Summary

**Brief Covers Student Financial Aid Proposals at Three Departments.** This brief analyzes the Governor’s General Fund budget proposals related to student financial aid at the California Student Aid Commission (CSAC), the Scholarshare Investment Board (SIB), and the Department of Financial Protection and Innovation (DFPI).

**Governor’s CSAC Proposals Are Warranted to Implement Program Expansions.** The 2021-22 budget enacted several CSAC program expansions—including an expansion of Cal Grant eligibility for community college students, a revamp of the Middle Class Scholarship program, multiple one-time initiatives, and a new requirement for school districts to verify that high school seniors apply for financial aid. The Governor’s budget includes $479,000 ongoing and five positions for CSAC to implement these program expansions. Given the number, magnitude, and complexity of the expansions, we recommend approving the five positions at minimum. Beyond the five positions, the Legislature may wish to work with the administration and CSAC to determine if additional staffing is warranted. The Governor also proposes $500,000 one time to expand CSAC’s Cash for College program to support the implementation of the new financial aid application requirement. We recommend approving the one-time funds and adding a reporting requirement to inform future decisions about the program’s ongoing funding level.

**Some of Governor’s SIB Proposals Are Justified, While Others Could be Strengthened.** The 2021-22 budget expanded SIB’s California Kids Investment and Development Savings (CalKIDS) program to provide college savings accounts to low-income public school students (in addition to all newborns). The Governor’s budget includes $238,000 ongoing and two positions for SIB to administer the expanded CalKIDS program. We recommend approving both positions based on the increased workload. The Governor also proposes three initiatives totaling $5.4 million ongoing and $4.6 million one time to support CalKIDS participant financial literacy, participant notifications, and a marketing campaign. We recommend consolidating these three similar proposals into one outreach initiative to provide a more coordinated message to participants and potentially reduce overall costs. We further recommend withholding action on the financial literacy component and requesting the administration provide more detail on the proposed activities and associated cost.

**DFPI Student Loan Proposal Raises a Few Key Issues to Consider.** The Governor’s budget includes $10 million one time to DFPI for student loan borrower outreach. The administration intends to submit a more detailed proposal in the spring. Upon receiving the full proposal, the Legislature could consider whether the proposed activities would address gaps in existing student loan resources, target borrowers facing greater repayment challenges, and be appropriate for one-time funding.
INTRODUCTION

This brief is organized around the Governor’s 2022-23 budget proposals related to student financial aid. The brief has three sections. The sections are focused on the financial aid programs administered by the California Student Aid Commission (CSAC), the Scholarshare Investment Board (SIB), and the Department of Financial Protection and Innovation (DFPI), respectively.

CALIFORNIA STUDENT AID COMMISSION

In this section, we cover the Governor’s budget proposals for CSAC. We begin with an overview of CSAC’s budget. Next, we provide updates on cost estimates for the Cal Grant and Middle Class Scholarship programs. We then analyze the Governor’s proposals to provide CSAC with new staff positions, expand the Cash for College program, and modify the Dreamer Service Incentive Grant program.

OVERVIEW

Below, we describe the major financial aid programs administered by CSAC, recap the key changes to CSAC’s programs under the 2021-22 budget, and provide an overview of the Governor’s 2022-23 budget for CSAC.

Major Programs

Cal Grants Are the State’s Largest Financial Aid Program. There are three types of Cal Grant awards—Cal Grant A, B, and C. As Figure 1 shows, the award types vary in the amount of tuition and nontuition coverage they provide. Cal Grant A covers full systemwide tuition and fees at public universities and a fixed amount of tuition at private universities. Cal Grant B, in most cases, provides the same amount of tuition coverage as Cal Grant A, 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 three Cal Grant award types, a supplemental award providing additional nontuition coverage is available to students with dependent children, as well as current and former foster youth.

| Cal Grant Amounts Vary by Award Type and Sector |
| Maximum Annual Award Amount, 2021-22 |
|                                | Amount  |
| Tuition Coverage               |         |
| Cal Grant A and B              |         |
| UC                             | $12,570 |
| Nonprofit institutions         | 9,220   |
| WASC-accredited for-profit institutions | 8,056   |
| CSU                            | 5,742   |
| Other for-profit institutions  | 4,000   |
| Cal Grant C                    |         |
| Private institutions           | $2,462  |
| Nontuition Coverage            |         |
| Cal Grant A                    |         |
| UC, CSU, and CCC students with dependent children | $6,000  |
| UC, CSU, and CCC foster youth  | 6,000   |
| Cal Grant B                    |         |
| UC, CSU, and CCC students with dependent children | $6,000  |
| UC, CSU, and CCC foster youth  | 6,000   |
| All other students             | 1,648   |
| Cal Grant C                    |         |
| CCC students with dependent children | $4,000  |
| CCC foster youth               | 4,000   |
| All other CCC students         | 1,094   |
| Private institution students   | 547     |

* Cal Grant B recipients generally do not receive tuition coverage in their first year.

WASC = Western Association of Schools and Colleges.
**Cal Grants Have Financial and Other Eligibility Criteria.** To qualify for Cal Grants, students must meet certain income and asset criteria, which vary by family size and are adjusted annually for inflation. For example, in the 2021-22 award year, a dependent student from a family of four must have an annual household income of under $110,400 to qualify for Cal Grant A or C, and under $58,100 to qualify for Cal Grant B. Students must also have a minimum grade point average, which ranges from 2.0 to 3.0 depending on award type. Cal Grants are provided as entitlements to recent high school graduates, transfer students under age 28, and (under a recent change described below in greater detail) community college students. The state also provides a limited number of competitive awards to other students—typically older students attending four-year universities.

**Middle Class Scholarships Are the State’s Next Largest Financial Aid Program.** The state created the Middle Class Scholarship program in 2014-15 to provide partial tuition coverage for certain California State University (CSU) and University of California (UC) students. Students qualify for the program if they have household income and assets under a specified ceiling ($191,000 in 2021-22). The maximum award under the original program is worth 40 percent of systemwide charges when combined with all other public financial aid. Awards are graduated downward as household income increases, with the minimum award set at 10 percent of systemwide charges. (Students do not receive an award if they already are receiving the same amount of tuition coverage through other financial aid programs, such as Cal Grants.) State law caps spending on the original Middle Class Scholarship program at $117 million annually and directs CSAC to prorate award amounts to remain under the cap, if needed. CSAC is prorating award amounts for the first time in 2021-22. (As described below, the program was recently revamped.)

**Recap of 2021-22 Budget Actions**

**2021-22 Budget Expanded Cal Grant Eligibility for Community College Students.** Until the 2021-22 award year, only recent high school graduates and transfer students under age 28 qualified for a Cal Grant entitlement award. The 2021-22 budget expanded entitlement awards to California Community College (CCC) students regardless of their age and time out of high school. CCC students who receive an award under this new provision will remain eligible for the award after transferring to CSU or UC, but not after transferring to a private institution. The 2021-22 budget also included various smaller Cal Grant augmentations, including a new supplemental access award for foster youth and an increase in the maximum tuition award for students attending private nonprofit institutions.

**2021-22 Budget Included Plan to Revamp Middle Class Scholarship Program.** The 2021-22 budget agreement included a $515 million augmentation beginning in 2022-23 to revamp the Middle Class Scholarship program. Whereas award amounts under the original program are based on tuition charges, award amounts under the revamped program will be based on the total cost of attendance (tuition plus living costs). As Figure 2 on the next page illustrates, calculating a student’s Middle Class Scholarship award amount has become more complex. Under the revamped program, CSAC will first take into account other available gift aid, a student contribution from part-time work earnings, and a parent contribution for dependent students with a household income of over $100,000. The then will deduct these amounts from a student’s total cost of attendance, to determine whether the student has remaining costs. CSAC will determine what percentage of each student’s remaining costs to cover each year based on the annual appropriation for the program. The revamped program is expected to serve significantly more students than the original program, primarily because students receiving tuition coverage through other programs (who do not currently receive Middle Class Scholarship awards) will begin receiving nontuition coverage.
**State Also Funded Three Major One-Time Initiatives at CSAC in 2021-22.** Specifically, the state provided $500 million to launch the Golden State Education and Training Grant Program, which supports displaced workers. Additionally, the state provided $500 million to establish the Learning-Aligned Employment Program, which provides work-study opportunities to students at CCC, CSU, and UC.

**2021-22 Trailer Legislation Created New Financial Aid Application Requirement.** Currently, just over half of high seniors attending California public schools complete a Free Application for Federal Student Aid (FAFSA) or California Dream Act Application (CADAA). The 2021-22 budget package included trailer legislation creating a new requirement beginning in 2022-23 for school districts to verify that all high school seniors complete a FAFSA or CADAA form, unless the student submits an opt-out form or receives an exemption from the district. Districts will also be required to direct students to relevant support services, including programs operated by CSAC, college readiness organizations, and immigration resource centers, among others. This requirement is expected to increase applicants for CSAC’s financial aid programs, as well as demand for CSAC’s outreach programs.

**Overview of 2022-23 Budget**

**Governor Proposes $3.9 Billion for CSAC in 2022-23.** As Figure 3 shows, CSAC funding increases $282 million (8 percent) over the revised 2021-22 level. The two main fund sources for CSAC are state General Fund and federal Temporary Assistance for Needy Families (TANF). In 2022-23, state General Fund would comprise 89 percent of CSAC funding and federal TANF would comprise 10 percent. The remainder would come from various sources, including reimbursements from other departments.

**Majority of New Spending Is Tied to Last Year’s Budget Agreement.** Figure 4 shows the ongoing and one-time spending changes proposed for CSAC. The largest ongoing change (the Middle Class Scholarship revamp) and the two largest one-time changes (continued funding for the Learning-Aligned Employment and Golden State Teacher Grant programs) all were included in the 2021-22 budget agreement. In addition to these previously planned changes, the Governor’s budget makes caseload adjustments to Cal Grants and other financial aid programs, as well as includes small augmentations related to implementing last year’s program expansions.

### New Middle Class Scholarship Formula Takes Effect in 2022-23

Reflects Illustrative CSU Dependent Student Living Off-Campus

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Example 1</th>
<th>Example 2</th>
</tr>
</thead>
<tbody>
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<td></td>
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<tr>
<td>$120,000</td>
<td></td>
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</tbody>
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**Original Program**
- Systemwide tuition and fees: $5,742
- Percentage based on household income: 40%
- Award Amount: $2,297

**Revamped Program**
- Cost of attendance: $30,000
- Other federal, state, and institutional gift aid: $-10,935
- Student contribution from work earnings: $-7,898
- 33% of parent contribution from federal EFC: $-9,570
- Student’s Remaining Costs: $11,167
- Percentage based on annual appropriation: 24%
- Award Amounts: $2,680

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a The maximum share of systemwide tuition and fees covered is set at 40 percent. In 2021-22, CSAC is prorating award amounts to stay within the program spending cap of $117 million. Students with a household income of up to $127,000 are eligible for the largest award. Students with a household income of more than $127,000 and up to $191,000 are eligible for an award amount that is graduated downward for each $1,000 increase in income.

b Under the original program, students receiving tuition coverage through Cal Grants or other financial aid do not receive a Middle Class Scholarship award.

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

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

e EFC = expected family contribution.
Below, we provide an update on cost estimates for the Cal Grant and Middle Class Scholarship programs under the Governor’s budget.

### Cal Grants

**Governor’s Budget Adjusts 2021-22 Cal Grant Spending Estimates Downward.** The revised current-year spending level is $44 million below the level enacted in the 2021-22 Budget Act. The revision reflects the most recent Cal Grant caseload estimates, which CSAC prepared in October 2021. The most notable change since budget enactment is a decrease in the estimated cost of expanding entitlement awards for CCC students, due to revised assumptions about the number of recipients. CSAC began making offers and issuing payments for these awards in late fall. As more data becomes available on paid awards, CSAC will further refine its caseload estimates. The administration, in turn, is expected to update the spending level for these and all other Cal Grant awards at the May Revision to reflect more recent program data.

### COST ESTIMATES

CSAC = California Student Aid Commission.
**Governor’s Budget Reflects Projected Increase in Cal Grant Spending in 2022-23.** From the revised 2021-22 spending level, the Governor’s budget provides a $188 million (7 percent) augmentation for Cal Grants in 2022-23 to align with projected cost increases. We summarize the projected changes by segment and award type in our Cal Grant Spending and Cal Grant Recipients tables. The most notable factor driving the cost increase in 2022-23 is the continued implementation of the CCC entitlement expansion. The cost of the CCC entitlement awards are projected to increase significantly as the first cohort of recipients (from 2021-22) renew their awards. In addition, some of these recipients are expected to transfer to CSU or UC, where award amounts are larger. Another factor contributing to the Cal Grant cost increase in 2022-23 is higher tuition award amounts at UC, where the Board of Regents has adopted a plan to raise systemwide charges for new resident undergraduates from $12,570 to $13,104 in 2022-23. As with its 2021-22 spending estimates, the administration is expected to update its 2022-23 spending projections at the May Revision to reflect more recent program data.

**Middle Class Scholarship**

**Revamped Program Is Estimated to Cost $2.6 Billion at Full Implementation.** CSAC has also updated the state’s cost estimate for the revamped Middle Class Scholarship program, using more detailed student-level data on cost of attendance and resources than was available when the 2021-22 budget was enacted. Based on the updated estimates, it would cost $2.6 billion to cover 100 percent of each student’s remaining costs after accounting for other available gift aid, a student work contribution, and any applicable parent contribution. (This estimated cost is only slightly less than the $2.8 billion that the state is projected to spend on Cal Grants in 2022-23.)

**Governor’s Budget Partially Funds Revamped Program.** In accordance with the 2021-22 budget agreement, the Governor’s budget provides an augmentation of $515 million ongoing General Fund for the revamped Middle Class Scholarship program. When combined with current funding for the original program, the augmentation brings total program funding to $632 million in 2022-23. This is enough to cover an estimated 24 percent of total program costs (with each student’s award adjusted accordingly). Our Middle Class Scholarship Program table compares projected recipients, spending, and award amounts under the revamped program in 2022-23, compared to under the original program in 2020-21 and 2021-22.

**NEW POSITIONS**

Below, we provide background on CSAC staffing, describe the Governor’s proposal to add new positions to implement program expansions, assess that proposal, and provide an associated recommendation.

**Background**

**CSAC Has About 140 Authorized Positions Across Several Divisions.** In 2021-22, CSAC has 137.5 authorized ongoing positions, as well as 2.2 temporary positions. These positions span seven divisions, the largest of which are program administration and services, information technology (IT), fiscal and administrative services, and the executive division. As of January, CSAC reports that 22.5 positions (16 percent) were vacant, with the IT division accounting for 40 percent of the vacancies. CSAC indicates the majority of its vacant positions have been unfilled for less than three months and it is actively recruiting to fill them.

**2021-22 Budget Did Not Increase Staffing to Implement Program Expansions.** Although the 2021-22 budget enacted major expansions to the Cal Grant and Middle Class Scholarship programs (described in the “Overview” section of this brief), the budget did not provide any additional funding or positions for CSAC to administer these programs. CSAC also has not yet received any funding or positions associated with the new financial aid application requirement for high school seniors, which is scheduled to take effect in 2022-23.

**CSAC Has Received Funding to Administer One-Time Initiatives.** Trailer legislation to the 2021-22 budget authorized CSAC to use between 0.5 percent to 1.5 percent of the funds allocated for its various one-time initiatives to undertake associated administrative activities. These one-time carve-outs total $7.5 million for the Golden State Teacher Grant Program, with funds
available through June 30, 2026; $5 million for the Golden State Education and Training Grant Program, with the bulk of these funds available through June 30, 2024; and $1 million for the Learning-Aligned Employment Program, with funds available through June 30, 2031. Under the Governor’s budget, CSAC would receive an additional $1.5 million in 2022-23 for administration of the Learning-Aligned Employment Program, with these funds also available through June 30, 2031. Regarding position authority, CSAC previously received four positions to administer the Golden State Teacher Grant Program when the initiative first launched in 2020-21. To date, CSAC has not received additional position authority to administer the other two initiatives. (Without additional position authority, CSAC would likely need to rely on limited-term positions or redirect some of its existing positions for these purposes until the initiatives expire.)

**Proposals**

*Governor Proposes Five Positions to Implement Program Expansions.* The Governor’s budget provides $479,000 ongoing General Fund and five positions for CSAC to implement the program expansions enacted last year. The five proposed positions consist of:

- Two program technicians for CSAC’s call center to address a higher volume of student inquiries due to the new and expanded programs.
- One associate governmental program analyst to support school districts with the new financial aid application requirement.
- One attorney to provide legal counsel related to the new and expanded programs.
- One research data specialist to support the Cradle to Career data system and other programs. (This position would be funded by $150,000 ongoing General Fund provided to CSAC in 2021-22 for the Cradle to Career data system.)

**Assessment**

*Proposed Positions Are Linked to New Workload.* Under the Governor’s budget, CSAC’s local assistance spending in 2022-23 is $1.5 billion (60 percent) higher than the level two years earlier in 2020-21. Given the magnitude of the recent augmentations, together with the number of new programs and the added complexity of some of the programs, we think staffing increases at CSAC are warranted. Moreover, the administration and CSAC have provided information about CSAC’s new workload justifying the specific positions proposed.

*CSAC Has Also Identified Further Staffing Needs.* Beyond the five positions included in the Governor’s budget, CSAC has requested 22 additional positions in 2022-23. These consist of 14 positions related to program administration and outreach, as well as 8 positions to expand support functions related to IT, government and external relations, budget, and human resources. Some of these positions could be warranted based on workload increases. The Legislature would need more information, including workload analyses, to assess how many and which additional positions to provide.

**Recommendation**

*Approve the Five Positions at Minimum.* Given the workload increases associated with recent program expansions at CSAC, we recommend approving the five positions included in the Governor’s budget. Beyond these five positions, the Legislature may wish to work with the administration and CSAC to determine if any additional staffing is needed to ensure that CSAC has the capacity to successfully implement the many new and expanded programs included in last year’s budget.

**CASH FOR COLLEGE**

Below, we provide background on the Cash for College program, describe the Governor’s proposal to provide a one-time augmentation for this program, assess that proposal, and provide an associated recommendation.
Background

Cash for College Program Assists Students With Financial Aid Applications. CSAC’s Cash for College outreach program provides workshops to help students complete their FAFSA or CADAA forms. In 2021-22, the program is providing an estimated 900 workshops across the state. The state provides $328,000 ongoing General Fund for the program. These funds are allocated to the seven regional coordinating organizations (typically nonprofit entities) that help administer the program, supporting the high schools and colleges that host the workshops.

Proposal

Governor Proposes One-Time Expansion of Cash for College Program. The Governor’s budget provides $500,000 one-time General Fund to augment the Cash for College program, bringing total program funding to $828,000 in 2022-23. The administration indicates the proposed augmentation would be allocated to the seven existing regional coordinating organizations, as well as up to 15 new organizations in areas of the state that are not currently covered by the program and have low financial aid application rates. CSAC has identified various such areas across the state, including in the Far North, North Coast, Central Valley, and Central Coast regions.

Assessment

Ongoing Demand for Cash for College Workshops Is Likely to Increase. As part of the financial aid application requirement enacted last year, districts are to direct students to relevant support services in completing their FAFSA or CADAA forms. Accordingly, student demand for Cash for College workshops is likely to increase as the new requirement takes effect in 2022-23. Given that the new requirement is ongoing, student demand for financial aid application support may remain heightened in future years. At this stage, however, there are many open questions about the implementation of the requirement—including what types of student support districts will provide, whether those activities will constitute a state-reimbursable mandate, which other entities will offer support, and what gaps in support will remain.

Recommendation

Approve Cash for College Funds and Add Reporting Requirement. Given the anticipated increase in demand for Cash for College workshops, we recommend approving the Governor’s proposal to provide additional one-time funding for this program in 2022-23—the first year of the financial aid application requirement. In the coming years, as more information becomes available on how districts are implementing this requirement, the Legislature likely will want to consider what ongoing funding level to provide for the Cash for College program. To inform future funding decisions, we recommend the Legislature add provisional language requiring CSAC to submit a report by November 1, 2023 on the Cash for College program’s activities in 2022-23. This report would include: (1) the areas of the state covered by the Cash for College program, (2) the number of workshops hosted, (3) the number of students participating in those workshops, and (4) the number of FAFSA or CADAA forms completed.

DREAMER SERVICE INCENTIVE GRANTS

Below, we provide background on the California Dreamer Service Incentive Grant (DSIG) and California Dream Loan programs, discuss the Governor’s trailer bill language proposals to increase DSIG award amounts and redirect any unexpended funds to the Dream Loan program, assess those proposals, and provide associated recommendations.

CSAC Recently Launched DSIG Program. The state created this program in the 2019-20 budget to provide additional nontuition aid to undocumented students receiving a Cal Grant B award who complete a community service requirement. After the onset of the pandemic, the state redirected program funding in 2019-20 and 2020-21 toward emergency grants for undocumented students. As a result, CSAC is implementing the program for the first time in 2021-22. The program provides awards of up to $1,500 per semester to eligible students who complete 150 hours of service (or up to $1,000 per quarter for completing 100 hours of service).
The service requirement equates to about 10 hours per week. Part-time students receive prorated award amounts, although they are required to complete the same number of service hours as full-time students. Program participation for both full- and part-time students is limited to a total of eight semesters (or 12 quarters).

**DSIG Participation Is Much Lower Than Anticipated.** State law limits participation in the program to 2,500 students at any one time—the maximum number that could receive the full award amount without exceeding the ongoing funding level of $7.5 million. In fall 2021, only about 100 students participated in the program. Of these participants, about ten were part-time students. CSAC has identified several possible explanations for the low participation rate, including the availability of higher-paying work opportunities, the availability of emergency grants during the pandemic, and pandemic-related disruptions in service opportunities.

**State Also Supports Dream Loan Program at UC and CSU.** Chapter 754 of 2014 (SB 1210, Lara) created the California Dream Loan program to provide loans to undocumented students with financial need. (Undocumented students are ineligible for federal student loans.) Under this program, UC and CSU campuses may award loans of up to $4,000 annually to eligible students. Each participating campus maintains a revolving fund for issuing loans and depositing repayments. At UC, the program is supported by a combination of General Fund (set aside from the university’s base support) and other institutional funds. At CSU, the program is primarily supported by state lottery funds. In 2020-21, about 900 UC students received Dream Loan disbursements totaling $2.8 million, and about 460 CSU students received disbursements totaling $1.5 million. The segments indicate that participation is down from previous years, possibly due to decreased living costs for students who moved home during the pandemic, as well as the availability of emergency grants.

**Proposals**

**Governor Proposes to Increase DSIG Award Amounts...** The proposed trailer bill language would increase the maximum DSIG award amount from $1,500 to $2,250 per semester (or from $1,000 to $1,500 per quarter). Under this proposal, full-time students would in effect earn $15 per hour of service—equivalent to the state minimum wage for larger employers. Part-time students would continue to receive prorated awards. In addition, the proposed language would lower the limit on program participants from 2,500 students to 1,667 students at any one time to keep program costs within the current funding level.

**...And Redirect Unspent Funds to Dream Loan Program.** The proposed trailer bill language would allow the Director of Finance to transfer any unspent funds for the DSIG program beginning in 2021-22 to UC and CSU to support the Dream Loan program. These funds would be allocated to UC and CSU based on each segment’s share of Dream Loan recipients in the most recent year for which this data is available. Based on 2020-21 data, about two-thirds of the redirected funds would go to UC.

**Assessment**

**Proposed Increase in DSIG Award Amounts Would Promote Participation.** Given that one possible reason for low participation in the DSIG program is the availability of higher-paying work opportunities, the proposed trailer bill language could make the program more attractive to potential participants. Because the increased award amounts align with the state minimum wage of $15 per hour, the program would be compensating students at an hourly rate more comparable to what they could earn elsewhere.

**Award Amounts for Part-Time Students Would Remain Low.** Under the proposed trailer bill language, a student enrolled half-time and a student enrolled three-quarters time would receive the equivalent of $7.50 per hour and $11.25 per hour of service, respectively. Given that these rates are well below the state minimum wage, they are very likely to continue discouraging program participation among part-time students. Moreover, we see no strong rationale for compensating part-time students at a lower hourly rate for their service than full-time students.
No Demonstrated Need for Additional Dream Loan Funding. At both UC and CSU, current funding for the Dream Loan program is sufficient to meet student demand. Neither segment has needed to maintain a waitlist or turn students away from the program. Moreover, both segments tend to have unspent funds in the program. This is particularly the case at UC, which had an ending balance of $12.8 million in its Dream Loan revolving fund in 2020-21—more than four times total program spending in that year.

Recommendations
Modify Proposed Increase in DSIG Award Amounts. We think the Governor’s proposed increase to the maximum award amount is a reasonable way to increase participation in an undersubscribed program. However, we recommend amending the language to remove the proration of awards for part-time students, as this would address an additional disincentive for these students to participate. With this amendment, the program would compensate both part- and full-time students at an hourly rate equivalent to the state minimum wage.

Reject Redirection of Unspent Funds to Dream Loans. Given that current funding for the Dream Loan program is sufficient to meet demand, we recommend rejecting the redirection of unspent DSIG funds to Dream Loans. Instead, the Legislature could allow unspent DSIG funds to revert to the General Fund. In future years, as more data becomes available on DSIG participation, the Legislature could revisit the ongoing funding level to align it better with demand, thus minimizing the amount of unspent DSIG funds.

Add Reporting Requirement for DSIG Program. To inform future funding decisions, we recommend further amending the proposed trailer bill language to require CSAC to submit a report annually starting November 1, 2022 on the DSIG program. At a minimum, we recommend this report include the number of program recipients and the total amount of aid provided in the previous award year, by segment. The Legislature may also wish for the report to include a list of organizations providing service opportunities under the program and the number of hours served at each organization.

SCHOLARSHARE INVESTMENT BOARD

In this section, we cover the Governor’s budget proposals for SIB. We provide background on the California Kids Investment and Development Savings (CalKIDS) program; describe the Governor’s proposals to fund program administration, marketing, and outreach; assess these proposals; and offer associated recommendations.

Background
State Created CalKIDS Program in 2019-20 to Serve All Newborns. Under the original program, the state is to open a college savings account for every newborn in California and provide a seed deposit of at least $25 in each account. The 2019-20 budget provided $25 million one-time General Fund to SIB to launch the program. This funding was deposited into the newly created CalKIDS Program Fund, from which funding is continuously appropriated. While the program was intended to serve all children born on or after July 1, 2020, the eligibility date was postponed in the 2021-22 budget to a SIB-determined date no later than July 1, 2022. The 2021-22 budget also provided $15.3 million ongoing General Fund to SIB to support deposits for future cohorts of newborns. Upon launching, the program is expected to enroll approximately 450,000 newborns annually.

2021-22 Budget Added Low-Income Public School Students to Program. The 2021-22 budget also added a new component to the CalKIDS program. Under this new component, the state is to open a college savings account for every low-income public school student (as identified under the Local Control Funding Formula) in grades 1 through 12 and provide a deposit of $500 in each account. Students qualify for an additional $500 deposit if they are foster youth and an
an additional $500 deposit if they are homeless (for a maximum deposit of $1,500). The budget provided $1.8 billion one-time federal American Rescue Plan Act funds and $92 million one-time General Fund to provide these deposits in 2021-22. Similar to the accounts for newborns, SIB anticipates opening the accounts for low-income public school students before July 1, 2022, with an associated 3.5 million students added to the CalKIDS program.

**Budget Agreement Also Added Future Cohorts of Low-Income First Graders.** The 2021-22 budget agreement also included $170 million ongoing General Fund beginning in 2022-23 to provide deposits for each incoming cohort of first graders. The Governor’s 2022-23 budget includes these funds. The eligibility criteria and award amounts will be the same as for public school students in 2021-22—meaning each low-income first grader will receive a deposit of $500, and first graders who are foster youth or homeless will receive additional $500 deposits. The state will add these deposits to the existing CalKIDS accounts of any first graders who had an account created as a newborn, and it will create new accounts for any first graders who do not already have one. Approximately 320,000 first graders annually are expected to receive these deposits.

**State Has Provided Some Resources for Program Administration.** In addition to the funding provided for the college savings accounts, the 2021-22 budget included an ongoing augmentation of $700,000 to SIB for CalKIDS administrative costs. Based on data from the administration, SIB is planning to use these funds for various expenses, including staffing and contract services. (Most notably, SIB intends to contract for the IT platform it will use to administer the program.) SIB has had one staff position partially dedicated to CalKIDS since the program was first created in 2019-20. The 2021-22 budget did not add any positions.

**Proposals**

**Governor Proposes Two Positions for Program Administration.** The Governor’s budget provides $238,000 ongoing General Fund and two positions (associate governmental program analysts) to administer the CalKIDS program. The positions would have various responsibilities, including but not limited to compiling and analyzing participant data, conducting marketing and outreach, assisting with regulations, and communicating with stakeholders.

**Governor Proposes Multiple Outreach Initiatives.** As Figure 5 shows, the Governor also has three proposals related to CalKIDS outreach. First, the Governor proposes $5 million ongoing General Fund for financial literacy outreach to inform CalKIDS participants and their families of the long-term benefits of saving for college. Second, the Governor proposes $4 million one-time General Fund in 2022-23 to notify participants in grades 1 through 12 of their CalKIDS accounts, as well as $400,000 ongoing General Fund beginning in 2023-24 to notify each incoming cohort of first graders. Third, the Governor proposes $1 million one-time General Fund in 2022-23 for a short-term marketing campaign to increase awareness of the CalKIDS program upon its launch.

**Assessment**

**Proposed Positions Are Linked to New Workload.** While the CalKIDS program was originally intended to serve newborns, the 2021-22 Budget Act significantly expanded the size and complexity of the program by adding a new component serving 3.5 million public school students, as well as an estimated 320,000 first graders annually in future years. In addition to opening accounts and providing deposits, SIB needs to oversee the accounts

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**Figure 5**

**Governor Has Three CalKIDS Outreach Proposals**

<table>
<thead>
<tr>
<th>Description</th>
<th>2022-23</th>
<th>2023-24(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant financial literacy</td>
<td>$5.0</td>
<td>$5.0</td>
</tr>
<tr>
<td>Participant notifications</td>
<td>4.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Marketing campaign</td>
<td>1.0</td>
<td>—</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$10.0</strong></td>
<td><strong>$5.4</strong></td>
</tr>
</tbody>
</table>

\(^a\) Reflects ongoing funding level.

CalKIDS = California Kids Investment and Development Savings Program.
Some Outreach Is Needed if Program Is to Meet Its Objectives. The CalKIDS program is intended to expand college access, particularly for low-income students. In order for the program to have the intended effect, participants and their families need to know about their CalKIDS account and any deposits from the state, as well as how they can contribute their own funds toward saving for college. Statute already requires SIB to provide notifications containing this information to the parents of newborns. At a minimum, the state would likely want SIB also to provide such notifications to the families of participants in grades 1 through 12 and to each new cohort of participating first graders. Additional outreach efforts, if designed well, could also have potential benefits. For example, SIB intends to use a portion of the proposed funds for a marketing campaign, potentially including television announcements, online advertisements, and social media. These channels could potentially reach some families who do not receive (or disregard) the participant notifications.

Oppportunity Exists to Better Coordinate Proposed Outreach Initiatives. The Governor’s three outreach proposals have similar purposes. The participant notifications and marketing campaign are designed to make participants aware of their accounts, while the financial literacy outreach initiative is intended to inform participants of the benefits of those accounts (for example, by introducing participating families to the concept of compound interest). Incorporating these separate components into one initiative could provide a more coordinated message to students and their families—simultaneously notifying them of their accounts and informing them of the associated benefits. A consolidated approach could also reduce duplication across initiatives, potentially leading to lower overall costs.

Funding for Certain Outreach Activities Has Not Yet Been Justified. In particular, limited justification has been provided for the financial literacy outreach funding. The administration indicates this initiative would allow SIB to produce informational materials, translate those materials into various languages, update the program website, and provide other financial literacy activities to participants and their families. However, the proposed funding level is not linked with the cost of these activities. Instead, the administration determined the proposed funding level based on the combined one-time cost of the other two initiatives (participant notifications and marketing campaign). In addition, while the proposed funding is ongoing, several of the proposed activities (including producing initial informational materials and updating the website) would be one time.

Recommendations

Approve Two Positions and Associated Funding. Given the workload increases associated with the recent expansion of the CalKIDS program, we recommend approving the two positions proposed in the Governor’s budget and the associated funding.

Modify Outreach Proposals. Rather than funding separate initiatives for financial literacy outreach, participant notification, and marketing, we recommend creating one combined initiative. Within that initiative, we recommend providing at least the proposed $4 million one time and $400,000 ongoing for participant notification, as participants and their families need a basic level of awareness of their CalKIDS accounts for the program to have its intended effect. The Legislature could also consider including the proposed $1 million one-time General Fund for a short-term marketing campaign to further increase program awareness. However, we recommend withholding action on the proposed $5 million ongoing for financial literacy outreach and requesting the administration develop a more detailed proposal. Such a proposal would identify the specific financial literacy outreach activities that would occur, the estimated cost of those activities, the duration of those costs (one time vs. ongoing), and any opportunities to coordinate or consolidate these outreach activities with the related participant notification and marketing activities.
DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

In this section, we cover the Governor’s budget proposal for student loan borrower assistance at DFPI. We first provide background on student loans, as well as DFPI’s role in assisting student loan borrowers. We then describe the Governor’s proposal to launch a related outreach initiative and provide a few issues for legislative consideration.

Background

Many Californians Have Student Loan Debt. In California, 3.9 million individuals owe a combined $145 billion in federal student loan debt. (The federal government issues the vast majority of student loans, with the remainder coming from private lenders including financial institutions.) Although the federal government suspended repayment on student loans at the onset of the pandemic in March 2020, repayments are scheduled to resume in May 2022. There are several repayment options for federal student loans—including four income-driven repayment plans in which a borrower’s monthly payment is capped at a certain percentage (between 10 percent and 20 percent) of their discretionary income, and any loan balance that remains after a set repayment period (between 20 and 25 years) is forgiven.

Borrowers Unable to Repay Loans Risk Going Into Default. If a borrower does not make payments for a certain time period (typically nine months for federal student loans), the loan goes into default. Borrowers who default on their loans can face various consequences, including collection fees, wage garnishing, reduced credit scores, and loss of access to additional student financial aid. The U.S. Department of Education reports that 7.3 percent of borrowers nationally who entered repayment on their federal student loans in 2017-18 defaulted within three years. (This rate may be artificially low, as the three-year window includes six months during which repayments were paused under the pandemic. The three-year default rate for the 2016-17 cohort was 9.7 percent.) The default rate in California is somewhat lower than the national average. Based on U.S. Department of Education data, we estimate that the three-year default rate was approximately 6 percent among borrowers in the 2017-18 cohort who attended California institutions.

Certain Groups of Borrowers Have Relatively High Default Rates. National studies have found that student loan default rates are higher for students who do not complete a college degree or certificate, compared to students who do complete. As Figure 6 shows, default rates also vary by segment of attendance, with borrowers attending community colleges and for-profit institutions more likely to default. Moreover, research has found notable demographic disparities. For example, a 2019 study from the Federal Reserve Bank of San Francisco and the San Francisco Treasurer’s Office of Financial Empowerment found that the percentage of student loan borrowers in default was nearly three times as high in Bay Area neighborhoods in the lowest income quintile (15 percent) compared to those in the highest income quintile (5.6 percent). The study further found that default rates were considerably higher in Bay Area neighborhoods with higher percentages of Black and Hispanic residents.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Community Colleges</td>
<td>13%</td>
</tr>
<tr>
<td>Private for-profit</td>
<td>9</td>
</tr>
<tr>
<td>California State University</td>
<td>3</td>
</tr>
<tr>
<td>Private nonprofit</td>
<td>3</td>
</tr>
<tr>
<td>University of California</td>
<td>2</td>
</tr>
<tr>
<td><strong>State Total</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

**DFPI Regulates Student Loan Servicers and Receives Borrower Complaints.** Broadly, DFPI provides consumer protection and oversight of financial service providers. As part of this work, DFPI regulates student loan servicers—the companies the federal government assigns to manage billing and payments on student loans. Recently, Chapter 154 of 2020 (AB 376, Stone) also created a student loan ombudsman under DFPI. The ombudsman’s duties include receiving and reviewing complaints from student loan borrowers, providing information to the public regarding borrowers’ concerns, and monitoring the development of relevant federal and state policies, among other activities.

**Students Also Receive Information on Borrowing From Various Other Sources.** The U.S. Department of Education provides mandatory entry and exit counseling to all federal student loan borrowers. These online sessions provide information on student budgets, loan terms, repayment, and default. Many colleges and universities also offer financial literacy services that cover student loans, among other topics. In addition, the state provides funding to the Bureau of Private Postsecondary Education (through the Office of Student Assistance and Relief) to offer outreach on student loans and other topics to prospective, current, and former students of private colleges and universities.

**Proposal**

**Governor Proposes Outreach Initiative to Assist Student Loan Borrowers.** The Governor’s budget provides $10 million one-time General Fund to DFPI for outreach and education to student loan borrowers. Based on a one-page description provided by the administration, the proposal is intended to help borrowers understand their loan and repayment options, as well as how to identify and report concerns with loan servicers. Potential activities include creating a statewide communications campaign, launching a new website, partnering with community-based organizations and legal aid groups, and managing incoming consumer complaints. The administration indicates this proposal is still under development and further details will be released in the spring (likely at the May Revision). At this time, there is no budget change proposal, budget bill language, or trailer bill language for the proposal.

**Issues to Consider**

**Several Key Issues for Legislature to Consider in Assessing Proposal.** If it receives the full proposal from the administration this spring, we encourage the Legislature to consider the following issues:

- **Would the Proposal Complement Existing Resources?** There are many existing sources of information on student loans and repayment. A promising proposal would identify and address gaps in these existing resources rather than duplicating them.

- **Would the Proposed Activities Be Well-Targeted?** Given that student loan default rates are disproportionately high among certain groups of borrowers, the Legislature may wish to prioritize funding for activities designed to reach these borrowers who tend to face greater challenges with repayment.

- **Are the Proposed Activities Appropriate for One-Time Funding?** Some of the potential activities included in this proposal reflect one-time expenses, such as creating communications materials or launching a website. Other activities, such as managing consumer complaints, would likely require ongoing funding to be sustained.
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This report was prepared by Lisa Qing, and reviewed by Jennifer Pacella and Anthony Simbol. The Legislative Analyst’s Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature. To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO’s website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, California 95814.