

Date of Hearing: May 7, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 850 (Pacheco) – As Introduced February 19, 2025

Policy Committee: Higher Education

Vote: 6 - 1

Urgency: No

State Mandated Local Program: Yes

Reimbursable: Yes

SUMMARY:

This bill prohibits an institution of higher education (IHE) from charging a higher tuition or fee or otherwise preventing a current or former student from reenrolling or registering based on whether the student has outstanding institutional debt unless it meets specified criteria.

The bill also requires the California Community Colleges (CCC) Board of Governors and the Trustees of the California State University (CSU), and requests the University of California Office of the President (UCOP), to report information regarding the amount of institutional debt at each institution, as specified, every two years, beginning January 1, 2027.

FISCAL EFFECT:

- 1) Ongoing General Fund costs of \$500,000 to the UCOP for additional staffing to conduct the new required reporting and one-time General Fund costs of \$500,000 for each UC campus to update student data systems to capture and reflect registration data. The UCOP estimates approximately \$75 million in current debt would be subject to the terms of this bill.
- 2) Ongoing General Fund costs of approximately \$600,000 for the CSU to comply with annual reporting requirements and ongoing General Fund costs of approximately \$1.4 million to the CSU campuses collectively to pay for additional staff time and information technology needs in financial aid offices at each campus. The CSU estimates approximately \$100 million in current debt would be subject to the terms of this bill.
- 3) One-time Proposition 98 General Fund costs of approximately \$1.6 million to \$2.5 million and ongoing General Fund costs of between \$5.2 million and \$8.7 million to the CCCs, collectively statewide, to develop a policy on debt collection and collect and report institutional debt data. An additional potential \$3.6 million one-time General Fund cost in total across all community college districts to facilitate a one-time exemption from an enrollment hold by updating the Student Information System to flag applicable students.
- 4) Up to \$108,000 ongoing General Fund costs to the CCC Chancellor's Office and \$22,800 one-time General Fund costs to create the report and data element on debt and issue guidance to the CCCs.

COMMENTS:

- 1) **Purpose.** According to the author:

We shouldn't let temporary financial hardships create permanent barriers to education and opportunity and jeopardize the future financial wellbeing of our students. As the cost of living continues to increase for students and families, it makes it all too easy for students to pass on pursuing a higher education or stop out; the state must act urgently to address institutional debt. AB 850 takes a balanced approach to removing educational barriers and strengthening basic consumer protections for students, while also lifting the veil on a growing shadow student debt market that more and more students are struggling with.

- 2) **Background.** According to the 2022 report, “Creditor Colleges: Canceling Debts that Surged During COVID-19 for Low-Income Students,” students incur the majority of institutional debt when unexpectedly withdrawing from a course before the end of the term, which requires their school to return federal student aid—such as a Pell Grant and federal student loans—to the federal government. The schools then charge the amount of the returned funds to the student, effectively converting federal aid to debts that students owe directly back to their school.

The pandemic resulted in widespread economic and public health related hardships, which produced a record number of students forced to withdraw from their courses unexpectedly. As a result, institutional debts increased and more than 750,000 low-income students owe more than \$390 million in debt to California public colleges. Although schools can no longer withhold transcripts to collect these debts, this debt typically prevents a student from re-enrollment and degree completion as an IHE may recover debt owed by students by barring them from re-enrolling and registering for courses. Additionally, public IHEs can offset students’ public benefits and tax refunds as a method of collecting, and all IHEs can sue students in court to collect.

Since students receive Pell Grants based on financial need, these debts almost exclusively impact low-income students. Additionally, institutional debt can also include smaller debts, such as overdue library charges, unpaid parking fees, and other administrative fees that can accumulate unknowingly by a student.

This bill places conditions on how an IHE may withhold enrollment or registration privileges from students, such as requiring that the IHE first provide a one-time exemption from such punitive actions.

Analysis Prepared by: Aaron Heredia / APPR. / (916) 319-2081