

## How Students and the State Would Benefit from the Cal Grant Equity Framework

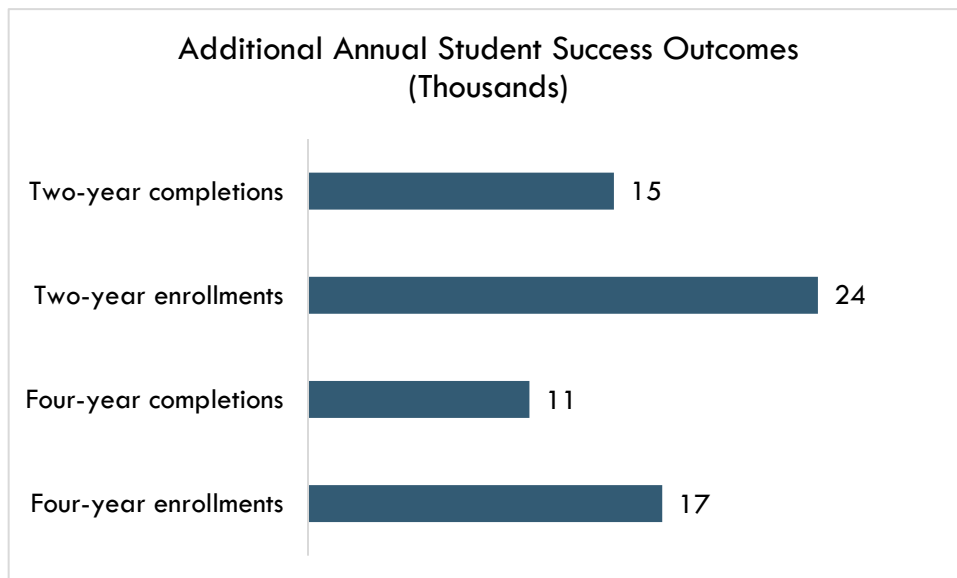
### ***The “Cal Grant Equity Framework” Expansion Proposal***

The "Cal Grant Equity Framework" (the “Equity Framework”) aims to cover more of the entire cost of attendance, including tuition and fees and other expenses such as textbooks, housing, and meals. It consolidates existing programs into two, makes benefits more predictable, and moves GPA requirements closer to alignment with the federal standard for Pell grants. The California Student Aid Commission (CSAC) estimates the annual cost of the program to be \$315 million and that it would benefit approximately 110,000 community college and 40,000 four-year students.

Our June 2022 working paper, “Projected Student Success and Economic Outcomes from the Cal Grant Equity Framework,” commissioned by Strategy Labs with support from Lumina Foundation for Education, uses CSAC’s cost and eligibility estimates as a starting point and projects the longer-term student success and economic benefits of the Cal Grant expansion based on the best academic research and empirical evidence available.

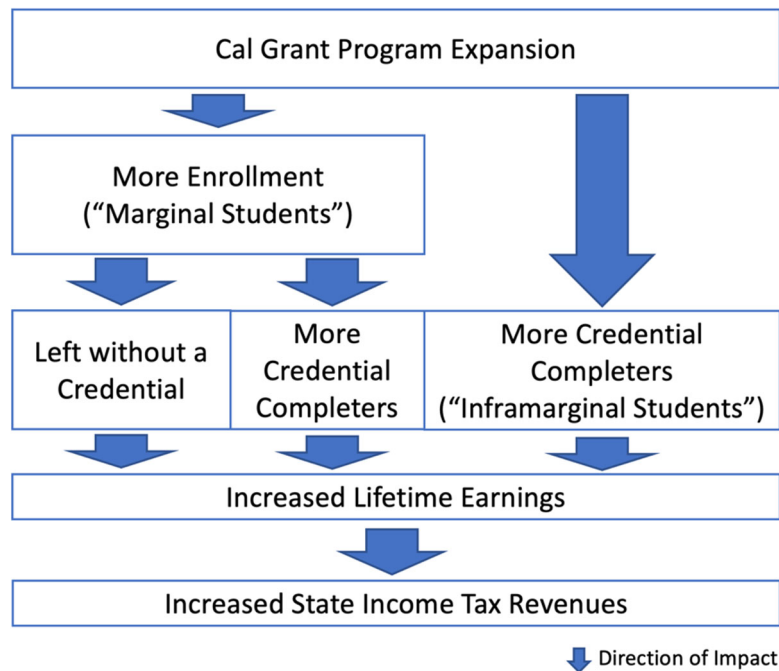
### ***Key Findings: Student Success***

We estimate approximately 41,000 additional enrollments and 25,000 completions over time as a result of each annual Equity Framework investment:



These estimates are based on the review in our white paper of a range of studies in California and elsewhere that consistently show a positive impact of financial aid for low-income students on both enrollment and completion in two- and four-year institutions. Some students who would have

enrolled anyway would not have completed without the additional aid. Other students wouldn't even have enrolled. Of the additional students who enroll, some will complete while others will leave short of a degree. On average, these are all economically positive outcomes relative to the baseline, based on studies of education wage premiums. Studies vary on the timing of the increased enrollments or completions.



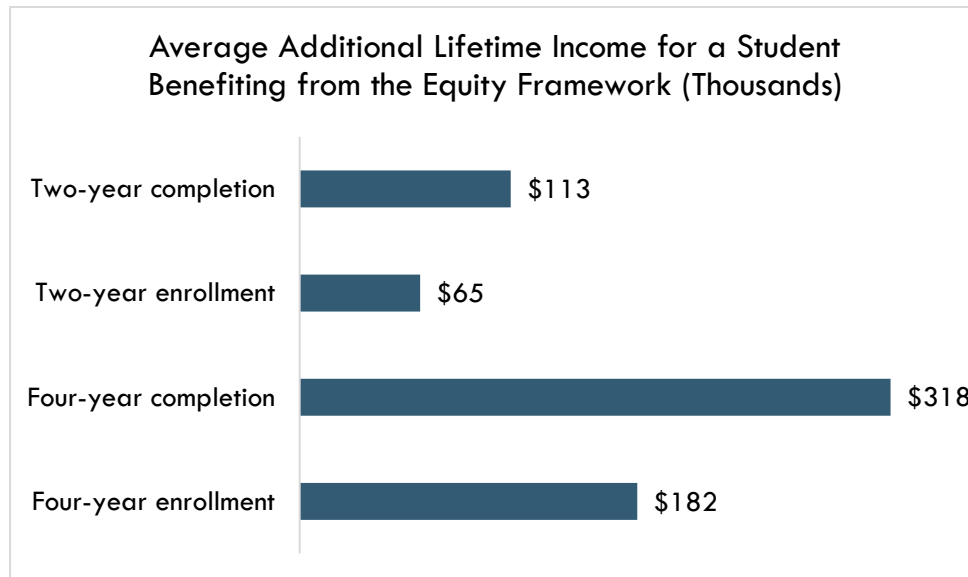
Our review of available literature found that while findings were consistently positive, there is less consistency about the magnitude of financial aid's impact. We used midpoint estimates where there were conflicting numbers in the literature. For each additional \$1K per person in available grant aid, we estimate a 4% increase in four-year enrollments, a 2.5% increase in four-year completions, a 5% increase in two-year enrollments, and a 1% increase in two-year completions. Consistent with the literature, we did not differentiate between whether the aid is for tuition or non-tuition costs, since both are part of the cost of attendance used to measure unmet need.

These estimates are most appropriate if two conditions are met: first, that the aid is intended for students who are sensitive to price (i.e., low-income) and second, that their need is not already substantially met by other programs. We believe both conditions apply in the context of the Equity Framework proposal. Despite relatively low tuition at many institutions, the high cost of living in California means even Pell-eligible students are often left with substantial unmet need.

### ***Key Findings: Student Lifetime Earnings***

The improvement in California residents' lifetime earnings from additional college enrollments and completions, is a key benefit of the Equity Framework, though not the only one. Based on the differences in income through age 64 among residents with different levels of education, we estimate the additional average lifetime income for each student whose attainment level is

increased as a result of the program, from an additional \$65K for someone who enrolls in but does not complete community college to \$318K for a four-year student who completes a degree instead of leaving without one.



In total, the increased lifetime earnings represented for all these students amounts to \$9 billion in present value for each annual cohort of students benefiting from the Equity Framework expansion.

### ***Key Findings: Tax Benefits to California***

Of the \$9 billion in additional income potentially generated for each cohort of Equity Framework students, we estimate nearly \$1 billion would return to state and local governments in the form of additional taxes. This is based on the Urban Institute Tax Policy Center's ratio of 11% in California state and local tax revenue to personal income. Some of those taxes are progressive (income tax), while others are regressive (sales tax), so the overall 11% ratio is applied regardless of students' actual future tax bracket. Overall, that represents \$3.14 eventually returned to state and local governments for every dollar CSAC estimates the program will initially cost.

### ***Other Possible Benefits***

We do not attempt to quantify the indirect benefits of increased educational attainment for California, though such benefits often follow the direct ones. Economically, higher levels of attainment have benefits not just for individuals, but for their families and communities as well. Non-economic benefits can include increased civic participation, better health, and longer lifespans. State and local governments can benefit not just from higher tax revenues, but also from lower costs of social support programs targeted at low-income residents, possibly including, eventually, the Cal Grant program itself. While harder to estimate, these indirect public and private benefits are real and likely to be substantial as well.