

The 2021-22 Budget: California Student Aid Commission

SUMMARY

In this report, we analyze the Governor's major budget proposals for the California Student Aid Commission (CSAC). Below, we share some of the key takeaways from the report.

Governor Proposes \$2.8 Billion for CSAC in 2021-22. This reflects a \$146 million (5.4 percent) increase over the revised 2020-21 level. The Governor proposes two early action items related to Cal Grants, two ongoing Cal Grant program expansions, and a new requirement for school districts to have high school seniors complete college financial aid applications.

Cal Grant Early Action Proposals Are Warranted. The Governor is requesting early action to (1) restore Cal Grant A awards for certain students who lost eligibility in 2020-21 due to a change in their living arrangements, and (2) postpone a rule that would reduce Cal Grant award amounts at private nonprofit institutions if the sector does not admit a specified number of transfer students in 2020-21. We recommend the Legislature adopt both proposals, as they are time-sensitive and respond to problems resulting from the pandemic. However, we also recommend the Legislature revisit the funding level for the Cal Grant A restoration proposal at the May Revision, as recent data suggests the cost may be overestimated.

Cal Grant Expansion Proposals Could Be Considered, Funds Permitting. The Governor proposes to provide (1) \$35 million ongoing to fund an additional 9,000 new competitive awards annually, and (2) \$20 million ongoing to fund supplemental access awards for current and former foster youth. We encourage the Legislature to keep the state's projected operating deficit in mind as it considers whether to pursue any Cal Grant expansion. If the Legislature were to give high budget priority to Cal Grant expansion, we think the Governor's competitive award proposal merits consideration because it would allocate additional aid largely according to student need. The Governor's foster youth proposal is also a reasonable way to target additional aid in the near term, though we think recent federal changes could provide the state with a more systematic alternative in the long run.

Last Proposal Could Increase Financial Aid Utilization. The Governor also proposes to require school districts to confirm that all high school seniors complete a Free Application for Federal Student Aid (more commonly known as the FAFSA) or a California Dream Act Application, unless the student opts out or receives an exemption. This proposal would likely leverage more federal financial aid to support students with their college costs. It would likely also increase Cal Grant entitlement spending. We recommend adopting this proposal in concept but working with the administration to ensure that it does not create unnecessary costs for school districts and planning for increased Cal Grant spending in the out-years.

INTRODUCTION

This report analyzes the Governor’s major budget proposals for CSAC. We begin the report with an overview. Next, we analyze several of the Governor’s specific proposals, with sections covering the restoration of certain Cal Grant A awards, Cal Grant

award amounts at private nonprofit institutions, competitive awards, supplemental awards for foster youth, and a requirement for school districts related to financial aid applications.

OVERVIEW

In this section, we provide an overview of the Governor’s budget for CSAC, followed by background on the Cal Grant program.

CSAC Budget

Governor Proposes \$2.8 Billion for CSAC in 2021-22. As **Figure 1** shows, this reflects a

\$146 million (5.4 percent) increase over the revised 2020-21 level. The two main fund sources for CSAC are state General Fund and federal Temporary Assistance for Needy Families (TANF). In 2021-22, state General Fund would comprise 85 percent of CSAC funding and federal TANF would comprise 14 percent. The remainder of CSAC funding comes

Figure 1

CSAC Spending Increases Under the Governor’s Budget

(Dollars in Millions)

| | 2019-20 Actual | 2020-21 Revised | 2021-22 Proposed | Change From 2020-21 | |
|--|-------------------|--------------------|---------------------|---------------------|----------------|
| | | | | Amount | Percent |
| Spending | | | | | |
| Local Assistance | | | | | |
| Cal Grants | \$2,282 | \$2,483 | \$2,561 | \$79 | 3.2% |
| Middle Class Scholarships | 117 | 117 | 117 | — ^a | — ^a |
| Golden State Teacher Grants | — | 15 | 100 | 85 | 567 |
| Student Opportunity and Access Program | 18 | 8 | 8 | — | — |
| Emergency aid for undocumented students ^b | — | 15 | — | -15 | -100 |
| Child Savings Account Grants ^c | 10 | — | — | — | — |
| Other programs ^d | 21 | 21 | 21 | — ^a | — ^a |
| Subtotals | (\$2,448) | (\$2,658) | (\$2,807) | (\$149) | (5.6%) |
| State Operations | \$27 | \$23 | \$20 | -\$3 | -13% |
| Totals | \$2,474 | \$2,681 | \$2,827 | \$146 | 5.4% |
| Funding | | | | | |
| General Fund | \$1,388 | \$2,244 | \$2,406 | \$161 | 7.2% |
| Federal TANF | 1,060 | 400 | 400 | — | — |
| College Access Tax Credit Fund | 6 | 1 | — ^a | — ^a | -52 |
| Other funds and reimbursements | 21 | 36 | 21 | -15 | -42 |

^a Less than \$500,000 or 0.05 percent.

^b Supported by unspent 2019-20 and 2020-21 funds redirected from California Dreamer Service Incentive Grants.

^c The 2019-20 Budget Act also provided \$25 million one time to the Scholarshare Investment Board for the California Kids Investment and Development Savings Program.

^d Includes Assumption Program of Loans for Education, California Military Department GI Bill Awards, Cash for College, Chafee Foster Youth Program, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.

CSAC = California Student Aid Commission and TANF = Temporary Assistance for Needy Families.

from various sources, including other federal programs and a state tax credit program.

Cal Grants Account for Majority of New Ongoing Spending. As **Figure 2** shows, the Governor’s budget includes \$72 million in ongoing spending increases for CSAC. Most of these increases are associated with the Cal Grant program, with minimal changes in other financial aid programs and state operations. The most notable one-time proposal is \$100 million for the Golden State Teacher Grant program, which we will cover in an upcoming analysis of teacher workforce proposals.

Cal Grants

State Offers Multiple Types of Cal Grant Awards. Cal Grants are the state’s primary form of financial aid. There are three main types of Cal Grant awards—Cal Grant A, B, and C. As **Figure 3** on the next page shows, the award types vary in the amount of tuition and nontuition coverage they provide. Cal Grant A covers full systemwide tuition and fees at public universities and a fixed amount of tuition at private universities. Cal Grant B in most cases provides the same amount of tuition coverage as Cal Grant A, while also providing an “access award” for nontuition expenses such as food and housing. Cal Grant C, which is only available to students enrolled in career technical education programs, provides lower award amounts for tuition and nontuition expenses. Across all three Cal Grant award types, students with dependent children qualify for a supplemental award that provides additional nontuition coverage. A student may receive a Cal Grant A or B award for up to four years of full-time study or the equivalent, whereas a Cal Grant C award is available for up to two calendar years.

Cal Grants Have Financial and Other Eligibility Criteria. To qualify for Cal Grants, students must meet certain income and asset criteria,

which vary by family size and are adjusted annually for inflation. For example, in the 2020-21 award year, a dependent student from a family of four must have an annual household income of under \$106,500 to qualify for Cal Grant A or C, and under \$56,000 to qualify for Cal Grant B. Students must also have a minimum grade point average (GPA), which ranges from 2.0 to 3.0 depending on award type. Cal Grants are provided as entitlements to recent high school graduates and transfer students under age 28. The state also provides a limited number of competitive awards to other students—typically older students who have been out of school for at least a few years. In recent years, members of the Legislature have initiated efforts to restructure this complex system, as described in the box on the next page.

Cal Grant Program Uses Federal Application Form. Whereas the primary role of the FAFSA is to assess student eligibility for federal grant and loan programs, many state and institutional aid programs also rely on the FAFSA to measure student financial need and allocate awards. This is the case with the Cal Grant program. Students apply for a Cal

Figure 2

Governor Has Multiple CSAC Proposals
(In Millions)

| | |
|---|------------------------------|
| 2020-21 Revised Spending | \$2,680.9^a |
| Ongoing | |
| Cal Grant competitive award increase | \$34.8 |
| Cal Grant supplemental award for foster youth | 20.2 |
| Other Cal Grant adjustments | 16.1 |
| Grant Delivery System modernization | 0.7 |
| Other financial aid program adjustments | — ^b |
| Subtotal | (\$71.8) |
| One Time | |
| Golden State Teacher Grant Program | \$100.0 |
| Grant Delivery System modernization | 1.1 |
| Subtotal | (\$101.1) |
| Technical adjustments | -\$27.1 |
| Total | \$145.8 |
| 2021-22 Proposed Spending | \$2,826.7 |

^a Includes an early action proposal to restore Cal Grant A eligibility to certain students who lost their awards in the current academic year. An associated \$58 million is built into the 2020-21 revised spending level.

^b Reflects caseload changes in several relatively small financial aid programs. Total net changes are less than \$50,000.

CSAC = California Student Aid Commission.

Cal Grant Modernization

Some Efforts Underway to Restructure Cal Grants. In September 2019, several members of the Legislature requested that the California Student Aid Commission convene a work group to provide recommendations to restructure the Cal Grant system. The work group identified several policy objectives, including (1) simplifying the program to make it easier for students to navigate; (2) expanding eligibility for low-income students; and (3) addressing the total cost of attendance, including nontuition costs. The work group released its initial report in March 2020. In that report, it proposed restructuring Cal Grants into two components: (1) an access award worth \$6,000 for very low-income students at the California Community Colleges and (2) a tuition award for low-income students at all other segments. (Those other segments would have been expected to provide institutional aid for nontuition costs.) The proposal would have cost \$1.1 billion annually above current costs at full implementation. In light of changes in the state’s fiscal situation since the start of the pandemic, the work group is developing a revised proposal that is intended to generate no new ongoing costs.

Figure 3

Cal Grant Amounts Vary by Award Type and Sector

Maximum Annual Award Amount, 2020-21

| | Amount |
|---|----------------------|
| Tuition Coverage | |
| Cal Grant A and B^a | |
| UC | \$12,570 |
| Nonprofit schools | 9,084 |
| WASC-accredited for-profit schools | 8,056 |
| CSU | 5,742 |
| Other for-profit schools | 4,000 |
| Cal Grant C | |
| Private schools | \$2,462 |
| Nontuition Coverage^b | |
| Cal Grant B | |
| All segments | \$1,648 ^c |
| Cal Grant C | |
| CCC | \$1,094 |
| Private schools | 547 |
| ^a Cal Grant B recipients generally do not receive tuition coverage in their first year. | |
| ^b Award amounts shown apply to students without dependent children. Students with dependent children qualify for a supplemental award that brings nontuition coverage to a maximum of \$6,000 for Cal Grant A and B recipients and \$4,000 for Cal Grant C recipients. | |
| ^c Cal Grant B recipients also receive a supplemental award (up to \$8) funded by the College Access Tax Credit. | |
| WASC = Western Association of Schools and Colleges. | |

Grant award by submitting either the FAFSA or a similar state form for undocumented students, the California Dream Act Application (CADAA). For most Cal Grant awards, the application deadline is March 2 preceding the start of the new academic year.

Governor’s Budget Adjusts 2020-21 Cal Grant Spending Downward Slightly. The revised current-year spending level is \$3 million below the level enacted in the *2020-21 Budget Act*. This revision is the net effect of three factors. First, the administration makes a downward adjustment of \$112 million (4.5 percent) to reflect more recent baseline data showing fewer-than-expected program recipients and lower associated payments. Second, the administration provides \$50 million above these baseline estimates to allow for a potential increase in Cal Grant recipients due to the recession. (The state took the same action in the enacted budget last June.) Third, the administration increases spending by \$58 million to reflect an early action proposal that would take effect in the current year, as discussed below.

Governor’s Budget Reflects Slight Baseline Increase in 2021-22. From the revised 2020-21 spending level, the Governor’s budget provides a \$17 million (0.7 percent) augmentation for 2021-22 to reflect updated baseline projections

of program recipients and payments. This low growth rate is linked to the administration's baseline assumptions regarding current-year program recipients. It also reflects minimal change in the average projected Cal Grant award amount, which is consistent with the administration's assumption of no tuition increases in 2021-22. As there remains considerable uncertainty as to how the pandemic and economy will impact higher education enrollment and Cal Grant participation in the budget year, we think the Legislature likely will want to wait until May to finalize its assumptions about baseline spending.

Governor's Budget Also Includes Four Cal Grant Policy Proposals. In addition to these baseline Cal Grant adjustments, the administration proposes four other changes to Cal Grant spending and rules. These four proposals consist of:

- \$58 million ongoing beginning in 2020-21 to restore Cal Grant A eligibility for certain students.
- Trailer bill language to postpone a requirement that private nonprofit institutions admit a specified number of transfer students.
- \$35 million ongoing to fund an additional 9,000 new competitive awards annually.
- \$20 million ongoing to provide supplemental access awards to current and former foster youth.

The Governor presents the first two proposals for early action in the spring. The remaining proposals are to be considered as part of the regular budget process.

CAL GRANT A ELIGIBILITY RESTORATION

In this section, we provide background on Cal Grant eligibility and student living arrangements, describe the Governor's early action proposal to restore Cal Grant A awards for students who lost eligibility due to a change in their living arrangement, assess that proposal, and offer an associated recommendation.

Background

State Law Sets Financial Need Threshold for Cal Grant Eligibility. A student's financial need reflects the difference between two factors:

- The student's cost of attendance, which is calculated by their campus and varies based on their living arrangement (on campus, off campus, or with family).
- The student's expected family contribution (EFC), which is measured by a federal formula that takes into account household income and size, among other factors.

State law requires students to demonstrate a certain level of financial need to be eligible for Cal Grants. To receive a Cal Grant A award, a student's financial need must be at least \$1,500 higher than

the maximum award amount at their segment of attendance. As mentioned earlier, the maximum award amount at the California State University (CSU) and the University of California (UC) is linked to systemwide tuition and fees. With the \$1,500 addition, the financial need threshold for a Cal Grant A award in 2020-21 is \$7,242 at CSU and \$14,070 at UC. The Cal Grant B award has a lower financial need threshold of at least \$700, regardless of segment.

Certain Students Who Changed Living Arrangement Lost Cal Grant Eligibility. Due to the pandemic, on-campus housing is operating at significantly reduced capacity in 2020-21. Many students who otherwise would have lived on campus are instead living at home with family. Changing living arrangements in this way reduces a student's cost of attendance, and, in turn, their financial need. As a result, some students who otherwise would have qualified for Cal Grant A no longer meet the financial need threshold. (Cal Grant B recipients were generally not affected because the financial need threshold is significantly lower for that award.)

Proposal

Governor Proposes to Restore Eligibility for Students Impacted by Change in Living Arrangement. The proposed trailer bill language would modify the financial need requirement for Cal Grant A recipients whose eligibility is impacted by a change in living arrangement (from on campus to off campus or with family) due to the pandemic. For these students, Cal Grant eligibility in 2020-21 and 2021-22 would be based on what their financial need would have been had they remained on campus. The budget provides \$58 million ongoing General Fund beginning in 2020-21 to fund these students' awards. The proposed amount is based on the administration's estimate that awards would be restored to about 5,400 students. Under the estimate, about 70 percent of these students are attending UC, with the remaining students attending CSU or private nonprofit institutions. (Community college students generally do not receive Cal Grant A awards.) The Governor includes this proposal in his early action package, which he is asking the Legislature to act upon in the spring.

Assessment

Proposal Addresses Unintended Effect. Had the pandemic not resulted in campuses operating their housing programs at reduced capacity, more students would have lived on campus in 2020-21. In turn, some of these students would have had greater financial need and met the threshold for receiving Cal Grant A tuition coverage. In developing the current rules, the state likely did not intend for changes in living arrangement due to an emergency to affect students' Cal Grant eligibility and tuition coverage. We think allowing the impacted students to receive Cal Grant A tuition coverage, even if living with family in 2020-21, is reasonable. Many of these students likely had

planned on receiving the tuition coverage, and they might not have alternative ways to now cover the unexpected cost increase.

Early Action Is Warranted to Restore Awards in Current Year. Students whose Cal Grant eligibility was impacted in 2020-21 are not receiving tuition coverage in the current academic year. Under the traditional budget time line, this proposal, if enacted, would not go into effect until after the academic year ends, leaving students responsible for covering tuition costs in the meantime. Taking early action on this proposal could allow students to receive aid sooner.

Cost of Proposal Is Likely Overestimated. The proposed amount in the Governor's budget is based on estimates the segments provided last fall of the number of students whose financial aid packages were impacted by a change in living arrangement. The segments have since revised their estimates downward, based upon updated information about how campuses are adjusting students' financial aid packages. The most significant change is at UC, which has revised its estimate of impacted students from about 3,800 to about 450. As a result, the cost of restoring eligibility for these students could be much lower than the Governor's proposed amount.

Recommendation

Adopt as Early Action, but Revisit Cost Estimate at May Revision. We recommend the Legislature take early action to adopt the Governor's proposal to restore Cal Grant A awards to impacted students. Taking early action could provide students with aid before the end of the term. We recommend the Legislature revisit the associated funding level at the May Revision, when all other Cal Grant cost estimates are typically updated. By May, better data should be available on the number of impacted students.

TRANSFER TARGET AT PRIVATE NONPROFIT SECTOR

In this section, we provide background on the associate degree for transfer (ADT) admission target for the private nonprofit sector, describe the

Governor's early action proposal to postpone the target by one year, assess that proposal, and offer an associated recommendation.

Background

At Private Nonprofit Institutions, Cal Grant Award Amounts Are Tied to Transfer Targets.

Over 90 private nonprofit institutions are currently eligible to participate in the Cal Grant program. The 2018-19 budget package included trailer legislation creating a new requirement that the sector admit a specified number of students with an ADT each year, with the target gradually increasing over time. If the sector does not meet the target, then the maximum award amount for new Cal Grant recipients attending any institution within the sector is to be reduced from \$9,084 to \$8,056 in the following year.

State Has Postponed or Suspended Requirement for the Past Two Years.

The initial target was for private nonprofit institutions to admit 2,000 ADT students in 2018-19. The sector admitted 869 students that year, missing its target. Rather than reduce Cal Grant award amounts at the sector, the state postponed each annual requirement by one year in the 2019-20 budget package, then subsequently suspended the revised 2019-20 requirement in the 2020-21 budget package. Nonetheless, the sector ended up admitting 2,372 ADT students during 2019-20—exceeding that year's target by a few hundred students. (Due to the timing of data collection for the spring 2020 term, the sector did not have this final count until after the requirement was suspended.)

Current Law Requires Sector to Admit 3,000 ADT Students in 2020-21. This target is scheduled to increase to 3,500 ADT students in 2021-22, and then to be adjusted annually in future years according to a specified formula. State law requires the association representing the sector to report on its progress toward meeting the requirement by April of each year. As of this writing, the Association of Independent California Colleges and Universities (AICCU) was in the process of compiling data from member institutions on fall 2020 admissions.

Proposal

Governor Proposes to Postpone Transfer Target. The proposed trailer bill language would postpone each upcoming annual target by one

year, starting with the current target. Under this proposal, the maximum Cal Grant award amount at private nonprofit institutions would remain at \$9,084 for the budget year, regardless of the number of ADT students the sector admits in 2020-21. Then, in 2021-22, the sector would be required to admit 3,000 ADT students (as opposed to the 3,500 required in current law) to maintain the maximum award amount for the following year. This proposal is part of the Governor's early action package.

Assessment

Proposal Prevents a Potential Award Reduction for Students With Financial Need.

Based on an AICCU survey, member institutions saw a median enrollment decline of 7 percent from fall 2019 to fall 2020. (In contrast, California's two public university systems saw slight enrollment increases.) If this trend persists for the spring term, the private nonprofit sector could be at risk of missing its ADT target for 2020-21. Under current law, students with financial need attending the sector would bear the consequences of the missed target. This could be viewed as unreasonable, especially given the financial impact of the pandemic on many lower-income students.

Early Action Would Reduce Uncertainty for Incoming Students. The Governor's proposal would mostly affect the incoming class of 2021-22, as the reduction in award amounts under current law only applies to new Cal Grant recipients. (Under current law and the Governor's proposal, students renewing their awards would continue to qualify for the current maximum award amount.) Many of these incoming students are likely making enrollment decisions during the spring. Taking early action would provide them with greater predictability regarding their financial aid coverage as they make their enrollment decisions for the 2021-22 academic year.

Recommendation

Adopt Proposal as Early Action. Given the above considerations, we recommend the Legislature adopt the Governor's early action proposal to postpone the ADT target for private nonprofit institutions by one year.

ADDITIONAL COMPETITIVE AWARDS

In this section, we provide background on Cal Grant competitive awards, describe the Governor’s proposal to increase the number of competitive awards, assess that proposal, and offer an associated recommendation.

Background

State Provides a Limited Number of Competitive Awards. The state currently authorizes 41,000 new competitive awards annually for students who do not qualify for an entitlement award. As **Figure 4** shows, CSAC uses a scoring matrix to prioritize among eligible applicants. The scoring matrix places greatest weight on measures relating to an applicant’s financial need, including their EFC. Applicants also receive points for certain socioeconomic factors and their GPA. Each year, half of the competitive awards are available to students at any segment who apply by March 2, and the other half is reserved for students attending the California Community Colleges (CCC) who apply by September 2.

Proposal

Governor Proposes Increasing Number of Competitive Awards. The Governor’s budget provides \$35 million ongoing General Fund to add 9,000 new competitive awards, bringing the total number of new competitive awards available each year to 50,000. The proposed funding level consists of two components—\$28 million for base awards and \$7 million to provide supplemental access awards to those recipients who have dependent children.

Assessment

Student Demand for Competitive Awards Far Exceeds Current Supply. In 2019-20, over 293,000 students were eligible for a new Cal Grant competitive award. Of these students, only 51,000 (17 percent) were offered an award. (The number of offered awards exceeds the 41,000 authorized awards because not every student offered an award eventually receives it.) Students offered awards had an average annual income of about \$8,100. The remaining 242,000 students, who were not offered awards, had an average income of \$30,000. Increasing the number of available awards would align with a key objective of Cal Grant modernization efforts—expanding eligibility for low-income students.

Proposal Would Systematically Allocate Aid According to Need. Because of the competitive award scoring matrix, the newly proposed awards would likely go to students who have a low EFC, are low income, and have other socioeconomic disadvantages. The use of this scoring matrix reflects a systematic way of prioritizing additional aid. (As an alternative to increasing the number of awards, the state could consider increasing award amounts. However, the state currently lacks key information

Figure 4

CSAC Uses Scoring Matrix to Allocate Competitive Awards
Reflects Scoring Matrix Used Since 2018-19

| Component | Maximum Points |
|---|--------------------------|
| Expected family contribution ^a | 250 |
| Family income and size | 250 |
| Grade point average | 100 |
| Dependents ^b | 100 |
| High school experience ^c | 100 |
| Parents’ educational level | 100 |
| Family environment ^d | 100 |
| Total | 1,000^e |

^a Determined by a federal needs calculation.
^b Points awarded to single independent students with children.
^c Points awarded to students who attended schools with high poverty rates, schools with low university-going rates, or continuation schools, as well as students who submit a score on a high school equivalency test.
^d Points awarded to students who are foster youth, orphans, wards of the court, unaccompanied, or at risk of homelessness.
^e In 2020-21, CSAC made initial award offers to students with a minimum score of 609 in the March cycle and 616 in the September cycle.
 CSAC = California Student Aid Commission.

that would help it decide among these and other approaches, as discussed in the nearby box.)

Cost of Proposal Increases Notably Over Next Few Years. The Governor’s budget reflects the cost of providing 9,000 additional new awards in 2021-22. Over the next few years, the larger cohort of new recipients will convert to larger cohorts of renewal recipients. This results in costs that increase over the next four years. Based on CSAC’s estimates, the annual cost of providing 9,000 additional competitive awards would roughly double by 2024-25. This cost increase would contribute to the state’s projected out-year operating deficits. (The administration has accounted for this proposal’s out-year effects in its January projections of the state’s operating deficits.)

Recommendation

Consider Proposal, Funds Permitting. We encourage the Legislature to keep the state’s projected operating deficit in mind as it considers any Cal Grant expansion proposal. If the Legislature were to decide to adopt the proposal to increase the number of new competitive awards, it would want to ensure that other budget adjustments have been made in order to cover the increasing out-year costs. If the funds are available, we think this proposal is worth considering because it reflects a systematic approach to allocating additional aid according to student need.

Evaluating Cal Grant Outcomes

Many Unanswered Questions Make Targeting Aid Difficult. As the Legislature likely will not be able to fund every desired Cal Grant expansion in the near term given the state’s projected operating deficits, the trade-offs among its Cal Grant expansion options are particularly important to consider. Rather than adding more competitive awards, a different option the Legislature could consider is increasing access award amounts for the financially neediest Cal Grant recipients. Increasing access award amounts for these students might reduce their work hours and college debt levels, potentially reducing time to degree and increasing graduation rates. To determine whether adding more competitive awards or increasing access award amounts has the greatest benefits, the state would need information that it does not currently collect. For example, the state would need to be able to compare student demographics, work hours, student debt, college persistence, and graduation rates for Cal Grant recipients and nonrecipients. Some, if not all, of these data likely could become part of the state’s new Cradle-to-Career data system, which is in the early stages of development. The Governor has a 2021-22 proposal to fund the next phase of this system.

SUPPLEMENTAL AWARDS FOR FOSTER YOUTH

In this section, we provide background on financial aid for foster youth, describe the Governor’s proposal to provide supplemental Cal Grant access awards to foster youth, assess that proposal, and offer an associated recommendation.

Background

About 4,000 Foster Youth Receive Cal Grants at Public Segments. **Figure 5** on the next page shows the distribution of current and former foster youth who received Cal Grants by segment, program type, and award type in 2019-20. Over half of these students are enrolled at CCC. Most of them received an award through the high

Figure 5
Most Foster Youth Receiving Cal Grants Attend CCC
 2019-20

| | Number | Percent |
|---------------------------------|--------------|-------------|
| Segment | | |
| California Community Colleges | 2,413 | 57% |
| California State University | 1,216 | 29 |
| University of California | 326 | 8 |
| Private nonprofit institutions | 184 | 4 |
| Private for-profit institutions | 77 | 2 |
| Other public institutions | 2 | — |
| Totals | 4,218 | 100% |
| Program Type | | |
| High School Entitlement | 2,322 | 55% |
| Competitive | 1,595 | 38 |
| Cal Grant C | 166 | 4 |
| Transfer Entitlement | 135 | 3 |
| Totals | 4,218 | 100% |
| Award Type | | |
| Cal Grant B | 3,715 | 88% |
| Cal Grant A | 337 | 8 |
| Cal Grant C | 166 | 4 |
| Totals | 4,218 | 100% |

school entitlement program. The majority received Cal Grant B awards, which are designed for lower-income students. This figure excludes about 1,200 foster youth who were eligible for a Cal Grant competitive award but were not offered one due to the limited number of these awards. (Although the competitive award scoring matrix provides foster youth with priority points, demand for these awards far exceeds supply, as discussed in the previous section.) Under current rules, foster youth receive the same Cal Grant award amounts as other Cal Grant recipients.

Recent Cal Grant Changes Expanded Eligibility for Foster Youth. The 2018-19 budget package enacted several changes to Cal Grant B eligibility specifically for current and former foster youth. First, it made foster youth eligible for a high school entitlement award until they are 26 years old, regardless of when they graduated from high school. Second, it extended the deadline to apply for a high school entitlement award from March 2 to September 2 for foster youth attending CCC. (For

the second round of competitive awards offered annually, all CCC students, including foster youth, must apply by September 2.) Third, it increased the time limit for foster youth to receive any Cal Grant B award from four years to eight years of full-time undergraduate study (or the equivalent).

Other Programs Also Provide Financial Assistance to Foster Youth. Figure 6 on the next page provides illustrative financial aid packages for two students who are foster youth. In addition to Cal Grants, both students in this example receive federal Pell Grants, and the student attending CCC receives two state-funded grants for low-income community college students. Both students also receive targeted aid for foster youth through the Chafee Educational and Training Vouchers Program. The Chafee program, which is also administered by CSAC, provides grants of up to \$5,000 each to students who were in foster care between the ages of 16 and 18. The program is supported by \$18 million (\$12 million federal funds and \$6 million state General Fund) that flows through the California Department of Social Services. About 4,200 students—including roughly half of Cal Grant recipients who are foster youth—receive a Chafee grant each year. In addition to traditional financial aid, many campuses also have broader student support programs for foster youth that include financial support. For example, the state provides \$20 million ongoing Proposition 98 General Fund for NextUp, a program at 45 community colleges that provides book and supply grants, academic counseling, tutoring, and other support to foster youth.

Proposal

Governor Proposes to Increase Cal Grant Access Award for Foster Youth. Under this proposal, current and former foster youth attending CCC, CSU, and UC would be eligible for supplemental access awards. The amount of supplemental aid would depend on the student’s award type. Specifically, the maximum access award would increase from \$0 to \$6,000 for Cal Grant A recipients, from \$1,648 to \$6,000 for Cal Grant B recipients, and from \$1,094 to \$4,000 for Cal Grant C recipients. Foster youth attending private colleges would not qualify for

Figure 6

Foster Youth May Receive Financial Aid From Multiple Programs

Illustrative Financial Aid Packages for a Foster Youth in Sophomore Year Enrolled Full Time^a

| | CCC Student | CSU Student |
|---|-----------------|-----------------|
| Cost of Attendance | \$25,000 | \$30,000 |
| Financial Aid | | |
| Pell Grant | \$6,345 | \$6,345 |
| Chafee Grant | 5,000 | 5,000 |
| Student Success Completion Grant ^b | 4,000 | — |
| Cal Grant B | 1,648 | 7,390 |
| California College Promise Grant | 1,380 | — |
| Totals | \$18,373 | \$18,735 |
| Net Cost for Student | \$6,627 | \$11,265 |

^a Package reflects maximum award amounts for major state and federal grant programs. Some students may also receive financial aid from other sources, such as institutional grants, scholarships, and loans.
^b Available to CCC students receiving Cal Grant B who enroll full time. Award amount reflects aid for students enrolled in 15 units per semester.

these supplemental awards, nor would foster youth who are eligible for but not receiving a competitive award. In all of these aspects, the Governor's proposal mirrors the supplemental award for students with dependent children that was created in the 2019-20 budget package. The Governor's budget provides \$20 million ongoing for the foster youth program in 2021-22, with the intent to provide the full award amounts for all eligible students. The associated trailer bill language limits funding for this program in the future to \$40 million annually, with award amounts prorated downward for new recipients if funding is insufficient in any given year.

Assessment

Governor's Proposal Targets Aid Toward Certain Students With High Need. The majority of foster youth receiving Cal Grants (93 percent) have zero EFC, reflecting that they have no family resources they can contribute. Many of these students also could have a relatively high cost of attendance, as they may not have the option of the least expensive living arrangement—at home with family. Despite the existing financial aid and student support programs available for foster youth, these students continue to report elevated rates of basic needs insecurity. For example, in a survey

of CCC students, 43 percent of foster youth reported experiencing homelessness in the past year, compared to 18 percent of other respondents. (Because this survey had an overall response rate of 5 percent, respondents might not be representative of the student population.)

Governor's Proposal Complicates an Already Complicated Program. Although the Governor's proposal has potential benefits, it adds another type of award to the Cal Grant program. The Governor took a similar approach in 2019-20 in proposing supplemental awards for students with dependent children. To date, the Governor's approach to expanding the Cal

Grant program has relied on creating supplemental awards for specific student groups. These supplemental awards have their own eligibility rules, some of which might be considered arbitrary. Such an approach works counter to recent legislative interest in simplifying the program. Were the Legislature to want to expand access awards, it could explore other ways of doing so that might simplify rather than complicate the existing structure of the Cal Grant program.

Certain Constraints Prevent More Systematic Expansion of Access Awards. An alternative to creating supplemental access awards for specific student groups is expanding access awards based on EFC. In addition to potentially adding less complexity to the Cal Grant system, this approach could also be more systematic. By expanding award amounts first to students with the lowest EFC, the state would be ensuring that it is prioritizing additional aid resources according to need. For now, however, this option is impractical due to methodological issues and fiscal constraints. In 2019-20, 228,000 Cal Grant recipients (59 percent of all recipients) had the lowest possible EFC of zero. The cost of providing each of these recipients with access awards of up to \$6,000 could be in the high hundreds of millions

of dollars annually—substantially more than the Governor’s proposed \$20 million. Alternatively, allocating the proposed \$20 million across all of these students would increase the access award for each student by an average of \$90—an amount unlikely to notably impact affordability or outcomes.

Forthcoming Federal Changes Will Help State Prioritize Students for Aid. The federal Consolidated Appropriations Act, 2021, makes changes to the financial aid system that will soon improve the state’s ability to identify the highest-need students. The new system, which is scheduled to take effect in 2023-24, replaces the EFC with a new measure called the Student Aid Index (SAI). The SAI will allow for greater differentiation among students with high need, making prioritization logistically easier. Whereas many students have the lowest possible EFC of zero, fewer students will be grouped at the lowest possible SAI. This will open up the possibility of expanding access awards to students with the lowest SAI, rather than creating supplemental awards for specific student groups.

Recommendation

Consider Proposal, Funds Permitting. As with the Governor’s proposal to increase the number

of new competitive awards, we encourage the Legislature to keep the state’s projected operating deficit in mind as it considers whether to provide supplemental access awards for foster youth. Compared to the competitive award proposal, this proposal has the fiscal advantage of having relatively flat costs in the out-years. (Some out-year cost increases are still possible, particularly if there is an increase in the number of foster youth receiving Cal Grants.) If the Legislature were to give high budget priority to Cal Grant expansion, we think that expanding award amounts for foster youth is a reasonable way to target additional aid in the near term. In the longer term, we believe the new federal SAI could provide the state with a more systematic way to target additional aid to the highest-need students without having to create supplemental awards for specific student groups. Should the Legislature wish to take a more systematic approach, it could consider working with CSAC and the administration over the next few years to develop a plan (including cost estimates and phase-in options) for expanding award amounts based on SAI.

FINANCIAL AID APPLICATIONS

In this section, we provide background on financial aid applications, describe the Governor’s proposal to require school districts to confirm that students apply for financial aid, assess that proposal, and offer an associated recommendation.

Background

More Than Half of High School Seniors Complete a Financial Aid Application. Most students may use the FAFSA to apply for federal, state, and institutional aid. Undocumented students (who are ineligible for federal aid) use the CADAA to apply for state and institutional aid. CSAC helps students complete these forms through its outreach programs, including the Cash for College program, which provides financial aid application workshops

for students and their families. Fifty-eight percent of California public high school seniors submitted a FAFSA or CADAA for the 2020-21 award year. Applications for the 2021-22 award year opened on October 1, 2020. As of late fall, CSAC was reporting that application rates among incoming freshmen were down compared to the same time in the previous year, with declines notably larger among CADAA filers (46 percent) than FAFSA filers (9 percent).

Recent State and Federal Policies Have Aimed to Have More Students Complete Applications. Chapter 533 of 2018 (AB 2015, Reyes) requires school districts to ensure that all students receive information on how to complete a FAFSA or CADAA before entering their senior

year. (The fiscal and programmatic impacts of this new requirement are not yet known, as it is taking effect in 2020-21.) Other states have gone one step further to require high school students to submit a FAFSA, as described in the nearby box. At the federal level, the recent Consolidated Appropriations Act, 2021, reduces the amount of information required of financial aid applicants. According to federal estimates, the new rules could decrease the number of FAFSA questions from 108 to 36. These changes are scheduled to take effect in the 2023-24 award year.

Proposal

Governor Proposes Requiring School Districts to Verify Completion of Financial Aid Application. The proposed trailer bill language would require school districts to confirm that all high school seniors complete a FAFSA or CADAA, unless the student chooses to opt out or the district exempts the student due to extenuating circumstances. Districts would also be required to direct students to support services provided by CSAC's outreach programs. These requirements would take effect for seniors in the 2021-22 academic year (applying for the 2022-23 award year). The trailer bill language provides districts with "complete discretion on how to implement" the requirements. The administration indicates this proposal is intended to increase financial aid utilization rates, as well as potentially increase college participation among low-income students. The proposal has no associated funding, though

it may have various out-year fiscal impacts, as discussed below.

Assessment

Proposal Would Likely Leverage More Federal Financial Aid. Based on the limited outcome data available from other states, we expect that the Governor's proposal would lead to an increase in financial aid application and utilization rates among recent high school graduates. One key benefit is that this would leverage additional federal Pell Grant funding to support students with their total cost of attendance. The size of this effect would increase over the course of several years, as additional cohorts are impacted by the policy. (Students may renew Pell Grants for up to six years of full-time undergraduate study or the equivalent.) Although the total amount of additional federal funds that would be drawn down is uncertain, it could conceivably be in the low hundreds of millions of dollars annually at full implementation.

Proposal Could Notably Increase Cal Grant Entitlement Spending. Just as more students would be considered for Pell Grants, more students also would be considered for Cal Grants. If the proposal were adopted, the state would likely see additional high school entitlement spending starting in the 2022-23 award year, with spending growing over the next three years as the larger cohorts of new recipients convert to renewal awards. At full implementation, the increase in Cal Grant spending over current levels could potentially be in the tens to low hundreds of millions of dollars annually.

FAFSA Policies in Other States

Three Other States Have Enacted "Mandatory FAFSA" Policies. In 2017-18, Louisiana became the first state to implement a policy requiring Free Application for Federal Student Aid (FAFSA) completion for high school seniors. That policy requires students to complete a FAFSA or receive a waiver as a high school graduation requirement. According to a study from The Century Foundation, Louisiana saw an 11 percentage point increase in its FAFSA completion rate among high school seniors in the first year of the policy. The number of high school graduates also increased that year, though college enrollment rates remained flat. In the coming years, more outcomes data will be available from additional cohorts, as well as other states. Illinois is implementing a similar policy in 2020-21, and Texas is scheduled to implement one in 2021-22.

(The Cal Grant spending effect depends on various factors, including the policy's effect on FAFSA completion, the share of new applicants who meet Cal Grant eligibility requirements, the share of new applicants who enroll in college, their segment of attendance, and their renewal rate.)

Impact of Proposal on College Participation Is Uncertain. In addition to increasing financial aid utilization, the administration indicates that the Governor's proposal could encourage low-income students to enroll in college by increasing their awareness of available aid. This effect is plausible but uncertain. Research on the impact of FAFSA completion on college enrollment is limited, suggesting that FAFSA completion is associated with (but does not necessarily cause) college enrollment. Moreover, it is too soon to draw conclusions from states that have implemented similar policies to date.

Proposal Builds in Certain Student Protections. In contrast to policies enacted in some other states, the Governor's proposal does not tie the completion of a financial aid application to high school graduation requirements. This provision, together with the opt-out and exemption provisions, are intended to remove the burden of filling out the form for students who otherwise might not benefit from doing so. The Governor's proposal also requires districts to direct students to CSAC's outreach programs in order to help students navigate the application process. Forthcoming federal changes to the FAFSA form

could further simplify the application process for students.

Proposal Could Potentially Create a Mandate for School Districts. Under Proposition 4 (1979), the state is required to reimburse local governments, including school districts, for the cost of new programs and higher levels of service imposed by the state. If the Governor's proposal were enacted—and if the Commission on State Mandates (CSM) were to determine that it constitutes a mandate—then the state would need to cover the associated cost for school districts. The cost would depend on the specific activities that CSM determines to be reimbursable. Although the cost has yet to be determined, it would likely be minor compared to the other fiscal impacts of this proposal (primarily increased Cal Grant spending).

Recommendation

Adopt Proposal in Concept. We believe this proposal is promising, as it could increase financial aid utilization and potentially college enrollment. Importantly, the proposal also attempts to minimize barriers that the new requirement might otherwise create for students. We recommend adopting the proposal in concept and working with the administration to further ensure that the new requirement does not create any unnecessary costs for school districts. Were the Legislature to adopt the proposal, we further recommend that it plan for increased out-year costs within the Cal Grant entitlement program.

LAO PUBLICATIONS

This report was prepared by Lisa Qing. It was reviewed by Jennifer Pacella and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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