

Date of Hearing: April 23, 2024

ASSEMBLY COMMITTEE ON HIGHER EDUCATION  
Mike Fong, Chair  
AB 3240 (Calderon) – As Introduced February 16, 2024

**SUBJECT:** California Ban on Scholarship Displacement Act of 2021: Cal Grant awards.

**SUMMARY:** Extends the California Ban on Scholarship Displacement Act of 2021 protections to students who are eligible for a Cal Grant award, commencing July 1, 2025.

**EXISTING LAW:** *Federal law.* The federal Pell Grant provides aid to students who demonstrate financial need. The Pell Grant award can be used for tuition and fees, books, supplies, transportation, and living expenses for the equivalent of up to six years of full-time enrollment. The maximum Pell Grant award is \$7,395 for the award year 2023-24 (which covers the span of July 1, 2023, through June 30, 2024) (20 U.S.C. Section 1070).

It is anticipated that the maximum award will not change for the 2024-25 award year (which covers the span of July 1, 2024, through June 30, 2025).

*State law.*

- 1) Establishes the California Ban on Scholarship Displacement Act of 2021, which, in part, prohibits, commencing with the 2022-23 academic year, an institution of higher education from reducing a student's institutional financial aid offer or award for an academic year as a result of private scholarship awards received by that student unless all of the following conditions are satisfied:
  - a) The student is ineligible to receive a federal Pell Grant award;
  - b) The student is ineligible to receive financial assistance under the California Dream Act;
  - c) The student's gift aid exceeds the student's financial need;
  - d) The institution reduces its institutional financial aid by no more than the amount of the student's gift aid that is in excess of the student's financial need; and,
  - e) The institution does not consider a student's receipt or anticipated receipt of a private scholarship when considering a student's qualification for institutional financial aid (Education Code (EC) Section 70045 et seq.).
- 2) Establishes the California Student Aid Commission (CSAC) for the purpose of administering specified student financial aid programs (EC Section 69510, et seq.).
- 3) Establishes the Cal Grant program, administered by the CSAC, to provide grants to financially needy students to attend a college or university. The Cal Grant programs include both the entitlement and the competitive Cal Grant awards. The program consists of the Cal Grant A, Cal Grant B, and Cal Grant C programs, and eligibility is based upon financial need, grade point average (GPA), California residency, and other criteria. Maximum award amounts for the California State University (CSU) and the University of California (UC) are established in the annual Budget Act and have traditionally covered all systemwide tuition

and fees. Supplemental Cal Grant awards programs are available to students with dependents and former and current foster youth attending CSU, UC, or a California Community College (CCC) to assist with non-tuition costs, such as living expenses (EC Sections 69430 – 69433 and Sections 69465 - 69470).

- 4) Establishes, the Cal Grant Reform Act commencing in the 2024-2025 fiscal year, if General Fund moneys over the multiyear forecasts are available to support ongoing augmentations and actions, and if funding is provided in the annual Budget Act. Under the Act, the Cal Grant 2 and Cal Grant 4 programs are created. The Cal Grant 2 is for CCC students, and provides non-tuition support that grows annually with inflation. The Cal Grant 4 program is for students at the UC, CSU, and other institutions. The Act also states legislative intent that UC and CSU use institutional aid to cover non-tuition costs for their students (EC Sections 69424, 69425, and 69428).
- 5) Establishes the Middle Class Scholarship (MCS) Program to offset a portion of tuition costs for students attending the UC and the CSU. Students with family income and assets up to \$201,000 may be eligible. Starting in the 2022-23 academic year, MCS awards may be used to cover the total cost of attendance at UC and CSU (EC Section 70020, et seq.).
- 6) Extends the Cal Grant priority deadline for financial aid programs administered by CSAC, if the FAFSA application form is not available on or before October 1, 2023, to May 2, 2024, for the 2024-25 award year only (Section 22 of Chapter 50 of the Statutes of 2023).

**FISCAL EFFECT:** Unknown

**COMMENTS:** *Background.* Existing law, prohibits public and private institutions of higher education in the state that receive, or benefit from, state-funded financial assistance, or that enroll students who receive state-funded student financial assistance, from reducing certain students' institution-based gift aid offer below their financial need. These students include those who are eligible for a Federal Pell Grant or financial aid through the California Dream Act but does not currently account for Cal Grant eligible students.

This measure extends the protections of the California Ban on Scholarship Displacement Act to students eligible to receive Cal Grant awards.

*Purpose of the measure.* According to data provided by the author, students who have financial need and receive private scholarships are often unable to make full use of the awards given to them by private scholarship providers when institutions of higher education reduce students' financial aid. When scholarship displacement occurs, financial aid is reduced by an amount equivalent to any private scholarships awarded, leaving students with a zero net-benefit.

The author states that, "in 2021, 62% of students reported a shrink in their institutional grants, rather than to their loans or work-study hours when they reported a private scholarship to their school. As a result, some students who see their financial aid reduced end up taking out additional student loans. Furthermore, unfulfilled non-tuition costs (including books, room and board, and transportation) are estimated to annually average \$8,900 at a community college and \$18,600 at the University of California (UC). Many low-income students can cover tuition and non-tuition costs through a combination of state, local, and/or federal aid. However, even if all

grant aid is considered, students with the most need are, on average, still paying more than \$5,000 per year to attend a community college and more than \$9,000 to attend a UC.”

The author contends that, “the cost of attending college is more than just paying tuition, fees, and books. Non-tuition costs, such as room and boarding, are often uncovered by financial aid, like the Cal Grant. Private scholarships often fills this gap, however students can experience a decrease in their financial aid by a higher education institution if the amount of total aid exceeds the costs of tuition. This practice is known as scholarship displacement, and it unfairly penalizes students that are fortunate enough to receive a private scholarship. To remedy this, Assembly Bill 3240 extends the protections of the California Ban on Scholarship Displacement Act, prohibiting scholarship displacement for students that are eligible for Cal Grant awards. This bill will ensure students can benefit from all forms of their financial assistance, increasing college affordability for more students.”

*What Is Scholarship Displacement?* According to Road2College, scholarship displacement, otherwise known as “over-award” by colleges, can impact need-based financial aid awards in the package from their school, even if the scholarship (or scholarships) do not cover all of their expenses. Many colleges argue that, when a student receives a scholarship, the student’s “need” changes. For example, if the student is awarded a \$1,000 scholarship, the school may determine that the student’s need has correspondingly been reduced by \$1,000. Typically, this occurs if the student is deemed “over-awarded,” meaning that the combination of the student’s scholarship and initial financial aid package offering exceeds the total cost of attendance of the college or university. If that occurs, the college may decide to give the \$1,000 institutional grant they had originally earmarked for the student to another student who still has an unmet need.

*How many?* According to information provided by the author, during the 2022-23 academic year, 597,505 students received a Cal Grant. It is estimated that of those students, 487,891 students were Pell Grant eligible. Lastly, in the same academic year, 17,680 students received the California Dream Act Award.

*Arguments in support.* According to GenUp, sponsors of this measure, “As an extension of AB 288 passed in 2022, this bill aims to provide a technical expansion of the scope of students who qualify for this provision to ban scholarship displacement. This bill expands these eligibility requirements to include students receiving Cal Grants, thereby fostering greater accessibility to higher education. AB 3240 is crucial as higher education plays a pivotal role in social mobility, particularly for disadvantaged communities, providing opportunities for advancement and economic empowerment.”

*Prior legislation.* AB 288 (Calderon and Mia Bonta), Chapter 925, Statutes of 2022, in part, establishes the California Ban on Scholarship Displacement Act of 2021 and prohibits an institution of higher education from reducing offers of institutional gift aid of a student who is eligible to receive a Federal Pell Grant award or financial assistance under the California Dream Act as a result of private scholarship awards designated for the student unless their gift aid exceeds the student’s annual cost of attendance.

AB 1671 (Patterson), of the 2021-22 Legislative Session, which died on the Inactive File on the Assembly Floor, in part, establishes the California Ban on Scholarship Displacement for Foster Youth Act to prohibit public and private postsecondary educational institutions from reducing

the institutional gift aid offer to a low-income current or former foster youth who received a private scholarship award.

AB 3086 (Rob Bonta), of the 2019-20 Legislative Session, which died due to a lack of a hearing in this Committee, was substantially similar to AB 288 (Calderon and Mia Bonta) of 2022.

SB 967 (Berryhill), Chapter 698, Statutes of 2019, established a tuition and fee waivers for qualifying foster youth, as defined, who attend either the CSU or the UC.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

GenUp (Sponsor)  
Campaign for College Opportunity  
Northern California College Promise Coalition  
What We All Deserve (WWAD)

**Opposition**

None on file.

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