Date of Hearing: April 22, 2021

ASSEMBLY COMMITTEE ON HIGHER EDUCATION Jose Medina, Chair AB 1456 (Medina and McCarty) – As Amended April 12, 2021

SUBJECT: Student financial aid: Cal Grant Reform Act.

SUMMARY: Enacts the Cal Grant Reform Act. Specifically, **this bill**:

- 1) Enacts the Cal Grant Reform Act; specifying that the act would become operative for students to apply for financial aid beginning October 1, 2022, and to receive financial aid for the 2023–24 academic year.
- 2) Requires the California Student Aid Commission (CSAC) to adopt any necessary regulations in order to implement the Cal Grant Reform Act.
- 3) Requires that the regulations, as enumerated in (2) above, must become operative no sooner than an unspecified date. Specifies that, in order to ensure that the Cal Grant Reform Act may function in its first academic year, the CSAC is authorized to issue emergency regulations.
- 4) Revises and recasts the provisions establishing and governing the existing Cal Grant programs and the Middle Class Scholarship Program into a new Cal Grant Program.
- 5) Specifies that the new Cal Grant Program consists of a Cal Grant 2 Program and a Cal Grant 4 Program.
- 6) Establishes the Cal Grant 2 Program for students enrolled in a degree, certificate, or transfer program at a campus of the California Community Colleges (CCC).
- 7) Establishes eligibility for an award under the Cal Grant 2 Program and requires that a CCC student must comply with all of the following conditions:
 - a) Qualify as a California resident or qualify for a waiver of nonresident tuition;
 - b) Submit a Free Application for Federal Student Aid (FAFSA) or a California Dream Act application on or before September 2 of the year immediately preceding the award year;
 - c) Enroll at a campus, or a combination of campuses, of the CCC as at least a half-time student, and maintain satisfactory academic progress as defined; and,
 - d) Establish eligibility based on a student's household income or other circumstances that would qualify the student for a maximum federal Pell Grant award.
- 8) Requires that a Cal Grant 2 award must include an access award, covering nontuition expenses, of no less than the per-student amount provided in the 2020–21 award year in the first award year. Requires that amount must be adjusted in subsequent award years in proportion to the growth, if any, of the California Consumer Price Index as calculated by the Department of Industrial Relations.

- 9) Authorizes the Director of Finance to suspend the adjustment of the Cal Grant 2 access award for the succeeding award year if, in the determination of the director, the May Revision projects a state budget deficit for that succeeding award year.
- 10) Establishes the Cal Grant 4 Program for students enrolled in any institution, other than a CCC, meeting the definition of "qualifying institution" as it read on January 1, 2022. (Qualifying institutions included, but are not limited to the following: the California State University (CSU), the University of California (UC), and Independent California Colleges and Universities (ICCU)).
- 11) Establishes eligibility for an award under the Cal Grant 4 Program and requires that a student must comply with all of the following conditions:
 - a) Qualify as a California resident or qualify for a waiver of nonresident tuition;
 - b) Submit a FAFSA or a California Dream Act application on or before March 2 of the year immediately preceding the award year;
 - c) Verify, from a high school or community college transcript, that the student has a grade point average of 2.0 or greater on a 4.0 point scale;
 - d) Enroll at a qualifying institution, as defined and as it read on January 1, 2022, as at least a half-time student, and maintain satisfactory academic progress as defined; and,
 - e) Have a household income below the percentage of the federal poverty level applicable to the student, as specified in the following table, based on the status and size of the student's household:

Student Household Status and Size	Percentage of federal poverty level for qualifying for Cal Grant 4 Program Qualification
 A dependent student with married parents An independent, married student without a dependent 	225%
 A dependent student with a single parent An Independent, single student without a dependent 	275%
An independent, married student with a dependent	300%
An independent, single student with a dependent	350%

- 12) Requires that the amount of the annual Cal Grant 4 award must be based on the institution at which the recipient student is enrolled, in accordance with the following:
 - a) For a student enrolled at a campus of the UC, the cost of tuition and mandatory systemwide fees;
 - b) For a student enrolled at a campus of the CSU, the cost of tuition and mandatory systemwide fees;
 - c) For a student enrolled at an ICCU, \$9,084;
 - d) For a student enrolled at a for-profit institution accredited by the Western Association of Schools and Colleges (WASC), \$8,056; and,
 - e) For a student enrolled at a for-profit institution that is not accredited by WASC, \$4,000.
- 13) Grandfathers existing Cal Grant A, B, C (Entitlement and Competitive Programs Award)
 Program award recipients in for these programs until the expiration of their award eligibility.
- 14) Suspends and makes the current financial aid program inoperable on an unspecified date.
- 15) Requires the CSU Trustees, and requests the UC Regents, to, adopt a statement of policy on or before an unspecified date, on how their institutional aid programs address student basic needs and how these institutional funds are prioritized for disbursement.
- 16) Expresses that the intent of the Legislature, in partnership with the UC and CSU, that the UC and CSU continue to use system- and campus-based resources to support students' nontuition costs, to lower student costs wherever possible, and to assist students in accessing other federal, state, and local programs that provide need-based supports.
- 17) Expresses that the intent of the Legislature is for institutional aid programs to address tuition and fee assistance for highest need students when other coverage is not available, prioritize addressing nontuition costs serving the highest need students first, and support students who are not as needy if funding permits.
- 18) Expresses that the intent of the Legislature is that the UC and the CSU do not supplant their undergraduate institutional need-based aid for students with the funds provided pursuant to this act and, to the extent possible, maintain institutional aid funding amounts at a level that is equal to the level maintained during the 2021–22 academic year.
- 19) Requires the UC, the CSU, ICCU, and for-profit institutions of higher education, and CCC districts whose students receive Cal Grant aid must report all of the following to the Department of Finance, the Legislative Analyst's Office, and the higher education policy and fiscal committees of the Legislature for each academic year, starting with the 2021–22 academic year, by March 31 of the subsequent academic year:
 - a) The number and percentage of students who received Cal Grants;

- b) The average total of federal, state, and institutional aid provided to financial aid eligible students;
- c) The weighted average total cost of attendance at their respective institutions;
- d) The proportion of total cost of attendance covered by federal, state, and institutional aid for their students, for each of the following student household income ranges:
 - i) \$0 to \$30,000;
 - ii) \$30,001 to \$48,000;
 - iii) \$48,001 to \$75,000;
 - iv) \$75,001 to \$100,000; and,
 - v) \$100,001 and above.
- e) A description of efforts made by the systems and campuses to lower student costs and the number of students impacted, when possible; and,
- f) A description of efforts made by the systems and campuses to help students' access federal, state, and local programs that provide need-based supports, and the number of students impacted, when possible.
- 20) Authorizes the UC and the CSU to report the information, as enumerated in all of (19) above, as part of the annual reports on their respective institutional financial aid.
- 21) Expresses that it is the intent of the Legislature to enact future legislation that would appropriate funds for purposes of the Cal Grant 2 Program, and Cal Grant 4 Program, specifically including provisions that would do all of the following:
 - a) Revise eligibility requirements for a Cal Grant 2 award or Cal Grant 4 award so that all students with household incomes qualifying for a federal Pell Grant award would be eligible for a Cal Grant 2 award or Cal Grant 4 award;
 - b) Increase the base award amount for the Cal Grant 2 award to \$2,500, and adjust the amount in subsequent award years in proportion to the growth, if any, of the California Consumer Price Index as calculated by the Department of Industrial Relations; and,
 - c) Establish a statutory formula award for the Cal Grant 4 award available to students enrolled at ICCUs, as well as additional eligibility for students to receive a Cal Grant 2 award or a Cal Grant 4 award for two summer terms without impacting their lifetime eligibility for Cal Grant awards during the traditional academic year.
- 22) Makes clarifying, conforming, and technical changes to existing law.

EXISTING LAW:

Federal law. Provides federal financial aid, known as the Pell Grant, to students who demonstrate financial need. The Pell Grant award can be used for tuition and fees, books, and supplies, transportation, and living expenses for the equivalent of up to six years of full-time enrollment. The maximum Pell Grant for 2020-21 is \$6,345 (20 U.S.C. Section 1070).

State law.

- 1) Establishes the CSAC for the purpose of administering specified student financial aid programs (Education Code (EC) Section 69510, et seq.).
- 2) Cal Grant A Entitlement Awards. Students that meet income, asset and other eligibility requirements, have at least a 3.0 grade point average, and apply either the year they graduate from high school or the following year are entitled to an award that provides coverage for tuition and fees (EC 69434).
- 3) Cal Grant B Entitlement Awards. Students that meet income and asset thresholds and other eligibility requirements, have at least a 2.0 GPA and apply either the year they graduate from high school or the following year are entitled to a living allowance and tuition and fee assistance. Awards for most first-year students are limited to an allowance for non-tuition costs (access award), such as books and living expenses (currently \$1,648). In the second and subsequent years, the award also provides tuition and fee support (EC Section 69435.).
- 4) California Community College (CCC) Transfer Entitlement Awards. Cal Grant A and B awards are guaranteed to every student who graduated from a California high school after June 30, 2000, was a California resident at the time of high school graduation, transferred to a qualifying baccalaureate-degree granting institution from a CCC during the award year, was under the age of 28 at the time of the transfer, and had a minimum CCC GPA of 2.4 (EC Section 69436.).
- 5) Competitive Cal Grant A and B Awards. Students who are not eligible for entitlement awards may compete for a Cal Grant A or B Competitive award. The award benefits and eligibility requirements are the same as the entitlement program, but awards are not guaranteed. Annually, 25,750 Cal Grant Competitive awards are available. Of these, 12,875 (one-half) are for students who do not qualify for a Cal Grant Entitlement award, but who otherwise meet the Cal Grant requirements. The remaining awards are set aside for eligible CCC students. (EC Section 69437.).
- 6) Cal Grant C Awards. Specifically to assist students with tuition and training costs at occupational or vocational programs of four months to two years in length. Since 2000-01, the total number of new annual Cal Grant C awards has been set at 7,761. The maximum award amounts, which are determined in the annual Budget Act, are currently up to \$2,462 for tuition and fees and \$547 for non-tuition costs, for recipients attending other than a community college, and \$1,094 toward non-tuition costs for CCC students (EC Section 69439.).
- 7) Establishes the MCS Program to offset a portion of tuition costs at the University of California (UC) and the California State University (CSU) for students with annual household incomes of less than \$150,000 (EC 70020, et seq.).

8) Establishes the Community Colleges Student Success Completion Grant, which supplements the Cal Grant B access award by up to \$1,298 annually for students enrolled in 12, 13 or 14 units per semester and up to \$4,000 annually for student taking 15 or more units per semester (EC Section 88930.).

FISCAL EFFECT: Unknown

COMMENTS: *Background*. The Legislature appropriates more than \$2 billion annually toward financial aid. Nearly 400,000 students are expected to receive a Cal Grant this year. Financial aid is critical to providing access to higher education for low-income students, and research continues to underscore the importance of the Cal Grant program: a study published in February of 2019 in the *American Economic Journal*, found that Cal Grant increases persistence in college, degree attainment, and post-college earnings.

Despite the state's significant investment and strong evidence of the benefits of financial aid, there is significant consensus among higher education stakeholders that California's aid programs are too complicated, exclude too many needy students, and do not adequately address the costs that today's students face; major factors contributing to rising student debt and suboptimal outcomes.

All three public segments (the CCC, CSU, and UC) report slower time-to-degree and lower graduation rates for low-income students, compared to their peers. For California college students that graduated with debt in 2018-19, 48% had student loan debt. The average debt load of a California college graduate in 2018-19 was \$21,485, placing the state fourth lowest nationally, according to research by The Institute for College Access and Success (TICAS). The nationwide average of students that graduated with debt in 2018-19 was \$28,950. Additionally, there is evidence that low-income students borrow more. For example, at UC, nearly 60% of students with \$56,000 to \$112,000 in household income borrow, and at CSU, nearly 8 in 10 graduates with debt come from households with family incomes of \$54,000 or less.

Need for the measure. According to the author, "California's primary state-funded student financial aid program was designed six decades ago and no longer meets the needs of the state's struggling college students." The author contends that, "In 2020, 7 of 10 students lost some or all of their income due to the COVID-19 pandemic. Indeed, COVID-19 and the ensuing recession have only heightened financial pressures being experienced by students while also highlighting the need for longer-term structural reform of state financial aid."

The author states, "For too long, California's financial aid system has excluded too many students. In the midst of a pandemic that has exacerbated socioeconomic inequalities, it is critical that we modernize and reform Cal Grant's framework to reflect the needs and students of the Twenty-First Century. AB 1456 will introduce a new path for college affordability in California."

Federal changes. As part of federal COVID-19 related legislation signed into law in late December 2020, the process for applying for and receiving federal aid was simplified. The federal changes, commencing with the 2023-24 academic year, in part, do the following:

1) Simplifies the FAFSA form. The FAFSA is the form students need to complete in order to receive any financial aid from the federal government to help pay for college.

Each year, over 13 million students who file the FAFSA get more than \$120 billion in grants, work-study, and low-interest loans from the U.S. Department of Education. Additionally, many states, including California, and colleges use the FAFSA to determine which students will receive state and institutional financial aid—and how much they will receive.

Simplifying the FAFSA will not only make the form easier to fill out by eliminating twothirds of the questions, but it will also affect the determination of financial need for low-, middle- and high-income students.

2) Changes the Expected Family Contribution (EFC) to the Student Aid Index (SAI). While the SAI is similar in nature to the EFC, according to TICAS, the name change will more accurately reflect the meaning of the calculation when determining student aid eligibility rather than an expectation of what a family can afford to pay for college.

Under the new model, a student applicant's SAI can be as low as -\$1,500; however, the lowest EFC under the existing model is \$0.

Committee Staff understands that the goal of the negative SAI is to provide states and postsecondary institutions of learning a more nuanced picture of student need in order to best target institutional and campus-based aid.

3) Changes how Pell Grant eligibility will be determined. Using the simplified FAFSA form, the Pell amounts will generally be determined by subtracting the SAI from the maximum Pell Grant award. Students who have a negative or zero SAI will receive the maximum amount available.

Applicants whose family adjusted gross income (AGI) falls below a specified percentage of the federal poverty level, will be guaranteed eligibility (regardless of their SAI). Further, applicants whose family AGI is up to 225% of the federal poverty level could also be eligible for the maximum award, and up to 400% of the federal poverty level for the minimum Pell award.

Committee Staff understands that this additional eligibility layer is intended to enable students and families to make a simpler and earlier determination of their Pell eligibility than what is possible under the existing system.

According to TICAS, high and low national projections for what the new changes mean for the number of students receiving Pell Grants suggest that between 420,000 and 555,000 more students will receive Pell Grants. Additionally, 1.6 to 1.7 million more students will receive the maximum Pell Grant award. While more needs to be understood about the eligible SAI ranges, TICAS projects that under the new system, approximately 81% of Pell Grant recipients will be eligible for the maximum grant; a significant increase from the 64% of Pell recipients who currently have an EFC of zero.

Challenges with the existing Cal Grant program.

1) Cal Grant program excludes hundreds of thousands of needy students. Cal Grant eligibility rules are geared toward "traditional" college students, i.e. those who are 18- to 24-years old and are attending college directly after finishing high school. Students within one year of high school or community college graduation are automatically awarded a Cal Grant if they meet income/asset and GPA requirements. Students ineligible for the entitlement program

must compete for a limited number of Cal Grant awards through the competitive Cal Grant program.

Subsequently, hundreds of thousands of needy students are left out of the Cal Grant system. To note, only about 10% of students who were eligible for a Cal Grant based on income/asset levels and GPA are typically awarded a Cal Grant through the competitive Cal Grant system; most of these students are from households living below the federal poverty line, and their average age is 27. According to CSAC, about 76% of the students who are income- and GPA-eligible for a Cal Grant, but do not receive an award are community college students.

As more Californians seek a higher education, more and more eligible students are being left out of receiving much-needed financial aid.

2) Non-tuition costs are not adequately addressed. Much of the state financial aid program was created at a time when housing costs were lower, part-time jobs were more easily available to college students and the minimum wage had more buying power. Today's college students face significant costs, particularly housing: all three public segments and the independent private nonprofit segment indicate many students will spend at least \$12,000 annually on room and board in 2018-19, which is about the same cost as UC tuition and far higher than CSU and community college tuition.

To note, the maximum Cal Grant B Access Award - which helps students pay for these non-tuition costs - is just one-quarter the amount of what the award would have been if it had kept up with inflation since its creation in 1969.

3) State aid programs are too complex. Complicated eligibility and application requirements limit students' access to aid.

Cal Grant A and B have significant eligibility and benefit differences: Cal Grant B requires a lower GPA – 2.0 – and lower income/asset levels, while Cal Grant A requires a higher GPA – 3.0 – and is available to students with higher income levels. According to CSAC, more than 9,000 students are ineligible for a Cal Grant because they have a family income higher than the Cal Grant B limit but a GPA lower than the Cal Grant A requirement. For example: a student from a family of four with a family income of \$53,000 and a GPA of 2.9 would receive no Cal Grant at all; the same student with a family income of \$52,000 and a GPA of 2.4 would receive a Cal Grant B award worth thousands of dollars annually.

Cal Grant C, which is available for students in career technical education programs, requires students to submit a subsequent application after fulfilling all other Cal Grant paperwork. Take-up rates for this award vary widely, with students in private, for-profit programs receiving the award at much higher rates than students in community college programs. This may be an indicator of the extent to which campuses provide information and support to students in accessing financial aid.

The MCS provides tuition discounts of up to 40% to UC or CSU students based on income levels and other aid the student receives. The MCS is targeted to students with family incomes higher than Cal Grant levels and is designed as a "last-dollar" financial aid approach, meaning students are eligible for the program only after all their other financial aid is factored into their award. Campus administrators suggest the MCS is difficult to administer, because students cannot access MCS funding until all other aid funding is

- considered. Changes in other aid amounts lead to changes in MCS amounts, which leaves counselors and students unclear as to how much MCS funding will be available to them.
- 4) Despite state and segment focus on quicker time-to-degree, state aid does not adequately cover summer school costs. Cal Grant is limited to four academic years, requiring students who wish to take summer school to forego Cal Grant support, or receive less funding in the spring and fall to use some money in the summer. This limit does not support current efforts to encourage more students to use summer courses to graduate within four years. Increasing the number of students who graduate within four years is beneficial to the student, who can begin earning money in the workforce sooner, as well as to the state and the segments. Demand for summer school is clear: in the first year that the federal government again offered additional Pell Grant funding to support summer school attendance, 83% of community colleges across the country reported increased summer-school enrollment, according to a survey conducted by the American Association of Community Colleges.

Need for state financial aid reform. Assembly Members José Medina and Kevin McCarty, along with Senator Connie Leyva, wrote a letter to CSAC in September 2019, calling on the Commission to create a working group of financial aid stakeholders to develop recommendations to reform Cal Grant. The group was asked to consider the priorities of previous reform legislation - AB 1314 (Medina and McCarty) and SB 291 (Leyva) – and create a plan, and cost estimates, to expand Cal Grant eligibility and better support students' costs.

The Cal Grant Reform Work Group included representatives of higher education segments, students, staff from the Executive and Legislative branches, and key nonprofit and advocacy partners. Several work group meetings were held between October 2019 and February 2020, with several policy proposals considered and discussed in detail. This work led to a proposal that was released in March 2020, just days before the Legislature would call an emergency recess due to the COVID-19 pandemic.

The proposal, in part, consolidated the existing Cal Grant A, Cal Grant B, and Cal Grant C awards and the High School Entitlement, Transfer Entitlement, and Competitive programs into a two-part Cal Grant entitlement program – Cal Grant 2 (for community college students) and Cal Grant 4 (for most other students). The proposal eliminated or streamlined GPA verification for students, eliminated age and time out of high school requirements, and eliminated California's unique 'income and asset' standards to determine level of need and instead based financial need on the federal formula for EFC.

The Assembly Budget Subcommittee #2 was to have a hearing and discussion of the March 2020 CSAC proposal, but due to the aforementioned emergency Legislative Recess, the proposal was never discussed. Further, the economic recession that resulted from the pandemic has made it unlikely that the state will have ongoing General Fund (GF) resources to support the original CSAC proposal.

Assembly Members José Medina and Kevin McCarty, along with Senator Connie Leyva in Fall 2020, asked CSAC to prepare a new proposal that could work within current Cal Grant funding levels. The new proposal has a similar structure to the first proposal. Major features of the proposal include:

- 1) Cal Grant 2. The Cal Grant 2 would serve community college students by providing non-tuition support to students with a zero EFC. The proposal would eliminate high school GPA verification, eliminate time out of high school and age requirements, and allow students to apply until Sept. 2 for the academic year.
- 2) Cal Grant 4. The Cal Grant 4 would serve UC and CSU students, as well as students at private institutions. Similar to Cal Grant 2, the proposal would eliminate time out of high school and age requirements, and would lower the GPA requirement from 3.0 to 2.0. The award would cover full tuition & fees at a UC or CSU and maintain existing award amounts for students at eligible private institutions. Segment-based institutional aid programs would be expected to provide zero EFC students with a stipend to support their basic needs expenses.

This measure, in part, is in response to the findings and recommendations of the proposal. Additionally, this measure seeks to make necessary changes to state law in order to be in compliance with the upcoming federal financial aid changes.

Governor's 2021-22 Budget Proposal. Part of the Governor's 2021-22 Budget Proposal assumes a total financial aid expenditure of \$2.8 billon, of which \$2.6 billion support the Cal Grant and MCS Programs. The Governor's proposal, in part, includes the following:

- 1) \$35 million ongoing GF increase to add 9,000 Competitive Cal Grants (increasing the total number of awards to 50,000).
- 2) \$25 million ongoing GF increase for the Former and Current Foster Youth Access Award.
 - a) Eligible new or renewal Cal Grant A students will receive an access award of up to \$6,000.
 - b) Eligible new or renewal Cal Gant B students will see their access award increase from \$1,648 to \$6,000.
 - c) Eligible new or renewal Cal Grant C students will see their book and supply award increase from \$1,094 to \$4,000.

Committee comments. As currently drafted, this measure does not provide a due date sure for the existing Cal Grant programs to become inoperative.

Moving forward, the author may wish to continue to work with CSAC and other stakeholders in order to provide an appropriate inoperable date.

Additionally, as currently drafted, this measure requires the CSU Trustees, and requests the UC Regents, to adopt a statement of policy on or before an unspecified date, on how their institutional aid programs address student basic needs and how these institutional funds are prioritized for disbursement.

Moving forward, the author may wish to continue to work with the CSU and UC in order to determine a specified due date sure that the Trustees and Regents adopt a policy on how their institutional aid programs address student basic needs and how the funds are prioritized for disbursement.

Prior legislation. AB 1314 (Medina and McCarty) of the 2019-20 Session, initially enacted the Cal Grant Reform Act. However, on June 26, 2020, the measure was amended out of the jurisdiction of the Assembly Higher Education Committee to deal with law enforcement. The amended version of the bill died for a lack of hearing in the Senate Public Safety Committee.

SB 291 (Leyva) of the 2019-20 Session, in part, would establish the CCC Student Financial Aid Program to be administered by the CCC Board of Governors in order to assist in covering CCC students' total cost of attendance. This measure died for lack of a hearing by this Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Alliance for A Better Community

Asian Americans Advancing Justice - Los Angeles

Bay Area Council

BLU Educational Foundation

Cal State Student Association

California Association of Food Banks

California Community Colleges Chancellor's Office

California Competes

California Edge Coalition

California Faculty Association

California Lieutenant Governor, Eleni Kounalakis

California State Student Association

California Stem Network

California Student Aid Commission

CALPIRG Students

Campaign for College Opportunity

Canal Alliance

Children Now

Community College League of California

Dolores Huerta Foundation

Foothill-De Anza Community College District

Generation Up

Go Public Schools

Greater Sacramento Urban League

Imperial Community College District

John Burton Advocates for Youth

Kid City Hope Place

Latino and Latina Roundtable of the San Gabriel and Pomona Valley

League of Women Voters of California

Los Angeles CALSOAP Consortium

Mission Graduates

NextGen California

North Bay Leadership Council

Northern California College Promise Coalition

Partnership for Los Angeles Schools

Public Advocates

Rise

San Bernardino Community College District
San Jose-Evergreen Community College District
SaverLife
Silicon Valley Leadership Group
Southern California College Access Network
Student Senate for California Community Colleges
The Century Foundation
The Education Trust - West
The Institute for College Access & Success
uAspire
UnidosUS
Unite-LA, Inc.
University of California Student Association
Women's Foundation California
Young Invincibles

Opposition

None on file.

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