

# Exhibit 12

## Information/Action Item

### Report on the implementation of the Middle Class Scholarship Program

#### Background

Governor Edmund G. Brown, Jr. signed legislation authorizing the Middle Class Scholarship (MCS) Program on July 1, 2013. Beginning with the 2014-15 academic year, the MCS will provide financial support to undergraduate students who are enrolled at the California State University (CSU) or University of California (UC), meet program requirements, and whose annual household income does not exceed \$150,000.

#### Scholarship amount

The MCS program will provide an eligible undergraduate student with a scholarship amount that, combined with other publicly funded financial aid received by the student, is up to 40 percent of the institution's mandatory system-wide tuition. Students with annual household incomes greater than \$100,000, and up to \$150,000, will have scholarship awards reduced by 0.6 percent for each \$1,000 in income over \$100,000.

Further, the MCS program will be phased in over four years. For the 2014-15, 2015-16, and 2016-17 academic years, the maximum amount of a student's scholarship award shall be 35 percent, 50 percent, and 75 percent of the total scholarship award amount that the student would otherwise be eligible to receive. Thus, the maximum scholarship award in 2014-15 will actually be 14% of the mandatory system-wide tuition. The chart below indicates the year of the MCS program, academic year, and the various percentages during the phase-in period.

Year of MCS Program	Academic Year	Percent Scholarship Award is of Mandatory System-wide Tuition	Allowed Percent of Scholarship Award During n-year Phase-in Period	Maximum Percent Scholarship Award is of Mandatory System-wide Tuition
1st	2014-15	40%	35%	14%
2nd	2015-16	40%	50%	20%
3rd	2016-17	40%	75%	30%
4th	2017-18	40%	100%	40%

The final scholarship amount will be based on the number of students that are eligible for the MCS in an academic year and the amount of funding allocated in the State Budget.

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## Student eligibility

To be eligible for the MCS, students must satisfy Cal Grant requirements stated in Education Code section 69433.9. These require students to be:

- a) Citizens of the United States, or eligible non-citizens; the MCS law, however, does not require compliance with this section for students who are exempt from paying nonresident tuition, i.e., AB 540 students;
- b) In compliance with all applicable Selective Service registration requirements;
- c) Not incarcerated;
- d) Not in default on any student loan;
- e) A resident of California at the time of high school graduation or its equivalent.

To be eligible for the MCS, students must complete and submit the FAFSA (Free Application for Federal Student Aid) or the California Dream Act Application, as applicable.

Students must also file timely applications for other publicly funded student financial aid, i.e., the federal Pell Grant Program, the Cal Grant Program, and institutional need-based grants for which they are eligible.

Finally, to be eligible for MCS, students must maintain at least a 2.0 grade point average in a manner consistent with Cal Grant program requirements.

## Institutional eligibility

The MCS law states:

In order for students enrolled in their respective segments to remain eligible to receive a scholarship under this article, the University of California and the California State University shall maintain their respective institutional need-based grant program policies, and shall maintain their funding amounts at a level that, at a minimum, is equal to the level maintained during the 2013-14 academic year.

(Education Code section 70022(b).)

## **Program Implementation and Administration**

The MCS law directs the California Student Aid Commission (Commission) to administer the MCS program.

We have begun defining most of the requirements necessary to determine the MCS awardees. As a central processor for determining Cal Grant awards, we have access to FAFSA records for California students and can identify potentially eligible MCS students to inform them of the new MCS program. UC and CSU campuses will be required to exchange academic and income data with us to make final determinations of program eligibility. We will develop a data transfer system by early 2014 to collect data from campuses, and processes for award adjustments and payment reconciliation.

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We are also developing the process for making the financial determinations required by the MCS law. For each academic year, we must determine the amount of funding that would be “necessary” to pay the full scholarship award for that academic year. To determine the full scholarship award, we need to know the amount of Cal Grants, Pell Grants, and institutional need-based grants estimated to be awarded to MCS eligible students.

We must then compare this “necessary” amount to the actual amount appropriated for an academic year.

If the actual amount is less than the “necessary” amount to cover the costs of the full scholarship award for the academic year, the Commission must reduce the scholarship awards “proportionately by an equal percentage for all recipients of [MCS].” (Education Code section 70023(b).)

### **Segmental Consultation**

We began in 2012 to consider implementation and to identify potential issues and concerns raised by the UC and CSU segmental representatives during discussions involving previously proposed legislation similar to the new MCS law.

With the enactment of the MCS law in July, we held conference calls with UC and CSU segmental representatives to identify questions needing clarification and to discuss more specific administrative issues.

On August 12, 2013, we held an in-person MCS advisory committee meeting in the Commission’s Board Room with segmental, campus and staff representatives to discuss a proposed implementation plan. During the meeting, we identified the Commission’s specific roles and responsibilities in administering the MCS program and discussed campus roles and responsibilities. The committee also identified some issues that need clarification and agreed to work together to establish the program’s requirements for full implementation for the 2014-15 academic year.

The committee agreed to meet bi-monthly for further discussions as we continue to define the business and system requirements and prepare to begin processing preliminary communications in March 2014.

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