

Information/Action Item

California Student Aid Commission

Update on the 2012-13 Budget

Our 2012-13 budget was finalized with Governor Brown's signing of two budget bills, Assembly Bills (AB) 1464 and 1497, and the education trailer bill, Senate Bill (SB) 1016. Charts showing our final budget are included in Tabs 8.a and 8.b. A summary of the major changes affecting our budget and programs is provided below.

Cal Grant Program

The Governor's proposals to reduce the Cal Grant Program by raising the minimum Grade Point Average requirements and tying Cal Grant award levels to the Federal Pell Grant award levels were rejected by the Legislature. However, with the enactment of the budget bills and the education trailer bill, three significant changes were made to the Cal Grant Program. Two of these changes resulted in a \$77.6 million reduction in the Cal Grant Program funding.

1. Reduction in Cal Grant award amounts (\$22.6 million reduction)

The Cal Grant award amounts were reduced by 5 percent as noted in the Governor's veto message in AB 1497:

I am reducing this item by \$22,600,000 and amending subsections which establish the maximum Cal Grant awards. The amounts of these awards are statutorily required to be in the Budget. Specifically, I am reducing the private institution award from \$9,708 to \$9,223, the independent institution award from \$9,708 to \$9,223, the Cal Grant B access award from \$1,551 to \$1,473, the Cal Grant C tuition and fee award from \$2,592 to \$2,462, and the Cal Grant C book and supply award from \$576 to \$547. Each of these represent a 5-percent reduction. This action is necessary to align ongoing program expenditures with existing resources. This action will not eliminate eligibility for any Cal Grant student.

As shown in Tab 8.c, we've estimated that over 180,000 students are affected by the 5 percent reduction in Cal Grant awards.

SB 1016 makes further reductions in Cal Grant award amounts for the non-public institutions beginning in 2013-14:

- New Cal Grant A and B maximum award amounts for students attending for-profit institutions will be reduced from \$9,223 to \$4,000 beginning in 2013-14. Renewal students will continue to receive the maximum award that was in effect for the year in which they were initially awarded (e.g. students attending an

eligible for-profit school in 2012-13 will receive a Cal Grant maximum award of \$9,223, and their awards will remain at \$9,223 when they renew in 2013-14. However, students initially awarded in 2013-14 will receive a maximum award of \$4,000, and their awards will remain at \$4,000 when they renew in 2014-15 and following.)

- New Cal Grant A and B maximum award amounts for students attending private non-profit institutions will be reduced to \$9,084 in 2013-14 and further to \$8,056 beginning in 2014-15. The same renewal provision regarding the maximum award that was in effect for the year in which the student was first awarded a Cal Grant also pertains to these awards.
- An exception allows for students attending eligible for-profit institutions that are accredited by the Western Association of Schools and Colleges as of July 1, 2012 to have the same maximum Cal Grant award as students attending private, non-profit institutions.

2. Institutional Eligibility (\$55 million reduction)

Under SB 1016, institutional eligibility requirements for the Cal Grant Program became more stringent by lowering the Cohort Default Rate (CDR) and adding a graduation rate requirement.

In 2011-12, Senate Bill (SB) 70 established a three-year CDR of less than 24.6 percent for institutional eligibility for the Cal Grant Program. Per SB 70, the three-year CDR would be changed to less than 30 percent beginning in 2012-13. The Governor proposed setting the three-year CDR at less than 15 percent beginning in 2012-13. The Legislature ultimately set the three-year CDR at less than 15.5 percent beginning in 2012-13.

The Legislature established a new institutional eligibility for the Cal Grant Program beginning in 2012-13 that requires a Cal Grant participating institutions to have a graduation rate greater than 30%, as reported by the U.S. Department of Education, for students taking 150% or less of the expected time to complete degree requirements.

Institutions who don't meet the CDR and graduation requirements are ineligible for new Cal Grant awards. Renewal students continuing their attendance at an ineligible institution may continue to receive their Cal Grant award, but the maximum award amount is reduced 20 percent. However, beginning in 2013-14 and thereafter, students at ineligible institutions may not renew their Cal Grants at ineligible institutions. The Cal Grant students must transfer to eligible institutions in order to utilize their Cal Grants. An exception to the graduation rate requirement allows institutions with a three-year CDR less than 10% and a graduation rate greater than 20% (but less than 30%), to remain eligible for new and renewal Cal Grants through the 2016-17 academic year.

We are also required to send notifications to students affected by these new institutional eligibility requirements and provide the students with a list of institutions at which the students would be eligible to receive an unreduced Cal Grant award.

The lists of eligible and ineligible Cal Grant institutions are available on the Commission's website at www.csac.ca.gov.

As Tab 8.d indicates, we estimate that nearly 11,000 new and renewal students and 154 institutions are affected by the new CDR and graduation requirements.

3. Student Eligibility

Renewal requirements

SB 70 also included new income and asset ceilings and a minimum financial need for renewal students, all of which previously applied only to initial Cal Grant recipients. As a result, over 16,000 renewal recipients were withdrawn for not meeting the renewal financial eligibility requirements in 2011-12. Soon after receiving notices that they were withdrawn, we began to receive appeal letters from a distinct group of recipients withdrawn for not meeting the Cal Grant B income ceilings. These Cal Grant B recipients felt they were unfairly withdrawn.

Some students who first apply for a Cal Grant meet the higher Cal Grant A minimum GPA requirement of 3.0 and the lower Cal Grant B income ceilings, so they are eligible for either award. Students typically receive a Cal Grant A or B based on the total award to be received over a four-year period. Once a payment is processed, recipients continue to be paid from that award. Approximately 4,800 of the students withdrawn for not meeting the Cal Grant B renewal income ceilings, were initially eligible for either award and would not have been withdrawn if using the Cal Grant A renewal income ceilings (which are higher than the Cal Grant B income ceilings).

These students and the Legislature felt a sense of injustice occurred. Members of the Legislature contacted us to indicate they wanted to reverse course and allow these students to maintain a Cal Grant award. The Department of Finance indicated that they were not opposed to allowing these students to remain in the program and switch their award to Cal Grant A, provided they (1) were initially eligible for both the Cal Grant A and B; (2) were withdrawn due to the SB 70 financial eligibility requirements; and (3) met the Cal Grant A renewal financial eligibility requirements.

Approximately 4,800 of the Cal Grant B recipients who were withdrawn in 2011-12 due to the new renewal income ceiling requirement were subsequently reinstated as Cal Grant A recipients under the conditions noted above. This practice was codified in SB 1016.

California Community College Transfer Entitlement eligibility requirements

The Governor's January Proposed Budget elevated the issue of the Commission's new policy for awarding Transfer Entitlement Cal Grant awards to allow otherwise eligible students to qualify for these awards without having attended a community college within the academic year before the award year to the legislative arena and expanded it into a budget issue. Prior to this policy change, our practice was to limit eligibility to those students who had attended a community college in the prior academic year. Under the provisions of SB 1016, our prior practice became law with the exception that otherwise eligible students who attended a community college in 2011-12 may use their Transfer Entitlement awards for the 2012-13 and the 2013-14 academic years.

Loan Assumption Programs

The Governor proposed to phase out the Commission's loan assumption programs for teachers and nurses including the Assumption Program of Loans for Education (APLE), Graduate Assumption Program of Loans for Education (Grad APLE), and State Nursing Assumption Program of Loans for Education for Nursing Faculty (SNAPLE NF). This proposal would have affected approximately 2,600 teachers, 70 nurses and over 14,000 students still working on obtaining appropriate credentials. The Governor's proposal would have eliminated the ability to offer new awards in these programs, and loan assumption payments to any recipient who had not already received their first year of benefits. This would have meant that those recipients who had provided their first qualifying year of service in 2011-12 would not receive a loan assumption payment in 2012-13. The Legislature only agreed to eliminate the ability to offer new awards in these programs in 2012-13.

Fund shift

The 2012-13 budget includes \$803,754,000 in federal Temporary Assistance for Needy Families (TANF) reimbursements from the Department of Social Services to offset General Fund costs of the Cal Grant Program. TANF funds can be used for Cal Grant recipients who are age 25 or younger and have an annual parental/student income at or below \$50,000. Additional information regarding the transfer of TANF funds is included in Tab 10 of this agenda.

Tax initiative and Tuition/fees

The 2012-13 budget also assumes the passage of the Governor's proposed tax initiative at the November election, temporarily increasing the personal income tax on the state's wealthiest taxpayers and increasing the sales tax. As part of a backup plan if the tax initiative fails, \$6 billion in cuts affecting higher education and public safety will go into effect in January 2013. This would include cuts to both the University of California (UC) and the California State University (CSU) of \$250 million each. UC did not raise fees for 2012-13, but will consider doing so if the tax initiative fails. CSU has already increased tuition/fees for 2012-13 and may opt to increase them again in January if the tax initiative fails.

Assembly Bill 1502 adds another incentive for passing the tax initiative. If the tax initiative passes and UC and CSU agree to maintain tuition/fees at the 2011-12 level in 2012-13, they will each receive \$125 million in 2013-14.

Commission Operations

Additional Resources

Included in our budget are the additional resources we requested through the Budget Change Proposal process. These resources include:

- \$746,000 and 4 positions for the development and implementation of the California Dream Act Application per Assembly Bill 131 (Chapter 604, Statutes of 2011) and
- \$46,000 and ½ position to modify its Cal Grant C selection process to give priority to students pursuing occupational or technical training in areas with high need, high growth and/or high wages per Senate Bill 451 (Chapter 627, Statutes of 2011).

Commission Policy Decisions

AB 1497 also includes the stipulation that the Commission shall not implement any change in policy or practice that would have an annualized fiscal effect exceeding \$5 million for its financial aid programs unless the change is first approved by the Director of Finance and written notification is provided by the Director of Finance to the Chairperson of the Joint Legislative Budget Committee, and the chairpersons of the fiscal committees of each house of the Legislature, not less than 30 days prior to the effective date of the approval. Each notification shall explain the necessity and rationale for the proposed change in policy or practice and identify the fiscal effect of the proposed change in the current fiscal year and subsequent fiscal years. Additional language states that it is the intent of the Legislature not to affect the entitlement aspect of the Cal Grant program through this provision.

Responsible Person(s): Janet McDuffie, Chief
Administration & External Affairs Division

**CALIFORNIA STUDENT AID COMMISSION
2012-13 PROGRAM (LOCAL ASSISTANCE) BUDGET
Budget Act
(\$ in millions)**

PROGRAM	2011-12	2012-13		
	Budget ^{1/}	Governor's Proposed Budget (May Revise)	Adjustments ^{2/}	Final Budget
Cal Grants				
Entitlement	\$1,377.8	\$1,497.8	(\$42.6)	\$1,455.2
Competitive	\$129.5	\$134.4	(\$30.6)	\$103.8
Cal Grant C	\$9.0	\$9.8	(\$4.4)	\$5.4
Subtotal Cal Grants	\$1,516.3	\$1,642.0	(\$77.6)	\$1,564.4
Other Programs				
APPLE	\$28.7	\$23.5	\$5.6	\$29.1
CAL-SOAP	\$7.3	\$7.3	\$0.0	\$7.3
Chafee Foster Youth	\$11.1	\$11.1	\$0.0	\$11.1
Grad APPLE	\$0.1	\$0.2	\$0.0	\$0.2
Child Development	\$0.3	\$0.3	\$0.0	\$0.3
Law Enforcement	\$0.1	\$0.1	\$0.0	\$0.1
SNAPLE - NF	\$0.5	\$0.7	\$0.0	\$0.7
CNG EAAP	\$2.5	\$2.5	\$0.0	\$2.5
Cash for College	\$0.2	\$0.2	\$0.0	\$0.2
John R. Justice	\$0.8	\$0.1	\$0.0	\$0.1
Subtotal Other Programs	\$51.6	\$46.0	\$5.6	\$51.6
TOTAL LOCAL ASSISTANCE	\$1,567.9	\$1,688.0	(\$72.0)	\$1,616.0

PROGRAM	2011-12	2012-13		
	Budget ^{1/}	Governor's Proposed Budget (May Revise)	Adjustments ^{2/}	Final Budget
Cal Grants				
General Fund	\$1,454.0	\$778.3	(\$102.3)	\$676.0
Student Loan Operating Fund	\$62.3	\$60.0	\$24.7	\$84.7
Federal Trust Fund	\$0.0	\$0.0	\$0.0	\$0.0
Reimbursement	\$0.0	\$803.7	\$0.0	\$803.7
Other Programs				
General Fund	\$22.1	\$17.2	\$5.6	\$22.8
Student Loan Operating Fund	\$0.0	\$0.0	\$0.0	\$0.0
Federal Trust Fund	\$14.8	\$14.8	\$0.0	\$14.8
Reimbursement	\$14.7	\$14.0	\$0.0	\$14.0
All Programs				
General Fund	\$1,476.1	\$795.5	(\$96.7)	\$698.8
Student Loan Operating Fund	\$62.3	\$60.0	\$24.7	\$84.7
Federal Trust Fund	\$14.8	\$14.8	\$0.0	\$14.8
Reimbursement	\$14.7	\$817.7	\$0.0	\$817.7

^{1/} 2011-12 Budget includes the revised projections assumed in the Governor's 2012-13 May Revision

^{2/} 2012-13 Adjustments include reductions associated with the implementation of the Cohort Default and Graduation Rates (\$55 million) for institutional eligibility in the Cal Grant Program along with the Governor's veto to reduce Cal Grant award amounts by 5% (\$22.6 million)

CALIFORNIA STUDENT AID COMMISSION
2012-13 STATE OPERATIONS BUDGET
Budget
(\$ in thousands)

	2011-12			2012-13
	Budget Act	Adjustments	Final Budget	Budget Act
Personal Services	\$8,903	\$15	\$8,918	\$9,413
Operating Expenses	\$2,230	(\$482)	\$1,748	\$2,137
TOTAL	\$11,133	(\$467)	\$10,666	\$11,550
Funding Sources:				
General Fund	\$10,242	(\$307)	\$9,935	\$10,870
Federal Trust Fund (Cash for College)	\$263	(\$5)	\$258	\$259
Reimbursements ^{1/}	\$628	(\$155)	\$473	\$421
TOTAL	\$11,133	(\$467)	\$10,666	\$11,550

	2011-12			2012-13
	Budget Act	Adjustments	Final Budget	Budget Act
Authorized Positions				
Permanent	108.5	0.0	108.5	107.5
Temporary Help	2.2	0.0	2.2	2.2
TOTAL	110.7	0.0	110.7	109.7

^{1/} Reimbursements through interagency agreements with:

- CA Department of Education for the Child Development Program
- CA Department of Social Services for the Chafee Program
- CA Military Department for the National Guard Education Assistance Award Program
- CalEMA for the John R. Justice Program

Major Adjustments

2011-12

- \$19,000 decrease due to cell phone reductions executive order B-1-11
- \$308,000 decrease due to statewide General Fund appropriations reductions per Budget Act Section 3.91
- \$128,000 decrease due to reduction for employee compensation adjustment per Budget Act Section 3.90
- \$148,000 increase for retirement and health benefits

2012-13

- Reflects approved Budget Change Proposals (BCP):
 - \$746,000 and 4 positions for the California Dream Act Application per AB 131
 - \$46,000 and 1/2 a position for the Cal Grant C Occupational/Technical Training per SB 451
- Net decrease of 1 position from the prior year as a result of an elimination of 5.5 vacant positions and an increase of 4.5 positions for the approved BCPs

**California Student Aid Commission
Cal Grant Program
Estimated 2012-13 Paid Recipients
Affected by the 2012-13 State Budget
Reducing the Cal Grant Award Amounts by 5 Percent**

<p>Recipients attending private for-profit institutions with awards reduced from \$9,708 to \$9,223</p>
<p><i>8,200 recipients</i> <i>100% (8,200) at for-profit private career colleges (PCC)</i> <i>16% (1,300) new recipients and 84% (6,900) renewal recipients</i></p>
<p>Recipients attending non-profit independent institutions with awards reduced from \$9,708 to \$9,223</p>
<p><i>25,800 recipients</i> <i>100% (25,800) at non-profit independent colleges and universities (ICU)</i> <i>28% (7,200) new recipients and 72% (18,600) renewal recipients</i></p>
<p>Recipients receiving Cal Grant B access awards reduced from \$1,551 to \$1,473</p>
<p><i>154,600 recipients</i> <i>45% (70,000) at CCC; 8% (12,200) at UC; 38% (58,800) at CSU; 5% (7,300) at ICU; 4% (6,300) at PCC</i> <i>39% (60,700) new recipients, 61% (93,900) renewal recipients</i></p>
<p>Recipients receiving Cal Grant C tuition and fee awards reduced from \$2,592 to \$2,462</p>
<p><i>1,560 recipients</i> <i>11% (170) at ICU; 89% (1,390) at PCC</i> <i>48% (751) new recipients and 52% (810) renewal recipients</i></p>
<p>Recipients receiving Cal Grant C book and supply awards reduced from \$576 to \$547</p>
<p><i>6,860 recipients</i> <i>77% (5,300) at CCC; 3% (170) at ICU; 20% (1,390) at PCC</i> <i>59% (4,050) new recipients and 41% (2,810) renewal recipients</i></p>

**California Student Aid Commission
Cal Grant Program
Institutions and Recipients Affected by the
2012-13 Cohort Default Rate and Graduation Rate Requirements**

Segment	Institutions			Recipients Likely to be Paid		
	<u>Eligible</u> CDR below 15.5 and Grad Rate above 30.0	<u>Not Eligible</u> CDR at or above 15.5 and/or Grad Rate at or below 30.0	Total Institutions	New	Renewal	Total Recipients
California Community Colleges	115		115			
University of California	10		10			
California State University	23		23			
Independent Colleges and Universities	104	17	121	100	120	220
Private Career Colleges	37	137	174	5,800	4,940	10,740
Total	289	154	443	5,900	5,060	10,960