

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, MARCH 14, 2023

9:00 AM, STATE CAPITOL - ROOM 447

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ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: STUDENT HOUSING

The Subcommittee will discuss the Governor's Budget proposal to delay some student housing funding in 2023-24, and hear updates on current and proposed student housing projects.

PANEL

- Michelle Nguyen, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office
- Seija Virtanen, University of California
- Elvyra San Juan, California State University
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Significant need for more student housing. In previous hearings, the Subcommittee has discussed the need for more college student housing in California. Surveys have shown that 1 in 20 students at University of California (UC), 1 in 10 students at California State University (CSU), and 1 in 5 students at California Community Colleges (CCC) report housing insecurity or experiencing homelessness at some point during the academic year. Research suggests that students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers. And insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians.

According to Zillow, California is home to four of the eight most expensive rental markets in the nation (the metropolitan areas of San Jose, San Francisco, Los Angeles, and San Diego, and Ventura County), and for most California college students, housing costs are higher than tuition and fees.

Previous budget actions created first-ever state-funded student housing programs.

The 2021 Budget Act created the Higher Education Student Housing Grant Program, which sought to provide \$2 billion one-time General Fund over three years to support UC, CSU and CCC student housing projects. The 2022 Budget Act created the California Student Housing Revolving Loan Fund, which sought to provide \$1.8 billion over a two-year period to create a fund in the state Treasurer's Office to distribute 0-percent interest loans to campuses to support housing projects. This fund, intended to begin in the 2023-

24 fiscal year, will replenish as campuses pay back their loans, creating an ongoing source of revenue for student housing. The chart below indicates the programs and funding levels that were agreed to during the past two budgets.

Program	2022-23 (in millions)	2023-24 (in millions)	2024-25 (in millions)	Total (in millions)
Student Housing Grant Program	\$1,400	\$750		\$2,150
Student Housing Revolving Loan Fund		\$900	\$900	\$1,800

More than \$1.4 billion distributed in first round of housing grants. The 2022 Budget Act supported \$17 million in planning grants to 75 community colleges and \$1.4 billion in construction grants to support 25 projects at UC, CSU and community college campuses. The segments have begun to provide status updates on these projects, which are shown in charts below. Many projects will begin construction this year. However, many projects are experiencing challenges, ranging from costs that have grown significantly since initial planning to legal or regulatory issues. The segments will provide a further update at this hearing.

UC Campus	State Funding (in millions)	Total Project Cost	Total Beds	Affordable Beds	Proposed Construction Start	Notes
San Diego	\$100,000	\$335,500	1,308	1,100	Construction has begun	Delay possible due to permitting issue with the Division of the State Architect
Santa Cruz	\$89,000	\$89,000	320	320	Summer 2023	State funds are helping to support phase two of the Kresge College project
Irvine	\$65,000	\$700	300	300	Spring 2024	
Los Angeles	\$35,000	\$63,557	358	358	Spring/Summer 2024	
Berkeley	\$100,000	\$312,014	1,113	803	Unknown	Project is on hold due to CEQA litigation
Total	\$389,000	\$800,771	3,399	2,881		

CSU Campus	State Funding (in millions)	Updated Total Project Cost	Total Beds	Affordable Beds	Proposed Construction Start	Notes
San Francisco	\$116,300	\$178,991	750	750	Mar-23	Construction should be completed in December 2025
Humboldt	\$27,107	\$47,701	138	138	Mar-23	Cost is \$5.9 million higher than planned. Campus will support added costs
Northridge	\$37,500	\$70,445	200	200	May-23	Cost is \$12.7 million higher than proposed. Campus will support added costs, and beds will decrease to 198.
Dominguez Hills	\$48,750	\$82,500	365	238	Nov-23	Cost is \$7.5 million higher than proposed. Campus is seeking \$7.5 million additional funding
Long Beach	\$53,300	\$105,328	403	403	Jan-24	Cost is \$23.3 million higher than proposed. Campus can support added costs, and will increase beds to 423
San Marcos	\$91,000	\$120,023	600	390	Jan-24	Cost is higher than proposed, so campus proposes to lower number of beds to 555. Number of "affordable" beds will not change
Fullerton	\$88,900	\$136,897	600	390	Dec-24	Cost is higher than proposed, so campus proposes to lower number of beds to 555. Number of "affordable" beds will not change
Fresno	\$31,050	\$59,110	175	175	Feb-25	Cost is \$12 million higher than proposed. Campus is seeking \$5 million additional funding
San Diego State/Imperial Valley Community College	\$4,554	\$17,027	78	78	Jan-25	Cost is \$3.4 million higher than proposed. However, this project has a \$4.9 million funding gap.
Total	\$498,461	\$818,022	3,309	2,762		

CCC Campus	State Funding (in millions)	Total Project Cost	Total Beds	Affordable Beds	Proposed Construction Start	Notes
Bakersfield	\$60,245	\$60,245	154	154	Oct-23	College is experiencing cost increases but is seeking to modify the project while maintaining proposed number of beds
Consumnes River	\$44,144	\$44,144	145	145	Jun-24	Project is in partnership with the Sacramento Housing and Redevelopment Agency and Eden Housing
Lake Tahoe	\$39,369	\$39,369	100	100	Jun-23	College is fund-raising and using internal funds to cover cost increases
Napa Valley	\$31,000	\$128,000	528	124	Construction has begun	Opening Fall 2024
Santa Rosa	\$15,000	\$78,288	352	70	Construction nearly complete	Opening Fall 2023
Imperial Valley/San Diego State	\$4,554	\$9,262	78	78		Cost is \$3.4 million higher than proposed. However, this project has a \$4.9 million funding gap.
Sierra	\$80,497	\$80,497	354	354	Jan-24	
Compton	\$80,389	\$80,389	250	250	Apr-24	
Ventura	\$62,923	\$62,923	320	320	Fall 2023	
Fresno City	\$34,080	\$34,080	360	360		
Siskiyou	\$32,613	\$32,613	252	252	Nov-24	
Canyons	\$61,858	\$61,858	100	100	Dec-23	
Total	\$546,672	\$711,668	2,993	2,307		

SEGMENT GRANT PROPOSALS FOR 2023-24

The first round of housing grants included a process in which the Department of Finance received proposals from the segments and campuses. Finance then made recommendations to the Legislature as to which projects to support, with final decisions on projects included in the 2022 Budget Act. For 2023-24, the process has been altered, with the segments now providing proposals directly to the Legislature, after vetting through the segments’ central offices. Per the 2021 Budget Act, \$750 million was to be available in 2023-24 for grants.

The charts below indicate the proposed projects submitted by each segment. As noted in the first column, each segment ranked their projects. This program received proposals for 30 projects, totaling about \$2.1 billion in requested state funds.

UC Rank	Campus	Funding Requested (in millions)	Total Project Cost	Total Beds	Affordable Beds	Proposed Construction Start	Notes/Additional Information
1	Riverside	\$51,000	\$312,000	1,553	1,553	Dec-23	Partnership with Riverside Community College
2	Merced	\$50,000	\$100,000	478	478	Summer 2024	Partnership with Merced Community college
3	San Diego	\$150,000	\$683,000	2,444	1,474	Jun-23	
4	Merced	\$97,573	\$97,573	496	496	Fall 2024	
5	Davis	\$92,200	\$93,000	400	400	First Half 2024	
6	Merced	\$58,723	\$58,723	236	236	Fall 2024	Graduate student housing
Totals		\$499,496	\$1,344,296	5,607	4,637		

CSU Rank	Campus	Funding Requested (in millions)	Total Project Cost	Total Beds	Affordable Beds	Proposed Construction Start
1	Sacramento	\$41,340	\$67,055	285	285	Jun-25
2	San Jose	\$89,100	\$333,816	1,007	517	Jun-24
3	Stanislaus	\$18,850	\$29,005	120	75	Dec-24
Totals		\$149,290	\$429,876	1,412	877	

CCC Rank	District/Campus	Campus	Funding Requested (in millions)	Total Project Cost	Total Beds	Affordable Beds	Projected Construction Start	Notes
1	Cerritos CCD/Cerritos College	Cerritos College	\$ 67,995	\$ 79,995	396	396	Mar-24	
2	Merced CCD/Merced College	Merced College	\$ 50,000	\$ 100,000	488	478	Summer 2024	Partnership with UC Merced
3	Redwoods CCD/College of the Redwoods	College of the Redwoods	\$ 28,415	\$ 53,285	215	181	Dec-23	
4	Riverside CCD/Riverside City College	Riverside City College	\$ 75,000	\$ 312,000	1,553	652	Dec-23	Partnership with UC Riverside
5	San Mateo County CCD/College of San Mateo	College of San Mateo	\$ 55,854	\$ 65,807	312	310	Jun-24	
6	San Diego CCD/San Diego City College	San Diego City College	\$ 75,000	\$ 222,857	808	788	May-24	
7	Cabrillo CCD/Cabrillo College	Cabrillo College	\$ 111,787	\$ 181,700	624	624	Sep-24	Partnership with UC Santa Cruz
8	North Orange County CCD/Cypress College	Cypress College	\$ 73,625	\$ 79,589	306	302	Sep-24	
9	Antelope Valley CCD/Antelope Valley College	Antelope Valley College	\$ 60,689	\$ 60,689	600	300	Dec-24	
10	State Center CCD/Fresno City College	Fresno City College	\$ 58,499	\$ 64,999	200	194	Dec-23	Partnership with Fresno State
11	Victor Valley CCD/Victor Valley College	Victor Valley College	\$ 43,906	\$ 54,882	239	190	Dec-23	
12	San Jose-Evergreen CCD/Evergreen Valley College	Evergreen Valley College	\$ 109,753	\$ 15,109	353	352	Dec-23	
13	Ventura CCD/Oxnard College	Oxnard College	\$ 64,349	\$ 65,049	211	202	Dec-24	
14	Feather River CCD/Feather River College	Feather River College	\$ 71,780	\$ 71,780	130	128	Sep-24	
15	Yosemite CCD/Columbia College	Columbia College	\$ 64,232	\$ 64,232	124	124	Sep-24	
16	Los Rios CCD/Sacramento City College	Sacramento City College	\$ 57,247	\$ 57,247	318	318	Mar-25	
17	Long Beach CCD/Long Beach City College	Long Beach City College	\$ 98,696	\$ 103,891	422	411	Sep-25	
18	El Camino CCD/El Camino College	El Camino College	\$ 67,533	\$ 67,533	306	306	May-25	
19	South Orange County CCD/Saddleback College	Saddleback College	\$ 98,686	\$ 103,880	400	400	Oct-25	
20	Southwestern CCD/Southwestern College, Chula Vista	Southwestern College, Chula Vista	\$ 80,062	\$ 80,062	420	420	Dec-23	
21	Lassen CCD/Lassen Community College	Lassen Community College	\$ 61,603	\$ 61,603	117	117	Sep-24	
Totals			\$ 1,474,711	\$ 1,966,189	\$ 8,542	\$ 7,193		

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor’s Budget proposes delaying scheduled funding for both the grant program and the revolving loan fund. The proposal is intended to help address the state’s budget problem.

Under the proposal, \$250 million that was originally intended to support the grant program in 2023-24 would be delayed until 2024-25, leaving \$500 million available for 2023-24. The revolving loan fund, originally intended to begin in 2023-24, would not begin until 2024-25, and the amount provided per year would change. The charts below depict the

agreement per the 2022 Budget Act for each program, and the Governor's proposal to change the agreement.

Student Housing Grant Program	2023-24	2024-25	Student Housing Revolving Loan Fund	2023-24	2024-25	2025-26
2022 Budget Act	\$750	0	2022 Budget Act	\$900	\$900	0
Governor's Budget Proposal	\$500	\$250	Governor's Budget Proposal	\$0	\$650	\$1,150

STAFF COMMENT/POTENTIAL QUESTIONS

Student housing has become a top student issue at all three segments, and the 2022 Budget Act sought to address the issue by using one-time funding to support projects and create an ongoing revenue source, through the revolving loan fund. Grant funding distributed last year is expected to produce nearly 10,000 new beds in the next few years, most of which will be well below rental market rates. The Subcommittee can consider the following as it discusses this issue:

Of the 25 projects funded in the 2022 Budget Act, 10 have begun construction or will soon. Some projects face increased costs or other obstacles. Updates from the segments indicate that most projects will begin construction this year or next year. However, some projects are facing challenges. In a memo to the Subcommittee, CSU noted that construction costs grew by an average of 14% between 2021 – when plans were developed – and January 2023. Many CSU projects have identified other sources of revenue to cover increased costs, but the system is seeking at least \$12 million from remaining grant funding to support added costs. Some community colleges also report cost increases that may be difficult to manage. The UC system is involved in litigation regarding the Berkeley project, and faces a state permitting issue with the San Diego project.

Demand for state funding remains high. Similar to last year, the state received grant requests that far exceed available funding. Combined, the three segments submitted proposals totaling \$2.1 billion, despite only \$750 million remaining in the grant program. In addition to what is proposed, all three segments have other projects under consideration. Staff notes that 75 community colleges received planning grants last year, which will likely lead to many more projects at that segment, and all UC campuses have long-term plans for more projects.

Remaining funds for grant program are low for UC and CSU. Per agreement in the 2021 Budget Act, the grant program provides half of the funding to community colleges, 30% to CSUs, and 20% to UCs. Given the funding distributed in the first round of the grant program, UC has \$48 million left, while CSU has \$157 million left. Community

colleges have \$545 million left. The Subcommittee may wish to have further discussion about this split, and also how to support proposed intersegmental proposals.

Delay would likely increase costs, prolong housing crisis at some campuses. The Administration has proposed delaying funding for student housing as part of its effort to address the budget problem. Given the student housing crisis, the ability for campuses to construct housing quickly when compared to other local housing projects, and the likelihood that delays will increase costs and lessen the number of beds projects can deliver, the Legislature should discuss whether this is the appropriate program to delay.

Second round of grant requests includes four intersegmental proposals. Both the grant program and the revolving loan fund sought to encourage collaboration between the segments for projects that could house students from multiple campuses. The benefits of collaboration are clear: community colleges, generally inexperienced in operating housing, can partner with a UC or CSU campus with housing experience, and housing students together could help increase transfer rates from community colleges to UCs or CSUs. In addition, having housing that can accommodate students from more than one campus further ensures that all beds will be filled. Four intersegmental projects are proposed this year: UC Riverside and Riverside Community College, UC Merced and Merced Community College, UC Santa Cruz and Cabrillo College, and Fresno State and Fresno City College.

Potential questions the Subcommittee could ask include:

- How will this state funding impact student costs? How much lower will costs be per month for students living in these projects?
- How are campuses handling cost inflation? For CSU, how will projects proceed if no additional state money is provided?
- How are community colleges that have never provided housing preparing to address operational costs and other changes needed to support on-campus living?
- How did each segment rank the 2023-24 proposals?
- How will a one-year funding delay impact the cost of projects, or the number of beds that can be built?
- How are the segments considering using the revolving loan fund? Are there issues for the Legislature to consider with this fund before it launches?

Staff Recommendation: Hold open until after the May Revision.

6980 CALIFORNIA STUDENT AID COMMISSION

The Governor's Budget proposes about \$3.2 billion in support for the California Student Aid Commission (CSAC) in 2023-24, with about \$2.8 billion from the state General Fund and about \$400 million from federal Temporary Assistance for Needy Families (TANF). The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

California Student Aid Commission Budget

(Dollars in Millions)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Spending					
Local assistance					
Cal Grants	\$2,233	\$2,269	\$2,259	-\$10	— ^a
Middle Class Scholarships	105	630	856	226 ^b	36%
Learning-Aligned Employment Program ^c	200	300	—	-300	-100
Golden State Teacher Grants ^c	56	147	49 ^d	-98	-67
Golden State Education and Training Grants ^c	95 ^e	—	—	—	N/A
Other programs	38	46	38	-7	-16
Subtotals	(\$2,727)	(\$3,392)	(\$3,203)	(\$-190)	(-6%)
State operations	23	22	34	12 ^f	54%
Totals	\$2,750	\$3,414	\$3,236	-\$178	-5%
Funding					
General Fund	\$2,328	\$2,993	\$2,815	-\$178	-6%
Ongoing	(1,974)	(2,538)	(2,529)	(-9)	(— ^a)
One-time	(354)	(455)	(286)	(-169)	(-37%)
Federal TANF	400	400	400	—	—
Other funds and reimbursements	22	21	21	— ^a	— ^a
^a Less than \$500,000 or 0.5 percent. ^b 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 million is proposed to be provided on a one-time basis. ^c One-time initiatives. ^d The administration intends to correct this to \$98 million at the May Revision. ^e The Governor's budget includes \$95.3 million for local assistance grants and \$4.7 million for state operations. ^f Includes \$10.2 million in carryover funds for administration of certain multiyear initiatives. TANF = Temporary Assistance for Needy Families.					

ISSUE 2: CAL GRANT UPDATE

The Subcommittee will discuss the Cal Grant program, including current caseload estimates and the upcoming Cal Grant Reform.

PANEL

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission
- Shawn Brick, University of California
- Noelia Gonzalez, California State University
- Lizette Navarette, California Community Colleges

BACKGROUND

The Cal Grant program is the state's largest financial aid program, providing more than 380,000 California college students with tuition coverage and/or some support for other college-related costs. Most of the program is an entitlement, meaning if a student meets certain criteria, they are automatically eligible once they have successfully completed the Free Application for Federal Student Aid (FAFSA) or the California Dream Act Application. The program is complex: there are three types of Cal Grant awards - Cal Grant A, B, and C. The award types vary in the amount of tuition and nontuition coverage they provide. There is also a competitive Cal Grant program, which provides a Cal Grant A, B or C to some income-eligible students who do not meet other criteria for the entitlement program. Eligibility criteria include income and asset ceilings, which can vary by family size, and high school GPA. For example, in 2022-23, a student from a family of four would qualify for a Cal Grant A if annual household income was under \$116,800; or Cal Grant B if annual household income was under \$61,400. The LAO chart below indicates Cal Grant recipients by segment.

Cal Grant Recipients

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Total Recipients	395,730	381,656	376,533	-5,122	-1.3%
By Segment:					
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

Cal Grant caseload is down, reflecting enrollment declines at CSU and community colleges. Because it is largely an entitlement program, Cal Grant caseloads are adjusted annually. The Governor’s Budget indicates less spending in the Cal Grant program in the current year than predicted in the 2022 Budget Act. This lower caseload is largely attributable to declining enrollment at CSU and community colleges. The LAO chart below shows this decline.

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 ^a	49	—	-49	-100
Totals	\$2,478	\$2,268	-\$210	-8%

^aThe 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.

Major changes to Cal Grant enacted in past two budgets. Previous Subcommittee hearings spanning more than 5 years have focused on drawbacks of the Cal Grant program. Eligibility criteria that prevented most older students from receiving a Cal Grant have meant that hundreds of thousands of low-income students were not served by the program. These policy concerns have led the state to make significant changes:

- The 2021 Budget Act removed age and time-out-of-high-school barriers for community college students. More than 100,000 community college students are expected to receive a Cal Grant through this program – the California Community College Expanded Entitlement program - in 2023-24. The students will be able to carry Cal Grant coverage through to a UC or CSU campus as they transfer.
- The 2022 Budget Act included major reforms to Cal Grant that would become operational in 2024-25, if a determination is made in Spring 2024 that sufficient General Fund is available to support the program changes. Cal Grant Reform was one of nine programs placed in the 2024 trigger process. The new program makes several notable changes:
 - Cal Grant A, B and C would be replaced by Cal Grant 2, which is for community college students, and Cal Grant 4, which is for UC and CSU students, as well as students at other higher education institutions.

- Cal Grant 2 would provide non-tuition assistance to community college students, starting at \$1,648 in the first year. The amount would be adjusted annually based on inflation.
- Cal Grant 4 would provide full tuition coverage for four years for students at UC and CSU, with the expectation that both segments would use institutional aid to help students cover non-tuition expenses. Support for students at private non-profit and for-profit institutions would remain similar to the current program.
- The new program includes several eligibility changes, including tying income ceilings to the federal Pell Grant, fully eliminating age and time-out-of-high-school barriers, and eliminating a GPA requirement for community college students.

The new rules would apply to all new applicants for Cal Grant awards beginning in 2024-25, with renewal applicants continuing to receive awards under the current rules. The changes were estimated to increase net Cal Grant costs by \$365 million in 2024-25.

GOVERNOR'S 2023-24 BUDGET

The Governor's Budget adjusts Cal Grant caseload assumptions and spending for the current program, but does not include any new Cal Grant proposals. The *Governor's Budget Summary* notes the "Administration remains attentive to the 2022 Budget Act's provisions regarding the fiscal conditions upon which the Cal Grant Reform Act may be implemented and will continue to work closely with the Legislature, the Commission, and others as that time draws closer."

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

State Budget Condition Has Changed Since Last Year's Agreement. When it enacted the *2022-23 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 we discuss in *The 2023-24 Budget: Overview of the Governor's Budget*, 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 our budget projections, Cal Grant reform is very unlikely to be triggered.

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.

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.

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.

Recommendations

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, we recommend the Legislature revisit the trigger. Rather than subjecting Cal Grant reform to a spring 2024 trigger determination, we recommend 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.

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 we discuss in the next section. 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, we encourage it 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 Cal Grant reform 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.

STAFF COMMENT / POTENTIAL QUESTIONS

Cal Grant Reform was the result of years of discussions in this Subcommittee and legislative policy committees, and was a top budget priority for the Assembly last year. The reforms address unfair and outdated eligibility barriers, better align the state with federal and institutional financial aid programs, and dramatically simplify an overly-complicated system. Cal Grant Reform is a key effort to support the twin higher education goals of access and affordability.

The reform is now in statute. The question facing the Legislature is how and when to implement the new program. The LAO correctly notes that a trigger decision made in May for the following fiscal year presents significant challenges for CSAC, the segments and students for one year, as some newly-applying students could face differing financial aid packages for the following academic year, depending on whether the reform is triggered on or not.

However, staff notes that most students will be eligible for Cal Grant under both the current program and the reform. And given that triggering on the program will provide state aid to thousands more California students, it would be wrong to delay the new program and added benefits simply because of the administrative challenges.

While the LAO recommends the Legislature make a decision sooner rather than later regarding whether to "turn on" the program for 2024-25, the state's budget volatility over the past few years, and the unusual tax collection deadlines now in place for this year,

may make predicting next year's revenues difficult. This hearing is intended to allow discussion of this issue among CSAC, the segments, the Legislature and the Administration. Staff notes that CSAC has convened a working group with the segments to facilitate a more detailed discussion, and the Subcommittee may should stay in contact with CSAC and the segments this Spring as implementation issues are further defined. The Subcommittee may also seek information from CSAC as to projected costs of the reform, given the anticipated decrease in Cal Grant costs this year.

The Subcommittee could consider asking the following questions:

- How will the decline in Cal Grant costs in the current year impact cost estimates for Cal Grant Reform?
- What are the challenges associated with a potential change in the Cal Grant program implemented in May 2024?
- How many students will receive Cal Grant under both the old and new program?
- How can CSAC and the segments work together to ensure that students understand how their financial aid packages could change?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 2: MIDDLE CLASS SCHOLARSHIP UPDATE

The Subcommittee will discuss the Middle Class Scholarship program, including a review of the first year of implementation of the reformed program seeking to create a debt-free college pathway for UC and CSU students.

PANEL

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission
- Shawn Brick, University of California
- Noelia Gonzalez, California State University

BACKGROUND

The state created the original Middle Class Scholarship (MCS) program in the 2013-14 budget package to provide partial tuition coverage to certain UC and CSU students. Originally, MCS awards were for students who were not receiving tuition coverage through the Cal Grant program or other need-based financial aid programs. At full implementation, the program was providing average awards of \$3,000 for UC students and \$1,700 for CSU students. Nearly 60,000 students received the award in 2021-22.

MCS 2.0 created in the 2021 Budget Act and implemented this year. The 2021 Budget Act adopted a plan to revamp the MCS program to focus on total cost of attendance rather than tuition only. Under the revamped program, students may use MCS awards for nontuition expenses, such as housing and food. The state is implementing the revamped program for the first time in 2022-23.

Award Amounts Are Now Calculated Based on a Multicomponent Formula. Calculating a student's award amount under the revamped program involves several steps. First, CSAC accounts for other available gift aid, a student contribution from part-time work earnings, and parent contribution for dependent students with a household income of over \$100,000. It then deducts these amounts from the student's total cost of attendance to determine whether the student has remaining costs. Finally, it determines what percentage of each student's remaining costs to cover based on the annual state appropriation for the program. Under this formula, award amounts vary widely among students, with each student's award reflecting their costs and available resources. The LAO chart in this section illustrates this process for two CSU students with differing family incomes.

Revamped Program Serves Broader Group of Students. The revamped MCS program generally maintains the income and asset ceilings of the original program, adjusted for inflation. The maximum annual household income to qualify for an MCS award is \$201,000 for dependent students in 2022-23. However, the program is now serving considerably more low-income students than before. This is because students receiving tuition coverage through Cal Grants or other financial aid programs are newly eligible for MCS awards to help cover nontuition expenses under the revamped program. More than half of students offered MCS awards in 2022-23 have a household income of \$50,000 or less, and more than 80 percent have a household income of \$100,000 or less. Students with lower household incomes, however, receive smaller MCS awards on average because they tend to receive more gift aid from other programs (such as Cal Grants, Pell Grants, and institutional aid).

Current Funding Covers About One-Quarter of Full Implementation Costs. Last year, CSAC estimated it would cost \$2.6 billion to cover 100 percent of each student's remaining costs under the MCS formula. The 2022-23 Budget Act provided \$632 million ongoing General Fund to cover an estimated 24 percent of each student's remaining costs. The budget agreement also included intent to provide \$227 million one-time General Fund in 2023-24 to increase coverage to 33 percent of each student's remaining costs in that year.

Middle Class Scholarship Program

Key Information by Segment

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

Figure 5

Middle Class Scholarships Are Calculated Using Multicomponent Formula

Illustrative CSU Dependent Students Living Off Campus, 2022-23

Household Income	Example 1 \$50,000	Example 2 \$130,000
Cost of attendance	\$30,380	\$30,380
Other federal, state, and institutional gift aid ^a	-11,035	—
Student contribution from work earnings	-7,898	-7,898
33% of parent contribution from federal EFC ^b	—	-8,528
Student's Remaining Costs	\$11,447	\$13,954
Percentage based on annual appropriation ^c	26%	26%
Award Amounts	\$2,976	\$3,628

^a The amount also includes any private scholarships in excess of the sum of the student contribution and parent contribution.

^b Only applies to dependent students with a household income of more than \$100,000.

^c State law requires CSAC to determine what percentage of each student's remaining costs to cover each year based on the annual appropriation for the program. Under CSAC's most recent estimates, the program is estimated to cover 26 percent of each student's remaining costs in 2022-23.

EFC = expected family contribution and CSAC = California Student Aid Commission.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget 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. Then, consistent with last year's agreement, the Governor's budget provides \$226 million one-time General Fund to increase program funding to \$856 million in 2023-24. Based on CSAC's cost estimates, the proposed funding level would be sufficient to cover the intended 33 percent of each student's remaining costs.

Figure 7

Proposed Augmentation Would Increase MCS Average Award Notably

Key Information by Segment^a

	2021-22 Actual	2022-23 Revised ^b	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Recipients					
CSU	44,481	184,240	197,137	12,897	7%
UC	10,511	88,200	94,374	6,174	7
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CSU	\$1,654	\$2,429	\$3,083	\$654	27%
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^a Data reflect California Student Aid Commission (CSAC) estimates.

^b The Middle Class Scholarship (MCS) program was revamped beginning in 2022-23, with the new rules significantly affecting the number of eligible recipients and award amounts.

LAO ASSESSMENT AND RECOMMENDATIONS**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.

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.

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.

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.

Recommendation

If Expanding MCS Program, Adopt Ongoing Funding. As we discuss in the “Cal Grants” section of this brief, we recommend 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, we recommend 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, we recommend the Legislature reject the \$226 million in one-time MCS funding and count this toward its budget solutions in 2023-24.

STAFF COMMENT / POTENTIAL QUESTIONS

Like Cal Grant Reform, the revised Middle Class Scholarship program is a critical effort to increase access and affordability in higher education. Fully funded, MCS 2.0 will allow middle class and low-income UC and CSU students a clear pathway to a debt-free bachelor’s degree. While one-time funding is not ideal, the Governor’s Budget proposal will provide significant support for students in the 2023-24 academic year and will simply require clear messaging to students.

Staff notes that the segments and CSAC are working on proposed changes to the program to address concerns that the emergency aid or other basic needs grants require mid-year changes to students’ MCS amounts. These changes could be implemented in a trailer bill or policy bill.

Further, the Legislature should discuss a timeline to get to full funding for the program.

The Subcommittee could consider the following questions:

- Is there an updated cost of full implementation for this program? Given that the proposed funding level for 2023-24 would support about one-third of students' total cost of attendance, how much funding would be required to get to covering half of students' total costs?
- Are the segments confident students will receive MCS earlier in the academic year in 2023-24, compared to the current year? What is the goal for payment?
- How can we change the program to ensure that students don't face a change in MCS payment mid-year?
- How can CSAC and the segments work together to ensure that students understand that some increases in their 2023-24 MCS support may be lower in 2024-25, if one-time funding is not extended?

ISSUE 4: GOLDEN STATE EDUCATION AND TRAINING GRANTS

The Subcommittee will review the Golden State Education and Training Grant program and discuss the Governor's Budget proposal to delay a majority of the program's funding.

PANEL

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

BACKGROUND

State Created New CSAC Program to Help Workers Displaced by Pandemic. The 2021 Budget Act created the Golden State Education and Training Grant program, which was proposed by the Administration in the May Revise. 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 providers, as long the providers are eligible for federal workforce funding and they demonstrate that the majority of training participants have obtained living-wage employment within one year of program completion.

The state 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 2022-23 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 2023-24 BUDGET PROPOSAL

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.

LAO ASSESSMENT AND RECOMMENDATION**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.

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.)

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).

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.

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.

Recommendation

As Budget Solution, Recommend Discontinuing Program and Removing Remaining Funds. Given the above considerations, we recommend 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, we estimate 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.

STAFF COMMENT / POTENTIAL QUESTIONS

Given the historically low state unemployment rates and the waning of COVID-19 as a job threat for most Californians, staff concurs with the LAO that the rationale for this program is now questionable. The Subcommittee may wish to repurpose this program or consider whether there are other uses for the available one-time funding that would provide better support to college students.

The Subcommittee may wish to consider the following questions:

- Does CSAC have any updates on number of recipients and costs incurred?
- How does this program interact with other financial aid or workforce training programs? How many students who have received a grant through this program also receive other financial aid?
- Where are the students who receive this grant going for education or training?

- Do CSAC or the Administration have responses to the concern that there may not be many workers displaced by COVID-19 going forward? How could the program be repurposed?
- If this program were discontinued, could remaining funding be used in the budget year for other purposes?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 5: CSAC OPERATIONS

The Subcommittee will discuss CSAC's operations and discuss the Governor's Budget proposals to add three positions to CSAC to address human resources and cybersecurity issues, to provide one-time funds for cybersecurity issues, to provide \$120,000 in ongoing General Fund to support CSAC in efforts to develop outreach materials for high schools, and to possibly turn one-time funding for Cal Grant Reform into ongoing support.

PANEL

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

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.

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.

GOVERNOR'S 2023-24 BUDGET PROPOSALS

The Governor's Budget proposes the following augmentations to CSAC operations:

- \$121,000 ongoing General Fund for one Associate Personnel Analyst position. The position would support recruitment, hiring, onboarding, and other human resources activities.
- \$469,000 ongoing General Fund and \$962,000 one-time General Fund to improve cybersecurity at CSAC. The ongoing funds are primarily for two Information Technology Specialist positions. The one-time funds are primarily for consulting services to assess CSAC's information technology systems for cybersecurity risks

and develop a roadmap to address those risks. In addition, some ongoing and one-time funds would go toward security software and training.

- \$120,000 ongoing General Fund to CSAC to distribute toolkits to high schools to support them in fulfilling the new requirement that school districts 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. 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.
- The state provided CSAC with \$500,000 one-time General Fund in 2022-23 to begin implementing Cal Grant Reform. 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.

LAO RECOMMENDATIONS

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. We recommend approving the position.

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. We recommend approving all components of the proposal.

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, we recommend 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.

Align Administrative Funding for CSAC With Program Expansions. The Legislature faces key decisions about whether and how to proceed with financial aid program expansions in the near term. These decisions will in turn impact CSAC's administrative workload. For example, if the Legislature decides to proceed with Cal Grant reform, then ongoing administrative funding for CSAC to implement the larger program could be warranted. On the other hand, if it decides not to proceed with Cal Grant reform given the state budget condition, then ongoing administrative funding would not be needed. We recommend withholding action on administrative funding for CSAC to implement financial aid expansions until later in the budget process, when decisions have been made about which, if any, expansions to pursue. At that time, the Legislature could align any administrative funding for CSAC with those program expansion decisions.

STAFF COMMENT / POTENTIAL QUESTIONS

Staff concurs with the LAO recommendation regarding the human resources position and cybersecurity funding. Regarding the high school toolkits, given the low cost and new program impacting every high school in the state, it would seem this program could be beneficial. The Subcommittee may wish to seek further information, such as how the toolkits would be distributed, and what information they could provide that is not already provided to schools.

Additionally, staff notes that CSAC requested significantly more funding and position authority than was approved by the Department of Finance. CSAC requested 17 positions beyond what was approved, which includes the conversion of 12 limited-term positions to full-time permanent and establishment of 5 new full-time positions. CSAC notes there has been an 85% increase in the number of Cal Grants awarded annually over the past 10 years, but staffing resources have only grown by 37 positions (34%).

Finally, CSAC has also sought specific ongoing funding (\$250,000) to support its bi-annual student survey, which it uses to develop total cost of attendance information. The

survey could become ever-more important to the state as it fully implements the Middle Class Scholarship program, which is based on students' total cost of attendance.

The Subcommittee could consider the following questions:

- Can CSAC describe the toolkits it would prepare for high schools under the Governor's Budget proposal? Is this information already provided in some other format?
- What areas of its operations does CSAC feel are under-resourced? What impact does that have on students or segments?
- How has CSAC supported its student survey in the past without specific state funding?

Staff Recommendation: Hold open until after the May Revision.
