

Date of Hearing: March 24, 2021

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 288 (Bonta) – As Amended March 15, 2021

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

**SUMMARY:** Enacts the California Ban on Scholarship Displacement Act of 2021 (Act). Specifically, **this bill:**

- 1) 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.
- 2) Stipulates that the Act shall not be interpreted or implemented in a manner inconsistent with state or federal law; that the provisions of the Act are severable; and, if any provision of the Act and its application is held invalid due to a conflict with federal requirements, that invalidity shall not affect other provisions of the Act that can go into effect without the invalid portions of the Act.
- 3) Expresses that the Legislature finds and declares both of the following:
  - a) As of 2020, California students who have financial need and receive private scholarships are unable to make full use of the awards provided to them by private scholarship providers because institutions of higher education reduce their gift aid, grants, scholarships, tuition waivers, and fellowship stipends which those students would otherwise be qualified to receive. The reduction of an institution's financial aid due to private scholarships is referred to as "scholarship displacement;" and,
  - b) This Act is intended to ensure that private scholarships supplement, and do not supplant, gift aid, grants, scholarships, tuition waivers, and fellowship stipends provided by institutions of higher education to California students who have financial need.
- 4) Defines for purposes of the Act (unless the context requires otherwise), many terms, including, in part, the following:

- a) “Cost of attendance” (COA) means the student’s tuition and fees, books and supplies, living expenses, transportation expenses, and any other student expenses used to calculate a student’s financial need for purposes of student aid programs under Title IV of the federal Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1070 et seq.);
- b) “Gift aid” means all financial aid designated for the student’s educational expenses, including a grant, scholarship, tuition waiver, fellowship stipend, or other third-party payment, that is not a loan or pursuant to a work-study program;
- c) “Institutional financial aid” means financial aid that is paid for by the institution of higher education from its funds and the recipient of the aid is selected by the institution;
- d) “Private scholarship” means financial assistance awarded to students based on one or more factors, including, but not limited to, academic merit, talent, or a particular area of study, by a private company, foundation, or nonprofit organization, or a public charity or service group; and,
- e) “Student Aid Index” means, with respect to a student, an index that reflects an evaluation of a student’s approximate financial resources to contribute toward the student’s postsecondary education expenses for the academic year.

**EXISTING LAW:** *Federal law.* Provides federal financial aid, known as the Pell Grant, to students who demonstrate financial need. The Pell Grant award can be used for tuition and fees, books, and supplies, transportation, and living expenses for the equivalent of up to six years of full-time enrollment. The maximum Pell Grant award for the 2020–21 Award Year is \$6,345, an increase of \$150 from the \$6,195 maximum Pell Grant award for the 2019–20 Award Year. (20 U.S.C. Section 1070, et seq.).

*State 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 “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 California Student Aid Commission for the purpose of administering specified student financial aid programs (EC Section 69510, et seq.).

**FISCAL EFFECT:** Unknown

**COMMENTS:** *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 COA 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.

*Purpose of the measure.* According to the author, prohibiting scholarship displacement is an essential part of any equity-focused college affordability equation, particularly during the COVID-19 pandemic, as public and private resources grow scarcer. The author contends that, “By eliminating the practice of scholarship displacement in higher education institutions, student recipients from low and middle-income backgrounds will be able to make full use of their financial aid awards and private scholarships.”

The author states, “As California students struggle with how to achieve their dream of earning a college degree, we must not punish students who are fortunate enough to receive a private scholarship. This is a common practice known as scholarship displacement. During this economic recession, it’s even more urgent that we help low-income students who may have no other means to pay for the complete cost of colleges.”

*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);
- 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).

*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 in 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 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. In 2019-20, this "self-help" level was approximately \$10,000. 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 gaps left by other financial aid programs, 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.* Committee Staff understands that some scholarships have specified purposes. That is to say, a private scholarship could be deemed to only cover tuition, but there could also be a dedicated institutional scholarship for the same purpose. In those instances, an institution cannot award both scholarships while upholding the specified intent of the fund.

*With this in mind, moving forward, the author may wish to work with the appropriate stakeholders in order to provide clarity to this concern and potential unintended consequence.*

*Prior legislation.* AB 3086 (Bonta) of 2020, which died due to a lack of a hearing in this Committee, was substantially similar to this measure.

## **REGISTERED SUPPORT / OPPOSITION:**

### **Support**

California Faculty Association  
California State Student Association  
City of San Jose, Mayor Sam Liccardo  
Mayor of City & County of San Francisco London Breed  
Northern California College Promise Coalition  
The Education Trust - West  
University of California Student Association

### **Opposition**

None on file.

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