

Action/Information Item

California Student Aid Commission

Update on possible 2008-09 mid-year Budget adjustments, the 2009-10 Governor's Budget, and 2009-10 Budget discussions and actions

At the January 26, 2009 teleconference meeting, the Commission discussed the Governor's 2009-10 Proposed Budget and the impact on students and the Commission operations. During that meeting, the Commission expressed that it could not support the Governor's proposals to consolidate the Commission with the California Postsecondary Education Commission and to decentralize financial aid administration based on the absence of details in the Governor's proposals.

On January 28, Commission staff prepared a preliminary analysis of decentralization of the Commission's financial aid programs. The staff analysis notes that the proposal to decentralize will result in the waste of the Legislature's investment of \$17 million of State funds authorized since 2001 to improve the Cal Grant delivery system. Staff will provide an update on real-time improvements to the Grant Delivery System and other Commission services to institutions at the meeting.

On January 29, 2009, the Legislative Analyst's Office (LAO) released its analysis of the higher education proposals included in the Governor's 2009-10 Budget pertaining to the Commission's budget and programs. The complete LAO analysis can be found at www.lao.ca.gov.

The following items are included in the agenda:

- Tab 3.a** Summary of the major adjustments to the Commission's budget and programs in the Governor's Proposed 2009-10 Budget
- Tab 3.b** Staff's preliminary analysis of decentralization
- Tab 3.c** Excerpts from the LAO analysis of the Governor's 2009-10 higher education proposals included pertaining to the Commission's programs

Staff has been monitoring the State budget negotiations and notes that the proposed budget act and trailer bills do not include any of the Governor's proposals at this time. Staff will provide an oral update on the budget developments at the meeting.

Responsible Persons: Janet McDuffie, Chief of Administration and External Affairs Division
John Bays, Chief Information Technology Division
Catalina Mistler, Chief of Program Administration and Services Division

**FY 2009-10 Governor's Proposed Budget for
California Student Aid Commission**

State Operations:

- \$1 million General Fund decrease to state operations to remove the one-time funding received in 2008-09 for the Commission's relocation to a new facility.

Programs:

Current Year (2008-09)

- \$62.6 million General Fund increase for projected shortfall in the Cal Grant Program.

Budget Year (2009-10)

- \$174.1 million General Fund increase in the Cal Grant Program as follows:
 - \$150.1 million resulting primarily from a current-year surge in renewals, higher than expected new awards, and anticipated undergraduate fee increases for UC and CSU (9.3 percent and 10 percent, respectively); plus
 - \$24 million to backfill the use of one-time Student Loan Operating Fund resources.
- \$87.5 million General Fund decrease in the Cal Grant Program to reflect cost savings measures proposed to keep costs flat from year to year. Those policy proposals include:
 - freezing income eligibility limits (\$7 million);
 - reducing the maximum award for new students attending non-public institutions from \$9,708 to \$8,322 (\$11 million);
 - elimination of the Cal Grant Competitive Program (\$52.9 million); and
 - partially decoupling awards to public institutions from fee increases (\$16.6 million, which reflects approximately one-third of the undergraduate fee increases assumed for UC and CSU in 2008-09).
- \$192.6 million shift in Cal Grant Program General Funds to federal Temporary Assistance for Needy Families (TANF) reimbursements from the Department of Developmental Services as part of the Administration's proposed solution on meeting the federal maintenance of effort requirements for TANF.

Sale of EDFUND

- The estimate of \$500 million from the sale of the EDFUND has been removed from the revenue estimates for 2009-10. While the Administration is continuing to pursue the sale of EDFUND, the timing and value of that sale are unclear given the many changes that have occurred in the capital markets and federal student loan guarantee policy.

Consolidation and Decentralization

- \$2 million General Fund decrease for anticipated savings from a proposal to consolidate the functions of California Postsecondary Education Commission (CPEC) and the Commission through a reorganization proposal and to decentralize the administration of financial aid, including Cal Grants, to the higher education segments. This reorganization is intended to:
 - eliminate duplicative handling of financial aid awards;
 - reduce administrative costs at the segment level;
 - eliminate duplicative overhead costs in state operations; and
 - create one-stop packaging of financial aid that will benefit students.

(Note: This proposed reduction is not reflected in the CSAC budget. The savings have been recorded in the overall State budget.)

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This analysis is based on the assumption that only Cal Grant administration and processes will be changed, since "decentralization" does not imply substantive eligibility changes, changes in use of Cal Grant awards, or other policy changes. The Governor's proposal has not addressed whether any changes in eligibility for or use of Cal Grant awards is proposed.

Preliminary Conclusions Based on Current Proposal

The proposal to decentralize lacks the details normally required by the principles of transparency, raising the question of whether the proposal is really intended only to bring efficiencies to the financial aid process or is attempting indirectly to reduce certain access for students from low-income and working families to higher education.

Decentralization will require substantial one-time costs and implementation costs over a two-year period estimated at \$168.4 million, including \$68.5 million in costs to the State, significantly in excess of the current cost of the centralized administration of the Cal Grant Program. Maintaining the current centralized Cal Grant delivery system will not require comparable additional funding.

The proposal to decentralize will result in the waste of the Legislature's investment of \$17 million of State funds authorized since 2001 to improve the Cal Grant delivery system.

Decentralization will reduce access for students from low-income and working class families to high-cost, selective institutions of higher education.

The California Student Aid Commission cannot make an informed and responsible decision whether or not to support decentralization without a policy discussion. The Commission recommends that the Legislature asks the Legislative Analyst's Office to conduct a study and analyze the costs associated with decentralization and the effects on student access. The Commission is available to discuss all options that would benefit students and maintain the integrity of the Cal Grant program.

Discussion

- 1) The current proposal to decentralize State financial aid administration will reduce access to high-cost, selective postsecondary institutions such as the University of California and private institutions for students from low-income and working class families by delaying the time they are notified of their Cal Grant awards.

Under the current centralized Cal Grant administration, low-income students begin learning whether they can receive a Cal Grant award as early as January, and often receive Cal Grant award notices from CSAC before they learn from the individual institutions whether they have been admitted.

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This early Cal Grant award notification informs these students of the possibility they are able to attend high-cost, selective institutions such as the University of California and private institutions.

Under a decentralized system, students will not know whether they have received Cal Grant awards until after they learn, or contemporaneously with the time they learn, whether they have been admitted into an institution. Thus, their ability to determine whether an institution is affordable will depend on when they are separately notified by each institution.

Because low-income students' perceive high-cost, selective institutions such as the University of California and private institutions to be unaffordable, the delay in the notice of their Cal Grant award may cause them to not consider the possibility of attending those institutions, in favor of lower-cost institutions.

Thus, the delays in Cal Grant award notification created by the change to decentralization will reduce access for low-income students to high-cost selective institutions.

- 2) The proposal to decentralize will reduce access for low-income students to higher education by increasing the burdens on low-income students as they apply for Cal Grants.
 - a. The California Student Aid Commission (CSAC) currently automatically considers every student for all types of Cal Grant awards – Entitlement, Competitive, A, B, and C – without requiring the students to apply for any particular or specific award.

Under decentralization, there is no assurance that the “one-stop shop” for financial aid at each participating Cal Grant institution will be capable of doing this.

- b. Currently, students, or their high schools or colleges, need to submit their grade point averages to CSAC only one time. This centralized, statutorily required grade point average information is available to every institution to which those students apply for admission.

Under decentralization, students would be required to file their grade point averages multiple times, with every institution to which they applied, since each institution will not be interacting with every other institution to which students have applied or enrolled. This would place an additional burden not only on the students, but also on their high schools or other institutions they have attended.

- c. Currently, students in the Chafee program for foster youth benefit from integrated administration of the Chafee program and the Cal Grant delivery system.

Under decentralization, this integration will not be available.

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3) The proposal will eliminate students' access to information about eligibility for Cal Grant awards and retention of Cal Grant awards.

- a. The current Cal Grant administration provides the student with access 24 hours per day, everyday, through WebGrants for Students to current information about the student's eligibility for Cal Grants at all participating institutions.

Under decentralization, this program-wide information will not be available unless all institutions together develop a centralized system. The costs listed below do not assume an all-institution system, and thus understate the costs if an all-institution information system for students were developed.

- b. The current Cal Grant administration tracks a student's eligibility, or remaining eligibility, for a Cal Grant through all the institutions he or she attends. This tracking is essential to preserve the student's Cal Grant awards when:
 - i. The student returns from military duty to resume his or her higher education;
 - ii. the student reserves an award during enrollment in a 2-year institution for future use at a 4-year institution;
 - iii. the student transfers from one institution to another;
 - iv. the student takes a leave of absence from one institution and later resumes attendance at a different institution;
 - v. the student concurrently attends more than one institution;
 - vi. the student varies attendance between full-time and part-time, or attends only part-time

Under decentralization, this tracking will not be available, creating not only more barriers to students, but greater potential liability to the State if Cal Grant awards are made after a student's eligibility has ended, but the current institution in which the student is enrolled awards a Cal Grant because the institution does not have the complete history of the student's eligibility.

The cost of creating a centralized tracking system connecting the over 350 Cal Grant participating institutions has not been included in the cost estimates in 5), below.

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- 4) The proposal will reduce the opportunity provided by the Cal Grant Program for low-income students to be informed of the FAFSA application process and of their educational financing options.
- a. CSAC administers outreach and public awareness programs to inform students of state-wide opportunities for financial aid. These include:
 - i. Cash For College, a program in partnership with the College Access Foundation and the Los Angeles Chamber of Commerce, including a study funded by the Gates Foundation of analyzing the effectiveness of various types of government and scholarship assistance for low-income students;
 - ii. Public Awareness Campaign, a statewide outreach campaign informing students of state and federal financial aid opportunities; this program has ended because its original funding source has ended and the Department of Finance has found that further expenditures would devalue the state student loan guarantee program assets the State is trying to sell;
 - iii. Cal-SOAP – an inter-segmental program that serves low-and middle-income middle school and high school students by providing counseling in academic matters and financial planning for college and careers, tutoring, and support services. This program has been administered by CSAC and provides infrastructure for the Cash For College workshops and other CSAC public awareness activities.
 - iv. Fund Your Future, a comprehensive publication CSAC provides throughout the state to high school students, postsecondary students, their families and the public informing them of financial aid opportunities.

Under decentralization, there is no assurance that the comprehensive and universal message on financial aid opportunities provided by these outreach and information programs will continue in other than in separate, uncoordinated efforts by the 350 Cal Grant participating institutions.

- 5) The proposal to decentralize State financial aid administration will not provide efficiencies or savings, and will cost roughly \$168.4 million, including \$68.5 million in costs to the State, over at least two years.
- a. The Commission delivers over \$900 million in financial aid to over 300,000 California students at an administrative cost of about 1.5% of total funds administered, or \$13.5 million annually.
 - b. Decentralization of Cal Grant programs would cost an estimated \$168.4 million over at least a two-year period to implement. These costs do not include changes in the administration of specialized programs, such as

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- i. \$139 million over at least 20 months – a rough estimate of the cost for the more than 350 Cal Grant participating institutions to build stand-alone information technology systems for Cal Grant administration, or to integrate the current Cal Grant information technology system into the institutions' systems. As an example, a rough estimate for a stand-alone, un-integrated Cal Grant solution with at least 40,000 lines of code and 20 tables for a campus could cost about \$1,500,000 and take 20 months to implement.

There are currently no automated systems at Cal Grant participating institutions that actually award the Cal Grant Entitlement A & B awards, Competitive A&B awards, Transfer Entitlement A & B awards, the Cal Grant C award, the Chafee Grants for foster youth, and the Top 2% Entitlement B award. Campuses would have to integrate these capabilities into their existing campus Financial Aid Management Systems or build a stand-alone system.

At public institutions, there are currently at least 11 commercial financial aid processing systems (e.g. SCT Banner, Peoplesoft, Powerfaids, DataTel, etc) and 16 in-house applications that would have to be extensively modified to support the existing program and integrate the system for Cal Grant administration.

- ii. \$22 million – an estimate of the cost for continuing the existing centralized Cal Grant administration to continue to award students, process payments, and track Cal-Grant-eligible students during the minimum of 20 months that the information technology systems at each institution are being modified, plus the 3 months required for implementation as describe in iii, below.
- iii. \$7.4 million – a rough estimate of the cost of migrating existing Cal Grant administration data to the over 350 Cal Grant participating institutions. Implementation requires extensive complicated mapping, testing, and cleaning of data between systems. This could take 1-3 months and cost at minimum up to \$7,000 a month (1 staff-month each month) at each of the over 350 locations.

As noted above, these estimates do not include the cost of a central tracking system of information required to track students between institutions and over the time of their eligibility for awards.

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- 6) The proposal to decentralize will result in the waste of the Legislature's investment of \$17 million of State funds authorized since 2001 to improve the Cal Grant delivery system.
 - a. CSAC has developed WebGrants for Students, which allows a one-stop web tool for students to update their information and check their status. The tool also provides various links and resources to fund their higher education.
 - b. CSAC has developed WebGrants, which provides all participating institutions a one-stop resource for maintaining a Cal Grant student's information. Most campuses utilize the WebGrants as their only data system to retain student information.

- 7) The proposal to decentralize fails to account for costs related to the on-going requirement of monitoring the eligibility of institutions to participate in the Cal Grant program and the eligibility of programs offered by each participating institution to qualify as being paid by students' Cal Grant awards.

- 8) The proposal to decentralize State financial aid programs will add complexity to the administration of the federal funds supporting these programs:
 - a. The State receives \$12 million in federal funds annually through the Leveraging Educational Assistance Partnership and the Special Leveraging Educational Assistance Partnership Programs (LEAP/SLEAP) by using the Cal Grant Program for the required matching funds. The Cal Grant system identifies the specific students awarded these federal funds across all the over 350 participating Cal Grant institutions.
 - b. The State will receive \$7 million in 2008-09 and 2009-10 from the federal College Access Challenge Grant to support the Cash For College and Cal-SOAP programs administered by CSAC based on an approved application with goals established for these specific programs.

- 9) The proposal to decentralize reduces the value of the State's student loan guarantee program assets by effecting a change in the status of the Commission without the approval of the United States Department of Education, thereby causing uncertainty about the State's compliance with the contract under which the United States Department of Education has designated the Commission to act as a student loan guarantee agency for California under the Federal Family Education Loan Program. The Commission is the only California entity with such a contract and designation.

- 10) Other options may be considered for more efficient delivery of financial aid, and some are listed below. However, it should be noted that the efficiency of various methods of Cal Grant administration is directly affected by requirements for eligibility and use of Cal Grant awards imposed by law. Thus, deciding on an improved method by which to achieve efficient delivery of Cal Grants will involve policy issues affecting the availability and use of Cal Grants.

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- a. Create a new replacement program for the Cal Grant Program that provides distribution of money to institutions to be folded into existing financial aid programs. This may require changes in eligibility for and use of Cal Grant awards.
 - b. Implement partial decentralization, with institutions administering institution-specific functions, such as award and payment, but needed centralized functions to be continued to be delivered by CSAC.
 - c. Implement partial decentralization, with an option for institutions to choose to have CSAC serve as their Financial Aid Management System by providing full financial aid packaging to those institutions.
 - d. Implement complete centralization of all financial aid processing in CSAC.
- 11) Ultimately, as demonstrated above, because the current proposal to decentralize lacks transparency and detail necessary to consider its advantages and disadvantages, it is difficult to view the proposal as anything but an attempt to save General Fund money by reducing certain access to higher education for low-income and working class students under the pretense that a “one-stop shop” at each postsecondary institution is in the best interests of the students.

**Excerpts from the Legislative Analyst's Office 2009-10 Budget Analyst Series
Higher Education**

Executive Summary

The Governor's budget proposal includes \$11.5 billion in General Fund support for higher education in 2009–10. Another \$5.7 billion in student fee revenue and local property taxes also provide support for core higher education programs.

BALANCING THE 2009–10 BUDGET

Governor's Proposal

The Governor estimates that his higher education proposal will achieve \$1.5 billion of General Fund savings by the end of the budget year. Only about 30 percent of these savings result from actual General Fund reductions to higher education budgets. The majority of the savings come from withholding augmentations that had been built into the administration's workload estimates and from delaying state payments for some community college costs.

Although not part of his budget solution, the Governor assumes that students fees at the University of California (UC) and the California State University (CSU) will increase by about 10 percent in 2009–10. The Governor proposes no fee increase for the California Community Colleges (CCC).

Concerns With Governor's Proposal

Fails to Account for New Fee Revenue. The proposed fee increases at UC and CSU would generate almost \$300 million in 2009–10. The proposed budget identifies no specific purpose for this revenue, and it is not accounted for in the proposed budget solutions.

Relies Too Heavily on Financial Aid Cuts. The Governor proposes to reduce funding for the state's Cal Grant financial aid programs by \$87.5 million. We think this reduction undermines financial aid expectations that the state has carefully established, and on which students and their families have come to rely.

Continues Disconnect Between Budgeted and Actual Enrollment. The Governor establishes enrollment targets that are many thousands of students lower than the segments' own enrollment plans. The disconnect between budgeted and expected enrollment makes it impossible to determine how much of the universities' enrollment is supported by the state, thus undermining accountability.

Recommend a Better Approach for Achieving General Fund Savings

Reduce UC and CSU General Fund Support to Reflect Availability of New Fee Revenue. We recommend that the segments retain enough of the new fee revenue to expand their campus-based financial aid programs in order to cover increased fee costs for aid recipients. The remaining new fee revenue should be used to offset state costs for the universities.

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Reject Proposed Cuts to Cal Grant Programs. The General Fund savings made possible by the universities' fee increases would be more than enough to substitute for the Governor's proposed financial aid cuts.

Increase University Enrollment. We think the universities should enroll many thousands of students more than is reflected in the Governor's budget. Increasing these enrollment targets would restore the link between budgeted and actual enrollment levels, lock in substantially higher enrollment levels than those proposed by the Governor, and ensure a level of enrollment capacity that upholds the Master Plan's promise of access.

OTHER ISSUES

Proposed Consolidation of Higher Education Commissions. We generally support the administration's proposed decentralization of financial aid administration and restructuring of the California Student Aid Commission (CSAC) as an executive department. We, however, recommend against including the California Postsecondary Education Commission (CPEC) in such a consolidation. The CPEC's role should be reformed, but it should remain independent of the executive branch.

Capital Outlay Proposals. We recommend changes to some of the capital outlay proposals in the Governor's budget in order to better target resources and ensure legislative oversight.

Community College Nursing Programs. We analyze the implementation of recent legislation, and recommend an additional change that would improve nursing program completion rates.

UC Retirement Program. We raise concerns about a looming shortfall in funding for UC's Retirement Program and recommend an alternative to the Governor's proposal.

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FEES AND Financial Aid

Financial Aid Program Reductions

As Figure 14 shows, the Governor’s budget includes four reduction proposals for Cal Grant programs. In total, these proposals provide an estimated \$87.5 million in savings, which would fully offset projected cost increases. Below, we describe each proposal and recommend the Legislature reject all of them.

Figure 14

Governor’s 2009-10 Financial Aid Proposals

(In Millions)

2008-09 Adjusted Base, All Financial Aid Programs	\$948.3
Routine program cost increases ^a	\$87.5
Eliminate new competitive awards	-52.9
Decouple grants from fee increases	-16.6
Reduce awards for private college students	-11.0
Freeze income eligibility ceilings	-7.0
2009-10 Proposed Costs, All Financial Aid Programs	\$948.3

^a Growth in number and size of awards.

Decoupling Cal Grants From Fees

Proposal Would Sever Link Between Fees and Cal Grants. The Governor’s budget proposes to end the statutory requirement to raise Cal Grant awards to fully offset the cost of UC and CSU fee increases for grant recipients. This change would save \$16.6 million in 2009–10. Among the Governor’s financial aid proposals, decoupling Cal Grants from fee increases would have the greatest potential long–term effect on affordability. Chapter 403, Statutes of 2000 (SB 1644, Ortiz), restructured the Cal Grant programs into an entitlement for recent high school graduates and community college transfers, and established a competitive grant program for other needy students. For both programs, the statute sets the award amount for students attending UC and CSU equal to their systemwide fees (plus a subsistence award for Cal Grant B recipients).

Governor’s Proposal Fails to Protect Needy Students From Fee Increases. Holding Cal Grant recipients harmless from the effects of fee increases in this way has been a key part of the state’s affordability strategy in recent years. The Governor’s budget proposal breaks this link between Cal Grants and fees at UC and CSU. Proposed provisional language in the *2009–10 Budget Bill* overrides the statutory fee levels, replacing them with specified award amounts that cover about 60 percent of proposed fee increases at UC and CSU. This modification would require Cal Grant recipients, who by definition are financially needy, to absorb a portion of fee increases (or find other aid). Over time, this could make the universities financially inaccessible to a number of qualified students.

**Excerpts from the Legislative Analyst’s Office 2009-10 Budget Analyst Series
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Reject Proposal to Disconnect Cal Grants From Fees. We recommend, therefore, that the Legislature reject the Governor’s proposed savings of \$16.6 million in Cal Grants. Preserving the linkage of Cal Grants with fees will help to ensure that the fee increases do not limit access to higher education.

Eliminating Competitive Cal Grant Program

Governor Proposes to Eliminate Awards for Nontraditional Students. The Governor proposes to eliminate new competitive Cal Grant awards for a savings of \$52.9 million. The Legislature created the competitive award program in 2000 with the passage of Chapter 403, recognizing that not all needy students would be eligible for the Cal Grant entitlement. About 22,500 new grants are awarded annually under this program. Students served by the competitive program are older (generally several years past high school), and are more likely to attend a community college. Many have experienced challenges that make it more difficult for them to pursue education beyond high school. Award criteria include parents’ education levels, household status, and characteristics of the high school attended. Beyond that, competitive award recipients share many similarities with entitlement recipients. Both programs serve very low–income, financially needy students. Both serve academically successful students—in fact, competitive program recipients have higher average grades than those in the entitlement program (see Figure 15).

Figure 15

Cal Grant Recipient Characteristics

2007-08 Award Cycle		
Averages	Entitlement Program ^a	Competitive Program
Age	18	30
Income	\$28,771	\$14,895
GPA	3.10	3.27
Family size	4.1	3.0

^a High school component only.
Source: California Student Aid Commission.

Maintain Competitive Awards. The Governor’s budget does not offer a programmatic rationale for eliminating the competitive program while maintaining the entitlement program. The competitive Cal Grant program serves a distinct population of college–going students not specifically served by other state financial aid programs, and is an important part of the state’s financial aid system. We recommend, therefore, that the Legislature reject the Governor’s proposed reduction of \$53 million in the competitive Cal Grant program.

Excerpts from the Legislative Analyst's Office 2009-10 Budget Analyst Series Higher Education

Reducing Private College Cal Grant Awards

The administration's proposal includes a reduction of about 14 percent (from \$9,708 to \$8,322) in the maximum Cal Grant amount for students attending private colleges and universities in California. This reduction would save about \$18 million.

Private University Cal Grants Increase Student Choice and Access. Private institutions in California—including independent nonprofit universities such as Stanford and the University of Southern California, as well as for-profit educational institutions such as the University of Phoenix—are an important part of the overall capacity of the state to ensure access to higher education. The State Constitution prohibits direct support to private entities. However, the state has long provided grant support to students who attend private universities—promoting student choice and redirecting some enrollment demand away from the public segments. In fact, the original Cal Grants created in 1955 to accommodate students on the G.I. Bill were *only* for private college students—because there were no enrollment fees at the public universities.

Private Grants Cost State Less Than Public University Student Subsidies. Prior to 2001–02, the state had a longstanding statutory policy that linked the maximum Cal Grant for financially needy students attending private institutions to the average General Fund cost of educating a financially needy student at UC and CSU. When the Cal Grant entitlement was created in 2000, this policy was replaced with a new provision linking the maximum private–student award to whatever amount was specified in the annual budget act. Since then, the maximum award was maintained at its 2000 level (\$9,708) for three years, reduced to \$8,322 in 2004, and restored to \$9,708 in 2006.

In 2008–09, the maximum Cal Grant awarded to students attending private institutions is about 30 percent lower than the average subsidy the state provides to needy students attending public universities. As shown in Figure 16, the reduced level proposed by the Governor would be about 40 percent below the average public–student subsidy. Yet, independent colleges, which serve most of the students with private college Cal Grants, serve students from relatively low-income families, and have relatively high degree completion rates, compared with UC and CSU.

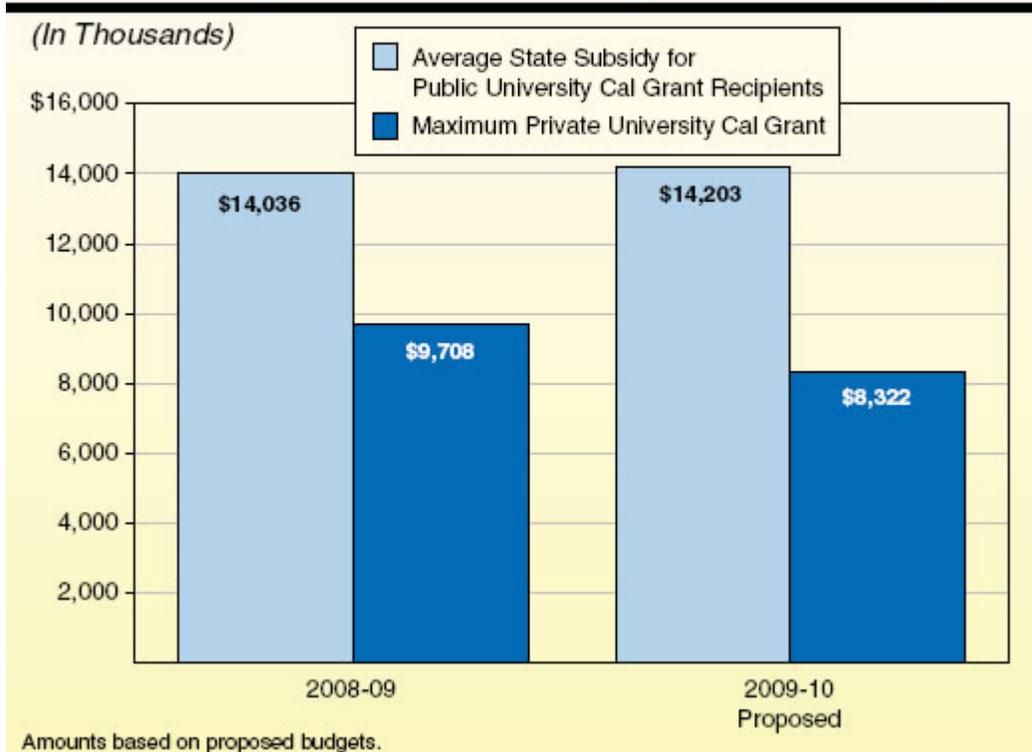
Proposal Would Shift Enrollment Demand to Public Universities. Further reduction of support for students at private institutions is likely to result in more students seeking admission to the public universities. This would cause additional enrollment pressure on UC and CSU, even as the administration's budget proposal assumes a year-to-year *decline* in enrollment at the public universities.

Maintain Private University Cal Grants at Current Level. For the above reasons, we recommend that the Legislature reject the Governor's proposed reduction of the maximum Cal Grant for students at private institutions.

Excerpts from the Legislative Analyst’s Office 2009-10 Budget Analyst Series
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Figure 16

Maximum Private University Cal Grant and Average State Subsidy for Public University Cal Grant Recipients



Freezing Income Eligibility Level For Cal Grants

Governor Proposes to Freeze Income Ceilings for Cal Grant Eligibility. The Governor’s budget proposes to keep income eligibility limits for Cal Grants in 2009–10 at the current levels. This measure would save about \$7 million.

Income and asset ceilings for Cal Grant programs were established in Chapter 403, with a requirement that CSAC annually adjust them for the change in the state’s per capita personal income. This permits income ceilings to keep pace with the earnings of Californians, so that roughly the same proportion of students and families will meet the eligibility requirements from year to year. The current income ceiling for a family of four is \$76,400 for Cal Grant A, which provides fee coverage, and \$40,200 for Cal Grant B, which includes fee coverage and a subsistence award. The 2009–10 ceilings for a family of four would increase by 4.3 percent (to \$79,700 and \$41,900, respectively) with the statutory adjustment. Freezing income ceilings at current levels would reduce the number of grants awarded by about 2,000, or 4 percent, compared with the number the commission would award under adjusted limits.

Maintain Private University Cal Grants at Current Level.. Earlier, we discussed how the state’s policies on fees and financial aid can work together to maximize affordability for both students and the state. This can be accomplished by

Excerpts from the Legislative Analyst's Office 2009-10 Budget Analyst Series Higher Education

maintaining existing financial aid programs to offset fee increases for needy students. The Governor's proposal to reduce eligibility for grants while increasing fees, in contrast, would harm affordability for needy students. We recommend, therefore, that the Legislature reject the administration's proposal to freeze income ceilings.

Other Options for Cost Savings

Options to Control Financial Aid Costs Are Limited. The primary Cal Grant program is an entitlement program, for which the state cannot specifically limit the number of available awards to reduce costs. Instead, it can reduce the award amount, as the administration proposes by decoupling awards from fees; or it can make it harder to qualify for awards by altering financial and academic eligibility criteria, as the administration proposes by freezing income ceilings. The criteria can be adjusted to strike a balance between ensuring that awards go to students with financial need and academic merit, while keeping the cost of awards in line with available funding.

Adjusting Academic Eligibility. In a list of budget savings options our office released in November, we included adjusting *academic* eligibility criteria for Cal Grants. We estimated that raising the minimum grade point average (GPA) requirement for Cal Grant B from 2.0 to 2.5 would save approximately \$11 million. The effect on college degree production would be minimal, because students with GPAs below 2.5 have markedly lower program completion rates. For example, of CSU students admitted to the university in 2001, less than one quarter of those with GPAs of 2.25 or less have graduated, compared to nearly one third with GPAs of 2.5, and over 70 percent of students with GPAs of 3.25 or higher.

Financial Needs Assessment. Other changes to eligibility criteria could better target aid to those with the greatest financial need. For example, a needs analysis process, such as the one used for federal aid programs, would account for factors other than income, such as the number of children in college, to determine financial need.

Savings Versus Reduced Affordability. Any combination of changes to eligibility criteria designed to generate savings will, by definition, reduce affordability for some students. There are trade-offs associated with different changes to the criteria. For example, the Governor's proposed income restriction would affect a limited number of students and families at the highest income levels of Cal Grant recipients, but would deny grants to some students with high academic merit. Likewise, our GPA restriction option may preserve aid to those most likely to remain in college and complete programs, but could disproportionately affect low-income or underrepresented minority students. Replacing income criteria with needs analysis could result in better targeting to needy students, but may be more difficult for families to understand.

Maintaining Affordability

Students Face Increased Barriers to Higher Education. Students applying for college in 2009–10 face considerable uncertainty about access and affordability. Because of enrollment management strategies discussed elsewhere in this report, students are less likely than in recent years to be admitted to the campus of their choice. Affordability is a growing concern as fees continue to increase while ability to pay has

**Excerpts from the Legislative Analyst's Office 2009-10 Budget Analyst Series
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diminished for many families. The value of home equity and college savings plans has declined due to a steep downturn in housing and financial markets. Federal education loans remain available, but the market for private loans, which many students use to supplement or replace federal loans, is extremely tight. The proposed changes to Cal Grant amounts and eligibility add to the uncertainty. Many students will have to make their college decisions before the budget and related legislation are enacted, without knowing whether they will qualify for state financial aid programs.

State Should Maintain Affordability Strategy. It is especially important to preserve the structure of the state's financial aid system when many other factors that affect access and affordability are uncertain. If the Legislature decides to seek a greater contribution from higher education programs to balance the state's budget, we suggest that additional fee increases, combined with targeted financial aid increases, would best meet the objective of maintaining college affordability for students and the state. If the Legislature decides to reduce support for financial aid, we suggest that more targeted reductions, such as changes to eligibility criteria, are preferable to broad reductions, such as decoupling Cal Grant amounts from fees, or eliminating entire programs. Furthermore, we suggest that the Legislature consider adjustments other than income ceiling changes. Raising the GPA requirement and using a direct measure of financial need are two options that would link eligibility directly to state objectives—helping students with academic merit and financial need—and better target the state's investment.

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CONSOLIDATION OF HIGHER EDUCATION COMMISSIONS AND DECENTRALIZATION OF FINANCIAL AID

The Governor proposes consolidating two state higher education commissions and decentralizing financial aid administration. Below, we recommend that the Legislature accept two components of the proposal that are directly related to student financial aid—decentralization and placement of oversight activities in the executive branch. In contrast, we advise the Legislature to reject a third part of the proposal—moving higher education coordinating board activities into the executive branch. In our view, this part of the proposal is incomplete and raises important questions that are left unaddressed. Finally, we encourage the Legislature to consider a more carefully planned reorganization of higher education support activities, including planning and coordination as well as other oversight functions.

Proposal Contains Three Distinct Initiatives

The Governor's proposal would:

- Decentralize administration of financial aid programs from CSAC to the higher education segments.
- Eliminate CSAC and move its remaining responsibilities to a new executive branch department.
- Eliminate CPEC and move its responsibilities to the same executive branch department.

The first two components are closely related, because decentralization would significantly alter CSAC's responsibilities. On the other hand, because there is minimal overlap between CSAC's and CPEC's activities, the transfer of CPEC's responsibilities is in many ways unrelated to the other two components. Each of the three parts, however, could be implemented independently from the others. For this reason, we address each component separately in our analysis, beginning with decentralization of aid programs. The administration assumes the three components would yield a total of \$2 million in savings in the budget year, growing to \$4 million on a full-year basis.

Proposal Would Decentralize Financial Aid Programs

Public Segments Would Administer Cal Grants. The Governor proposes to decentralize financial aid program administration from CSAC to the higher education segments. Specifically, each of the public segments would administer Cal Grant entitlement awards for students attending its institutions. In addition, the Chancellor's Office of the CCC would administer competitive awards for students at all segments and entitlement awards for students attending private institutions.

Other Programs Could Be Contracted Out. The CSAC administers a number of smaller financial aid and outreach programs in addition to Cal Grants. The Governor's proposal would authorize CSAC's successor agency to contract with the public

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segments to administer the financial aid programs, and with the public segments or a not-for-profit agency to administer the outreach programs.

Authority in Proposed Legislation. Legal authority for decentralization (and other elements of the reorganization) is contained in trailer bill language proposed by the administration. In addition, the Governor's budget includes a new control section (Section 12.25) authorizing the Director of Finance to reallocate and transfer funding from CSAC and CPEC to other organizations as necessary to implement the reorganization.

Annual Savings Estimated at \$2 Million. The decentralization component of the restructuring proposal accounts for about half the savings anticipated by the administration. The Department of Finance (DOF) estimates that approximately 20 CSAC employees are performing tasks that are largely duplicative of work performed in higher education campus financial aid offices. Eliminating these positions, and another 10 support positions (such as accounting, personnel and business services), would save an estimated \$2 million annually.

Proposal Would Eliminate CSAC, Move Responsibilities to Executive Branch

CSAC Composition. The CSAC has 15 members, including 5 representatives of the higher education segments, a high school representative, 2 postsecondary students, and 7 public members. The Senate Rules Committee and Assembly Speaker each appoint two public members. The other 11 members are appointed by the Governor and confirmed by the Senate.

CSAC Responsibilities. The CSAC administers Cal Grants and other state financial aid programs for California students attending colleges, universities, and career training schools in the state. Other duties include reporting on the impact and effectiveness of its programs; reporting on the financial need and resources of students in the state, and the extent to which existing programs meet needs; and disseminating information about financial aid. The commission also serves as the federal student loan guaranty agency for California.

CSAC Resources. The proposed 2009–10 budget for CSAC includes \$731 million from the General Fund, \$18 million in federal funds, and about \$1.5 billion in special funds for student loan operations. The budget includes 134.7 positions, excluding state positions related to EdFund, CSAC's not-for-profit auxiliary organization for administering federal student loan programs.

Proposed Reorganization. The Governor's proposal would establish a new executive branch department to administer financial aid and outreach programs. It would also establish an advisory board, with a composition and appointment process similar to those of the commission—but it would have no formal powers. The Governor would appoint a director and deputy director for the new department. The director would report to the Secretary of Education, and would "give great weight" to the advisory board's recommendations in administering and regulating statutory programs.

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The CSAC's civil service staff would be transferred to the new department and the CCC Chancellor's Office. The director would contract with the Office of State Audits and Evaluations of the DOF for compliance audits of financial aid programs. The administration estimates that the reorganization would lead to the elimination of 30 positions between CSAC and CPEC from administrative efficiencies (in addition to the 30 positions described above related to financial aid decentralization.)

Proposal Would Eliminate CPEC, Move Responsibilities to Executive Branch

CPEC Composition. The CPEC governing board has 16 members, including representatives of the state's major educational systems (the three public segments, independent institutions, and the State Department of Education), 2 student members, and 9 public members. The public higher education segments designate their respective members. The Governor appoints the independent institution representative, the students, and three public members. The Assembly Speaker and Senate Rules Committee each appoint three public members. The President of the State Board of Education is an ex-officio member.

CPEC Responsibilities. The commission is the state's higher education planning and coordinating body. Its statutory duties include long-range planning for higher education across segments; participating in the executive and legislative budget processes; advising the Legislature and the Governor on proposals for new campuses, institutions, and programs of public higher education and for changes in eligibility pools for the public segments; acting as a clearinghouse for postsecondary education information and data in the state; and developing criteria to evaluate the effectiveness of higher education programs. The commission also administers a federal grant program to improve teacher quality.

CPEC Resources. The proposed 2009–10 budget for CPEC includes \$2 million from the General Fund and \$9 million in federal funds (mostly for grants to institutions). The budget includes 20.8 authorized positions.

Proposed Reorganization. The Governor's proposal would transfer CPEC's functions to the new executive branch department described earlier, under the supervision of the Secretary of Education. The advisory board would provide recommendations to the department director (and to the Governor, Legislature, other governmental officials, and institutions of postsecondary education), but would have no direct authority to perform policy analysis, planning, or coordination of higher education independent from the executive branch.

While transferring all statutory responsibilities of CPEC, the proposed trailer bill instructs the director to prioritize the essential functions (although these functions are not defined). It authorizes the director to contract with the CCC Chancellor's Office for data management and collection as necessary to facilitate accountability, planning, and policy development.

The three components of the Governor's restructuring proposal would provide about \$2 million in budgetary savings in 2009–10. In addition, some elements of the proposal

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would improve state services and responsiveness to students. In the next sections, we discuss the merits of each proposal on policy grounds and offer our recommendations.

Decentralizing Financial Aid

Campuses Provide Most Aid. Most student financial aid is awarded to students through campus financial aid offices based on a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA). The federal Department of Education uses information from the FAFSA (including family income and assets, and number of children in college) to determine the expected family contribution (EFC). Campus financial aid officers use the EFC, in conjunction with information about the costs of attending their institutions—including books and living expenses—to determine each student's financial need. They then "package" various types of financial aid to meet as much of the financial need as possible.

Campus financial aid officers make awards for most categories of need-based gift aid. They award Pell grants based on federal eligibility criteria, and invoice the federal government for just-in-time payment through electronic funds transfer. They award institutional funds, following campus or system policies and guidelines. The main exception is Cal Grants. Financial aid officers can estimate the amount of funding students are likely to receive from the Cal Grant entitlement program, but they are not authorized to approve the awards.

Cal Grants Require Many Extra Steps. The CSAC awards Cal Grants from its office in Sacramento. To determine eligibility for awards, CSAC uses information from the FAFSA, as well as a specially defined high school GPA. Most California high schools transmit GPA to CSAC electronically, but about 65,000 high school seniors file paper GPA verification forms to apply for Cal Grants. The CSAC determines eligibility for various types of grants, and awards the most advantageous grant to each student. For example, if a student meets the criteria for two types of grants, but would receive more funding over four years with one type, CSAC will award the grant that provides more funds to that student. After requesting supplemental information if needed, CSAC sends award letters (the California Aid Report, or CAR) to students by e-mail, offering the Cal Grant awards. To release awards, CSAC requires verification of high school graduation, which can be supplied by high schools or students. The actual payment of Cal Grants is made through the campuses. The campus financial aid offices confirm student enrollment and verify eligibility, and CSAC pays the campus for each eligible student. Campuses use the funds to pay the students' fees, and to pay stipends directly to students.

Process Is Fragmented. From the student's perspective, this process is fragmented and often confusing. Students may have to submit information to the CSAC office in addition to their campus financial aid office. They receive correspondence from CSAC, which sometimes duplicates information they have already received from the campus office, and sometimes contradicts it, when the campus communication is based on new information. In addition, a student's contact with the local financial aid office is usually face-to-face, with an individual counselor, whereas communication with CSAC is through a web application, mail, e-mail, or call center. From the campuses'

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perspective, the Cal Grant award process is duplicative and labor-intensive, and often creates additional work for financial aid counselors to resolve conflicting information.

Decentralization Would Improve Service Delivery to Students.

Decentralization would improve delivery of Cal Grant awards to students by giving them a single point of contact—the campus financial aid office—for most financial aid matters. It would also streamline activities for campus financial aid offices.

Decentralization Could Increase Some Costs for Segments... Campus financial aid offices are already performing most of the tasks required to identify eligible students and make grant awards. They have systems in place to estimate Cal Grant eligibility as part of their financial aid packaging. They are also responsible for verifying student eligibility before disbursing grants. In some areas, decentralization will reduce the workload of financial aid offices and reduce administration costs.

There are some tasks, however, that could create new costs for the campuses. Currently, CSAC collects verification of GPA and high school graduation centrally. Many high schools transmit the required data electronically for all students. Some, however, do not have the capacity to transmit the data, and must provide it manually or leave it up to students to submit. Students are ultimately responsible for ensuring that their information is submitted. The CSAC keeps track of submissions, and notifies students of missing or incomplete information. Most campus financial aid offices (and segment offices) do not have systems in place to assume tracking of these data, and developing the systems could be costly.

...But Options to Avoid the Higher Costs. Part of the reason it may be costly to develop these systems is that the Cal Grant requirements do not match those for other financial aid or academic programs. For example, the methodology used for calculating the high school GPA for Cal Grant eligibility differs from that used for nearly any other purpose, such as college admissions.

There are several options for reducing compliance costs for the campuses for these requirements. These include:

- Aligning the statutory requirements with similar requirements for federal financial aid programs.
- Eliminating some of the requirements. For example, there is no added value in GPA verification for students attending UC, where the minimum GPA for admission (3.0) matches or exceeds the minimum GPA for Cal Grant eligibility (2.0 to 3.0, depending on the program). Likewise, Cal Grant eligibility criteria include income and asset ceilings, while most programs rely instead on the more comprehensive federal need analysis.
- Leaving some centralized functions with CSAC (whether or not the Legislature restructures the organization).

Some Functions Should Remain at CSAC. The Governor's proposal recognizes that some financial aid functions, such as administering specialized programs and conducting compliance audits, should remain centralized. Another important function is tracking remaining eligibility for students. Because Cal Grants are portable, and can be

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moved from one institution to another, students may use a portion of their eligibility at several different institutions. Currently, CSAC tracks utilization, and campus financial aid offices—as well as grant recipients—can access this information on a web-based system. To maintain portability of Cal Grants and ensure that students do not exceed their maximum utilization periods, it would be important to maintain centralized tracking of utilization and remaining eligibility.

Funding Distribution Can Be Improved. Under the administration's proposal, Cal Grant funds would be appropriated to the public higher education segments—and to the CCC Chancellor's Office for private institutions and competitive awards—based on current utilization patterns. (The Director of Finance could transfer unexpended funds among institutions.) The system offices would have to establish methods to distribute the grants to their campuses. While this model could accomplish some of the goals of decentralization, we believe there are important advantages to the federal aid distribution model. In that model, campuses make awards to students, and the federal government promptly transfers funds to the campuses based on invoices for approved awards. This process bypasses the system offices, and avoids extensive payment and reconciliation cycles required under the current Cal Grant model. It would keep General Fund cash in the State Treasury until it is needed, and minimize overpayments and underpayments to the campuses. Another benefit of this model is that it would maintain a clearer distinction between state Cal Grant funds and institutional aid funds. It would also facilitate tracking of individual student utilization and remaining eligibility across institutions. Implementation of such a system, however, could take a year or more.

Competitive and Private Grants Should Be Centralized. Finally, the administration did not provide a rationale for its proposal to administer competitive and private college grants through the CCC Chancellor's Office. This proposal appears to acknowledge that these functions should be performed centrally (and there are good reasons for this), but fails to explain why these duties should not remain with CSAC or its successor organization. Administration of financial aid programs for non-CCC students is not within the CCC mission. The administration's proposal already leaves the smaller, specialized grant and loan programs within the purview of CSAC's successor organization, ensuring that it will still be involved in administering financial aid.

Recommend Legislature Decentralize Cal Grant Award Process. Our recommendations mirror several of the recommendations from a 2002 task force report on decentralization. We recommend that the Legislature approve the Governor's proposal to decentralize Cal Grant administration, with some modifications.

- Permit campus financial aid offices to approve Cal Grant entitlement awards for eligible students.
- Establish a just-in-time funding model for Cal Grants parallel to the federal grant distribution model.
- Maintain several functions in CSAC or its successor organization, including tracking of utilization and remaining eligibility, administration of competitive and private college grants, and administration of specialized aid programs. Do not transfer statewide functions unrelated to community college students to the CCC Chancellor's office.

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- Consider statutory changes in requirements for Cal Grants to streamline administration of awards while preserving the intent of the financial aid programs. These could include changes to the GPA verification requirement and income and asset ceilings.

Restructuring CSAC

Although we have some specific concerns about the Governor's reorganization proposal for CSAC, we think it makes sense to move the commission's duties into an executive branch department. Most of CSAC's functions are ministerial and could appropriately be performed in an executive branch department. In addition, eliminating the independent governing board that oversees financial aid administration could resolve longstanding conflicts between it and the board of CSAC's auxiliary organization.

Program Implementation Is Executive Responsibility. The CSAC's primary responsibility is to administer programs governed by statute. While it also recommends changes to financial aid programs, most of its attention has been focused on program implementation and organizational issues, rather than policy matters. Such implementation of laws is fundamentally a responsibility of the executive branch.

Independent governing boards are useful when there is a need to protect an agency's work from undue political influence, or when the primary audience for an agency's work products includes both the legislative and executive branches, as well as the public. For CSAC, the risk of undue political influence is minimal because it administers programs that are governed by eligibility standards established in statute and detailed in regulations. Moreover, the agency's main customers are students and higher education institutions, not the Governor or Legislature. For these reasons, it is not necessary for CSAC to have an independent governing board, and it could appropriately be constituted as an executive branch department. The placement of the department under the Secretary of Education, however, is problematic. The secretary's office does not exist in state law and has not managed programs or regulatory activities.

In addition, the name and structure proposed by the administration are confusing, at best. Proposed trailer bill language would give the same name—The Higher Education Accountability and Financial Aid Advisory Committee—to both the advisory board and the executive branch department that administers programs. It would be more accurate—and less confusing—to give the administering department a more descriptive title, such as *Department of Financial Aid Administration*, that is different from that of the advisory board.

The advisory board itself would have no formal powers. It would be up to the director, who is answerable to the Governor and not bound by the recommendations of the advisory board, to carry out the department's functions. This brings into question why a strictly advisory body with no actual authority should be statutorily created. Instead, it would be a better management practice for the director to regularly convene one or more advisory panels representing the higher education segments and other stakeholders for regular consultation about entity activities. If it wishes to ensure that this takes place, the Legislature could require the director to convene and consult with such panels. This could be done without creating a formal advisory board in statute.

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Restructuring Could Eliminate Conflict With EdFund. As noted earlier, EdFund is an auxiliary organization through which CSAC administers federal guaranteed loan programs in partnership with the US Department of Education. EdFund is a nonprofit, public benefit corporation, and is exempt from state hiring and procurement rules so it can compete in the financial services industry. It remains, however, under the ultimate control of CSAC, which appoints the members of its board of directors.

EdFund's twelve-year history has been marked by repeated conflicts between its board of directors and the Student Aid Commission. Underlying conflict may be inherent in a structure that includes two governing bodies with overlapping responsibilities working in two very different operating environments. Tensions may also result from differences in resources between the two organizations. EdFund generates considerable revenues from its loan activities and is able to provide executive compensation and employee rewards that are competitive in the private-sector financial services industry, while CSAC operates under the constraints of state budgets and stricter rules governing use of public funds.

On three occasions, CSAC has voted to remove the EdFund Board of Directors. In March 1999, the commission replaced all but one board member. In April 2005, CSAC removed the non-commission members from the board. In fall 2008, CSAC voted to remove the entire board and assume direct oversight of EdFund activities.

These conflicts have created tensions between the Governor's staff and CSAC. The DOF has been called upon to mediate numerous disputes between CSAC and EdFund. The Director of Finance, who has approval authority for decisions that may affect the value of EdFund (see box below), refused to approve CSAC's 2008 decision to dismiss the EdFund Board. Following the commission's fall 2008 action, the Governor removed the Chair of CSAC, who had not yet been confirmed by the Senate.

Tensions between CSAC and EdFund may be a short-term problem. As described in the nearby box, the state is attempting to sell or otherwise dispose of EdFund. The success of these efforts, however, is highly uncertain in the current credit market. In addition, changes to loan programs under the new federal administration are likely to further depress EdFund's value. It is possible, therefore, that the state will remain responsible for EdFund for the foreseeable future.

The proposed restructuring of CSAC could put an end to the ongoing conflict between the two organizations. It would eliminate one of the governing boards (CSAC), and replace it with an agency under executive branch control. The appointed advisory board, because it is only advisory, would not have authority over EdFund.

Accept Most Elements of Proposal to Restructure Student Aid Commission. The CSAC restructuring would appropriately place financial aid oversight in the executive branch, and would solve longstanding problems in CSAC's relationship with EdFund. Some elements, however, are unnecessarily confusing and potentially misleading. For these reasons, we recommend the following:

- Approve the transfer of CSAC's responsibilities to a new department in the executive branch.

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- Reject Governor's proposal to create a statutory advisory body. Instead, require the director of the new department to convene one or more advisory panels representing the higher education segments and other stakeholders for regular consultation about agency activities.

Restructuring CPEC

Growing Problems With CPEC. In recent years, there have been increasing concerns about CPEC's ability to effectively perform its responsibilities. In a 2003 white paper on this topic commissioned by the Legislature, a working group (convened by our office) identified three reasons for this.

- The scope of CPEC's statutory responsibilities is varied and broad.
- The CPEC's responsibilities are not matched to its resources.
- A tension exists between CPEC's coordination/advocacy responsibilities and its role as an independent fiscal and policy watchdog.

Other factors, such as the composition of the commission, may also contribute to its underperformance.

Recent Attempts to Change CPEC. Reflecting these concerns, support for CPEC has been declining among policymakers. In 2002–03, Governor Gray Davis' May Revision budget proposal sought to eliminate nearly all funding for CPEC. The Legislature rejected the proposal, but reduced CPEC's funding by one-third. In 2005, the Governor supported the California Performance Review proposal to eliminate CPEC and merge its functions into an executive office. In 2008, Senate amendments to the proposed budget would have begun a phase-out of the organization over three years.

Consolidation Could Create Conflict of Interest. The Student Aid Commission and Postsecondary Education Commission perform different types of functions. The CSAC is primarily an administrative body that implements policies and programs established in statute. The CPEC, in contrast, is a policy board. The majority of its attention is focused on collecting and reporting data and preparing policy reports and briefs. It also has programmatic duties, including (1) administering a federal grant program and (2) reviewing and making recommendations on new higher education programs, campuses, and sites. It is expected to base its recommendations on an analysis of how best to achieve the state's policy objectives for higher education, underscoring the importance of the policy analysis role.

If the functions of CSAC and CPEC were consolidated into a single organization, there could be a perceived conflict of interest in at least some of CPEC's analytical work. For example, readers might wonder whether a recommendation to expand a financial aid program is motivated by the results of objective analysis or by an interest in expanding the scope of the organization. This could further diminish the credibility of CPEC's policy analysis.

Policy Analysis Role Requires Independence. As noted earlier, an independent governing board is useful when there is a need to protect an agency's work from undue political influence, or when the primary audience for an agency's work

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products includes both the legislative and executive branches. The CPEC meets both of these conditions. In our view, the interests of the state are best served when the Governor and Legislature can base their policy decisions on rigorous, unbiased analysis supported by thorough research and accurate data. If higher education policy analysis were conducted in an agency under executive control, the Legislature could reasonably be concerned about partisan or ideological bias. This could intensify existing concerns about the quality of CPEC's work products. Furthermore, a policy body in the executive hierarchy would not be free to critically appraise the administration's budget and policy proposals, further diminishing its usefulness to the Legislature.

Different Changes Could Improve Effectiveness. *In order to maintain policy independence, we recommend the Legislature reject the Governor's CPEC consolidation proposal.* In contrast to the Governor's proposal, other changes could preserve CPEC's independence and address specific problems and concerns about the agency's performance. Changes in structure and duties, for example, could address deficiencies identified in the 2003 white paper cited earlier.

- ***Setting Priorities.*** Recent legislation addresses some of these concerns. Chapter 514, Statutes of 2008 (SB 361, Scott), directs CPEC to give priority to campus and program reviews and recommendations, implementation of federal programs, and data management responsibilities when all functions and tasks cannot be performed within budgeted resources. The Governor's consolidation proposal also somewhat addresses these concerns, by instructing the director to prioritize functions to the most essential activities. In our opinion, the most important role for the organization is to protect the public's interests through oversight—including critical analysis of proposals from the segments, the administration, and the Legislature.
- ***Changing Member Composition.*** Changes in the composition of CPEC could also improve its effectiveness. As our 2003 white paper observed, the current composition of the commission is designed to facilitate planning and coordination by including segmental representatives. It is also designed to promote independence by including a majority of public representatives. These two factors can be at odds with each other, making it difficult for the commission to arrive at independent analysis and recommendations. Emphasizing the commission's watchdog role would require emphasizing public and independent members.
- ***Changing Leadership.*** Finally, an upcoming leadership change at CPEC (the current director is retiring) could provide an opportunity for the Governor and Legislature to focus the Commission on those functions most useful in advancing the state's higher education priorities.

Bureau for Private Postsecondary And Vocational Education (BPPVE)

The administration's proposal for restructuring higher education support functions does not encompass regulation of private postsecondary and vocational schools. The Governor's proposal, however, provides an opportunity for the Legislature to consider a broader reform that could include this function.

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Institutions Not Currently Regulated. Historically, BPPVE has had regulatory oversight of private postsecondary institutions operating in California. (These are for-profit entities providing postsecondary educational services that, in most cases, are not accredited by the Western Association of Schools and Colleges.) The legal authority for BPPVE's regulatory activities expired in mid-2007, and a subsequent voluntary agreement expired in mid-2008. As a result, private postsecondary institutions are currently operating in an unregulated environment.

Regulation Remains Important. Private postsecondary institutions are an important part of California's broader system of higher education, especially in the area of career technical education and training. Most private institutions are legitimate and reputable, but a few make misleading or fraudulent claims and take advantage of students who may not know how to evaluate their quality. The Legislature created the BPPVE 20 years ago in response to concerns that the state was rapidly developing a reputation as the home of many of these "diploma mills."

Options for a New Framework. Should the Legislature approve a new regulatory framework for these institutions, it may wish to reconsider where best to place the regulatory functions. Currently, the bureau is in the Department of Consumer Affairs, emphasizing the consumer protection aspect of private postsecondary school regulation. Placing it in a higher education agency could instead highlight the role of private postsecondary institutions in the state's system of higher education. In addition, there may be some overlap between the audit and data management activities required to regulate private postsecondary schools and similar activities required to monitor implementation of financial aid programs at public and private institutions (including many private postsecondary schools). For these reasons, the Legislature may wish to consider consolidating the functions of BPPVE with those of CSAC.

Summary of Approach to Reorganization

As summarized in Figure 21, we recommend that the Legislature accept with modifications some elements of the Governor's higher education restructuring proposal, and reject others. Specifically, we recommend decentralizing Cal Grants, while maintaining some centralized roles, and moving the functions of CSAC into an executive branch agency without creating a statutory advisory committee. In addition, we recommend that the Legislature reject the Governor's proposed consolidation of CPEC, and instead consider other reforms to the state's higher education planning and coordination board. Finally, we encourage the Legislature to consider consolidating regulation of private postsecondary institutions with other higher education oversight functions.

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<p>Figure 21 LAO Recommendations on Consolidation of Higher Education Commissions and Decentralization of Financial Aid</p>
<p>Approve With Modifications Proposal to Decentralize Financial Aid Administration.</p>
<p>Permit campus financial aid offices to approve Cal Grant entitlement awards for eligible students.</p>
<p>Establish a just-in-time funding model for Cal Grants parallel to the federal grant distribution model.</p>
<p>Maintain several functions in California Student Aid Commission (CSAC) or its successor organization, including tracking of utilization and remaining eligibility, administration of competitive and private college grants, and administration of specialized aid programs.</p>
<p>Consider statutory changes in requirements for Cal Grants to streamline administration of awards while preserving the intent of the financial aid programs.</p>
<p>Accept Most Elements of Proposal to Restructure Student Aid Commission.</p>
<p>Approve the transfer of CSAC’s financial aid administration responsibilities to a new department in the executive branch.</p>
<p>Reject Governor’s proposal to create a statutory advisory body. Instead, require the director of the new department to convene one or more advisory panels for regular consultation about agency activities.</p>
<p>Reject Proposal to Restructure Postsecondary Education Commission, and Instead Consider Other Reforms.</p>
<p>Reject the Governor’s proposed transfer of California Postsecondary Education Commission’s responsibilities to the executive branch.</p>
<p>Consider other reforms designed to address persistent concerns and improve the effectiveness of the organization. These could include setting priorities and changing the governing board composition.</p>
<p>Consider consolidating the functions of the Bureau of Private Postsecondary and Vocational Education with those of CSAC within the executive branch.</p>