

**Action /Information Item**

***California Student Aid Commission***

Update on the 2007-2008 State Budget and Trailer Bills (Relative to the Sale  
of EDFUND)

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The State's 2007-08 budget was enacted on August 24, 2007. The major changes affecting the Commission are listed below.

State Operations:

- \$15.3 million for the Commission's state operations (both grant and loan programs) was shifted from the Student Loan Operating Fund (SLOF) to the General Fund.
- The Governor vetoed the \$100,000 legislative augmentation and the authority to issue awards in 2007-08 for the Public Interest Attorney Loan Repayment Program (enacted in statute in 2001 but never funded). The Legislature had approved \$100,000 in funding and one position for the purposes of administering this program and 100 new awards.

Programs (Local Assistance):

- The Governor reduced the legislature's augmentation for the California Student Opportunity and Access program (Cal SOAP) by \$2,200,000. With this reduction, Cal-SOAP was reduced from \$8,567,000 to \$6,367,000. The Governor commented that this program had not been subjected to recent cost-effectiveness analysis and the California Student Aid Commission recently approved \$2,200,000 from the SLOF for similar financial aid outreach purposes.

Sale of EDFUND

- SB 89 (Chapter 182, Statutes of 2007) outlines the process the State will follow to facilitate the sale of EDFUND in a manner that would provide the greatest benefit to the State of California.
- SB 89 also allows that, if an alternative arrangement to the sale may be financially beneficial to the State, the Department of Finance (DOF) is authorized to enter into such an arrangement.
- SB 89 requires that both the Commission and EDFUND cooperate fully with DOF to preserve the state student loan guarantee program assets.
- SB 91 (Chapter 184 Statutes of 2007) repeals the current law relating to the establishment and operation of EDFUND and the State's participation in the Federal Family Education Loan (FFEL) Program upon the sale of EDFUND.

**Recommended Action:** For information only. No action is required.

**Responsible Staff:** Robert Illa, Fiscal Officer  
Janet McDuffie, Chief Management Services  
Steve, Caldwell, Chief Governmental & Public Affairs

**California Student Aid Commission  
2007-08 State Operations Budget  
(\$ in thousands)**

**5.a**

	<b>Budget Bill SB 77 As Approved By Legislature</b>	<b>Governor Vetoed</b>	<b>Budget Act</b>
<b>Personal Services</b>	\$ 10,781	\$ -	\$ 10,781
<b>Operating Expenses</b>	\$ 4,964	\$ -	\$ 4,964
<b>TOTAL</b>	\$ 15,745	\$ -	\$ 15,745
<b><u>Funding Sources:</u></b>			
General Fund	\$ 15,449	\$ (100)	\$ 15,349
Student Loan Operating Fund	\$ -	\$ -	\$ -
Reimbursements (Child Development & Chafee)	\$ 296	\$ -	\$ 296
<b>TOTAL</b>	\$ 15,745	\$ (100)	\$ 15,645

	<b>Budget Bill SB 77 As Approved By Legislature</b>	<b>Governor Vetoed</b>	<b>Budget Act</b>
<b>Authorized Positions</b>			
<b>Permanent</b>	145.0	-1.0	144.0
<b>Temporary Help</b>	2.2	0.0	2.2
<b>TOTAL</b>	147.2	-1.0	146.2

**Governor Vetoes:**

Public Interest Attorney Loan Repayment

The Governor vetoed the \$100,000 legislative augmentation for one position to administer the Public Interest Attorney Loan Repayment Program.

**New Resources Included in Budget Act**

- \$1,167,000 and 3 new positions to implement the Phase II of the Grant Delivery System Service-Oriented Enhancements.
- \$175,000 and 2 new positions to strengthen Program Compliance Review efforts

**California Student Aid Commission**  
**2007-08 Program Budget (Local Assistance)**  
(\$ in millions)

**5.b**

<b>PROGRAM</b>	<b>Budget Bill SB 77 As Approved By Legislature</b>	<b>Governor's Veto</b>	<b>Budget Act</b>
<b>Cal Grants</b>			
Entitlement	\$ 674.6	\$ -	\$ 674.6
Competitive	126.1	-	126.1
Cal Grant C	8.4	-	8.4
Cal Grant A (Pre SB 1644)	0.1	-	0.1
Cal Grant B (Pre SB 1644)	0.1	-	0.1
<b>Subtotal Cal Grants</b>	<b>\$ 809.4</b>	<b>\$ -</b>	<b>\$ 809.4</b>
<b>Other Programs</b>			
APLE	\$ 51.7	\$ -	\$ 51.7
CAL SOAP	8.6	(2.2)	6.4
Chafee Foster Youth	13.5	-	13.5
BYRD	5.7	-	5.7
Grad APLE	0.4	-	0.4
Child Development	0.3	-	0.3
Law Enforcement	0.1	-	0.1
National Guard APLE	0.2	-	0.2
SNAPLE (no funding needed until 2007-08)	-	-	-
<b>Subtotal Other Programs</b>	<b>\$ 80.6</b>	<b>\$ (2.2)</b>	<b>\$ 78.4</b>
<b>TOTAL</b>	<b>\$ 889.9</b>	<b>\$ (2.2)</b>	<b>\$ 887.7</b>
<b>FUNDING SOURCES</b>			
<b>Cal Grants</b>			
General Fund	\$ 798.8	-	\$ 798.8
Federal Trust Fund	10.6	-	10.6
Reimbursement	-	-	-
<b>Other Programs</b>			
General Fund	\$ 61.0	(2.2)	\$ 58.8
Federal Trust Fund	-	-	-

**Budget Act of 2007**  
**Budget Trailer Bill: SB 89 - State Student Loan Guarantee Program**  
**As Chaptered on August 24, 2007**

### Summary

This law authorizes the sale, or an alternative financial arrangement to the sale, of the Student Aid Commission's loan guarantee function and nonprofit auxiliary organization, EDFUND, in order to maximize the value of the State's assets related to implementation of the Federal Family Education Loan Program. It authorizes the Director of the Department of Finance to act as the agent for the sale. The details included in the law are provided below.

### Proposed Language

This law states the intent of the Legislature to maximize the value of EDFUND's arrangement with the Commission and the Commission's participation in Federal Family Education Loan Program (FFELP) by either of the following:

- The sale of the State's interest in the Commission's student loan guarantee portfolio and certain related assets and liabilities of the state student loan guarantee program operated by the Commission, to a firm approved to act as a state student loan guarantee agency for the FFELP by the U.S. Secretary of Education.
- An arrangement for the operation of the state student loan guarantee program by an entity meeting the financial and compliance standards established for the FFELP.

### Sale of EDFUND

This law authorizes the Director of the Department of Finance (DOF) to act as an agent for the State to sell the state student loan guarantee program assets and liabilities not retained by the Commission to an entity that DOF, in consultation with the State Treasurer, determines would provide the best combination of each of the following:

- The highest price for the loan program assets and liabilities.
- The greatest security for the payment of the purchase price.
- Demonstrated competence and professional qualifications necessary for the continued satisfactory performance of student loan guarantee services.
- Approval of the U.S. Secretary of Education.
- Quality of student services offered, including, but not limited to, borrower training in budgeting and financial management, including debt management and other forms of financial literacy.
- Borrower transparency or disclosure policies for products or services or both offered to students outside of the federal student loan programs.

This law specifies a procedure by which DOF, in consultation with the State Treasurer, would establish evaluation criteria, distribute a request for qualifications to each firm acting as a state student loan

guarantee agency and any entity proposed by the Secretary of Education, and advertised in the State Contracts Register, and then based on the criteria contained in the notice establish a qualified purchasers list.

Alternative Arrangement

This law allows that if after active participation and consultation with the State Treasurer, DOF determines that an alternative arrangement to the sale of the state student loan guarantee program assets and liabilities may be financially beneficial to the State; the DOF is authorized to enter into such an arrangement. This arrangement may take any form the DOF, in consultation with the State Treasurer, deems advisable to provide the best combination of each of the following:

- The greatest value and greatest financial security for achieving value to the General Fund.
- The continued satisfactory performance of student loan guarantee services.
- The approval of the U.S. Secretary of Education.
- The quality of student services offered, including but not limited to, borrower training in budgeting and financial management, including debt management and other forms of financial literacy.
- Borrower transparency or disclosure policies for products or services, or both, offered to students outside of the federal student loan programs.

The alternate process shall include satisfaction of the established criteria consistent with achieving a combination of the greatest value to the General Fund, the continued operation of student loan guarantee services for California, and any pertinent requirements of the Secretary of Education.

This law specifies a procedure by which DOF, in consultation with the State Treasurer, would establish evaluation criteria, distribute a request for qualifications to each nonprofit entity currently acting as a state student loan guaranty agency, any entity known to the DOF to be acting as a servicing agent for a state student loan guaranty agency, and any nonprofit entity proposed by the Secretary of Education, and advertised in the State Contracts Register, and then evaluate responses using the established criteria to set up a qualified purchasers list.

Actions to be taken by the Director of Finance

This law authorizes DOF to do the following:

- To preserve the loan guarantee program assets to maximize the value of the loan guarantee program to the State;
- To engage in negotiations with, and provide information to, potential purchasers or any potential transferee guaranty program operator;
- To either consummate the sale of, and transfer, the state student loan guarantee program assets and liabilities, not retained to the Commission, to the transferee guarantee agency, or to consummate the agreement with the transferee guarantee program operator;

- To seek and negotiate with the U.S. Secretary of Education, the designation of any alternative guarantee agency for California under the FFELP or the approval of the Secretary of any transferee guaranty program operator;
- To transfer the Federal Student Loan Reserve Fund to any transferee guaranty agency consistent with the intentions of the U.S. Secretary of Education;
- To transfer any state student loan guarantee program assets in the form of cash or investments not transferred to any transferee guaranty agency or transferee guarantee program operator directly to the General Fund; and
- To retain any program assets determined by DOF to be necessary and appropriate for the Commission to carry out its mission.

#### Other DOF Requirements

This law requires DOF to deposit all proceeds of any sale or any funds achieved through any other arrangement into the General Fund.

This law authorizes and spells out the process for DOF to enter into an agreement with a firm or individual to act as an advisor to the State for the transactions. The DOF is also allowed to enter into a legal services agreement to obtain specialized legal advice for the transactions.

This law requires DOF to notify the following entities in writing:

- The Joint Legislative Budget Committee (JLBC) and the Chairpersons of the Senate and Assembly Budget Committees if DOF determines it financially beneficial to the State to proceed with a transaction other than the sale; notice must be provided no less than 30 days before consummation of the transaction, or a later date the DOF determines to be beneficial to the transaction;
- JLBC and the Secretary of State upon the consummation of the sale of the state student loan guarantee program assets to a transferee guaranty agency;
- JLBC and the Secretary of State upon consummation of the alternate transaction;
- JLBC upon DOF's determination that neither the sale nor any other transaction is anticipated to achieve the purposes of the bill; DOF must stop all activities authorized or directed to pursue upon the earlier of either 30<sup>th</sup> day following the written notice to JLBC that no sale or other transaction will be pursued, or January 10, 2009.

#### Requirements of the Commission and EDFUND

This law requires the Commission to do the following:

- Cooperate fully with DOF and to take all steps to preserve the state student loan guarantee program assets identified as necessary or convenient by DOF;
- Direct EDFUND to cooperate fully with DOF;

- EDFUND, as directed by the Commission, must cooperate fully with DOF, irrespective of the provisions of the Nonprofit Public Benefit Corporation Law.

Upon or after the operative date of the law and until the consummation of the sale or the alternate transaction, all actions, approvals, and directions of the Commission affecting the state student loan guarantee program are effective only upon the approval of DOF.

Approvals Required During Process

This law prohibits the Commission, on or after the operative date of the bill, from authorizing or approving any operating agreement with EDFUND to perform any new or additional services, except those services authorized by DOF as necessary or convenient for either the operation of EDFUND or to accomplish the goal of maximizing the value of the state student loan guarantee program assets and liabilities.

This law requires, on or after the operative date of the law, that any expenditure of funds held by EDFUND for the following purposes, including those expenditures approved by the Commission, its officers, employees, or board of directors after August 1, 2007, be approved by DOF:

- Increases in compensation or benefits for EDFUND officers, including discretionary bonuses and retention bonuses.
- Outreach programs, public awareness campaigns, or diversification of EDFUND business or data processing systems, not deemed by DOF to be necessary or convenient for either the operation of the program or to accomplish the sale or transaction of the program assets and liabilities.
- Any activities other than the following:
  - Those directly related to providing guarantees under the FFELP, not including outreach, public awareness campaigns, and diversification.
  - Those required to provide operational support services to the Commission under the operating agreement between the Commission and EDFUND, not including outreach, public awareness campaigns, and diversification.
  - Those deemed by DOF to be necessary and convenient for either the operation of the state student loan guarantee program or to accomplish the sale or transaction of the state student loan guarantee program assets and liabilities.

**Current status**

This bill was signed into law (Ch. 182) on August 24, 2007. As an urgency statute, the provisions are effective immediately.

**Governmental Affairs Staff**

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**Budget Act of 2007  
Budget Trailer Bill: SB 91 - Student Financial Aid  
As Chaptered on August 24, 2007**

This law repeals Article 2.5 (commencing with Section 69522) of the Education Code that authorizes the Commission to establish an auxiliary organization, and specifies the authority and obligations of the Commission and the board of the auxiliary organization. This repeal is effective 30 days after the Director of the Department of Finance has notified the Secretary of State and the Chair of the Joint Legislative Budget Committee that either of the following has occurred (as described under SB 89 (Ch. 182, Stat. 2007)):

- The sale of the assets to a transferee guaranty agency has been consummated, or
- The transaction with a transferee guaranty program operator has been consummated.

This law also repeals the Article 13 (commencing with Section 69760) of the Education Code that authorizes and specifies the nature of the State's participation in the Federal Family Education Loan Program. The repeal of this article is effective 30 days after the Director of the Department of Finance has notified the Secretary of State and the Chair of the Joint Legislative Budget Committee that the following has occurred (as described under SB 89 (Ch. 182, Stat. 2007)):

- The sale of the assets to a transferee guaranty agency has been consummated.

**Current status**

This bill was signed into law (Ch. 184) on August 24, 2007.

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