
SENATE COMMITTEE ON EDUCATION

Senator Carol Liu, Chair
2015 - 2016 Regular

Bill No: SB 1417
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Version: March 29, 2016
Urgency: No
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Hearing Date: April 6, 2016
Fiscal: Yes

Subject: Public postsecondary education: student loan payment program

SUMMARY

This bill requires the California State University (CSU), and requests the University of California (UC), to develop and implement a \$2500 loan forgiveness grant for students who are California residents, and for students eligible for resident tuition under the provisions of AB 540, if they complete their degree within four years.

BACKGROUND

Existing federal law provides for student loans through the William D. Ford Federal Direct Loan Program, administered by the Federal Student Aid Office within the United States Department of Education (USDE). These include:

- 1) **Subsidized Stafford Loans:** These are needs-based loans that cover the difference between a student's resources and the cost of attending a college or university, the amount of loan is dependent on the level of need, dependent status, and year in college. The federal government pays the interest while the student is attending the college or university and subsidizes the interest throughout the life of the loan.
- 2) **Unsubsidized Stafford Loans:** Not based on financial need, these loans generally cover the difference between the subsidized Stafford Loan and the total cost of attending college. Loans are made by private lending institutions and repayment is guaranteed by the federal government. The federal government sets the interest rates and fees.
- 3) **PLUS (Parent Loans for Undergraduate Students)** are available to creditworthy parents of dependent students. These are not needs-based and are federally guaranteed. In addition, these types of loans have been expanded for graduate or professional degree students. The borrower is responsible for paying the interest on PLUS loans during all periods, starting from the date the loan is first disbursed.

Existing federal law also provides for the Federal Perkins Loan Program. The Federal Perkins Loan Program is a school-based loan program for undergraduates and graduate students with exceptional financial need. Under this program, the school is the lender.

Existing state law establishes the Assumption Program of Loans for Education (APLE) program, administered by the California Student Aid Commission, to provide loan assumption benefits to credentialed teachers. APLE program “forgives” up to \$11,000 of college loan debt for a person who teaches for four consecutive years in a qualifying school or subject area (paying \$2,000 for the first year of teaching service and \$3,000 for each of the next three years of teaching). Qualifying schools include those with high proportions of low-income youth or emergency permit teachers and those located in rural areas. The subject area shortages are annually determined by the Superintendent of Public Instruction and may vary from year to year; math, science and special education have been listed consistently for many years. (Education Code § 69612)

Additional loan forgiveness of \$1,000 per year for up to four years is provided for those who teach math, science or special education (for a total of \$15,000) and an additional \$1,000 is provided for those who teach math, science or special education in schools with an academic performance index (API) of 1 or 2 (for a total of \$19,000). (EC § 69613.8)

ANALYSIS

This bill:

- 1) Requires the Trustees of the California State University (CSU) to develop and implement a program to provide a \$2,500 payment toward a qualified student’s outstanding student loan debt if the student completes an undergraduate degree within four years.
- 2) Requests the Regents of the University of California (UC) to develop and implement a program to provide a \$2,500 payment toward a qualified student’s outstanding student loan debt if the student completes an undergraduate degree within four years.
- 3) Defines a qualified student as one who is a California resident or a student who is eligible for resident tuition under the provisions of AB 540.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, no financial aid program currently exists that would provide qualified students with an incentive to complete an undergraduate degree within 4 years. The author contends that this bill will provide much needed debt relief to undergraduates who complete their degree programs within four years, as well as expand access to courses for entering freshmen as overcrowding is reduced.
- 2) ***Related TICAS Report.*** According to The Institute for College Access and Success (TICAS) and its *Project on Student Debt*, 69% of seniors who graduated from public and nonprofit colleges in 2014 had student loan debt, with an average nationally of \$28,950 per borrower. TICAS reports that the share of graduates with debt rose modestly over the last decade (from 65% to 69%). TICAS also reports that average debt in California is \$21,382 at public and

private non-profit colleges and that about 55% of students graduate with debt, ranking California 46th and 38th nationally, respectively.

- 3) ***Student loans at the University of California (UC) and the California State University (CSU).*** According to the UC, during 2013-14, 45% of UC undergraduates graduated with no debt at all, and for those who did borrow, the average loan debt was about \$20,600. The CSU reports that 51% of baccalaureate recipients graduated with zero education loan debt, and the remaining 49% had an average loan debt of \$14,388.

According to the CSU, in 2014-15, 80% of all CSU students (367,500) received over \$4 billion in total financial assistance and about 75% of undergraduate financial aid recipients had their tuition fees fully covered by grants or waivers.

Both the UC and the CSU report a loan debt lower than the California average of \$21,382, and below the national average of \$28,950.

- 4) ***Non-need based financial assistance.*** This bill establishes a financial aid award, post-graduation, based upon a student's completion of a degree program within four years. The only criteria to be met are that the student completed a degree in four years and met California residency requirements at the time he/she was a student. Traditionally, this committee has supported need-based financial aid. As drafted, this bill would extend a \$2500 loan payment award to all qualifying student loan recipients without any determination of financial need.
- 5) ***Funding?*** This bill requires the development and implementation of a loan payment award but makes no clear provision as to the source of funds for this purpose. Are the UC and CSU expected to redirect general fund monies or student tuition funds paid by other students or the state through the Cal Grant program? Would redirection of funds at the campus level come at the expense of other programs to provide campus based institutional financial aid awards to students with potentially greater financial need? Is there an expectation that the Legislature and Governor would appropriate funding in the Budget for this purpose? If the state does allocate additional funding for student financial assistance, should these monies be used to pay for federal loan programs or to expand California's grant based financial aid programs?
- 6) ***Existing loan forgiveness programs.*** The United States Department of Education (USDOE) provides information on a variety of student loan forgiveness programs. These include the following:
- a) The Public Service Loan Forgiveness (PSLF) Program forgives the remaining balance on Direct Loans after a student makes 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer. A qualifying employer can include Government organizations at any level (federal, state, local, or tribal), tax-exempt Section 501(c)(3) not-for-profit organizations and other types of not-for-profit organizations that provide certain types of qualifying public services. Serving in a full-time AmeriCorps or Peace Corps position also counts as qualifying employment for the PSLF Program. The USDOE

additionally notes that some or part of a federal student loan can be forgiven for service in the U.S. armed forces, as a nurse or medical technician, law enforcement or corrections officer, Head Start worker, child or family services worker, or a professional provider of early intervention services.

- b) **Teacher Loan Forgiveness.** A loan recipient can qualify for as much as \$17,500 of subsidized or unsubsidized loan forgiveness for teaching full-time in a low-income elementary or secondary school or educational service agency for five consecutive years. In addition, up to 100% of a Federal Perkins Loan may be cancelled for full-time service in a public or nonprofit elementary or secondary school system as a teacher in a school serving students from low-income families, or as a special education teacher, or teacher in the fields of mathematics, science, foreign languages, or bilingual education, or in any other field of expertise determined by a state education agency to have a shortage of qualified teachers in that state.

The Committee may wish to consider:

- In light of existing federal loan forgiveness programs, would a \$2500 award provide sufficient incentive to complete a program in four years?
- Should state funds be used to pay for loans that might otherwise be forgiven by the federal government?

- 7) ***State loan forgiveness program.*** As noted in the background of this analysis, the Legislature has previously authorized the Assumption Program of Loans for Education (APLE) program to provide up to \$19,000 in loan forgiveness to teachers. Current law links these awards to funding provided in the annual Budget Act. Beginning in 2012-13, funding for existing loan forgiveness programs has been vetoed or otherwise omitted from the annual Budget Act.

In addition, this Committee has heard and passed several bills attempting to modify, expand, and fund the APLE program, including the following:

- a) SB 62 (Pavley, 2015) this bill makes various programmatic changes to the APLE program and reestablishes the Governor's Teaching Fellowship Program. SB 62 is currently awaiting action in the Assembly Appropriations Committee.
- b) SB 1264 (Pavley, 2014) proposed to establish the Educator Excellence Program, an assumption loan program for up to 6,500 teachers who satisfied specified criteria. The bill was heard and passed by this Committee on April 30, 2014, but failed passage in the Senate Appropriations Committee.
- c) SB 212 (Pavley, 2013) appropriated \$5 million, from an unspecified fund source, for 7,200 new warrants for the assumption of school loans for

teachers in identified areas of a shortage of teachers. The bill was heard and passed by this Committee on May 1, 2013, but failed passage in the Senate Appropriations Committee.

- 8) ***Similar Legislation.*** This bill is intended to incentive completion of a degree program within four years. Similar legislation to improve completion:
- a) SB 15 (Block), among other things, establishes a Graduation Incentive Grant (GIG) program for California State University (CSU) undergraduate students to incentivize timely degree completion. The GIG would provide up to \$4,500 in grant award for students who meet annual unit completion requirements as they move to complete their degree programs within four years. SB 15 was heard and unanimously passed by this Committee in May 2015, and is currently awaiting action in the Assembly Higher Education Committee.
 - b) SB 1450 (Glazer) requires the CSU trustees and the California Community College Board of Governors to establish and authorize campuses to develop a program to grant students who meet specified criteria priority enrollment, enhanced academic advising, tuition freezes and tuition waivers, to ensure their completion of an associate degree within two years and a baccalaureate degree within four years.

SUPPORT

None received.

OPPOSITION

None received.

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