

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE
ASSEMBLY HIGHER EDUCATION COMMITTEE
JOINT OVERSIGHT HEARING

Monday, February 27, 2017
Upon Adjournment of Session – State Capitol, Room 447

College Affordability in California – Hitting or Missing the Mark?

Background

The Cost of College is Overwhelming Students and Their Families. According to a survey of Californians conducted in Fall 2016 by the Public Policy Institute of California, 57% of respondents identified the lack of college affordability as a significant problem. An overwhelming majority – 78% – agreed with the statement that students have to borrow too much money to pay for college. Data compiled by The Institute for College Access and Success (TICAS) indicates that 54% of California students graduate with college loan debt, and the average amount owed is \$22,191.

This hearing is intended to allow for a discussion of current college costs, federal, state and institutional efforts to help students cover these costs, and ideas for improving programs to better aid students in eliminating or reducing college debt.

College costs include the tuition and fees that pay for a student’s education. In addition, students incur costs for books and supplies to complete their coursework. While they attend college, students also incur living expenses, such as for housing, food, and transportation. The chart below provides examples of current costs to attend the University of California (UC), California State University (CSU), and the California community colleges. Note that at all three segments, room and board costs students more than tuition.

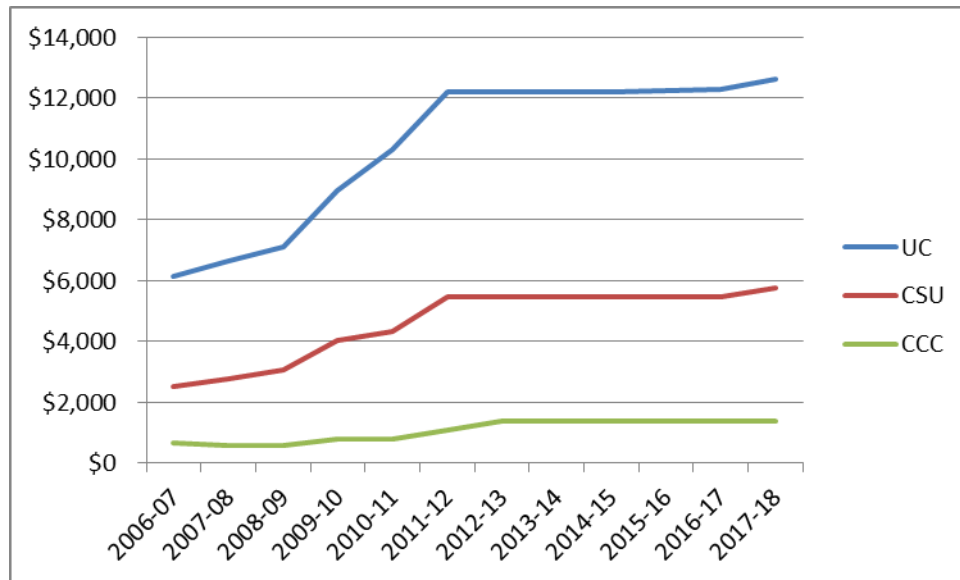
	Tuition and Fees	Books and Supplies	Room and Board	Other Expenses	Total
UC Student	\$13,500	\$1,500	\$14,500	\$4,700	\$34,200
CSU Student	\$6,356	\$1,898	\$13,240	\$2,964	\$24,622
Community College Student	\$1,104	\$1,791	\$12,492	\$4,158	\$19,545

Notes: UC information based on systemwide average 2016-17 costs, according to UCOP website. CSU information based on CSU Los Angeles 2016-17 costs, according to CSU Chancellor's Office website. Community college costs based on California Student Aid Commission's 2016-17 Student Expense Budgets. UC and CSU room and board costs assume students live on campus; community college room and board cost assume students live on own off campus. Other Expenses include items such as health insurance, transportation, and personal expenses.

UC and CSU Students Facing Tuition Increases in 2017-18. Tuition grew dramatically at all three public segments during the Great Recession. While tuition levels have remained flat during the past five years at all three segments, both the UC Board of Regents and the CSU Board of Trustees are

considering increases for the 2017-18 school year. The UC Regents approved a proposed 2.5% tuition increase (\$282 per student) and a 5% systemwide student services fee increase (\$54 per student) at their January meeting. The CSU Trustees will consider a 5% tuition increase (\$270 per student) at their March meeting.

The chart below illustrates tuition and systemwide fees during the past several years and includes the proposed changes for 2017-18.



Source: Legislative Analyst's Office

State Provides Significant Financial Aid to Support Students. California is a national leader in providing financial aid to students. General Fund support for financial aid was about \$1.2 billion in 2016-17. The chart on page 5 indicates spending levels for different aid programs. The largest state-supported financial aid programs include:

- **Cal Grant.** The Cal Grant program provides more than \$2 billion to students at UC, CSU, community colleges and private colleges. Students receive different types of Cal Grants depending on their eligibility. Charts on the following pages summarize the current award amounts and eligibility criteria.
- **Middle Class Scholarship.** Created in the 2013 Budget Act, the Middle Class Scholarship (MCS) provides a discount on tuition for undergraduate students with family incomes and assets up to \$156,000 to attend UC or CSU. Eligible students at the highest income level receive 10% off of UC or CSU tuition, with a deeper discount for lower-income students. Students at the lowest income level earn 40% off of tuition. The award amount is set by campuses after other federal, state, and institutional need-based grants are determined.

- **Community College Full-Time Student Success Grant.** Created in the 2015 Budget Act, the Full-Time Student Success Grant provides \$600 annually to community college students who also receive the Cal Grant B or C award and are enrolled in at least 12 units per semester.

Award Amounts
<p>Cal Grant A Tuition awards for up to four years. Full systemwide tuition and fees (\$12,240) at UC. Full systemwide tuition and fees (\$5,472) at CSU. Fixed amount (\$9,084) at nonprofit or WASC-accredited for-profit colleges. Fixed amount (\$4,000) at other for-profit colleges.</p>
<p>Cal Grant B Up to \$1,656 toward books and living expenses for up to four years. Tuition coverage comparable to A award for second through fourth years.</p>
<p>Cal Grant C Up to \$2,462 for tuition and fees for up to two years. Up to \$547 for other costs for up to two years.</p>
Eligibility Criteria
<p>High School Entitlement (A and B) — High school senior or graduated from high school within the last year. — Minimum high school GPA of 3.0 (for A award) or 2.0 (for B award).</p>
<p>Transfer Entitlement (A and B) — CCC student under age 28 transferring to a four-year school. — Minimum college GPA of 2.4.</p>
<p>Competitive (A and B) — Cannot be eligible for entitlement. — Minimum high school GPA of 3.0 (for A award) and 2.0 (for B award). — State law authorizes 25,750 new awards per year.</p>
<p>Competitive (C) — Must be enrolled in career technical education program at least four months long. — No GPA minimum. — State law authorizes 7,761 new awards per year.</p>

Source: Legislative Analyst's Office (LAO)

2017-18 CAL GRANT PROGRAM INCOME CEILINGS		
	Cal Grant A and C	Cal Grant B
Dependent students and Independent students with dependents other than a spouse		
<u>Family size:</u>		
Six or more	\$110,300	\$60,600
Five	\$102,200	\$56,100
Four	\$95,400	\$50,100
Three	\$87,800	\$45,100
Two	\$85,700	\$40,000
Independent students		
Single, no dependents	\$35,000	\$35,000
Married, no other dependents	\$40,000	\$40,000

2017-18 CAL GRANT PROGRAM ASSET CEILINGS	
Dependent students ¹	\$73,800
Independent students	\$35,100

¹This ceiling also applies to independent students with dependents other than a spouse.

Source: California Student Aid Commission

California Student Aid Commission Budget

(Dollars in Millions)

	2014-15 Actual	2015-16 Revised	2016-17 Enacted	Change From 2015-16	
				Amount	Percent
Expenditures					
Local Assistance					
Cal Grants	\$1,835 ^a	\$1,915	\$2,005	\$90	5%
Middle Class Scholarships	62 ^a	48	74	26	53
Assumption Program of Loans for Education	19	14	12	-3	-18
Chafee Foster Youth Program	12	12	15	3	26
Student Opportunity and Access Program	7	8	8	—	—
National Guard Education Assistance Awards	2	2	2	—	—
Other programs ^b	1	1	1	— ^c	6
Subtotals	(\$1,939)	(\$2,001)	(\$2,117)	(\$116)	(6%)
State Operations	\$13	\$14	\$17	\$2	17%
Totals	\$1,952	\$2,015	\$2,133	\$118	6%
Funding					
General Fund	\$1,539	\$1,477	\$1,184	-\$293	-20%
Federal TANF	377	521	926	405	78
Other ^d	35	17	24	7	40
^a Figures reflect amounts assumed by the Department of Finance. The California Student Aid Commission reports spending \$30 million less for Cal Grants and \$13 million less for Middle Class Scholarships.					
^b Includes Cash for College, Child Development Teacher/Supervisor Grants, Graduate Assumption Program of Loans for Education, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.					
^c Less than \$500,000					
^d Includes College Access Tax Credit Fund, Student Loan Authority Fund, other federal funds, and reimbursements.					
TANF = Temporary Assistance for Needy Families.					
Posted July 2016.					

Source: LAO

Other Aid Also Available to Students. Federal and institutional aid also helps to offset student costs. The federal Pell Grant provides more than \$4 billion in need-based aid to qualifying California students to help cover various costs. The current maximum Pell Grant amount is \$5,815 annually.

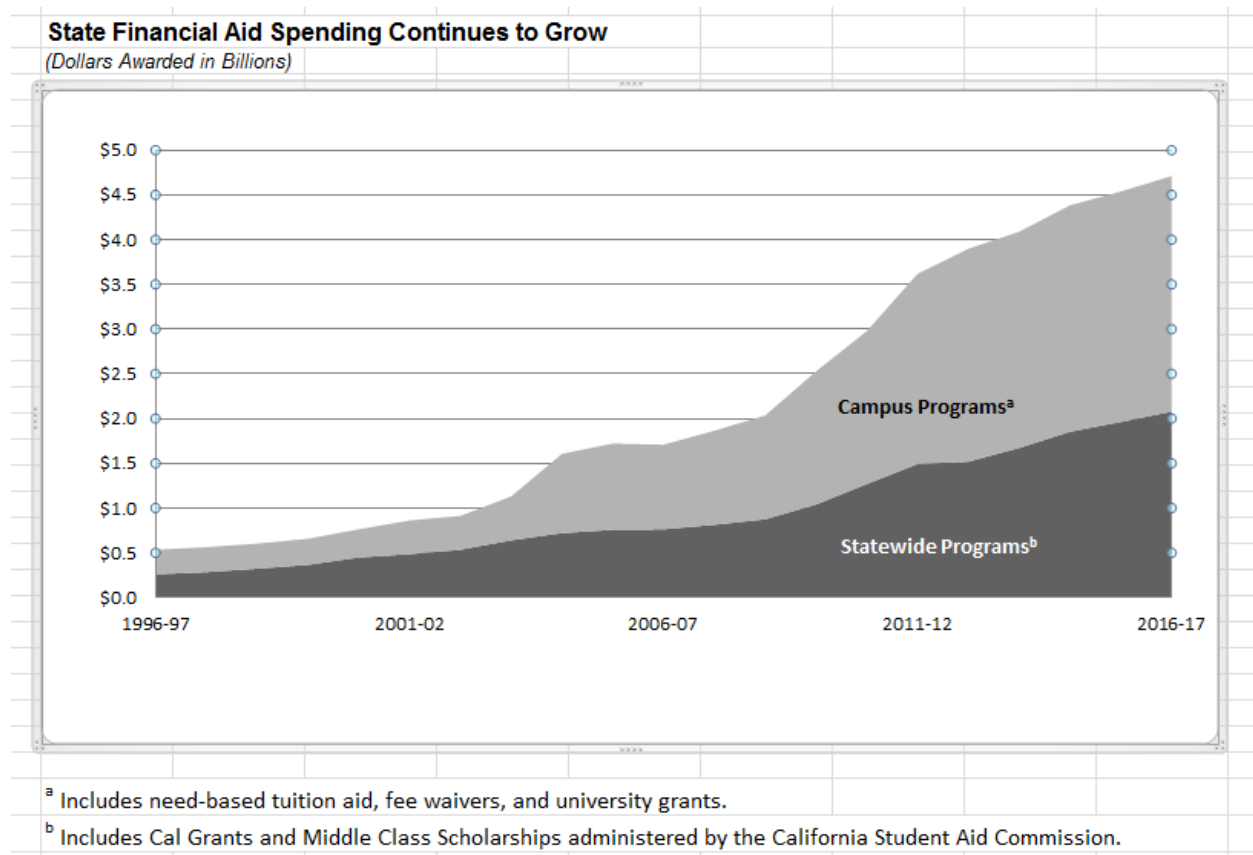
Additionally, all three public segments in California and many private colleges provide institutional aid to needy students. According to data compiled by the LAO, UC provided its students with about \$800 million in institutional aid in 2015-16, CSU provided about \$600 million in the same year, and the community colleges provided \$800 million. Each segment handles institutional aid slightly differently.

- **UC Education Financing Model.** UC sets aside one-third of all tuition revenue for financial aid, and then provides funding to students that can help cover tuition or other costs. UC's

financial aid model requires all students to contribute a certain amount of their costs - about \$9,700 in 2016-17 – and can require a parent contribution depending on income level. UC seeks to cover the rest of the costs of a needy student using federal, state and its own institutional aid.

- **CSU State University Grant Program (SUG).** The SUG is derived from tuition revenue and is used to waive all or a portion of tuition for needy students who are not receiving a Cal Grant to cover tuition.
- **Board of Governor's (BOG) Fee Waiver.** The California Community College BOG Fee Waiver allows needy students to forego tuition if a student shows financial need or has certain family income levels. More than 1 million students qualified for the fee waiver in 2013-14.

The chart below shows the growth in both state and campus aid during the past 20 years.



Source: LAO

Campus representatives will testify at this hearing about how they package federal, state and institutional aid together to help students cover as much of the costs of college as possible.

Financial Aid Clearly Benefits Students. Studies conducted in states like Wisconsin and Ohio have shown that need-based financial aid facilitates student enrollment and success. Research published

this month by the Association of Community College Trustees (ACCT) and the Institute for College Access and Success (TICAS) shows that low-income students who received more financial aid in their first year succeeded at much higher rates than those who received less. In a report titled, "Aiding Success: The Role of Federal and State Financial Aid in Supporting California Community College Students," data showed that of students with no financial resources to contribute to college, 49% of those who received at least \$7,501 in financial aid graduated or transferred, compared to 17% of those who received between \$1,001 and \$2,500. A representative from TICAS will provide more details on this report at the hearing.

Problems and Issues Regarding Financial Aid and College Costs

Focus on Tuition Leaves Students' Vulnerable to High Cost of Other Expenses. State and institutional aid have traditionally been targeted at covering tuition costs for low-income and middle-income students. More than 60% of CSU students have their tuition covered by grants or waivers, and about half of UC and community college students do not pay tuition due to financial aid.

Far less aid is available for living expenses, however, which contribute more to the cost of college than tuition. The state's aid programs that seek to address living expenses – the Cal Grant B Access Award and the Full-Time Student Success Grant – do not come close to meeting major expenses such as housing, books and food. The Cal Grant B Access Award, for example, provides \$1,656 per student. While the Assembly successfully fought to increase the award amount in the 2014 Budget Act, it is worth about one-quarter of what it was worth in 1969, when it was created, had it kept pace with inflation.

Across California campuses, students are facing increasing living costs. UC Berkeley reports, for example, that apartment rental costs have grown significantly amid a booming Bay Area economy: a one-bedroom apartment in Berkeley cost an average of \$2,889 per month in 2015. A student survey released last year by CSU indicated 8 to 12 percent of students live in unstable housing situations, and 21 to 24 percent are food insecure. Free food pantries have opened at most UC and CSU campuses.

Lack of aid for living expenses forces students to borrow more or work more. Working more often leads to reduced class loads, which can lengthen time to degree and deter completion.

Community College Students - Typically the Students with the Highest Need - Receive the Least Aid. According to analysis by The Institute for College Access and Success (TICAS), about 55% of community college students have a family income so low that the U.S. Department of Education estimates they cannot support any of the costs associated with college. Yet California community college students typically have less access to aid than other students. Unlike UC, for example, community colleges do not offer significant institutional aid to help cover living expenses. In a 2016 report, TICAS noted that while California community colleges enroll about 65% of Californians attending college, they receive only 31% of Cal Grants and account for only 7% of overall Cal Grant spending.

Hundreds of Thousands of Low-Income Students Do Not Receive a Cal Grant. The Cal Grant program provides access to college for nearly 350,000 low-income Californians, mostly through the entitlement program. Californians who are graduating from high school or graduated within one year and had a high school GPA of 2.0 (Cal Grant B) or 3.0 (Cal Grant A) and meet income and asset standards are *entitled* to a Cal Grant, as are students 28 or younger who are transferring from a community college to a four-year institution. But students who have been out of high school for more than one year are not eligible for the high school entitlement award. Instead, these students must seek a competitive Cal Grant award. While the Budget Act of 2015 increased the number of annual competitive Cal Grants to 25,750, this number still falls far short of meeting demand.

In 2014, for example, 309,403 students had the income and asset level to qualify for a competitive Cal Grant. Less than 10% of eligible Californians actually receive a competitive Cal Grant, meaning hundreds of thousands of low-income students miss out on this critical financial aid. More than 140,000 applicants who did not receive a competitive Cal Grant had family incomes below the federal poverty line, and 28,000 were single parents, according to TICAS analysis.

Aid Can Run Out Before Students Complete Programs. Both the Cal Grant and Middle Class Scholarship programs are limited to four years for students (or a fifth year if a student is seeking a teaching credential or enrolled in a few other five-year programs.) Many students run out of eligibility before they finish a program. CSU reports, for example, that only 19% of its students currently graduate in four years.

Little Aid Available for Summer Enrollment. Research indicates that academic momentum is a significant factor in graduation rates. The longer a student takes to complete units, the less likely he or she will graduate. Attending summer classes is a way for students to accelerate their time to degree, or allow them to make up for missed classes in other semesters due to work or other obligations. Summer school can be expensive, however: UC charges between \$1,100 - \$1,600 per course for tuition alone, while some CSUs charge more than \$300 per unit. Despite the benefits of summer school and the expense, there are few financial aid options for summer: the Cal Grant program does not offer additional funding for summer school, and the federal Pell Grant does not either.

There are currently efforts at the federal level to reinstate a summer Pell Grant program that was operative for only two years (2010 and 2011.)

Despite Recent Improvements, Barriers Still Exist for Students Seeking Aid. Most need-based financial aid programs—regardless of whether they are run by the federal government, state government, or an institution—require a student to file a Free Application for Federal Student Aid (FAFSA). The FAFSA collects detailed financial information on income and assets as well as a student's family circumstances (such as household size).

The FAFSA is a complicated form which can require students to answer dozens of questions and provide detailed financial records from multiple sources. This complexity can be a barrier to eligible students receiving aid: a study released in 2013 by The Education Trust-West found that only about

half of California public high school 12th-graders completed a FAFSA in 2012-13. The report noted that based on state high school demographics, many students who would be eligible for financial aid did not complete the FAFSA. Recent changes have sought to ease FAFSA completion, including allowing students more flexibility in the type of records they use to show family income and extending the timeframe in which students can file a FAFSA. Nonetheless, completing the form remains a difficult task for many families.

The state provides about \$7.7 million General Fund annually for outreach programs designed to inform students and families about financial aid and to help them complete the FAFSA, referred to as the California Student Opportunity and Access Program, or Cal-SOAP. A 2016 evaluation of the programs concluded that students who utilized Cal-SOAP services are more likely to attend college than those students who did not receive any Cal-SOAP services. The report also noted that inconsistencies and other problems with data collection made it difficult to ascertain how effective these programs are. It also should be noted that only 14 such programs exist in the state, and many areas with large populations do not have an active Cal-SOAP program.

Are Colleges Doing Enough to Constrain Costs? College affordability issues are of course inherently tied to college costs. Relative to other public agencies, public colleges and universities tend to have larger amounts of highly-skilled, highly-compensated employees. While all three segments have launched various efforts during the past decade to increase efficiencies and cut costs, it remains unclear as to whether colleges are doing enough to reign in expenses. For example, the California State Auditor last year concluded in an audit of UC that "Before it increased its tuition and nonresident enrollment to address its funding shortfalls, the University of California (university) could have done more to improve its operational efficiencies and reduce costs."

A recent report by the College Futures Foundation, entitled, "Securing the Public Trust: Practical Steps toward Higher Education Finance Reform in California," noted that both UC and CSU "face real constraints in their ability to reallocate funds from areas where it is no longer needed to areas that will pay off in increased student access and success."

The state has sought to reduce college costs with investments in programs to increase online education and lower the costs of textbooks, but this does not seem to have significantly impacted college costs.

The State Auditor is currently conducting audits of administrative costs at both UC and CSU that will be released this year. Additionally, Subcommittee No. 2 is currently working with UC to examine how state funds are used in research programs, to determine if some state funds could be removed from programs and used for student access and success. This could in turn allow for a greater investment in financial aid.

Governor's Budget Proposal Threatens College Affordability. The Budget Subcommittee will discuss the Governor's higher education proposals for the 2017-18 budget in more detail in hearings this Spring. The Governor is making a significant proposal to eliminate the Middle Class Scholarship program, which is providing tuition discounts to about 55,000 students this year. The Governor's

budget also assumes a reduction in the amount of Cal Grant funding a student attending a private college will receive, reducing the amount from \$9,084 annually to \$8,056. Both proposals will reduce General Fund spending on financial aid but could lead to more student borrowing or less access to higher education.

Other States: Innovative Efforts Addressing College Affordability

As noted earlier, the cost of college has become significantly more overwhelming to students and their families. As California continues to grapple with this issue, it is important to note some of the innovative efforts that other states have attempted as they seek to address college affordability.

Tennessee Promise. Passed by the Tennessee Legislature in 2014, the Tennessee Promise is both a scholarship and mentoring program focused on increasing the number of students that attend college in Tennessee. It provides students a last-dollar scholarship, meaning the scholarship will cover tuition and fees not covered by the Pell grant, the HOPE scholarship, or state student assistance funds. Students may use the scholarship at any of the state's 13 community colleges, 27 colleges of applied technology, or other eligible institutions offering an associate's degree program. While removing the financial burden is key, a critical component of the Tennessee Promise is the individual guidance each participant receives from a mentor who assists the student as he or she navigates the college admissions process. This is accomplished primarily via mandatory meetings that students must attend in order to remain eligible for the program. Additionally, Tennessee Promise participants must complete eight hours of community service per term enrolled, as well as maintain satisfactory academic progress (2.0 GPA) at their institution.

The states of Oregon and Minnesota have similar programs to Tennessee's Promise. Additionally, the state of Nevada has begun the legislative process to enact a full state promise program. Several other states, including, but not limited to, California, Michigan, Oklahoma, Washington and Wisconsin have local promise programs within various parts of their states.

New York Model. Announced by Governor Andrew M. Cuomo last month, New York proposes "Free Tuition" at New York State Colleges for all eligible students. While the entire details of this plan are still being unveiled, Governor Cuomo's plan specifies that eligible students are college students who have been accepted to a state or city university in New York, including their community colleges, provided they or their families earn \$125,000 or less a year.

Similar to the approach by Tennessee and Oregon, New York State would complete students' tuition payments by supplementing existing state and federal grant programs, with the goal of covering the remaining tuition balance students would have.

While many states have sought ways to provide additional financial assistance to their students, the majority of states have focused on tuition support. However, a growing number of states recognize the need to provide students with additional financial support beyond tuition.

Emergency Aid. Even with students having their full tuition covered, it does not compensate for unforeseen emergencies. More and more individual campuses throughout various states are providing emergency aid for their students. Emergency aid comes in the form of supplemental grants, financial aid advances, or even small personal loans.

Pasadena City College offers short-term emergency loans for unexpected expenses, books and supplies. Loans are usually processed within 24-48 hours and must be repaid within 30 days.

The University of California, Berkeley, makes short-term loans available to students in good standing who are faced with sudden, unforeseen financial need. Students who qualify, may receive between \$775 and \$1,300 in emergency funds. Loans are interest-free and are due within 60 days of disbursement.

Georgia State University provides micro grants to students each semester to help cover modest financial shortfalls affecting the students' ability to pay tuition and fees and prevents them from stopping their studies or dropping out. This past fall, more than 18,000 of Georgia State's 25,000+ bachelor's-degree-seeking students (72 percent) had some level of unmet need. This means that even after grants, loans, scholarships, family contributions and the income generated from students working 20 hours a week, the students lack sufficient funds to attend college. Each semester, hundreds of qualified students are dropped from their classes for lack of payment. For as little as \$300, Panther Retention Grants provide the emergency funding to allow students who want to get their degrees the opportunity to remain enrolled. Last year, nearly 2,000 Georgia State students were brought back to the classroom—and kept on the path to attaining a college degree—through the program. Sixty-one percent of the seniors who received Panther Retention Grant support last academic year graduated within two semesters of receiving the grant, and 82 percent either had graduated or were still enrolled one year after receiving the grant. With more than 5,000 grants awarded over the past four years, the Panther Retention Grant program has prevented thousands of students from dropping out of Georgia State.

Creating a Debt Free College Program

The 2016 Budget Act asked the Legislative Analyst's Office to provide the Legislature with options for creating a new state financial aid program intended to eliminate the need for students to take on college debt. The reporting language envisioned a program under which the state covers all remaining college costs (tuition and living expenses) after taking into account available federal grants, an expected parent contribution, and an expected student contribution from work earnings.

The LAO published its report last month and will present its recommendations at this hearing. Recommendations are based on current tuition levels and cost of attendance, current enrollment and includes all students taking 6 or more units, assumes a parent contribution based on federal rules for current financial aid programs, assumes current existing financial aid programs, and assumes students would work 15 hours per week at the current minimum wage. The chart on the following page indicates potential state costs for students with families in two different income brackets.

The LAO estimates that such a program could add \$3.3 billion in state financial aid costs. Of this amount, \$2.2 billion is for community college students, \$800 million is for CSU students, and \$300 million is for UC students. Costs vary by system primarily due to differences in the number of students they serve, as well as some variation in current levels of gift aid per student. The LAO estimates the cost per financially needy student is \$4,000 at CCC, \$2,700 at CSU, and \$2,400 at UC.

The LAO notes that these costs are estimates and therefore somewhat uncertain. The LAO also provides suggestions on altering student eligibility, which would lower costs. They suggest requiring students to be full-time, setting time limits on how many years a student would be eligible for the program, or requiring academic progress to remain eligible.

Figure 8			
A California Debt Free College Program			
<i>Determining Grant Amounts for Two Illustrative Students</i>			
Dependent Student With Expected Parent Contribution of Zero			
	CCC	CSU	UC
College costs^a	\$19,845	\$25,060	\$30,345
Resources to cover college costs			
Expected parent contribution	—	—	—
Expected student contribution ^b	7,312	7,312	7,312
Gift aid ^c			
Federal	5,815	5,815	5,815
State	2,256	7,128	13,950
Institutional	1,380	—	1,780
Amount of cost covered	\$16,763	\$20,255	\$28,857
Debt Free College grant	\$3,082	\$4,805	\$1,488
Dependent Student With Expected Parent Contribution of \$20,000			
	CCC	CSU	UC
College costs^a	\$19,845	\$25,060	\$30,345
Resources to cover college costs			
Expected parent contribution	20,000	20,000	20,000
Expected student contribution ^b	7,312	7,312	7,312
Gift aid ^d			
Federal	—	—	—
State	—	1,642	3,688
Institutional	—	—	645
Amount of cost covered	27,312	28,953	31,645
Debt Free College grant	—	—	—

^a Assumes student lives off campus and attends East Los Angeles College, Cal State Los Angeles, or the University of California at Los Angeles.
^b Based on student work expectation of 15 hours per week during academic year and 40 hours per week during summer.
^c Student would qualify for a federal Pell Grant. Assumes student meets academic and other eligibility criteria for a state Cal Grant. At CCC, student also would receive a waiver from enrollment fees and a Full-Time Student Success Grant. At UC, student also would receive a Blue and Gold grant. Assumes student receives no aid from private sources.
^d Student likely would qualify for a Middle Class Scholarship. Assumes student receives no aid from private sources.

