

Date of Hearing: April 8, 2021

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 756 (Nazarian) – As Amended March 25, 2021

[Note: This bill is doubled referred to the Assembly Banking and Finance Committee and will be heard by that Committee as it relates to issues under its jurisdiction.]

SUBJECT: California Kids Investment and Development Savings Program.

SUMMARY: Requires that a financial institution that conducts business in California to pay a 1% fee of the amount of each educational loan made to a private person for purposes of financing the person's education in the state. Specifies that the fee shall not apply to subsidized loans made through educational institutions. Requires that the fee paid by financial institutions be remitted to the State Treasurer for deposit into the California Kids Investment and Development Savings (KIDS) Program Fund for support of the program.

EXISTING LAW:

- 1) Establishes the Golden State Scholarshare Trust Act as California's state-sponsored college savings plan, pursuant to Section 529 of the Internal Revenue Code. Defines "qualified higher education expenses" to mean the expenses of attendance at an institution of higher education, as specified (Education Code (EC) Section 69980, et seq.).
- 2) Establishes the Scholarshare Investment Board (SIB), which consists of the Treasurer, the Director of Finance, the Executive Director of the State Board of Education, a member of the Student Aid Commission appointed by the Governor, a member of the public appointed by the Governor, a representative from a California public institution of higher education appointed by the Senate Committee on Rules, and a representative from a California independent college or university or a state-approved college, university, or vocational/technical school appointed by the Speaker of the Assembly. The Treasurer serves as chair of the Board (EC Section 69984).
- 3) Establishes the KIDS Program, administered by the SIB, to provide state funding to open college savings accounts for every low-income California child, and encourages parents to match the state's contribution (EC Section 69996, et seq.).
- 4) Establishes the Every Kid Counts (EKC) College Savings Program, administered by the California Student Aid Commission (CSAC), to provide grants of at least \$100,000 each to local governments and other entities sponsoring citywide or regional college savings account programs for families with students in grades 1 to 6 (EC Section 99100, et seq.).

The 2017-18 Budget Act appropriated \$3 million to the CSAC for this program.

FISCAL EFFECT: Unknown

COMMENTS: *Vote threshold.* This measure includes a change in statute that would result in a taxpayer paying a higher tax, as specified, and would require for passage the approval of 2/3 of the membership of each House of the Legislature.

Purpose of this measure. According to the author, “AB 756, the CalKIDS Investment Act, creates a source of ongoing revenue for our California Kids Investment and Development Savings Program (CalKIDS), signed into law in 2019.”

The author states that, “CalKIDS ensures that every child born in California has the same opportunities to access higher education or training programs. Based on national studies, more young adults would pursue a college degree knowing that the state invested on their behalf.” Further, the author contends that, “This bill is significant, not only to help fund this program, but also to ensure our vulnerable communities have access to higher education.” Additionally, the author states, “Student debt is most burdensome on our low-income students and communities, since they have to work an average of 15-20 hours a week in order to cover the net cost of their tuition fees.”

The author argues that, “The CalKIDS Investment Act serves as an investment in our most vulnerable communities to not only incentivize higher education, but to also decrease the burden of future student debt.”

This measure requires a financial institution that conducts business in California to pay a fee in the amount of 1% of the amount of each educational loan made to a private person for purposes of financing education in California. Additionally, this measure requires that the fees be remitted to the State Treasury for deposit into the California KIDS Investment and Development Savings Program.

The Golden State Scholarshare Trust. Established in 1999 and administered by the State Treasurer's Office, the Golden State Scholarshare Trust offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for college. Under this program, a participant opens an account on behalf of a designated named beneficiary. The after-tax money contributed by the participant to the account is placed in a trust, and investment earnings grow tax-deferred. The program offers federal and California income tax-free treatment for qualified withdrawals from a Scholarshare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S., including many vocational schools.

Every Kid Counts College Savings Program. The EKC Program provides grants of at least \$100,000 each to local governments and other entities sponsoring citywide or regional college savings account programs for families with students in grades 1 to 6. The 2017-18 Budget Act appropriated an initial \$3 million to the CSAC for the EKC Program.

As of March 21, 2019, CSAC awarded EKC grants to the following:

Grantee	Award Amount
City of West Sacramento	\$148,576
Corazón Healdsburg (Scopa Has A Dream, Inc.)	\$110,779
El Monte Promise Foundation (Community Partners)	\$448,044
Glendale Unified School District	\$197,915
Los Angeles Housing and Community Investment Department	\$286,583

San Francisco Kindergarten to College	\$926,892
Santa Cruz Community Ventures	\$100,000
The Oakland Promise Kindergarten to College (K2C) Program (East Bay College Fund)	\$405,038
United Way California Capital Region	\$286,172

Committee Staff understands that the CSAC is no longer accepting grant applications.

Committee comments. As currently drafted, this measure poses a 1% fee to financial institutions that conduct business in California of each educational loan made to a private person for purposes of financing the person's education in California. Committee Staff understands that the author's intent is to use this assessed fee in order to create a new on-going funding stream for the California KIDS Investment and Development Savings Program.

However, it is presently unclear whether the financial institutions will levy a fee onto the very individuals needing assistance to pay for their education; thus potentially making their total cost of attendance more expensive. Additionally, as drafted, it is unclear what, if any, penalties individuals will be charged, should they need to take out large loans. Typically, students taking out private loans in order to help pay for their college expenses tend to be poorer students; and even after drawing down on state and federal aid, need to rely on private loans in order to afford to attend college.

Moving forward, the author may wish to explore if this measure has unintended consequences of: 1) charging existing students in order to help raise money for children who may not attend college; and, 2) taking from the poor in order to assist more affluent future students. The author may also wish to specify that students needing to take out large loans (as defined) may not be assessed penalties.

Prior legislation. AB 15 (Nazarian) of 2019, which was held in the Senate Education Committee, by request of the author, automatically established a Scholashare 529 college savings account for every child born in California after January 1, 2020, subject to available funding.

SB 77 (Committee on Budget and Fiscal Review), Chapter 53, Statutes of 2019, in part, established the California KIDS Program to be administered by the SIB of the State Treasurer's Office. This program will provide state funding to open college savings accounts for eligible low-income California child born on or after July 1, 2020, and encourages parents to match the state's contribution.

SB 85 (Committee on Budget and Fiscal Review), Chapter 23, Statutes of 2017, established the EKC Act through a trailer bill to the 2017-18 Budget Act. The EKC was subsequently amended by AB 108 (Committee on Budget), Chapter 23, Statutes of 2018, to move program administration, and \$3 million in associated funding, from the SIB to CSAC.

AB 34 (Nazarian) of 2017, which was held on the Assembly Appropriations Suspense File, was similar to AB 15 (as described above).

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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