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Expanding Opportunity, Reducing Debt: Reforming California Student Aid

Prepared Testimony of Robert Shireman
Senior Fellow, The Century Foundation

Mr. Chairman and members of the committee, thank you for the opportunity to testify today about California's approach to helping students and families cover the costs of getting a college degree. I am Robert Shireman, a senior fellow at The Century Foundation, a progressive think tank with a mission to promote educational opportunity and reduce economic inequality. A product of California schools and colleges, I have been working on the issue of college affordability for going on thirty years from positions in government and nonprofit organizations in California and Washington, D.C.

Under a contract with the California Student Aid Commission (CSAC), TCF was tasked with analyzing the state's $2 billion financial aid system and identifying options for improving affordability. I led the the project team along with Jen Mishory of TCF and Sandy Baum of the Urban Institute. With the help of consultants at RTI and Craig Yamamoto, an experienced California financial aid administrator, we interviewed more than fifty stakeholders, including representatives from college access organizations, K–12 education, all of the higher education segments, several state agencies, and an expert advisory panel.

While California is a leader in providing financial aid to residents, we identified two major challenges: 1) serious gaps in aid remain for too many low- and middle-income students, resulting in a reliance on significant loans or excessive work, and which may deter potential college students from enrolling at all, and 2) the effectiveness of the available aid is undermined by a complicated structure that makes it difficult for families to navigate and rely upon the system.

Revamping the Cal Grant Program to Meet Affordability Targets

California's student aid programs consist of a complex and incomplete patchwork, with numerous eligibility restrictions. For example, your age, the length of time you have spent out of high school, and slight variations in parental income, your family's assets, and your GPA may all have outsized effects on which version of the Cal Grant you receive, if any, and how much aid you qualify for. These complexities mask the clear message required for financial aid to be effective: students who may qualify for aid may not know it, may not understand the maze of requirements, and will have no way of predicting how much aid they may receive—and thus may not even apply for college or financial help in the first place.

Moreover, Cal Grant amounts are generally linked to tuition costs, even though the expenses of attending and successfully completing college go far beyond that. Some grant aid provided directly to students by institutions (a financial aid funding stream separate from the Cal Grant) may help students in need with some of those expenses, but students at community colleges, where aid is the most limited, feel the challenge of paying for non-tuition costs most acutely. We documented these findings in a detailed report, "Expanding Opportunity, Reducing Debt: Reforming California Student Aid," available online here**:** https://tcf.org/content/report/expanding-opportunity-reducing-debt/.

The report recommends a three-step process to broaden and strengthen the Cal Grant at the UCs, CSUs, and community colleges, such that, when fully implemented, would minimize students' need to borrow for college:

1. **Reconfigure the Cal Grant**, consolidating it into one program, eliminating current restrictions that shut out hundreds of thousands of students, replacing eligibility requirements with a simple consideration of a family's income and thus their expected financial contribution to their child's education, and expanding investments to reach initial affordability targets. Take into account both funding streams from the Cal Grant and from existing aid provided directly by institutions to meet those affordability targets.
2. **Revise measures of expenses and need**, establishing new targets for the Cal Grant that account for the high cost of living in California, particularly for low- and middle-class Californians, and the true cost of college, moving beyond tuition and fees to create a more standardized method to consider all expenses.
3. **Expand the Cal Grant to reduce or eliminate the need for loans**, using the revised affordability measurements to provide adequate funding to reduce students' need for loans or excessive work, ultimately moving in the direction of debt-free college degrees.

While the Cal Grant is generally viewed as a route to a four-year baccalaureate degree, many students, especially those from low-income families and adults in the workforce, dip their toe into higher education with shorter term job-focused programs. The tiny Cal Grant program for vocational students is, oddly, restricted to programs that are terminal certificates with no opportunity to go to an associate's or bachelor's degree. We recommend that this restriction be eliminated and that (a) the new Cal Grant be usable for shorter-term programs, and (b) students who have completed a certificate remain eligible for Cal Grants until they have completed a BA.

Low-Cost Improvements to Maximize Effectiveness

While most of the above recommendations would require significant additional investments in the Cal Grant in order to serve all eligible Californians, there are steps that the state could take to improve the effectiveness of the current financial aid system even without additional funding. We recommend a modernized, technology-savvy aid system to better provide students with personalized, easy-to-understand information:

1. **Make college estimates and comparisons easier**, through a simple check-box on state income tax forms for families to request a financial aid estimate for multiple sample institutions (a community college, a CSU and UC campus, a nearby nonprofit). This means that families would receive up-to-date, tailored information about the aid for which they would likely qualify based on their income when their children reach college age. This highly scalable and targeted outreach would connect potentially millions of people to usable information who might otherwise assume college is too expensive or not have the information needed to effectively plan for the future.
2. **Improve and compare financial aid award letters**, using the agency's improved web presence to allow students to decipher and compare aid grants across institutions. Right now, financial aid award letters are hard to understand without outside help or a parent who has been through the process: many schools use different terminology to describe the same loan, and in some cases, it can be difficult to understand which offering is a grant or a loan. By requiring schools to use similar terminology and compare on one centralized cite, students and families can make more informed decisions.
3. **Increase assistance to students**, piloting low-cost interventions to coach students through the aid application and enrollment process, focusing on individuals with the greatest financial need. Research shows that even with clear information, students need additional help navigating the financial aid process. In order to truly make a difference at closing gaps in access, we need to figure out how to do that at scale.
4. **Facilitate saving for college**, building on efforts to inform families about the cost of college and encourage setting aside money in as early as a child's kindergarten years. CSAC should partner with efforts to create early college savings accounts to build pilots to ensure those families receive clear information about aid available.

Aid to Private Colleges

In our research and in testimony before the budget committees, stakeholders and legislators frequently raised the question of how to set and justify aid amounts to private colleges, which vary even more widely than do public sector institutions in mission and type. For example, the lack of financial controls on for-profit colleges means that they frequently spend more money on marketing and recruiting than they do on actually teaching the students, and tuition funds paid by taxpayers can essentially go directly into the pockets of school's owners and investors. In the case of nonprofit schools, at least the funds are dedicated by law to education, and conflicts of interest are prohibited, though they still retain significant freedom concerning how they charge tuition and thus how they use state aid dollars.

To address some of these challenges, we recommended that, in addition to retaining current restrictions on aid amounts, state aid to private institutions should not exceed the institution's per-student spending on instruction, a figure that is already required to be reported to the federal government. In other words, any state aid dollars must go directly to student instruction and not marketing or profits. We also suggest that the state consider whether to require all private colleges receiving state aid to adopt the financial controls that are required of nonprofit colleges, which, given that more than 98 percent of fraud complaints from student loan borrowers were about for-profit colleges, have proven to be the most reliable preventative guard against predatory practices.

Conclusion

We are pleased that at its meetings in April and June, CSAC commissioners endorsed the general recommendations in our report. It is now the legislature's turn to take the reins, and we encourage this committee to think boldly about reforms such as these that could help make college a reality for millions of Californians.

We stand ready to help.

The Century Foundation
Summary of Recommendations

Increase, and Increase Access to, Information and Advising:

1. Partner with the California Franchise Tax Board to allow families to easily obtain personalized comparisons of estimated aid eligibility and net price for California colleges.

2. Require colleges to provide financial aid award offers in a format that can be compared online with other colleges' awards.

3. Expand public communications and outreach to encourage lower-income Californians to aim for college and to consider a variety of options.

4. Expand CSAC's role in advising about savings: for example, work with administrators of the Scholarshare savings program to develop strategies to encourage participation.

Revamp Aid Programs:

1. Merge the various Cal Grants and the Middle Class Scholarship into one Cal Grant with consistent student eligibility requirements.
    a. Eliminate the GPA cutoffs, relying instead on institutional admissions and progress standards.
    b. Eliminate consideration of prospective students' age or time out of high school.

2. Base the measure of family resources on federal EFC, rather than the income and asset cutoffs currently used for Cal Grants. Study potential adjustments to the EFC to make it more realistic given California's cost of living.

3. Base the Cal Grant Award on students' need and total cost of attendance, starting with a self-help expectation of $11,000 at UC and CSU and $8,000 at the community colleges (the affordability target) and adjusting down over time.
    a. To determine the Cal Grant amount, use a lower cost assumption when students live at home with a parent, but reduce the self-help expectation so that students benefit from making that choice.
    b. For Cal Grant purposes, use a standard regional off-campus housing cost estimate so that the Cal Grant does not incentivize high-cost dorms and so that students benefit from lower-cost dorms.
    c. Publish a standardized methodology for schools to use in determining cost of attendance to create consistency across segments.

4. Increase funding for the Cal Grant so that, along with institutional aid, awards can reach the affordability target at public institutions.

   a. Fully fund up to the affordability target at community colleges (assume no institutional aid other than the fee waivers).
   b. At UC and CSU, consider three options for how the integrated approach to Cal Grants and institutional aid could work:
      i. Leave institutional aid untouched, meaning a Cal Grant base award that would be below tuition, relying on CSU and UC to provide additional aid consistent with the intention of meeting the affordability target.
      ii. Require an institutional match so that the Cal Grant award is equal to tuition and fees, except when students have already reached the affordability target.
      iii. Move appropriations from UC and CSU to CSAC in order to make a fully CSAC-funded Cal Grant award meet tuition and fees.

5. Continue to limit the number of years of eligibility for Cal Grant Awards to four (and five for five-year programs). Limit availability at the community colleges to two. Encourage institutions to use institutional aid to still meet the affordability target. Possible alternatives to this approach include:
   a. Lengthen Cal Grant eligibility in recognition of the time many students at Cal State take to complete their degrees and the extra time most transfer students require to earn bachelor's degrees.
   b. In setting the amount of the CSAC-provided aid to UC and CSU for the four years, include a consideration of the longer time to degree so that institutions are expected to provide the extended aid, but institutions also have an incentive to graduate students within four years.

6. Allow students who are enrolled half- or three-quarters time to receive a proportionate Cal Grant and extend their eligibility accordingly.

7. Allow students to receive Cal Grants while enrolled in certificate or degree programs as short as four months (most relevant for community colleges and career schools); allow students to continue to make progress toward a bachelor's degree even after attaining a sub-baccalaureate degree or certificate.

8. Include private colleges in the Cal Grant program so long as they meet specific quality assurance standards, including a baseline standard that caps award levels at the amount schools spend on instruction per student. Set the base Cal Grant level at the UC Cal Grant level for nonprofit/WASC institutions and maintain the current level for others.

9. Launch a Fund for Innovation in College Affordability to pilot efficient approaches that reduce students' cost of attendance and improve college outcomes (enacting, for example, a transportation vouchers program).

10. *New*: Consider eliminating the March and September application deadlines.