



Streamlining State Financial Aid:

Report on Cal Grant Alternative Delivery Pilot

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AN LAO REPORT

EXECUTIVE SUMMARY

Chapter 644, Statutes of 2009 (AB 187, Committee on Budget), authorized a pilot program under which college and university campuses could voluntarily administer certain Cal Grant awards for their students beginning in the 2010-11 academic year. The California Student Aid Commission (CSAC) created the pilot in accordance with Chapter 644. No campuses volunteered to participate, however, due to cumbersome program requirements.

We find that the failure of the pilot to attract participants is the result of specific unworkable requirements included in Chapter 644. This does not suggest that decentralization of Cal Grant delivery is infeasible. On the contrary, the benefits of decentralizing financial aid awards has been well established. At least three times in the last two decades various groups have studied Cal Grant delivery and concluded that the state should decentralize this process to the campus level. There is broad agreement that an alternative delivery model is preferable.

LAO Recommendations. We recommend the Legislature enact legislation to decentralize Cal Grants through a process that includes a planning period but no pilot phase. We offer several specific recommendations for the delivery model, building on ideas suggested in earlier reports. We believe these recommendations would improve student-centered delivery of state financial aid at the campus level; reduce duplication of functions between campuses, system offices, and the state; and improve both the effectiveness and efficiency of the state's financial aid enterprise.

INTRODUCTION

This report responds to Chapter 644, which authorized a pilot program for a decentralized process for delivering Cal Grants to students. The statute requires the Legislative Analyst's Office to report on the implementation and outcomes of the first award cycle under the pilot program.

This report provides background on the existing delivery model for financial aid programs;

describes recent proposals for alternative delivery models; and chronicles the development, implementation, and outcomes of the pilot program. The report concludes with our recommendations for achieving the goals of Cal Grant delivery reform.

BACKGROUND

Overview of Cal Grants

Cal Grants Are Central to State's College Affordability Strategy. The Cal Grant programs, which include a large entitlement program for recent high school graduates and community college transfer students, and a smaller competitive

program for students who do not qualify for entitlement awards, are the state's primary financial aid programs directly supported by the General Fund. (See Figure 1, next page, for a summary of Cal Grant program requirements and awards.) In 2011-12, more than \$1.4 billion will be distributed in grants to California students.

Most Forms of Aid Awarded by College Campuses. Most student financial aid is awarded to students by campus financial aid offices. The federal Department of Education uses information from a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA), including family income, assets, and number of children in college, to determine the expected family contribution (EFC) toward college costs. Campus financial aid staff use the EFC, in conjunction with information about the costs of attending their institutions—including books and living expenses—to determine each student’s financial need. They then combine (or “package”) various types of financial aid to meet as much of each student’s financial need as possible. For example, campuses award Pell Grants

and other federal aid (including loans) based on uniform eligibility criteria, and invoice the federal government for just-in-time payment through electronic funds transfer. They award campus-based “institutional aid” according to campus and system policies and guidelines. Campuses also award privately funded scholarships and grants (which usually require supplemental application materials) in accordance with donors’ wishes.

In Contrast, Cal Grants Awarded by CSAC.

The main exception to campus-based aid packaging is Cal Grants. Financial aid staff can estimate the amount of funding students are likely to receive from the Cal Grant entitlement program, but they are not authorized to approve the awards.

The CSAC awards Cal Grants from its office in Sacramento, and the award process involves several

Figure 1

Summary of Cal Grant Program Requirements and Awards

High School Entitlement Program	Under this program, lower- and middle-income graduating high school seniors who meet eligibility criteria and apply by the deadline in the year of graduation or the following year are guaranteed a Cal Grant A or B award. Students must have a grade point average (GPA) of at least 3.0 for a Cal Grant A award, which covers full systemwide tuition at the University of California and California State University, and provides up to \$9,708 in tuition support at private California colleges and universities. Cal Grant B awards are for students with greater financial need who have at least a 2.0 GPA, and provide up to \$1,551 toward books and living expenses in the first year, and this amount plus tuition support (in the same amounts as Cal Grant A awards) beginning in the second year.
Transfer Entitlement Program	This program is for graduates of California high schools who transfer from a California Community College to a qualifying baccalaureate degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 at the end of the year in which they first receive an award. As under the high school entitlement, transfer entitlements include both A and B awards, with the same maximum awards for tuition, books, and living expenses.
Competitive Program	The Cal Grant Competitive Award Program is for students who meet the basic eligibility criteria of the entitlement program (such as income and GPA), but do not qualify for those awards. This may be because of age, or a delay in attending college following high school graduation. Recipients are selected for A and B awards from the applicant pool through a competitive process based largely on family income and GPA, with special consideration for disadvantaged students. Because of limited funding, only about 9 percent of qualified applicants receive awards.
Cal Grant C	This program provides up to \$2,592 for tuition and fees and up to \$576 for other costs for eligible low- and middle-income students preparing for occupational or technical careers.

additional inputs beyond the FAFSA information and costs of attendance. The actual payment of Cal Grants is made through college campuses. Campus financial aid offices confirm student enrollment and verify eligibility, and CSAC pays the campus for each eligible student through a process of advances and reconciliations. Campuses use the funds to pay the students' fees and to pay stipends directly to students.

Process Is Fragmented. From the student's perspective, this process is fragmented and often confusing. Students may have to submit information to the CSAC office in addition to their campus financial aid office. They receive correspondence from CSAC, which sometimes duplicates information they have already received from the campus office and sometimes contradicts it (when the campus communication is based on newer information, for example). In addition, a student's contact with the local financial aid office is usually face-to-face with an individual counselor, whereas communication with CSAC is through a web application, mail, e-mail, or call center. From the campuses' perspective, the Cal Grant award process is duplicative and labor-intensive, and often creates additional work for financial aid staff to resolve conflicting information.

Studies Have Recommended Decentralizing Cal Grant Award Process. Reports by the California Postsecondary Education Commission (CPEC) in 1993 and again in 2003 concluded that decentralization would improve delivery of Cal Grant awards by giving students a single point of contact—the campus financial aid office—for most financial aid matters. The studies concluded that decentralization would also streamline activities for campus financial aid offices. The 2003 report was written in consultation with a Task Force on Alternative Delivery, in response to supplemental report language. Task force members included broad representation from public and private sector institutions and offices.

Governor Proposed Financial Aid Decentralization in 2009-10 Budget Package

The *2009-10 Governor's Budget* proposed eliminating CSAC, transferring responsibility for administering financial aid programs to the public higher education segments, and transferring certain remaining CSAC duties to the executive branch.

Proposal Differed From Recommendations in Earlier Studies. The 2009-10 proposal drew on the same rationale for decentralization presented in earlier studies of Cal Grant delivery—simplification for students and efficiencies for the state and campuses. However, the proposal differed from earlier ones in several key respects. For example, the Governor proposed allocating financial aid dollars directly to the public higher education segments instead of maintaining a central source of funds. Earlier recommendations had mirrored the structure of the federal Pell Grant Program, in which the funds are appropriated centrally. Institutions award grants based on standardized eligibility criteria and invoice the federal government for just-in-time payment through electronic funds transfer. The Governor's proposed elimination of CSAC also went further than earlier recommendations, which envisioned a continued role for a central financial aid agency.

Student Aid Commission Opposed Proposal. The CSAC opposed the Governor's proposal to decentralize financial aid administration. In a January 26, 2009 teleconference meeting, the commission approved a motion citing lack of details, concerns about student access, and interference with CSAC's federal obligations as reasons for opposition. In the agenda materials for the following CSAC meeting in February, agency leadership questioned whether the Governor's proposal was intended to "reduce certain access for students from low-income and working families to higher education." In public testimony and written

materials provided to legislative personnel, CSAC argued that decentralization would increase costs, lessen transparency, limit student choice, and reduce the number of students receiving aid. (See the box on page 8 for our assessment of these arguments.)

Others Offered Support and Modifications. In our *2009-10 Budget Analysis Series*, we suggested that the Governor’s proposal to decentralize Cal Grants and other financial aid programs had merit but would be improved with modifications. We recommended a model similar to that proposed in earlier studies, whereby CSAC provides central services (including disbursing funds to campuses and tracking Cal Grant utilization), and campus financial aid offices assume responsibility for awarding Cal Grants using clear eligibility guidelines.

Stakeholders such as the California Student Financial Aid Administrators and the California Community Colleges Student Financial Aid Administrators voiced their support for decentralization. Likewise, the California Education Round Table, comprising the education segments and CPEC, also offered its support for the idea of decentralizing Cal Grant administration and presented its own alternative to the Governor’s proposal, very similar to ours. Figure 2 compares the three proposals.

Proposal Not Approved as Part of Budget...

The 2009-10 budget was initially approved in February 2009, following an abbreviated budget review process in the Legislature. As a result of the shortened process, several budget proposals—including the Governor’s decentralization proposal—were rejected by the Legislature “without prejudice” for consideration later in the legislative session.

Senate Approved Decentralization, Assembly Rejected It. The Governor resubmitted his proposal in an April Finance Letter that was considered by budget subcommittees during May Revision hearings. The Senate subcommittee adopted

“placeholder” trailer bill language based generally on the administration’s proposal, with modifications that: (1) employed a federal Pell Grant funding model, (2) retained some core functions at a centralized level, and (3) developed a better system for the administration of competitive Cal Grants and grants to private college students. The Assembly budget subcommittee, however, rejected the proposal to decentralize Cal Grant awards. The issue was not included in the revised budget bill passed by the Legislature in June.

...But Revisited in Response to Governor’s Veto of CSAC Operational Funds

In signing the revised budget (Chapter 1 of the Fourth Extraordinary Session of 2009), the Governor reduced several appropriations using his line-item veto authority. These included a reduction of \$6.3 million to CSAC’s \$12.6 million administrative operations budget. In his veto message, the Governor indicated his willingness to restore \$4.3 million of this amount upon enactment of legislation to decentralize financial aid administration.

Legislature Responded With Pilot. The CSAC prepared plans showing it would have to shut down midyear if its operational funding were not restored, leaving 200,000 financially needy students without Cal Grant payments. To avoid this scenario, the Legislature amended an inactive bill (AB 187 [Committee on Budget]), requiring CSAC to establish a pilot program for an alternative Cal Grant delivery system. The bill included a \$4.3 million appropriation for CSAC’s operational budget, effectively reversing part of the Governor’s July veto. The pilot legislation was signed into law on November 5 as Chapter 644.

Alternative Delivery Pilot Program

Chapter 644 requires CSAC to implement a pilot program for an alternative Cal Grant delivery

system under which qualifying institutions could voluntarily administer certain Cal Grant awards for their students. Specific provisions required CSAC to:

- Convene an advisory task force on technical and data requirements with CSAC staff and institution representatives.

Figure 2
Comparison of Three Decentralization Proposals

	Administration Proposal	LAO Alternative	Round Table Proposal
High School and transfer entitlement programs	UC, CSU, and CCC receive block appropriations and distribute awards to their students. CCC receives appropriation for students attending private institutions and administers awards as CSAC has been doing.	Paralleling the structure of the Pell Grant program, campuses in all segments (public and private) award grants based on established eligibility rules, and draw down funds from central pool on a just-in-time basis.	Consistent with LAO alternative.
Competitive Program	CCC Chancellor’s Office receives appropriation and administers statewide competitive program as CSAC has been doing.	Initial recommendation: CSAC or a successor continues to administer statewide competition. Later amended to include Round Table proposal as a viable alternative.	Program is restricted to CCC students (who receive about 75 percent of awards), eliminating need for a statewide administered competition.
Other aid programs	Specialized programs are delegated to public segments or contracted out.	Continue to be administered by CSAC or a successor agency.	Consistent with LAO alternative.
Centralized functions	No functions remain at CSAC, which is consolidated (along with CPEC) into a new executive branch office for policy and oversight.	CSAC or successor continues to: <ul style="list-style-type: none"> • Perform outreach. • Collect GPAs from students and schools and act as a state repository. • Track student eligibility and payments (including amount of lifetime award eligibility used and remaining). • Receive appropriation, and distribute to campuses as they draw down for eligible students. • Perform audits. • Provide statewide reporting on grant utilization, projection of future costs. • Interpret state financial aid policy and implement policy through regulations. 	Consistent with LAO alternative. In addition, specifies that CSAC or successor no longer receives student FAFSA records, maintains programming to determine preliminary eligibility, or provides student hotline, eliminating duplication.
Accountability	Public segments periodically report on budget and performance to new executive branch office and are subject to audits.	CSAC increases the intensity of audits.	CSAC maintains audit responsibilities.

CSAC = California Student Aid Commission; CPEC = California Postsecondary Education Commission; FAFSA = Free Application for Federal Student Aid.

Student Aid Commission's Objections to Decentralization Not Convincing

We investigated the California Student Aid Commission's (CSAC) assertions regarding effects of decentralization, and found them unpersuasive.

The CSAC's main argument regarding student choice and opportunity included the following points:

- Higher education institutions communicate about financial aid only with students admitted to their campuses.
- Therefore, tens of thousands of low-income and first-generation students who do not apply for admission, or are not admitted to campuses, would not receive any notification regarding their aid eligibility.
- Because these students would not receive notification of their aid eligibility, their options to attend and pay for college would effectively be shut down. The CSAC materials specifically cited loss of access to high-cost, selective institutions of higher education for these students.

This argument does not account for the fact that students must apply to and be accepted at higher education institutions in order to attend them. This is especially true at the more selective institutions, but even at open-access institutions such as the community colleges and private career colleges, students must apply and register and are notified of financial aid eligibility upon doing so. Neither the current centralized delivery nor a decentralized system would help students who do not apply for college. The CSAC also contends that its current process of providing information about financial award availability to students who may not have applied to college may encourage some of these students to consider applying in the future. This concern could be addressed more directly through education and outreach efforts, particularly to middle and high school students and their families.

Other concerns raised by CSAC included lack of portability of Cal Grants awarded by individual institutions, difficulty tracking remaining eligibility for students, illusory savings and increased costs, and obstacles to reconciling institutional grant awards against allocations. Each of these concerns was addressed in the administration's and/or other proposals for the design of a decentralized Cal Grant delivery system, largely by mirroring the federal Pell Grant process in which portability, tracking, cost control, and prompt payment are central features of a campus-based delivery system.

We did find merit to one of CSAC's objections. The small competitive award program for students who do not qualify for entitlement awards is not readily transferred to a decentralized model. (We proposed maintaining this program, along with a limited number of additional central functions, in a central state office, or limiting it to community college students.) With this exception, we could find no evidence that decentralization of financial aid awards would limit access to postsecondary education for disadvantaged students.

- Adopt emergency regulations establishing the pilot by July 2010.
- Implement the pilot only after at least 30 (but no more than 35) qualifying institutions commit to participating.
- Limit participation by campuses in the University of California (UC), California State University (CSU), and California Community Colleges (CCC) systems to no more than one-quarter of the campuses in each system.

Several Provisions Cumbersome for Campuses. The bill imposed requirements on the

campuses as well. To qualify, schools had to agree to serve as one-stop shops for student financial aid. This includes advising every student, parent, and counselor who inquires about financial aid, regardless of which institution the student plans to attend. Campuses also had to agree to pay all costs associated with developing and implementing the pilot, and to provide substantial new data to CSAC on a regular basis. Before Chapter 644 was enacted, representatives of the segments indicated that the bill as drafted would create a pilot that was unworkable for them. Nonetheless, many of the provisions segment representatives objected to remained in the final legislation.

IMPLEMENTATION EFFORTS

Discussions at CSAC Meetings

In CSAC meetings immediately following enactment of Chapter 644 and over the following months, the segments continued to voice their concerns. University officials told the commission that, given the requirements in the legislation, “it is highly unlikely there would be participation [in the pilot] at this time.” Segment representatives cited several reasons the universities and community colleges found the structure to be unworkable:

- The restriction on the number of campuses within each segment that could participate meant that any participating segment would have to run dual systems to administer Cal Grants through both centralized and decentralized models.
- Moreover, because students often apply to multiple campuses within a system, a student could find it confusing to receive an award offer directly from one campus, but have to go through CSAC to get an

award offer for another campus in the same system.

- The open-ended requirement to cover not only their own implementation costs, but also CSAC’s as-yet undetermined costs, was seen by the segments as untenable.
- The alternative delivery model, while addressing some concerns about communication with a subset of students, did not change the “back-office” requirements for pilot schools. As a result, the universities could not make fundamental changes in the delivery system to improve efficiency at the campus level. In fact, the pilot model created an *additional* layer of duplication of student records at CSAC and pilot schools, and an *additional* report for the pilot schools to submit, adding complexity and costs.

Other provisions cited as difficult or unworkable by the segments include greatly increased data reporting obligations and the

requirement for campuses to provide information to students about aid available at other colleges and universities.

In describing their approach to implementation, CSAC staff also acknowledged the limitations they faced designing a pilot with partial participation. Because CSAC must continue serving students at pilot and non-pilot institutions alike, the staff was designing a system that would use existing reports and processes, in effect jury-rigging the mechanisms for centralized Cal Grant administration to create a decentralized program.

Given Concerns, UC Proposes Alternative Pilot. The UC proposed an alternative pilot to test the feasibility of giving a campus full responsibility for determining Cal Grant eligibility, eliminating the duplication proposed in the CSAC pilot. The UC model would have redesigned the campus Cal Grant process rather than building on the cumbersome existing process, resulting in cost efficiencies for the campuses. The UC's proposed pilot did not meet the requirements of Chapter 644, however, and was not taken up by the commission.

CSAC's Initial Willingness to Seek Changes. In early meetings following enactment of Chapter 644, CSAC commissioners acknowledged that the pilot did not seem to be workable and indicated a willingness to make adjustments—including going back to the Legislature for statutory changes if needed. At the same time, they were under pressure to meet the requirements of the legislation, which meant developing regulations by July despite flaws in the structure of the pilot. As time went on, CSAC's commitment to making the pilot work appeared to wane. A May 2010 CSAC meeting concluded with a senior staff member ruling out any changes that would require amendments to the statute until the commission adopts regulations.

Advisory Task Force. Commission members convened a stakeholder meeting as required by the legislation in December 2009 and assigned

program staff to a technical subcommittee. In the following months, CSAC convened the technical subcommittee to discuss data exchange and other procedural matters, and it administered a survey to campuses to ascertain their technical capabilities. The CSAC also held several teleconference meetings with segmental representatives regarding procedural issues. As part of its process, CSAC staff outlined the reports and documentation it would require from participating campuses.

CSAC Developed Regulations...

In July 2010, CSAC released draft emergency regulations for comment. They received comments from the CCC, CSU, and UC system offices and the CCC Student Financial Aid Administrators Association addressing numerous specific policy and technical concerns. According to their representatives, the public segments had already concluded that they would be unable to participate in the pilot as structured in the statute, but had significant policy and process concerns with the draft regulations they felt it necessary to address for the record. In addition, CSAC received comments on the proposed regulation from a campus financial aid director citing major flaws in the overall design of the program.

...But Got No Takers

Emergency regulations were adopted in August 2010 and readopted in January 2011, with an expiration date of April 20, 2011. The regulations included an application process for campuses to participate in the pilot. The commission received no applications. As a result, the commission did not adopt final regulations, and permitted the emergency regulations to expire.

Other Outcomes

Although the alternative delivery pilot was not implemented, some participants in the process

acknowledge that planning for the pilot may have led to some other, modest benefits. For example, there may be a better understanding on the part of the segments' campus and system financial aid offices about technical aspects of the current Cal Grant administration process. Likewise, CSAC gained a

better understanding of technical and programmatic capabilities at the campuses, and has developed closer working relationships with some segment representatives. These results could be helpful in eventually designing a decentralized financial aid delivery model that is feasible for all parties.

CONCLUSIONS

Need to Decentralize Has Been Established

At least three times in the last two decades, various groups have studied Cal Grant delivery and arrived at substantially the same conclusion: the state should decentralize Cal Grant delivery to the campus level, similar to the federal Pell Grant delivery model. These studies have identified several benefits, and no major problems, with decentralization. They have addressed concerns raised by CSAC. The desirability and feasibility of decentralizing Cal Grant delivery are not questions that require more study.

Pilot Was Not Workable

For reasons articulated by the segments and CSAC, the pilot would have been complicated, cumbersome, and costly to implement. The commission, segment, and campus offices would have had to operate dual financial aid delivery systems during the course of the pilot, while weathering funding reductions and other pressures related to the state's budget shortfall. Individual campuses would have had to commit to funding unknown state costs to participate. Data reporting requirements for campuses would have expanded, along with their responsibility to inform students of financial aid options at other campuses throughout the state. In their comments on the draft regulations, the segments and others detailed additional, more technical problems that made the pilot challenging or unworkable.

Some of these flaws may be related to the circumstances under which the pilot was developed. The legislation was drafted as a response to the Governor's veto of CSAC funding. Because of the timing of this action, the Legislature was not able to vet its plan in policy and budget committees or benefit from public comment.

LAO RECOMMENDATION: DECENTRALIZE CAL GRANTS

In our view, the case for decentralization is well-established, and there are serious cost and operational challenges to conducting a pilot involving partial decentralization. For these reasons, we recommend the Legislature enact legislation to decentralize Cal Grants through a process that includes a planning period but no pilot phase. To optimize the benefits and success of decentralization, we offer several recommendations for the delivery model, building on ideas suggested in earlier reports:

- Replicate the federal aid delivery process as much as possible, including eligibility determination, awarding, funds disbursement, and reporting.
- Keep several support and accountability functions at CSAC:
 - Receiving and tracking the central appropriation for awards.

- Collecting and making available to campuses specialized information (such as the Cal Grant grade point average [GPA]).
 - Tracking past utilization and remaining eligibility for students across institutions.
 - Auditing to monitor delivery practices at campus level.
- Design processes specifically to accommodate a decentralized model, rather than retrofitting existing ones that introduce significant constraints.
 - Limit competitive award program to community college students only, eliminating the need for a centralized competition across segments.
 - Consider eliminating or amending existing statutory requirements that are outdated or of limited value, such as specialized GPA requirement that provides no added value at selective institutions with high academic standards, and specialized income and

asset limits that could be replaced by more targeted use of federal need determination process that all aid applicants and campuses use.

We suggest the Legislature convene a technical advisory group to work out numerous practical issues inherent in a major system changes such as decentralization. At the Legislature’s request, our office could lead such a group. Among the tasks of the group would be to identify the amount of time needed from enactment of legislation to implementation of the new delivery model, to allow for development and testing of new automated systems and processes.

As noted earlier, the Cal Grant programs are the centerpiece of the state’s efforts to provide college access to financially needy students. This goal is best served by ensuring the programs are administered effectively and efficiently. Student-centered delivery at the campus level with reduced duplication of functions between campuses, system offices, and the state could improve both the effectiveness and efficiency of the state’s financial aid enterprise.

LAO Publications

This report was prepared by Judith Heiman, and reviewed by Steven D. Boilard. The Legislative Analyst’s Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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