

**REPORT FROM**

**OFFICE OF THE CITY ADMINISTRATIVE OFFICER**

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Date: January 20, 2017

CAO File No. 0220-05337-0000  
Council File No. 16-0703  
Council District: All

To: Health, Mental Health, and Education Committee

From: Patricia J. Huber, Acting City Administrative Officer 

Subject: **CHILD SAVINGS ACCOUNT (CSA) PROGRAM IN THE CITY OF LOS ANGELES FOR LOS ANGELES UNIFIED SCHOOL DISTRICT (LAUSD) STUDENTS (C.F. 16-0703)**

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**RECOMMENDATIONS**

If the Council decides to continue exploring the implementation of a Child Savings Account program in Los Angeles, then Council should:

1. Instruct the Housing and Community Investment Department (HCID) to submit a Fiscal Year 2017-18 budget request for funds to hire a consultant to provide comprehensive analysis of the economic benefits, structure, financing, management and recommendations for implementing a pilot Child Savings Account (CSA) Program in Los Angeles; and,
2. Authorize HCID to release a Request for Proposal, subject to funding authorization, for a comprehensive analysis of the benefits, structure, financing, management and recommendations for implementing a pilot CSA Program in Los Angeles.

**SUMMARY**

On September 30, 2016, the City Council approved a Motion (Ryu – Wesson – Krekorian, et al.) relative to the feasibility of instituting a Child Savings Account (CSA) program in the City of Los Angeles for Los Angeles Unified School District (LAUSD) students. The Motion states that a number of jurisdictions have launched CSA programs intended to incentivize college or technical/trade school completion rates. According to the Motion, the growing number of CSAs in other jurisdictions illustrate that even modest asset ownership can increase financial security and that the City should explore the feasibility of establishing such a program in Los Angeles (C.F. 16-0703).

The City Administrative Officer (CAO), with the assistance of the Chief Legislative Analyst (CLA) and City Attorney, was instructed to report on the following:

- (1) The feasibility and legality of establishing a Child Savings Account Program in the City of Los Angeles;

- (2) Program background, including an assessment of the structure of programs in other jurisdictions and the positive and negative attributes of various programmatic options; and,
- (3) The preparation and release a Request for Information from interested/experienced financial institutions and interactive banking platform developers regarding scale and any matters as appropriate.

The CAO was further instructed to report, with the assistance of the Housing and Community Investment Department (HCID), on staff and resource requirements for the development of an LAUSD-wide program. (C.F. 16-0703).

As instructed, this Office, the CLA, the City Attorney, and HCID have reviewed the feasibility and legality of instituting a CSA program in the City. In addition, we have engaged in discussions with the County of Los Angeles and the LAUSD on possible roles and responsibilities of each agency and other steps necessary for the development of a CSA program. City staff have also consulted with representatives of various agencies with expertise on CSA programs, such as the Corporation for Enterprise Development (CFED), to obtain additional information on programs and services.

On June 14, 2016 the LAUSD Board of Education adopted a resolution to explore a partnership with the City of Los Angeles on a program to provide a college savings account for every District student, and for LAUSD staff to provide a progress report and recommendation on plan feasibility and planning progress in 180 days.

This report provides background information on CSAs and the efforts to establish CSAs in other jurisdictions. This report sets forth recommendations should the Council and Mayor desire to proceed in establishing a CSA program in the City.

There are currently approximately 44,000 students attending kindergarten programs in LAUSD schools within the City of Los Angeles and 55,000 students in kindergarten programs Districtwide. If the Council adopts a CSA program that provides an initial deposit of \$50 to every kindergartner in LAUSD schools (charter and non-charter) within the City of Los Angeles and a \$50 matching program for the first year, the program would cost approximately \$2.7 million in the first year. A similar program for kindergarten students Districtwide would cost an estimated \$3.4 million in the first year. These estimates exclude any costs associated with program administration.

If the program is considered to be ongoing, the deposits the City would make each year will vary based on enrollment. Assuming constant enrollment numbers for first thirteen years of a program, with the City's savings deposit staying at a flat rate of \$50 per kindergartner, by the time the initial cohort of students is preparing to graduate from high school, the City's contributions will have been \$35.1 million for students within Los Angeles and \$44.2 million for students Districtwide.

Our Office reported an expenditure deficit of up to \$80 million and a revenue risk of \$165 million for a combined potential deficit of \$245 million in Fiscal Year 2016-17 (C.F. 16-1322). In order to address the deficit and restore the Reserve Fund level, we recommended in a report dated January 6, 2017 that new and unbudgeted spending proposals be resubmitted, only if warranted,

as part of the Fiscal Year 2017-18 budget process.

In addition, the City has existing significant funding needs for critical infrastructure, such as streets, storm drains, City facilities and technology that we have not been able to fund. The CSA program represents a significant ongoing investment in a new program that will impact our ability to meet existing needs.

While the concept of a CSA program in Los Angeles may be supported by the Council, a request for resources to hire a consultant to provide a comprehensive analysis of the benefits, structure, financing, management, and recommended actions for implementing a pilot program should be considered with all other priorities and City needs, such as infrastructure, as part of the Fiscal Year 2017-18 budget process. A consultant's report would assist the City in structuring a CSA program that would have long term funding implications if implemented. This study should prioritize options for private or philanthropic funding opportunities as a means to mitigate the use of City funds.

If Council wants to move forward with a CSA program, a consultant study could explore additional options and considerations in a comprehensive report such as the operational and legal considerations required for a LAUSD-wide CSA program that includes City and non-City residents; scale of a City of Los Angeles program compared to jurisdictions that currently have a CSA program; various options for an incentive program and their additional cost; and, negative and positive attributes of various account types, financial institutions, and technology platforms for administering the program.

## **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund at this time. Should the Council decide to pursue the development of a Child Savings Account (CSA) program in Los Angeles, any associated costs for a consultant to develop a pilot program would be considered as part of the development of the 2017-18 budget. The costs for implementing a pilot and full program should be considered during future budget processes. Providing an initial deposit of \$50 to approximately 44,000 kindergarten students in Los Angeles Unified School District schools within the City and a \$50 matching program, would cost approximately \$2.7 million each year (based on constant enrollment) and \$35.1 million over the first thirteen years, while a Districtwide program for 55,000 students would cost an estimated \$3.4 million each year (based on constant enrollment) and \$44.2 million over the first thirteen years. These costs exclude program administration fees and costs. The recommendations in this report are in compliance with the City's Financial Policies in that the City will consider General Fund requests for new or expanded programs during the course of the annual budget process.

## **FINDINGS**

### **1. BENEFITS OF CSA PROGRAMS**

Child Savings Account programs involve establishing savings accounts for children with an initial “seed” deposit from a sponsor, such as a community organization, private institution, or government. While families are not obligated to contribute to CSAs, the seed amount encourages household savings by providing children with bank accounts and financial education. Some CSAs provide incentives and matching programs to encourage contributions from families, friends, philanthropic giving, and the children themselves.

Research conducted by universities, research institutes, and other entities suggest that CSAs can help expand educational and economic opportunity for low to moderate-income families and increase the likelihood of attending college. Various entities have reported on the potential benefits of providing savings accounts with subsidies to low-income individuals who may lack access to mainstream financial institutions. The Center for Social Development at Washington University in St. Louis has determined that a low to moderate-income student with a dedicated savings account for college is three times more likely to attend college and four times more likely to complete college even with relatively small amounts in the account than a low to moderate-income student without a savings account.

To the extent that CSAs increase the amount of students who enroll in and complete higher education programs, various studies have documented a positive association between earning a college degree and earnings. According to the Pew Research Center, college graduates ages 25 to 32 earn more annually – estimated at \$17,500 – than employed young adults holding only a high school diploma. In 1979, the typical high school graduate earned about 77 percent of what a college graduate made. Today, high school graduates earn 62 percent of what the typical college graduate earns. Finally, unemployment rates among individuals with a bachelor’s degree (3.8 percent) are lower than individuals who only have a high school diploma (12.2 percent).

### **2. CSA PROGRAMS IN OTHER JURISDICTIONS**

#### *County of Los Angeles*

Our Office contacted the County of Los Angeles to determine if they have implemented a CSA program. There is currently a pilot program providing cash to students that graduate from high school based on economic need, but no savings account is opened for participants. The County is considering a CSA program, possibly for Head Start participants, and eligibility would be based on economic need. While the County has not provided a timeline for when they would implement a CSA program, a consultant could provide options for how the City could leverage its CSA program with a County program for Head Start participants that may enroll in LAUSD kindergarten programs.

*Other Jurisdictions*

Below is a summary of key features of CSA programs in five jurisdictions with the potential to enroll more than 2,000 students per year. A discussion of the key features follows the Table.

**Table 1: Comparison of CSA Programs Across Jurisdictions**

	<b>Boston, MA</b>	<b>New York City, NY</b>	<b>Oakland, CA</b>	<b>San Francisco, CA</b>	<b>St. Louis, MO</b>
<b>City or County</b>	City	City*	City	City & County	City
<b>Program Coordinator</b>	Mayor's Office	Nonprofit – NYC Kids Rise	Mayor's Office	Office of Financial Empowerment (Office of the Treasurer & Tax Collector)	Treasurer's Office
<b>Year Program Started</b>	2016	2017	2016	2011	2015
<b>Public and Charter Schools</b>	X	X	X	X	X
<b>Pilot</b>	X	X	X		
<b>Enrollment per Year</b>	263 in 2016	3,500	4,600	4,500	3,100
<b>Automatic Enrollment</b>	X	X		X	X
<b>Universal**</b>	X	X	X	X	X
<b>Additional Contribution Need Based***</b>			X	X	
<b>Account Type</b>	Various	529 Plan	529 Plan	Pooled Savings	Individual
<b>Financial Institution</b>	N/A	N/A	N/A	Citibank	1 <sup>st</sup> Financial
<b>Owner of Accounts</b>	Various	?	Parents	City & County of SF	City of St. Louis
<b>Initial Seed Amount</b>	\$50	At least \$100	\$100 or \$500	\$50 or \$100	\$50
<b>Incentive Programs</b>	X	X	X	X	X
<b>City Appropriations</b>			X	X	X
<b>Private Funding</b>	X	X	X	X	X

\*The City of New York consists of five boroughs. Each borough is also a New York State county.

\*\*Universal programs indicate all kindergarten students are eligible for the program regardless of family income.

\*\*\*Oakland has an additional program that provides \$500 to seed CSA accounts for babies in Oakland, based on economic need. San Francisco provides an additional \$50 deposit to students participating in the free/reduced lunch program.

### **3. COTERMINOUS JURISDICTIONS**

The relationship between the city, county, and school district in which a CSA program is established has an impact on program implementation and administration. For example, in San Francisco, the local government is both a City and County, allowing the jurisdiction to have access to more funding sources. In addition, there is only one school district within the City and County of San Francisco. The New York Department of Education, which administers the public school system, is part of the New York City government. However, in St. Louis, the public school system is a separate entity from the City of St. Louis, which funds the program. Therefore, there is a Memorandum of Understanding between the two entities outlining the responsibilities of each jurisdiction for the program.

In contrast, approximately 44,000 kindergarten students, or 80 percent of the 55,000 LAUSD kindergarten student enrollment, are in schools located within the City of Los Angeles, while the remaining enrollment is in schools that are part of the Los Angeles County. The LAUSD includes all or portions of 26 cities and unincorporated areas of the County, including the cities of Carson, Culver City, Inglewood, Long Beach, Montebello, Monterey Park, San Fernando, Torrance, and West Hollywood. As further discussed in this report, this arrangement may pose operational and legal challenges in replicating other jurisdictions' CSA programs, depending on the source of funding for the program, such as City General Fund appropriations, County of Los Angeles appropriations, or private sources of funding from foundations, corporations or individual donations. A consultant could help outline options for how to administer a program for City and non-City residents, potential costs, and funding gaps/fundraising targets if only City General Fund appropriations are currently available to fund the program.

### **4. PROGRAM COORDINATION**

None of the school districts in each of the jurisdictions shown in Table 1 are the primary CSA program coordinators. For four of the five jurisdictions, the program coordinator is either the Mayor's Office or the Treasurer's Office. New York City is unique in that a nonprofit, NYC Kids Rise, will administer the program. The nonprofit will function independent of the City, with a full-time Executive and Board of Directors. However, the Board of Directors will have representation from City Hall and the private sector, with members such as the Commissioner of the Mayor's Office of Media and Entertainment, New York City Schools Chancellor, Deputy Mayor for Strategic Policy Initiatives, and the Executive Director of the Gray Foundation.

### **5. PARTICIPANT ELIGIBILITY**

All five of the jurisdictions in our review provide accounts to kindergarteners enrolled in their public school system and charter schools within their jurisdiction, regardless of family income. However, San Francisco provides additional funding for students receiving free or reduced-price lunches. Oakland also has an additional program providing CSA accounts for babies based on need.

In San Francisco and St. Louis, all kindergartners are automatically enrolled into the CSA

program. San Francisco began its program in 2011 as a pilot with initial schools evenly spread throughout the City, but is now implemented across the entire school district. Boston, New York City, and Oakland are implementing pilot programs with a select group of students within their respective public school systems. Boston had an open application process and selected five schools to participate in a three-year pilot program, prior to making the program universal in 2019. The schools were selected based on their commitment to the program goals, ability to deliver on the expectations of the program, and their willingness to work collaboratively with program partners. New York City will announce the selection of one of its 32 community school district to participate in a three-year pilot program. Our Office contacted the City of New York, but has not received details on the criteria for selecting pilot schools. Oakland began its CSA program with 16 public schools in 2016 and will expand to all schools in 2018. If Council decides to implement a pilot or phase in implementation of a CSA program for LAUSD, a consultant could describe the different criteria and process for selecting schools for each phase of implementation.

## **6. ACCOUNT TYPES AND FINANCIAL INSTITUTIONS**

The jurisdictions utilize a 529 Plan, a college savings plan sponsored by a state or state agency, or a custodial savings account held at a private financial institution. Generally, these accounts are designed to be used for expenses related to the acquisition of a postsecondary education. Eligible expenses include tuition and fees, books, and supplies.

The funds in State 529 Plans are invested and plans vary by state in tax benefits, deposit limits, and guidelines. The 529 Plan does not need to be from the same state as the account custodian, beneficiary, or educational institution the beneficiary attends. A social security number is required to open a 529 Plan. The New York Times reported that New York City will utilize an omnibus 529 account so that undocumented immigrants without a social security or individual taxpayer identification number can participate in the program. However, the City of New York has not responded to inquiries regarding the logistics of account administration and eventual use by student beneficiaries.

San Francisco and St. Louis utilize custodial savings accounts with private financial institutions, Citibank and First Financial Credit Union, respectively. Both cities are the custodians of the account, but family members and others may contribute to the sub-accounts for the students. Both cities do not provide individuals' social security number or tax payer identification number to the financial institutions. These jurisdictions also have the following key features for the custodial accounts:

- Participants can view matches and make deposits online (Citibank platform in San Francisco and VistaShare for St. Louis);
- If a student does not use the funds for postsecondary education, any family contributions are returned to the student;
- However, City deposits and philanthropic contributions are forfeited; and,
- If a student leaves the school district, they may still save in the account, but will not receive matches and other incentives.

In contrast to San Francisco and St. Louis, which contract with a financial institution to help administer their CSA programs, Boston does not have a contract with a financial institution. Instead, Boston uses a technology platform called InvestCloud to administer its CSA program that allows multiple accounts with various owners and financial institutions to be linked and viewed on one website. The seed amount and incentive funds contributed by the City of Boston are held in the City's bank account, but earmarked on the students' InvestCloud account until it is disbursed in the child's name directly to an institution. Families could also link their savings, checking and 529 Plan accounts with an online presence to the Boston Saves account for additional incentives from the City. Additionally, families have the option to use an individual custodial account, supported by Metro Credit Union, with Boston Educational Development Foundation as the custodian for the benefit of a specific child.

Because geography and characteristics among families participating in other jurisdictions' CSA programs (i.e. access to bank accounts or not) appear to dictate the type of account, financial institution, and technology platform utilized, a consultant could help the City determine key constraints in the City of Los Angeles and features of a CSA program to address those constraints. For example, more than half of the families that would participate in Boston's fully implemented CSA program already have financial accounts, so Boston chose to utilize a technology platform instead of contracting with a financial institution. In San Francisco and St. Louis, having various options for families to deposit funds into the CSA account, such as online, mailing, or through affiliated banks, was important in developing the program with a financial institution.

## **7. INITIAL SEED AMOUNTS AND INCENTIVES**

All of the jurisdictions contributed at least \$50 in each of the kindergartners' accounts at opening. Oakland provides \$500 for babies participating in its need based CSA program. Incentive programs to encourage families to save and/or students to do well in school varied across jurisdictions. Incentives include deposits into the accounts to match family contributions within a certain period and/or up to a certain amount, and rewards for school attendance or performance. For example, St. Louis provides a \$1 per week during the school year to a student attending school and arriving on time for each day of school in session that week, deposits a dollar-for-dollar match, up to \$100 during the first year of the student's participation in the program, and \$50 if parents and guardians complete financial education courses. Boston is considering providing \$5 for every net increase of \$25 in the families' accounts linked to their program over 90 days, a potential for the family to earn \$20 per year if their accounts grow by \$25 each quarter. Given the range of incentive programs available, potential participation rates, and the costs associated with them, a consultant could help the City identify the pros and cons of each option, as well as additional program costs.

## **8. FUNDING SOURCES**

Oakland, San Francisco, and St. Louis all use City appropriations to fund their CSA programs, combined with private contributions from foundations, corporations and individuals. St. Louis uses



parking fees and fines collected by the Treasurer's Office to fund the CSA program. Boston and New York City's pilot CSA programs are not funded with City appropriations. Boston's funding comes from a grant from the National League of Cities, the EOS Foundation and other private sources. The Gray Foundation donated \$10 million for New York City's pilot CSA program.

## **9. CITY OF LOS ANGELES CSA PROGRAM**

### Legal Considerations

As previously stated, the funding source for a City of Los Angeles CSA program may pose operational and legal challenges in implementing a LAUSD wide program because both City and non-City residents attend the schools. There may be significant legal issues that arise if Council decides it wants to use City funds to benefit non-City residents. Alternative funding sources may be used to fund accounts for non-City residents such as private contributions from foundations, corporations and individuals; funding from LAUSD; or funding from the County of Los Angeles.

As of today, the LAUSD has not provided data on the number of non-City residents who may participate in a CSA program. Non-City residents are able to attend charter and other schools within the City of Los Angeles. However, the LAUSD reported that they will provide additional enrollment data on residency. The LAUSD provided data on Districtwide enrollment and enrollment in schools within the City of Los Angeles. While this report provides initial estimates on program costs based on the data LAUSD provided to date, the Council should have information on enrollment of City of Los Angeles residents and non-City residents to have a better understanding of potential program costs and legal considerations. The proposed consultant study could analyze additional data from LAUSD and help determine the cost, funding gaps, and fundraising strategy for implementing a Districtwide CSA program, as well as contingencies for when private contributions are insufficient to fund the program.

### Estimated Program Costs

Kindergarten enrollment in LAUSD (non-charter and charter school combined) has increased each year over the last five years, with an average of 43,544 kindergartners in schools within the City of Los Angeles and 54,665 Districtwide. Assuming an initial seed deposit of \$50, a CSA program for all kindergartners attending schools within the City would cost approximately \$2,177,220 annually, while a Districtwide program would cost \$2,733,230 annually. These costs exclude any costs related to program administration.

If the City funds a savings match program for the first \$50 saved by the student and their families within a year as an incentive to grow their CSA accounts, then the additional cost would be \$544,305 for kindergartners attending schools within the City and \$683,308 Districtwide. Other types of incentive programs based on economic need, school performance, or parent participation in financial education would increase costs.

**Table 2: Estimated City of Los Angeles CSA Program Costs - Kindergartners**

	City of Los Angeles	Districtwide
Average Enrollment (5 years)	43,544	54,665
Initial Deposit (\$50/student)	\$2,177,220	\$2,733,230
Savings Match (\$50 for 1 year)*	544,305	683,308
<b>Total</b>	<b>\$2,721,525</b>	<b>\$3,416,538</b>

\*Assumes 25% take-up of savings match program, and would likely increase annually.

First grade enrollment has been lower than kindergarten enrollment over the past five years. In contrast to kindergarten enrollment, first grade enrollment has been decreasing over the past four years. LAUSD noted that they will need to explore with the LAUSD Division of Instruction and Facilities Services Division’s Master Planning and Demographics unit to understand why there is higher enrollment in kindergarten than first grade. Over the past three years, the number of first graders enrolling into LAUSD for the first time ranged from 4,400 to 6,400 in a year. If first grade enrollment is a better indicator of whether the student will stay within LAUSD through high school graduation, Council may consider providing CSA accounts to first graders instead of kindergartners. Estimated costs of a CSA program targeting first graders only are presented in the table below.

**Table 2: Estimated City of Los Angeles CSA Program Costs – First Graders**

	City of Los Angeles	Districtwide
Average Enrollment (5 years)	39,982	50,210
Initial Deposit (\$50/student)	\$1,999,100	\$2,510,480
Savings Match (\$50 for 1 year)*	499,775	627,620
<b>Total</b>	<b>\$2,498,875</b>	<b>\$3,138,100</b>

\*Assumes 25% take-up of savings match program, and would likely increase annually.

Table 3 below illustrates costs associated with a pilot or phased approach to implementing a CSA program for LAUSD kindergartners, with a \$50 initial deposit and no savings match. These cost estimates do not take into consideration how the schools will be selected and whether they will be representative of the entire LAUSD district (in areas such as geographic, socioeconomic, and residency).

**Table 3: Estimated City of Los Angeles Pilot CSA Program Costs – Kindergartners**

	Year 1	Year 2	Year 3	Year 4
Percent of Enrollment	25%	50%	75%	100%
City of Los Angeles Cost	\$544,305	\$1,088,610	\$1,632,915	\$2,177,220
Districtwide Cost	\$683,308	\$1,366,615	\$2,049,923	\$2,733,230

## Next Steps

This report illustrates that CSA program structures vary across jurisdictions, typically based on the jurisdiction's program goals and resources. Other jurisdictions have reported hiring consultants to help in the development of their programs. Because of the complexities and scale of implementing a CSA program for LAUSD students, our Office recommends hiring a consultant to provide additional information and options should the Council decide to further explore a CSA program in Los Angeles. Kindergarten enrollment of City and non-City residents in LAUSD schools within the City of Los Angeles is already ten times greater than the largest program in our review, and the relationship between the City of Los Angeles, LAUSD, and the County of Los Angeles create additional operational and legal constraints in replicating other jurisdictions' programs. There are various options for incentive programs beyond the City's initial seed deposit for the CSA program, from the type of incentive, to the amount, to the timing, which would be an additional cost for the program. Finally, the appropriate type of account, financial institution, and technology platform for a City of Los Angeles CSA program would depend on an analysis of families willing to participate in the program and other key factors such as geography and access to financial institutions.

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