

HEARING POSTPONED**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, MARCH 17, 2020
9:00 AM, STATE CAPITOL, ROOM 447**

CALIFORNIA STUDENT AID COMMISSION

ITEMS TO BE HEARD		
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ITEMS TO BE HEARD

6980 CALIFORNIA STUDENT AID COMMISSION

The Governor's Budget proposes about \$2.7 billion in support for the California Student Aid Commission (CSAC) in 2020-21, with about \$1.7 billion from the state General Fund and about \$1 billion from federal Temporary Assistance for Needy Families (TANF). Support for the Cal Grant program would increase by about 4% under the proposal. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

California Student Aid Commission Budget

(Dollars in Millions)

	2018-19 Actual	2019-20 Revised	2020-21 Proposed	Change From 2019-20	
				Amount	Percent
Spending					
Local assistance					
Cal Grants	\$2,122	\$2,416	\$2,513	\$97	4%
Middle Class Scholarships	104	110	110	—	—
Chafee Foster Youth Program	17	18	18	—	—
Student Opportunity and Access Program	8	18	8	-10	-56
Other ongoing programs ^a	5	4	3	-1	-13
One-time initiatives ^b	3	113	0	-113	-100
Subtotals	\$2,259	\$2,678	\$2,652	-\$26	-1%
State operations	20	27	30	3	11%
Totals	\$2,280	\$2,705	\$2,682	-\$23	-1%
Funding					
General Fund	\$1,189	\$1,619	\$1,656	\$38	2%
Federal TANF	1,066	1,060	1,000	-60	-6
Other federal funds and reimbursements	19	21	21	—	—
College Access Tax Credit Fund	5	6	5	-1	-12
^a Includes Assumption Program of Loans for Education, California Military Department GI Bill Awards, Cash for College, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education For Nursing Faculty.					
^b Includes Child Savings Account Grant Program, Every Kid Counts, and Golden State Teacher Grant Program.					
TANF = Temporary Assistance for Needy Families.					

ISSUE 1: CAL GRANT REFORM

The Subcommittee will discuss recommendations from the CSAC Working Group to modernize the Cal Grant program.

PANEL 1

- Marlene Garcia, Executive Director, California Student Aid Commission
- Patrick Perry, Director of Policy, Research and Data Division, California Student Aid Commission
- David O'Brien, Director of Government Affairs, California Student Aid Commission

PANEL 2

- Shawn Brick, Director, Student Financial Support, University of California Office of the President
- Ryan Storm, Assistant Vice Chancellor for Budget, California State University Chancellor's Office
- Lizette Navarette, Vice Chancellor for College Finance and Facilities Planning, California Community Colleges Chancellor's Office, and Amparo Diaz, Senior Policy Specialist, Success Center for California Community Colleges
- Alex Graves, Vice President of Government Relations, Association of Independent California Colleges and Universities

PANEL 3

- Samantha Warren, Financial Aid Officer, University of California Student Association
- Michael Wiafe, President, California State Student Association
- Amine El Moznine, Vice President of Legislative Affairs, California Student Association of Community Colleges
- Jesus Gomez, Student, Fresno Pacific University

BACKGROUND

The Subcommittee has held numerous hearings in the past focusing on the flaws of the Cal Grant program. Despite supporting some college costs for nearly 400,000 needy California students, the \$2.5 billion program is not serving today's college student well. Among the concerns are:

- ***Cal Grant program excludes hundreds of thousands of needy students.*** Cal Grant eligibility rules are geared toward "traditional" college students, who are 18- to 24-years old and are attending college directly after finishing high school. Students within one year of high school or community college graduation are

automatically awarded a Cal Grant if they meet income/asset and GPA requirements. Students ineligible for the entitlement program must compete for a limited number of Cal Grant awards through the competitive Cal Grant program. The 2019 Budget Act increased the number of annual competitive awards to 41,000, but the Commission receives nearly 300,000 qualified applicants for this program annually. Needy students' odds of receiving a competitive Cal Grant remain low.

- ***Non-tuition costs are not adequately addressed.*** Much of the state financial aid program was created in a time when housing costs were lower, part-time jobs were more easily available to college students and the minimum wage had more buying power. Today's college students face significant costs, particularly housing: all three public segments and the private non-profits indicate many students will spend at least \$12,000 annually on room and board in 2018-19, which is about the same cost as UC tuition and far higher than CSU and community college tuition.

The maximum Cal Grant B Access Award -- which helps students pay for these non-tuition costs -- is \$1,672 annually. Had this award kept up with inflation since it was created in 1969, it would be about \$6,000.

- ***Cal Grant program is too complex.*** Complicated eligibility and application requirements limit students' access to aid. Cal Grant A and B have significant eligibility and benefit differences: Cal Grant B requires a lower GPA -- 2.0 -- and lower income/asset levels, while Cal Grant A requires a higher GPA -- 3.0 -- and is available to students with higher income levels. Cal Grant C, which is available for students in career technical education programs, requires students to submit a subsequent application after fulfilling all other Cal Grant paperwork. Take-up rates for this award are low.

Workgroup met four times to develop proposal. In September 2019, Assemblymembers Kevin McCarty and Jose Medina, along with Senator Connie Leyva, wrote a letter to CSAC calling on the Commission to create a working group of financial aid stakeholders to develop recommendations to reform Cal Grant. The group was asked to consider the priorities of current reform legislation - AB 1314 and SB 291 -- and create a plan, and cost estimates, to expand Cal Grant eligibility and better support students' costs.

The Cal Grant Reform Work Group included representatives of higher education segments, students, staff from the Executive and Legislative branches, and key nonprofit and advocacy partners. A total of four Work Group meetings were held between October 2019 and February 2020, with several policy proposals considered and discussed in detail.

Proposal makes major changes. Ultimately, the Work Group narrowed down the options to a single proposal, which would create two Cal Grant programs, one for community college students, and one for 4-year college or university students. Students who meet a federal definition of need would be automatically eligible; this change would add nearly 400,000 students to the program.

That proposal is outlined in a March 6 report, “*Cal Grant Modernization: A Vision for the Future,*” which will be the focus of this discussion. The report notes the following key features of the Cal Grant redesign proposal:

- Continue the state’s commitment to covering tuition and fees for low-income and middle-income students.
- Consolidate the existing Cal Grant A, Cal Grant B, and Cal Grant C awards and the High School Entitlement, Transfer Entitlement, and Competitive programs into a two-part Cal Grant entitlement program – Cal Grant/2 and Cal Grant/4.
- Cover a greater share of total COA by providing Access Awards of up to \$6,000 for non-tuition costs to a subset of students with the highest need.
- Eliminate GPA verification for students attending community colleges and streamline GPA verification requirements for students attending four-year institutions.
- Eliminate California’s unique ‘income and asset’ standards to determine level of need and instead base financial need on the federal formula for Expected Family Contribution.
- Eliminate age and time out of high school restrictions that currently prevent older students from accessing entitlement awards.
- Provide tuition or fee awards to all eligible students regardless of grade level by eliminating the gap in first-year tuition coverage for Cal Grant B recipients.

Uses federal Expected Family Contribution (EFC) as measurement of need. The proposal would shift California’s current income/asset ceilings as the way to determine eligibility for Cal Grant, and instead use EFC. EFC is derived from the Free Application for Federal Student Aid (FAFSA) or California Dream Act Application, which are the forms students must fill out to apply to federal and state aid programs. The EFC formula considers income, assets, benefits (e.g., unemployment, social security, etc.), and family size, including the number of family members attending school simultaneously. The EFC formula generates a dollar figure that estimates how much a family or independent can be expected to contribute toward the cost of college. The chart below indicates income ranges for EFC cutoff points that will determine eligibility under the new proposal.

Figure 2: The relationship between EFC and average household income

ZERO EFC = \$0 AVG HOUSEHOLD INCOME: \$14,337		100% EFC = \$5,576 AVG HOUSEHOLD INCOME: \$57,516		150% EFC = \$8,364 AVG HOUSEHOLD INCOME: \$73,1767	
Percentile	Avg. Income (\$)	Percentile	Avg. Income (\$)	Percentile	Avg. Income (\$)
95%	39,245	95%	111,173	95%	125,389
75%	23,513	75%	83,208	75%	98,251
50% Median	11,241	50% Median	58,582	50% Median	74,778
25%	800	25%	27,311	25%	35,042
5%	0	5%	26,462	5%	32,976

Maximum EFC for Pell Grant Award

Creates the Cal Grant/2. Under the proposal, California community college students would be eligible for the Cal Grant/2 program. The Cal Grant/2 would build on the current California College Promise Grant, which already waives tuition for about half of all community college students. This proposal would continue these fee waivers, which are supported by Proposition 98 General Fund dollars, for student up to \$8,346 EFC, and provide up to \$6,000 in non-tuition aid for students with 0 EFCs, meaning their family cannot contribute anything toward the cost of college. The state would support the non-tuition aid; this is the costliest piece of the proposal.

This proposal removes time-out-of-high-school as a consideration, which is often the barrier to Cal Grant for community college students. Other features of the Cal Grant/2 include no longer requiring high school GPA verification, and moving the application deadline from March 2 to September 2.

Creates the Cal Grant/4. Students attending Cal Grant-eligible four-year institutions would be eligible for the Cal Grant/4, which would continue with the state covering tuition at UCs and CSUs, but ask campuses to address non-tuition support. Students attending private, nonprofit institutions would continue to receive the current level of Cal Grant support, which is \$9,084. The CSAC proposal envisions the state signing memorandums of understanding with the segments to determine how much institutional aid they would provide Cal Grant students.

This proposal would add state costs for tuition coverage by covering the first year of tuition for current Cal Grant B students, and expanding the number of students eligible. Current state costs for the Cal Grant B Access Award would be eliminated, with UC and CSU covering these costs.

The proposal eliminates time-out-of-high-school as a consideration, but requires a 2.0 GPA. The March 2 deadline would remain. Cal Grant/2 recipients who transfer to a four-year university would become Cal Grant/4 recipients, although the proposal continues the current 4-year limit for Cal Grant. The chart below summarizes the proposed programs.

Figure 5: Summary of Cal Grant Modernization Proposal

Program	Eligibility for Entitlement	GPA Minimum	Tuition Award	Access Award (EFC = \$0)
Cal Grant/2	Attending a CCC Low income (EFC < 5,576)	None	Waived by CCPG (Institutional aid)	Up to \$6,000 (state aid)
Cal Grant/4	Attending an eligible 4-year institution Low to middle income (EFC < 8,364)	2.0	Covered by Cal Grant (state aid) *Systemwide tuition/fees at UC & CSU, fixed amount at eligible private institutions	Up to \$6,000 (Institutional aid)

Adds nearly 400,000 needy students to Cal Grant. CSAC estimates that 385,076 California students would be newly eligible for Cal Grant under this proposal. This group – 81% are community college students – has an average family income of \$25,583 for community college students and \$31,072 for four-year college and university students. The proposal does remove eligibility for 17,774 students.

CSAC provides the following charts, which compare the current and proposed programs.

Figure 7: Sample packaging for a student with an EFC=\$0 under current Cal Grant model

Current Cal Grant Student EFC = \$0	UC	CSU	CCC	AICCU
Full-Time Average COA	\$35,000	\$23,000	\$18,200	\$52,074
Max Cal Grant/CCPG Tuition Award	\$12,570	\$5,742	\$1,100	\$9,084
Max Pell Grant	\$6,195	\$6,195	\$6,195	\$6,195
CG-B Access Award	\$1,672	\$1,672	\$1,672	None
Remaining Unmet Need	\$14,563	\$9,391	\$9,233	\$36,795

Figure 8: Sample packaging for a student with an EFC=\$0 under Cal Grant Modernization proposal

Current Cal Grant Student EFC = \$0	UC	CSU	CCC	AICCU
Full-Time Average COA	\$35,000	\$23,000	\$18,200	\$52,074
Max Cal Grant/CCPG Tuition Award	\$12,570	\$5,742	\$1,100	\$9,084
Max Pell Grant	\$6,195	\$6,195	\$6,195	\$6,195
Max Access Award State/Institutional	\$6,000	\$6,000	\$6,000	None
Remaining Unmet Need	\$10,235	\$5,063	\$4,905	\$36,795

Cost is significant! CSAC estimates the new program would add nearly \$1.1 billion in statewide costs, with another \$500 million if the state covered non-tuition aid for community college students with an EFC between 0 and \$8,364. The chart below outlines the new costs. This cost estimate does not include costs to UC, CSU and the private, nonprofits would incur as they cover non-tuition aid for students.

Figure 10: Total New Costs for a Fully Phased-in, Modernization Cal Grant Program

	New Tuition & Fees	New Access Awards
Cal Grant/2	\$0	\$795 M
Cal Grant/4	\$295 M	\$0
Total	\$295 M	\$795 M
NET NEW COST: \$1.09 B		

STAFF COMMENT

Staff notes the following issues for the Subcommittee to consider as it discusses this proposal:

Proposal addresses eligibility and complexity concerns. The CSAC proposal greatly expands eligibility for Cal Grant, essentially doubling the number of students who would be entitled to the program. Eliminating the time-out-of-high-school limitation, lowering or eliminating GPA requirements, and extending the deadline for Cal Grant/2 all bring students into the program who were previously shut out or forced into the limited competitive Cal Grant pool. Replacing the varying requirements associated with the current Cal Grant A, B and C programs with more standardized and simplified rules is responsive to the concerns raised by legislators and stakeholders.

Coordination with UC/CSU will be crucial to address non-tuition costs. The CSAC proposal provides tuition and fee coverage to more UC and CSU students, but eliminates Cal Grant support for non-tuition costs, instead calling on the segments to use institutional aid for this purpose. This idea has merit, as it could incentivize campuses to lower non-tuition costs on things such as textbooks or student housing, over which campuses have some control. In addition, there is currently no formal relationship between state and institutional aid; a stronger connection might better serve students and therefore be warranted.

According to their most recent reports to the Legislature on financial aid, UC spends about \$800 million and CSU spends about \$700 million annually on their main institutional aid programs for students, which is derived from setting aside some tuition revenue. In this hearing, the Subcommittee will hear the segments' perspectives on this proposal. UC currently uses some institutional aid to cover non-tuition costs for students, but CSU's State University Grant (SUG) program only covers tuition. Thus this proposal would dramatically change the SUG program.

Among the key questions for UC and CSU is how much aid they would be able to provide students in the EFC groupings imagined by CSAC at their current institutional aid funding levels, and what kind of guarantee to students they would be willing to make in a formal agreement with the state.

How could the state and segments work together to determine an affordability target and appropriate student contribution? A key legislative goal in reforming the Cal Grant program is to provide students with a possible path to a debt-free college experience. For almost all students, available federal, state and institutional resources are not enough to cover the total cost of attendance. Previous discussions and proposals in this Subcommittee have suggested setting an affordability target for students, which would group aid together and leave some amount uncovered, which

could be provided by the student through work (or a reasonable amount of borrowing.) For example, UC's current program requires all financial aid students to cover on average about \$9,700 of total costs.

Could an agreement between the state and segments center around an affordability target, including student work requirements?

No real changes for private schools. The CSAC proposal does not change the amount of Cal Grant for students attending private schools, which is \$9,084 annually for students attending non-profit schools, \$8,056 for students attending for-profit schools accredited by the Western Association of Schools and Colleges (WASC), and \$4,000 for students attending for-profit schools not accredited by WASC.

The Subcommittee will hear responses from discussion which includes a representative and student from private, non-profit schools, who continue to seek a formula that would increase aid amounts over time.

Proposal does not adjust Middle Class Scholarship or some other aid programs. The Middle Class Scholarship (MCS) provides \$110 million General Fund to support UC and CSU students with family incomes of up to about \$170,000. The program currently serves about 55,000 students and provides up to 40% off of tuition at the two segments. Another relatively large aid program, the Student Success Completion Grant, provides about \$141 million Proposition 98 General Fund to full-time community college students who also receive the Cal Grant.

The CSAC proposal does not alter either program, and it is unclear how the proposed changes would impact students in these programs or other smaller programs. The Subcommittee may wish to discuss these programs in the context of the Cal Grant reform proposal. MCS, for example, provides support to some low-income students who currently do not qualify for Cal Grant due to various barriers. If those barriers to Cal Grant were removed, how would MCS' impacts change? Similarly, the Student Success Completion Grant provides non-tuition support to full-time community college Cal Grant students; and it is unclear how new state aid for community college costs could or should interact with this program.

Phase-in or alternative revenue source will be necessary. Current state economic conditions make it difficult to imagine adding more than \$1 billion General Fund to the Cal Grant program next year. Thus, the Legislature will likely need to consider ways to phase this proposal in over time. The Subcommittee could consider the goals of the proposal – bringing in more students to the Cal Grant program, particularly community college students, and providing more non-tuition support for students in all segments – and determine ways to advance those goals incrementally. Another option would be to pursue alternative revenue sources outside of the General Fund.

ISSUE 2: STUDENT LOAN OUTREACH

The Subcommittee will discuss the Governor's Budget proposal to provide \$5 million one-time General Fund to improve information on student loans. Funding would provide grants to college campuses to better inform students about loan repayment options, create a workgroup to study this issue, and develop a statewide informational website and other materials to help students, high school counselors and financial aid administrators.

PANEL

- Gabriela Chavez, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, California Student Aid Commission

BACKGROUND

The LAO has provided the following background on this subject:

Some Students Take Out Loans to Pay College Costs. Most student loans are issued by the federal government, while a small portion are issued by private lenders (including financial institutions). Nationally, 34% of undergraduates took out federal student loans in 2017-18, with an average annual loan amount of \$6,688. At California colleges and universities, a considerably smaller share of students (17%) took out loans, but the average loan amount for those students (\$6,781) was slightly higher than the national average. As Figure 4 on the next page shows, borrowing practices vary by segment. Students at the public segments are less likely to take out federal student loans and borrow somewhat smaller amounts than students at private colleges and universities.

Federal Government Offers Several Repayment Options. Traditionally, student loan borrowers have made fixed monthly payments based on the amount of their loan (similar to fixed mortgage payments). In more recent years, the federal government has expanded its repayment offerings to include plans based on a borrower's ability to pay. There are currently four of these income-driven repayment plans for federal student loans. Under these plans, a borrower's monthly payment is capped at a certain percentage (between 10 and 20 percent) of their discretionary income, and any loan balance that remains after a set repayment period (between 20 and 25 years) is forgiven. In addition to these repayment plans, the federal government has a program that forgives loan balances after ten years for borrowers who work for a public or nonprofit employer.

Borrowers Unable to Repay Loans Risk Going Into Default. If a borrower does not make loan payments for a certain time period (typically nine months for federal student loans), the loan goes into default. Borrowers who default on their loans can face various consequences, including collection fees, wage garnishing, reduced credit scores, and loss of access to additional student financial aid. In California, 8.7% of borrowers who entered repayment on their federal student loans in federal fiscal year 2015-16 defaulted within three years. This is slightly lower than the national default rate of 10.1 percent. As Figure 5 shows, the default rate varies by segment.

Figure 4
Students at Private Segments Are More Likely to Borrow
Share of California Undergraduates With Federal Student Loans, 2017-18

	Percent of Students Borrowing	Average Annual Loan Amount
Private for-profit	56%	\$7,784
Private nonprofit	46	7,631
UC	35	5,589
CSU	33	6,274
CCC	2	6,022
State Totals	17%	\$6,781

Figure 5
Default Rate Varies by Segment
Three-Year Default Rate for 2016 Cohort^a

	Default Rate
CCC	14.8%
Private for-profit	11.2
CSU	4.1
Private nonprofit	3.7
UC	2.1
State Total	8.7%

^a Estimated percent of borrowers entering repayment on federal loans during federal fiscal year 2015-16 who defaulted by September 30, 2018.

Students Receive Information on Borrowing and Repayment From Various Sources. The U.S. Department of Education provides mandatory entry and exit counseling to all federal student loan borrowers. These online sessions provide information on student budgets, loan terms, repayment, and default. Colleges and universities also offer broader financial literacy services that cover student loans, among other topics. For example, as part of CCC’s systemwide efforts to lower loan default rates, many community colleges provide students with access to an online financial literacy program and in-person resources. In addition, the state provides funding to the Bureau for Private Postsecondary Education (through the Office of Student Assistance and Relief) to offer outreach on student loans and other topics to prospective, current, and former students of private colleges and universities.

GOVERNOR'S 2020-21 BUDGET PROPOSAL

The Governor's Budget proposes \$5 Million one-time General Fund to improve information on student loans. Of this amount, \$500,000 is for CSAC to establish a work group tasked with researching strategies designed to help students access the most beneficial loan, repayment, and debt forgiveness programs. The work group would have nine members, consisting of a lead, two members of the public, and one representative each from CSAC, the Department of Finance, the Department of Social Services, the Employment Development Department, the Franchise Tax Board, and the Scholarshare Investment Board. The work group would be required to report its findings to the Department of Finance and the Legislature by September 1, 2021. The Governor's proposal also includes \$375,000 for CSAC to provide more information on student loans through several means, including an informational website, materials for financial aid applicants, and materials for high school counselors and financial aid administrators. The remaining \$4.1 million would fund grants to public colleges and universities to notify current and former students of loan repayment options and direct them to the proposed informational website.

LAO ASSESSMENT AND RECOMMENDATIONS**Assessment**

Barriers to Accessing Beneficial Loan Programs Remain Unclear. The administration has indicated that some students are forgoing loans that could increase college affordability, while other students are enrolling in repayment plans with unfavorable terms. The Governor's response is primarily to give students more information intended to help them make better borrowing and repayment decisions. However, it is unclear what gaps in information on student loans remain after accounting for mandatory federal loan counseling, college and university initiatives, and other existing resources. Moreover, barriers other than information could be preventing students from accessing beneficial loans and fulfilling their repayment obligations. For example, students may face administrative problems or academic hurdles that result in them not completing their studies (thus placing them at higher risk of default).

Proposed Work Group Could Improve Understanding of Barriers. A research-oriented work group could help identify the barriers to accessing beneficial loan and repayment programs. These findings could in turn allow the work group to design strategies targeted toward overcoming those barriers. For example, if the work group finds that incoming students forgo loans because they are unaware of the option, it might recommend sending information on loans to financial aid applicants. On the other hand, if the work group finds that incoming students forgo loans because they receive misinformation on borrowing terms, it might instead recommend additional training for high school counselors and college financial aid administrators.

Premature to Fund Specified Outreach Activities. Beyond funding the work group's research, the Governor proposes to fund a new website, informational materials, and borrower notification efforts. All these other endeavors would be funded in 2020-21—at the same time the work group is researching strategies to help students access beneficial loan and repayment programs. We believe funding these other activities is premature. Under the Governor's approach, all the funding dedicated for the initiative would be allocated to specific activities prior to having identified the most helpful activities to provide. We believe waiting to build an expenditure plan until after the work group submits its report in September 2021 is a more effective budgetary approach.

One-Time Grants Are Not Well-Suited for Ongoing Activities. Under the Governor's proposal, over 80 percent of the funds would go toward grants to colleges to notify current and former borrowers of available repayment options. For these activities to have a sustained impact, colleges would likely need to repeat them annually as a new cohort of students takes out loans and a new cohort of students enters repayment. Because informing successive cohorts of students about their loan options entails ongoing costs (such as staff time and materials), a one-time grant is not a suitable budgetary tool. One-time grants would likely have a short-lived impact while creating pressure for the state to sustain funding in 2021-22.

Proposed Grants Do Not Target Highest-Need Segments. The proposed budget bill language specifies that grants would only be available to public colleges and universities, with priority to those with a high number or percentage of students taking out federal loans. Based on these criteria, UC and CSU campuses would receive priority for these grants. These segments have relatively low default rates (2 percent systemwide at UC and 4 percent systemwide at CSU), suggesting their students already tend to make beneficial borrowing and repayment decisions. The selection criteria would give lower priority to community colleges, where a small number of students borrow but default rates tend to be high. It also would not address repayment issues at private colleges and universities, which in California account for over half of student loan borrowers who default within three years of entering repayment.

Recommendation

Fund Work Group Only in 2020-21. Given our above assessment, we recommend providing \$500,000 for a student loan work group but rejecting the \$4.5 million proposed for concurrent outreach activities. We encourage the Legislature to consider the work group's membership carefully, with the goal of including entities closely involved with student loans and outreach (such as the higher education segments). After the work group issues its report in September 2021, the Legislature could consider a 2022-23 budget proposal that incorporates the work group's findings on outreach. We believe waiting to fund outreach activities until the work group completes its research is the

most prudent course of action—helping to ensure state dollars are spent to address clearly identified barriers. Should the Legislature nonetheless choose to fund outreach activities in 2020-21, we encourage it to modify the Governor’s proposal such that one-time funds are spent on one-time activities and the initiative targets those segments with high default rates.

STAFF COMMENT

The Administration’s proposal addresses a legitimate concern: students often do not receive adequate information and support regarding student loans, both before, during and after college. However, staff concurs with the LAO’s warning that the state does not have enough information about how best to solve this problem. The proposal to distribute one-time funding to campuses while simultaneously having a workgroup study the issue seems like a flawed process. In addition, staff notes that the workgroup does not include education segments, who have expertise in this area and more direct contact with students.

The Subcommittee should consider this proposal once available revenues are better known in May.

Staff Recommendation: Hold Open

ISSUE 3: STATE OPERATIONS

The Subcommittee will discuss Governor's Budget proposals to support CSAC operations, including \$3.5 million one-time General Fund to support the Grant Delivery System Modernization project, \$773,000 ongoing General Fund and 15 new positions to support new workload, and \$1.8 million General Fund, about half one-time and half ongoing, to relocate CSAC headquarters to a larger office space.

PANEL

- Gabriela Chavez, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, California Student Aid Commission

BACKGROUND

Grant Delivery System. CSAC processes 1.5 to 2 million applications annually and appropriates more than \$2.5 billion in financial aid. The Commission is in the process of replacing the information technology (IT) platform it uses to administer student financial aid programs. The state provided \$5.5 million for the first year of the project in 2018-19 and \$6.2 million for the second year of the project in 2019-20. Phase one of the project went live in December 2019, and CSAC reports more than 450,000 interactions by students who have used the new program to manage their financial aid applications and awards. CSAC anticipates completing the rest of the project by November 2020, as originally scheduled.

New Positions. According to the Governor's Budget, CSAC had 109.3 authorized positions in 2019-20. CSAC is divided into four divisions – the Program and Administration Services Division, which includes a call center, the Fiscal and Administrative Services Division, the Information Technology Services Division, and the Division of Policy, Research and Data. Three new programs created and funded in 2018 and 2019 have allowed CSAC to use some portion of funding for administrative purposes. The new programs are:

- The California Dreamer Service Incentive Grant Program, a new ongoing program that provides non-tuition awards to undocumented students who complete a community service requirement;
- The Golden State Teacher Grant Program, which provides scholarships to teacher preparation students who commit to working in specified subject areas and schools upon graduating;

- The Child Savings Account Grant Program, which provides grants to local entities to support college savings efforts.

In addition, the National Voter Registration Act of 1993 requires that state and local agencies that provide public assistance must also provide certain voter registration services. A 2019 court decision ruling includes CSAC as a voter registration agency because it provides public assistance through need-based financial aid programs. Under this designation, CSAC is required to provide certain services each time students apply for financial aid, renew their application, or submit an address change. The services include asking whether students wish to register to vote, documenting (or asking students to document) their response on a voter preference form, and distributing voter registration cards to those interested, among other activities. CSAC is incorporating these services into its financial aid application forms, call center support, and student outreach events.

New Space. Since 2013, CSAC has rented approximately 26,000 square feet of office space in Rancho Cordova. The current lease expires in March 2021. CSAC reports that its current office cannot accommodate its workforce, which includes 26 on-site contractors, as well as state staff. Several conference rooms and storage spaces have been converted to work areas, and the 800-square-foot boardroom often cannot accommodate those who attend Commission meetings. Based on standards set by the Department of General Services (DGS), CSAC's existing office space can accommodate up to 128 staff.

GOVERNOR'S 2020-21 BUDGET PROPOSALS

The Governor's Budget proposes \$5.3 million one-time General Fund to (1) complete the Grant Delivery System modernization project and (2) support the initial costs of the maintenance and operations phase, which will begin upon project completion. This phase includes testing, repairing and upgrading software, and transferring knowledge from project contractors to CSAC staff.

The Governor's Budget also proposes \$773,000 ongoing General Fund and 15 Positions for CSAC to implement the voting registration activities and the new state programs. Specifically, six positions are associated with CSAC's recent designation as a national voter registration agency, three positions are associated with the California Dreamer Service Incentive Grant Program, four positions are associated with the Golden State Teacher Grant Program, and two are associated with the Child Savings Account Grant Program. The chart below compiled by the LAO has more details.

Figure 6
Governor Proposes 15 New Positions for California Student Aid Commission (CSAC)

Program	Positions	Funding	Key Responsibilities
National Voter Registration Act compliance	6	\$479,000	<ul style="list-style-type: none"> Offer voter registration assistance to students contacting CSAC's call center about financial aid. Train staff and volunteers to provide voter registration assistance at financial aid outreach events. Mail, track, and retain voter registration-related forms sent to students.
California Dreamer Service Incentive Grant	3	294,000	<ul style="list-style-type: none"> Develop program rules and requirements. Administer approval process for organizations providing service opportunities to students. Process volunteer service agreements for students. Track and verify students' service hours. Provide call center support to students.
Golden State Teacher Grant	4	— ^a	<ul style="list-style-type: none"> Develop program rules and requirements. Process award nominations from campuses. Track recipients as they complete teaching credential and service requirement. Oversee repayment process from students who do not fulfill requirements. Provide call center support to students.
Child Savings Account Grant	2	— ^b	<ul style="list-style-type: none"> Develop request for application. Award grants. Convene statutorily required program council. Provide required technical assistance, including a toolkit for developing new child savings account programs.
Totals	15	\$773,000	

^a The 2019-20 Budget Act provided \$1.3 million in one-time funds for program administration. The Governor's proposed trailer bill language would extend the availability of these funds from June 30, 2020 to June 30, 2022.
^b The 2019-20 Budget Act provided \$600,000 in one-time funds for program administration. The funds are available through June 30, 2022.

The Governor’s Budget also proposes a total of \$1.8 million General Fund for CSAC to relocate to a larger space (about 35,000 square feet) in West Sacramento. Of this amount, \$943,000 is one-time funding to cover moving expenses and new equipment, and \$903,000 is ongoing funding to cover higher annual lease costs. Under the Governor’s proposal, CSAC’s annual lease costs would grow from \$572,000 to \$1,475,000.

LAO RECOMMENDATIONS

The LAO notes that the Grant Delivery System project is on track, both in terms of timeline and budget, and recommends approval of the Governor’s Budget proposal.

The LAO also notes that although the Governor is proposing an unusually large increase in CSAC staff, the staffing proposals are directly linked to increases in CSAC’s workload over the past year. Given the direct link to new workload, the LAO recommends approving the Governor’s Budget proposal.

Regarding the proposal to relocate CSAC offices, the LAO states that given the greater workload and proposed increase in staff, CSAC’s request for more space is reasonable. The Legislature also might be amenable to CSAC’s request for a more central location,

despite the associated lease cost potentially being higher compared to lease costs in Rancho Cordova. However, the LAO notes that is unclear if this funding is needed in 2020-21. This is because CSAC still needs to navigate the leasing process with DGS, with the timing of the move and actual lease costs depending on space availability and lease negotiations, among other factors. The LAO recommends the Legislature request that CSAC provide an update on the relocation time line and anticipated lease costs before determining how much is required to support the relocation in 2020-21.

STAFF COMMENT

Staff notes that a December 2019 update from the Department of Technology on the Grant Delivery System modernization project gives the project a “yellow” rating, which is downgraded from “green.” Concerns include project governance and other planning processes. CSAC is addressing these concerns, and given that a large part of the project has gone live with few problems, the Subcommittee may wish to continue supporting this project.

Regarding the new positions, new legislation and voting registration requirements have increased CSAC workload.

Finally, regarding the new office space, the Subcommittee may wish to wait until later in the budget cycle to determine if there is a more specific relocation plan, with more specific costs.

For all three proposals, the Subcommittee should wait until May, when available revenues are better known.

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee's website at: <https://abgt.assembly.ca.gov/sub2hearingagendas>. You may contact the Committee at (916) 319-2099. This agenda was prepared by Mark Martin.