

# California Public Higher Education: Funding Supplemental Services for Low-Income and First-Generation Students

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## Summary

**Legislature Seeks Evaluation of Supplemental Services for Low-Income and First-Generation Students in College.** The California Community Colleges (CCC), California State University (CSU), and University of California (UC) each serve a large number of low-income and first-generation college students. *The Supplemental Report of the 2017-18 Budget Act* requires our office to examine funding and services for these students as well as provide options for restructuring existing funding approaches. The restructuring options are to include creating a weighted student formula along the lines of the formula the state now uses for K-12 education (known as the Local Control Funding Formula). This report fulfills this requirement.

**Different Current Approaches to Funding and Serving These Students.** The community colleges go about funding and serving low-income and first-generation students in a notably different way than the universities. For CCC, the state currently funds ten programs that each supports a designated set of services to students (such as counseling, subsidized employment, and child care). Compared to CCC, the universities have a much simpler approach, generally operating one systemwide supplemental program and giving campuses flexibility to design additional programs and services to address specific student subgroups. In addition to targeted support services, the state and all three segments operate several financial aid programs for low-income students.

**Several Restructuring Options.** For CCC, the state's current approach is complicated, overly rigid, and administratively burdensome. Community colleges, in our view, would benefit from a streamlined approach that provided more flexibility and local control. Such approaches include consolidating programs into a student support block grant or creating a weighted student formula. For CSU and UC, we believe the current approach to providing supplemental services is reasonable, but neither segment regularly provides clear information on program spending and results. For CSU and UC, the Legislature could consider enhancing oversight and reporting. If it believes a stronger, more prescriptive approach is needed, the Legislature could create a new categorical program that funds supplemental services directly, or it could more fundamentally transform the segments' governance, funding formulas, planning requirements, and systems of accountability. Regardless of what the Legislature chooses to do about funding supplemental services at each of the segments, we think financially needy students at all three segments would benefit considerably from a more seamless, transparent, and rational financial aid system.

# INTRODUCTION

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**Legislative Interest Expressed in Improving Outcomes for Low-Income and First-Generation Students.** During the 2017-18 legislative session, several members of the Legislature expressed interest in ensuring that low-income and first-generation college students receive enough support to have positive college experiences and outcomes. To this end, *The Supplemental Report of the 2017-18 Budget Act* required our office to examine how much existing funding and support is provided to these students and identify options for increasing that funding and support. This report fulfills this requirement. The report

has two main parts. The first focuses on the California Community Colleges (CCC) and the second focuses on the state's two public university systems—the California State University (CSU) and the University of California (UC). Within each part, we provide (1) an inventory of systemwide supplemental programs for low-income and first-generation students; (2) an assessment of the current approach for supporting these students; and (3) options for restructuring funding and support for these students, including the option of creating a weighted student formula.

## CCC

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CCC provides lower-division undergraduate instruction and grants associate degrees and skills certificates. It is the largest public higher education segment in California, serving 1.2 million full-time equivalent (FTE) students. Below, we provide background on community college governance and funding. We then provide the inventory of supplemental programs, an associated assessment, and restructuring options.

### Background

**CCC Overseen by State Board of Governors and Local Governing Boards.** Key functions of the 17-member, statewide Board of Governors include setting minimum standards for districts (such as student graduation requirements), maintaining a comprehensive educational and fiscal accountability system, and overseeing statewide programs. The board appoints a Chancellor to make recommendations on policy matters and run day-to-day operations at the systemwide headquarters in Sacramento. The system's 114 colleges are operated by 72 districts, each governed by a locally elected board.

**Roughly Three-Fourths of CCC Funding Is Unrestricted.** The bulk of CCC's core operational funding comes from the state General Fund and local property tax revenue, with much smaller shares coming from student fees and state lottery revenue. In 2016-17, of CCC's \$8.9 billion in core operational funding,

73 percent was unrestricted. Unrestricted CCC funds—known as apportionments—are allocated to districts primarily based on enrollment. Other allocation factors include the number and types of colleges in a district and various measures of a district's need for community college access (such as its population growth, adult educational attainment, unemployment, and poverty level). The state provides each district with roughly the same apportionment amount per student. Under a statutory requirement known as the “50 percent law,” districts must spend at least one-half of their apportionments on salary and benefits for instructional faculty.

#### About One-Quarter of CCC Funding Is

**Restricted.** The remaining 27 percent of CCC's core operational funding in 2016-17 was restricted and allocated to districts through categorical programs.

The largest categorical programs are the Adult Education Block Grant, Student Success and Support Program, and Strong Workforce Program. The state allocates funds for these programs based on various factors specific to each program. For example, Strong Workforce funding is allocated based primarily on districts' enrollment levels for occupational courses, student outcomes (such as job placement and wage gains), and regional unemployment rates and job openings. The bulk of CCC categorical funding is for student support services and financial aid. With recent growth in student support and aid programs, the share

of CCC funding allocated through categorical programs has increased by about 10 percentage points over the past five years.

#### ***CCC Tracks Low-Income Students Served.***

CCC defines low-income students primarily as those who meet one of two criteria: (1) they receive a Pell Grant (federal need-based aid) or (2) they receive a fee waiver (state need-based aid). In 2014-15, 22 percent of CCC students systemwide received a Pell Grant. Among community colleges, this proportion ranged from 4 percent (Palo Verde) to 49 percent (Porterville). About one-half of all students received a fee waiver, with colleges ranging from 22 percent (West Valley) to 89 percent (Reedley). As federal and state aid recipients do not overlap entirely, somewhat more than one-half of all CCC students systemwide are identified as low income.

***Low-Income CCC Students Have Lower Completion Rates.*** In 2015-16, the six-year completion rate for degree or certificate seeking low-income students was 45 percent, compared with 57 percent for other students. Federal data, also from 2015-16, show three-year CCC completion rates for first time, full-time Pell Grant recipients and non-Pell Grant recipients of 26 percent and 34 percent, respectively.

***CCC Also Tracks First-Generation College Students Served.*** To identify the share of first-generation college students, CCC's application form asks for the highest level of schooling completed by an applicant's parents. If a student provides this information for two parents, CCC uses the highest education level of the two. CCC defines a first-generation college student as one for whom no parent or guardian has earned more than a high school diploma or ever attended college. Overall, CCC reports that 42 percent of students in the 2015-16 academic year were first-generation college students, with colleges ranging from 23 percent (Saddleback) to 74 percent (Los Angeles Trade-Tech). (CCC's data are unavailable or incomplete for many campuses. Data from a federal reporting system using the same definition for first-generation students puts the systemwide estimate for CCC somewhat higher, at 55 percent.)

***First-Generation Students Generally Have Lower Completion Rates.*** CCC does not report outcomes specifically for first-generation college

students. Other available data, however, consistently reflect poorer outcomes for these students. In a large, nationally representative sample, 36 percent of first-generation students at two- and four-year colleges earned an associate degree or higher within ten years of completing their high school sophomore year, 17 percent earned a certificate, and 47 percent earned no certificate or degree. Among students having at least one parent with a bachelor's degree, 63 percent earned an associate degree or higher, 7 percent earned a certificate, and 30 percent earned no certificate or degree in the same period. First-generation students also are far more likely to attend community colleges. In the same sample, 52 percent of first-generation students initially attended a two-year college, compared with 28 percent of students having a parent with a bachelor's degree.

***CCC Student Success Initiative Seeks to Improve Completion Rates.*** The Board of Governors has set specific goals for improving graduation rates and other student outcomes and eliminating achievement gaps among student subgroups over the next ten years. Under the umbrella of the CCC Student Success Initiative, the system has several statewide programs to help it meet these goals. The largest of these programs, the Student Success and Support program (\$306 million in 2017-18), provides student orientation, assessment, and counseling services to all students. In 2017-18, the state also provided \$150 million one time for the Guided Pathways Initiative, which is intended to develop better systems for helping all students choose, enter, and complete an academic program.

## **Systemwide Supplemental Programs**

***CCC Has Many Programs Designed to Support Low-Income and First Generation Students.*** In addition to broad-based support programs serving all students, CCC has several programs that specifically benefit low-income and first-generation CCC students. As Figure 1 shows (see next page), some of these programs focus on student services and some provide direct student financial aid. Although Cal Grants and Pell Grants are not technically CCC categorical programs, we include them in the figure because they support many CCC low-income students.

***Total of \$500 Million Provided Annually for Ten CCC Student Services Programs.*** This funding supports a range of services that exclusively or primarily

**Figure 1****Systemwide Programs That Support Low-Income and First-Generation CCC Students**

2017-18

Program	Description	Funding (In Millions)
<b>Student Services</b>		
<b>Student equity</b>	Funds activities to identify and address disparities in access and outcomes for various subgroups of CCC students.	\$160
<b>Adult Education Block Grant</b>	Funds regional consortia of adult schools, community colleges, and other adult education providers to improve coordination and better serve the needs of adult learners.	133
<b>Extended Opportunity Programs and Services</b>	Provides various supplemental services (such as counseling, tutoring, and textbook purchase assistance) for low-income and academically underprepared students as well as welfare-dependent single parents.	125
<b>Basic Skills Initiative</b>	Funds counseling and tutoring for academically underprepared students as well as curriculum and professional development for basic skills faculty.	50
<b>CalWORKs student services</b>	Provides child care, career counseling, subsidized employment, and other supplemental services to CCC students receiving CalWORKs assistance. (These services are in addition to those provided to all CalWORKs recipients by county welfare departments.)	44
<b>Umoja</b>	Provides professional development for faculty, staff, and students and augments instruction and student services. Purpose is to improve student experiences by promoting awareness of African and African-American culture.	3
<b>Support for certain campus child care centers</b>	Funds child care centers (aimed primarily at low-income women studying at CCC) at 25 community college districts.	3
<b>Mathematics, Engineering, and Science Achievement (MESA) Program</b>	Provides academic counseling, workshops, and community-building activities for educationally disadvantaged students seeking careers in math, science, and engineering fields.	2
<b>Puente</b>	Provides faculty and staff professional development and student mentoring and counseling to increase academic achievement for underserved students. Program is a partnership with University of California and emphasizes successful transfer to universities.	2
<b>Middle College High School</b>	Provides high school and community college instruction to high-potential, at-risk high school students. Instruction is provided on community college campuses.	2
<b>Total</b>		<b>\$524</b>
<b>Student Financial Aid</b>		
<b>Pell Grants</b>	Federal need-based grants. Funds are for any cost of attendance. (Amount shown for 2014-15.)	\$1,750
<b>Promise Grants</b>	State-supported enrollment fee coverage for financially needy students. (Formerly called Board of Governors Fee Waivers.)	811
<b>Cal Grants</b>	State need-based financial aid grants. Includes tuition grants and cash stipends.	155
<b>Financial aid administration</b>	Funds staff to process federal and state financial aid forms and assist low-income students with applying for financial aid.	73
<b>Full-Time Student Success Grants</b>	Supplemental state grants for Cal Grant recipients enrolling in at least 12 units per term.	66
<b>Completion Grants</b>	Additional supplemental state financial aid for Cal Grant recipients enrolling in at least 15 units per term and maintaining progress to on-time graduation.	25
<b>Total</b>		<b>\$2,880</b>

benefit low-income and first-generation students. These services include various types of wraparound support, which is provided alongside core instructional programs. For example, the programs fund counseling, tutoring, subsidized employment, and child care. The programs also support outreach to high school students and professional development for faculty and staff.

**Nearly \$2.9 Billion in Financial Aid Benefiting CCC Students.** In addition to targeted student support programs, **students access \$1.8 billion in federal financial aid and the state provides more than \$1.1 billion in aid.** These programs help students afford books, supplies, and living expenses while they attend college, as well as fully cover enrollment fees for low-income students.

## Assessment

**Current CCC Approach Has One Notable Advantage . . .** By restricting a notable amount of funding, the current CCC approach ensures that low-income and first-generation students receive supplemental services. Colleges may not divert these funds for more general, less targeted purposes, such as general salary increases. As a result, more funding than otherwise tends to be available for enhanced or expanded supplemental services.

**. . . And Several Notable Drawbacks.** As we have discussed in many previous reports, the current system of more than a dozen CCC categorical programs is complicated and administratively burdensome. Each program has its own authorizing legislation, regulations, funding formulas, and reporting requirements. Such a system results in organizational silos and compartmentalized staff, making planning challenging and time consuming and often leading to duplication and poor coordination of services. Moreover, the state has no effective way of assessing program results or maintaining accountability for outcomes. Given overlap and differences among these programs, pinpointing which particular program or component might be producing a positive or negative outcome is virtually impossible. Also, because the programs are set in statute and regulations—and funding generally cannot be transferred across programs—the system is not nimble in responding to new information, including changing student needs.

## Restructuring Options

**Consolidate CCC Categorical Programs Into a Student Support Block Grant.** One option for improving the current system is to create a block grant that requires funding be used to support low-income and first-generation students. The state could allocate funds based on each district's share of these students, and colleges could determine how best to serve these students in their local context. As a condition of receiving block grant funding, districts would need to meet certain standards and report on students served, use of funds, and associated outcomes.

**Replace Categorical System With a Weighted Student Formula.** Another option is to combine funding for certain existing student support programs with apportionment funding and use a weighted student formula to allocate the resulting pot of funding. Such a formula might be designed similarly to the Local Control Funding Formula (LCFF) the state uses for K-12 education, described in the box on page 7. Under this approach, the weighted student formula would have a base rate for all students, a supplemental rate for low-income and first-generation students, and possibly a concentration rate for districts with especially high percentages of low-income and first-generation students. The purpose of this type of formula would be to direct relatively greater funding to districts with higher numbers and concentrations of low-income and first-generation students.

**Many Decisions Entailed in Implementing a Weighted Student Formula.** Were the Legislature to adopt a weighted student formula, it would need to make several key decisions (summarized in **Figure 2**, see next page). The extent of any redistribution of funding across districts would depend largely on which categorical funds were included, the current allocation of those funds, and the target funding rates. The pace of redistribution—and its impact on districts—would depend on the state's transition strategy. A gradual transition using only incremental funding would protect districts against year-over-year reductions, similar to how the state is handling the K-12 LCFF transition currently underway. A more immediate reallocation of current funding could reach funding targets faster but could result in some districts seeing year-over-year funding reductions.

**Figure 2**

## **Developing a Weighted Student Formula for CCC— Key Decisions for Legislature to Consider**

### **Funding**

- Districts currently receive about \$6.8 billion in apportionment funding. In addition to this unrestricted funding, the state provides \$524 million for ten supplemental student services. Which of these 11 programs should the state fold into a weighted student formula?
- The 2017-18 per-student apportionment funding rate is \$5,310. Should the state set a higher target base rate?
- Should all students generate the same base rate, or should base rates be higher for certain higher-cost students, such as those in career technical education or science and engineering courses?
- Although most apportionment funding currently is based on enrollment, 8 percent is based on the size, number, and types of campuses in a district. Should this practice continue? Should districts receive different base rates to adjust for these characteristics?
- How much funding per low-income and first-generation student do the consolidated categorical programs represent? Is this an appropriate supplemental rate for low-income or first-generation students? Should the state set a different rate?
- Should the formula have a concentration grant? If so, what should be the concentration threshold? How much additional funding should districts receive for each student above the threshold?

### **Transition**

- Should the state phase in the new formula? How quickly should the new formula be implemented?
- Should the formula include a hold-harmless provision?

### **Accountability**

- How should the state define low income and first generation? How should the state verify which students are low income and first generation?
- What planning requirements should be placed on districts?
- What spending restrictions, if any, should be placed on districts?
- How should the state hold districts accountable for student performance?
- Should the state or districts set student performance goals?

**Consider the Trade-Offs Between Block Grant and Weighted Student Formula.** A block grant typically requires a specified amount be spent on specified services. In doing so, it tends to prevent funding from going to general salary increases or other purposes that do not necessarily benefit low-income and first-generation students directly. By comparison, a weighted student formula typically is less prescriptive and can provide even more flexibility for educators to design their own local programs. A weighted student formula also could have the benefit of linking more closely the supplemental funding rate for low-income and first-generation students with the costs of providing these services. Funding for a block grant, on the other hand, likely would be negotiated each year, weakening the relationship with costs. With a weighted student formula approach, however, the state might want to reconsider the 50 percent law. This is because one-half of monies generated by a weighted student formula

would have to be spent on direct classroom instruction and salary increases—rather than on supplemental services.

### **Consolidate and Simplify Financial Aid Programs.**

Regardless of what the Legislature chooses to do with funding for supplemental services, we recommend revisiting the state's complex and somewhat irrational financial aid system. The existing financial aid system could be particularly difficult for first-generation students to navigate because their parents—having had no postsecondary experience—typically are less prepared to guide them through the application process. The Legislature has requested a report from the California Student Aid Commission by February 1, 2018 regarding options to consolidate existing Cal Grant programs. The forthcoming report could provide a starting point for replacing the current assortment of aid programs with a system that is more transparent, rational, simpler, and easier to navigate.

## UNIVERSITIES

CSU provides instruction and grants degrees generally through the master's degree whereas UC serves as the state's primary public research university and provides instruction and grants degrees through the doctorate. Both CSU and UC require students to meet certain admissions requirements, including completing certain courses with a minimum grade point average and/or standardized test scores. In 2016-17, CSU served 400,000 FTE students at 23 campuses and UC served 264,000 FTE students at 10 campuses (1 of which serves only graduate students). Below, we provide background on the governance and funding of CSU and UC. We then provide an inventory of

systemwide programs, an associated assessment, and restructuring options.

### BACKGROUND

***Each University System Governed by a State Board.*** CSU and UC each have a governing board to oversee their respective systems—the Board of Trustees at CSU and the Board of Regents at UC. Existing law grants substantial authority to each board to manage student enrollment, allocate funding among campuses, determine overall staffing levels, enact compensation policies, and set tuition and fee policies. To manage the respective systems, each board hires

### Components of K-12 Local Control Funding Formula (LCFF)

***Funding to School Districts Set by Three Rates.*** We describe the three rates below:

- ***Base Rates.*** Each school district receives a base amount per student. In 2017-18, the base rate generated by a high school student is \$8,938. The high school base rate is higher than the rate for the other grade spans (K-3, 4-6, and 7-8) in recognition of the higher associated costs.
- ***Supplemental Funding.*** In addition to the base amount, districts receive supplemental funding equal to 20 percent of the base rate for each student who is an English learner, low income (that is, qualifying for free or reduced price lunch), or a foster youth.
- ***Concentration Funding.*** For districts whose English learners and low-income students together exceed 55 percent of total enrollment, the state provides concentration funding. Specifically, these districts receive an additional 50 percent of the base rate for each English learner or low-income student above the 55 percent threshold.

***State Has Been Phasing in Formula Over Multiple Years.*** In developing LCFF, the state created per-student funding targets that were significantly higher than the going rates. Starting in 2013-14, the state began providing augmentations to LCFF to close the difference (or gap) between their prior-year funding level and their LCFF target level. In 2017-18, school districts are receiving 97 percent of their target funding levels.

***In Conjunction With LCFF, State Also Developed Spending Regulations and Planning Requirements.*** Districts can use most LCFF funds for any educational expense, but they must use some funding specifically for the benefit of students who are English learners, low income, or foster youth. Specifically, districts must demonstrate they are “increasing or improving” services for these students in proportion to the funding increases generated by these students. In addition, districts are required to adopt plans, known as Local Control Accountability Plans, that set performance goals and describe actions districts will take to achieve those goals. Districts must set goals in eight priority areas, including student achievement and student engagement. They must set goals for all students as well as all numerically significant student subgroups.

a systemwide chief executive officer as well as the heads of each campus (called presidents at CSU and chancellors at UC).

**Universities Have Greater Control Over Budgets Than CCC.** The universities' core funding comes from the state General Fund and student tuition revenue. In 2016-17, CSU received core funding of \$6.6 billion and UC received \$7.9 billion. Compared to CCC, more CSU and UC core funding (virtually all of it) is unrestricted. Additionally, state law sets forth no policy for how CSU and UC are to allocate core funding to their respective campuses. Instead, the Legislature has delegated that responsibility to each of the systems' governing board. Both governing boards provide campuses monies to cover costs associated with enrolling more students, though the systems have some notable differences in how they allocate funding among campuses. In particular, CSU uses a flat per-FTE student funding rate whereas UC uses a weighted student formula that allocates more to campuses with larger numbers of graduate students and students in health science programs.

**Sizeable Portions of CSU and UC Students Are Considered Low Income.** Both CSU and UC define students as "low income" if they receive a federal Pell Grant. At CSU and UC, 50 percent and 44 percent of resident undergraduate students, respectively, received a Pell Grant in fall 2016. The rate of Pell Grant recipients differs by campus. The range at CSU is from 19 percent (San Luis Obispo) to 68 percent (Los Angeles). The range at UC is from 34 percent (Berkeley) to 61 percent (Merced).

**Many CSU and UC Students Are First-Generation College-Goers.** Whereas CCC defines students as first generation if neither parent has ever attended college, the CSU and UC definition is that neither parent has earned a bachelor's degree. Students report their parents' education level on their admission applications. In fall 2016, 54 percent of entering CSU freshmen identified themselves as first generation. At UC, 46 percent of all resident undergraduate students identified themselves as first generation. As with Pell Grant status, the percentage of first-generation

students varies by campus. At CSU, the percentage of first-generation freshmen ranges from 17 percent (San Luis Obispo) to 74 percent (Dominguez Hills and Stanislaus). The percentage of resident undergraduate students at UC identified as first generation ranges from 32 percent (Berkeley) to 70 percent (Merced).

**Graduation Rates for Low-Income and First-Generation Students Are Lower Than Other Students.** Figure 3 shows that achievement gaps exist at CSU and UC for both Pell Grant students and first-generation students. The gaps are not notably different for the two student groups. At CSU and UC, the four-year graduation rate gaps are more notable than the six-year gaps. At UC, however, the gap narrows substantially at the six-year mark, with the six-year graduation rate gap at 3 percentage points for Pell Grant recipients and 6 percentage points for first-generation students.

**CSU Has Goals to Eliminate Achievement Gaps Among Students.** To address its low graduation rates, CSU launched a Graduation Initiative in 2009. The Graduation Initiative seeks to achieve two goals by 2025: (1) increase graduation rates for all undergraduates and (2) eliminate differences in graduation rates for several groups of students, including those who are low income and first generation. To reach these goals, CSU has granted its campuses discretion to develop their own implementation strategies. In contrast to CSU, UC has not established systemwide student completion

**Figure 3**

### Student Achievement Gaps Exist at CSU and UC

*Graduation Rates for Freshmen Entering as Full-Time Students*

	CSU		UC	
	Four Year <sup>a</sup>	Six Year <sup>b</sup>	Four Year <sup>a</sup>	Six Year <sup>b</sup>
<b>All Students</b>	20.7%	59.1%	64.0%	85.0%
<b>Financial Status</b>				
Not a Pell Grant recipient	27.1%	63.5%	69.0%	86.0%
Pell Grant recipient	13.7	53.5	58.0	83.0
<b>Achievement Gap</b>	<b>13.4%</b>	<b>10.0%</b>	<b>11.0%</b>	<b>3.0%</b>
<b>Parental Education</b>				
Not first generation	28.5%	65.6%	69.0%	87.0%
First generation	15.4	54.4	57.0	81.0
<b>Achievement Gap</b>	<b>13.1%</b>	<b>11.2%</b>	<b>12.0%</b>	<b>6.0%</b>

<sup>a</sup> Freshmen entering fall 2012.

<sup>b</sup> Freshmen entering fall 2010.

goals. In a November 2016 report to the Legislature, UC anticipated graduation rate gaps for low-income students to remain constant over the next few years.

## Systemwide Supplemental Programs

**Educational Opportunity Program (EOP) Is CSU's Sole Systemwide Program for Low-Income and First-Generation Students.** EOP provides a variety of supplemental support services to students considered to be educationally disadvantaged, including students who are low income and first generation. Supplemental support services offered by EOP include academic advising, peer mentoring, tutoring, and student financial aid. CSU gives each campus discretion to determine the specific mix of EOP services offered to students, though it requires campuses to spend a minimum amount on financial aid. In 2016-17, 32,000 undergraduate students (8 percent of all undergraduate students) participated in EOP. Though the Chancellor's Office does not regularly track spending on EOP, CSU staff estimates that campuses spent between \$37 million to \$39 million on EOP in 2016-17. Slightly more than one-half of this amount was spent on student support programs, with the remainder spent on financial aid grants. In addition to EOP, campuses operate a variety of campus-specific programs designed to address specific student subgroups (such as Dominguez Hills' Male Success Alliance, which serves primarily male African-American and Latino students). The Chancellor's Office does not collect comprehensive information about these campus programs.

**UC Also Operates EOP Programs.** UC does not operate a systemwide student support program or require campuses to spend certain funding each year on supplemental services. Though no systemwide UC program exists, four UC campuses (Berkeley, Davis, Santa Barbara, and Santa Cruz) currently operate an EOP program. The remaining five undergraduate-serving campuses operate a program UC indicates is comparable to EOP. The programs generally provide a similar set of services as CSU's EOP program, including academic advising, peer mentoring, and student financial aid. UC does not track enrollment and funding for these programs. In a recent report to the Legislature,

though, UC reported spending \$86 million on all supplemental student support programs (both systemwide and campus-specific programs) in 2014-15. Additionally, UC indicates that some of its outreach programs designed primarily for high schools students might be providing supplemental services to students once they enroll at a UC campus.

**CSU and UC Offer Significant Financial Aid to Low-Income Students.** In addition to financial aid offered through EOP programs, CSU and UC students have access to numerous need-based financial aid programs to cover the cost of tuition and attending college. Major programs include federal Pell Grants, Cal Grants, and institutional aid offered by each system. CSU's institutional aid program, known as the State University Grant, provides eligible students a tuition waiver. UC's institutional aid program provides eligible students funding to cover tuition and, in some cases, other costs of attendance (such as books and housing costs). **Figure 4** summarizes spending on these programs at each segment.

**Both University Systems Allocate Funding to Campuses to Boost Graduation Rates.** CSU currently is designating \$123 million in ongoing funding to implement its Graduation Initiative. The Chancellor's Office distributes most of this funding through a formula allocation based on (1) each campus' share of students receiving Pell Grants or institutional financial aid and (2) the number of first-year students on each campus identified as needing remediation in English or math. While CSU gives campuses flexibility on how to spend this funding, the main purpose of the funding has been to expand course offerings and support services. UC also directs some of its unrestricted funding to campuses with low completion rates. Since 2014-15, UC has provided four campuses with the lowest graduation rates (Merced, Riverside, Santa Barbara, and Santa Cruz) \$6.4 million each in addition to their

**Figure 4**

### Numerous Need-Based Aid Programs at CSU and UC 2015-16 (In Millions)

	CSU	UC	Totals
Federal Pell Grant	\$950	\$376	\$1,326
State Cal Grant	636	843	1,478
Institutional grants	566	725	1,291
<b>Totals</b>	<b>\$2,152</b>	<b>\$1,944</b>	<b>\$4,096</b>

regular per-student allocations. The four UC campuses have wide discretion in how to spend their allocations.

## Assessment

**No Notable Concern With Overall Approach at Universities.** Compared to CCC's complex and overlapping approach to serving low-income and first-generation students, CSU and UC have a much simpler, streamlined approach. The segments generally operate one primary systemwide supplemental program. We believe having one umbrella program but giving campuses flexibility to design student support services is a reasonable approach given each campus's different student population.

**Programs Lack Transparency.** Although CSU's and UC's overall approach to providing support services for low-income and first-generation students seems reasonable, the state budget does not contain clear fiscal information about these services. Moreover, neither segment regularly tracks funding and spending for supplemental support programs. Furthermore, only some enrollment and outcome data are available for certain programs. For example, in most years, CSU reports the number of students who participate in EOP and their graduation rates. These outcome data, however, do not compare EOP students with students of similar academic standing who do not participate in the program. As a result, the Legislature lacks sufficient data to evaluate the effectiveness of the EOP program in boosting student outcomes. For UC, outcome data is even more limited, with no regular UC or state monitoring and evaluating of these services.

## Restructuring Options

**Three Restructuring Options.** One option is to continue providing flexible funding to CSU and UC but track key outcomes of interest through periodic reporting requirements. A second option is for the Legislature to exert more control over CSU and UC budget practices by restricting funding for specified programs in the budget. Third, the Legislature could adopt a weighted student formula that provides supplemental funding to these students. We describe each approach in greater detail below.

**Require Goal Setting, Performance Tracking, and Annual Reporting.** Under the state's recent budgetary approach for the universities, the state has provided CSU and UC with unrestricted funding and elected

to track the segments' performance through annual reporting on key measures. The Legislature could build off this approach by expanding these reporting requirements. For example, current law requires CSU and UC to set and report performance goals annually for Pell Grant student enrollment and graduation rates. Were the Legislature also interested in first-generation students, it could require the segments to provide enrollment and outcome data on those students. The Legislature also could require periodic reports and evaluations of supplemental support service programs operated at each segment.

**Directly Fund University Programs.** To the extent the Legislature is concerned that the segments are not prioritizing support services and providing sufficient funding for them, it could exert greater control and oversight over these programs through the budget process. Under this approach, the Legislature would enact legislation authorizing supplemental services and appropriate a certain amount of state funding each year for those services.

**Develop a Weighted Student Formula.** A weighted student formula that provides additional funding for low-income and first-generation students could contain many of the same elements as the K-12 formula described in the CCC section. That is, such a formula could include a base per-student funding amount, supplemental rates for each low-income and first-generation student, and a reporting mechanism to hold campuses accountable. Developing a weighted student formula, however, would require the Legislature to consider a number of added issues given the numerous significant differences between the universities and community college districts. **Figure 5** highlights these key considerations.

**Many Factors to Consider When Weighing the Three Options.** Each option presents different roles for the Legislature in supporting students at CSU and UC. The first approach of expanding reporting requirements entails the least amount of change and would provide the segments significant flexibility to allocate funding to campuses and design their own programs. The second approach of creating systemwide categorical programs would give the Legislature direct control over how much is spent on low-income and first-generation students and which services are provided to students. Absent systematic evaluations on the effectiveness of existing statewide programs at CSU and UC,

however, choosing which programs and services to fund (and the total amount to provide) is problematic. The third approach of creating a weighted student formula would be the most significant departure from historical practice and very likely would have significant ramifications for CSU's and UC's governance, planning, budgeting, and systems of accountability.

***Financial Aid Restructuring Could Benefit University Students Too.*** As for CCC students,

consolidating existing financial programs would help CSU and UC low-income and first-generation students and their parents navigate a system that currently is overly complex and difficult to understand. Much of the program consolidation that could be done for state and institutional aid programs would benefit all financially needy students across the higher education segments.

**Figure 5**

### **Developing a Weighted Student Formula for CSU and UC— Key Decisions for Legislature to Consider**

#### **Funding**

- Should a formula determine how much the state provides CSU and UC systemwide or be used as a campus allocation method?
- In 2016-17, CSU's and UC's core funding equated to about \$13,600 per student at CSU and about \$28,200 per student at UC. Should a formula apply to all CSU and UC core funding or only new funding?
- Should base rates be higher for certain higher-cost students, such as those in upper-division courses (which tend to have smaller class sizes) or science and engineering courses? Should separate rates be established for undergraduate, graduate, and professional school students?
- After calculating base rates, should the Legislature set higher target rates?
- Currently, CSU and UC allocate funding to campuses based in part on their size. Should this practice continue?
- Is the amount CSU and UC currently spend on supplemental services an appropriate supplemental rate for low-income or first-generation students? Should the state set a higher rate? Should the rates for CSU and UC be different? Should they differ from the K-12 and CCC supplemental rates? What would be the rationale for such differences?
- Should the formula have a concentration grant? If so, what should be the concentration threshold? How much additional funding should the universities receive for each student above the threshold?

#### **Transition**

- Should the state phase in the new formula? How quickly should the new formula be implemented?
- Should the formula include a hold-harmless provision?

#### **Accountability**

- How should the state define low income and first generation? How should the state verify which students are low income and first generation?
- What planning requirements should be linked to the formula funding? Should the requirements be placed on the system offices or on each campus? What state agency would be tasked with ensuring the planning requirements are being fulfilled?
- Currently, the universities set their own performance goals. Under a new funding system, should the Legislature set these goals? Should it set goals systemwide or for each campus?
- What spending restrictions, if any, should be placed on the formula funding? Should the restrictions be placed on the systemwide appropriation or on each campus's allotment? What state agency would be tasked with ensuring that the spending requirements are being fulfilled?
- Should the state hold the segments and individual campuses accountable for student performance? What should be the repercussions for poor performance?

## CONCLUSION

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California's public higher education segments each serve a large number of low-income and first-generation students. Our review identifies opportunities for improving the way supplemental services designed for these students are funded and overseen. For CCC, we find that the state's current approach of funding numerous categorical programs is complicated, overly rigid, and administratively burdensome. Community colleges, in our view, would benefit from a streamlined approach that provided more flexibility and local control. Such approaches include consolidating programs into a student support block grant or creating a weighted student formula. For CSU and UC, we find the current approach to providing supplemental

services is reasonable, but both segments lack clear information on program spending and results. For CSU and UC, the Legislature could consider enhancing oversight, creating a new categorical program that provides funding for supplemental services, or more fundamentally transforming the segments' governance and funding. Each option entails trade-offs, with shifting to a weighted student formula a significantly more daunting task than the other options. Regardless of what the Legislature chooses to do about funding supplemental services at CCC, CSU, and UC, we believe financially needy students at all three segments would benefit notably from a more seamless, transparent, and rational financial aid system.

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This report was prepared by Jason Constantouros, Judy Heiman, and Paul Steenhausen, and reviewed by Jennifer Kuhn. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature. To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at [www.lao.ca.gov](http://www.lao.ca.gov). The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.