

Date of Hearing: April 25, 2023

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Mike Fong, Chair
AB 25 (McCarty) – As Amended April 13, 2023

SUBJECT: Student financial aid: Middle Class Scholarship Program.

SUMMARY: Prohibits the University of California (UC), the California State University (CSU), and the California Student Aid Commission (CSAC) from considering any basic needs emergency aid in the awarding or adjusting of the Middle Class Scholarship (MCS) program. Specifically, **this bill:**

- 1) States that Legislature intends to accomplish all of the following:
 - a) Fully fund the MCS program;
 - b) Provide a debt-free college pathway for all eligible undergraduate students enrolled in the University of California (UC) and the California State University (CSU) and California Community College (CCC) students enrolled in upper division coursework of a CCC baccalaureate program; and,
 - c) Fully fund the Cal Grant Reform Act, before funding the MCS.
- 2) Prohibits the UC, the CSU, and the California Student Aid Commission (CSAC) from considering any basic needs emergency aid in the awarding or adjusting of the MCS.
- 3) Defines, for purposes of this measure, “basic needs emergency aid” to include aid that the institution of attendance gives to the student for purposes of emergencies and to cover the student’s basic needs.

EXISTING LAW:

- 1) Establishes the Donahoe Higher Education Act, setting forth the mission of the University of CA (UC), the California State University (CSU), and the California Community Colleges (CCC); and, defines "independent institutions of higher education" as nonpublic higher education institutions that grant undergraduate degrees, graduate degrees, or both, and that are formed as nonprofit corporations in California and are accredited by an agency recognized by the United States Department of Education (Education Code (EC) Section 66010, et seq.).
- 2) Defines “institutional financial aid” as all institutional grant aid, including institutional student need-based and merit-based aid (EC Section 66021.1).
- 3) Defines “cost of attendance” (COA) as the mandatory systemwide fees, books and supplies, room and board, transportation, and miscellaneous personal expenses for an undergraduate California resident student, as used in determining financial aid eligibility (EC Section 66028.1).
- 4) Requires the UC Regents and the CSU Trustees to annually provide the Legislature, by February 1 of each year, detailed information regarding expenditures of revenues derived

from student fees and uses of institutional financial aid, and provide information regarding the systemwide average total COA per student (EC Section 66028.6).

- 5) Establishes the CSAC for the purpose of administering specified student financial aid programs (EC Section 69510, et seq.).
- 6) Establishes, 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, The Cal Grant Reform Act. Under the Act, the Cal Grant 2 and Cal Grant 4 programs are created. The Cal Grant 2 is for community college 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).
- 7) Establishes the 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 2022-2023, MCS awards may be used to cover the total cost of attendance at UC and CSU (EC Section 70020, et seq.).
- 8) Creates the California Ban on Scholarship Displacement Act of 2021, which, in part, prohibits, commencing with the 2023-2024 academic year, an institution of higher education from reducing the institutional gift aid offer of a student who is eligible to receive a federal Pell Grant award or financial assistance under the California Dream Act for an academic year (AY) as a result of private scholarship awards designated for the student unless all of the student's gift aid exceeds the student's annual COA (EC Section 70045, et seq.).

FISCAL EFFECT: Unknown

COMMENTS: *Purpose of the measure.* According to the author, “although financial aid reform has passed recently, this implementation is contingent upon available funding. There are also technical issues with implementing the MCS, such as campuses giving emergency aid to students, and campuses subtracting this emergency aid from a student’s financial aid package in the middle of the year.”

The author states that, “the burden of student loan debt can result in students being unable to meet basic needs like housing, food, and medical care, and can have negative physical and mental health consequences. Student debt also burdens graduates for years to come, affecting their quality of life and impeding their ability to make ends meet even after graduation.”

Additionally, the author contends that, “there is currently inequity in how many students do not receive enough financial aid for higher education; it is not fair to ask students to give back in aid what they received through emergency aid or basic needs grants when assessed for MCS dollars. AB 25 would allow more students to get better financial aid packages and ensure students do not have to give up their emergency grant and basic needs money in the process of being assessed for their MCS award, solving those inequities.”

Types of financial aid for college students. College students, pending various eligibility criteria, can access many types of financial aid to assist them in paying for their college degree. Types of financial aid include, but is not limited to the following:

- 1) Grants - given by the federal government, the state, or institutions of higher education (these awards do not need to be paid back by the student) [in recent years more students have been awarded emergency aid grants in order to address extenuating circumstance that could have caused them to dropout and prolong their time to degree completion];
- 2) Loans – can be federal or private (the student has to repay the loan later, often times with relatively high interest rates); and,
- 3) Scholarships - typically given for achievement or merit (scholarships do not need to be paid back).

Middle Class Scholarship Program. The State created the original MCS program in the 2013-2014 Budget package to provide partial tuition coverage to certain UC and CSU students. Originally, MCS awards were for students who were not receiving tuition coverage through the Cal Grant program or other need-based financial aid programs. At full implementation, the program was providing average awards of \$3,000 for UC students and \$1,700 for CSU students. Nearly 60,000 students received the award in 2021-2022.

The MCS 2.0 was created in the 2021 Budget Act and implemented in 2023. The adopted plan revamped the MCS program to focus on total COA rather than tuition only. Under the revamped program, students may use MCS awards for nontuition expenses, such as housing and food. The state is implementing the revamped program for the first time in 2022-2023. Award amounts are now calculated based on a multicomponent formula. Calculating a student's award amount under the revamped program involves several steps. First, CSAC accounts for other available gift aid, a student contribution from part-time work earnings, and parent contribution for dependent students with a household income of over \$100,000. CSAC then deducts these amounts from the student's total cost of attendance to determine whether the student has any remaining costs. Finally, CSAC determines what percentage of each student's remaining costs to cover based on the annual state appropriation for the program. Under this formula, award amounts vary widely among students, with each student's award reflecting their costs and available resources.

The revamped MCS program generally maintains the income and asset ceilings of the original program, adjusted for inflation. The maximum annual household income to qualify for an MCS award is \$201,000 for dependent students in 2022-2023. However, the program is now serving considerably more low-income students than before. Now students receiving tuition coverage through Cal Grants or other financial aid programs are newly eligible for MCS awards to help cover nontuition expenses under the revamped program. More than half of students offered MCS awards in 2022-2023 have a household income of \$50,000 or less, and more than 80% have a household income of \$100,000 or less. Students with lower household incomes, however, receive smaller MCS awards on average because they tend to receive more financial aid from other programs (such as Cal Grants, Pell Grants, and institutional aid).

Last year, CSAC estimated it would cost \$2.6 billion to cover 100% of each student's remaining costs under the MCS formula. The 2022-2023 Budget Act provided \$632 million ongoing from the General Fund to cover an estimated 24% of each student's remaining costs. The Budget agreement also included intent to provide \$227 million one-time General Fund in 2023-2024 to increase coverage to 33% of each student's remaining costs in that year.

The chart below from the Legislative Analyst's Office (LAO) provides key information by each segment.

Middle Class Scholarship Program

Key Information by Segment

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23	
				Amount	Percent
Recipients					
CSU	44,481	184,240	197,137	12,897	7%
UC	10,511	88,200	94,374	6,174	7
Total	54,992	272,440	291,511	19,071	7%
Spending (in millions)					
CSU	\$74	\$447	\$608	\$160	36%
UC	32	\$183	248	66	36
Total	\$105	\$630	\$856	\$226	36%
Average award					
CSU	\$1,654	\$2,429	\$3,083	\$654	27%
UC	\$3,015	\$2,074	\$2,633	558	27
Notes:					
Data reflect California Student Aid Commission estimates.					
The Middle Class Scholarship program was revamped beginning in 2022-23, with the new rules significantly affecting the number of eligible recipients and award amounts.					
CSU = California State University. UC = University of California.					

According to the LAO, as CSAC and campus financial aid offices implemented the revamped MCS program for the first time this year, several challenges emerged. In spring 2022, while students were considering their admissions offers, CSAC did not have the necessary data to estimate MCS award amounts under the new formula. As a result, students and families were not notified of their award amounts in time for it to influence their enrollment decisions or their financial planning around covering college costs. [CSAC did, however, send a general notification to students considering a UC or CSU campus to inform them of their potential eligibility for an MCS award.] After CSAC began processing award offers in September, further delays affected when students received payments. For example, the segments needed time to implement changes to the software their campuses use to administer financial aid programs. UC reports its campuses disbursed fall-term awards from October through December, while CSU reports its campuses disbursed fall-term awards the following January. As a result of this timing, the awards were not yet available as students and families began incurring costs for the fall term.

According to the author, “AB 25 creates a pathway to debt-free college by increasing financial aid awards, [thus] increasing access to higher education for low-and middle-income students.”

Institutional aid. Institutional grant aid is a significant source of financial aid that helps reduce California students’ financial barriers to college, yet it is relatively less understood than the state Cal Grant program. Decisions about allocating institutional aid funds reflect a number of different factors, including the types of resources colleges have at their disposal as well as their commitment to providing educational opportunity to low-and middle-income students. Additionally, institutional aid programs play a unique role in supporting individual colleges’ enrollment and completion goals given that colleges have the flexibility to distribute their own

grant funds; however, these funds are often tied with differential reliance on tuition revenues which can make the amount available volatile from one year to the next. Ultimately, colleges' decisions about how to distribute available institutional aid resources have long been, and will remain, an important factor in determining the future of college affordability in the state.

According to a July 30, 2020, report by The Institute for College Access and Success (TICAS), *Institutional Grant Aid at California Colleges: A Primer*, the CSU System, consisting of 23 campuses across the state, distributes over \$746.8 million dollars in undergraduate grants and scholarships each year – an amount of institutional gift aid that is roughly equivalent to what CSU students collectively receive in state financial aid (Cal Grant).

The vast majority of this aid (81%) is distributed through the need-based State University Grant (SUG) program. The CSU also operates a number of other smaller institutional aid programs, including about \$65.5 million (9% of gift aid spending) in non-athletic scholarships for about 29,000 students and \$53.4 million (7%) in athletic scholarships and grants for about 5,000 students.

Across all programs, CSU reports spending \$75 million in gift aid received by about 24,500 students for reasons other than their financial need (i.e., non-need-based). In total, 89% of all institutional gift aid is distributed based on financial need. Limited data from individual campus-level reporting of institutional aid spending suggests that some of the aid awarded for reasons other than financial need in fact support students with need.

The report notes that the SUG program was established through a general appropriation fund in the early 1980s, and since 1993 has been funded primarily through a dedication of one-third of the new revenue generated from tuition increases. The SUG program aims to ensure that low-income students have systemwide tuition charges covered by state or institutional financial aid. It is directed at students not receiving Cal Grants or other waivers designated for payment of systemwide tuition, with a focus on students with expected family contributions (EFCs) up to about \$4,000. While uncommon, major changes to the SUG program are approved by the CSU Board of Trustees. In 2012, Trustees limited SUG awards to statewide tuition charges. Beginning in 2019, campuses may provide SUG awards that also cover up to half of mandatory campus-based fees.

The UC System, including nine undergraduate-serving campuses across the state, distributes just over \$1 billion in undergraduate grants and scholarships each year – an amount of institutional gift aid that exceeds what UC students collectively receive in state financial (Cal Grant) aid. A total of 81% of UC institutional gift aid spending is distributed through the need-based UC Grant program.

The UC system also operates a number of other smaller institutional aid programs, including \$124.0 million in non-athletic fellowships and scholarships (equaling 12% of gift aid spending) that serve 31,800 students, and about \$54.3 million (5% of gift aid spending) in athletic scholarships for about 2,700 students. Across all programs, UC reports spending \$160.3 million in gift aid, received by about 31,600 students for reasons other than their financial need (non-need-based). In total, 85% of all institutional gift aid is awarded based on need. Voluntary reporting by individual campuses suggests that the majority of the aid awarded for reasons other than financial need in fact support students with financial need.

The report additionally notes that the UC's need-based grant aid program was established in the late 1960's and is funded through a set aside of one-third of new mandatory systemwide tuition and fee revenue. Dollars are allocated through a system-wide financial aid strategy, known as the Education Financing Model (EFM), which relies on equal contributions from students and/or families, state and federal government aid, and institutional aid. Within the EFM framework, the UC grant program supplements other available grant and scholarship aid in order to ensure all students can cover total college costs (including non-tuition and fee costs) with an equal loan and work burden set at a level deemed manageable for the student. In 2019-2020, this "self-help" level was approximately \$10,000 for that AY. The University's Blue and Gold Opportunity Plan, in which students with parent incomes of up to \$80,000 and demonstrate a financial need are guaranteed to receive grants covering mandatory systemwide fees, is embedded within the EFM framework.

California residents enrolled in an undergraduate program at any UC campus who demonstrate financial need, are broadly eligible for a UC grant under the EFM. Because UC grants fill in the gaps left by other financial aid programs, the decision whether students receive a UC grant, and the size of the award, depends on how much of a gap remains, rather than having an EFC in a specified range.

Committee comments. According to the Assembly Budget Subcommittee No. 2 on Education Finance's analysis of MCS 2.0, like Cal Grant Reform, the revised MCS program is a critical effort to increase access and affordability in higher education. Fully funded, MCS 2.0 will allow middle class and low-income UC and CSU students a clear pathway to a debt-free bachelor's degree. While one-time funding is not ideal, the Governor's Budget proposal will provide significant support for students in the 2023-2024 academic year, and will require clear messaging to students.

Committee Staff understands that the segments and CSAC are working on proposed changes to the MCS program to address concerns that the emergency aid, or other basic needs grants, require mid-year changes to students' MCS amounts. These changes could be implemented in a trailer bill or policy bill.

This measure appears to be a response to the aforementioned.

While TICAS does not have a formal position on this measure, according to TICAS, "this bill explicitly prioritizes funding for MCS without any discussion of who would benefit and why they should. It is also worth noting that the bill includes a provision to exclude emergency financial aid from the MCS award calculation that is related to, but separate from statewide financial aid reform."

Moving forward, the author may wish to work with TICAS and continue to work with this Committee in order to address the following questions:

- 1) *Is this measure about statewide financial aid prioritization? If it is, what student demographic is it intended to support?*
- 2) *If the measure is about emergency aid displacement, should this measure be broader in order to address, in part, the following:*

- a) *If this measure seeks to provide students more aid above their COA, is state policy the best approach, or should this be accomplished federally (because the most recent emergency aid dollars awarded to students was from federal dollars during the COVID-19 pandemic)?*
- b) *Is California able to legislate that emergency aid that is not federal (e.g. institutional and state) does not count towards a student's COA?*
- c) *Who is the student population that is being awarded/utilizing emergency basic needs grants? Is the goal to prioritize the financial needs of low income and low-middle income students?*
- d) *Existing law creates the California Ban on Scholarship Displacement Act of 2021, which, in part, prohibits, commencing with the 2023-2024 academic year, an institution of higher education from reducing the institutional gift aid offer of a student who is eligible to receive a federal Pell Grant award or financial assistance under the California Dream Act for an AY as a result of private scholarship awards designated for the student unless all of the student's gift aid exceeds the student's annual COA. Do scholarships change the calculation of a student's MCS award?*

Arguments in support. According to uAspire, sponsors of this measure, “AB 25 (McCarty), helps address the total COA by reducing financial burdens on students, creating a pathway to debt-free college, and ensuring Cal Grant Reform, and after that, the MCS 2.0, are funded when the state has sufficient revenue, while also ensuring that students’ financial aid awards are not reduced due to emergency basic needs aid.”

Prior legislation. AB 288 (Calderon and Mia Bonta), Chapter 925, Statutes of 2022, enacted the California Ban on Scholarship Displacement Act of 2021. The Act, in part, prohibits, commencing with the 2023-2024 academic year, an institution of higher education from reducing the institutional gift aid offer of a student who is eligible to receive a federal Pell Grant award or financial assistance under the California Dream Act for an AY as a result of private scholarship awards designated for the student unless all of the student's gift aid exceeds the student's annual COA.

REGISTERED SUPPORT / OPPOSITION:

Support

uAspire (Sponsor)
University of California Student Association
One Individual

Opposition

None on file.

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