

Item 15

Information Item

Update on the Middle Class Scholarship

SUMMARY:

As the second year of the Middle Class Scholarship (MCS) Program comes to a close, it appears that the 2015 statutory program reforms reduced participation - 75,544 paid recipients in 2014-15 vs. 48,622 paid recipients in 2015-16 to date. For the 2015-16 year, the MCS Program's paid rate was 92 percent similar to the first year's.

In the last two academic years, the MCS Program has offered financial aid to over 135,000 University of California (UC) and California State University (CSU) students. The 2016-17 academic year continues to serve students while incorporating legislative and budget allocation changes to the program.

This item provides an update on the MCS Program for the prior 2015-16 academic year and the initial 2016-17 award year.

RECOMMENDATION:

Commission staff will continue to work with UC and CSU representatives to enhance the administration of the MCS program and to award and pay all eligible students.

BRIEF HISTORY OF KEY ISSUE(S):

Background:

The MCS Program provides an eligible undergraduate student at the University of California (UC) or the California State University (CSU) 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 and fees. To become a potentially eligible for the MCS Program, a student must complete a Free Application for Federal Student Aid (FAFSA) or a California Dream Act Application by March 2nd and meet the following criteria:

- is a California resident
- has household income and less than \$156,000
- has a maximum annual household asset amount of \$156,000
- is enrolled in an undergraduate program at a UC or CSU

Potentially eligible students are reported to the Commission by a UC or CSU campus through an enrollment file process. A student must be on an enrollment file to be considered and determined to

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be eligible for an MCS award. The campuses provide information about other financial aid, including the Pell Grant and institutional aid that applicants are receiving for that academic year.

The MCS program funds are set by statute, with the ability to be amended during the fiscal budget process. The 2016 Budget Act Funding resulted in a decrease of \$33.5 million in the statutory amount originally established for the 2015-16 year, and \$42 million for the 2016-17 year and each year thereafter to account for savings in the MCS program. Table 1, below, identifies the current authorized statutory allocations for the MCS program. A key contributor to these revisions was the lower number of eligible applicants than originally forecasted.

For the 2015-16 academic year, the maximum MCS award increased to 50 percent as part of the phase-in process defined in the California Education Code (CEC) Section 70022 (a)(4). This phase-in approach can result in an awarded student receiving 20 percent, rather 40 percent of the total MCS amount. For the 2016-17 academic year, the phase-in level will increased to 75 percent.

New Feature of the MCS Program

Beginning with the 2016–17 academic year, the total number of years of eligibility for the MCS Program awards pursuant to CEC 70022.5 (a) will be based on the student’s educational level (EL) as designated on the UC and CSU enrollment files. Tracking MCS eligibility will commence with the 2016-17 academic year and will be based on the EL provided in the enrollment files.

Based on the EL provided by the UC or CSU campus, the program years of eligibility will be assigned as follows:

EL 0 or 1 (Freshman)	400% / 4 years of eligibility
EL 2 (Sophomore)	300% / 3 years of eligibility
EL 3 (Junior)	200% / 2 years of eligibility
EL 4 (Senior)	100% / 1 year of eligibility
EL 5 (TCP or 5th Year)	100% of additional eligibility if the student is admitted/enrolled in a teacher credential program or mandatory 5 th Year undergraduate program
EL 6 or 7	Ineligible since the student is considered a graduate

Given the timing and scope of this EL project, the information technology development was divided into phases. The first phase allowed for changes to the enrollment file layout and process. The portal allowed UC and CSU campuses to upload the initial submission of the enrollment files. The second phase focused on the changes to the payments and corrections process and is anticipated to be deployed on September 23, 2016.

ANALYSIS:

Table 1 shows the maximum UC and CSU awards for each academic year based on the phase-in percentages.

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Table 1
Maximum MCS Award Amount by Year

	Authorized Statutory Allocation	Percent MCS is of Mandatory System-wide tuition	Allowed % of MCS during 4-year Phase-in Period	Allowed % of MCS is of Mandatory System-wide tuition	UC Maximum Award¹	CSU Maximum Award²
2014-15	\$107,000,000	40%	35%	14%	\$1,704	\$768
2015-16	\$82,000,000	40%	50%	20%	\$2,448	\$1,092
2016-17	\$74,000,000 ³	40%	75%	30%	\$3,688	\$1,641
2017-18	\$117,000,000 ³	40%	100%	40%	\$4,918	\$2,189

¹ UC Mandatory System-wide tuition = \$12,192 for 2014-15; \$12,240 for 2015-16 and \$12,294 for all other years

² CSU Mandatory System-wide tuition = \$5,472 for all years

³ Revised by 2016 Education Trailer Bill, Chapter 24, Statutes of 2016 (AB 1602)

The primary reason applicants do not qualify for an MCS award is that they will receive other financial aid that already covers 40 percent or more of the mandatory tuition/fees. In the 2015-16 academic year, 301,350 applicants identified on the UC and CSU enrollment files were not eligible for MCS awards for this reason. Table 2 displays the disqualification reasons for applicants during the 2014-15 and 2015-16 academic years.

Table 2
MCS Disqualification Reasons

Disqualification Reasons	2014-15	2015-16
Other financial aid covering tuition/fees	335,374	301,350
Incomplete verification	9,813	8,787
Total income exceeds limit	5,471	5,249
Withdrawn	3,783	502
Student previously uploaded by another school	1,013	280
Student did not meet the deadline date	Not Applicable	8,103
Asset amount exceeds the limit	Not Applicable	12,710
Total	355,454	336,981

Year-end reconciliation for the 2015-16 academic year closed on September 9, 2016. Table 3, below, provides the current offered and paid amounts. Final figures are scheduled to be reported and updated at the November 2016 Commission meeting. For the 2015-16 year, the MCS Program's paid rate is 92 percent similar to the first year's.

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Table 3
2015-16 MCS Offered Awardees and Paid Recipients
(Data as of August 17, 2016)

Segment	Offered Awardees	Offered Awardee Amount	Paid Recipients	Paid Recipient Amount	Paid Recipient Rate
UC	8,843	\$11,697,812	7,878	\$10,084,405	89%
CSU	43,804	\$35,691,959	40,744	\$33,174,127	93%
TOTAL	52,647	\$47,389,771	48,622	\$43,258,532	92%

Table 4 illustrates the income level comparison for paid UC and CSU students for both the 2014-15 and 2015-16 award years. For both years, over 80% of the students in the program were in the CSU system.

Table 4
MCS Paid Recipients Income Level Comparison by Segment
(Data as of August 17, 2016)

Household Income	2014-15					2015-16				
	UC		CSU		Total	UC		CSU		Total
	Count	%	Count	%		Count	%	Count	%	
\$0 or Less	85	15%	477	85%	562	30	12%	227	88%	257
\$1-10,000	73	9%	730	91%	803	26	7%	329	93%	355
\$10,001-20,000	146	13%	1,018	87%	1,164	50	11%	389	89%	439
\$20,001-30,000	136	3%	3,889	97%	4,025	35	2%	1,718	98%	1,753
\$30,001-40,000	203	6%	3,365	94%	3,568	43	2%	1,913	98%	1,956
\$40,001-50,000	232	8%	2,584	92%	2,816	46	3%	1,467	97%	1,513
\$50,001-60,000	255	7%	3,344	93%	3,599	66	4%	1,786	96%	1,852
\$60,001-70,000	354	8%	4,303	92%	4,657	64	2%	2,555	98%	2,619
\$70,001-80,000	469	8%	5,219	92%	5,688	89	3%	3,374	97%	3,463
\$80,001-90,000	1,050	15%	6,175	85%	7,225	449	9%	4,303	91%	4,752
\$90,001-100,000	1,566	20%	6,435	80%	8,001	929	16%	4,778	84%	5,707
\$100,001-110,000	2,005	25%	6,109	75%	8,114	1,195	21%	4,628	79%	5,823
\$110,001-120,000	1,955	26%	5,498	74%	7,453	1,321	24%	4,261	76%	5,582
\$120,001-130,000	1,992	30%	4,661	70%	6,653	1,273	27%	3,478	73%	4,751
\$130,001-140,000	1,916	32%	4,028	68%	5,944	1,217	29%	2,994	71%	4,211
\$140,001-150,000	1,735	33%	3,537	67%	5,272	1,045	29%	2,544	71%	3,589
TOTAL	14,172	19%	61,372	81%	75,544	7,878	16%	40,744	84%	48,622

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To reach eligible MCS applicants, the maximum income ceiling was initially set at \$150,000. Beginning with the 2016-17 academic year, Education Code Section 70022 requires an annual adjustment of the MCS maximum income and asset levels using the percentage change in the California per capita personal income (PCPI) from the preceding year. From this, the new maximum income and asset ceiling for 2016-17 is \$156,000.

Table 5 illustrates the MCS paid recipients comparison by income brackets within UC and CSU for both the 2014-15 and 2015-16 academic years.

Table 5
MCS Paid-Recipients by Income Brackets Within UC and CSU
(Data as of August 17, 2016)

	2014-15						2015-16					
	UC		CSU		Grand Total		UC		CSU		Grand Total	
Household Income	Count	UC %	Count	CSU %	Count	Total %	Count	UC %	Count	CSU %	Count	Total %
\$50,000 or Less	875	6%	12,063	20%	12,938	17%	230	3%	6,043	15%	6,273	13%
\$50,001-100,000	3,694	26%	25,476	41%	29,170	39%	1,597	20%	16,796	41%	18,393	38%
\$100,001-150,000	9,603	68%	23,833	39%	33,436	44%	6,051	77%	17,905	44%	23,956	49%
TOTAL	14,172	100%	61,372	100%	75,544	100%	7,878	100%	40,744	100%	48,622	100%

Table 5 also illustrates that while the program is designed for middle class students, 875 (6 percent) of the UC students and 12,063 (20 percent) of the CSU students in 2014-15 were from families with household incomes of less than \$50,000 per year. The primary reason is that a majority of these students are sophomores, juniors and seniors and would not have qualified for Cal Grants in the 2014-15 academic year, even if all other Cal Grant eligibility requirements had been satisfied, because their applications would not have been submitted in the academic year of high school graduation or the year after.

This trend continues with the 2015-16 year, where 596 (7 percent) of the UC students and 8,297 (18 percent) of the CSU students are from families with household incomes of less than \$50,000 per year. While almost half (47 percent) of all of the MCS recipients are from families with household incomes greater than \$100,001 per year, the other 53 percent are within the maximum Cal Grant A income ceiling of \$100,800 for a family of six. In essence, the 53 percent that met the Cal Grant A eligibility, but did not receive an offer for High School Entitlement for the reasons listed in the prior paragraph or receive an offer for the limited Competitive program, were offered an MCS award.

2016-17 Processing Updates

UC and CSU campuses uploaded the 2016-17 enrollment files during the first two weeks of July for consideration of 2016-17 MCS awards. The enrollment files were used to test the new EL changes beginning with the 2016-17 academic year. Additional simulations were run to ensure that the initial awards did not exceed the reduced funding of \$74 million allocated for the 2016-17 fiscal year.

On August 5, 2016, the Commission made its initial 2016-17 MCS awards. The offered awardees were notified of their award status on August 8. Additional MCS awards will continue to be

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processed throughout the academic year as the UC and CSU campuses identify potentially eligible applicants. MCS Program payments will be sent to campuses beginning in September.

Table 6 below shows the initial MCS Program award offers made for the 2016-17 academic year. The offered awards will continue to increase as campuses identify eligible students.

Table 6
2016-17 MCS Offered Awardees
(Data as of August 13, 2016)

Segment	Offered Awardees	Offered Award Amount
UC	7,165	\$16,261,180
CSU	29,985	\$40,683,932
TOTAL	37,150	\$56,945,112

Conclusion

In the last two academic years, the MCS Program has offered financial aid to over 135,000 University of California (UC) and California State University (CSU) students. The 2016-17 academic year continues to serve students while incorporating legislative and budget allocation changes to the program.

RESPONSIBLE PERSON(S):

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