

Information Item

California Student Aid Commission

Budget update

Budget Overview

A high-level budget overview of the Commission's program funding and operations from 2000-01 to the present is provided in Tab 2.a. Over the last ten years the students served by the Commission has increased while the Commission has become more efficient. Chart 1 illustrates the changes from 2000-01 (the last year prior to the Cal Grant Entitlement Program) through 9 years of the Cal Grant Entitlement Program established by Senate Bill 1644.

- The number of students served through the Commission's Cal Grant and Specialized Programs has increased 120 percent over the last ten years, from 135,428 to approximately 300,000 students. During the same period, funding increased 112 percent and is now just over \$1 billion. (Chart 1)
- While the amount of funding and the number of students served has continued to increase, the Commission's baseline operations funding has remained relatively flat. (Chart 2).
- The Commission's administrative overhead reduced from 1.9 percent in 2000-01 to 1 percent in 2009-10. (Chart 3).
- While the number of authorized positions initially increased due to the enactment of the Entitlement Award program, subsequent budget reductions has limited the growth to 6 percent by 2009-10. (Chart 4)

Programs

In addition to the Cal Grant Program, the Commission currently administers 11 specialized and outreach programs. (Tab 2.b) Beginning January 2010, the Commission will begin administering a new program through an inter-agency agreement with the California Military Department. The new California National Guard Education Assistance Program provides funding for active members of the California National Guard, the State Military Reserve, or the Naval Militia.

The Commission's programs were affected by the State's fiscal crisis in both 2008-09 and 2009-10 as indicated below. Commission staff kept participating institutions apprised of the consequences of the fiscal crisis on the Commission's payments as they occurred.

2008-09

The Governor's January 2008-09 budget acknowledged a \$60 million shortfall for 2008-09 Cal Grant funding. Per the Budget Act, the Director of Finance may authorize augmentations for Cal Grant awards if needed. In a June 2009 memorandum to the Legislature, Department of Finance (DOF) authorized only \$46 million of the \$60 million 2008-09 Cal Grant funding shortfall because of the State's impending fiscal crisis. The remaining funding will be considered once the final payment reconciliations are completed for 2008-09 (which will occur in December 2009).

Commission staff recently identified approximately \$5.7 million in savings in the Assumption Program of Loans for Education (APLE). This funding was used to pay the outstanding June 2009 Cal Grant payments and reduced the 2008-09 Cal Grant shortfall. Current projections indicate an outstanding need of approximately \$7.4 million. Commission staff has notified DOF of the need for the \$7.4 million to process payments currently on hold.

The State's severe cash crisis interrupted the Commission's normal payment processing to institutions and students as noted below:

- Normally, institutions receive an advance totaling 95 percent of the institution's prior year Cal Grant payment for the corresponding term. In 2008-09, the Spring Semester term advance issued in January was decreased to 85 percent based on the State Controller's Office (SCO) recommendation.
- In February 2009, SCO implemented a 30 day delayed payment plan in an effort to preserve cash for certain required payments, stopped allowing the use of Electronic Funds Transfer (EFT), and began issuing paper warrants.
- The Cal Grant Spring Quarter advances were processed as paper warrants at the normal timeframe (March 2009); however the actual payments to institutions were delayed as a result of the SCO 30-day delayed payment process.
- SCO began issuing registered warrants (IOUs) for General Fund payments in July 2009; affecting most of the Commission's programs.
- Although funded through the Federal Trust Fund and not subject to the IOU process, the Cal-SOAP and Cash for College programs experienced delays in payments due to new processing requirements implemented by SCO.

2009-10

Despite the on-time budget and no reductions in program funding, the State's cash flow situation continued into 2009-10:

- With the SCO continuing to issue IOU's, the Cal Grant 2009-10 Fall Term advances normally issued in August were delayed based on discussions with segmental representatives. Based on the options to process IOUs or delay until cash was available, all segmental representatives chose to delay the Cal Grant Fall Term advances until SCO confirmed there would be enough cash to process.
- The Fall Term advances were processed by SCO in mid-September 2009 through the EFT process.

While there were no reductions in the 2009-10 Cal Grant Program funding in the enacted budget, the Cal Grant Program may still require a funding augmentation due to the following:

- 2009-10 High School Entitlement award offers increased 8 percent.
- The projected funding for the additional 2009-10 California State University 20 percent systemwide fee increase was not included in the Cal Grant Program funding.
- The University of California Regents may approve mid-year 2009-10 systemwide fee increases during their mid-November meeting.

The need for a 2009-10 Cal Grant funding augmentation may be offset due to students not enrolling as a result of fee increases, enrollment limits, increases in class size and cancelation of courses because of funding reductions at the public institutions.

Commission staff is monitoring the 2009-10 Cal Grant Program payment projections and will request additional funds if needed.

Operations

The February 20, 2009 State Budget included \$13 million in General Funds for the Commission's operations. On July 28, 2009 the Governor vetoed \$6.3 million from the Commission's \$13 million General Fund operating budget, of which \$4.3 million was set aside to be restored contingent upon enactment of legislation that authorized the decentralization of the Cal Grant Program and other financial aid programs as warranted. The Governor's veto language is provided below:

I am vetoing \$6,300,000 from the California Student Aid Commission, of which \$4,300,000 is set aside to be restored contingent upon enactment of legislation that authorizes the decentralization of the Cal Grant Program and other financial aid programs as warranted.

The \$2,000,000 difference represents savings that would be achieved through efficiencies resulting from the decentralization and other over-budgeting that currently exists. Under my January proposal, a proposal that was broadly supported by the higher education segments, the Student Aid Commission's intermediary role in approving awards will be largely eliminated. The proposal would establish colleges and universities as the single point of contact for most students' financial aid needs. This change would significantly reduce the Student Aid Commission's General Fund operating costs on an ongoing basis and save money at the postsecondary segments by reducing double-handling of awards between the colleges and the Commission. This action illustrates my commitment to put the students first and to improve the efficiency of state government. I look forward to working with the Legislature on legislation that will better serve our students and the higher education segments.

In an effort to address the Governor's concern, Assembly Bill (AB) 187 was enacted on November 5, 2009 with the following message from the Governor:

I am signing Assembly Bill 187 because it makes progress toward my proposal to fully decentralize Cal Grant awards. The original proposal was generally supported by all the education segments who share my belief that decentralization is a more cost effective, and efficient delivery mechanism that will better serve students by establishing college and university campuses as one-stop shops for a student's financial aid package.

This bill contains the \$4.3 million restoration of funding to the Student Aid Commission (Commission) that is sufficient to fund all of its operations and will ensure the Commission can work in good faith to implement the provisions of this bill in a timely fashion. I have recently made new appointments to the Commission that will help provide solid leadership to see that this pilot program and all of the other financial aid activities are run efficiently and effectively. If any follow up provisions are necessary to effectively establish the program, my Administration will work with the Legislature to enact clean up legislation to ensure that students are well served.

As indicated in Tab 2.c, the Commission's initial 2009-10 operations budget was approximately \$13.5 million. The Governor veto of \$6.3 million and restoration of \$4.3 million brings the Commission's 2009-10 budget to \$11.5 million, reflecting the \$2 million reduction noted in the Governor's veto message.

The Commission along with other state agencies has taken additional budget cuts as required in the control sections of the 2009 Budget Act. The known reductions to date total approximately \$1.4 million, further reducing the Commission's budget to approximately \$10 million. The three furlough days required each month account for \$1.3 million of the known reductions.

The 2009 Budget Act also includes a provision to reduce funding due to the shifting of the June 2010 payroll to the 2010-11 fiscal year. However, this approximate \$600,000 funding reduction, which has not yet been processed, will not affect operations.

Of the Commission's \$10 million budget, approximately \$447,000 is for the Federal Policy and Programs Division. Of the remaining \$9.7 million, the budget act allocates \$850,000 specifically for auditing the institutions participating in the Commission's programs.

The balance of the operations budget will be used to administer the Cal Grant, Specialized and Outreach programs. As previously noted, the \$9.7 million operations budget reflects a 1 percent administrative overhead for processing over \$1 billion in financial aid to approximately 300,000 California students.

AB 187 requires the Commission to establish a pilot Cal Grant alternative delivery system program to permit certain qualifying institutions to award Cal Grants directly to students (see Tab 4 for more information on AB 187). Before the Commission can begin to develop the pilot Cal Grant alternative delivery system, AB 187 requires the Commission to make a determination that, with the restoration of the \$4.3 million, sufficient funding exists for it to conduct its regular operations for administering the Cal Grant Program.

Commission management will need to continue the policies and operational changes implemented in 2008-09 listed below as a result of its reduced budget and reduced work days due to the three furlough days each month.

- Filling only critical vacant positions.
- Reducing non-essential employee training and travel.
- Holding meetings by teleconferences in lieu of travel.
- Issuing Compensating Time Off (CTO) in lieu of paid overtime.
- Reducing purchase orders and contracts.
- Cancelling all non critical blackberry phones.
- Reducing Call-Center Hours to decision-critical times.
- Enhancing WebGrants for Student to submit changes via internet.
- Reducing non-essential letter production and increasing the use of postcards and electronic communication with students.
- Reducing face-to-face training for institutions.
- Reducing printing and postage by providing publications on the Commission's website.
- Temporarily discontinuing Advisory Committee meetings.

Given the Commission's limited resources, Commission management identified the following priorities:

1. Maintain the current Cal Grant program now processing over 1.8 million applications and awarding 303,000 students, representing a 10 percent increase in volume. This includes the continuation of our partnerships with Cash for College and Cal SOAP projects to inform students of the Cal Grant program.
2. Maintain the current eleven distinct specialized loan forgiveness, scholarship and grant programs as required by statute and/or interagency agreements with the State Department of Education, the Department of Social Services, and the teacher and nurse education schools and groups throughout the State.
3. Implement the consultation group for Assembly Bill 187 (including the task force which will build on the Commission's existing advisory group plus the addition of technical and data staff representing the participating institutions)
4. Initiate the internal development of the feasibility study report (FSR) and the state regulation process for the implementation of Assembly Bill 187,
5. Implement the Governor's priority of establishing a new California National Guard Program in consultation with the Military Department. This new program will require the development of an internal FSR and regulations.
6. Maintain strong communications with the United States Department of Education through loan program oversight and the transition of the Federal Family Education Loan Program (EdFund) to Direct Lending.

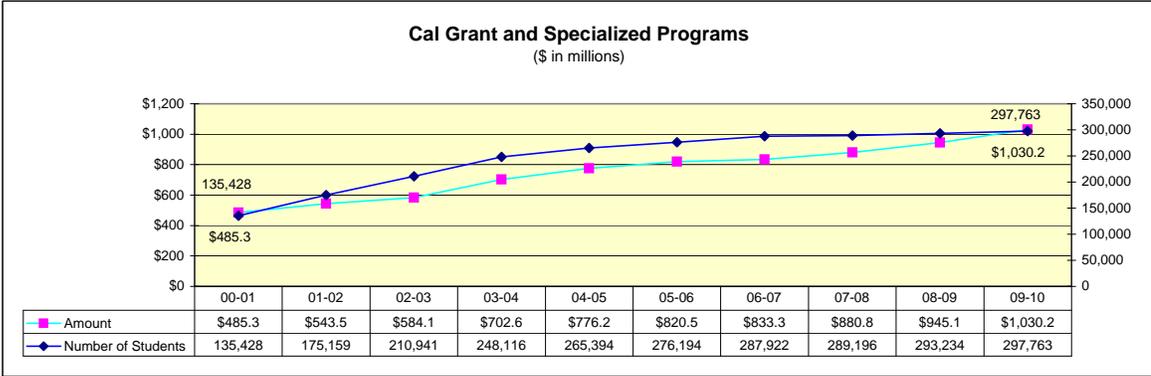
Commission management continues to monitor the consequences of the budget reductions to staff and the delivery of grants and services to students, parents, and institutions. Staff remains flexible and open to change while remaining focused on the Commission's priorities and mission.

Responsible Person(s): Janet McDuffie, Chief
Administration and External Affairs

**California Student Aid Commission
Funding History for Programs and State Operations
2000-01 through 2009-10**

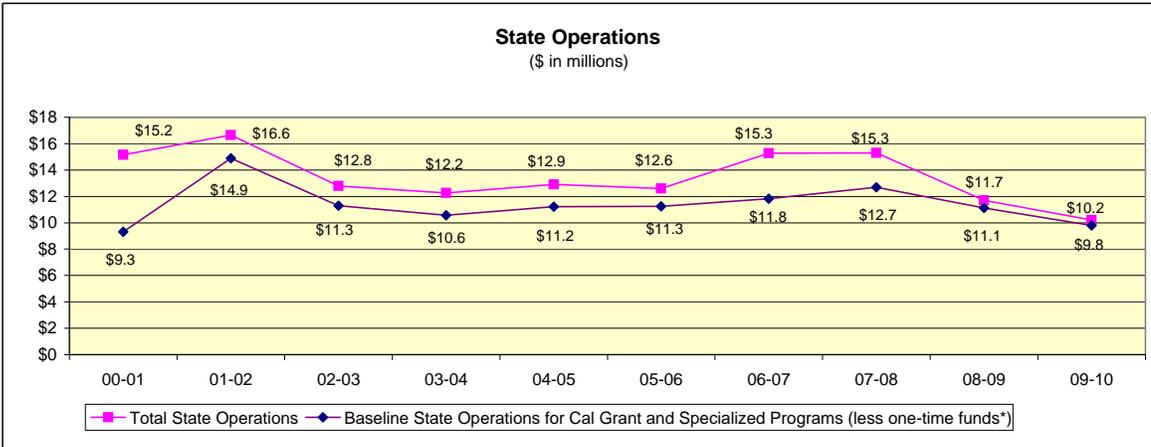
Tab 2.a

Chart 1



Percent Change from 2000-01 to 2009-10: Amount: 112% Number: 120%

Chart 2



Percent Change from 2000-01 to 2009-10: Total: -33% Baseline: 5%

Assumes enactment of AB 187 and restoration of \$4.3 million and required budget reductions.

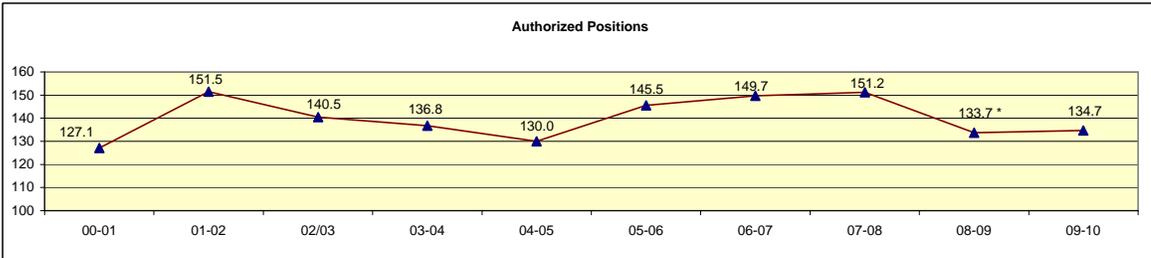
**One-time funds* include funding for the implementation of Cal Grant Entitlement Program (SB 1644), the tri-annual SEARS survey, Grant Delivery System Enhancements (including Real Time processing).

Chart 3

Administrative Overhead										
Fiscal Year	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
Overall rate	3.0%	3.0%	2.1%	1.7%	1.6%	1.5%	1.8%	1.7%	1.2%	1.0%
Baseline Cal Grant and Specialized Programs Rate (less one-time funds)	1.9%	2.7%	1.9%	1.5%	1.4%	1.4%	1.4%	1.4%	1.2%	1.0%

Percent Change from 2000-01 to 2009-10: Overall: -50% Baseline: -68%

Chart 4



Percent Change from 2000-01 to 2009-10: Number: 6%

* The reduction in positions in 2008-09 does not reflect the additional loss of 20 student assistants who were terminated on 6-30-08 due to budget reductions and Executive Order 09-08.

Footnote: 2001/02 was the first year of Cal Grant Entitlement Program.

**CALIFORNIA STUDENT AID COMMISSION
PROGRAM BUDGET
(\$ in millions)**

PROGRAM	2008-09	2009-10
Cal Grant Program		
Entitlement	\$749.2	\$822.4
Competitive	\$118.3	\$129.9
Cal Grant C	\$8.7	\$9.4
Cal Grant A (Pre SB 1644)	\$0.1	\$0.0
Cal Grant B (Pre SB 1644)	\$0.1	\$0.0
Subtotal Cal Grant Program	\$876.4	\$961.7
Other Programs		
APLE	\$40.6	\$40.5
CAL SOAP	\$7.3	\$7.3
Chafee Foster Youth	\$13.5	\$13.5
BYRD	\$5.7	\$5.7
Grad APLE	\$0.4	\$0.2
Child Development	\$0.3	\$0.3
Law Enforcement	\$0.1	\$0.1
National Guard APLE	\$0.3	\$0.3
SNAPLE - NF	\$0.2	\$0.3
SNAPLE - NSF	\$0.1	\$0.1
Cash for College	\$0.2	\$0.2
Subtotal Other Programs	\$68.7	\$68.5
TOTAL LOCAL ASSISTANCE	\$945.1	\$1,030.2

FUNDING SOURCES	2008-09	2009-10
Cal Grant Program		
General Fund	\$841.8	\$919.1
Operating Fund	\$24.0	\$32.0
Federal Trust Fund	\$10.6	\$10.6
Other Programs		
General Fund	\$41.7	\$41.5
Federal Trust Fund	\$7.5	\$7.5
Reimbursement	\$19.5	\$19.5
All Programs		
General Fund	\$883.5	\$960.6
Operating Fund	\$24.0	\$32.0
Federal Trust Fund	\$18.1	\$18.1
Reimbursement	\$19.5	\$19.5

**California Student Aid Commission
2009-10 Budget**

Budget Act plus AB 187			
	Grants, Specialized, and Outreach Programs	Federal Policy and Programs Division	Total
Budget Act (SB 1) ^{1/}	\$13,049,000	\$514,000	\$13,563,000
Revised Budget (AB 1 4th Extraordinary Session)	-6,300,000		-6,300,000
<i>Subtotal</i>	<i>6,749,000</i>	<i>514,000</i>	<i>7,263,000</i>
AB 187	4,300,000		4,300,000
<i>Subtotal</i>	<i>11,049,000</i>	<i>514,000</i>	<i>11,563,000</i>
Known Reductions ^{2/}	-1,346,431	-66,050	-1,412,481
Revised Budget	\$9,702,569	\$447,950	\$10,150,519

^{1/} Budget Act includes: General Fund:\$13,049,000, Federal Trust Fund: \$130,000, and Reimbursements:\$296,000

^{2/} Known budget reductions include: Furlough savings, Price Increase reversion and other miscellaneous benefit reductions

Additional budget reductions not yet implemented include the shifting of the June 2010 payroll to 2010-11 fiscal year.