

Exhibit 3

Information/Action Item

Consideration of proposals to improve the award utilization rate for Competitive Cal Grant awards

SUMMARY

This agenda item is provided to inform Commissioners of the staff actions taken to date to increase the existing utilization rates of the 2013-14 Competitive Cal Grant Program awards. The item provides specific recommendations for the Commission to consider and take action in order to address the underutilization of Competitive Cal Grant awards, particularly at the California Community Colleges. Commission staff also makes recommendations on the issues that the Commission staff believes should be addressed by the staff's advisory committee established to assist the Commission to improve the utilization rates for 2014-15.

For 2012-13, Competitive Cal Grant Program awards account for about 6%, or \$100 million, of the \$1.6 billion in total Cal Grant Program expenditures.

At the Commission's April 26, 2013 meeting, the Commissioners heard an agenda item on the existing utilization rates of the Cal Grant Competitive Program. State law presently authorizes 22,500 awards to be paid. In 2012-13, the pool of qualified students exceeded 317,500. To date, 19,400, or about 86 percent, of the authorized awards have been utilized. This includes paid awards and unpaid awards required by law to be reserved for use by the awarded students in future years. It also includes awards to students who can defer payment into future years through transaction codes entered into the Grant Delivery System (GDS), such as leaves of absence. To date, approximately 3,100 awards, or about 14 percent of the 22,500 authorized awards, remain to be utilized. Charts of the latest numbers are on page 9.

The Competitive Cal Grant eligibility pool is representative of older, non-traditional students who are not eligible to participate in the Cal Grant Entitlement Program that serves high school graduating seniors (or those high school graduates who are one year beyond their graduation). The Competitive Program has two application cycles: the March competition which is open to all qualifying students, including California community college students; and the September competition, for students who will be enrolled at a California community college.

In 2012-13, we made Competitive awards to over 26,000 students. The most recent data available shows that over 20,000 awards, or 80 percent of the Competitive awards made that year, were to students at California community colleges. Of these, approximately 4,500 awards, or about 22 percent, have not yet been utilized.

Approximately 6,000 students from all the other segments received Competitive awards in 2012-13. This is about 20 percent of the total awards made in 2012-13. Approximately 2,500 students in the UC, CSU and AICCU segments, combined, received awards. Of these, about 420, or 17% have not yet been utilized. About 3,500 students at for-profit schools were

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awarded. Of these, about 1,500, or 43% of the awards to students at for-profit schools, have not yet been utilized. However, this may be an anomaly, since the cohort-default-rate and graduation-rate standards in the Cal Grant law may have disqualified a significant number of the for-profit institutions attended by these awarded students.

Commission data show that the utilization of Cal Grant Competitive Awards particularly among California Community College students awarded in the March competition is problematic. Unpaid Competitive awards are significantly correlated to community college students with Cal Grant B awards. We have found that processing the Competitive Cal Grant B awards for students is of secondary priority at some community colleges. This may be due to organizational or institutional procedures, financial processes, or lack of resources. As an important aside, we have also found that students' Entitlement awards may not be processed by some community college campuses.

RESULTS OF STAFF'S INQUIRIES

During the last few months, Commission staff has spent a significant amount of time talking to financial aid administrators in all the segments, but particularly at community colleges, and students who were awarded Competitive awards in 2012-13 to identify why the awards were not paid. We found that campuses:

- May not communicate at all with students about financial aid, even those offered a Cal Grant, unless, students, on their own initiative, appear in person at the financial aid office;
- May process the student's other financial aid, including loans, but not the Cal Grant award;
- May wait to process their Cal Grant rosters until the end of the academic year;
- May only process their Cal Grant rosters for students attending their campuses, without identifying the students who appear on the rosters but are not in attendance;
- May not process a Cal Grant for a student attending the campus, if that student appears on another campus' roster;
- Do not use the various WebGrants tools available to process Cal Grant payments or indicate the student's status to generate a communication to the student.

We found that many of these students:

- Do not hear from their campuses about their award disbursements;
- May not be enrolled at the campuses on whose Cal Grant rosters they appear;
- May be enrolled less than half-time – and thus, are not eligible for a Cal Grant;
- May not have a complete academic file; for example, they did not submit paperwork, or never registered for courses, etc. at the campus;

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- May not be meeting satisfactory academic progress – and thus are not eligible for an award;
- May fail to provide their campuses with verification documents.

CONFLICTING POLICY PERSPECTIVES

The fundamental purposes of the Ortiz-Pacheco-Poochigian-Vasconcellos Cal Grant Program are to enable students to gain access to higher education and be able to have choices of institutions despite their financial circumstances.

Our consultation with interested parties suggests that the methods to achieve these fundamental purposes through the Competitive Program can differ depending on one's perspective. Viewing the Competitive Program in the context of awards to individual low-income students is different from viewing it in the context of awards to a group of low-income students.

The individual perspective focuses the analysis of access and choice on each student, for whom a Competitive award provides the individual opportunity for higher education. For example, a student's personal circumstances could prevent him or her from attending college in the year he or she received the award. The award would not be paid. Allowing the student to keep the award and defer payment to a future year, rather than giving the award to another student, reinforces access and choice, since the original student would retain the opportunity for higher education. This is especially important since there is no certainty the originally awarded student would successfully compete for a new award in future years.

However, access and choice from the group perspective requires paying all 22,500 of the new awards each year. Unpaid awards would mean the group was denied all the opportunities for choice and access available to it. Here, the number of students eligible to compete is 14 times greater than the number of awards available: 317,500 eligible students/22,500 awards. Awards should not go unpaid, it can be argued, since they are limited in the first place and the Competitive Program is so over-subscribed. A student can compete for a Competitive award every year. Under these circumstances, the group perspective, seeking to maximize the number of paid awards in the year of award, rather than the individual perspective, is appropriate.

These different policy perspectives will involve different choices from among the options described below.

STEPS IMPLEMENTED FOR 2013-14

Commission staff will continue to work with our advisory committee of students, campuses, and others to identify options in addition to those listed below. However, as an initial step toward increasing the number of paid Competitive awards for the current academic year, 2013-14, Commission staff has implemented or are implementing the following actions, since they are consistent with both the individual and group perspectives.

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1. Increase the number of awards in the March 2013 competition

In this year's March competition, we awarded 14,655 students, exceeding the 11,250-allocation by more than 3,400 students. This is double the amount over 11,250 we awarded in the March 2012 Competition.

To ensure that no more than the 22,500 awardees receive payments, we are closely monitoring the Cal Grant payment rosters.

2. Communicate with students more frequently

We will increase the number of communications we send during the year directly to students for whom GDS shows no payment disbursement or transaction on the campus Cal Grant roster. The communications will remind students of their award offers and the steps to take to receive their payments.

Communicating with students more often may increase the number of paid awards.

3. Assist campuses with updating their payment rosters

Commission staff will monitor the campuses' Cal Grant rosters on a weekly basis to assist those campuses that are unable to update their rosters by the middle of the academic term. As stated in 2 above, students who have not been paid or updated will receive communications throughout the year in an effort to get them paid.

OPTIONS FOR INCREASING THE NUMBER OF PAID COMPETITIVE AWARDS

Any and all options the Commission decides to authorize will be accompanied by a comprehensive communications strategy to ensure that students and families, as well as campuses, are fully informed of the steps students need to take to receive payment for their awards, the consequences of failing to act, and any other necessary information.

4. Universal Options

The following options are consistent with both the individual and group perspectives.

- a. Expand the enrollment information that community colleges provide to the Commission

The Competitive award process uses community college fall-term enrollment files to identify enrolled students competing in the September competition. This results in more paid awards from the September competition than the March competition. The California Community College Chancellor's Office (CCCCO) has agreed to expand our use of enrollment files for all terms. Commission staff expects that the existing memorandum of understanding between the Commission and the CCCCCO on community college enrollment files will be revised shortly to include this agreement.

Community college enrollment files currently provide students' names and SSNs. These data confirm a student's enrollment for the term. Additional data, however, would allow us to avoid making awards to students who cannot use their Competitive awards.

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An otherwise eligible student would not be able to use a Competitive award if he or she were taking fewer than 6 units in a term. Having data on the number of units a student is taking would allow us to avoid awarding a student who is taking fewer than 6 units.

The CCCCO objects to community colleges' providing this additional data to the Commission, arguing that Commission staff might prematurely determine students to be ineligible and withdraw them early in the academic year. Commission staff can, however, adjust the award process to account for the timeliness of the data.

Graduation/completion data would similarly reduce unnecessary awards, or allow quicker recycling if recycling is implemented. The enrollment files provided by some community colleges include multiple years of student enrollments, with no designation of the particular academic year in which the student was enrolled. This results in Competitive awards to students who do not qualify, since they have already graduated or completed their program.

The CCCCO has not yet expressed agreement or a specific objection to allowing the Commission to receive and use graduation/completion data.

- b. Establish priority within a single group of students with the same Competitive score, to allow available awards to be made to some, but not all, students within that group

The Competitive process arranges students into groups based on scores calculated from selection criteria. There is no current way to distinguish among students within a single group. If one member of a group is awarded, every member must be. This can deter our increasing the number of awards in a competition if the next group of students is too large. Some groups have been as large as 2,000 students, or more.

As discussed in the next section, changing the selection criteria could reduce this practical concern. However, that process will take time. Commission staff could, as an intermediate step, consult with the advisory committee about amending the Commission's regulations to establish priorities that would authorize awards to some, but not all, of the group of students with the same score. For example, students' application dates could be a basis for making Competitive awards to less than the whole group.

This regulatory process could take less time than the process for reviewing and revising the selection procedures and selection criteria.

- c. Establish new selection procedures and selection criteria

Commission staff can review the current Competitive award selection process and selection criteria, in consultation with the advisory committee, to evaluate the profile of the awardees selected and determine whether adjustments are needed. Revising the scoring methodology could result in smaller groups of students with the same scores in each competition. This could allow us to increase the number of awards incrementally, and thus minimize the potential that more than 22,500 students may claim payments on their awards. As noted above, a group can currently exceed 2000 students.

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5. Options applicable to one policy perspective

The feasibility of the options discussed below depends on the policy perspective from which they are viewed.

Individual Perspective

The individual perspective would seek to maintain a student's Competitive award for as long as the student retained eligibility, even if the student did not use the award immediately. Therefore, recycling awards would not be consistent with this perspective.

d. Significantly increase the number of awards in each competition

To increase the number of students who use the awards in the first year, but conform as closely as possible to the individual perspective, Commission staff can substantially increase the number of awards to students during both the March and September competitions, even more than we already have.

This will require us to advise the awarded students that the number of awards that can be paid is limited, and that the Commission is authorized to pay only the first 11,250 of students awarded in each competition.

Community colleges may object that this is unfair to community college students. Other segments may provide more resources to administer financial aid, which will allow them to process the awards and payments to their students faster than community colleges. Further, the playing field is not level even within the community college segment. Some community colleges have more resources or have made processing Cal Grants for their students a priority.

The other segments may counter that there is no unfairness, since the September competition is expressly limited to community college students and community college students are also eligible for the March competition.

Group Perspective

Commission staff has identified several potential changes to maximize the number of Competitive awards used in the year for which they are awarded. The basic change involves withdrawing Competitive awards from students who are not using their awards and recycling those awards to new students.

e. Require all institutions with students who have Competitive awards to provide enrollment files to the Commission

As noted above, we currently use community college fall-term enrollment files to identify enrolled students competing in the September competition. This results in more paid awards from the September competition than the March competition.

Receiving enrollment files from all institutions with Competitive students would allow us to identify Competitive awards that are not being used during the first year and to recycle those unused awards to students in a new group.

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- f. Require all students with Competitive awards to complete forms to indicate whether their awards will be used during the year in which they are awarded

As a supplement, or alternative, to enrollment files from all institutions, all newly awarded Competitive students could be required to complete a questionnaire or form to indicate the campuses in which they are enrolled, the number of units they are taking, and other information relevant to their eligibility for and use of their awards.

Commission staff could withdraw and recycle an award if the student fails to complete the form or indicates he or she is not enrolled. We could also withdraw the award if the information on the form establishes that the student cannot be paid, for example, because he or she is taking fewer than 6 units or not meeting satisfactory academic progress.

This option would include a strong communication strategy to educate and inform students of the requirements for maintaining their awards and the consequences of certain of their answers, or lack of answers.

- g. Establish deadlines to withdraw awards and recycle them to the next group of students

GDS sends a California Aid Report (CAR) to students who are awarded a Competitive Cal Grant, informing them of their awards and the steps to take to receive their payments. The CAR advises the student that the campus is responsible for determining final award eligibility. Students who are enrolled and meet all requirements should expect their Cal Grant payments to be disbursed. However, the current process does not inform the student that they may become ineligible for the award if they do not utilize it within a certain period of time.

Commission staff can revise the CAR to inform the students that their awards will be withdrawn if they do not receive a disbursement from the institution by a designated date. The withdrawn awards can then be recycled to the next group of students.

- h. End the ability to defer payment of new Competitive awards to future years, except for leaves of absence granted through the institution's formal academic process

A student, campus, or Commission staff can defer payment on a new Competitive award to future years by entering a leave-of-absence code and other related codes onto a campus roster or a student's account. The leave-of-absence code does not denote any particular reason for the leave.

Payment deferral of a new award would contradict a policy decision to recycle Competitive awards. Commission staff could, therefore, eliminate leaves of absence and other similar deferral codes, solely for purposes of preserving Competitive awards.

However, a leave of absence granted by an institution after a formal academic process of review and approval represents an official act, and is academically significant to both the student and institution. This option, therefore, should not eliminate this type of leave of absence as a basis for deferring payment on a new Competitive award.

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Recommendation:

We recommend that the Commission adopt the following actions to increase the number of paid Competitive awards:

For the current 2013-14 academic year, authorize staff to:

1. Take immediate steps to communicate with students more frequently and to assist campuses with updating their payment rosters.
2. Expand the enrollment data provided by community college campuses to the Commission to include number of units and graduation/completion.
3. Report back at the Commission's February 2014 meeting on the progress of the staff's actions to increase the Competitive Program utilization rates, including the number of paid awards and unused awards to date by campus.

For the 2014-15 academic year, authorize staff to:

4. Require all institutions with students who have Competitive awards to provide enrollment files to the Commission.
5. Require all students with Competitive awards to complete forms to indicate whether their awards will not be used during the year for which they are awarded.
6. Establish deadlines to withdraw awards and recycle them to the next group of students.

Authorize staff to continue to work with its advisory committee to review and discuss the following options:

7. Establish priority within a single group of students with the same Competitive score, to allow available awards to be made to some, but not all, students within that group.
8. Gather more information on the current population of students awarded a Competitive Cal Grant to determine whether establishing new selection procedures and criteria would increase the utilization rate.
9. End the ability to defer payment of new Competitive awards to future years, except for leaves of absence granted through the institution's formal academic process.
10. Report back at the Commission's February 2014 meeting on the outcomes of staff's consultation with the advisory committee.

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COMPETITIVE CAL GRANT PROGRAM

Chart 1 shows the number of students awarded in each of the March and September competitions for the past several years.

Chart 1

Award Year	Total Awardees	Over Statutory Limit of 22,500	
2012-13	26,237	3,737	17%
2011-12	25,459	2,959	13%
2010-11	25,414	2,914	13%

Chart 2 shows the number of awardees paid in the first year and the number paid in successive years from the same cohort of students.

Chart 2

Year Cal Grant Awarded	Total Paid Recipients	Percent of 22,500	First Payment received in		
			Same Year as Year Cal Grant Awarded	Years Out	
				One	Two
2012-13 to-date	14,802	65.8%	14,764	38	
2011-12 to-date	17,000	75.6%	16,526	468	6
2010-11 to-date	18,288	81.3%	17,706	509	73

Chart 3 shows the utilized awards, and relevant percentages, to date.

Chart 3

Year Cal Grant Awarded	Recipients			Percent of 22,500	Recipients Deferring Payment to Future Year			Total Recipients	Percent of 22,500
	Paid	CC Reserve	Total		Leave of Absence	Other	Total		
2012-13 to-date	14,802	549	15,351	68.2%	3,592	454	4,046	19,397	86.2%
2011-12 to-date	17,000	255	17,255	76.7%	308	54	362	17,617	78.3%
2010-11 to-date	18,288	30	18,318	81.4%	58	12	70	18,388	81.7%