May 22, 2023

RE: Budget Investments to Support Postsecondary Accountability, Quality, & Financial Aid

Dear Chair Skinner, Chair Ting, Chair Laird, and Chair McCarty:

The undersigned 6 groups represent higher education, consumer protection, workforce, and affordability advocates focused on ensuring that higher education students in California are protected from predatory schools and that all students in California can access high-quality higher education opportunities, earn meaningful credentials, and avoid unmanageable debt burdens. We write to express our support and opposition to key investments or policy changes proposed in the 2023-24 State Budget. First, we respectfully request that you reject Trailer Bill Language that will allow out-of-state, online post-secondary institutions to access the Golden State Teacher Grant. Additionally, we respectfully request that you support and build upon the Trailer Bill Language on Cohort Default Rate (CDR). Finally, we support funding for the Cradle-to-Career Data System and we support taking early action to eliminate California state taxation of federal student debt cancellation through the passage of AB 111.
California is in a unique position as a long-time national leader in providing consumer protections for students who enroll in private postsecondary programs, online programs, and for-profit institutions. This is due, in part, to the Bureau for Private Postsecondary Education (The Bureau), which serves as the state’s first line of defense for students. Additionally, the state has taken critical steps in protecting taxpayer dollars and our state’s generous financial aid programs from low-quality postsecondary institutions by adopting a stricter student debt cohort default rate (CDR) standard than the federal government and pairing that with graduation rate requirements to protect students from enrolling in school where they are much less likely to complete a credential and much more likely to default on unmanageable student loans. Finally, the state has embarked on developing an aspirational longitudinal data system that will link California’s existing education, workforce, financial aid, and social service data to allow policymakers, educators, and the public to better understand and address disparities in educational and economic opportunities, ensure accountability over taxpayer expenditures, and improve outcomes for students throughout California.

With California’s strong track record on protecting students and borrowers in mind, the following are proposals and investments we collectively support within the 2023-24 State Budget, as well as those we respectfully recommend you strengthen or reject:

1. **We recommend the Legislature reject Trailer Bill language that will allow out-of-state, online post-secondary institutions to access the Golden State Teacher Grant**

While we agree that growing and supporting our teacher pipeline is a critical state goal, it should be done by building upon the good work our in-state institutions are already doing and not at the expense of providing future teacher candidates with a top quality education that includes in-person learning and skill development opportunities. Currently, the Department of Finance is recommending a policy change which would expand institutional eligibility to the Golden State Teacher Grant to out-of-state online post-secondary institutions, pending approval by the Labor secretary amongst other eligibility requirements. Research has shown that the efficacy of exclusively online education remains unproven and that learning outcomes tend to lag, particularly for BIPOC students, male students, and students with academic challenges. Additionally, key sources of federal and state higher education data do not identify whether programs are online, resulting in inadequate data about

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the quality of online education, including which schools or programs are serving students well and which are putting students and taxpayers at risk.\²

Currently, California has limited oversight authority over in-state nonprofit institutions and virtually no current authority over nonprofit institutions based out-of-state and operating online in California. The state does not collect data that would allow the state to evaluate student outcomes at these institutions beyond those reported by the federal government. Unfortunately, we also know that key indicators like CDR have been occluded by the federal student loan payment pause, and these data will be impacted for years to come.\³ Lastly, we contend that the proper authority to oversee and authorize the types of online programs and institutions alluded to in this language should be delegated to The Bureau, and if necessary the Department of Financial Protections and Innovation (DFPI). Therefore, we recommend the Legislature reject this language to expand this fund to these types of online institutions. Investments to further strengthen the work being done by in-state postsecondary education systems would better serve California’s students, rather than expose them to the unnecessary risk of exclusively online programs based out-of-state.

2. We support Trailer Bill language regarding Cohort Default Rate and request you build upon it in the future.

The CDR (cohort default rate) measures the percentage of an institution’s federal student loan borrowers who default on their loans after entering repayment. In California, an institution whose CDR exceeds the allowable threshold of 15.5 percent is at risk of losing Cal Grant eligibility if paired with a graduation rate below 30 percent. The CDR is a central tool to protect borrowers from the worst outcomes of student debt. However, as mentioned previously, most borrowers have not been required to make loan payments since the COVID-19 student loan payment pause was established in 2020.\⁴ This has led to a temporary but lengthy decline in the meaningfulness of default rates as an accountability tool. To that end, we support the CDR trailer bill language as the best available alternative, and we further recommend that the Legislature convene a workgroup to explore additional metrics that could build upon or work in tandem with CDR to ensure that that schools meet a meaningful minimum standard to continue receiving access to taxpayer-funded aid. This is especially critical in light of recent and ongoing efforts from large online, for-profit, and out-of-state public institutions to gain access to California financial aid.

The following are some quality-related factors and metrics the legislature could take into consideration in addition to CDR: (1) institutional financial responsibility and institutional growth-related conditions, (2) the ratio of an institution’s spending on marketing versus spending.

³ TICAS. November 11, 2020. COVID-19 Student Loan Repayment Relief is Critical, But Two Consequences Need to be Addressed to Protect Borrowers. https://bit.ly/3IxX89J.
on student support and instruction, (3) the percentage of students served by an institution who reside in California, (4) the percentage of students served by hybrid or in-person programs as opposed to the percentage enrolled in fully-online programs, and (5) whether and to what extent an institution is overseen by a California regulatory body. While the list presented above is by no means exhaustive, we believe the Legislature should take steps towards instituting further accountability measures to ensure that California dollars serve California students and California colleges in the best way possible.

3. **We support early action to eliminate California state taxation of federal student debt cancellation via AB 111 & funding for the Cradle-to-Career Data System**

We thank the Legislature for taking early action to follow through on their promise to eliminate California state taxation of federal student debt cancellation by passing AB 111, which has been delivered to the Governor’s desk for signing. This action is critical for student borrowers across California who continue to receive federal loan forgiveness through one of the numerous existing paths to cancellation such as Public Service Loan Forgiveness, Income-Driven Repayment (IDR) plans or student relief from repayment after school fraud and abuse. Upon the sunset of the American Rescue Plan deadline, we look forward to working with decision makers and partners to make this action permanent. Considering future federal changes to IDR plans, we need to ensure that students who receive debt relief through those plans are not taxed at the state level.

Furthermore, we support the continued commitment to and funding for California’s **Cradle-to-Career Data System (C2C)** via the 2023-24 Budget. Insights garnered from C2C — a statewide longitudinal data system designed to link educational, workforce, financial aid, and social service data — will be useful in identifying equity and performance gaps, directing resources where needed, and helping students make informed educational and career decisions. From an accountability standpoint, C2C will work with AB 1340 (Chiu, 2019) to help collect additional data necessary to understand how well for-profit colleges are preparing students for careers and inform future policy interventions protecting students from predatory colleges. We already know that far too many students who attend for-profit colleges leave with burdensome student loan debt and no meaningful degree. Continuing to support C2C and similar resources will allow for increased collaboration between lawmakers, advocates, and providers, and it will ensure that California remains at the forefront of prioritizing a data-driven approach in the enactment of state policy.

For the reasons above, we urge your support for the budget investment in the Cradle-to-Career data system, support and build upon the Cohort Default Rate, and reject the language to expand the GSTG to online programs. We look forward to working together with you and the Governor to enact a budget with targeted reforms and equity-focused investments that protect and support students.

Sincerely,
Zima Creason  
Executive Director  
California EDGE Coalition

Ted Mermin  
Executive Director  
California Low-Income Consumer Coalition

Samantha Seng  
Legislative Director & Policy Advisor  
NextGen California

Mike Pierce  
Executive Director  
Student Borrower Protection Center

Cody Hounanian  
Executive Director  
Student Debt Crisis Center (SDCC)

Manny Rodriguez  
Director of Policy & Advocacy CA  
The Institute for College Access & Success

CC:  Members, California Senate Budget and Fiscal Review Subcommittee #1 on Education  
Members, California Assembly Budget Subcommittee #2 on Education Finance  
Elisa Wynne, Staff Director, California Senate Budget and Fiscal Review Committee  
Kirk Feely, Fiscal Director, California Senate Republican Caucus  
Chris Francis, Consultant, California Senate Budget and Fiscal Review Committee  
Andrew Medina, Education Consultant, Office of Senate President pro Tempore Toni G. Atkins  
Christian Griffith, Chief Consultant, California Assembly Budget Committee  
Mark Martin, Consultant, California Assembly Budget Subcommittee #2 on Education Finance  
Patrick Le, Consultant, California Assembly Budget Subcommittee #4 on State Administration  
Robert Becker, Chief Consultant, California Assembly Republican Caucus  
Mónica Henestroza, Special Assistant, Office of Assembly Speaker Anthony Rendon  
Ben Chida, Chief Deputy Cabinet Secretary, Office of Governor Gavin Newsom  
Nicole Muñoz-Murillo, Deputy Legislative Affairs Secretary, Office of Governor Gavin Newsom  
Chris Ferguson, Program Budget Manager, California Department of Finance  
Jennifer Pacella, Deputy Legislative Analyst, California Legislative Analyst’s Office