

Item 13

Information Item

Update on Middle Class Scholarship

SUMMARY OF THE ISSUE(S):

In 2014-15, the Middle Class Scholarship (MCS) program awarded \$49.2 million to 75,826 students. The program had over a 90% take rate, however total awards were less than originally anticipated so program costs have been lower than originally planned.

In 2015-16, the MCS continues to be phased in as scheduled. Statutory program reforms in 2015 have resulted in slightly lower participation in the program. In addition, they have caused Commission staff with UC and CSU representatives to continue efforts to implement a lifetime eligibility limit for students participating in the MCS program.

While the program is designed for middle class students, 875 (6%) of the UC students and 12,063 (19.6%) of the CSU students in 2014-15 were from families with household incomes of less than \$50,000 per year. This occurs primarily because a majority of these students are sophomores, juniors and seniors and would not have qualified for Cal Grants in 2014-15, 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.

RECOMMENDATION:

Commission staff will continue to work with UC and CSU representatives to improve the implementation of the MCS program.

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. An "applicant" is any potentially eligible student who completed a Free Application for Federal Student Aid or California Dream Act application by March 2nd and meets the following criteria:

- is a California resident
- has household income less than \$150,000
- has a maximum annual household asset amount of \$150,000
- is in an undergraduate program at a UC or CSU

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Funding for the MCS program is prescribed by statute, but may be amended during the budget process. Funding was \$107 million for 2014-15, the first year of the MCS program. Funding in 2015-16 Budget Act was \$82 million, reflecting statutory changes in eligibility requirements made during the 2015 budget process. Based on reduced demand, the 2016 May Revision has reduced the 2015-16 MCS funding amount by \$33.5 million to \$48.5 million. Statutory funding for MCS in 2016-17 is \$116 million, and \$159 million in 2017-18, however actual spending will likely be less.

The maximum MCS award is phased in over four years. California Education Code section 70022(a)(4) provides: “For the 2014-15, 2015-16, and 2016-17 academic years, the maximum amount of a student’s scholarship award shall be 35%, 50%, and 75% of the total MCS scholarship award amount that the student would otherwise be eligible to receive.” For example, the maximum MCS award in 2014-15 was 14%, rather than 40%, of the mandatory system-wide tuition. In 2017-18, the MCS program will be fully phased in.

UC and CSU campuses identify potentially eligible students through an “enrollment file” in the Commission’s WebGrants system. A student must be on an institution’s enrollment file to be considered for the MCS award. In addition, the campuses provide information about other financial aid to the students are eligible for, including the Pell Grant, institutional aid and state aid (excluding Cal Grants).

As shown in Table 2 in the 2014-15 year, 355,454 students identified on the UC and CSU enrollment files were not eligible for the MCS award. The primary reason for not qualifying for the MCS is these students (335,374) had other financial aid covering 40% or more of the mandatory system-wide tuition.

Beginning in 2015-16, new MCS program requirements which included a maximum annual household asset amount of \$150,000 and a March 2 filing deadline. Of the 333,818 students identified on the UC and CSU enrollment files, 20,775 students did not meet the new program requirements. As in the prior academic year, the primary MCS disqualification reason in 2015-16 was students having 40% or more of the mandatory system-wide tuition covered by other financial aid.

ANALYSIS:

Table 1 below indicates the phase-in of the MCS awards by academic year, the percentages, and the maximum award amount for each academic year.

**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	Mandatory % 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	\$116,000,000	40%	75%	30%	\$3,672	\$1,641
2017-18	\$159,000,000	40%	100%	40%	\$4,896	\$2,189

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

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

Table 2 below shows the 2014-15 and 2015-16 students not eligible for an MCS award and the reason for their disqualification by academic year. As mentioned above, the primary reason for disqualification is that the students have 40% or more of the mandatory system-wide tuition covered by other financial aid.

**Table 2
MCS Disqualification Reasons**

Disqualification Reasons	2014-15	2015-16
Other financial aid covering tuition/fees	335,374	298,297
Incomplete verification	9,813	8,891
Total income exceeds limit	5,471	5,250
Withdrawn	3,783	329
Student previously uploaded by another school	1,013	276
Student did not meet the deadline date	Not Applicable	8,082
Asset amount exceeds the limit	Not Applicable	12,693
Total	355,454	333,818

Table 3 displays the final 2014-15 82,190 offered awardees and 75,826 paid recipients. The 92.26 paid recipient percentage is higher than Cal Grant program paid rates due to enrollment confirmation from the UC and CSU campuses. The 7.75 unpaid percentage includes students that did not attend, did not make satisfactory academic progress, or became ineligible for other reasons.

**Table 3
MCS Offered Awardees and Paid Recipients
2014-15 Academic Year (closed)**

Segment	Offered Awardees	Offered Awardee Amount	Paid Recipients	Paid Recipient Amount	Paid Recipient Rate	Average MCS Paid Award Amount
UC	15,788	\$16,608,690	14,172	\$14,295,678	90%	\$1,009
CSU	66,402	\$37,651,844	61,372	\$34,714,173	92%	\$566
TOTAL	82,190	\$54,260,734	75,544	\$49,009,851	92%	\$649

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Table 4, below, shows the current year (2015-16) 53,395 offered awardees and 46,919 paid recipients. The Commission anticipates that final 2015-16 paid rates will be similar to the 2014-15 award year of 92% by the final year-end close-out.

Table 4
MCS Offered Awardees and Paid Recipients
2015-16 Academic Year (current)¹
(Data as of May 25, 2016)

Segment	Offered Awardees	Offered Awardees Amount	Paid Recipients	Paid Recipient Amount	Paid Recipient Rate
UC	9,003	\$11,968,856	7,374	\$9,394,842	82%
CSU	44,424	\$36,348,332	40,584	\$32,741,248	91%
TOTAL	53,427	\$48,317,188	47,958	\$42,136,090	90%

1. Staff estimates that final MCS paid rates will be similar to the 2014-15 award year of 92% by the final year

Table 5 illustrates the income level comparison for paid students for both the 2014-15 and 2015-16 award years.

Table 5
MCS Paid Recipients
Income Level Comparison
By Segment
(Data as of May 25, 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	24	10%	220	90%	244
\$1-10,000	73	9%	730	91%	803	22	6%	318	94%	340
\$10,001-20,000	146	13%	1,018	87%	1,164	38	9%	372	91%	410
\$20,001-30,000	136	3%	3,889	97%	4,025	30	2%	1,757	98%	1,787
\$30,001-40,000	203	6%	3,365	94%	3,568	36	2%	1,905	98%	1,941
\$40,001-50,000	232	8%	2,584	92%	2,816	42	3%	1,470	97%	1,512
\$50,001-60,000	255	7%	3,344	93%	3,599	49	3%	1,814	97%	1,863
\$60,001-70,000	354	8%	4,303	92%	4,657	57	2%	2,561	98%	2,618
\$70,001-80,000	469	8%	5,219	92%	5,688	73	2%	3,362	98%	3,435
\$80,001-90,000	1,050	15%	6,175	85%	7,225	410	9%	4,285	91%	4,695
\$90,001-100,000	1,566	20%	6,435	80%	8,001	857	15%	4,737	85%	5,594
\$100,001-110,000	2,005	25%	6,109	75%	8,114	1,130	20%	4,599	80%	5,729
\$110,001-120,000	1,955	26%	5,498	74%	7,453	1,252	23%	4,235	77%	5,487
\$120,001-130,000	1,992	30%	4,661	70%	6,653	1,203	26%	3,445	74%	4,648
\$130,001-140,000	1,916	32%	4,028	68%	5,944	1,151	28%	2,980	72%	4,131
\$140,001-150,000	1,735	33%	3,537	67%	5,272	1,000	28%	2,524	72%	3,524
TOTAL	14,172	19%	61,372	81%	75,544	7,374	15%	40,584	85%	47,958

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Table 6 illustrates that while the program is designed for middle class students, 875 (6%) of the UC students and 12,063 (20%) of the CSU students in 2014-15 were from families with household incomes of less than \$50,000 per year. This occurs primarily because a majority of these students are sophomores, juniors and seniors and would not have qualified for Cal Grants in 2014-15, 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.

Table 6
MCS Paid Recipients
Income Level Comparison
by Income Brackets
(Data as of May 25, 2016)

Household Income	2014-15					2015-16				
	UC		CSU		Total	UC		CSU		Total
	Count	Paid Rate	Count	Paid Rate		Count	Paid Rate	Count	Paid Rate	
\$50,000 or Less	875	54%	12,063	81%	12,938	192	30%	6,042	76%	6,234
\$50,001-100,000	3,694	88%	25,476	94%	29,170	1,446	75%	16,759	93%	18,205
\$100,001-150,000	9,603	96%	23,833	98%	33,436	5,736	90%	17,783	96%	23,519
TOTAL	14,172	90%	61,372	92%	75,544	7,374	82%	40,584	83%	47,958

2016-17 Processing Updates:

Admission Files - The UC and CSU campuses submitted their admission files by April 12, 2016. The admission files were used for projection purposes and to notify students of their potential MCS program eligibility.

Eligibility Cap - Commission Staff, UC and CSU representatives continue their efforts to implement a lifetime eligibility limit for students participating in the MCS program. Coding and programming changes to the MCS system are in progress and will be ready by the beginning of the 2016-17 academic year in August.

RESPONSIBLE PERSON(S):

Catalina Mistler, Chief
 Program Administration and Services Division

Tae Kang, Senior Manager
 Program Administration and Services Division