

# SUBCOMMITTEE NO. 1

# Agenda

Senator John Laird, Chair  
Senator Dave Min  
Senator Lola Smallwood-Cuevas  
Senator Rosilicie Ochoa Bogh



**Thursday, March 16, 2023**  
**9:30 a.m. or Upon Adjournment of Session**  
**State Capitol - Room 113**

Consultants: Christopher Francis, Ph.D. & Yong Salas

### Items for Discussion

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### Public Comment

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## DISCUSSION ITEMS

### 6980 CALIFORNIA STUDENT AID COMMISSION

#### Overview

CSAC was created in 1955, and is the state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to promote educational equity by making postsecondary education affordable for all Californians by administering financial aid and outreach programs. The Commission consists of 15 members; 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee, and two members are appointed by the Speaker of the Assembly. In general, members serve four-year terms; the two student members, appointed by the Governor, serve two-year terms.

**Programs.** The following is a list of programs administered by the California Student Aid Commission that will be discussed in today's subcommittee hearing:

***Cal Grant Program.*** The Cal Grant program, the state's largest financial aid program, is intended to help students with financial need cover college costs. The program offers multiple types of Cal Grant awards. The amount of aid students receive depends on their award type and the segment of higher education they attend. Cal Grant A covers full systemwide tuition and fees at public universities and a fixed amount of tuition at private universities. Cal Grant B provides the same amount of tuition coverage as Cal Grant A in most cases, while also providing an "access award" for nontuition expenses such as food and housing. Cal Grant C, which is only available to students enrolled in career technical education programs, provides lower award amounts for tuition and nontuition expenses. Across all award types, larger amounts of nontuition coverage are available to students with dependent children as well as current and former foster youth. This program is discussed in Issue 1A.

***Middle Class Scholarships (MCS).*** MCS provides undergraduate students, including students pursuing a teaching credential, with a scholarship, recently revamped to account for cost of attendance, to attend a University of California (UC), California State University (CSU) or California Community College Bachelor's degree program. Students with family income and assets up to \$201,000 may be eligible.<sup>1</sup> This program is discussed in Issue 1B.

***Golden State Education and Training Grants.*** The Golden State Education and Training Grant Program supports Californians who lost their jobs due to the COVID-19 pandemic with a one-time grant of \$2,500 to reskill, up-skill, and access educational or training programs to get back into the workforce.<sup>2</sup> This program is discussed in Issue 3.

***Golden State Teacher Grant Program.*** The Golden State Teacher Grant Program awards up to \$20,000 to students currently enrolled in a professional preparation program approved by the Commission on Teacher Credentialing (CTC) and working towards earning their preliminary teaching or pupil personnel services credential.<sup>3</sup> This program is discussed in Issue 4.

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<sup>1</sup> California Student Aid Commission. "Financial Aid Programs." <https://www.csac.ca.gov/financial-aid-programs>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

**Learning-Aligned Employment Program.** The Learning-Aligned Employment Program (LAEP) offers eligible students at public colleges and universities the opportunity to earn money to help defray their educational costs while gaining education-aligned, career-related employment. LAEP allows a participating student placement in an educationally beneficial position that relates to the student's area of study, career objective, or the exploration of career objectives. The program includes and emphasizes positions for students with employers that are capable of providing them with full-time employment opportunities after graduation, or opportunities to connect with other employers that are capable of providing them with full-time employment opportunities after graduation, within their areas of study.<sup>4</sup> This subcommittee will hear a status update for the program during Issue 5.

**Commission Total Budget.** The below table from the LAO details the Commission's budget in 2021-22 and 2022-23 as well as the proposed budget in 2023-24. The Governor's budget assumes total financial aid expenditures of \$3.2 billion, of which \$2.3 billion supports the Cal Grant Program, and \$859 million supports the Middle Class Scholarship Program. The two main fund sources for CSAC are state General Fund and federal Temporary Assistance for Needy Families (TANF). In 2023-24, state General Fund would comprise 87 percent of CSAC funding and federal TANF would comprise 12 percent. The remainder would come from various sources, including reimbursements from other departments.

**California Student Aid Commission Budget**  
(Dollars in Millions)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
<b>Spending</b>					
Local assistance					
Cal Grants	\$2,233	\$2,269	\$2,259	-\$10	— <sup>a</sup>
Middle Class Scholarships	105	630	856	226 <sup>b</sup>	36%
Golden State Education and Training Grants <sup>c</sup>	95 <sup>e</sup>	—	—	—	N/A
Golden State Teacher Grants <sup>c</sup>	56	147	49 <sup>d</sup>	-98	-67
Learning-Aligned Employment Program <sup>c</sup>	200	300	—	-300	-100
Other programs	38	46	38	-7	-16
Subtotals	(\$2,727)	(\$3,392)	(\$3,203)	(-\$190)	(-6%)
State operations	23	22	34	12 <sup>f</sup>	54%
<b>Totals</b>	<b>\$2,750</b>	<b>\$3,414</b>	<b>\$3,236</b>	<b>-\$178</b>	<b>-5%</b>
<b>Funding</b>					
General Fund	\$2,328	\$2,993	\$2,815	-\$178	-6%
Ongoing	(1,974)	(2,538)	(2,529)	(-9)	(— <sup>a</sup> )
One-time	(354)	(455)	(286)	(-169)	(-37%)
Federal TANF	400	400	400	—	—
Other funds and reimbursements	22	21	21	— <sup>a</sup>	— <sup>a</sup>
<sup>a</sup> Less than \$500,000 or 0.5 percent.					
<sup>b</sup> Though last year's budget agreement specifies \$227 million for this purpose, the Governor's budget includes \$226 million, consistent with the California Student Aid Commission's caseload estimates. Per the agreement, the \$226					

<sup>4</sup> California Student Aid Commission. "Learning-Aligned Employment Program: Overview For Institutions." <https://www.csac.ca.gov/financial-aid-programs>

million is proposed to be provided on a one-time basis.

<sup>c</sup> One-time initiatives.

<sup>d</sup> The administration intends to correct this to \$98 million at the May Revision.

<sup>e</sup> The Governor's budget includes \$95.3 million for local assistance grants and \$4.7 million for state operations.

<sup>f</sup> Includes \$10.2 million in carryover funds for administration of certain multiyear initiatives.

TANF = Temporary Assistance for Needy Families.

### **Issue 1A: State Financial Aid Expansion: Cal Grants**

Over the last two years, the subcommittee and Legislature had discussions on the future of financial aid for Californians and committed to significant reforms for Cal Grants and Middle Class Scholarships- the with two largest state financial aid programs. Issue 1 contains two parts, each dedicated to these programs.

#### **Panel**

- Marlene Garcia, Executive Director, California Student Aid Commission
- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office

*Available for additional details and questions:* Jake Brymner, California Student Aid Commission

#### **Background**

***Cal Grants Have Financial and Academic Eligibility Criteria.*** To qualify for Cal Grants, students must meet certain income and asset criteria. These criteria vary by family size and are adjusted annually for inflation. For example, in the 2022-23 award year, a dependent student from a family of four must have an annual household income of under \$116,800 to qualify for Cal Grant A or C, and under \$61,400 to qualify for Cal Grant B. In most cases, students must also meet a grade point average (GPA) requirement. The specific GPA requirement varies by award type. Most award types require a minimum high school GPA of 2.0 or 3.0 or a minimum community college GPA of 2.0 or 2.4.

***Most Cal Grants Are Entitlements, but Some Are Awarded Competitively.*** For more than 20 years, the state has provided Cal Grants as entitlements to recent high school graduates as well as transfer students under age 28. In 2021-22, the state also began providing Cal Grants as entitlements to community college students regardless of their age and time out of high school. The state currently provides approximately 140,000 new entitlement awards annually. The state also provides a limited number of competitive awards (13,000 new awards annually) to students who do not qualify for an entitlement award—typically older students attending four-year universities. Students generally may renew their Cal Grant awards for four years of full-time study (or the equivalent).

***California Community College Expanded Entitlement Awards in 2021 Budget Act.*** AB 132 (Committee on Budget) Chapter 144, Statutes of 2021 established the California Community College Expanded Entitlement Awards, which eliminates the age and time out of high school Cal Grant eligibility requirements for CCC students. The bill specified that CCC Expanded Entitlement Awards may retain their Cal Grant Award when they transfer to a UC or CSU. The budget provided \$152.8 million for this purpose.

***Cal Grant Reform Act in 2022 Budget Act.*** The 2022 Budget Act included the Cal Grant Reform Act (Act) subject to state General Fund availability over the multi-year forecasts beginning in fiscal year

2024-25. The Act would be triggered in 2024-25 if the state determines in Spring 2024 that sufficient General Fund is available to support these actions over a multiyear period. If “triggered on” the budget agreement will provide \$364.8 million General Fund in 2024-25, \$348.8 million in 2025-26 and ongoing for this reform. The Act will restructure the Cal Grant program. Specifically, it would replace the existing award structure with a Cal Grant 2 award that provides nontuition coverage to California Community College (CCC) students and a Cal Grant 4 award that provides tuition coverage at all other segments. The eligibility requirements of the new program would differ in several ways from those of the current program. First, whereas the current Cal Grant program has its own income and asset ceilings, the new program would have the same income ceilings as the federal Pell Grant program. Because of the change, the new income ceilings generally would be lower than the current ones. Second, whereas the current program provides only a limited number of awards to older students attending the universities, the new program would have no age or time-out-of-high-school restrictions at any segment. Third, whereas the current program requires students to have a minimum grade point average (GPA), the new program will not have a GPA requirement for CCC students. These program changes are projected to lead to a net increase of 150,000 award offers in 2024-25, at an estimated additional net cost of \$365 million. The Act also expresses legislative intent that UC and CSU use institutional aid to cover non-tuition costs for its students.

***Cal Grant Award changes for Independent, Non-Profit Colleges and Universities in 2022 Budget Act.***

The budget, through AB 183, includes the following changes for independent, non-profit colleges and universities in 2022-23 and in future years:

- Starting in academic year 2022-23, increased the award amount, from \$9,220 to \$9,358, for the approximately 28,000 Cal Grant students attending independent, non-profit colleges and universities. The budget agreement provided \$5.5 million General Fund in 2022-23 and ongoing for this change.
- Starting in academic year 2022-23, extends supplemental Cal Grant support for foster youth and students with dependent children to students attending independent, non-profit colleges and universities. The budget provides \$10 million General Fund in 2022-23 and ongoing for this change.
- Approved changes to statutory provisions linking revised Cal Grant tuition award amounts at independent, non-profit colleges and universities to the number of Associate Degree for Transfer (ADT) students admitted by that sector. Specifically removes provisions that would reduce the 2022-23 award amount from \$9,358 to \$8,056 if the sector admits fewer than 3,000 ADT students in 2021-22, and removes a provision that would reduce the 2023-24 award amount from \$9,358 to \$8,056 if the sector admits fewer than 3,500 ADT students in 2022-23. The sector would instead be required to admit as many students in 2022-23 as it did in the previous year, adjusted for changes in total transfer enrollment.
- Improve regional transfer for low-income students by extending transfer entitlement portability for community college transfer students to those transferring to an independent, non-profit California college or university. Like, the Act, this change would be triggered in 2024-25 if the state determines in Spring 2024 that sufficient General Fund is available to support these actions over a multiyear period. If “triggered on,” then the agreement would provide \$10.4 million General Fund in 2024-25, \$16.4 million in 2025-26 and ongoing to support this portability.

**Cal Grant Recipients for 2023-24**

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
<b>Total Recipients</b>	<b>395,730</b>	<b>381,656</b>	<b>376,533</b>	<b>-5,122</b>	<b>-1.3%</b>
<b>By Segment:</b>					
California Community Colleges	141,095	138,340	139,612	1,272	0.9%
California State University	142,342	133,333	127,441	-5,892	-4.4
University of California	79,098	79,028	79,484	455	0.6
Private nonprofit institutions	27,094	25,348	24,675	-674	-2.7
Private for-profit institutions	6,058	5,581	5,303	-278	-5.0
Other public institutions	44	25	18	-8	-30.7
<b>By Program:</b>					
High School Entitlement	245,790	230,245	227,564	-2,682	-1.2%
CCC Expanded Entitlement	75,764	95,800	104,309	8,508	8.9
Competitive	45,271	32,883	26,351	-6,532	-19.9
Transfer Entitlement	24,511	19,960	15,929	-4,031	-20.2
Cal Grant C	4,394	2,767	2,380	-387	-14.0
<b>By Award Type:</b>					
Cal Grant B	269,687	256,450	247,855	-8,595	-3.4%
Cal Grant A	121,649	122,439	126,297	3,858	3.2
Cal Grant C	4,394	2,767	2,380	-387	-14.0
<b>By Renewal or New:</b>					
Renewal	221,321	227,927	217,018	-10,909	-4.8%
New	174,409	153,728	159,514	5,786	3.8
<b>Notes:</b> Data reflect California Student Aid Commission estimates.					

**Governor's Budget**

***Governor's Budget Reflects Large Downward Adjustment to 2022-23 Cal Grant Spending.*** From the 2022 Budget Act level, the Governor's budget revises current-year Cal Grant spending down by \$210 million (8.5 percent) to align with CSAC's most recent cost estimates. As the below figure from the LAO shows, spending is adjusted downward across all the higher education segments. The largest adjustment (in dollar terms) is at the California State University (CSU), consistent with the enrollment declines that segment is experiencing in 2022-23. The next largest adjustment is at the California Community Colleges (CCC). The CCC adjustment is primarily attributable to community college entitlement awards. Since the state began providing those awards in 2021-22, costs have been notably lower than expected, reflecting depressed CCC enrollment levels and low paid rates. (Across all segments—and especially at CCC—some students who are initially offered awards are not paid for various reasons, such as deciding not to enroll, no longer meeting eligibility requirements, or administrative barriers.)

**2022-23 Cal Grant Spending Is Adjusted Downward at All Segments**  
*(Dollars in Millions)*

	2022-23 Budget Act	2022-23 Revised	Change	
			Amount	Percent

UC	\$1,011	\$986	-\$24	-2
CSU	829	764	-65	-8
CCC	307	255	-53	-17
Private nonprofit	251	235	-17	-7
Private for-profit	31	29	-3	-9
Other <sup>a</sup>	49	—	-49	-100
<b>Totals</b>	<b>\$2,478</b>	<b>\$2,268</b>	<b>-\$210</b>	<b>-8%</b>

<sup>a</sup>The 2022-23 Budget Act provided \$49 million on top of baseline estimates to account for more students potentially returning to college following recent enrollment declines. It did not specify how these costs would be distributed by segment. The Governor's budget removes these funds to align with the most recent cost estimates.

***Governor's Budget Reflects Small Spending Decrease in 2023-24 for Cal Grant Spending.*** From the revised 2022-23 spending level, the Governor's budget further decreases Cal Grant spending by \$9.5 million (0.4 percent) in 2023-24 to align with CSAC's cost estimates. The lower spending reflects a projected decline in renewal recipients in 2023-24. This decline, however, is largely offset by an assumed increase in new recipients. The cost estimates also reflect higher tuition award amounts for the two most recent cohorts of University of California (UC) recipients, accounting for an estimated \$46 million in additional Cal Grant costs in 2023-24. The Cal Grant cost estimates underlying the Governor's budget were prepared by CSAC in October and in the spring, CSAC will update its estimates based on more recent program data.

***Governor Proposes No Changes to Cal Grant Reform Act Provisions.*** The Governor's budget does not include any changes to the Cal Grant reform provisions included in last year's budget agreement. Consistent with that agreement, the new program would be triggered on in 2024-25 only if sufficient General Fund is available to support the action over the next several years.

### **Legislative Analyst's Office Comments and Recommendations**

***LAO Assessment: State Budget Condition Has Changed Since Last Year's Agreement.*** When it enacted the 2022 Budget Act the state had a notable surplus. Even at that time, however, the state did not know whether it would be able to support certain program expansions in the out-years. As a result, the state tied these program expansions to trigger language. As the LAO has discussed this year, the state now faces a budget problem. Moreover, under the Governor's budget, the state faces operating deficits in the out-years (2024-25 through 2026-27). Based on the LAO's budget projections, Cal Grant reform is very unlikely to be triggered.

***LAO Assessment: Trigger Creates Significant Timing Problem Within Admissions Process.*** Campuses generally aim to send financial aid offer letters to students shortly after they are admitted. This allows students and their families to consider the amount of financial aid they will receive when deciding whether to go to college and which institution to attend. Students considering four-year universities often must make these decisions by May 1 of the preceding academic year, as this is traditionally the national deadline to accept admissions offers at selective institutions. Under the trailer legislation adopted last year, the state will determine in spring 2024 whether Cal Grant reform is triggered. The legislation does not specify an exact date for the determination, but the state often waits until after the May Revision is released in mid-May to make key budget decisions. This means that campuses likely

would not know whether Cal Grant reform has been triggered when they begin sending financial aid offer letters to students and their families for 2024-25.

**LAO Assessment: Some Students Are Likely Not to Receive Accurate Award Information on Time.** Until the Cal Grant reform trigger is determined, campuses will not be able to determine which students are eligible for awards and what award amounts they will receive in 2024-25. This will make it difficult for campuses to provide clear and accurate information on financial aid offers to students and their families. Some students will likely need to make enrollment decisions based on financial aid offers that could change in the coming weeks, depending on the trigger determination. This is particularly problematic for students who would lose eligibility or receive smaller awards under Cal Grant reform. These students might end up receiving less financial aid than they had expected at the time of their enrollment decision, if their campus cannot cover the difference with institutional aid or other sources.

**LAO Assessment: Trigger Creates Administrative Challenges for CSAC and Campuses.** Until the trigger is determined, both CSAC and campus financial aid offices need to be prepared to administer either version of the Cal Grant program in 2024-25. For example, they will need to implement the new rules in the software they use to administer financial aid programs, while also keeping the current rules available. Campuses vary in their capacity to implement these changes. At the community colleges, for example, campuses have different information technology systems and different financial aid staffing levels. Any administrative challenges at CSAC or the campuses could lead to delays in making award decisions and disbursing awards to students.

**LAO Recommendation: Determine Now Whether to Proceed With Cal Grant Reform.** Under the budget provisions adopted last year, Cal Grant reform is very unlikely to be triggered in 2024-25. Moreover, even if Cal Grant reform were triggered, the timing of that determination could significantly undermine the program's effectiveness in the first year. In light of these factors, the LAO recommends that the Legislature revisit the trigger. Rather than subjecting Cal Grant reform to a Spring 2024 trigger determination, the LAO recommends that the Legislature instead determine during this year's budget process whether to proceed with Cal Grant reform in 2024-25. Making this determination one year in advance would allow the state to send a clearer message to students and their families about the financial aid available to them. It would also give CSAC and the segments more time to implement any changes effectively, reducing potential delays in making award decisions and disbursing awards to students. Given the state budget condition, proceeding with Cal Grant reform in 2024-25 would involve difficult trade-offs. If the Legislature decides to support Cal Grant reform beginning in 2024-25, it likely would need to redirect funds (an estimated \$365 million) from other ongoing purposes to avoid exacerbating the state's projected out-year operating deficits.

**LAO Recommendation: Consider Cal Grant Reform Together With Other Potential Financial Aid Expansions.** The Legislature has multiple options for expanding financial aid. For example, it could increase Cal Grant access awards in addition to or in place of implementing Cal Grant reform. It also could expand the MCS program, (which is discussed in Issue 1B). These options would result in certain students receiving more assistance with their living costs, which has been a legislative priority over the past few years. Whether the Legislature decides to proceed with financial aid expansion in the near term or wait until the state budget condition improves, the LAO encourages the Legislature to weigh these various options before deciding which approach to pursue. Notably, the various options impact different groups of students and have different associated costs. For example, implementing the Cal Grant Reform Act is projected to benefit more low-income students, older students, and community college students relative to the current program. The various options also interact with one another. For example, implementing Cal Grant reform would change the number of access award recipients and thus the cost



of increasing those awards. Any Cal Grant augmentations at UC and CSU also would reduce the cost of the MCS program at full implementation.

### **Suggested Questions:**

- The Governor's budget proposes a five percent decrease from the revised 2022-23 level, attributed to downward Cal Grant spending adjustments. What are the causes for these downward adjustments? We now know that community colleges have regained some enrollment; will that impact caseload/cost?
- DOF and CSAC: Please provide an update on potential implementation of Cal Grant Reform Act in 2024-25. How are CSAC and the segments preparing for the program if it is triggered on in May 2024? What are the challenges associated with turning the program on in July 2024?

**Staff Recommendation.** Hold Open.

### **Issue 1B: State Financial Aid Expansion: Middle Class Scholarships**

#### **Panel**

- Marlene Garcia, Executive Director, California Student Aid Commission
- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office

*Available for additional details and questions:* Jake Brymner, California Student Aid Commission

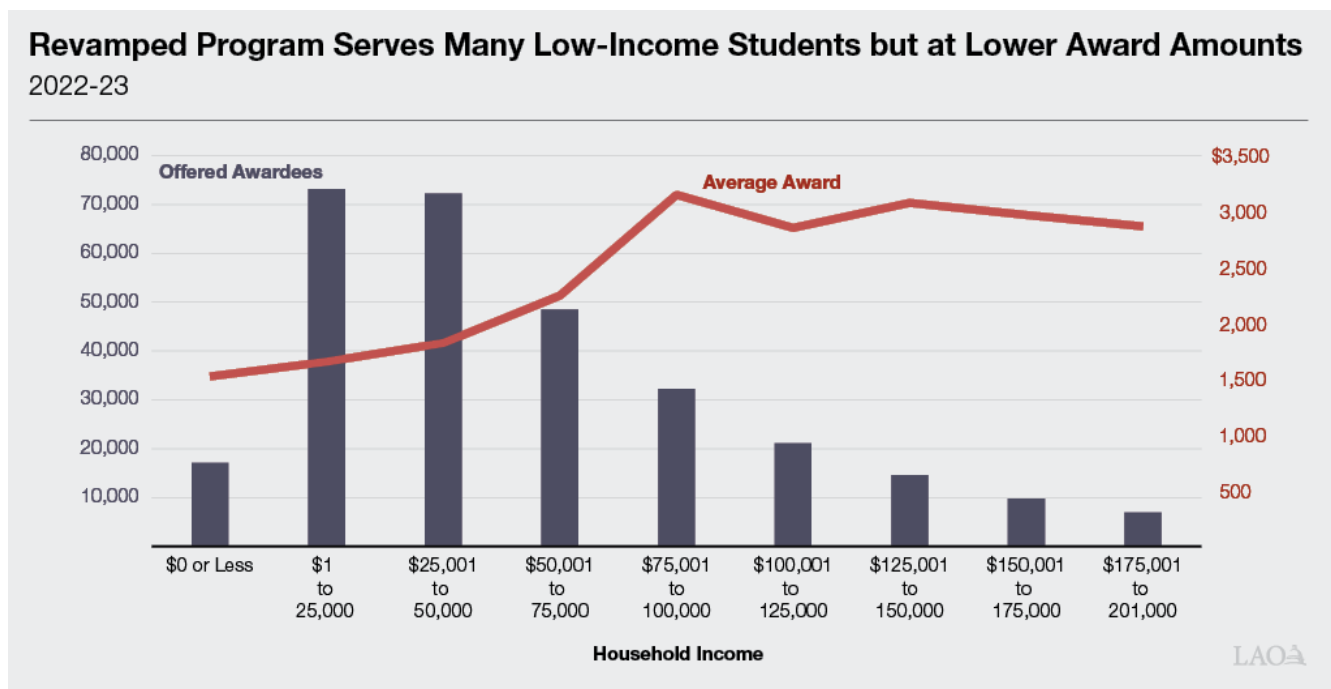
#### **Background**

***Original Middle Class Scholarship Program (MCS 1.0) Program Enacted in Response to Steep Tuition Increases.*** UC and CSU increased tuition during the Great Recession in response to state funding reductions. Between 2007-08 and 2011-12, systemwide charges for undergraduate resident students increased from \$6,636 to \$12,192 (84 percent) at UC and from \$2,772 to \$5,472 (97 percent) at CSU. The original MCS program (administered by CSAC) was enacted in 2014 to help middle-income UC and CSU students, who are part of households with incomes and assets each under \$171,000, not receiving tuition coverage through the Cal Grant program receive partial tuition coverage. CSAC provided these scholarships to eligible students who fill out the FAFSA. Awards covered between 10 percent and 40 percent of systemwide tuition and fees, with the percentage graduated downward as household income increases. State law caps spending on the original MCS program at \$117 million annually and directs CSAC to prorate award amounts to remain under the cap, if needed. CSAC prorated award amounts for the first time in 2021-22.

***MCS Significantly Reformed in 2021 Budget Act for Cost of Attendance.*** This program significantly changed as part of the 2021 Budget Act. Whereas the original program provided partial tuition coverage for CSU and UC students, the revamped program will assist CSU and UC students with their total cost of attendance. To determine each student's award amount, CSAC will first determine each student's remaining cost of attendance, after accounting for other available gift aid, a student contribution from part-time work earnings, and a parent contribution for dependent students with a household income of more than \$100,000. Then, CSAC will determine what percentage of each student's remaining costs to

cover based on the annual appropriation for the program. In 2022-23, the program is estimated to cover 24 percent of each student’s remaining costs.

**MCS Program Significantly Reformed to Serve a Broader Range of Students.** Another key difference from the original MCS program is that UC and CSU students receiving tuition coverage through Cal Grants or other financial aid programs (who typically are lower-income students) will be newly eligible for MCS awards under the revamped program. Middle- and higher-income UC and CSU students generally will remain eligible for MCS awards. The revamped program generally maintains the income and asset ceilings in the original program, adjusted for inflation. For 2022-23, the maximum annual household income to qualify for an MCS award will be \$201,000 for dependent students. (For context, about 90 percent of tax filers in California are beneath this cap.) Because the MCS program covers students’ remaining costs after accounting for existing aid (among other factors), MCS award amounts generally will be smaller for lower-income students as they often also receive aid through Pell Grants, Cal Grants, and institutional aid.



**2022 Budget Act Provided Funding for Revamped MCS Program (MCS 2.0).** Consistent with the 2021 Budget Act agreement, the 2022-23 budget provided an increase of \$522 million ongoing General Fund to revamp the Middle Class Scholarship program. This augmentation brings total program funding to \$632 million in 2022-23. According to estimates, this amount is enough to cover an estimated 24 percent of total program costs. State law directs CSAC to prorate all awards equally, such that awards would cover 24 percent of each student’s remaining costs.

Based on a 2022 estimate from CSAC, excluding inflation effects, it costs \$2.6 billion to cover 100 percent of each student’s remaining costs after accounting for the students’ available resources (other gift aid, a student work contribution, and any applicable parent contribution). The figure below from the LAO shows CSAC’s revised expenditure estimates for 2022-23 and proposed expenditures with the Governor’s proposal. An LAO report estimated that once the new program rules took effect in 2022-23, the number of MCS recipients would increase from about 60,000 to about 360,000. The increase is due

to students receiving tuition coverage through Cal Grants or other financial aid programs now being eligible for living cost coverage through the MCS program. The most recent estimates shows an increase in MCS recipients but at an amount lower than LAO's estimate.

**Middle Class Scholarship Program**  
Key Information by Segment

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23	
				Amount	Percent
<b>Recipients</b>					
CSU	44,481	184,240	197,137	12,897	7
UC	10,511	88,200	94,374	6,174	7
<b>Total</b>	<b>54,992</b>	<b>272,440</b>	<b>291,511</b>	<b>19,071</b>	<b>7</b>
<b>Spending (in millions)</b>					
CSU	\$74	\$447	\$608	\$160	36
UC	32	\$183	248	66	36
<b>Total</b>	<b>\$105</b>	<b>\$630</b>	<b>\$856</b>	<b>\$226</b>	<b>36</b>
<b>Average award</b>					
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.

**Governor's Budget**

***Governor's Budget Provides One-Time Augmentation for MCS Program.*** The Governor's budget first adjusts MCS spending to \$630 million ongoing General Fund in 2022-23 to align with CSAC's most recent cost estimates, which indicate program funding is sufficient to cover 26 percent of each student's remaining costs. This is the maximum coverage possible without going over the amount appropriated in the *2022 Budget Act*. Consistent with a 2022 Budget Act agreement, the Governor's budget provides \$226 million one-time General Fund to increase program funding to \$856 million in 2023-24. With this one-time augmentation, coverage would be increased to 33 percent of each student's remaining costs in that year.

**Legislative Analyst's Office Comments and Recommendations**

***LAO Assessment: MCS Implementation Challenges Have Impacted Program Effectiveness in 2022-23.*** 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.

**LAO Assessment: Implementation Could Go More Smoothly in 2023-24, but Some Challenges Remain.** Some of the MCS implementation challenges that CSAC and campus financial aid offices experienced in 2022-23 are expected to ease with time. For example, the disbursement process will likely go faster next year, now that the segments have made the necessary changes in their financial aid management software. However, CSAC and the segments indicate that other challenges could persist under the current program structure. One notable challenge is that MCS award amounts often need to be adjusted throughout the year. These adjustments may happen for various reasons, including to reflect any new gift aid a student receives (such as merit scholarships or emergency grants), to comply with certain federal financial aid packaging requirements, or to keep MCS spending within the annual appropriation. These adjustments create significant workload for CSAC and campus financial aid offices. Moreover, they create frustration and potential hardship among students, particularly when award amounts are reduced partway through the year. CSAC and the segments are exploring legislative changes to simplify program administration.

**LAO Assessment: One-Time MCS Augmentation Has Key Drawbacks for Students.** Though the proposed one-time MCS augmentation would help those college students enrolled in 2023-24 cover a portion of their cost of attendance, using one-time funds for ongoing grant programs has key drawbacks. For students and their families, receiving a certain amount of aid in one year can create an expectation of receiving a similar amount in future years. With the one-time MCS augmentation, however, students would receive more aid in 2023-24 only to have their award amounts decrease when the funds are removed the following year. This arrangement could create an unexpected financial strain for continuing students in 2024-25. Using one-time funds for a temporary increase in aid also creates inequities among student cohorts, with incoming students in 2024-25 receiving less aid than the students before them.

**LAO Assessment: One-Time MCS Augmentation Also Will Create Out-Year State Cost Pressures.** To avoid reducing aid for students, the state likely would face significant pressure to retain the higher award levels in 2024-25. This could lead to difficult trade-offs, particularly as the state is facing a projected operating deficit that year. These trade-offs could be heightened because the Legislature is also interested in implementing a significant expansion to the Cal Grant program in that year.

**LAO Recommendation: If Expanding MCS Program, Adopt Ongoing Funding.** As the LAO mentioned in Issue 1A, the LAO recommends that the Legislature first weigh all its options for expanding student financial aid—across both the Cal Grant and MCS programs. If the Legislature chooses to proceed with expanding the MCS program, the LAO recommends it designate ongoing funding for this purpose. Compared to the one-time funding included in the Governor’s budget, ongoing funding would provide greater certainty to students and families about the financial aid available to them, while also better reflecting the cost pressures associated with expanding aid in any given year. Given the state budget condition, however, increasing ongoing MCS funding in 2023-24 would involve difficult trade-offs. To avoid exacerbating the state’s projected out-year operating deficits, the Legislature would likely need to redirect funds from other ongoing purposes to support any ongoing MCS expansion. In the meantime, the LAO recommends that the Legislature reject the \$226 million in one-time MCS funding and count this toward its budget solutions in 2023-24.

**Suggested Questions**

- Please provide an on implementation of revamped program. When did UC and CSU students receive money for Fall 2022? Are there any administrative challenges and additional issues that require the legislature’s attention?
- How will the \$227 million in one-time General Fund for this program in 23-24 be utilized?
- A Spring 2022 LAO report estimated that MCS 2.0 changes would result in an increase of up to 360,000 recipients. The most recent estimates shows an increase in MCS recipients but at an amount lower than LAO’s estimate. Is there any explanation for why this amount is short of the initial estimates?

**Staff Recommendation.** Hold Open.

**Issue 2: Governor’s Workload Proposals for Student Aid Commission****Panel**

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst’s Office
- Jake Brymner, California Student Aid Commission

**Governor’s Budget**

***Financial Aid Programs- Human Resources position and High School Toolkits.*** The Governor’s budget includes an increase of \$121,000 ongoing for one position at CSAC to support human resources and to distribute toolkits to high schools to help students complete their financial aid applications. The position within the Human Resources Office will provide the timely and ongoing support to program managers to ensure department staff are provided expectations, performance, and training within relevant laws, rules, and policies. This includes reviewing, researching, analyzing, and preparing requests for personnel action and ensuring the appropriateness of classifications, reporting relationships and organizational placements as well as providing advice to management on performance and disciplinary issues.

The 2021-22 budget package created a new requirement for school districts to verify that all high school seniors complete a college financial aid application, unless the student submits an opt-out form or receives an exemption from the district. The Governor’s budget provides \$120,000 ongoing General Fund to CSAC to distribute toolkits to high schools to support them in fulfilling the requirement. CSAC indicates these toolkits would include various materials that provide information on and promote awareness of student financial aid—including resource guides, posters, postcards, notepads, and stickers. CSAC intends to send these toolkits to high schools that have lower financial aid application completion rates.

***Cybersecurity.*** The Governor’s budget includes an increase of \$1.4 million General Fund in 2023-24, of which \$469,000 is ongoing, to assess CSAC's current information technology system, address cybersecurity issues, and support two positions.

**Background**

***CSAC Is Mid-Sized State Agency.*** Like other state agencies, CSAC spends a majority of its state operations budget on staffing. In 2022-23, CSAC has 145.5 authorized permanent positions. These positions span eight divisions, the largest of which are Program Administration and Services, Information Technology Services, and Fiscal and Administrative Services. Since 2017-18, the number of authorized permanent positions at CSAC has increased by 23 positions (19 percent). Most of the positions added over the past five years were to address increased workload linked to financial aid program expansions.

***Legislature Passed Many Reforms That Increased CSAC Workload.*** The Governor and the Legislature have entrusted the Commission to effectively administer new and expanded state financial aid programs over the last two years. The 2021 Budget Act authorized the Commission's ability to incorporate changes within existing programs and execute the launch of new programs. The Cal Grant changes in the Budget Act removed key equity restrictions in the entitlement program thereby opening access to more than 100,000 new students attending a California community college. The Learning-Aligned Employment Program offers additional opportunities for first-generation, low-income students seeking to access career-related state work-study jobs that lead to successful careers upon graduation. The Golden State Education and Training Grant Program provides new pathways for applicants who were displaced by the pandemic to re-enter the workforce with newly developed skills. Additionally, the 2022 Budget Act increased funding to expand the Middle-Class Scholarship (MCS) program thereby reducing a student's total cost of attendance. This investment more than tripled the number of students served. (Some of these changes were covered in Issues 1a and 1b). The Commission recently implemented the Dreamer Service Incentive Grant, Child Savings Account and the Golden State Teachers Grant Program. The Financial Aid position will help CSAC respond to growing human resources needs that emerge from the recruitment, onboarding, and support involved with a number of additional permanent and a larger number of limited-term staff. This position, according to CSAC is critical to ensure that personnel issues are handled in a timely fashion and that the agency remains in compliance with state mandates. The information that CSAC is entrusted with protecting has also taken on increased importance over the last few years.

Over the last four years, the Commission has been adopting and aligning with the state's "cloud" strategies and modernizing its information systems and adopted nearly a 100 percent teleworking workforce. Between these two changes, the struggle with securing and identifying cybersecurity risk has become more vital given the wider and more expansive attack surface. The Commission maintains significant privacy data related to the millions of California residents, students and parents that have applied for or are seeking financial aid to attend higher education. A cybersecurity event that compromised the Cal Grant student aid system would have a catastrophic impact to all aspects of higher education in California including the livelihood of our students that depend on this aid. The cybersecurity related positions and resources will enable the agency to better safeguard the significant amount of student personal identifying information that it houses in an environment with an increasing number of threats.

***State Recently Expanded CSAC's High School Outreach Efforts.*** The 2022 Budget Act provided several augmentations to CSAC to expand high school outreach around financial aid. First, it provided an increase of \$2.4 million ongoing General Fund for the California Student Opportunity and Access Program (Cal-SOAP), which provides financial aid information to low-income middle school students and high school students. These funds are to support Cal-SOAP activities in the Inland Empire. Second, it provided \$500,000 one-time General Fund to expand the Cash for College Program, which provides workshops to help students and their families complete financial aid applications. Third, it added three new positions at CSAC to support school districts in implementing the new financial aid application requirement.

***State Is Also Funding Other High School Outreach Efforts.*** The 2022 Budget Act also included augmentations for other agencies that could support the implementation of the new financial aid application requirement. Most notably, it provided \$9.3 million ongoing Proposition 98 General Fund and \$4.4 million one-time Proposition 98 General Fund to the California Department of Education to support school districts' participation in the California College Guidance Initiative (CCGI). This initiative provides online tools to help middle school students and high school students with various aspects of college planning, including the financial aid process. CCGI's financial aid planning tool provides students with financial aid lessons and application assistance. (The Governor's budget proposes an additional \$3.9 million Proposition 98 General Fund to increase CCGI personnel and further support CCGI operations and ramp-up activities.)

***Previous Funding To Support Financial Aid Workload.*** The 2022 Budget Act included \$889,000 ongoing General Fund for eight positions beginning in 2022-23 to support financial aid workload and \$500,000 General Fund to support Cal Grant Reform Act implementation costs at CSAC. The Governor's budget does not remove these one-time funds. The administration indicates it will determine at the May Revision whether to retain these funds on an ongoing basis to address CSAC's workload needs.

***About 18 Percent of Positions Are Currently Vacant.*** As of January 2023, CSAC reports that 25.5 (18 percent) of its permanent positions were vacant. This is somewhat higher than the statewide average vacancy rate, which has ranged between 10 percent and 15 percent over the past decade. CSAC indicates that it is actively working to fill most of its vacant positions, with 19 of these positions in various stages of the recruitment and hiring process.

#### **Legislative Analyst's Office Comments and Recommendations**

***LAO Recommendation on Financial Aid Program position: Proposed Human Resources Position Is Reasonable, Recommend Approving.*** In recent years, as CSAC's overall staffing has expanded, its human resources workload has also grown. CSAC currently has five permanent positions in its human resources office. In 2021-22, it worked with the Department of Finance to administratively establish an additional limited-term position in its human resources office to address recruitment, hiring, onboarding, and other related needs linked to recent program expansions. The Governor's proposal would effectively convert the limited-term position into an ongoing one. CSAC has provided a reasonable list of job duties and associated workload justifying the proposed position. The LAO recommends approving the position.

***LAO Recommendation on Toolkit Funding: Proposed High School Toolkits Lack Strong Justification, Recommend Rejecting.*** As mentioned above, the state took several actions last year intended to help high schools in fulfilling the new financial aid application requirement. For example, school districts can already leverage the existing financial aid resources within CCGI to increase awareness of student financial aid opportunities and assist students with the application process. It is too soon to determine whether gaps or challenges remain for high schools. Moreover, the administration has not demonstrated that the proposed toolkits are likely to be an effective way to help high schools on an ongoing basis. The proposal also lacks key details, including the number of toolkits that could be provided at the proposed funding level. Based on these concerns, the LAO recommends rejecting the Governor's proposal to provide \$120,000 ongoing General Fund for high school toolkits. The Legislature could reconsider this proposal in a future year if the administration were to return with stronger justification.

***LAO Recommendation on Cybersecurity Proposal: Proposed Cybersecurity Augmentations Are Reasonable, Recommend Approving.*** CSAC maintains a large and growing volume of sensitive data on students and their families. In recent years, CSAC's cybersecurity needs have increased because of

various factors, including updated state security standards, the migration of systems to the cloud, and the expansion of telework during the pandemic. Currently, CSAC has only one position dedicated to cybersecurity. The administration and CSAC have provided a reasonable list of job duties and associated workload justifying the two proposed positions. They also have provided a reasonable plan for the proposed one-time funds. The LAO recommends approving all components of the proposal.

### **Suggested Questions**

- Please provide an update on staffing increases to date, including how many newly authorized positions have been filled. Has CSAC faced any challenges to filling these positions?
- Are these state operations requests a reflection of CSAC's overall staffing need? In what areas of operation does CSAC feel like it is short-staffed?

**Staff Recommendation.** Hold Open.

## **Issue 3: Golden State Education and Training Grant Program Expenditure Shift**

### **Panel**

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission

### **Background**

***State Has Extensive Workforce Development System.*** California's public higher education segments are part of this system. The community colleges provide workforce education and training as part of their primary mission, while the universities also provide programs that prepare students for careers. Outside of higher education, many other state and local agencies also provide services to job seekers. Notably, under the federal Workforce Innovation and Opportunity Act (WIOA), California has a network of local workforce development boards. These boards operate one-stop centers providing various job services, including training benefits. The state maintains a list of where workers may use these WIOA-funded training benefits, called the Eligible Training Provider List (ETPL). In addition to public higher education institutions, the ETPL includes various other providers, such as private career colleges, adult schools, and trade associations.

***State Created New CSAC Program to Help Workers Displaced by Pandemic.*** The 2021-22 budget package created the Golden State Education and Training Grant program at CSAC. The program provides one-time grants of up to \$2,500 to individuals who lost employment due to the pandemic and were not already enrolled in an education or training program. To qualify for the program, individuals must meet the income and asset criteria associated with a Cal Grant A award. (For example, in 2022-23, the income ceilings are \$42,800 for a single independent student and \$116,800 for a student in a family of four.) The program is intended to help grant recipients cover the cost of enrolling at CCC, CSU, or UC or obtaining training from another provider on the ETPL that meets certain performance outcomes. Specifically, other providers on the ETPL must demonstrate that the majority of training participants have obtained living-wage employment within one year of program completion.

***Program Is Supported by One-Time General Fund.*** The 2021 Budget Act provided \$500 million one time for the program, initially consisting of \$472.5 million federal American Rescue Plan Act funds and



\$27.5 million General Fund. However, the 2022 Budget Act authorized the administration to swap the federal funds for General Fund, bringing the General Fund amount to \$500 million. This fund swap was intended to maximize flexibility in program administration and reporting. Current law requires CSAC to report to the Legislature by December 31, 2023 on the number of grants provided under the program.

### **Governor's Budget**

The Governor's budget proposes to delay \$400 million of the \$500 million in program funding from 2021-22 to later years. Specifically, the Governor proposes to provide \$200 million in 2024-25, \$100 million in 2025-26, and \$100 million in 2026-27. The administration suggests this budget approach aligns more closely with the actual pace of program spending. The administration does not expect the proposal to have any programmatic impact. Given that program spending would continue through 2026-27, the Governor also proposes trailer bill language changing the deadline for CSAC to report on grants from December 31, 2023 to September 30, 2027.

### **Legislative Analyst's Office Comments and Recommendations**

**LAO Assessment: Proposed Approach Contributes to State's Out-Year Budget Deficits.** Although the Governor's proposed budget solution reduces near-term spending by \$400 million General Fund, it does so by shifting those costs into the out-years. In doing so, it contributes to projected operating deficits in 2024-25 through 2026-27. As a result, the state would need to find additional solutions to balance the budget in those years.

**LAO Assessment: Underlying Need for Program Has Diminished.** The state created the Golden State Education and Training Grant program to address a spike in job losses during the pandemic. Many of these job losses were in close-contact industries—such as personal care services, accommodations and food services, and entertainment and recreation—that tend to employ workers with lower education levels. The program was intended to help these displaced workers pursue additional education and training. Since the height of the pandemic, however, the labor market has improved significantly. Whereas the state unemployment rate peaked at 16 percent in May 2020, it is down to 4.1 percent as of December 2022. This is comparable to pre-pandemic lows. Moreover, because the labor market has been very favorable for people looking for jobs, displaced workers are more likely to have the option to find other jobs rather than returning to school. (The tight labor market has been a key factor contributing to steep declines in community college enrollment over the past couple of years.)

**LAO Assessment: Program Is Reaching Far Fewer Recipients Than Intended.** Of the \$500 million initially appropriated for the program, \$485 million was reserved for grants (with the remainder for program administration and outreach). The \$485 million is sufficient to provide grants to 194,000 recipients, assuming each recipient gets the maximum grant. As of January 2023, only about 5,000 recipients had received grants at a total cost of \$12.5 million (2.6 percent of the available funding).

**LAO Assessment: Other Programs Are Available to Support Training for Displaced Workers.** Separate from this program, displaced workers have various other options for affordable education or training. Community colleges provide noncredit adult education courses at no charge, while also providing full tuition waivers for students with financial need to take credit courses. Many students with financial need are also eligible for federal and state financial aid—including Pell Grants and Cal Grants—to help with their education and living costs. Notably, Cal Grant C awards are available in career technical education programs as short as four months. Individuals can also access federally funded job services, including training from providers on the ETPL, through one-stop job centers.

**LAO Assessment: Program Has Been Costly to Administer.** CSAC has incurred relatively high start-up costs for this program. As of January 2023, CSAC had encumbered or spent \$7.2 million for program administration and marketing, with the majority going toward an external contract to promote the program to prospective applicants. While these administrative costs remain within the statutory allowance (\$15 million), they account for over one-third of total program spending to date. The program’s high administrative costs are partly because CSAC is working with a new set of potential beneficiaries—specifically, displaced workers not yet connected to higher education. As a result, CSAC is spending a relatively high amount for marketing. In addition, administrative costs are high because CSAC is required to work with a new set of training providers—specifically, ETPL providers that are ineligible for the traditional financial aid programs that CSAC administers. CSAC has dedicated staff time to establishing processes for working with these providers for the first time.

**LAO Recommendation: As Budget Solution, Recommend Discontinuing Program and Removing Remaining Funds.** Given the above considerations, the LAO recommends the Legislature discontinue the Golden State Education and Training Grant program at the end of the current year and remove any remaining funding at that time. Based on program spending to date, the LAO estimates roughly \$470 million in one-time General Fund would remain unspent at the end of 2022-23. Removing these funds would provide an estimated \$70 million in immediate solution beyond the Governor’s budget. It would also reduce spending by an additional \$400 million in the out-years, thereby improving the state’s out-year budget condition. Under this approach, the Legislature could retain the reporting deadline relating to the number of grants awarded that is in current law (December 31, 2023), as the program would end prior to that date.

### **Suggested Questions**

- Please provide an explanation for the proposed Golden State Education and Training Grant Program expenditure shift. Is this shift in alignment with actual expenditures to date?

**Staff Recommendation.** Hold Open.

## **Issue 4: Golden State Teacher Grants**

### **Panel**

- Devin Mitchell, Department of Finance
- Jackie Barocio, Legislative Analyst’s Office
- Jake Brymner, California Student Aid Commission

### **Background**

***California Has Teacher Shortages in Certain Subject Areas and Schools.*** Over the years, some school districts have experienced challenges finding credentialed teachers. These challenges have been concentrated in certain subject areas and schools. The state has identified persistent teacher shortages in special education, science, and math. Additionally, urban schools and rural schools in low-income areas tend to experience greater difficulties with staffing and are more likely than other schools to hire underprepared teachers. Although these challenges are long-standing, teacher shortages have worsened since the start of the pandemic, which prompted teachers to leave the workforce at accelerated rates.

**State Recently Created Grant Program for Prospective Teachers.** In the 2019-20 budget package, the state created the Golden State Teacher Grant (GSTG) program administered by CSAC. This is one of several initiatives the state created in recent years to address teacher shortages. The program provides grants of up to \$20,000 to students in professional preparation programs leading to preliminary teaching credentials who commit to a certain service requirement. Under current law, the service requirement involves working for four years at a “priority school”—defined as a school where at least 55 percent of students are low-income, English learners, or foster youth. Originally, recipients were also required to commit to teaching in certain subject areas—special education; science, technology, engineering, and math; bilingual education; elementary school; and transitional kindergarten (TK).

The 2021 Budget Act included \$500 million one-time General Fund to support the program. Trailer bill legislation in the 2022 Budget Act also made several changes to the program. Most notably, whereas the program previously was open only to teacher candidates in certain high-need subject areas, it is now open to teacher candidates in any subject area, as well as candidates for pupil personnel services credentials (which authorize individuals to work in school counseling, social work, psychology, and child welfare).

**Implementation Updates from CSAC.** The following two tables provide information on disbursements from the Golden State Teacher Grant Program as of the 2021-22 and 2022-23 application cycles. As of February 2023, 23.6 percent of applications (2,235) for the 2022-23 academic year were for students pursuing pupil personnel services credentials, while 76.4 percent of applications (7,199) were for those pursuing teaching credentials.

#### AY 2021-22 General Fund Payments Made as of 1/30/2023

Segment	Total AY 21/22 Applications Rcvd	Students Awarded with General Funds	Total Awarded Per Segment	Average Award Per Student
UC	272	199	\$3,807,449	\$19,133
CSU	1,154	612	\$8,991,448	\$14,692
Private	1,922	1,074	\$19,865,297	\$18,497
LEA	608	485	\$9,393,702	\$19,368
<b>GRAND TOTAL</b>	<b>3,956</b>	<b>2,370</b>	<b>\$42,057,896</b>	<b>\$17,746</b>

#### AY 2022-23 General Fund Payments Made as of 01/30/23

Segment	Total AY 22/23 Applications Rcvd	Students Awarded with General Funds	Total Awarded Per Segment	Average Award Per Student*
UC	464	350	\$4,699,845	\$13,428
CSU	2,846	1,506	\$24,241,380	\$16,097
Private	4,850	2,855	\$51,230,086	\$17,944
LEA	933	554	\$10,101,823	\$18,234
<b>GRAND TOTAL</b>	<b>9,093</b>	<b>5,265</b>	<b>\$90,273,134</b>	<b>\$16,426</b>

\*Average award per student is calculated based on payments processed thus far. Fall, Winter, and Spring term payments have been processed. Summer term payments will begin mid-April.

Source: California Student Aid Commission

At the current rate of applications, eligibility for awards, and expenditure, CSAC analyses indicate that up to \$157.7 million may be awarded in the 2022-23 year. This would be due to receiving more GSTG applications before April 1, 2023 and disbursement of renewal payments to those awarded less than

\$20,000 in a prior academic year. At a minimum, CSAC would expend at least \$112.2 million in 2022-23 based on applications received and other renewal payments due. Moreover, CSAC anticipates that they will award the entire \$500 million appropriation sometime in the 2024-25 academic year, should current application/award rates continue with the current program requirements, a year earlier than the grant program funds are scheduled to expire.

### **Governor's Budget**

***Governor Proposes Changing Service Requirement for Grant Recipients.*** The proposed trailer bill language would make two changes to the current requirement for Golden State Teacher Grant recipients to commit to working for four years at a priority school. First, it would allow recipients to instead commit to working for four years at any school, beyond only priority schools. Second, for recipients who still choose to work at a priority school, the proposed language would reduce the length of their service requirement from four years to three years. The administration indicates these changes are intended to ensure sufficient demand for the program, while also maintaining some incentive for grant recipients to teach at a priority school.

***Governor Proposes Expanding Eligibility to Certain Child Development Permits.*** The proposed trailer bill language would also expand program eligibility to students pursuing certain child development permits—specifically for master teachers, site supervisors, and program directors. These permits are required for non-entry-level, supervisory positions within State Preschool. To qualify for a grant, students pursuing these permits must be concurrently pursuing a bachelor's degree. (Students pursuing required coursework or child development permits for assistants, associate teachers, and teachers would remain ineligible for grants.) Grant recipients could complete their associated service requirement at any elementary school or at a state or federally funded preschool program. The administration indicates these changes are intended to address early educator workforce needs.

### **LAO Assessment and Recommendations**

***LAO Assessment: Program Demand Is Robust Under Current Eligibility Requirements.*** In 2021-22 (the first of the five years covered by the General Fund appropriation), CSAC spent only \$42 million of the \$98 million available for grants. Program demand, however, has increased notably following the significant eligibility expansions enacted in the 2022-23 budget package. In 2022-23, CSAC has spent \$90 million on grants as of January. Given CSAC will continue to receive applications and process payments in the coming months, it is likely to spend not only the \$98 million available for grants in 2022-23, but also some or all of the remaining funds from 2021-22. CSAC further projects that it will fully spend the \$500 million allocation before the end of the five-year period. This suggests no further eligibility expansions are needed to ensure sufficient demand for the program. Moreover, further eligibility expansions could lead demand to exceed available funding. The proposed trailer bill language does not specify how CSAC is to prioritize among applicants in this event.

***LAO Assessment: Proposed Changes Would Likely Reduce Benefits to Priority Schools.*** The current service requirement is designed to address the disproportionate staffing challenges at priority schools. The proposed trailer bill language would reduce the program's effectiveness in meeting this objective in two ways. First, it would reduce the number of years that recipients are expected to work at a priority school from four years to three years. Second, it would allow recipients to instead complete their service requirement at a school that is not on the priority list. To the extent that recipients choose this option, the program's benefits would be redistributed from priority schools to higher-income schools that have less

acute staffing challenges. Although the program might still support the expansion of the teacher workforce overall, its impact would not be as targeted toward the areas of greatest need.

**LAO Assessment: Proposed Changes Do Not Effectively Address Early Educator Workforce Needs.**

Though school districts will need more early educators over the next few years, the Governor's proposed trailer bill language is not likely to be an effective way to address this objective. The proposed requirement that recipients concurrently pursue a bachelor's degree with their permit would exclude current elementary school teachers returning to school to complete additional child development coursework necessary to teach in a TK classroom. The proposed language also excludes individuals seeking coursework and entry-level child development permits to teach in State Preschool. More broadly, it is unclear what is the added value of this proposal relative to current early educator workforce programs that have less restrictive eligibility requirements. Those other programs could potentially be more effective ways to address the objective of expanding the early educator workforce.

**LAO Assessment: Proposed Changes Could Make Program Costlier to Administer.**

The proposed program changes would have some administrative costs. CSAC would need to notify a new set of preparation programs that their students now qualify for grants. CSAC would also need to track grant recipients across a broader set of schools to monitor whether the service requirement was being met. Moreover, having two different lengths of service requirements (three years at a priority school versus four years at all other schools) could also increase monitoring costs. In addition, CSAC would need to implement the new grant rules in the software system it uses to administer financial aid programs. Although incurring additional administrative costs is sometimes necessary, higher administrative costs are harder to justify when proposed program changes are not warranted.

**LAO Recommendation: Reject Proposed Eligibility Expansion and Change to Service Requirement.**

Given the above considerations, the LAO recommends the Legislature to reject the Governor's proposed trailer bill language changing the Golden State Teacher Grant program eligibility and service requirement. Based on CSAC's projections, demand likely is sufficient under the current program structure to fully spend grant funds by the expenditure deadline (and possibly sooner). Moreover, expanding the service requirement to include non-priority schools undermines the primary program objective of supporting schools facing the most acute teacher shortages. The Governor's proposal also is not well tailored to early educator workforce issues. A more direct approach would be to ask the California Department of Education for an update on the state's recent initiative to increase the number of highly qualified State Preschool and TK teachers. To the extent this initiative is proving to be effective, the Legislature could increase funding for the initiative depending on its other budget priorities.

**Suggested Questions**

- Please provide the subcommittee with an update on disbursements to date and anticipated disbursements.
- What is CSAC's position on the Administration's proposed changes to the program? How does it impacts CSAC's ability to manage the program and workload?

**Staff Recommendation.** Hold Open

**Issue 5: Status Update on Previous Budget Act Investments (Oversight)****Panel**

- Jake Brymner, California Student Aid Commission

**Background**

The subcommittee requests implementation updates on the following program:

- ***Learning Aligned Employment.*** The 2021 Budget Act included \$200 million in 2021-22 and \$300 million in 2022-23 to support state-funded work-study programs at UC, CSU and CCC campuses to be administered by CSAC. AB 132 specified that the program is available for students from an underrepresented background who is enrolled at least part time, a resident student and maintains satisfactory academic progress, and demonstrate financial need. The learning aligned employment position is to be related to the student's area of study or career interest. Students must be placed with employers that are able to provide them with or connect them to full-time employment opportunities upon graduation.
- ***Cash for College.*** The 2022 Budget Act provided \$500,000 one-time General Fund for CSAC to expand the Cash for College program (which provides financial aid application workshops) to assist with the implementation of a new requirement for school districts to verify that high school seniors submit financial aid applications. This program was mentioned in Issue 2.

**Suggested Questions**

- How much funding has been disbursed for these program so far?
- Have there been any implementation challenges?
- For the Learning Aligned Employment program, is there an expectation that there will be \$300 million needed for this program in budget year? Why or why not?

**Staff Recommendation.** This is an oversight item. No action is needed at this time.

**6600 UC COLLEGE OF THE LAW, SAN FRANCISCO (CLSF)****Issue 6: CLSF Updates and Proposals****Panel**

- David Faigman, Chancellor and Dean, UC College of the Law, San Francisco
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

*Available for additional details and questions:* David Seward, Chief Financial Officer, UC College of the Law, San Francisco

**Governor's Budget**

**Base Adjustment.** The Governor's budget proposes an increase of \$2.2 million General Fund ongoing to support operating costs. This represents a three percent increase base augmentation.

**Safety Program, Urban Alchemy.** The Governor's budget proposes an increase of \$3 million, available over three years, to continue supporting a campus safety program that employs formerly incarcerated individuals and/or those who have experienced homelessness. The funds would be available for expenditure over the next three years (through 2025-26).

**UC College of the Law Spending Plan and Requests**

**UC Law SF Is Budgeting for Several Cost Increases.** As is detailed below, UC Law SF is planning for several cost increases in 2023-24. Its largest planned cost increase is for lease payments on a new multiuse facility (198 McAllister). UC Law SF also plans to fund a total of six new positions—one new ladder-rank professor, two existing vacant ladder-rank professors, one long-term contract professor, and two lecturers. The next largest planned expense is for student financial aid. Beyond these expenses, UC Law SF intends to increase to its overall employee salary pool by 3 percent as well as cover employee benefit cost increases. UC Law SF also has identified funding for innovation. This funding will be directed to develop and enhance certain activities, such as the development of internet redundancy services.

**School's Spending Plan Supports Several Increases**

*Core Spending Increases, 2023-24 (In Thousands)*

<b>Spending Component</b>	<b>Amount</b>
198 McAllister lease payments <sup>a</sup>	\$2,088
Faculty hiring	1,225
Student financial aid	1,189
Salary pool increase (3 percent)	1,006
Innovation <sup>b</sup>	327
Operating expenses and equipment	241

Benefit cost increases	98
Health Policy and Law master's program	44
Other adjustments <sup>c</sup>	-460
<b>Total</b>	<b>\$5,758</b>
<p><sup>a</sup>In addition to the McAllister Tower renovation, the school recently constructed a new, adjacent, multiuse facility at 198 McAllister Street. The school is incurring new lease payments for that building, which it plans to cover using core funds.</p> <p><sup>b</sup>Reflects funding the school plan's to use for developing new activities and expanding existing activities in further of its strategic plan.</p> <p><sup>c</sup>Certain operating costs will be reduced during the renovation of the 100 McAllister building.</p>	

***School Is Requesting Additional One-Time Funding Relating to Name Change.*** The state provided UC Law SF \$885,000 one-time General Fund in 2022-23 for expenses relating to the school's name change- as is described below. The school indicates that it intends to seek additional one-time state funding of up to \$2 million to complete name change and rebranding activities.

### **Background**

California has five public law schools. The University of California (UC) operates four of these schools—at its Berkeley, Los Angeles, Davis, and Irvine campuses. The fifth school is affiliated with UC but operates independently in many respects, having its own governing board (known as the Board of Directors). The institute was founded by, and initially named after, Serranus Clinton Hastings, the first Chief Justice of the State of California.

***Mission and Responsibilities.*** UC College of the Law, San Francisco, as recently re-named, is the oldest law school and one of the largest public law schools in the United States. CLSF's board has similar responsibilities as the UC Board of Regents, including establishing policy, ratifying collective bargaining agreements, adopting budgets, and setting student tuition and fee levels. CLSF's affiliation with UC offers it certain benefits. For example, CLSF uses UC's payroll processing and investment management services. Additionally, CLSF's employees participate in UC's employee health and pension programs.

The mission of the CLSF is to train students for the legal profession with a comprehensive understanding and appreciation of the law. CLSF is the oldest law school and one of the largest public law schools in the United States. The business of the college is managed by an 11-member Board of Directors. CLSF is approved by the American Bar Association and accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges. CLSF is a member of the Association of American Law Schools. The Juris Doctor degree is granted by the Regents of the University of California and is signed by the President of the University of California and the Chancellor and Dean of the College of the Law, San Francisco.

Of the school's more than 1,000 students, approximately 95 percent are enrolled in the Juris Doctor (JD) program (the most common degree students pursue to enter the legal field). The school also offers three master's programs, one of which is a joint Health Policy and Law program with UC San Francisco (UCSF).



**3-YEAR EXPENDITURES AND POSITIONS**

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5530	Support	255.6	272.7	277.7	\$116,709	\$186,811	\$102,595
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>		<b>255.6</b>	<b>272.7</b>	<b>277.7</b>	<b>\$116,709</b>	<b>\$186,811</b>	<b>\$102,595</b>
<b>FUNDING</b>				<b>2021-22*</b>	<b>2022-23*</b>	<b>2023-24*</b>	
0001	General Fund			\$29,802	\$113,759	\$29,543	
0814	California State Lottery Education Fund			199	172	172	
0993	University Funds--Unclassified			86,708	72,880	72,880	
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$116,709</b>	<b>\$186,811</b>	<b>\$102,595</b>	

**Tuition Revenue Is Law School’s Largest Fund Source.** Of the school’s core funding, just over 70 percent comes from student tuition revenue and one-quarter comes from state General Fund. Remaining core funding comes from investment income, scholarly publication income, fee revenue, and the State Lottery Fund. Beyond core funding, UC Law SF receives noncore funding from certain self-supporting auxiliary programs (including its housing and parking programs). In addition, the school receives noncore funding from private donations as well as external grants and contracts.

**UC Law SF Recently Increased Tuition Charges.** From 2012-13 through 2021-22, UC Law SF held enrollment fees flat at \$43,486 for resident students. For the 2022-23 academic year, the UC Law SF Board of Directors increased tuition charges for resident students by three percent to \$44,791. The board also increased supplemental tuition charges for nonresident students. After holding the supplemental tuition charge flat at \$6,000 from 2012-13 through 2021-22, the board increased the supplemental charge by seven percent to \$6,420 in 2022-23.

**Student Enrollment Has Grown the Past Two Years.** After hovering at approximately 950 full-time equivalent (FTE) students from 2016-17 through 2020-21, the school grew its enrollment notably in 2021-22. That year, it enrolled 155 additional FTE students, with its total enrollment reaching 1,099 students. The bulk of the growth (144 FTE students) was in the school’s JD program, with the remaining growth in its master’s programs. In 2022-23, the school is continuing to experience higher-than-typical growth, with total enrollment estimated to reach 1,175 FTE students. The bulk of the growth (57 FTE students) continues to be in the school’s JD program, with master’s programs growing by 19 FTE students. Though still relatively small programs, the school’s master’s programs doubled in size from 2020-21 through 2022-23. This is partly attributable to the addition of the new Master of Science in Health Policy and Law program launched in 2022-23.

**Employee Compensation Is School’s Largest Expense.** Core funds support UC Law SF’s core operations, including faculty and staff compensation. The school also uses core funds to provide merit-based student financial aid. UC Law SF currently spends around 30 percent of the tuition revenue it generates from each JD cohort on financial aid.

**State Often Provides the School With General Fund Base Increases.** Each year, the law school faces pressure to cover cost increases associated with employee compensation, OE&E, student financial aid, and enrollment growth, among other factors. Over the past decade, the primary way the school has covered its core operating cost increases is through state General Fund base augmentations. (The school also receives state General Fund adjustments for its lease revenue bond debt service and, in certain years, specific program initiatives.) As the following figure from the LAO shows, the size of UC Law

SF's base adjustments has varied since 2015-16. Average annual growth in the school's General Fund support during this period (excluding 2020-21) was 11 percent.

**State Has Provided Law School With Base Augmentations in Most Years**

*(Dollars in Millions)*

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Base General Fund adjustment	\$1.0	\$1.0	\$1.1	\$1.1	\$1.4	-\$0.5	\$2.1	\$2.0
Percent change in General Fund	11.0	10.0	9.0	9.0	10.0	-4.0	14.0	12.0
Percent change in ongoing core funds	1.9	1.9	1.9	1.9	2.5	-0.9	3.5	3.0

***School Is Responsible for Campus Safety.*** UC Law SF is located in downtown San Francisco between the Civic Center and the Tenderloin District. Over the years, the school has faced public safety issues. It has contracted with the UCSF police department for campus patrols and responses to security issues. The school also has used UCSF Public Safety Ambassadors, who lack police powers, to staff its buildings and security posts and report issues as appropriate to police personnel. The school has paid for these contract costs using its ongoing core funds. In August 2020, the Urban Alchemy nonprofit organization received funding from UC Law SF for a program to further promote campus safety. This program relies less heavily on traditional methods of policing in favor of sidewalk safety services (including interrupting public drug usage, noise disturbances, and public urination and defecation). The program prioritizes employing individuals who were formerly incarcerated or homeless in their programming. The school has been using \$1.4 million annually of its ongoing core funds redirected from the UCSF contract for Urban Alchemy to provide its programming. The school has supplemented this funding with \$3 million one-time General Fund that the state provided in 2021-22, to be spent evenly over three years (through 2023-24).

***Name Change.*** In November 2021, the school's Board of Directors voted to authorize its leadership to work with state legislators and other stakeholders to change the College's name after the discovery that the school's founder committed genocidal acts against Native Californians in the Round and Eden valleys during the 1850s. In January 2022, Board of Directors approved an initiative to change the school's name. An official name change required legislation, passing in 2022. The 2022 Budget Act included \$885,000 General Fund in 2022-23 to support costs associated with changing the name of the institution, conditioned upon enactment of legislation authorizing a name change. As of March 2023, the school has incurred \$1.8 million in costs associated with its name change. Specifically, it has spent a total of \$890,364 on external contracts with several firms to implement needed changes relating to its internet domain and other re-branding efforts. It also has incurred legal costs totaling \$867,034. (Some of these legal costs ultimately might be covered through the school's insurance policy.)

***Student Housing Updates as of March 2023.*** The 2022 Budget Act provided \$90 million General Fund in 2022-23 to support the facility improvement project at the institution's 100 McAllister Street building called McAllister Tower. This project includes seismic structural upgrades conforming to UC Law's Seismic Safety Policy, maintaining 252 campus housing units at below-market rents that would otherwise no longer be available until the completion of the 198 McAllister structure in 2023 (detailed below), renovating space within the facility for academic purposes, and adding an estimated five new

campus housing units for a total of 257 units at below-market rents. UC Law SF indicates that the remaining project costs will be split between conventional debt-financing (\$103 million) and the historic tax credit equity program (\$37 million), which is a federal program focused on the rehabilitation of certified historic buildings.

As well, UC Law SF is in the process of providing new housing in Fall 2023. “The Academe at 198” is a 656-unit structure includes three levels of academic- and community-serving space with two courtrooms, meeting spaces, a café, and street-level retail space. The project broke ground in September 2020; the work is on schedule and slated for completion in July 2023. Apartments will be rented at below-market rates to UC Law and other partner institution students including more than 230 graduate students and trainees from UC San Francisco.

### **LAO Recommendations**

***Treat Proposed Base Increase as an Upper Bound.*** The LAO recommends the Legislature to treat the Governor’s proposed \$2.2 million (12 percent) base General Fund increase for the school as an upper bound. Throughout the education budget—across K-12 education, the community colleges, and the public universities—the Governor has proposed relatively high base increases, with UC Law SF receiving the largest percentage increase. For all of these segments, the LAO recommends the Legislature to treat the base increases proposed in January as upper bounds. From within its budget plan for 2023-24, UC Law SF can accommodate several core cost increases, including new hiring and salary increases, as well as cost increases for OE&E and activities relating to innovation. Were state revenues to weaken over the coming months, the Legislature could consider downward adjustments at that time. If the base increase for the school were to be reduced, the school could adjust its spending in various ways, including, for example, by revisiting its allotments for OE&E and innovation.

***Fund Campus Safety Program From Core Budget.*** Urban Alchemy’s program seeks to achieve an important goal of promoting and maintaining campus safety. Given campus safety is a key part on the school’s ongoing operations, it is unclear why the school is not funding all program costs from its core operating budget. Relying on one-time state support for key ongoing operations is poor budgetary practice. The LAO recommends the school to, as it has done in the past, use its ongoing core funds for campus safety costs. To accommodate the cost of the program, UC Law SF indicates it might need to raise tuition. The school has raised its tuition charges in 2022-23 and 2023-24. If that additional revenue is insufficient to cover the school’s operating costs, including campus safety, UC Law SF could consider additional tuition increases in the out-years. In the meantime, the school has \$1 million remaining from the 2021 Budget Act that can be spent during 2023-24 for Urban Alchemy.

***A Couple of Options Exist for Covering Remaining Name Change Costs.*** Given UC Law SF’s costs exceed the state’s one-time appropriation of \$885,000, the school has had to cover excess costs to date using campus reserves. Beyond costs already incurred, the school has identified additional outstanding physical signage costs totaling \$1.4 million. The state could provide the school with additional General Fund for these costs, but campus reserves are available to cover such costs. The LAO estimates the school’s reserve currently equates to nearly five months of expenditures. Even for a small agency (which benefits from higher reserve levels), this is a relatively sizeable reserve.

**Suggested Questions****Name Change and Urban Alchemy**

- Please provide a status update on the school's name change. What activities remain to finalize this change and how will the school cover costs related to these activities if the final budget does not cover these costs?
- What activities will be covered with the second round of funding for Urban Alchemy? How much of this proposed funding do you expect to spend in 2023-24? How much funding from the \$3 million one-time General Fund that the state provided in 2021-22 remains and do you expect to spend the remaining funding by July 1?

**Student Housing**

- Please describe the College of the Law's student housing plans in relation to the Student Housing Grants. How many projects, if any, will be submitted in the future?
- Please provide a status update on the McAllister Tower project. Have all project funded been expended? Are there any cost overruns or challenges? What is the projected finish date for this project.
- Please provide status updates on, if any, other ongoing housing projects.

**Staff Recommendation.** Hold Open