

Information/Action Item

California Student Aid Commission

Consideration of Legislative proposals on Cal Grant cost savings and what, if any, independent actions the Commission might wish to take

During the February 10, 2011 hearing of Senate Budget and Fiscal Review Subcommittee No. 1 on Education, the Legislative Analyst's Office and the Subcommittee staff recommended five options for achieving Cal Grant savings.

The options discussion begins on page 9 of the attached agenda for Subcommittee No. 1. The options follow the Subcommittee staff's written presentation on the Commission's local assistance budget, which begins on page 5 of the attachment.

Staff will provide an update at the Commission meeting of developments, if any, relating to Cal Grant savings issues,

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Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
Member, Roderick Wright

Thursday, February 10, 2011
10:00 a.m. or upon adjournment of session
Room 3191, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
	Higher Education	
6600	Hastings College of the Law	
7980	California Student Aid Commission (CSAC)	
Issue 1	Hastings College of the Law Proposed Budget	Page 2
Issue 2	California Student Aid Commission Budget Overview	Page 5
Issue 3	CalGrant Savings Alternatives	Page 9
	Public Comment	

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ISSUE 1: Hastings College of the Law Proposed Budget

Speakers:

- Chancellor Frank H. Wu, Hastings College of the Law
- David Seward, Hastings College of the Law
- Mollie Quasebarth, Department of Finance
- Steve Boilard, Legislative Analyst’s Office

Issue. The issue before the Subcommittee is the Governor’s proposed budget reduction to the Hastings College of the Law.

Background. Hastings College of the Law was founded in 1878 as the first law department of the University of California. Serranus Clinton Hastings, the first Chief Justice of the California Supreme Court, provided University of California with a \$100,000 donation to start a law school. Justice Hastings attached two conditions to his donation: (1) the school must remain in San Francisco, near the courts; and (2) the school must be governed by its own board of directors. Thus, although Hastings is affiliated with the University of California, it is a stand-alone, independently governed law school not under the purview of the UC Regents.

BUDGET:

Hastings Budget History. Since 2007-08, the level of State General Fund support for Hastings has been steadily reduced. While the overall budget of the college has increased during the same time period, this increase is due to higher student fees and higher enrollment. In 2009, former Governor Schwarzenegger proposed to eliminate all state support for Hastings. The Legislature restored funding for the law school.

Governor’s Budget. The 2011-12 Governor’s Budget proposes to reduce Hastings by \$1,429,000 General Fund. This represents 17 percent of the current General Fund support level.

Hastings College of the Law Budget

(Dollars in thousands)

Funding Source	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Approved)	2011-12 (Proposed)
General Fund	\$10,631	\$10,115	\$8,270	\$8,364	\$6,935
Lottery	\$144	\$130	\$146	\$173	\$173
University Funds	\$29,386	\$33,444	\$39,107	\$49,664	\$48,821
Extramural Funds	\$16,574	\$26,734	\$13,620	\$14,740	\$12,759
Total	\$56,735	\$70,423	\$61,143	\$72,941	\$68,688

COST GROWTH:

Mandatory Costs. While the College has a decreasing state General Fund budget, it will see an increase in certain expenditures that could be considered mandatory. These are shown in the chart below:

Hastings Mandatory Cost Growth

	2009-10	2010-11	2011-12	Cumulative Change
UC Retirement System	\$ 176,958	\$ 755,584	\$ 719,937	\$ 1,652,479
Retiree Health Benefits	\$ 738,934	\$ 817,112	\$ 1,004,796	\$ 2,560,842
Health and Dental Benefits	\$ 231,000	\$ 280,000	\$ 339,000	\$ 850,000
Utility Costs	\$ (50,000)	\$ 102,000	\$ 84,000	\$ 136,000
TOTAL	\$ 1,096,892	\$ 1,954,696	\$ 2,147,733	\$ 5,199,321

COST REDUCTIONS:

Cost Cutting Measures Already Underway. Hastings College of the Law has undertaken multiple efforts to reduce costs, or halt increased expenditures, since 2007. These include:

- Elimination of general salary adjustments (none provided since October 2007)
- Five percent reduction to operating budget in January 2009
- Another five percent reduction to operating budget in January 2011
- Freeze on merit pay adjustments for faculty (none provided since 2008-09)
- Freeze on merit pay adjustments for staff (none provided since 2008-09)
- Freeze on reclassification and equity adjustments for staff (none provided since 2009-10)
- Library Holding Reductions (\$200,000 savings)
- Deferred maintenance and information technology
- Deferred faculty hiring
- Senior faculty at the law school also committed to a principle of a teaching load 33% higher than junior faculty

OTHER OPTIONS:

Student Fee Level. One means of raising additional revenue is to raise the student fee levels. Currently, the Hastings College of the Law resident student fee level is \$38,906. The average for other UCs is \$45,541 annually for residents. The 2010-11 student fees are projected to bring Hastings about \$45.5 million, of which \$12.8 million is dedicated

to financial aid. To receive an additional \$1.5 million in student fee revenue, Hastings would have to raise student fees to about \$41,987. Currently, Hastings is planning to raise resident student fees to \$39,986 for the 2011-12 academic year.

Hastings Student Fees

	2007-08	2008-09	2009-10	2010-11
Resident	\$ 24,120	\$ 28,864	\$ 32,468	\$ 38,906
Non-Resident	\$ 35,345	\$ 40,089	\$ 43,693	\$ 50,131

Financial Aid. The State’s support for the Hastings College of the Law has been steadily decreasing as a percentage of the Hastings total budget (12 percent in 2011-12). The State could ensure that the State support is provided to support the goal of preserving access to public legal education by scheduling the State General Fund contribution to financial aid assistance only. Currently, Hastings provides \$12.8 million in student financial aid. Though the State’s General Fund contribution falls short of that goal, limiting support to financial aid would ensure the State’s support for the neediest students.

Suggested Questions:

1. How much revenue does Hastings think it can receive from additional student fee increases in 2011-12?
2. Has Hastings provided any salary increases to employees since 2008-09?
3. DOF: Hastings funding is now 88 percent private. What is the impact is Hastings becomes 100 percent private?
4. What are the obligations the state has to the Hastings College of the Law and at what level of funding support is the state no longer meeting those obligations?

ISSUE 2: California Student Aid Commission Budget Overview

Speakers:

- Ian Johnson, Department of Finance
- Ryan Storm, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes Michel, California Student Aid Commission

Issue. The issue before the Subcommittee is the Governor's proposed budget for CSAC, including a significant funding shift and a General Fund increase for entitlement grants.

STUDENT FINANCIAL AID:

There are multiple different types of financial aid available to low-income students in California. These can be separated into three broad categories:

Federal Aid. There are many types of federal aid available to students. In broad categories, these include grants, loans, and work-study programs. The Free Application for Federal Student Aid (FAFSA) is the core document to determine eligibility for most major federal and state financial aid programs, including CalGrant, Pell Grant, UC and CSU institutional aid, work-study awards, scholarships, and federal student loans.

CalGrants. CalGrants is the primary financial aid program run directly by the State of California. To receive a CalGrant, a student must have been a California resident upon graduating high school, be a U.S. citizen or legal resident, have filled out a FAFSA, be enrolled in college at least part-time, meet minimum GPA requirements, and have financial need based on college costs.

The CalGrant programs provide awards to needy and academically eligible students and include:

1. CalGrant A & B entitlement programs for graduating high school seniors and recent graduates.
2. CalGrant A & B competitive programs for students who begin college more than eighteen months after graduating from high school.
3. CalGrant C for students attending occupational or vocational programs of at least four months in duration.

Institutional Financial Aid. Institutional financial aid is a financial aid program run by a higher education segment for the benefit of the students attending its institutions. The University of California and California State University both set aside one-third of their tuition revenue for financial aid to their economically disadvantaged students. The California Community Colleges offer Board of Governor's Waivers to financially needy students, which waives tuition fees entirely.

CALIFORNIA STUDENT AID COMMISSION:

Role of CSAC. The California Student Aid Commission (CSAC) was created by the Legislature in 1955. CSAC is the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. CSAC administers CalGrants and certain loan assumption programs.

Awards Provided

Award Type	Awards		Amount	
	2010-11	2011-12	2010-11	2011-12
CalGrant Entitlement	190,974	206,227	\$ 1,153,930	\$ 1,372,767
CalGrant Competitive	39,293	39,161	\$ 129,560	\$ 132,760
CalGrant C	9,074	9,247	\$ 11,063	\$ 11,316
Student Opportunity and Access Program	15	15	\$ 7,349	\$ 7,349
APLE*	11,278	11,375	\$ 37,383	\$ 38,670
Graduate APLE	115	115	\$ 230	\$ 230
State Nursing APLE for Nursing Faculty	48	77	\$ 400	\$ 642
State Nursing APLE for Nurses in State Facilities	2	4	\$ 10	\$ 20
National Guard APLE	60	0	\$ 180	\$ -
National Guard Education Assistance Award Program	438	438	\$ 3,017	\$ 3,017
Law Enforcement Personnel Dependents Scholarships	9	9	\$ 99	\$ 75
Byrd Scholarships	3,652	3,652	\$ 5,671	\$ 5,671
Child Development Teacher and Supervisor Grant Program	293	293	\$ 304	\$ 304
Chafee Foster Youth Program	2,634	2,634	\$ 12,855	\$ 12,855
John R. Justice Grant Program	200	200	\$ 889	\$ 889
Total	258,085	273,447	\$ 1,362,940	\$ 1,586,565

**Assumption Program of Loans for Education*

AB 187. AB 187 (Committee on Budget, 2009) created a pilot program to decentralize financial aid programs administered by the CSAC. AB 187 prohibits CSAC from implementing the pilot alternative delivery system until prescribed conditions are met,

including receiving commitments from at least 30, but not more than 35, qualifying institutions electing to participate in the alternative delivery system and to pay the costs associated with developing and implementing the pilot alternative delivery system.

CSAC developed the emergency regulations for the AB 187 pilot program in June 2010, and requested that those emergency regulations be extended in January 2011. The final regulations have not yet been developed. To date, CSAC has not received enough commitments from public higher education institutions to start the pilot program.

BUDGET:

Governor’s Proposal. The Governor’s proposed budget provides CSAC with about \$1.6 billion, which is about \$221 million more than in 2010-11. The Governor’s proposal main components are the TANF backfill, an increase to General Fund, and some technical and small changes. The Governor’s proposal also includes current year changes. Each of these is discussed below.

CSAC Budget

(dollars in millions)

	2009-10	2010-11	2011-12
General Fund	\$ 1,043	\$ 1,224	\$ 577
Student Loan Operating Fund	\$ 115	\$ 180	\$ 30
Federal Trust Fund	\$ 18	\$ 26	\$ 20
Reimbursements	\$ 18	\$ 23	\$ 970
Total	\$ 1,194	\$ 1,453	\$ 1,597

TANF Backfill. The Governor’s budget proposal relies on a funding swap of \$946.8 million in Temporary Assistance to Needy Families (TANF) funds from General Fund to keep CalGrants fully funded. However, the TANF funds are only available for CSAC because of the reductions the Governor is proposing to CalWORKs. If the Legislature chooses not to accept all of the Governor’s cuts to CalWORKs, then not all of the TANF funding would be available for CalGrants.

Increase to General Fund. The Governor’s budget proposal increases the amount of General Fund for CalGrants to do the following:

1. \$279 million for increased CalGrant participation
2. \$17.6 million for the CSU five percent fee increase in 2010-11
3. \$25 million for the CSU fee increases approved for 2011-12
4. \$48 million for UC fee increases approved for 2011-12

Technical and Small Changes to 2011-12 Budget. The Governor's budget proposal contains some technical or small changes:

1. Backfill \$100 million of one-time Student Loan Operating Fund (SLOF) revenues with General Fund;
2. Increase of \$2.3 million General Fund for loan assumption program costs;
3. Increase of \$842,000 General Fund for replacement of shared services previously provided by EdFund to CSAC;
4. Increase of \$941,000 in federal funds through an interagency agreement with CalEMA for the John R. Justice Grant Program to attract and retain qualified individuals to serve as public defenders and prosecutors; and
5. Decrease of \$5.6 million in federal funds for educational assistance partnerships.

Current Year Changes. The Governor's proposal also includes several changes to the 2010-11 budget. These are:

1. Increase of \$141.4 million General Fund for CalGrants to meet the higher number of CalGrant entitlement awards provided in 2010-11 than originally projected;
2. Increase of \$5.8 million General Fund for increased CalGrant amounts to cover the mid-year five percent student fee increase at CSU;
3. Increase of \$1 million General Fund for increased Loan Assumption Programs costs;
4. Decrease of \$1.2 million General Fund for replacement of shared services that the EdFund used to provide to CSAC;
5. Increase of \$389,000 in federal funds for educational assistance partnerships; and
6. Increase of \$941,000 in federal funds through an interagency agreement with CalEMA for the John R. Justice Grant Program to attract and retain qualified individuals to serve as public defenders and prosecutors.

Staff Comment. The reduction to CalWORKs programs will be decided in Senate Budget Subcommittee No. 3, and the backfill of TANF for General Fund in CalGrants will be a conforming decision.

Should the Senate Budget Subcommittee No. 3 not accept the entire Governor's proposal as it relates to the reduction of CalWORKs, there would be a shortfall in funding for CalGrants. The Legislature may wish to consider alternatives for creating savings within the CalGrant Program in case the funding transfer does not materialize.

Suggested Questions:

1. If the TANF funds are not transferred to CSAC for CalGrants awards, what happens to the CalGrants program?
2. Does California need a waiver from the federal government to use TANF funds for CalGrants?

ISSUE 3: CalGrant Savings Alternatives

Speakers:

- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes Michel, California Student Aid Commission
- Ian Johnson, Department of Finance
- Ryan Storm, Department of Finance

Issue. The issue before the Subcommittee is a series of options for cost-savings in the CalGrants program.

Option 1: Change GPA Requirements

Current Grade Point Average (GPA) Requirements. Under the CalGrant High School Entitlement program, students must attain a high school GPA of 3.0 to qualify for a Cal Grant A which provides full fee coverage for four years. With a 2.0 GPA students may qualify for the CalGrant B, which provides a stipend of \$1,551 each year and full fee coverage after the first year.

Success Rate of Low-GPA Students. Students with a GPA of 2.0 have extremely low rates of success in college. Estimates show fewer than 20 percent of students with a high school GPA of 2.0 or less graduate from the CSU in six years or more.

LAO Recommendation. Raising the GPA requirement to 2.5 would eliminate about 13,500 students from entitlement program eligibility, and **save \$13 million.**

Option 2: Limit Competitive CalGrants

Competitive CalGrants. The Competitive CalGrant program is available for those students who graduated high school more than 18 months ago. Each year 22,500 Competitive CalGrants are offered, but the number of applicants is much higher (in 2008-09 there were 162,044 applications for Competitive CalGrants).

Most Competitive CalGrant Recipients Attend Community College. Currently, community college students receive three-quarters of new competitive awards but only one-third of new funding. Students at UC, CSU, nonprofit colleges and universities, and private career schools receive one-quarter of awards (about 4,000) with the majority of funding. This is largely because community college students do not receive fee coverage as part of their grant awards. (They qualify for BOG fee waivers, and from their CalGrant receive a \$1,551 annual stipend to cover expenses other than fees.)

LAO Recommendation. The LAO recommends limiting all new Competitive CalGrants to community colleges. Restricting all new competitive awards to a \$1,551 annual stipend would not affect the three-quarters of new recipients who are already going to CCC. Other students would have the option to attend a community college for two years with fee waivers and stipends, or seek additional financial aid at other institutions. Restricting Competitive CalGrants in this way would create about **\$20 million** in General Fund savings.

Option 3: Limit Grants for Private For-Profit Colleges

CalGrants Available for Any California College. Currently a student who qualifies for a CalGrant based on income and GPA can take that CalGrant to any college within California. However, the CalGrant payment to the colleges can vary greatly. The current payments are:

- California Community Colleges: \$1,551 annually
- UC and CSU: Full resident student fees covered
- Independent Colleges: Up to \$9,708 (these are non-profit colleges)
- Private Career Colleges: Up to \$9,708

Private Career Colleges. The Private Career Colleges are for-profit enterprises that mostly specialize in providing students with career technical degrees, though some do provide bachelor's degrees. Private career colleges that offer career technical education frequently charge tuition comparable to the University of California system, but offer degrees that could be attained at a community college.

About 14 Percent of CalGrant Recipients Attend Private Career Colleges. In 2009-10, there were a total of 20,278 award offers (10,341 new and 9,937 renewal) for CalGrants to private career colleges. This is a 155 percent increase in award offers over 2000-01. The total cost of these awards for 2009-10 was \$94 million, for an average award cost of \$4,635.

Staff Recommendation. Staff recommends that the Legislature consider limiting the CalGrant award amount for private career colleges to the level of the comparable California public education institution (not to exceed CSU student fee levels for those students working toward a bachelor's degree in those private career colleges that offer bachelor's degrees). This would limit a CalGrant toward private for-profit college tuition for career technical degrees to the \$1,551 awarded to community college students. Those students seeking a bachelor's degree could receive an award equivalent to CSU student fees.

In 2009-10, there were 20,278 awards offered to students attending for-profit private career colleges at a cost of \$94 million to the state. If these students were limited to the award amount for community college students (\$1,551 per year, rather than the current average of \$4,635), the state would save up to tens of millions annually.

Option 4: Income Verification

Currently Income Verification Occurs Only When Students First Apply For Grant. Once a student is awarded a CalGrant, they have that grant for four years. Once the grant is awarded, there is no further verification of income eligibility. During the time the student is receiving the grant, they do have to annually file the Free Application for Federal Student Aid (FAFSA) and show that they have at least \$100 dollars of financial

need. However, “financial need” includes a set amount for living expenses (which can vary by campus, depending on the local housing costs).

Eligibility for CalGrants Has Increased. Approximately 15,000 more students are expected to participate in the CalGrant entitlement program in 2011-12 than participated in 2010-11. Much of this increased participation rate may be due to the high unemployment rate in California, which has left many families with decreased incomes. However, as the economy improves and more people return to work, families may see their incomes increase and student fees become once again a manageable expense for the family.

Staff Recommendation. Staff recommends that the Legislature consider requiring CalGrant recipient students to report income annually. Currently, income is verified only when the grant is initially awarded. The federal government requires annual income verifications for financial aid and loans. CSAC could take the income numbers from the FAFSA documents the students are already required to file to verify income eligibility.

This proposal would disqualify from CalGrants all those students whose parental income increases above the CalGrant eligibility ceiling while they are in school. Parental income is not counted for students 24 and over. Those students that would not have their CalGrants renewed would have increased financial resources available to them through their parents. The savings from this proposal are unknown.

Option 5: Limit Time Allowed on Academic Probation

Current Practice. Once awarded, a CalGrant stays with a student for four years. There are very few requirements the student must fulfill, but these include enrollment for 12 units a semester, making Satisfactory Academic Progress (SAP), and as stated above, filling out the FAFSA annually. Currently, a student loses their CalGrant if he or she does not make SAP for more than two semesters or three quarters. The SAP standards are set by each college, though UC and CSU each set their standards system-wide.

Staff Recommendation. Staff recommends that the Legislature consider limiting the time allowed for the student not to meet SAP to one semester or two consecutive quarters. The savings from this proposal are unknown.

Suggested Questions:

1. How would these proposals impact students who are currently in school seeking their degrees with CalGrant funding?
2. What is the overall graduation rate of CalGrant recipients? Is this number higher or lower for private career colleges? What about for Competitive CalGrant recipient and Entitlement CalGrant recipients?