

Date of Hearing: April 1, 2014

ASSEMBLY COMMITTEE ON HIGHER EDUCATION  
Das Williams, Chair  
AB 1538 (Eggman) – As Amended: March 26, 2014

SUBJECT: Student financial aid: Cal Grant Program

SUMMARY: Provides an alternative pathway for an otherwise ineligible institution to maintain eligibility for participation in the Cal Grant program. Specifically, this bill:

- 1) Provides that an institution that is ineligible for initial and renewal Cal Grant awards under existing cohort default and/or graduation rate requirements shall maintain eligibility if the following conditions are met:
  - a) The institution has an undergraduate student body of at least two-thirds receiving federal Pell Grants as certified by the California Student Aid Commission (CSAC) by November 1 of the prior academic year;
  - b) If the institution is ineligible under the cohort default rate requirements, the institution has an average of the institution's most recent three years of three-year cohort default rates, as certified by the Commission, which meets the requirements of existing law (15.5%); and,
  - c) If the institution is ineligible under graduation rate requirements, the institution has an average of the most recent three years of graduation rates, as certified by the Commission, which meets the requirements of existing law (30%).
- 2) Requires three year averages to be calculated by taking the total number of students over the three-year period who defaulted or graduated, as applicable, and dividing by the total number of students in the cohort for those three years combined.
- 3) Requires CSAC to adopt any rules and regulations necessary to implement this section by March 1, 2105, and to review and make recommendations regarding additional criteria that would be appropriately considered in determining institutional eligibility, including, but not limited to, cohort size, alternative debt measures, and additional student outcome and institutional quality metrics by January 1, 2016.

EXISTING LAW requires, as a condition of participation in the Cal Grant Program, an institution with more than 40% of undergraduate students borrowing federal student loans to maintain either (1) a three-year cohort default rate of less than 15.5% and a graduation rate of greater than 30% (within 150% of program length) or (2) a three-year cohort default rate of less than 10% and a graduation rate of greater than 20% (within 150% of program length).

FISCAL EFFECT: Unknown

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. In the 2012-13 Budget Act, the requirements regarding loan defaults were tightened and a graduation rate requirement was established. In the 2014-15 academic year, 122 institutions (primarily for-profit colleges) are ineligible to participate. Cal Grant students attending or seeking to attend ineligible institutions are required to transfer to an eligible institution in order to receive their Cal Grant award.

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.

Purpose of this bill. According to the author, Humphreys College, a Western Association of Schools and Colleges (WASC) accredited nonprofit institution, was ineligible for Cal Grants for the 2013-14 academic school year. The institution had a cohort default rate of 15.6% (above the 15.5% threshold for Cal Grant participation). However, the institution's graduation rate was 90.4%. The author contends that the current requirements, which do not take into account disadvantaged student populations, unfairly target institutions with volatile student populations regardless of their academic practices. This bill is intended to narrowly allow institutions that serve large populations of students with disadvantaged backgrounds to qualify for Cal Grants if their three-year average cohort default rate or graduation rate meet the requirements of the law.

LAO report on implementation. 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.

Issues to consider. This measure seeks to address one of the drawbacks in current law outlined by the LAO, establishing a narrow alternative pathway for institutions serving large populations of low-income students. However, there are additional factors the Committee may wish to consider in evaluating proposals to alter the Cal Grant eligibility thresholds:

- 1) This bill provides a narrow alternative pathway to Cal Grant eligibility for an institution serving 2/3 Pell Grant recipient students. The justification for the specific low-income serving threshold established in this bill is unclear. The author's stated intent is to support

Humphreys College, a WASC-accredited nonprofit college. It is unclear how many additional colleges could regain Cal Grant eligibility under the new threshold.

- 2) Cohort default rates are susceptible to manipulation by larger institutions. According to LAO, many large for-profit institutions employ "default management" strategies to keep their rates below thresholds. Strategies include forbearance and deferment, with most students ultimately increasing their total debt, and combining campuses of multi-site institutions in ways that minimize the aggregate default rate. Some institutions encourage use of private loans, which have less favorable terms for students but are not included in default rate calculations. The Committee may wish to consider the implications of providing an alternative to meeting cohort default rate requirements without addressing underlying manipulation concerns.
- 3) Graduation rates statistics do not provide a complete picture. Cohort graduation rates reported to the US Department of Education (USDE) include only first-time freshmen students attending the institution full-time and graduating within 150% of the program length. For some institutions, and in some years, this definition creates an extremely small cohort. Charles R. Drew University (CDU), for example, which serves a high proportion of low-income students, will be ineligible for Cal Grants in 2014-15 for failing to meet the graduation rate requirement. Graduation rates at CDU are based on only a fraction of the student population; CDU had only 9 first-time/full-time students in the Fall 2005 cohort (from whom the 2011 graduation rate is derived), and 6 in 2006. It does not appear that the metrics established in this bill would provide any significant effect on the limitations of the graduation rate data on institutions with very small cohorts. However, the bill does require CSAC to review and report on additional eligibility criteria and considerations, including institutions with small cohorts.

CSAC appeal process. Institutions deemed ineligible to participate in the Cal Grant program have appealed to CSAC. There is currently no statutory or regulatory guidance provided to CSAC regarding the institutional appeal process. 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 2013-14, 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. Recently, 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 Commissioners are not provided flexibility to consider factors beyond those CDR and graduation rate thresholds established in law.

*As this bill moves forward, the author may wish to consider, rather than providing an alternative pathway to eligibility, providing CSAC commissioners the authority to evaluate factors such as cohort size or the likeliness of the institution to regain eligibility in the following academic year when reviewing and granting an institution's appeal.*

Related legislation. AB 1590 (Wieckowski) would change the date by which CSAC must certify data from October 1 to November 1, and would require CSAC to use the most recent publically available data published by USDE. SB 1149 (Galgiani) would continue eligibility for Cal Grant renewal awards for students attending ineligible institutions.

REGISTERED SUPPORT / OPPOSITION:

Support

Humphreys College

Opposition

None on file

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