

Information/Action Item

Strategic Policy and Planning Committee

Review of the Cal Grant Competitive Program to consider ways to use all of the 22,500 authorized awards

Background

Under Education Code sections 69437-69437.7, California students who do not receive Cal Grant Entitlement awards may compete for Competitive Cal Grant awards. Unlike Entitlement awards, the number of Competitive awards is limited. Education Code section 69437 authorizes a total of 22,500 new Competitive Cal Grant A and B awards annually, 11,250 of which are available to students who apply by the March 2nd Cal Grant application deadline, and 11,250 of which are available to students who will be enrolled in a California community college and meet the September 2 application deadline.

All Cal Grant applicants who do not receive Entitlement awards are processed through the Competitive award cycle. For award consideration, we currently use a 200-point scoring system to group the applicants into cohorts, based on score. Cohort sizes can reach up to 1,000 and 2,000 applicants.

The Competitive program serves a different population than the Entitlement programs. The Entitlement and Transfer Entitlement programs serve California high school graduates who enroll in college within one year after graduation and students and who are transferring to four-year colleges from community colleges. Conversely, the Competitive program serves a much smaller segment of students, typically identified as non-traditional students. The typical Competitive Cal Grant student is approximately 31 years old, has an annual income of less than \$15,000, and a family size of just over three people. These students are older, independent students, with families, that are trying to balance work, school, and family responsibilities.

The predecessor Cal Grant program was a competitive program, but its limitation was a budgeted dollar amount that the California Student Aid Commission (Commission) could not exceed, not a maximum number of awards. When the current Cal Grant program was enacted, the Legislature changed the statutory limit from a dollar amount to an award number; in this case, 22,500 awards. This was based the number of students in the old Cal Grant program who had the characteristics of non-traditional students.

The current Competitive program has been in place since the 2001-02 application cycle. Since its inception there have been differing views on how to implement the Competitive program. The Department of Finance (DOF) initially told the Commission that only 22,500 new award offers were authorized annually, regardless of whether or not the awards were all ultimately paid. The Commission and Legislature, however, recognized

from experience in the older Cal Grant program that offers of awards had to be made to more than 22,500 students to approach full use of the 22,500 paid awards.

The dispute was ultimately resolved in 2002, with an understanding between the Legislature and the then-Administration that the Commission could offer more than 11,250 awards during each of the two Competitive-award cycles each year, as long as the number of paid awards did not exceed the statutory limit. In a letter from 2002 memorializing the understanding, the Chair of the Assembly Committee on Higher Education noted approvingly that the Commission had just offered 12,500 Competitive awards during the March 2 award cycle.

Take Rate

During the February 22, 2013 Committee meeting, we reported that the take rate for the Competitive program was about 70 percent prior to the 2011-12 award year, and had declined to about 65 percent in 2011-12 due to the implementation of the cohort-default-rate institutional eligibility requirement. This reflects the number of Competitive awards we actually paid. This is the rate we have typically used, mainly because we use this calculation of the take rate for budget-projection purposes.

However, the 70 percent figure somewhat understates the overall take rate, because it does not reflect new Competitive awards to students who ultimately do not use their awards in the year they are first awarded because they take leaves of absences (LOA) from their institutions in lieu of payment or other reasons, or their Competitive Cal Grant A awards are placed in reserve. The reserve status is for students who receive Competitive Cal Grant A award offers while enrolled in California community colleges. They may defer their award for up to two academic years while completing their education at the California community colleges. All Cal Grant A awards are only applicable to tuition and fees, and thus are not eligible for use at California community colleges. These students have accepted their awards, but their payments are deferred to a future year. This is important to note as they are still counted against the 22,500 statutory limit on awards paid annually. Students on leaves of absences are treated similarly.

For 2011-12, the take rates would increase to about 75 percent by including the students who take LOA or those placed in reserve status. We are currently in the process of identifying the number of students that utilize LOA and those with reserve awards and do receive payment in a subsequent year.

Competitive Award Offers

Chart 1 displays the "Cal Grant A Award Offers by Segment," for 2008-09, 2009-10, 2010-11, and 2011-12 academic years.

Chart 1

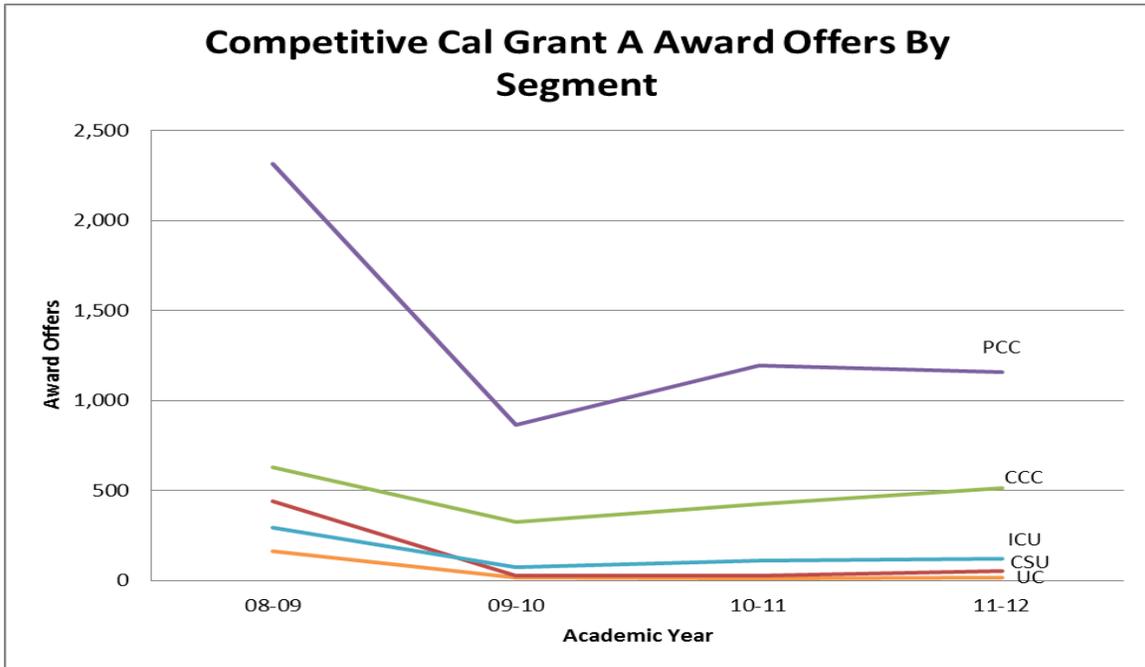


Chart 2 displays the Cal Grant B Award Offers by Segment, for 2008-09, 2009-10, 2010-11, and 2011-12 academic years.

Chart 2

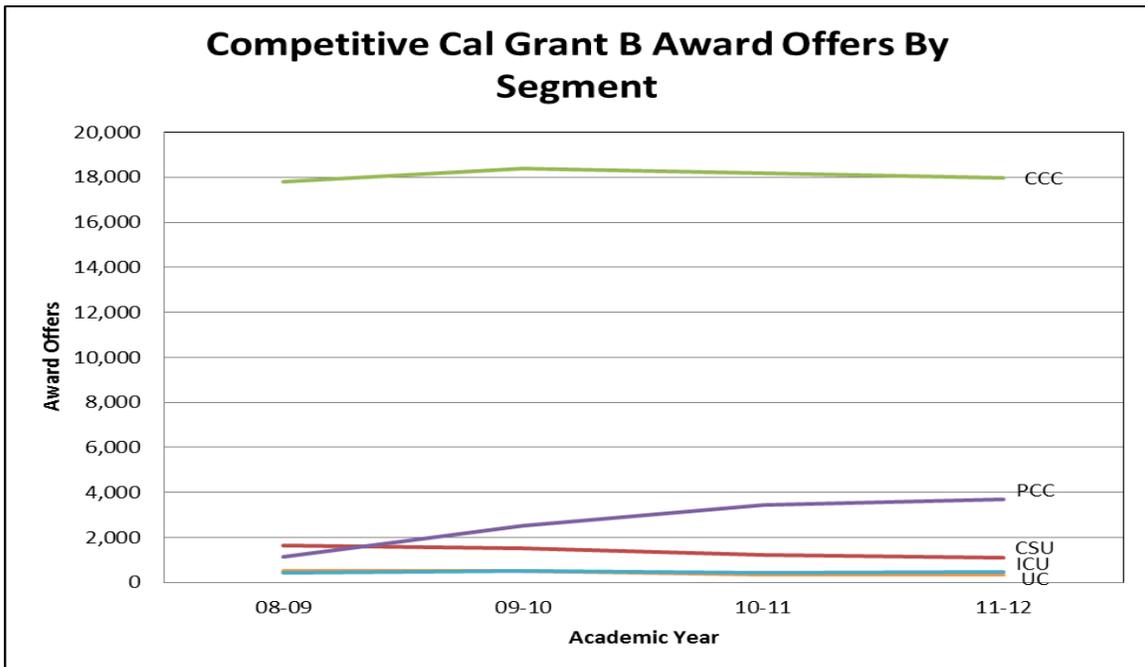
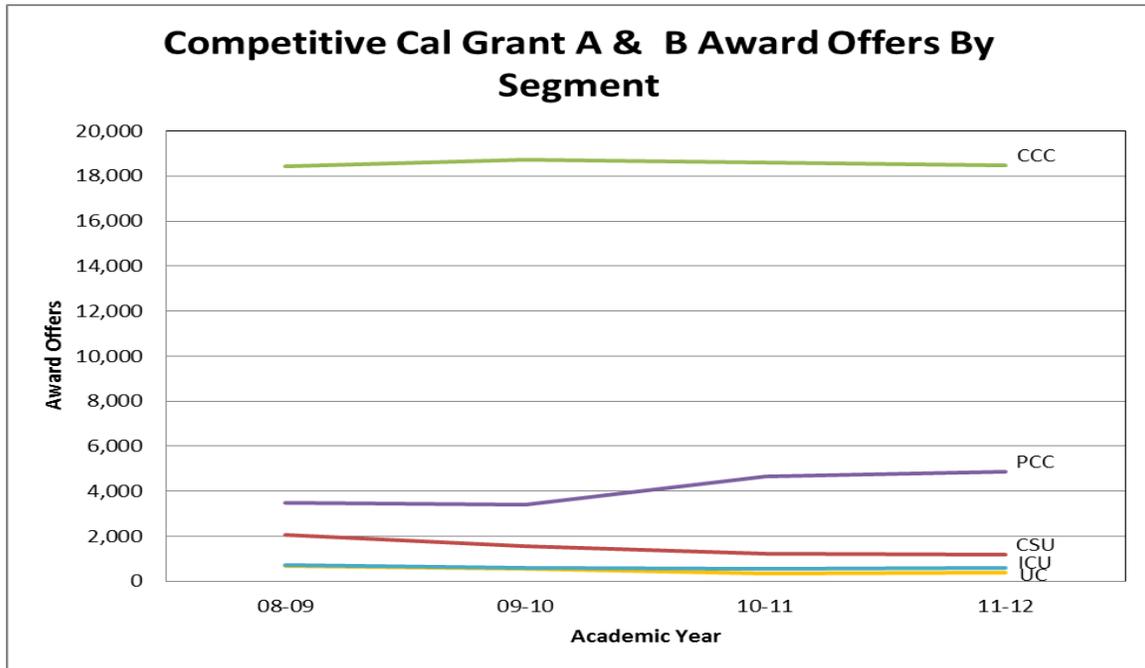


Chart 3 displays the Cal Grant A and B Award Offers by segment, for 2008-09, 2009-10, 2010-11, and 2011-12 academic years.

Chart 3



Consultation

We have begun consulting with segmental representatives to discuss and review the current Competitive program. We are also consulting with The Institute for College Access and Success (TICAS) in order to explore all possible solutions and improvements.

As discussed below, we will be expanding our consultation to include students, other institutions, the Department of Finance and financial aid administrators.

Initial Concepts

At this early stage, we have identified several initial options to maximize Competitive awards. Within these options, there are both short-term and long-term solutions which each have their own benefits and drawbacks. Potential areas that can be addressed are:

- Operational changes
- Regulatory changes
- Legislative proposals

With the Budget Act of 2012-13, the Department of Finance must now approve any policy or practice changes that have an annualized fiscal effect of more than \$5,000,000. The impact of these potential changes has not been quantified as of yet, but the implementation of system changes could potentially need to be approved by DOF.

Operational Changes

Changing take rates

Commission staff stated at the last committee meeting that there were potential liability issues if the Commission were to exceed the statutory 22,500-award limit on Competitive awards. The Commission can eliminate those particular liability issues by modifying and reprogramming the current Grant Delivery System (GDS) to prevent our paying more than the 22,500 new awards specified in statute.

The reprogramming of GDS to operate in this fashion could facilitate additional operational changes, such as TICAS' suggestion to use a three year take-rate assumption, or some other method to increase offers of Competitive awards. This would allow the Commission to come closer to 100 percent of actual paid/LOA/California community college reserve awards. We are reviewing other possible take-rate assumptions which may produce more accurate projections year-over-year.

TICAS also proposed that we reallocate or recycle awards. The Commission, if it chooses this option, would inform students that Competitive awards are first-come, first-served, and require them to indicate their intent to use the award. Upon a student's failure to use the award in the fall or to confirm his or her intent to use the award, we would withdraw the award offer from the student and reallocate the award to another student.

Commission staff agrees that we should seriously explore the TICAS suggestion. Current law allows a form of recycling, but provides specific guidance for how the reallocation is to take place.

Commission staff believes that we need to include students, high school counselors, segmental representatives, institutions, financial aid administrators and others in our consultations to develop solutions for some issues raised by recycling. It is possible that students will confirm that they will use their awards, even if their plans are unclear, once they learn that their awards will be withdrawn if they do not indicate their intent to use them. Thus, it is very possible that identifying unused fall term awards will be the linchpin for recycling awards.

This will affect the Cal Grant reconciliation process, by which institutions work their Cal Grant rosters to validate all necessary information related to a particular student to ensure eligibility prior to disbursing of Cal Grant funds. The earlier an institution is able to reconcile, the more quickly the Commission will be able to determine the existence and number of unused fall award offers that can be recycled. The current reconciliation process is 18 months. To change the reconciliation process, the Commission would need to amend the current Institutional Participation Agreements (IPA). We will explore this option as part of our consultation process.

Using institutional enrollment files to identify unused awards more quickly

Another possible avenue to increase the efficiency of identifying students that are going to accept their awards is by utilizing an electronic enrollment file from all participating institutions. The Commission currently receives an enrollment file from the California Community Colleges Chancellor's Office (CCCCO) to determine the September 2 Cal

Grant eligibility of past or current community college students. Our current Memorandum of Understanding (MOU) with the CCCCO includes, at their insistence, a provision that specifically limits the purposes for which we can use enrollment file information. The CCCCO would have to agree to amend the MOU to allow us to confirm the enrollment of all students who were offered Competitive awards. This would allow us to identify those students who are actually in attendance during the fall term at these institutions. The workload increase to the CCCCO would be minimal, as our use of the enrollment file for other purposes is already in place.

We could also do the same for the other participating colleges and segmental offices. This would allow us to identify those students, attending or not, an eligible participating Cal Grant institution.

We are also exploring the possibility of our paying the Competitive Cal Grant B portion for access costs directly to the students. Currently, all Cal Grant B award funds are distributed directly to the institutions. The portion of the Cal Grant B award for access costs pays for living expenses and expenses for transportation, supplies and books. The institution, therefore, is more likely to pay the access portion directly to the student. Community colleges must “work” their rosters on behalf of their students to issue their access payments. Using an enrollment file with data identifying number of units to determine payment amounts would allow us to pay the access portion of the award directly to students. This option may allow us to identify the unused Competitive awards much quicker and would relieve community colleges of some workload. A potential drawback to this option, however, is that the Commission would require additional staff to assume the community colleges’ workload.

Commission staff recommends that the Committee and Commission approve our expanding our consultation process to form an advisory committee to include students, high school counselors, segments, institutions, financial aid administrators and other interested parties, such as TICAS and the Department of Finance. We would discuss the operational changes described above, and any others, with the advisory committee, and bring back proposed operational changes for the Committee and Commission to consider.

Regulatory Changes

Another possible option is to review the Competitive award selection criteria in order to establish smaller cohorts to provide the Commission more flexibility to offer awards to a larger number of students. Increasing the number of cohorts by reducing the number of students per cohort could enable us to offer awards to more cohorts and more students. Under the current process, with cohorts ranging in size up to 2000 students, we do not progress to the next cohort if the number of students within that cohort is so large that the risks of exceeding the statutory number of paid awards is too great.

The Commission will need to go through the regulatory process to change the selection criteria, similar to the process we followed for SB 70.

Commission staff recommends, therefore, that for purposes of achieving the full use of the statutory allocation of Competitive awards, the Committee and Commission authorize us to include changes in the selection criteria and selection process in our consultation with our advisory committee, to develop proposals for regulations

implementing those changes, and bring them back for the Committee and Commission to consider.

Legislative Proposals

Statutory changes will require a much longer time frame for implementation due to the formal nature of the process. A potential legislative solution could be to eliminate the two award cycles and make all the awards in a single cycle. This could provide greater time within an academic year for us to evaluate the take rate and potentially issue more awards to achieve 22,500 awards. There are, however, potential issues with ensuring the current statutory requirement that 50 percent of the annual awards are reserved for California community college students.

We will discuss potential legislative proposals and the related issues during our consultation with our advisory committee.

The legislative, regulatory and operational changes we will be exploring will involve policy issues requiring Committee and Commission consideration. For example, treating Competitive awards as first-come, first-serve could provide an advantage to students at institutions that have the resources to reconcile their rosters quicker than institutions with fewer resources, or to students at institutions that have nontraditional terms in which a disproportionate percentage of newly awarded Competitive students could enroll earlier in the academic year than institutions with traditional terms. Requiring quicker reconciliation may pose a particular challenge to institutions that do not have resources to add to financial aid administration, and, thus, could disadvantage their Competitive students.

Commission staff will analyze the relevant issues when we return with proposals for operational changes, and concepts for regulatory and legislative proposals for the Committee's consideration at the September 2013 meeting to implement for the 2013-14 award cycle.

In addition, however, we will continue to explore options and provide an update at the Committee and Commission April meetings.

Recommended actions:

1. To achieve full use of the statutory allocation of Competitive awards, authorize staff to expand its consultation to form an advisory committee of students, high school counselors, representatives of segments, institutions and financial aid administrators, and other interested parties to:
 - a. Identify and analyze
 - i. operational changes,
 - ii. changes to selection criteria and the selection process, and
 - iii. legislative proposals;

- b. Report back at the September 2013 meeting with proposals for operational changes and concepts for regulations and legislation for the Committee and Commission to consider for implementing for the 2014-15 award cycle.

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