AB 789 FISCAL IMPACT MEMORANDUM

Summary
AB 789 would achieve the long-standing priority of the California State Legislature of equitable access to higher education with a negligible financial impact. Absorbable increases in Cal Grant spending would be offset by reduced costs to institutions of higher education due to reduced student attrition, increased state income tax contributions, and lower lifetime government expenditures on poverty-related state public benefits.

Background
Currently, federal law requires all postsecondary educational institutions that accept federal financial aid to establish a standard to determine whether a student is making Satisfactory Academic Progress (SAP) as a condition of the receipt of financial aid. Federal law requires postsecondary education institutions to include three elements in their SAP standard: a minimum Grade Point Average, a maximum timeframe for completion, and a minimum course completion rate. Federal law does not specify what the threshold for these three elements is, but rather sets minimum federal requirements. In order to qualify for most forms of state financial aid, including the Cal Grant, students must satisfy these same requirements.

Changes Proposed by AB 789
AB 789 would establish a statewide standard for Satisfactory Academic Progress (SAP) and prevent postsecondary educational institutions from establishing additional requirements that are more restrictive than those that are federally mandated. Additionally, it would establish minimum communication standards related to SAP policies and appeals processes, specify criteria for how SAP appeals are accepted and handled, and ensure students with a prior SAP disqualification have the opportunity to apply to regain access to financial aid upon reentry.

Policy Impact of AB 789

1. **Reduce racial disparities in postsecondary education access:** The current approach of institution-based SAP policies disproportionately results in a loss of financial aid for students of color. A 2021 analysis found that Black (34%), Latino (27%) and Native American (32%) students did not make SAP at a rate considerably higher than that of white (15%) and Asian (15%) students.[1] Glendale Community College piloted the utilization of federal SAP standards and found it reduced disparities across racial and ethnic groups.

2. **Increase retention and degree completion:** Research consistently demonstrates that students who receive financial aid are more likely to persist and complete their degrees than those who do not. This is particularly true for students from low-income households and underrepresented populations. By aligning the SAP standards with the minimum federal requirements and increasing pathways to regain financial aid through the appeals process, more students would potentially maintain their financial aid, and therefore enrollment. Students who have stopped out would be able to re-enroll more easily.

   As a case example, Glendale Community College analyzed appeal data and found that students on financial aid disqualification due to SAP who did not file an appeal were significantly more likely to disenroll when compared to those who do file an appeal.

3. **Increase enrollment in college:** California has faced an enrollment crisis, in particular at community colleges and CSUs. Community college enrollment numbers plummeted to a 30-year

[1] John Burton Advocates for Youth. (2021) *The Overlooked Obstacle: How Satisfactory Academic Progress Policies Impede Student Success and Equity*.

low through the collective loss of about 300,000 students.[2] CSUs saw a loss of 27,000 students over two years, in large part due to first-year students not re-enrolling.[3] The Legislature has allocated $270 million to the community college system across the last three fiscal years specifically to employ strategies to increase retention and enrollment, along with an additional $650 million for programs that include re-enrollment as a goal.[4] However, the barriers placed by campus policies that exclude students from retaining or regaining access to financial aid, a prerequisite for many low-income students to return, have gone largely ignored.

4. **Increase employability:** A study from California Competes found that adults without a college degree earn 54 percent less than college graduates and are more likely to be unemployed than college graduates. Black as well as Native American and Alaska Native adults without a college degree are approximately twice as likely to face unemployment compared with their Asian, Latinx, and White peers.[5]

5. **Further the California's State Legislature's goal of equitable access to higher education**: California has made improving rates of college retention and graduation a priority and in particular, reducing disparities in these rates between subgroups. There are many measures that the state has adopted with this goal in mind, and the Legislature has not typically predicated approval of these measures on specific budget augmentations to account for potential Cal Grant costs that could hypothetically stem from increased enrollment. Other efforts to bolster community college student enrollment and retention and reduce equity gaps include AB 705, which in 2017 altered the landscape for remedial education at community colleges, and the introduction of the Student Success Completion Grant for community college students. Neither of these efforts was deemed by the Legislature to need to account for potential increased Cal Grant uptake.

Potential Fiscal Impact of AB 789

Provided below are several factors to consider when examining the potential fiscal impact.

1. **Campus Administrative Costs:** While the Assembly Appropriations analysis described potential one-time costs for community colleges to modify their policies, it should be noted that the one-time costs included in the analysis prepared for the Assembly Appropriations Committee was significantly modified subsequent to the release of the analysis as result of clarifying information provided by the California Community College Chancellors Office (CCCCO). In addition, all ongoing costs identified by the CCCCO were based on the reporting requirements previously included in the bill, all of which were subsequently removed from the bill through amendments.

   Further, institutions that have modified their SAP appeals policies to better accommodate students have done so successfully without additional funding. For example, Glendale Community College made significant changes to their policy to enable more students to retain financial aid in 2016/2017 with no funding augmentation, as testified to by the college's financial

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[2] Burke, M, Willis, D., Truong, D. *California community college enrollment plummets to 30-year low*, Los Angeles Times, November 18, 2022.
[3] Zinshteyn, M., *College enrollment decline leads to funding changes for underperforming Cal State schools*. Cal Matters. January 26, 2023. Retrieved from https://calmatters.org/education/higher-education/2023/01/college-enrollment-decline-csu-funding-penalty/
[4] This includes $20M allocated in Feb 2021, $100M in 2021/2022 and $150M in 2022/2023 plus the $650M Learning Recovery Emergency Block Grant allocation that includes re-enrollment efforts as one of the ways the CCCs can spend these funds.
[5] California Competes. (2021). *Untapped Opportunity: Understanding and Advancing Prospects for Californians without a College Degree*. Retrieved from https://californiacompetes.org/resources/untapped-opportunity-understanding-and-advancing-prospects-for-californians-without-a-college-degree/

aid director during the Senate Education Committee hearing on June 21. The cost to update policies and procedures, and to provide training, professional development and release time to financial aid staff regarding the new policy was achieved within the institution's existing budget. In cost analyses provided by the CSU and UC systems' offices, implementation costs were described as minor and no ongoing costs were identified.

Finally, policies at the federal, state and institutional level change regularly and financial aid offices must continually adapt to these changes as part of the normal course of doing business. The changes proposed by AB 789 are relatively minor and will not take effect until Fall 2024, providing institutions with ample opportunity to make updates and train staff within the existing professional development framework.

2. **Cal Grant:** The Cal Grant is budgeted based on enrollment, as outlined in annual reports to the Legislature by the Legislative Analyst's Office. The most recent report explains that Cal Grant spending was down in both 2021-22 and 2022-23 due to decreased enrollment, most notably a 4.4% reduction in the number of students enrolled in the California State University system. These declines in enrollment further decreases Cal Grant spending by $9.5 million (0.4 percent) in 2023-24.[6]

   AB 789 does not propose to increase enrollment and therefore would have not have an impact on overall Cal Grant costs for students attending a CSU or UC. Similar to the CSU Graduation Initiative, which has been funded by the Legislature annually since 2019, the changes proposed by AB 789 are not designed to increase overall CSU enrollment, but rather are intended to support system goals to reduce disparities in graduation rates and ensure that all students, regardless of racial, ethnic or financial background, have an equal opportunity to earn a college degree.

   For students attending community college, who received only limited funding from the CalGrant program through the access award, while a specific student may maintain their Cal Grant rather than losing it due to a failure to meet the SAP standard, it is difficult to analyze the aggregate impact on the Cal Grant, which is determined by a wide range of factors, including overall enrollment trends, student incomes, and whether students attend full or part time. Based on the estimates provided from CSAC as part of the Assembly Appropriations analysis, any impact on overall Cal Grant costs relative to the overall size of the program would be negligible and absorbable within the current allocation.

3. **Reduced costs to institutions:** Student attrition harms not only students and state and federal governments but has real costs to institutions of higher education. One study found that attrition accounted for 33 percent of all estimated expenditures at public two-year institutions, 13 percent at public four-year institutions, and 9 percent at private four-year institutions. For public two-year institutions, the cost was $15,000 per unfinished degree. At public four-year colleges, on average $27,000 was spent for each unfinished degree.[7] This translates to a savings of between $60 million and $180 million across California's institutions.

4. **Increased state income tax contribution:** By increasing employability and income, increasing the rates of college completion leads to more tax revenue at the federal, state, and local levels. One study found that because college graduates typically earn more and higher earnings are taxed at an increased marginal rate, they contribute $273,000 more in taxes during their lifetime than a

[6] https://lao.ca.gov/Publications/Report/4702

[7] Johnson, N. (2012). *The Institutional costs of Student Attrition*. American Institutes for Research. Retrieved from https://files.eric.ed.gov/fulltext/ED536126.pdf.

high school graduate.[8] Therefore, this bill could lead to cost savings for the state in terms of increased tax revenue.

5. **Lower lifetime government expenditures:** Research has found that adults with a high school diploma, but no college degree make up 50% of Californians ages 25-54 but comprise 74% of those receiving public assistance and 72% of those without health insurance. Just over half of these adults attempted college but did not complete.[9] Other research has found that lifetime government expenditures are about $81,000 (39 percent) lower for college graduates.[10] College graduates are less likely to be in poverty – 4.8% vs. 12.7% for those with only a high school diploma, leading to less reliance on public benefits. Nationally, about 2-3% of those with BAs or higher lived in households that utilized SNAP in 2017, compared to over 10% for those with just a HS diploma.[11] In California, 6.2% of college graduates aged 25–64 live in poverty as compared to 19.5% of adults aged 25–64 without a high school diploma.[12] Therefore, this bill could lead to cost savings for the state in terms of reduced spending on public assistance.

6. **Increased Pell Grant utilization, leveraging federal dollars:** When students retain or regain access to state financial aid, they typically retain or regain access to federal aid as well. With the federal Pell Grant providing $7,395 for a full-time student, the amount of federal aid that would be available to California's students under this measure is substantial. The number of students who could retain or regain Pell Grant eligibility is estimated to be between 4,000 – 12,000 students, with a total value between $18 million to $54 million, leveraging additional federal dollars to benefit California students.

[8] Trostel, P., (2015). *It's Not Just the Money*. Margaret Chase Smith Policy Center & School of Economics University of Maine. Retrieved from https://www.luminafoundation.org/files/resources/its-not-just-the-money.pdf.
[9] California Competes. (2021).
[10] Trostel (2015).
[11] Third Way. (2019). *Ripple Effect: The Cost of the College Dropout Rate*. Retrieved from https://www.thirdway.org/report/ripple-effect-the-cost-of-the-college-dropout-rate.
[12] Danielson, C., Malagon, P., and Bohn, S. (2022). *Poverty in California Fact Sheet*. Retrieved from https://www.ppic.org/publication/poverty-in-california/.