

May 21, 2012

Assessment of Governor's May Revision Proposals: Financial Aid

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Susan Bonilla, Chair





Recap: Governor's January Financial Aid Proposals



Governor Proposed \$766 Million in Non-Programmatic Cal Grant Fund Shifts

- \$736 million in federal funds tied to the California Work Opportunity and Responsibility to Kids savings proposals.
- \$30 million from Student Loan Operating Fund.



Program Reduction Proposals Were Estimated to Save \$309 Million

- Raise minimum grade point average for Cal Grant Eligibility.
- Reduce awards for students at private institutions.
- Maintain current-year loan default limit for schools.
- Maintain consecutive-year enrollment requirement for transfer entitlement.
- Phase out loan assumption programs.



Additional Costs and Solutions in May Revision

Governor's May Financial Aid Proposals	
<i>General Fund Costs (In Millions)</i>	
New Costs Recognized	
Cover CSU tuition increase	\$31.2
Cal Grant B to A switch 2011-12	27.7
Cal Grant B to A switch 2012-13	26.5
Subtotal New Costs	(\$85.4)
Revised Estimates	
Erosion of January solutions	\$49.5
Caseload adjustment	-24.6
Subtotal Revised Estimates	(\$24.8)
New Solutions	
Federal fund shift	-\$67.4
Student Loan Operating Fund shift	-30.0
Tighter institutional requirements	-38.4
Prorate Cal Grant amounts	—
Subtotal New Solutions	<u>(\$135.8)</u>
Total Changes in May Revision	-\$25.5



Proposed Program Reductions Once Again About \$300 Million

Governor's Combined Financial Aid Reduction Proposals

Savings (In Millions)

Raise grade point average requirements	\$96.6
Reduce grants to \$5,472 at nonprofits	99.2
Reduce grants to \$4,000 at for-profits	57.5
Set 15 percent default and 30 percent graduation rate limits	38.4
Halt \$70 million transfer entitlement change	—
Prorate grants based on Pell Grant calculations ^a	—
Phase out loan assumption programs	6.0
Total	\$297.7

^a Savings begin in 2013-14.



Compared to January, Higher Cal Grant Expenditures but Less From General Fund

Projected Cal Grant Expenditures				
<i>(In Millions)</i>				
Projected Cal Grant Expenditures	Current Year	2012-13		Difference January to May
		January Proposal	May Revision	
General Fund	\$1,454.0	\$535.5	\$486.6	-\$48.9
Other funds	62.3	766.4	863.8	97.4
Totals	\$1,516.3	\$1,301.9	\$1,350.4	\$48.5



New Proposal: Restrict Institutional Participation

- Institutional Eligibility Requirements Would Include New Performance Criteria**
 - Maintain federal student loan cohort default rate no greater than 15 percent.
 - Maintain graduation rate no less than 30 percent.

- Limited Exceptions Consistent With SB 70 Restrictions**
 - New limits would not apply to institutions with fewer than 40 percent of students borrowing federal loans.
 - Students attending disqualified institutions would not be eligible for initial awards, but students currently at these institutions could qualify for renewals reduced by 20 percent.

- Savings Could Erode in Near Future**



New Proposal: Prorate Cal Grant Awards



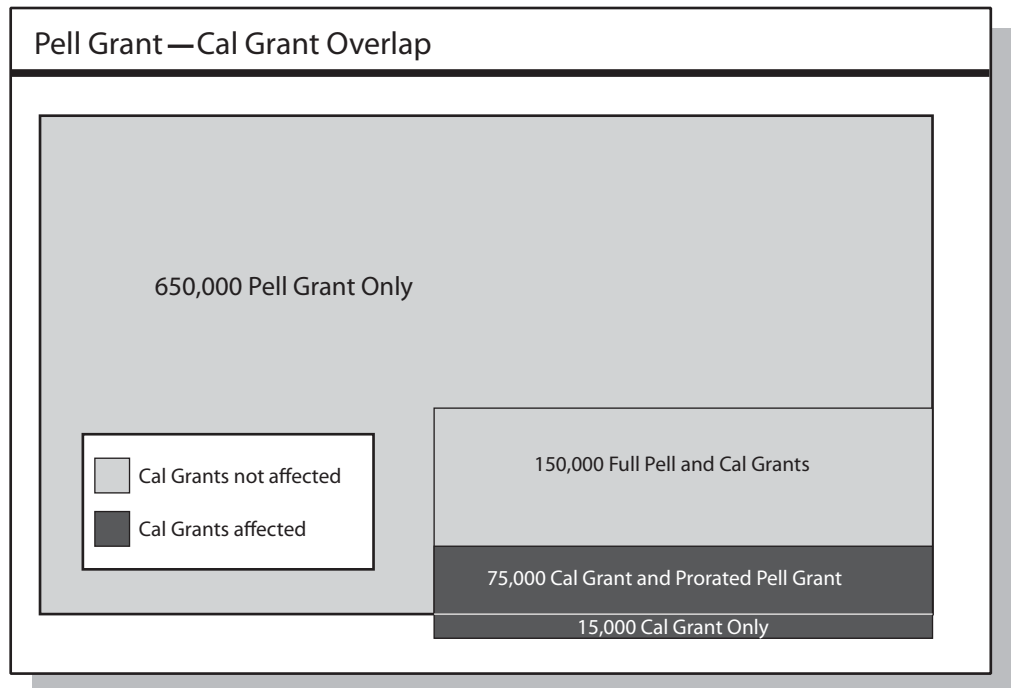
Would Reduce Cal Grant Awards Based on Pell Grant Amount

- A student eligible for half the maximum Pell Grant award, for example, would receive half the maximum Cal Grant award.
- Existing Cal Grant eligibility criteria would not change.
- Major impact would begin with initial awards in 2013-14 academic year.
- Cal Grant B access awards, Cal Grant C awards, and all awards to California Community College students would not be affected.
- Students most affected would be Cal Grant A recipients in the high school and transfer entitlement programs.



Most Cal Grant Recipients Qualify for Pell Grants

- ✓ **Nearly One Million California Students Receive Federal Pell Grants and About 250,000 Receive Cal Grants**
- ✓ **Nearly Two-Thirds of Cal Grant Recipients Qualify for Maximum Pell Grant**
- ✓ **Roughly One-Third of Cal Grant Recipients Would Be Affected by the Governor's Proposal**
- ✓ **Maximum Pell Grant for 2012-13 Is \$5,550, and Eligibility Phases Out With an Expected Family Contribution of About \$5,000**





LAO Assessment of Governor's May Revision Proposals



Approach Has Some Merit

- Focuses on institutional performance, instead of institution type.
- Strengthens incentives for schools to improve outcomes.
- Tailors size of Cal Grant awards to relative need.
- Recognizes need to act now for future savings.



But Needs More Work

- Institutional eligibility proposal would precipitously reduce postsecondary access.
- Proposal to link Cal Grants and Pell Grants is piecemeal, should be part of larger reform with more time for deliberation.



LAO Alternatives



Alternatives to Proposed Financial Aid Reductions

- Eliminate non-need-based tuition waivers.
- Limit competitive Cal Grant awards to stipends only, or suspend competitive awards.
- Adjust student financial eligibility criteria.
- Reduce all awards across the board.
- Establish a rational policy for maximum award levels at different types of institutions.
- Establish a limit on awards for lower-division studies.



More Comprehensive Reform

- Institute more consistent, comprehensive approach to financial aid across postsecondary systems, based on total costs of attendance and leveraging all sources of aid.
- Vary award amounts in relation to student need levels.
- Align basic eligibility requirements with existing federal programs.
- Decentralize Cal Grant delivery.