

*Academic and Student Affairs*  
401 Golden Shore, 6th Floor  
Long Beach, CA 90802-4210

[www.calstate.edu](http://www.calstate.edu)

*Loren J. Blanchard, Ph.D.*  
Executive Vice Chancellor

Tel: 562-951-4710  
Email [lblanchard@calstate.edu](mailto:lblanchard@calstate.edu)

March 15, 2017

The Honorable Phil Ting, Chair  
Assembly Budget Committee  
State Capitol, Room 6026  
Sacramento, CA 95814

The Honorable Jose Medina, Chair  
Assembly Higher Education Committee  
State Capitol, Room 2141  
Sacramento, CA 95814

The Honorable Holly Mitchell, Chair  
Senate Budget and Fiscal Review  
State Capitol, Room 5080  
Sacramento, CA 95814

The Honorable Ben Allen, Chair  
Senate Education Committee  
State Capitol, Room 5072  
Sacramento, CA 95814

The Honorable Jay Obernolte, Vice Chair  
Assembly Budget Committee  
State Capitol, Room 4116  
Sacramento, CA 95814

The Honorable Catherine Baker, Vice Chair  
Assembly Higher Education Committee  
State Capitol, Room 2130  
Sacramento, CA 95814

The Honorable Jim Nielsen, Vice Chair  
Senate Budget and Fiscal Review  
State Capitol, Room 2068  
Sacramento, CA 95814

The Honorable Scott Wilk, Vice Chair  
Senate Education Committee  
State Capitol, Room 4090  
Sacramento, CA 95814

**California State University Report: Recommendations on Student Financial Incentives to Participate in the California Promise Program**

As required by Section 67434, item (k) of the Education Code, enclosed are the California State University's (CSU) evaluations of and recommendations on potential financial incentives that could benefit students who participate in the California Promise Program.

**CSU Campuses**

Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

California Promise Financial Incentives  
March 15, 2017  
Page 2

Sincerely,

A handwritten signature in black ink, appearing to read "Loren Blanchard". The signature is fluid and cursive, with the first name "Loren" written in a larger, more prominent script than the last name "Blanchard".

Loren Blanchard, Ph.D.  
Executive Vice Chancellor

LJB/nse

- c: Timothy P. White, Chancellor, California State University
- Daniel Alvarez, Secretary of the Senate
- Diane Boyer-Vines, Legislative Counsel
- Mac Taylor, Legislative Analyst
- Michael Cohen, Director, Department of Finance
- Dotson Wilson, Chief Clerk of the Assembly
- Steve Relyea, Executive Vice Chancellor and Chief Financial Officer
- Garrett Ashley, Vice Chancellor, University Relations and Advancement
- Ryan Storm, Assistant Vice Chancellor for Budget
- Kathleen Chavira, Assistant Vice Chancellor, Advocacy and State Relations
- Kara Perkins, Executive Budget Director
- Nathan Evans, Chief of Staff and Senior Advisor, Academic and Student Affairs
- April Grommo, Director, Enrollment Management Services

**Report to the Legislature**  
**Potential Financial Incentives for Participation in the California Promise Program**

---

The California Promise Program is currently under development for the fall 2017 term for entering first-time freshmen at ten California State University (CSU) campuses who would follow a four-year plan. For students holding associate degrees for transfer who would follow a two-year plan, the program will launch at 19 campuses. With the establishment of these campus programs, the CSU will exceed the minimum number of participating campuses required by the legislation. Section 67434, item (k) of the Education Code, requires California State University to submit recommendations on potential financial incentives that could benefit students who participate in the California Promise Program.

Prior experience with *similar* CSU promise programs has shown that many initially enthusiastic students elect to stop their participation after a few terms. They often reduce the number of courses they complete and extend the time to complete their degree programs despite the additional costs. Effective financial incentives could encourage more students to keep pace with their commitments and could serve as a means to attract more students to commit to these programs at the outset of their academic careers.

All approaches described rely on the provision of additional resources for these purposes annually. The CSU has evaluated four incentive approaches for the California Promise Program, as follows:

- 1) ***Final Term Approach.*** *Set-aside a reserve of funds allocated by the state for this purpose and held in trust by the CSU to provide grants equal to the amount of systemwide tuition for their last academic term.*

Under this approach, students in the program would establish their four-year or two-year graduation plans, and the final term would be “assigned” to the student. As they move through their academic career and, if they persist in the California Promise Program, a grant for the final semester’s tuition would be made to the student from the reserve. If the student has already qualified for a need-based tuition grant, the student would receive an award in the same amount that could be used toward other educational costs such as mandatory campus fees, books or living expenses. Since helping students to persist in these programs is a long-standing issue, this final-term approach would be an attractive capstone to student persistence for all students. Any un-awarded funds in the trust could be carried-forward to the next fiscal year as the programs are likely to grow.

***FISCAL IMPACT***

Based on a range of 200 to 700 students per campus split evenly between the freshman and transfer programs, (2,900 to 10,100 students systemwide) this incentive would cost between \$7.9 million and \$27.7 million annually. Additional state funding for this purpose would be required each year. In this model, there would be no differential impact between students participating in the four-year or two-year plan as the tuition for the final term is the same for all undergraduate students.

Students per Campus	Students Systemwide	1 Semester Tuition	Total Cost
200 per Campus	2,900	\$2,736	\$7,934,400
300 per Campus	4,350	\$2,736	\$11,901,600
400 per Campus	5,800	\$2,736	\$15,868,800
500 per Campus	7,250	\$2,736	\$19,836,000
600 per Campus	8,700	\$2,736	\$23,803,200
700 per Campus	10,150	\$2,736	\$27,770,400

- 2) ***Summer Term Approach.*** *Set aside a reserve of funds allocated by the state for this purpose and held in trust by the CSU to provide grants to students to take up to six units, or two courses (whichever is greater) during a summer term during their academic career. A student could take one course in two summer sessions, or two courses in one summer term. Because multiple cohorts would be eligible for this waiver, annual cost would be similar to the cohort cost below.*

This approach would enable greater participation and broaden access as many students find it difficult to enroll in 15 units each term of the regular academic year. This approach would allow students to enroll in 12 units in one or both semesters followed by an enrollment of 3 or 6 units in the summer. Students often work full-time during the summer to save for the academic year, so the tuition grant would make academic work more attractive especially if it meant they could remain eligible for the program. *A key to making this approach work would be for participating campuses to have the funds available to offer a more robust summer schedule.* The fee and financial aid arrangements would be similar to what is stated in approach one. There would be no differential impact between students participating in the four-year or two-year plan, as the tuition prices are the same for all undergraduates.

***FISCAL IMPACT***

200 students on average, taking three or six units, charged a maximum of \$1,587, or \$388/unit based on the current per-unit summer tuition schedule. The cost would be \$16 million to \$23 million per cohort.

Students per Campus	Students Systemwide	3 Units in Summer	1st Summer Cost	Total for Two Summers
200 per Campus	2,900	\$1,164	\$3,375,600	\$6,751,200
300 per Campus	4,350	\$1,164	\$5,063,400	\$10,126,800
400 per Campus	5,800	\$1,164	\$6,751,200	\$13,502,400
500 per Campus	7,250	\$1,164	\$8,439,000	\$16,878,000
600 per Campus	8,700	\$1,164	\$10,126,800	\$20,253,600
700 per Campus	10,150	\$1,164	\$11,814,600	\$23,629,200

Students per Campus	Students Systemwide	Cost of 6 Units in Summer	Total Cost
200 per Campus	2,900	\$1,587	\$4,602,300
300 per Campus	4,350	\$1,587	\$6,903,450
400 per Campus	5,800	\$1,587	\$9,204,600
500 per Campus	7,250	\$1,587	\$11,505,750
600 per Campus	8,700	\$1,587	\$13,806,900
700 per Campus	10,150	\$1,587	\$16,108,050

- 3) ***Guarantee Approach.*** *Many institutions with similar programs offer students a “guarantee” that their degree programs can be completed in four or two years with the understanding that tuition will not be assessed if the institution is at fault for students taking longer to graduate.*

Based on our prior experience with existing campus-based programs, this is an effective approach to financially incentivize the program. Additionally, this approach also acts as a campus incentive to ensure that students have the classes they need in order to graduate within the timeframe of the program. Institutions must be diligent in assisting students with strong advisement and course selection, which would require additional investment. The value of the guarantee would be felt by students both as a financial guarantee and in terms of the commitment that each campus would provide to their success. One limiting factor of the impact of such an incentive would be the limited number of students who might directly financially benefit from this approach. For the 62 percent of CSU undergraduate students receiving non-loan financial aid which fully covers tuition, the perceived benefit of the guarantee may be limited.

***FISCAL IMPACT***

While it is anticipated that minimal resources would be required to support the “guarantee” of no tuition assessment for an additional term of enrollment, this approach would require additional state investment to increase direct advising and support services.

- 4) ***Tuition Freeze Approach.*** *For students participating in these programs, tuition could be frozen for the duration of their enrollment.*

As currently drafted, Senate Bill 803 implements a tuition freeze for students participating in the California Promise Program. The CSU does not believe this is an effective approach for incentivizing the program and therefore does not recommend this proposal. As 62 percent of undergraduate students have their tuition fully covered by a Cal Grant, State University Grant or waiver, this option would have limited value to the majority of CSU undergraduate students. While there is no planning underway for tuition increases in years subsequent to 2017-18 nor has the CSU received indications of decreased allocations to CSU, in the absence of routine tuition increases, this approach would not be an effective incentive to increase participation or improve retention and could decrease operating revenues to our campuses.

Managing such an incentive approach would result in significantly more complexity and cost in administering student financial aid, bursar activities and resource planning corresponding for the need for investments in financial systems and financial aid packaging, especially for transfer students. There would also be corresponding impacts on the California Student Aid Commission (CSAC) in their administration of CalGrant programs as the CSU would move from a single undergraduate tuition rate to multiple, simultaneous rates, impacting individual student awards as well as fiscal planning for CSAC.

There would also be a differential impact between students participating in the four-year program compared to those participating in the two-year program. Students who exit the program would suddenly be responsible for paying an unexpected increase in their tuition.

Finally, by requiring that tuition remain constant for a period of time, this provision usurps the authority of the Board of Trustees to set tuition. As tuition is directly correlated to annual General Fund appropriation to the CSU, this sole authority is necessary to ensure that the University has adequate funding to fulfill its commitment to student access, success and completion – particularly in years when the state faces economic downturns resulting in budget cuts for the California State University. ***For these reasons, pursuing a “tuition freeze” incentive approach is not recommended.***

***FISCAL IMPACT***

With 100 to 350 students participating at the first year and transfer levels the gross lost revenue per cohort would be approximately \$1.1M to \$4.0M if small multi-year tuition increases occurred. Should financial challenges necessitate greater tuition increases, gross lost revenue per cohort would be approximately \$3.7M to \$13M per cohort, depending on the number of participating students. This lost revenue would be compounded by increased administrative costs for financial aid and bursar services necessary to accommodate multiple tuition rates.

*For Illustration Only - Small, Multi-year Tuition Increases*

	Students Systemwide	Gross Lost Revenue Per Cohort
First Year Cohort	1,000	\$618,000
	3,500	\$2,163,000
Transfer Cohort	1,900	\$513,000
	3,500	\$1,795,500

*For Illustration Only - Multi-year, 10-15% Increases*

	Students Systemwide	Gross Lost Revenue Per Cohort
First Year Cohort	1,000	\$2,142,288
	3,500	\$7,498,008
Transfer Cohort	1,900	\$1,559,520
	3,500	\$5,458,320

Even with modest participation by students initially, each of the potential financial incentives evaluated that could benefit students who participate in the California Promise Program will necessitate additional resources in order to be successful.

Because of the scope of the CalGrant and State University Grant programs fully covering tuition for the majority of CSU undergraduate students, incentives which only impact tuition during regular terms, such as approaches three and four, would not effectively motivate the majority of students to participate in or continue to persist in the California Promise Program. In fact, these incentives, which would have greater impact on students from higher income families, may actually exacerbate graduation and attainment gaps among students. Incentives which would impact all students, such as those described in approaches one and two, would be more closely aligned and in support of efforts to eliminate graduation and equity gaps in the CSU.

Information regarding current campus efforts initiated under the California College Promise are posted at [calstate.edu/sas/california-promise.shtml](http://calstate.edu/sas/california-promise.shtml). If you have any questions regarding this set of recommendations, please contact Ms. Kathleen Chavira, Assistant Vice Chancellor, Advocacy and State Relations at [kchavira@calstate.edu](mailto:kchavira@calstate.edu) or (916) 445-5983.

**CSU Campuses Implementing California Promise Program for First Year Students in 2017-18**

Bakersfield  
Dominguez Hills  
Fresno  
Fullerton  
Humboldt  
Long Beach  
Pomona  
Sacramento  
San Bernardino  
San José

**CSU Campuses Implementing California Promise Program for Transfer Students in 2017-18**

Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
Fullerton  
Humboldt  
Long Beach  
Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego  
San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus