Keeping California’s Promise: Investing Equitably in California College Affordability

Budgets are a reflection of collective values, and California policymakers and leaders have a responsibility to follow through on their promise of Cal Grant Reform, which will support hundreds of thousands of Californians — including those who are low-income, BIPOC, and first generation — in affording, accessing, and succeeding in higher education. If the state finds the funds, the Cal Grant Reform Act - as enacted in the 2022 Budget Act - is to be implemented in 2024. But instead of using precious resources to put a down payment on this program that low-income California students need now, the state has proposed adding more funding to the less equitable Middle Class Scholarship (MCS) program. It is critical that California approach college affordability equitably by prioritizing students with the least resources. Fully funding Cal Grant reform instead of MCS is by far the best approach; doing so will be pivotal in supporting California’s commitment to advancing racial and economic justice as well as statewide postsecondary attainment. California policymakers have a critical opportunity this year to reinforce the state’s commitment to achieving educational equity for BIPOC students and students with the greatest need by investing in Cal Grant Reform starting in the 2023-24 state budget.

This Equity Alert provides an overview of why Cal Grant Reform is needed; describes the limitations of the Middle Class Scholarship program in serving low-income, BIPOC, and community college students in California; and provides recommendations that state policymakers can act on this year to advance equity-centered financial aid reforms.

UNFUNDED CAL GRANT REFORM IS AN UNFULFILLED PROMISE: CALIFORNIA’S LOW-INCOME BIPOC STUDENTS ARE COUNTING ON POLICYMAKERS TO FULFILL THEIR COMMITMENT TO FUND CAL GRANT REFORM

Robust and equitable state need-based financial aid programs are a key driver of college access and completion for lower-income students and racially marginalized students in California, most of whom attend public two- and four-year colleges and universities and come from families with annual incomes of less than $40,000. As the state’s largest need-based financial aid program, Cal Grants are a cornerstone of college affordability for hundreds of thousands of Californians every year; the program provides financial aid that helps students cover tuition and living expenses without the need to repay.

Despite being one of the largest grant programs in the nation, the Cal Grant Program is not fully funded to accommodate all Californians who financially qualify for the program. Advocates have continued to uplift the need for equitable structural reforms to better address students’ rising total college costs and to remove the eligibility barriers that keep under-resourced students from accessing these awards that help them get to — and through — college.
While net college costs tend to decrease as family income declines, the share of income needed to cover them increases. At the state’s public two- and four-year colleges and universities — which the vast majority of California’s college students attend — the lowest-income students have to put as much as half of their family income towards covering college costs after accounting for available grant aid. To fill the gap, students may borrow loans or work excessively, reduce enrollment, or drop out altogether. A Fall 2022 survey found that one-third of previously enrolled California Community College (CCC) students who dropped at least one course in their last term reported it was due to their need to prioritize work, which in turn means they may take longer to transfer, complete college, and derive the value of a college degree. The majority of CCC students attend part-time, and at California’s public universities, low-income and BIPOC students are disproportionately likely to graduate with loans than their peers who come from higher-income backgrounds.

H ow we got to Cal Grant Reform and Why It Is Needed

As a result of ongoing, collective efforts from students and a diverse group of advocacy organizations including those in the coalition of Californians for College Affordability, the CCC Entitlement Cal Grant was created in the 2021-22 California state budget to serve hundreds of thousands of additional community college students by removing age and time-out-of-high-school eligibility barriers. Most recently, the landmark Cal Grant Reform Act was included in the 2022-23 state budget, which would strengthen the Cal Grant program in several ways by:

- Streamlining the Cal Grant program by reducing the number of programs to Cal Grant 2 for improved coverage of CCC students’ non-tuition college costs and Cal Grant 4 for university students’ tuition; it would also maintain supplemental awards for more vulnerable populations including foster youth and student parents.
- Ensuring Cal Grant awards grow over time for CCC students by indexing Cal Grant 2 awards for non-tuition expenses to annual changes in the California Consumer Price Index (CCPI).
- Increasing the number of eligible low-income students by aligning income eligibility criteria with forthcoming changes to the federal Pell Grant program.
- Removing Cal Grant access barriers for CCC students by eliminating the GPA eligibility criteria for Cal Grant 2.

These changes would help students and families better understand the different grant programs for which they are eligible, allow more low-income students to access aid, and better align state financial aid with students’ rising non-tuition college costs — all critical steps in supporting Californians in earning a higher education credential that will benefit themselves, their families, and the state. However, whether Cal Grant Reform will actually be implemented in 2024 depends on the state’s fiscal condition — which many, including the state Legislative Analyst’s Office, are concerned will face budget deficits in the coming years — and the policies and programs its leaders choose to fund.

The 2022-23 state budget also included $632 million to revamp the Middle Class Scholarship (MCS) program, which originally assisted eligible public university students with a portion of their tuition and fees. Its latest iteration aims to address the total costs of attendance for students at University of California (UC) and California State University (CSU) campuses, as well as CCC students enrolled in BA-level courses. Unlike the Cal Grant program, the MCS is a last-dollar financial aid program, meaning that the award amounts are based on students’ remaining college costs after accounting for all other available sources of aid that they receive, a student contribution, and a portion of the federal expected family contribution (EFC) for recipients from families that earn more than $100,000 annually. Based on its 2022-23 funding level, MCS awards cover about one-quarter of all recipients’ remaining college costs.

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If California is to continue to live up to its ideal as the progressive leader in the nation, it needs to prioritize financial aid reforms that will benefit those with the least resources who face the greatest challenges, including the most dire effects of economic downturns. While the revamped MCS program creates a framework that takes students’ total cost of attendance into account, which is important in comprehensively addressing college affordability and establishing a debt-free pathway to higher education attainment, the program fails to equitably prioritize the needs of the most vulnerable students, many of whom attend CCCs and are not eligible for an award. We urge California lawmakers to prioritize investment in Cal Grant Reform instead of MCS investments starting in the 2023-24 state budget to support BIPOC students and students with the greatest need in California.

**FULLY FUNDING CAL GRANT REFORM WOULD SERVE CALIFORNIANS IN MULTIPLE WAYS, INCLUDING PROVIDING AWARDS TO:**

1. **More BIPOC and low-income students across California**

State investments and policy reforms should be responsive to shifting demographics. State data show that nearly three-quarters of students in the K-12 system — which produces the college students of tomorrow — come from BIPOC communities and about three out of five of all K-12 students are socioeconomically disadvantaged. According to the California Student Aid Commission (CSAC), once Cal Grant Reform is funded, awards will become available to an estimated 150,000 additional students with an average income of $36,000, including 95,000 Latinx, 18,000 Asian and Pacific Islander, 11,000 African American, and 3,000 California Dream Act students. MCS, on the other hand, serves students with incomes as high as $201,000 in 2022-23. While the program has been restructured to serve more students with lower incomes, they are also likely to receive smaller award amounts than their wealthier peers due to the last-dollar nature of the program. Because lower-income students may receive aid from need-based grant programs for which their higher-income peers are not eligible, their remaining college costs — upon which their MCS awards are then calculated — may be lower, but still constitute a substantial and burdensome share of their income, as discussed earlier. To illustrate, even though students with incomes of $50,000 and below were offered the most MCS awards in 2022-23, their average award amounts were smaller than their higher income peers. For example, over 70,000 students with an income between $25,000-$50,000 were offered an average MCS award of about $2,000, compared to approximately 15,000 students with an income between $125,000-$150,000 who received around $3,000 on average. Covering about one-quarter of remaining college costs in 2022-23, many of these lower income students would likely have benefitted from additional MCS funding that instead went to their better-resourced peers — some of whom may not have had any financial need per the federal financial aid formula (for more on this, see final row of chart on page 4).
Cal Grant Access Award Coverage of Non-Tuition College Costs, 2021-22

- Current maximum access award: $1,648
- Additional award if indexed to inflation since 1969: $7,436
- Remaining non-tuition college costs not covered by access award: $5,788

Note: Calculations on non-tuition college costs by TICAS using the 2021-22 Student Expense Budget from the California Student Aid Commission (CSAC), https://bit.ly/3afo2VC; calculations on access award indexation by TICAS using the California Consumer Price Index (CCPI) values from June 1969, the inception of the award program, and June 2021, based on the original award amount of $900, https://bit.ly/3yLxhXP.

Low-income community college students, who often shoulder the largest cost burdens

Serving approximately 1.8 million students throughout the state — over two-thirds of whom are BIPOC — CCCs play a major role in advancing equitable statewide college access, degree attainment, and workforce training. While the CCCs have some of the lowest enrollment fees in the nation, total college costs include living expenses, transportation, and books, which compose 95 percent of CCC students’ total cost of attendance.

One of the primary financial aid programs to help CCC students cover their non-tuition costs is the Cal Grant access award, but that award has dramatically lost value over the years. Today, students’ maximum award is $1,648 — one-fifth its original value and covering only about seven percent of students’ non-tuition expenses.

As noted earlier, while lower-income students may tend to have smaller net costs than their better-resourced peers, that does not necessarily mean paying for college is less burdensome; in fact, CCC students with incomes of $30,000 and below have to put about half of their annual income toward meeting their out-of-pocket college costs after available grant aid.

Additional analyses have found that the lowest-income students across California often pay more out of pocket at community colleges compared to their peers at public universities. Cal Grant Reform would begin to remedy this by indexing the access award annually to the CCPI, allowing the award to grow incrementally with inflation. If implemented, reforms would also remove another barrier to Cal Grant access by no longer requiring that CCC students submit high school transcripts that indicate a minimum GPA, an access barrier which can impact older or returning students who may not have access to them and may not reflect their current academic abilities.

The following chart shows how the Cal Grant and Middle Class Scholarship Programs stack up on multiple measures:

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<tr>
<th>Program Metrics</th>
<th>Cal Grant Reform</th>
<th>Middle Class Scholarship</th>
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<tbody>
<tr>
<td>Serves community college students</td>
<td>Yes</td>
<td>Negligible; only available to students attending a CSU, UC, or a CCC bachelor’s degree program</td>
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<tr>
<td>Provides students and families with predictability on the aid they will receive</td>
<td>Yes</td>
<td>No; award amounts may have to be adjusted mid-year due to demand</td>
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<tr>
<td>First-dollar program (other financial aid does not reduce award amount)</td>
<td>Yes</td>
<td>No; other financial aid, student contributions, and in some cases family contributions are taken into account first</td>
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<tr>
<td>Aid is efficiently disbursed to assist students in the fall</td>
<td>Yes</td>
<td>No; individual MCS award amounts depend on the disbursement of other grant aid, including institutional aid, which may be adjusted throughout the year pending enrollment</td>
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<tr>
<td>Aid is indexed to inflation</td>
<td>Yes, for the Cal Grant 2 non-tuition award</td>
<td>No</td>
</tr>
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<td>Requires recipients have financial need</td>
<td>Yes</td>
<td>No; dependent students from families with incomes greater than $100,000 must contribute one-third of their parents’ expected contribution from their adjusted available income towards college costs. It is notable that this formula benefits wealthier students for whom two-thirds of parental income is not included in the MCS award calculation, whereas students with the greatest financial need have an EFC of zero and receive no benefit (i.e., have no family resources to protect).</td>
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WHAT CAN CALIFORNIA STATE POLICYMAKERS DO?

Fulfilling the state’s promise to increase equitable college attainment starts with providing financial aid to the least-resourced students who might not otherwise be able to complete a higher education credential. Doing so benefits not only students themselves but the state as well with a more skilled workforce, increased tax receipts, and fewer Californians depending on social programs.

California policymakers have a critical opportunity this year to reinforce the state’s commitment to achieving educational equity for BIPOC students and students with the greatest need by investing in Cal Grant Reform starting in the 2023-24 state budget.

This year, as California policymakers evaluate the available policy options for addressing students’ college affordability challenges, we urge them to focus resources on equitable, student-centered financial aid reform by:

1. **Prioritizing any financial aid expansion dollars on Cal Grant Reform.** In times of fiscal prudence, policymakers must prioritize any new financial aid investments for low-income students first through Cal Grant Reform before any other financial aid reforms, including MCS. There are already resources available to this end: the current 2023-24 state budget includes a proposal to invest $227 million one-time into MCS, which would result in larger MCS awards for one year. As a result, this would pressure policymakers to continue this increase in perpetuity and thus compete against full funding for Cal Grant Reform in the 2024-25 state budget.

2. **Leveraging unspent state dollars to fund Cal Grant Reform.** The Golden State Education and Training Grants have an estimated $470 million in one-time General Funds that will remain unspent at the end of AY 2022-23, given that the need for the program has diminished and it is serving fewer recipients than the state had originally intended. Policymakers should redirect the unspent $470 million to fund Cal Grant Reform to meet the immediate needs of California college students without sufficient resources.

3. **Making a down payment on Cal Grant Reform in the 2023-24 California budget.** Policymakers should redirect funding towards fulfilling the promise of Cal Grant Reform in the form of a down payment by indexing the Cal Grant access award to CCPI starting in the 2023-24 budget year. Doing so will help ensure more Californians, including the most vulnerable, receive the financial aid they need to succeed in the college classroom and beyond. This would also signal to institutional stakeholders that Cal Grant Reform will be fully funded in the 2024-25 state budget, allowing them to plan accordingly over the next year.

4. **Establishing a Cal Grant Reform implementation workgroup.** Policymakers should ensure that a detailed Cal Grant Reform implementation timeline and work plan are established ahead of the 2024-25 state budget by establishing a Cal Grant Reform implementation workgroup in the 2023-24 state budget. Doing so will help ensure that the state is well-positioned to provide eligible students with accurate information on the changes they may expect to see in their financial aid packages when the state acts to fully fund Cal Grant Reform starting in AY 2024-25, better facilitating students’ ability to make enrollment decisions before institutional deadlines. Additionally, policymakers can provide the implementation workgroup with one-time funding to support its work for the year ahead.