

Exhibit 13

Information/Action Item

Update on debit card issues

Background

The current trend in campus financial aid disbursement is toward using reloadable debit cards rather than paper checks. Many campuses are disbursing financial aid through debit cards to achieve cost savings and convenience. Using debit cards can greatly decrease campus postage costs, since the mailing of cards is, for the most part, a one-time expenditure and is borne by the card issuer. Subsequent disbursements are placed on the card electronically at an insignificant cost.

Using debit cards for financial aid disbursements, however, is not without some issues. Egregious fees charged by some card issuers have raised concerns in the legislature, and the general inexperience of younger students in understanding how bank cards work has led to some students incurring more fees than more experienced users.

We are also concerned that the fees students incur to use debit cards to access their Cal Grant funds effectively constitute a non-statutory reduction in the Cal Grant B access award amount. Further, in those situations in which campuses receive payments from their debit card vendors as part of their contracts, we are concerned that the debit card contracts may function as a “creative financing mechanism” that, outside of the State Budget Act, effectively converts Cal Grant funds for students into funds for campus administration. In the past, the State has appropriated additional funding to institutions expressly for financial aid administration, rather than reducing Cal Grant awards to students.

Based on these concerns, we are gathering information on how best to protect Cal Grant award payments and are considering ways to issue Cal Grant funds directly to the student. This would allow the Cal Grant Access amount to remain whole and ensure that a process is in place to pay California Dream Act awardees.

At the April 25, 2013 meeting, we provided information on some concerns involving the disbursement of Cal Grant B funds to California Dream Act students, who cannot be issued debit cards without a Social Security Number (SSN). However, based on feedback of the campuses and segmental offices we have consulted, most had a process in place to manage the disbursements to Dream Act students through their campus, district office or third party vendors, and others planned to implement such a process prior to the fall term disbursements.

Current Cal Grant Disbursement Practices

Currently, Cal Grant funds are disbursed by each participating campus. Upon certification of eligibility by the campus and approval of the Commission, the State Controller’s Office (SCO) sends funds directly to the campus via Electronic Funds

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Transfer (EFT). At tuition-charging institutions, Cal Grant tuition and fee amounts are credited by the campus directly towards any outstanding tuition or fees. Cal Grant B access payments can also be applied towards tuition under some campus policies. At community colleges, Cal Grant B Access payments and Cal Grant C Book and Supply payments are either credited toward outstanding campus charges or disbursed directly to the student. Since Cal Grant B participants at community colleges have their fees covered by the BOG (Board of Governor's) Fee Waiver, the remaining Cal Grant funds are usually disbursed directly to the student.

Options we are exploring

To explore potential ways in which we might deliver Cal Grant payments so that students would not be required to incur fees to receive Cal Grant funds, we consulted with the California Employment Development Department (EDD). EDD recently converted their system for delivering disability and unemployment benefits from paper checks to electronic debit cards. Currently, EDD issues more than \$22 billion in disability and unemployment payments through debit cards.

EDD began exploring debit cards four years prior to actual implementation. Their goal was to find a benefit disbursement method that was easier to use than a paper check, less subject to fraud, and less expensive than mailing and processing paper checks. EDD issued a Request For Proposal (RFP) and ultimately chose the Bank of America as its debit card vendor. The process took about 6 months. EDD reported that their goal was met.

We will be consulting an advisory committee of campuses, students, and other interested parties about the benefits and concerns should the Commission be able to implement a debit card disbursement system like EDD's. We are aware, for example, that although the use of debit cards by the Commission might relieve some campuses of some disbursement tasks, many campuses already have card agreements in place. Further, institutions are responsible for making final payment adjustments, including repayments and final year-end reconciliation. Thus, if a student's status changes after his or her award has been disbursed, the institution is responsible for resolving any issues with the student and ensuring the State recovers any overpayment to the student. There are no current procedures by which the student can repay the Commission for an overpayment if the Commission were to use a debit card to pay an award to the student.

We are also exploring a process of issuing checks directly to students, similar to the process by which we pay students in the Chafee Foster Youth Program. We will also be consulting the advisory committee on this option.

Staff will continue to explore the debit card options and provide an update at a future Committee and Commission meeting.

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