

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

ASSEMBLYMEMBER SARAH REYES, CHAIR

WEDNESDAY, MARCH 3, 1999
STATE CAPITOL, ROOM 126
4:00 P.M.

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6420	California Post-secondary Education Commission (CPEC)	
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7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission (CSAC) is responsible for making higher education affordable and accessible to students in California. CSAC attempts to accomplish this mission by administering 11 student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the Federal Guaranteed Student Loan Program.

The Governor's budget proposes to increase General Fund support for CSAC by \$34.2 million, or 9.7 percent for a total budget of \$386.3 million. In addition, the budget provides \$30.1 associated with increases in the number of Cal Grant awards provided in the last three budgets (1996-97, 1997-98 and 1998-99). The budget also contains \$5 million to increase the number of new Cal Grant awards by 1,672.

Table 5 illustrates the Governor's 1998-99 budget proposal for the Student Aid Commission.

Table 5

CALIFORNIA STUDENT AID COMMISSION BUDGET SUMMARY (Dollars in thousands)				
	1998-98	1999-00	Amount Change	Percent Change
General Fund	\$352,068	\$386,365	\$34,297	9.7
Federal Trust Fund	4,224	3,924	-300	-7.1
State Guaranteed Loan Reserve	291,741	291,736	-5	-.001
Reimbursements	5,982	5,998	16	0.2
Total	\$654,015	\$688,023	\$34,008	5.1

ISSUE 1: CAL GRANT PROGRAM (A, B AND C)

The Governor's 1999-00 budget provides \$5 million to provide 1,672 new awards in the Cal Grant Program (A, B and C). In addition, the budget contains \$30.1 million to increase the number of Cal Grant awards pursuant to past budget acts.

BACKGROUND:

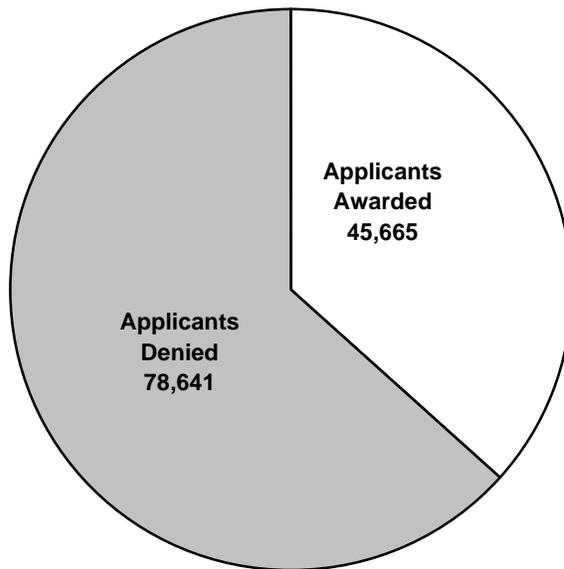
The Cal Grant program has three types of awards, Cal Grants A, B and C. The Cal Grant A Program helps low and middle income students who demonstrate financial need to pay their college tuition and fees. The Cal Grant B Program awards provide a living allowance and sometimes tuition and fees for very low income, disadvantaged students. The Cal Grant B Program differs from the Cal Grant A program by placing less reliance on grade point average and more emphasis on financial need for determining which students receive an award. The Cal Grant C Program provides tuition and fee grants, and funds for supplies to students training for vocational careers-primarily community college students.

Currently, the CSAC awards 43,576 grants each year through the A and B programs (split equally between the programs) in addition to awarding 2,089 C grants annually. Over the past 13 years, the number of A and B awards has increased by nearly 15,000, however, the number of C awards has grown by just over 500.

Over the past three years, the legislature has provided significant funding to increase the number of awards for this program. The 1998-99 Budget enacted by the legislature last year provided \$45.9 million in new funding for new Cal Grants awards. However, Governor Wilson vetoed this amount by \$25 million – leaving \$20.9 million to provide roughly 5,000 new grants.

Even with these recent increases in funding, the state is still not meeting the statutory goal of the Cal Grant Program to provide awards to 25 percent of high school graduates. With current funding levels, including the new funds in the Governor's budget, California only provides Cal Grant awards to 15.5 percent of the state's high school graduates.

UNMET CAL GRANT NEED



In 1998-99 academic year, 124,306 qualified applicants applied for a Cal Grant; 45,665 were granted awards and 78,641 were denied. In other words, 63 percent applicants were turned away and forced to take additional student loans, increasing their future debt.

Maximum Award

Pursuant to budget trailer bill language enacted last year, the formula for the maximum award for students attending private colleges and universities is to be based on the general fund cost of educating a student in the public sector. Under this agreement, the maximum award for 1998-99 was increased by \$854 to \$9,036 per year. The 1999-00 budget assumes this same amount rather than readjusting the formula for the maximum award for students attending private colleges and universities. Funding the maximum award pursuant to the new formula would raise the awards by \$386 to \$9,422 – requiring an \$2.2 million augmentation.

COMMENTS:

The legislature may further augment this program. The Student Aid Commission had requested \$63 million in increased funding -- pursuant to their plan to reaching the statutory goal by 2001-02. Fully funding the Cal Grant Program at the statutory level and providing aid to 25 percent of high schools graduates would require \$107 million in state funds. The need to provide more grants is justified not only by the failure to reach the statutory goal but also by the dramatic increases in student debt. From 1990-91 to 1997-98, CSAC reports that student debt for California college students and their families jumped from \$1 billion to \$3.5 billion – a 350 percent increase.

ISSUE 2: CAL GRANT T PROGRAM

The Governor's budget provides no new funding to increase the Cal Grant T Program. However this new program contains \$10 million in continued funding.

BACKGROUND:

The Cal Grant T Program, created in the 1998-99 budget, provides tuition and fee funding for financially and academically eligible students to attend a teacher training program recognized by the California Commission on Teacher Credentialing. The Student Aid Commission is authorized to award 3,000 grants annually. The maximum grant award is \$9,036 and recipients are eligible for one year of funding.

The Student Aid Commission has documented that demand for this new program is substantial. In the brief seven week window that students could apply for these wards, CSAC received over 6,000 applications for and it is estimated this number will double in 1999-00. It is estimated that in 1999-00, the number of applicants will double from 6,000 to more than 12,000.

COMMENTS:

In light of ongoing legislative efforts to attract individuals into the teaching profession and meet the demand of hiring and training nearly 300,000 individuals over the next ten years, the subcommittee may want to further augment this program.

ISSUE 3: CAL-SOAP PROGRAM

The Governor's 1998-99 budget provides \$2.8 million for California Student Opportunity and Access Program (Cal-SOAP). This amount reflects a \$1 million increase from the 1998-99 budget.

BACKGROUND:

The California Student Aid Commission (CSAC) administers a significant college outreach program, the California Student Opportunity and Access Program (Cal-SOAP). The program, which was established in 1978 pursuant to AB 507 (Fazio), involves 36 schools districts, 22 community colleges, 14 CSU campuses, eight UC campuses and 23 independent colleges.

Through Cal-SOAP, CSAC awards block grants to a consortia of educational institutions in nine areas across the state. The funds are matched by the local consortia for early outreach on higher education and financial aid to increase postsecondary education opportunities for economically disadvantaged high school and community college transfer students. Close to 30,000 students are served statewide by these projects.

Some of the major components of the Cal-SOAP programs include: tutoring, test preparation workshops, summer programs, parent involvement, financial aid and college information dissemination, campus visits and skills development.

COMMENTS:

According to the California Postsecondary Education Commission, student academic outreach programs such as Cal-SOAP are drastically underfunded. A California Postsecondary Education Commission (CPEC) report published in 1996 stated that only one in ten students from schools with low college eligibility participation rates are able to participate in these types of programs.

The Assembly Budget Committee adopted a budget last year that augmented Cal-SOAP by \$5 million, however this amount was reduced to \$1 million through negotiations with Governor Wilson during conference committee.

ISSUE 4: APLE PROGRAM

The Governor's 1999-00 budget authorizes the Student Aid Commission to grant 4,500 new Assumption Program of Loans for Education (APLE) awards – an increase of 4,100 from 1997-98.

BACKGROUND:

APLE is a state-only loan forgiveness program, which provides loan assumption payments toward outstanding student loans for individuals entering the teaching profession. To receive the maximum award amount, individuals must teach at least four years in designated subject shortage areas or in under-served communities. The maximum loan assumption is \$11,000, with \$2,000 paid after the first year of teaching and \$3,000 a year after the second, third and fourth year of teaching.

The 1998-99 budget increased the number of APLE awards from 400 to 4,500 and directed CSAC to issue 500 awards for out-of-state teacher recruitment. In addition, it required that 35 percent of the new awards be offered to undergraduate students not yet admitted to a teacher credential program and that up to 2,000 awards be offered to students pursuing a career in teaching in math or science. The program also must maintain a 60/40 ratio between students planning to teach in a teacher shortage area and those planning to teach in low-income schools.

The APLE program was not able to issue all 4,500 awards this year – awarding just 2,824. The Student Aid Commission was not able to make any of the awards to out-of-state teachers in this year because of delays in the 1998 budget process, but claim that they will be able to make these awards in August of 1999.

COMMENTS:

The subcommittee may wish to receive an update from CSAC on the progress of reaching their goal of awarding 4,500 APLE loans.

ISSUE 5: GRADUATE APLE PROGRAM

The 1999-00 budget includes funding for the Graduate Assumption Program of Loans for Education (Graduate APLE) – which was established through the 1998-99 Budget Act.

BACKGROUND:

Graduate APLE is a competitive teacher incentive program. The Graduate APLE is designed to encourage students to complete their graduate education and serve as faculty at an accredited California college or university. Under the provisions of the program, the Commission may assume up to a total of \$6,000 in outstanding educational loan debt in return for the participant's service as a full-time faculty member for three consecutive years after obtaining a graduate degree. The Commission can offer up to 500 new awards each year to selected applicants.

COMMENTS:

The subcommittee may wish to receive an update from CSAC on the progress of reaching their goal of awarding up to 500 Graduate APLE loans.

In addition, CSAC is proposing that the subcommittee adopt trailer bill language making technical changes for to the GRAD APLE program language:

- 1) Existing language defines full-time enrollment as "10 semester units or its equivalent." This is not a standard measure of full-time enrollment in graduate programs (the 10 units was carried from the undergraduate APLE program language). The requested change would simply allow the schools to document full-time enrollment status without being tied to a specified number of units.
- 2) Existing language refers to a participant providing full-time service as a faculty member *at a California college or university*". The amendment requested would simply change references to "a college or universities" to "the equivalent of full-time service as a faculty member employed part-time at two or more California colleges or universities." This would allow a greater of participants to receive benefits within a reasonable time-frame.

ISSUE 6: WORK STUDY PROGRAM

The budget contains \$1.6 million in ongoing funds for the Work-Study Program. Of these funds, \$1 million is for the Teaching Intern Program (TIP), which was created by the legislature last year.

BACKGROUND:

The California Work-Study Program helps prepare undergraduate students for the workforce by placing them in jobs that relate to their course of study or career goals. The program requires participating colleges or universities in the program to provide matching funds to help pay the wages of each student employed. The current budget provides \$633,000 in funding to allow roughly 700 students to participate in the program. This is in addition to the \$1 million set aside for the Teaching Intern Program -- for a total budget of \$1.6 million.

Last year, the Legislature created a new Teaching Intern Program (TIP), pursuant to AB 2528 (Ducheny) Chapter 546, Statutes of 1998. This program specifies that these new positions shall be designated for college students that mentor and tutor students in K-12 schools. This past fall 19 colleges and universities submitted proposals to participate and 16 were selected for participation.

It is stated that many of these schools participating are using the funds to augment the scope and effectiveness of ongoing K-12 tutoring programs such as the America Reads Program, where 85 California colleges and universities currently use Federal Work-Study monies to conduct such programs.

COMMENTS:

The legislature may wish to consider augmenting this new program, to provide more work study grants for students to tutor and mentor K-12 students. Doing so would also be consistent with the Governor's reading initiatives.

Supporters of the proposal also note that the TIP could help attract more undergraduate students into the teaching profession.

ISSUE 7: LAO ISSUE ON FINANCIAL NEED FORMULAS

The LAO, through their *Analysis of the 1999-00 Budget Bill*, requested the Legislature adopt supplemental report language that directs the Student Aid Commission, in consultation with the California Community Colleges, California State University, and University of California, to develop a methodology to include the availability of federal tax credits in calculations of student financial need.

BACKGROUND:

The LAO states that changing the formula calculating financial need for students and including potential federal tax credits, could free up additional financial aid funds for other students.

They claim that students who are receiving some financial aid from the state when they could be obtaining the same aid from the federal government in the form of (federal) income tax credits. They also point to a recent national report recommending that states include the federal tax credits in calculations of financial resources and need for financial aid. The report specifically states that "low income students could benefit from the portion of state financial aid that would otherwise be awarded to those higher income students now served by the new federal tax credits.

ISSUE 8: ED FUND (INFORMATIONAL ITEM)

Ed Fund does not have any items in the State budget, however they do oversee the majority of student loans in California – totaling more than \$2 billion.

BACKGROUND:

ED Fund is a California Nonprofit public benefit corporation that administers \$2 billion in federal student loan programs for CSAC under an operating agreement. Ed Fund was created on January 1, 1997, as authorized by 1996 legislation. CSAC appoints the nine-member board ED Fund Board of Directors – which includes a student member, the CEO of ED Fund and a Ed Fund employee. Ed Fund has about 580 employees, manages a loan portfolio of \$11.4 billion against risk of default, has revenues of \$572 million and approves guarantees on \$2 billion in student and parent loans annually.

In California, Ed Fund manages 57 percent of student loans, while out-of-state companies and the U.S. Department of Education handle the remainder.

Created to better serve students in California through student loan programs and services, Ed Fund highlights the following:

- Increasing annual loan volume by more than one-third – from \$1.4 billion in 1995-96 to \$2 billion;
- Moving from the fourth largest loan guarantee services provider in the nation to the second largest;
- Reducing the California default rate on student loans, thereby saving \$33 million in payments to lenders; and
- Increasing collections and defaulted loans by \$58 million a year -- a 32 percent increase in loan recoveries.

COMMENTS:

This agenda item is designed to allow Ed Fund to explain their role in providing loans to California students, two years after its inception.

Specifically the Subcommittee should ask Ed Fund to report on how Ed Fund is succeeding in providing better services to California students and their families.