or practice that would have a fiscal effect of five hundred thousand dollars or more on any program administered by the Commission.

**BACKGROUND ON THE WORKLOAD FOR THE DREAM ACT**

The Governor's budget proposal includes a Budget Change Proposal requesting \$746,000 (\$484,000 in one-time funds) and four positions (one-limited term) for the California Student Aid Commission (CSAC) to implement the new statutory requirements per AB 131 (Cedillo), also known as the Dream Act.

AB 540 (Firebaugh), Chapter 814, Statutes of 2001, waives nonresident tuition for nonresident students who attended (for at least three years) and graduated from a California high school. Waiver applicants who are not in the country legally must sign an affidavit that they intend to apply for legal residency as soon as they are eligible to do so.

The Dream Act, an enactment of AB 130 (Cedillo), Chapter 93, Statutes of 2011, allows an AB 540 student attending a public college/university in California to receive a scholarship that is derived from non-state funds received, for the purposes of scholarships, by the segment at which he or she is a student. AB 131 (Cedillo), allows AB 540 students who meet the Cal Grant Program requirements to apply for and receive a Cal Grant while attending a participating Cal Grant eligible institution.

Effective January 1, 2013, AB 131 expands eligibility for state-administered student financial aid to AB 540 students. AB 131 stipulates that the number of financial aid awards received by California resident students may not be reduced because of this expanded eligibility. California postsecondary institutions must begin processing AB 540 students for other financial aid beginning in the 2012-13 school year.

**JUSTIFICATION**

In order to meet the requirements of AB 131, the Commission will need to develop forms and processes that will allow for the collection of financial data from documents other than the FAFSA, the ability to calculate an expected family contribution (EFC) based on federal methodology, and the matching of verified GPAs when SSNs are not available. New application forms and award processing must be ready by January 2013 in order for AB 540 students to be considered for a 2013-14 Cal Grant award.

**BACKGROUND ON THE WORKLOAD FOR CAL GRANT C**

The Governor's budget proposal includes a Budget Change Proposal requesting \$46,000 for a half-time Associate Governmental Program Analyst position for the California Student Aid Commission (CSAC) to comply with SB 451 (Price), Chapter 627, Statutes of 2011.

**BACKGROUND**

The Cal Grant C awards assist with tuition and training costs at occupational or vocational programs and may be used for institutional fees, charges, and other costs, including tuition plus training-related costs, such as special clothing, local transportation, required equipment, supplies, and books. The Cal Grant "C" may be renewed until the completion of the training, for a minimum of four months or a maximum of two calendar years. The total number of Cal Grant C awards is 7,761, which is established in state law. The maximum award amount and the total amount of funding are determined in the annual Budget Act. However, the award has not been increased since 2000-01, remaining at \$2,592 toward tuition and fees and an allowance of \$576 for training-related costs.

The Commission determines which applicants will be offered a Cal Grant C award using a point scoring process that considers educational history, occupational history, and Grant Point Average. The Cal Grant "C" selection process typically occurs in June.

Through SB 451, the State seeks to strategically direct Cal Grant C funds to recipients seeking occupations in areas with high employment demand, high growth potential, and high wages. SB 451 will maximize the opportunities for Californians to acquire the necessary job skills to gain and keep employment.

SB 451 requires the Commission to:

- Develop, and regularly review and update at least every 5 years, the areas of occupational or technical training for which students may utilize Cal Grant "C" awards, beginning in 2012.
- Give priority in granting the awards to students pursuing occupational and technical training in areas that meet at least two of the following criteria: high employment need, high employment salary or wage projects, high employment growth.
- Determine areas of occupational or technical training that met the criteria above in consultation with the Employment Development Department (EDD) using projections available through the Labor Market Information Data Library.

- Determine for a subsequent award year that the program under which a Cal Grant “C” was initially awarded is no longer deemed to receive priority to not affect an award recipient’s renewal.
- Publish, and retain, on the Commission’s Internet Web site, a current list of the areas of occupational or technical training meeting those specified criteria.
- Examine the graduation rates and job placement data of eligible programs and to give priority to students seeking to enroll in programs that rate high in those areas commencing with the 2014-15 academic year.

#### **JUSTIFICATION**

In order to comply with the requirements of SB 451, the Commission will need to modify its Cal Grant C selection process to give priority to students pursuing occupational or technical train in areas with high need, high growth, and/or high wages.

The Commission will need to consult with the EDD using projections available through the Labor Market Information Data Library to develop the list of occupational or technical training areas that meet two or more of the required areas. The Commission will also have to request information from over 400 Cal Grant eligible participating institutions for information on their occupational and technical training programs. This information must then be entered into the Commission’s Grant Delivery System (GDS), which also will require changes to the system.

**ISSUE 2: FUNDING SHIFTS WITH NO PROGRAMMATIC IMPACTS TO THE CAL GRANT PROGRAMS**

In recent budget years, the Cal Grant programs have been funded with General Fund support, as well as surplus monies from the Student Loan Operating Fund (SLOF), which has allowed the State to free up General Fund for other purposes. The Governor proposes to use SLOF funds to generate an equal offset of General Fund support, and provides, like the prior Administration, freed up TANF funds in exchange of General Fund support, which is available due to major funding reductions proposed to the CalWORKs program.

**BACKGROUND**

The Governor proposes steep reductions in support for CalWORKs, which uses federal Temporary Assistance for Needy Families (TANF) funds. The Administration would then shift freed-up TANF funds from the Department of Social Services to CSAC to offset \$736.4 million in General Fund Cal Grant expenditures. According to the Administration, this shift is an allowable use of TANF funds because it meets one of the funds' purposes: to support for low-income, unmarried students age 25 or younger could prevent and reduce out-of-wedlock pregnancies.

The budget also includes a \$30 million General Fund offset from the Student Loan Operating Fund (SLOF), which receives proceeds of the federal guaranteed student loan program. The federal government transferred management of this program from CSAC to ECMC, a national loan servicing organization, in 2010. The organization has agreed to contribute SLOF support to offset Cal Grant costs for several years, but the number and amount of transfers are unspecified. In the current year, ECMC contributed \$62 million for this purpose.

**ISSUES TO CONSIDER**

On February 29<sup>th</sup>, the Subcommittee No. 1 on Health and Human Services took action to reject major components of the Governor's CalWORKs reductions, which freed up TANF funding and redirected the use for Cal Grants. Therefore, to the extent the Legislature's final decision on the level of reductions to social services, the General Fund offset for Cal Grants would need to be adjusted accordingly.

Likewise, the General Fund offset from SLOF would need to conform to the available funding from ECMC, which will be determined during the May Revise process. From a Cal Grant perspective, both of these adjustments are technical issues with no programmatic effect.

**ISSUE 3: CAL GRANT PARTICIPATION PROPOSALS**

The Governor proposes to freeze the default rate limits at the current year level. This would limit somewhat the pool of eligible schools were students can use their Cal Grants. The Governor also proposes to stop implementation of CSAC's clarification of transfer entitlement eligibility in light of its significant budgetary impact.

1. ***Institutions Cohort Default Rate Participation Requirement.*** Recent legislation prohibits certain institutions with federal student loan default rates of 24.6 percent or more from fully participating in Cal Grant programs. The default limit is scheduled to rise to 30 percent for the 2012-13 academic-year. The proposal continues to provide a limited exception that allows renewal Cal Grant A or B recipients to continue to use their Cal Grant awards at an ineligible institution if they had been enrolled at the institution in the academic year before the institution became ineligible due to a high CDR, but their Cal Grant maximum award amounts shall be reduced by 20 percent.
2. ***Time Limit for Transfer Entitlement Cal Grant Award.*** Under current practice, a student must attend a baccalaureate institution in the year immediately after leaving a community college to qualify for a transfer entitlement award. A recent CSAC decision would remove that restriction, potentially adding 9,000 students and \$70 million in new Cal Grant awards.

**BACKGROUND ON THE TRANSFER ENTITLEMENT AWARD PROPOSAL**

Last year, it came to the Commission's attention that for the Transfer Entitlement Program, in statute, there is no limit on the delay between community college attendance and attendance at the four-year college. However, the Commission was interpreting the law consistent with the requirements imposed on the High School Entitlement Award program, expecting students who received the Transfer Entitlement award to attend a four-year institution immediately after leaving a community college. If they did not attend a four-year institution within one year from the community college, students lose their awards.

However, in statute, the same time limits are not explicitly stated for the Transfer Entitlement Program. What the law sets is a practical limit, that the student has to be younger than 28 by December 31<sup>st</sup> of the award year. Under this new interpretation, away from the Commission's current practice, a student who attended community college right out of high school, earned 24 units, stopped attending because he or she had to work, then, 9 years later, is accepted to a four-year college at the age of 28, would still be eligible for a Transfer Entitlement Award.

The Commission took an action in their November 2011 meeting to clarify students' time limit on eligibility for the Community College Transfer Entitlement Program. The Commission decided to remove this restriction, overturning their current practice, and adopted a new policy to comply with the statute.



#### ISSUE 4: ELIMINATING STUDENT LOAN ASSUMPTION AWARDS

The Governor's proposed budget would authorize no new program participants and participants who have been approved for the program but have not yet received their first payment, would not receive any benefits. The State would continue payments for students who have already received at least one payment and who complete additional years of qualifying employment.

This proposed reduction would generate about \$6.6 million in General Fund savings in 2012-13.

#### BACKGROUND

The Commission operates several loan assumption programs that were developed in response to workforce shortages in certain occupations and work settings (for example, teacher in low-performing public schools and nurses in state prisons). Under these programs, the state agrees to make loan payments on behalf of eligible students who borrow federal loans and work in specified occupations and settings after graduation. Payments are made for three or four years, as students complete years of qualifying employment.

Teacher and college faculty can receive from \$6,000 to \$19,000 and nurses can receive from \$20,000 to \$25,000 in total loan payments, depending on a participant's subject area, position, and work setting.

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

#### Student Loan Assumption Programs

Program	Description
<b><i>Assumption Program of Loans for Education (APLE)</i></b>	Provides up to \$19,000 toward outstanding student loans for graduates who teach a total of four years in a qualifying school.
<b><i>Graduate Assumption Program of Loans for Education (Graduate APLE)</i></b>	Provides a participant who teaches for three years at a regional accredited California college or university up to \$6,000 towards outstanding student loans. Since 2003-04, no new warrants have been issued; only renewals will continue to be funded.
<b><i>State Nursing Assumption Program Nursing Faculty (SNAPLE-NF)</i></b>	Provides a participant who has completed at least a baccalaureate degree in nursing or a field related to nursing and agreed to teach at one or more regionally accredited, eligible California colleges or universities, up to \$8,333 annually for three years towards outstanding student loans.
<b><i>State Nursing Assumption Program of Loans for Education (SNAPLE-NSF)</i></b>	Provides persons who fulfill agreements to work full-time for at least 4 consecutive years as a clinical registered nurse in a state-operated 24-hour facility, with 10 percent vacancy rates. A participant can receive up to \$5,000 annually for 4 consecutive years towards outstanding student loans, for a total of up to \$20,000.

**ISSUES TO CONSIDER**

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

If the programs worked at all as intended, however, it is possible that some current participants entered a lower-paying occupation, assumed more debt, accepted a lower-paying or more difficult job, or otherwise changed their behavior from what they may have done absent the promise of loan repayment. There are serious concerns with the prospect of canceling payments these students have already earned by completing a portion of their qualifying employment obligation.

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

**ISSUE 5: REDUCING THE MAXIMUM AWARD LEVELS FOR PRIVATE CAL GRANTS AWARDS**

The Administration proposes to reduce the maximum Cal Grant award for new and returning students attending private independent, non-profit institutions and private for-profit institutions. This proposal would affect about 46,000 students, with an estimated General Fund savings of \$171 million.

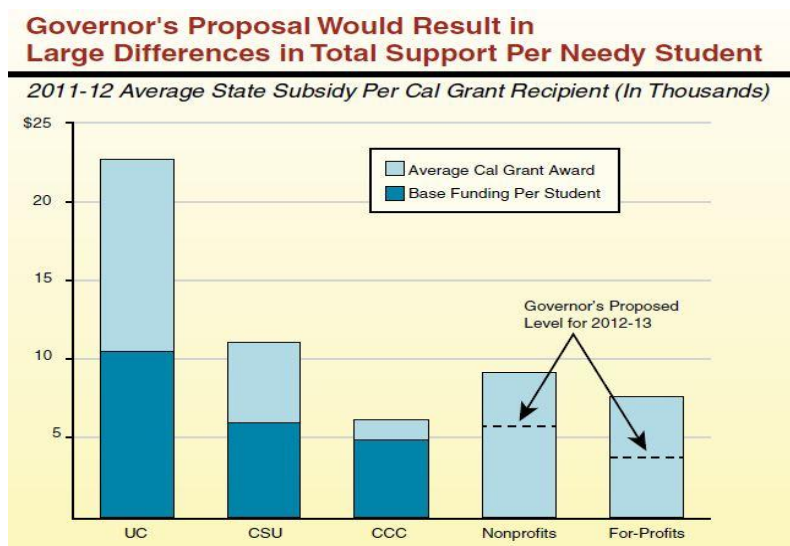
**BACKGROUND**

Students may use Cal Grant awards at qualifying private independent institutions, for-profit colleges and universities, and trade schools. In fact, the Cal Grant program was created in 1955 specifically to help financially needy students attend private institutions as a way of expanding the State's enrollment capacity in a time of growing demand.

The maximum private student Cal Grant award amount has been fixed at \$9,708 since 2000, with the exception of two years (2004-2006) in which it was reduced to \$8,322. Prior to 2001, the State had a long-standing statutory policy that linked the maximum Cal Grant award for financially needy student attending private colleges to the estimated average General Fund costs of educating a financially needy student at UC and CSU.

This cost includes the average General Fund the State provides for all UC and CSU students through the segments' base budgets plus the tuition Cal Grants cover for financially needy students. This parity formula, with some adjustments to approximate the State's incremental costs, was the basis for the 2000-01 award level of \$9,708. Beginning in 2001-02, this statutory policy was replaced with a new provision linking the maximum award to whatever amount was specified in the annual Budget Act. Under the parity formula, the current Cal Grant award would be about \$14,500.

The figure below illustrates the components of the average subsidy for students in each segment.



**BACKGROUND: INDEPENDENT, NON-PROFIT INSTITUTIONS*****Types of Independent, Non-Profit, Institution & Accreditation***

	<b>Regionally Accredited</b>	<b>Nationally Accredited</b>	<b>Unaccredited</b>
<b>Non-Profit</b>	All AICCU institutions, including Stanford, USC, National University, and California Institute of the Arts	Church Divinity Schools of the Pacific, Hypnosis Motivation Institute	The People's College of Law (Guild Law School)
AICCU: Association of Independent California Colleges & Universities			

***Reductions of Maximum Awards at Independent, Nonprofit Colleges & Universities.*** The Governor's proposal to reduce the maximum Cal Grant award for new and returning students attending private, independent institutions from \$9,708 to \$5,472 (the same amount financially needy CSU students receive from Cal Grants for tuition and fees). This proposal would affect about 30,800 students. The estimated General Fund savings is \$111.5 million. *Subsequent estimates from CSAC suggest savings may be somewhat higher, around \$119.2 million.*

For the renewal recipients at institutions that have been affected by the SB 70 Cohort Default Rate Requirement, their awards that already been reduced by 20 percent, and would be reduced again from \$7,776 to \$4,380.

*Reconciliation:* The Commission was able to reconcile the Governor's proposals with updated information, and provided a more accurate number of affected students of 30,600, of which 20,100 would be renewal recipients of the Cal Grant A and B awards, who are currently meeting academic progress and persisting in an independent, nonprofit college or university.

***Who are the students that attend independent, nonprofit colleges and universities?***

According to the Association of Independent California Colleges and Universities, their Cal Grant A recipients very much reflect California's demographics: 40 percent Caucasian, 33 percent Latino, 17 percent Asian American, 9 percent African American, and 1 percent Native American. About 22 percent of all California undergraduate students, over 143,000, attend an AICCU institution, with about 15 percent of Cal Grant expenditure going to these students.

These institutions are also serving very financially needy students - the average family income for their Cal Grant A recipient is \$40,896, which is below the UC's average family income of \$41,442 and the CSU's average family income of \$59,568. These institutions provide about \$1.3 billion in campus-based financial aid assistance to assure that students from historically underrepresented groups obtain a college degree.

Another positive note is that Cal Grant students at AICCU institutions have a higher 4-year graduation rate than any other group of comparable students.

<b>PRIVATE FOR-PROFIT CAL GRANT AWARD REDUCTIONS</b>
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***Types of For-Profit Institution & Accreditation***

	<b>Regionally Accredited</b>	<b>Nationally Accredited</b>	<b>Unaccredited</b>
<b>For-Profit</b>	WASC: <ul style="list-style-type: none"> <li>• Heald College (Corinthian)</li> <li>• Fashion Institute of Design &amp; Merchandising</li> </ul> Other: <ul style="list-style-type: none"> <li>• University of Phoenix</li> <li>• Bridgepoint (Ashford U. and University of the Rockies)</li> <li>• DeVry University</li> </ul>	<ul style="list-style-type: none"> <li>• ITT Technical Institute</li> <li>• Kaplan University</li> <li>• Everest (Corinthian)</li> <li>• Wyotech (Corinthian)</li> <li>• California Culinary Academy</li> <li>• Westwood College</li> <li>• Many online colleges</li> </ul>	<ul style="list-style-type: none"> <li>• Frederick Taylor University</li> <li>• American Liberty University</li> <li>• Trade schools, generally</li> </ul>
WASC: Western Association of Schools & Colleges			

***Reductions of Maximum Awards at Private, For-profit, Independent Universities.*** The Governor's proposal to reduce the maximum Cal Grant award for new and returning students attending private, for-profit institutions to \$4,000. This proposal would affect about 14,900 students. The estimated General Fund savings is \$59.1 million. *Subsequent estimates from CSAC suggest savings may be somewhat lower, around \$57.4 million.*

For the renewal recipients at institutions that have been affected by the SB 70 Cohort Default Rate Requirement, their awards that already been reduced by 20 percent, and would be reduced again from \$7,776 to \$3,204.

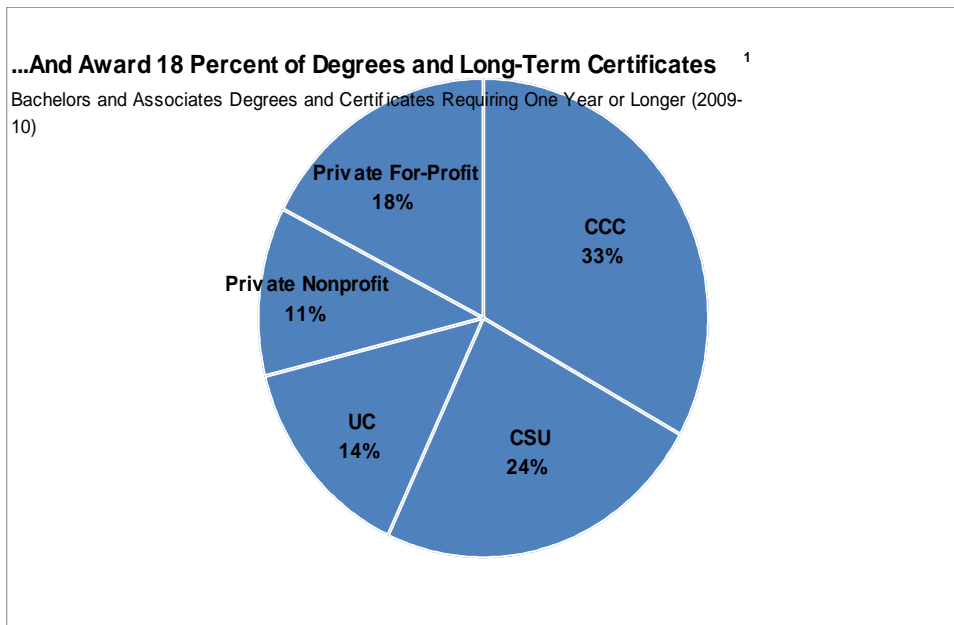
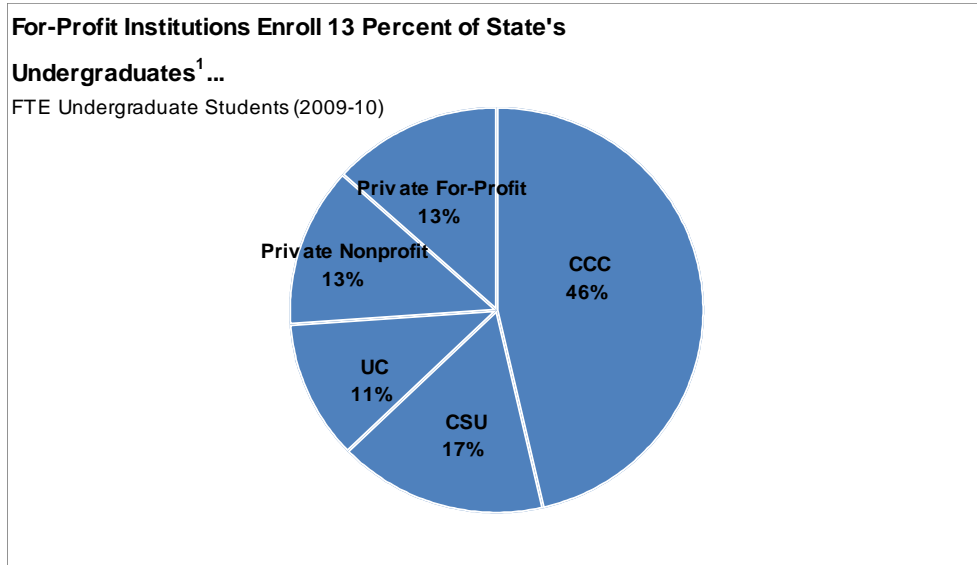
***Reconciliation:*** The Commission was able to reconcile the Governor's proposals with updated information, and provided a more accurate number of affected students to 12,000, of which 6,600 would be renewal recipients of the Cal Grant A and B awards who are meeting academic progress and persisting in school.

***Who are the students that attend private, for-profit colleges and universities?***

According to the California Coalition of Accredited Career Schools, private sector colleges or universities (PSCU) serve students who are predominantly working adults over 25 years of age, are minorities, have dependent children; are financially independent and many are first generation.

In academic year 2009 - 2010, the 374 private sector colleges and universities in California educated almost 400,000 students and employed almost 35,000 staff. PSCU students represented 10 percent of the 3,982,560 students enrolled in California's 702 postsecondary institutions.

In academic year 2009 - 2010, 59 percent of students attending private, for-profit institutions were women, 32 percent were Hispanic/Latino, and nearly half (48 percent) were 25 or older.



<sup>1</sup> Figures exclude unaccredited, non-Title IV Eligible institutions.

**ISSUES TO CONSIDER**

***What is the Appropriate Policy Basis for Setting Award Limits?*** The Governor's linking of the maximum Cal Grant award for students attending private nonprofit institutions to the CSU tuition amount is overly simplistic. The comparison should not be to tuition alone, but to the state's entire cost for a Cal Grant student at UC and CSU – base funding plus tuition. Nevertheless, it raises legitimate questions about what the relevant comparisons should be.

For example, should students receive the same average subsidy regardless of which type of college they attend?

The Governor's proposal distinguishes between nonprofit and for-profit colleges, but these categories mask large variations in quality and types of programs. Some private colleges offer primarily vocational and associate degree programs like CCC, while others are leading research universities more comparable to UC campuses.

Similarly, there are variations in admissions standards, persistence and graduation rates, and other institutional outcome measures. While California maintains three distinct public higher education institutions to meet students' differing academic, financial, and practical needs, the Cal Grant Program treats private institutions as homogeneous.

The Legislature may want to re-establish a rational policy basis for award amounts in recognition of the differences within each sector. For example, awards could reflect a student's qualifications and choice of academic programs (such as baccalaureate or associate degrees). However, significantly more work is needed to examine the effects of various changes on total state costs and overall access to postsecondary education.

***The Estimated Savings for Reducing Private Awards is Over-stated.*** The Administration's savings estimates assume Cal Grant recipients will continue to attend private institutions in roughly the same numbers with reduced awards. To the extent some students opt instead to attend public institutions, the state's costs for those students, including base funding and tuition awards, would increase.

For a student switching from a private college to UC or CSU, for example, the State's costs would increase by seven thousand dollars per student. For a student attending a community college in place of a private one, the State's cost would increase slightly or remain about the same.

Predicting how students' choice would change in response to lower grant amounts is difficult, but we would expect some shift from private to public institutions. This would erode the Administration's savings estimate. Over time, it is possible that increased costs at the public institutions could outstrip Cal Grant savings from students at the private institutions, resulting in an overall increase in State costs. To the extent, the State receives reasonably similar outcomes from public and private institutions, these higher costs could bring no additional benefit.

As one indicator of outcomes, California's nonprofit colleges and universities have average five-year graduation rates that are equivalent to those at public universities. For-profit colleges in

the state have average completion rates between those for our public universities and community colleges.

***This Proposal Could Reduce Access & Depress Overall Graduation Rates.*** To the extent students seek to shift to public institutions, they will be competing for scarce seats. Sixteen of CSU's 23 campuses are impacted for freshman admission, and 15 are impacted for transfer students. This means students who meet CSU's statewide eligibility criteria no longer automatically qualify for admission to these campuses. Qualified local students are still guaranteed admission to most (19) of these campuses, but not to their chosen major or degree programs.

Likewise, many CCC campuses are highly impacted, and students are having difficulty enrolling in the courses they need. Under these circumstances, reducing students' access to private institutions could depress overall college attendance and completion rates.



**ISSUE 6: LIMITING ELIGIBILITY BY INCREASING REQUIRED G.P.A.**

The most far-reaching of the Governor's financial aid proposals would raise the minimum grade point average (G.P.A.) for students to qualify for Cal Grant entitlement programs. The Governor's budget proposal would reduce Cal Grant expenditures by \$131 million. This change affects approximately 26,600 students. *Subsequent estimates from CSAC suggest savings may be lower, around \$97 million, and impacts 24,700 students.*

The proposed requirements would change the mix of students eligible for Cal Grant awards, eliminating one-third of entitlement recipients. The greatest reduction would be in Cal Grant B awards, designed to assist the lowest-income students.

Currently, the Cal Grant program is a need-based program with some merit requirements. The Administration's proposal increases the emphasis on merit. While the program would still serve only financially needy students, it would target aid within that group of those with higher grades.

Major overhaul of the program based solely on GPAs, however, is problematic. The Governor's proposal could have several unintended consequences. For example, completion of a rigorous college preparatory curriculum is also an important factor in college success, and undue focus on GPA could discourage students from taking rigorous courses. It also does not take into account that many of these eligible students, come from disadvantage communities have been impacted by major reductions made to the K-12 system over the last four years of this recession, as well as significant reductions made to the Community Colleges' student support programs.

**WHO'S IMPACTED BY THIS PROPOSAL?**

The CSAC was able to provide the following data, which indicates that:

1. These proposals would overwhelmingly affect the most disadvantage Cal Grant B eligible students (20,470);
2. Approximately 80 percent of the affected students would be expected to attend a community college (46 percent) or a CSU (34 percent); and
3. The UC would be the least affected (five percent) as the minimum G.P.A. for new students is around 3.0 and the average G.P.A. for admitted new freshmen is considerably higher.

**Students Affected by the Governor's Proposal to Raise Cal Grant Program GPA Requirements**

<b>2012-13 New Entitlement Recipients likely to be paid</b>	<b>California Community Colleges</b>	<b>University of California</b>	<b>California State University</b>	<b>Independent Colleges &amp; Universities</b>	<b>Private Career Colleges</b>	<b>TOTAL</b>
High School Entitlement Cal Grant A GPA raised from 3.0 to 3.25		650 18%	2,160 59%	730 20%	120 3%	<b>3,600</b> <b>100%</b>
High School Entitlement Cal Grant B GPA raised from 2.0 to 2.75	11,390 62%	320 2%	4,160 22%	1,040 6%	1,530 8%	<b>18,440</b> <b>100%</b>
CCC Transfer Entitlement Cal Grant A GPA raised from 2.4 to 2.75		60 11%	400 70%	80 14%	30 5%	<b>570</b> <b>100%</b>
CCC Transfer Entitlement Cal Grant B GPA raised from 2.4 to 2.75		170 8%	1,630 80%	180 9%	50 3%	<b>2,030</b> <b>100%</b>
<b>TOTAL</b>	<b>11,390</b> <b>46%</b>	<b>1,200</b> <b>5%</b>	<b>8,350</b> <b>34%</b>	<b>2,030</b> <b>8%</b>	<b>1,730</b> <b>7%</b>	<b>24,700</b> <b>100%</b>

**ISSUES TO CONSIDER**

Where to draw the line on both ends is a judgment call that requires balancing access and effectiveness concerns. California currently does not have data linking financial aid to student outcomes to assist policymakers in making these judgments.

In addition, depending on the State's goals for its aid programs, targeting aid to the best-prepared students does not necessarily improve the impact of the programs. Recent research suggests that financial aid has greater effect on college performance for students who are not as well prepared, than for higher-achieving students who would succeed in larger number with or without aid.

The Legislature needs to take into account these students' socioeconomic and academic preparatory disadvantages when weighing policy decisions.