

Revised Item 7

Information Item

Update on the Governor's 2016 budget

SUMMARY OF THE ISSUE(S):

This item provides a brief update on the 2016 budget.

RECOMMENDATION:

This is an information item with no formal action required by the Commission.

BRIEF HISTORY OF KEY ISSUE(S):

At the September 2015 meeting, the California Student Aid Commission approved the set of Budget Change Proposals (BCP) to be submitted to the Department of Finance.

The Governor's January 2016 Budget Proposal did not include the Commission's submitted BCPs.

At the February 2016 meeting, the Commission voted to prioritize the Grant Delivery System Modernization (GDSM) BCP, which included additional security enhancements, as well as a BCP to enhance customer service capacity in anticipation of the early FAFSA season starting in October 2016.

The Legislative Analyst's Office issued its report: *The 2016-17 Budget: Higher Education Analysis* in February. Item 7.1 provides the portion of the report analyzing the Commission's programs. The full report is accessible at: <http://www.lao.ca.gov/reports/2016/3372/higher-education-022516.pdf>.

ANALYSIS:

CSAC staff continues to meet with the Department of Finance on obtaining approval for the necessary GDSM and customer service BCPs, as well as finalizing 2016-17 program projections, in preparation for the May Revision.

In addition to working with the Department of Finance, CSAC staff continues to work with Budget Committee staff to prepare for hearings which will take place in March and April.

California Student Aid Commission

RESPONSIBLE PERSON(S):

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ATTACHMENT(S):

Attachment 7.1. California Student Aid Commission section from Legislative Analyst Office analysis of the Governor's 2016 budget proposal

inflation. Hastings indicates it intends to hold salaries flat for the remainder of its workforce. This means Hastings' overall salary-related expenditure increases

for 2016-17 total less than 1 percent of its budget (General Fund and tuition combined), notably lower than most standard measures of inflation.

CALIFORNIA STUDENT AID COMMISSION

In this section, we begin with an overview of the Governor's proposed budget for CSAC. We then examine changes in two programs—Cal Grants and Middle Class Scholarships—and make associated recommendations.

Overview

Governor Provides \$2.3 Billion for CSAC in 2016-17. As shown in Figure 23, this reflects a funding increase of \$169 million (8 percent) from the revised current-year level. General Fund support is \$136 million lower and federal

Temporary Assistance for Needy Families (TANF) support is \$305 million higher than the revised current-year level. The largest year-to-year spending increases are for Cal Grants (\$137 million) and Middle Class Scholarships (\$34 million). The Governor anticipates a small reduction (\$3 million) in loan assumption program costs.

Governor Assumes \$50 Million Decrease in 2015-16 Spending. As part of its budget package, the administration revises its estimates of 2015-16 CSAC spending relative to the enacted 2015-16 budget. Most notably, the administration lowers

Figure 23

California Student Aid Commission Budget

(Dollars in Millions)

	2014-15 Actual	2015-16 Revised	2016-17 Proposed	Change From 2015-16	
				Amount	Percent
Expenditures					
Local Assistance					
Cal Grants	\$1,835	\$1,966	\$2,103	\$137	7%
Middle Class Scholarships	62	82	116	34	41
Assumption Program of Loans for Education	19	17	14	-3	-15
Chafee Foster Youth Program	12	12	12	—	—
Student Opportunity and Access Program	7	8	8	—	—
National Guard Education Assistance Awards	2	2	2	—	—
Other programs ^a	1	1	1	— ^b	21
Subtotals	(\$1,939)	(\$2,088)	(\$2,256)	(\$169)	(8%)
State Operations					
Totals	\$13	\$14	\$14	— ^b	— ^b
Funding					
General Fund	\$1,539	\$1,564	\$1,428	-\$136	-9%
Federal Temporary Assistance for Needy Families	377	521	826	305	58
Other ^c	35	17	17	—	—

^a Includes Cash for College, Child Development Teacher/Supervisor Grants, Graduate Assumption Program of Loans for Education, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.

^b Less than \$500,000 or 0.5 percent.

^c Includes College Access Tax Credit Fund, Student Loan Authority Fund, and other federal funds.

its estimate of Cal Grant Costs by \$49 million (discussed further below). The Governor’s budget also lowers its estimate of loan assumption program costs by \$2 million. (These decreases are offset by slight increases in state employee compensation costs.)

Cal Grants

State’s Main Financial Aid Program Is Cal Grants. As shown in Figure 24, the state’s Cal

Grant program has both an entitlement and a competitive component. It also has multiple types of awards. One type of award, Cal Grant A, covers full systemwide tuition and fees at the public universities and up to a fixed dollar amount toward costs at private colleges, while a second type, Cal Grant B, also offers stipends (known as access awards) for students with the lowest household income. A third type, Cal Grant C, provides up to a fixed amount for tuition and fees and other costs for eligible low- and middle-income students enrolled in career technical education programs. A student generally may receive awards for up to four years of full-time study.

CSAC Estimates Cal Grant Caseload Based Largely on Trends in Paid

Recipients. Each fall and spring CSAC estimates the Cal Grant Caseload for the current year and the budget year. For the current-year estimate, CSAC looks at how many awards have been offered to date and then assumes a certain percentage of these awards are paid based on recent paid rates. For the budget-year estimate, CSAC takes the current-year estimate and projects it forward based upon various factors. Most notably, CSAC makes assumptions about the share of new awards converting into

Figure 24	
Cal Grant Award Amounts and Eligibility Criteria	
2015-16	
Award Amounts	
Cal Grant A	Tuition awards for up to four years. Full systemwide tuition and fees (\$12,240) at UC. Full systemwide tuition and fees (\$5,472) at CSU. Fixed amount (\$9,084) at nonprofit or WASC-accredited for-profit colleges. Fixed amount (\$4,000) at other for-profit colleges.
Cal Grant B	Up to \$1,656 toward books and living expenses for up to four years. Tuition coverage comparable to A award for second through fourth years.
Cal Grant C	Up to \$2,462 for tuition and fees for up to two years. Up to \$547 for other costs for up to two years.
Eligibility Criteria^a	
High School Entitlement (A and B)	<ul style="list-style-type: none"> • High school senior or graduated from high school within the last year. • Minimum high school GPA of 3.0 (for A award) or 2.0 (for B award).
Transfer Entitlement (A and B)	<ul style="list-style-type: none"> • CCC student under age 28 transferring to a four-year school. • Minimum college GPA of 2.4.
Competitive (A and B)	<ul style="list-style-type: none"> • Cannot be eligible for entitlement. • Minimum high school GPA of 3.0 (for A award) and 2.0 (for B award). • State law authorizes 25,750 new awards per year.
Competitive (C)	<ul style="list-style-type: none"> • Must be enrolled in career technical education program at least four months long. • No GPA minimum. • State law authorizes 7,761 new awards per year.
^a To be eligible for any award, family assets (excluding primary residences and retirement plans) are capped at \$67,500. A and C awards have an income ceiling of \$87,200 and the B award has an income ceiling of \$45,800. (Income ceiling varies by family size and dependency status. Amounts listed are for dependent students from a family of four entering program in 2015-16.) WASC = Western Association of Schools and Colleges and GPA = grade point average.	

renewal awards and the attrition of existing renewal awards. CSAC also includes the effects of any policy or administrative changes. For instance, CSAC includes the effects of any tuition increases at the public universities as well as any administrative efforts to increase the number of awards that are paid. CSAC then provides its estimates to the Department of Finance for inclusion in the Governor's budget.

Governor Assumes a \$49 Million Decrease in Cal Grant Spending in 2015-16. This a 2 percent decrease compared to the enacted 2015-16 budget. The decrease is concentrated among certain education sectors and certain types of Cal Grant Awards. By sector, the budget assumes a \$37 million decrease for awards at private, for-profit institutions and a \$31 million decrease for awards at CSU. These decreases are partly offset by increases for awards at UC. By type of award, the budget assumes a \$44 million decrease in Cal Grant B awards and a \$12 million decrease in Cal Grant C awards. These decreases are partly offset by estimated increases in Cal Grant A awards.

Governor Proposes a \$137 Million Increase in Cal Grant Spending in 2016-17. As shown in Figure 25, this is a 7 percent increase over the revised 2015-16 level. The increase primarily is associated with higher spending on awards at certain segments (particularly UC and CSU), certain award groups (particularly high school entitlements), and certain types of awards (Cal Grant A and Cal Grant B). A portion of the higher spending at UC (\$4.1 million) is due to UC raising its Student Services Fee by \$54 (5 percent). A portion of the higher high school entitlement costs (\$21 million) is due to recent efforts by the commission to increase the number of awards that are paid. CSAC data also show that \$18 million of the increase occurs among *California Dream Act* students, primarily for high school entitlement

awards. (Though not explicitly factored into CSAC's estimates, we estimate about \$14 million of the increase in competitive award costs is associated with the renewal of 3,250 new competitive awards authorized in the 2015-16 budget.)

Governor to Provide Updated Cal Grant Estimates in May Revision. As part of the May Revision, the administration will provide the Legislature with updated information to determine the appropriate amount to budget for the Cal Grant program in both the current and budget years.

Middle Class Scholarships

State Placed Appropriations in Statute When Program Was Created. The Middle Class Scholarship program took effect starting in 2014-15. The program is being phased in, with awards in 2015-16 set at 50 percent of full award levels, then 75 percent and 100 percent for the following two years, respectively. At the time the program was created, the state scheduled ongoing funding for it in statute. In 2015-16, the state adjusted these statutory appropriations to reflect eligibility changes that it made to the program. Current state law appropriates \$107 million for 2014-15, \$82 million for 2015-16, \$116 million for 2016-17 and \$159 million for 2017-18 and each year thereafter. As part of last spring's May Revision, however, the Governor revised 2014-15 spending to \$62 million.

Governor Proposes No Funding Changes. This means the Governor assumes \$62 million for 2014-15, \$82 million for 2015-16, and \$116 million for 2016-17.

Current Data Suggests 2014-15 Spending Will Come in Lower Than Budgeted. In February 2016, CSAC announced it had finished reconciling expenditures for 2014-15. The commission reported spending \$54.3 million—\$7.7 million less than the amount assumed by the Governor for 2014-15.

Data Also Suggest Lower Spending in 2015-16 and 2016-17. In February 2016, CSAC reported it had spent \$50.1 million to date for 2015-16. (This figure reflects the phase-in of the higher award amount in 2015-16 as well as the effect of the recently enacted asset ceiling for the program.) Though CSAC will not finish reconciling expenditures for 2015-16 until later this fall, the final 2015-16 number likely will not be much different. This is because data for 2014-15 show only a few million dollars variation between the amount CSAC reported spending in February 2015

and the final amount it reported spending in February 2016. This means the Governor's proposed funding levels for 2015-16 and 2016-17 likely overestimate program expenditures by tens of millions of dollars.

Recommend Legislature Require CSAC to Provide Updated Estimates at May Revision.

Specifically, we recommend CSAC provide the most recent data available for 2015-16 on the number of awards and dollars spent, by segment. We also recommend the Legislature direct CSAC to project final expenditures for 2015-16 and 2016-17.

Figure 25
Cal Grant Spending

(Dollars in Millions)

	2014-15 Actual	2015-16 Estimated	2016-17 Projected	Change From 2015-16	
				Amount	Percent
Total Spending	\$1,809	\$1,966	\$2,103	\$137	7%
By Segment:					
University of California	\$824	\$887	\$943	\$56	6%
California State University	594	669	734	65	10
Private nonprofit institutions	241	253	261	9	3
California Community Colleges	122	137	146	9	7
Private for-profit institutions	27	21	19	-2	-11
By Program:					
High School Entitlement	\$1,457	\$1,595	\$1,711	\$116	7%
CCC Transfer Entitlement	221	209	204	-5	-2
Competitive	123	157	184	27	17
Cal Grant C	8	5	4	-1	-18
By Award Type:					
Cal Grant A	\$1,037	\$1,115	\$1,178	\$63	6%
Cal Grant B	764	846	921	75	9
Cal Grant C	8	5	4	-1	-18
By Renewal or New:					
Renewal	\$1,247	\$1,365	\$1,480	\$115	8%
New	562	601	624	22	4
By Funding Source:					
General Fund	\$1,425	\$1,443	\$1,276	-\$167	-12%
Federal TANF	377	521	826	305	58
Student Loan Authority Fund	6	—	—	—	—
College Access Tax Credit Fund	—	2	2	—	—

TANF = Temporary Assistance for Needy Families.