

GOVERNOR'S VETO
AB 1456 (Medina and McCarty)
As Enrolled September 14, 2021
2/3 vote

SUMMARY

Enacts the Cal Grant Reform Act - making significant reforms to the state's financial aid Cal Grant Programs, including the phase-out of some existing programs and the creation of the new Cal Grant 2 Program for California Community Colleges (CCC) students, and the Cal Grant 4 Program for students attending the University of California (UC), California State University (CSU), and eligible private postsecondary institutions.

Senate Amendments

- 1) Provide an inoperative date of July 1, 2024, or on a date determined in the annual Budget Act, whichever date is later, for specified existing provisions of the Cal Grant Program.
- 2) Push back the operative date of the Cal Grant Reform Act; specifying that the Act would become effective for students to apply for financial aid beginning October 1, 2023, and to receive financial aid for the 2024–25 academic year.
- 3) Specify that the CSU Trustees shall, and the UC Regents may, on or before June 30, 2023, adopt a statement of policy on how their institutional aid programs address student basic needs and how the funds are prioritized for disbursement.
- 4) Add additional legislative intent language around timely degree completion; and, that a working group comprised of specified entities be convened to evaluate changes to state and federal financial aid following the operative date of the Cal Grant Reform Act.
- 5) Specify that the Act shall only become operative upon an appropriation that is sufficient to fully implement its provisions.
- 6) Address potential chaptering out issues, which, in part, account for the Cal Grant Program changes enacted earlier this year by the postsecondary education budget trailer bill.
- 7) Clarify various definitions and student eligibility requirements.
- 8) Make several technical, clarifying, and confirming changes to existing law.
- 9) Add co-authors.

Governor's Veto Message

This bill would replace the existing Cal Grant financial aid program with new Cal Grant 2 and Cal Grant 4 awards, for students receiving new awards beginning with the 2024-25 academic year.

Expanding access to financial aid has been a priority for my Administration. During my first year as Governor, I worked with the Legislature to provide access awards of up to \$6,000 for students with dependent children. In partnership with the Legislature, we recently made historic investments in our financial aid system, including over \$235 million in ongoing resources to

expand Cal Grant eligibility for community college students, and a combined \$632 million in ongoing resources to focus the Middle Class Scholarship Program on reducing students' total cost of attendance. This bill seeks to replace those investments prior to their full implementation.

I agree with the author that making the Cal Grant program simpler to navigate would benefit our students and their families. However, this bill results in significant cost pressures to the state, likely in the hundreds of millions of dollars annually. Future changes to the financial aid system of this magnitude should be considered as a part of the annual budget process.

For these reasons, I am returning this bill.

COMMENTS

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

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

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

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

- 1) *Simplifies the Free Application for Federal Student Aid (FAFSA) form.* The FAFSA is the form students need to complete in order to receive any financial aid from the federal government to help pay for college.

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

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

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

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

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

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

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

Challenges with the existing Cal Grant program.

- 1) Cal Grant program excludes hundreds of thousands of needy students.
- 2) Non-tuition costs are not adequately addressed.
- 3) State aid programs are too complex.
- 4) Despite state and segment focus on quicker time-to-degree, state aid does not adequately cover summer school costs.

Need for state financial aid reform. Assembly Members José Medina and Kevin McCarty, along with Senator Connie Leyva, wrote a letter to the California Student Aid Commission (CSAC) in September 2019, calling on the Commission to create a working group of financial aid stakeholders to develop recommendations to reform Cal Grant. The group was asked to consider the priorities of previous reform legislation - AB 1314 (Medina) and SB 291 (Leyva) – and create a plan, and cost estimates, to expand Cal Grant eligibility and better support students' costs. Due to the global pandemic, and the initial budget forecast signaling a budget shortfall, the original proposal from the aforementioned workgroup, was not formally presented to the Legislature.

Assembly Members José Medina and Kevin McCarty, along with Senator Connie Leyva in Fall 2020, asked CSAC to prepare a new proposal that could work within current Cal Grant funding

levels. The new proposal has a similar structure to the first proposal. Major features of the proposal include:

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

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

Budget activity. The postsecondary education trailer bill, AB 132 (Budget Committee), Chaptered 144, Statutes of 2021, makes various changes to the Cal Grant program, including the establishment of a new California Community College Expanded Entitlement program, which provides access to entitlement awards for all eligible students at community colleges, to retain when they transfer to a CSU or UC. This measure avoids conflicts with the provisions of AB 132.

Please refer to the Assembly Committee on Higher Education policy analysis for further discussion.

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

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

According to the Author

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

The author states, "For too long, California's financial aid system has excluded too many students. In the midst of a pandemic that has exacerbated socioeconomic inequalities, it is critical that we modernize and reform Cal Grant's framework to reflect the needs and students of the

Twenty-First Century. AB 1456 will introduce a new path for college affordability in California."

Arguments in Support

According to the California Lieutenant Governor, the Honorable Eleni Kounalakis, "The Cal Grant Equity Framework proposed in AB 1456 was developed after years of consultation with students, segments, and other key higher education stakeholders. AB 1456 puts California on the path to fix financial aid and to ensure that students can truly access and benefit from the opportunities that higher education provides. In adopting this new framework, policymakers can extend eligibility for state financial aid to thousands of additional students, simplify an overly complicated system, and remove the eligibility barriers that have restricted so many of the most financially vulnerable students. Given the impact of COVID-19 on California and its economy, we simply cannot afford to lose an opportunity to invest in our state's most important asset – our students."

Arguments in Opposition

There is no opposition on file.

FISCAL COMMENTS

According to the Senate Appropriations Committee:

- 1) The CSAC estimates ongoing General Fund (GF) costs of approximately \$82.6 million to implement the reforms to the Cal Grant program proposed by this measure. Specifically, an additional \$26.82 million would be required to support the extension of Cal Grants to additional students as well as costs associated with indexing Cal Grant 2 awards to the California Consumer Price Index. Additionally, the CSAC indicates that an additional \$44.8 million would be needed for the Students with Dependent Children program which would on top of its 2021-22 Budget Act funding level of \$180.1 million. The program's statutory cap was increased to \$250 million for the current year. Lastly, the CSAC estimates that an additional \$10.9 million would be necessary for the new enhanced access award for current and former foster youth above the program's 2021-22 appropriation of \$15.1 million to maintain full award amounts.
- 2) The CSAC indicates that because the bill allows existing Cal Grant recipients to continue to receive their awards until their eligibility expires, an additional \$57.7 million in one-time General Fund would be needed over a three-year period to maintain these Cal Grant awards.
- 3) The CSAC estimates one-time GF costs of about \$1.1 million to develop a new Cal Grant system to process the awards and also facilitate marketing efforts. The CSAC also estimates ongoing General Fund costs of approximately \$375,000 for two additional staff to support its call center and two staff to support training and outreach efforts in launching the new Cal Grant system.
- 4) By removing the Cal Grant B Access Award, this bill could impact CSU's grant aid program which currently offers awards to cover costs for fifth and sixth year undergraduates, graduate students and other students not eligible for a Cal Grant. The exact financial impact is unknown, but CSU indicates that its program could be overextended if it were to continue to both support the academic persistence of students and provide non-tuition awards for low-income students.

VOTES**ASM HIGHER EDUCATION: 10-0-2**

YES: Medina, Choi, Arambula, Bloom, Gabriel, Irwin, Levine, Low, Blanca Rubio, Santiago

ABS, ABST OR NV: Kiley, Valladares

ASM APPROPRIATIONS: 13-0-3

YES: Lorena Gonzalez, Calderon, Carrillo, Chau, Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Holden, Luz Rivas

ABS, ABST OR NV: Bigelow, Megan Dahle, Davies

ASSEMBLY FLOOR: 78-0-1

YES: Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bigelow, Bloom, Boerner Horvath, Bryan, Burke, Calderon, Carrillo, Cervantes, Chau, Chen, Chiu, Choi, Cooley, Cooper, Cunningham, Megan Dahle, Daly, Davies, Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Eduardo Garcia, Gipson, Lorena Gonzalez, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kiley, Lackey, Lee, Levine, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Mullin, Muratsuchi, Nazarian, Nguyen, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Seyarto, Smith, Stone, Ting, Valladares, Villapudua, Voepel, Ward, Akilah Weber, Wicks, Wood, Rendon

ABS, ABST OR NV: Waldron

SENATE FLOOR: 38-0-2

YES: Allen, Archuleta, Atkins, Bates, Becker, Borgeas, Bradford, Caballero, Cortese, Dahle, Dodd, Durazo, Glazer, Gonzalez, Grove, Hertzberg, Hueso, Hurtado, Jones, Kamlager, Laird, Leyva, Limón, McGuire, Melendez, Min, Newman, Nielsen, Ochoa Bogh, Pan, Portantino, Roth, Rubio, Skinner, Umberg, Wieckowski, Wiener, Wilk

ABS, ABST OR NV: Eggman, Stern

ASSEMBLY FLOOR: 79-0-1

YES: Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bigelow, Bloom, Boerner Horvath, Bryan, Burke, Calderon, Carrillo, Cervantes, Chau, Chen, Chiu, Choi, Cooley, Cooper, Cunningham, Megan Dahle, Daly, Davies, Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Eduardo Garcia, Gipson, Lorena Gonzalez, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kiley, Lackey, Lee, Levine, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Mullin, Muratsuchi, Nazarian, Nguyen, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Seyarto, Smith, Stone, Ting, Valladares, Villapudua, Voepel, Ward, Akilah Weber, Wicks, Wood, Rendon

ABS, ABST OR NV: Cooley

UPDATED

VERSION: September 14, 2021

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FN: 0002031