

Date of Hearing: March 17, 2015

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Medina, Chair
AB 25 (Gipson) – As Introduced December 1, 2014

SUBJECT: Financial aid: Cal Grant program: renewal

SUMMARY: Would require the California Student Aid Commission (CSAC) to establish an appeal process for institutions that fail to meet specified Cal Grant participation criteria. Specifically, **this bill:**

- 1) Requires CSAC to establish an appeal process for an otherwise qualifying institution that fails to satisfy the three-year cohort default rate and the graduation rate requirements.
- 2) Instructs CSAC to consider, in the determination of granting an appeal, cohort size and the likelihood of the institution to regain eligibility in the next academic year following the institution's loss of eligibility.
- 3) Establishes Legislative intent that CSAC define a specific cohort size or range of sizes that constitute a small cohort for the purposes of the appeals process.

EXISTING LAW:

- 1) Authorizes the Cal Grant program, administered by CSAC, to provide grants to financially needy students to attend college. The Cal Grant programs include both the entitlement and the competitive Cal Grant awards. The program consists of the Cal Grant A, Cal Grant B, and Cal Grant C programs, and eligibility is based upon financial need, grade point average, residency, and other eligibility criteria, as specified. (Education Code Section 69430-69433.9)
- 2) Requires institutions to meet specified criteria in order to participate in the Cal Grant program, including, for institutions with more than 40% of undergraduate students borrowing federal student loans, (a) a three-year cohort default rate (CDR) equal to or below 15.5%; and, (b) a graduation rate above 20% for the 2015-16, 2016-17 and the 2017-18 academic years, and above 30% for subsequent academic years. (EDC 69432.7)
- 3) Requires CSAC to notify initial and renewal Cal Grant recipients of changes and the impact to their awards and to provide affected Cal Grant recipients with a complete list of all California postsecondary educational institutions at which the student would be eligible to receive an unreduced Cal Grant Award.

FISCAL EFFECT: Unknown. However, according to the Senate Appropriations Committee analysis of the fiscal impact of significantly similar legislation proposed in 2014:

- 1) Appeals Process: Potentially significant costs for CSAC to administer an appeals process for institutions that have lost eligibility for participation in the Cal Grant program, and are seeking reinstatement as an exception to Cal Grant cohort default and graduation rate requirements.

- 2) Reinstatement: Potentially substantial ongoing costs, likely in the millions (General Fund) to the extent that institutions successfully appeal, and have their eligibility reinstated. As a point of reference, prior to the University of Phoenix losing eligibility under the restrictions, students used more than \$20 million in Cal Grants at that institution.

COMMENTS: *Background.* In an effort to increase accountability over public financial aid expenditures and address the budget deficit, as a part of the 2011-12 Budget Act, California established requirements linking an institution's participation in the Cal Grant Program to the percentage of students borrowing federal loans and the number of students defaulting on those federal loans within three years of entering repayment. To participate in the Cal Grant program in the 2011-12 academic year, an institution was required to have a CDR of less than 24.6%. In 2011-12, 76 institutions failed to meet the CDR requirements.

According to information provided by the Legislative Analyst's Office (LAO), about 3,200 students offered new Cal Grant awards in 2011-12 were planning to attend schools deemed ineligible. About 550 of these students instead attended eligible schools, and another 450 requested leaves of absence to preserve their award for later use. The remaining 2,200 students did not claim their Cal Grants and information concerning college attendance is unavailable. For students receiving renewal Cal Grant awards, of the 1,700 attending ineligible institutions approximately 60% remained at their institution and received a reduced award (an option no longer available to students), 9% transferred to eligible colleges, and another 4% took leaves of absence. No information is available on the remaining students.

In the 2012-13 Budget Act, the requirements regarding loan defaults were tightened to require a CDR of less than 15.5%, and a graduation rate of greater than 30%, as reported by the Integrated Postsecondary Education Data System (IPEDS). IPEDS graduation data calculates the percentage of first-time, full-time students who began in the fall term and graduate within 150% of the published program length. For example, the 2012 graduation rate for bachelor's degree programs is based on the number of students who began their pursuit as a full-time, first-time student in the fall of 2006.

In the 2015-16 academic year, institutions are required to maintain a CDR of less than 15.5% and a graduation rate of greater than 20%. As reported by CSAC, 301 institutions have been deemed Cal Grant eligible; an additional 23 institutions have been identified as potentially eligible, pending receipt of additional data. CSAC has published a list of 21 ineligible institutions; seventeen of these institutions are for-profit, four are non-profit.

Legislative Analyst's Office (LAO) report. In January 2013, the LAO reported to the Legislature on CSAC implementation of the Cal Grant requirements and provided recommendations for refining the standards. According to the LAO, in the absence of broad agreement on direct, quantifiable measures, default rates and graduation rates provide rough proximities of how well an institution is serving students. The LAO noted, however, that current standards have notable drawbacks. Among the LAO's recommendations, the existing system does not take into account institutions that serve disadvantaged students. The LAO indicated that the Legislature could consider adjusting requirements and establishing other outcome measures that account for student characteristics. LAO noted that CSAC is required to collect and report on additional student outcome data that could be used as an additional proxy for institutional quality; however, until there is broader agreement about measuring outcomes, LAO did not recommend using additional measures to determine school eligibility.

Charles R. Drew University of Medicine and Science (CDU). For the 2014-15 and 2015-16 academic years, CSAC deemed CDU ineligible for participation in the Cal Grant program for failing to meet graduation rate requirements. According to IPEDS data, CDU had a graduation rate of 0.0% in these award years. However, as CDU notes, IPEDS data is based on very small student cohorts. In the 2014-15 award year, CDU graduation rate data is based on 8 students that began in fall 2005; none of whom graduated before Spring 2011. In the 2015-16 award year, graduation rate data is based on 4 students that began in the fall of 2006; none of whom graduated before Spring of 2012. According to CDU, the university is providing institutional aid to students who lost their Cal Grant award due to institutional ineligibility; approximately 24 students in 2014-15.

Purpose of this bill. According to the author, the Cal Grant program requirements have exposed the vulnerability of smaller, specialized non-profit universities that attract people coming to study for a second career or who transfer to the campus with some college experience. Because these institutions enroll a lower number of first-time, full-time students due to the nature of their program, their Cal Grant eligibility status is more volatile. This bill would require CSAC to establish an appeal process for institutions that fail to meet eligibility requirements, and authorizes CSAC to consider cohort size and the likelihood of the institution regaining eligibility in the following academic year, in assessing whether an appeal should be granted.

Existing CSAC appeal process. Institutions deemed ineligible to participate in the Cal Grant program have appealed to CSAC. There is currently no statutory authorization provided to CSAC regarding institutional appeals. For the 2012-13 academic year, approximately six institutions appealed based on the cohort default rate/graduation rate disqualification. These appeals were not brought before the commissioners as staff believed commissioners had no authority to deviate from the statutory requirements. Two subsequent lawsuits by institutions seeking to use preliminary qualifying data resulted in the Academy of Art and Argosy/Art Institute regaining eligibility.

In 2013, CSAC staff brought to commissioners an appeal filed by Menlo College; commissioners granted the appeal finding that a calculation error had been made by USDE in publishing rates and a correct calculation resulted in the institution meeting the CDR requirements. In 2014, CSAC commissioners heard three appeals relating to the 2014-15 academic year eligibility. Commissioners granted Marymount California's appeal based on factors similar to Menlo College; CDU and National Hispanic University were denied because the Commission determined it did not have flexibility to consider factors beyond those CDR and graduation rate thresholds established in law.

Committee considerations. This bill provides CSAC significant authority to establish, and assumedly ultimately authorize, an appeal to allow a non-qualifying institution to continue participation in the Cal Grant program. While the bill provides Legislative guidance to CSAC to consider a small cohort or whether the institution is likely to regain eligibility in the subsequent academic year, the bill does not limit CSAC's ability to grant an appeal to an ineligible institution. The limitations currently in statute were established by the Legislature. This bill aims to provide CSAC authority to waive those limitations whenever CSAC deems appropriate.

Committee staff recommends, and the author's office has indicated agreement to, amendments to clarify the circumstances under which CSAC is authorized to grant an institutional appeal.

The amendments would specify that CSAC may grant an appeal for an academic year only when (1) an institution has been determined by CSAC to have a small cohort, of 20 or less, and the cohort is not representative of overall institutional performance; and/or (2) the institution has provided evidence to CSAC that the institution is anticipated to meet the Cal Grant participation requirements in the next academic year.

Related legislation.

AB 573 (Medina), pending in the Assembly Higher Education Committee, would require CSAC to publish online a complete list of eligible and ineligible Cal Grant institutions.

Prior legislation.

SB 70 (Committee on Budget and Fiscal Review), Chapter 7, Statutes of 2011, required all institutions of higher education, with more than 40% undergraduate students borrowing federal student loans, to maintain their CDR below 24.6% in 2011-12, and 30% in 2012-13 and thereafter, in order to continue meeting eligibility to participate in the Cal Grant Program for initial awards. Reduced by 20% the renewal Cal Grants at institutions with three-year cohort default rates above 24.6%. Required the LAO to review and report on this policy and potential alternatives by January 1, 2013.

AB 1637 (Weickowski) of 2012, held in the Assembly Higher Education Committee, would have established the student default risk index, by multiplying the percentage of borrowers and the CDR, and limited institutional participation in the Cal Grant program based on risk index scores above 15.

SB 1016 (Committee on Budget and Fiscal Review), Chapter 38, Statutes of 2012, implemented a maximum CDR of 15.5% and a minimum graduation rate of 30% for institutions to be eligible to participate in the Cal Grant program. For institutions with a CDR of less than 10% and graduation rates between 20 and 30%, provided five years for these institutions to increase their six-year graduation rates to the 30% threshold. Eliminated renewal awards for recipients who choose to remain at ineligible institutions.

AB 640 (Hall) and SB 1149 (Galgiani) of 2014, both held in the Senate Appropriations Committee, would have required CSAC to establish an appeal process for institutions institution that becomes ineligible for Cal Grant participation for failing to satisfy the CDR and graduation rate requirements.

SB 860 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2014, authorized, through the 2016-17 academic year, an institution with a CDR of less than 15.5% and a graduation rate above 20% to be eligible for participation in the Cal Grant program.

AB 1538 (Eggman) of 2014, held in the Assembly Appropriations Committee, would have provided an alternative pathway for Cal Grant qualification for institutions serving low-income students that maintain a three-year average CDR and graduation rate that meets requirements.

SB 860 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2014, authorized, for the 2015-16, 2016-17, and 2017-18 academic years, institutions with a graduation rate above 20% to meet the graduation rate requirements for participation in the Cal Grant program.

REGISTERED SUPPORT / OPPOSITION:

Support

Association of Independent California Colleges and Universities
Charles R. Drew University of Medicine and Science
St. Lawrence of Brindisi Church
Watts/Century Latino Organization
4 individuals

Opposition

None on File

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