
5.1

Action /Information Item

Fiscal Policy and Long-Range Planning Committee

Approval of the Minutes of the November 14, 2005 and January 12, 2006
Meetings

Recommended Action: The Committee is asked to approve the minutes.

**CALIFORNIA STUDENT AID COMMISSION
FISCAL POLICY AND LONG-RANGE PLANNING COMMITTEE
TELECONFERENCE MEETING**

**MINUTES
NOVEMBER 14, 2005**

A teleconference meeting of the California Student Aid Commission's Fiscal Policy and Long-Range Planning (Fiscal) Committee was convened at 8:26 a.m. on Monday, November 14, 2005 at 10811 International Drive, 2nd Floor, Headquarters Boardroom, Rancho Cordova, California.

Fiscal Committee Members Present:

Josefina Baltodano, Chair
Sally Furay
James Sandoval

Fiscal Committee Member Absent:

Adele Levine

AGENDA ITEM 1 – APPROVAL OF THE SEPTEMBER 8, 2005 MINUTES

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the minutes of the September 8, 2005 meeting were **APPROVED**.

AGENDA ITEM 2 – GUIDING PRINCIPLES FOR THE 2006-07 BUDGET DISCUSSIONS

Janet McDuffie, Chief of Management Services and Acting Chief of Federal Policy & Programs, presented the Cal Grant Program Guiding Principles for the 2006-07 Budget Discussions first.

Some discussion ensued regarding the guiding principle to support the development of a statutory formula that adjusts the maximum award amount for nonpublic postsecondary institutions and would not be subject to the annual budget process. The Committee was informed that Assemblymember Carol Liu amended Assembly Bill 358 to just include the independent proprietary students in the formula. It has been the Commission's policy to treat all students attending private institutions equally; therefore, Commission staff will be meeting with Assemblymember Liu very shortly to discuss alternative options.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Cal Grant Program Guiding Principles were **APPROVED**.

Ms. McDuffie then presented the Loan Program Guiding Principles for the 2006-07 Budget Discussions and it was noted that the principles were jointly developed by Commission and EDFUND staff.

A question was raised regarding the need for the guiding principle to maintain the Commission as the designated guaranty agency for the state of California under the Federal Family Education Loan (FFEL) Program. Staff explained that a report by the Legislative Analyst's Office (LAO) due December 31, 2005 will discuss structural options for the State in terms of participation in the FFEL Program and that this principle indicates that the Commission specifically wants to remain the designated guaranty agency.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Loan Program Guiding Principles were **APPROVED**.

AGENDA ITEM 3 – FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM PRELIMINARY 2004-05 YEAR-END FINANCIAL STATEMENTS

Ms. McDuffie presented the FFEL Program Preliminary 2004-05 Year-End Financial Statements prepared by EDFUND, and provided the following highlights in regards to the Student Loan Operating Fund:

Standard Activity

Revenues:

- The decline in loan volume directly affected the Account Maintenance and Loan Processing and Issuance Fee.
- The Default Aversion Fee was reduced to account for an appropriate allowance for reversion to the Federal Fund for defaulted loan.

Expenses:

- The \$7.9 million savings projected includes \$2.1 million in unused contingency funds, \$2.5 million in deferred New Generation Technology funding, and \$3.3 million in other savings.

Supplemental Activity

Revenues:

- VFA revenues do not include any of the projected shared claim savings as the 2004-05 amount is uncertain due to pending negotiations with USED.

Expenses:

- *Supplemental Expenses:* The minimum reserve subsidy is greater than budgeted due to the increase in defaulted loans. There is an offsetting reduction in expenditures in the borrower benefits program, *EDSHARE*.
- *Other Commission Activity:* The \$51 million appropriated by the State for the Cal Grant Program was not anticipated when the budget was approved.

Fund Balance

- The fund balance is projected to decline from \$151.5 million to \$64.8 million.

Commissioner Furay noted that in spite of the decline in loan volume, the standard operating surplus was \$3.6 million more than projected. Len Hyde, EDFUND's Vice President of Default Management, clarified that the decline is not in loan volume, but rather in the anticipated loan volume.

At 8:53 a.m., Chair Baltodano recessed into Closed Session to discuss and possibly take action on business matters of a proprietary nature.

At 10:02 a.m., Chair Baltodano reconvened the Open Session portion of the Fiscal Committee teleconference meeting and indicated there was nothing to report.

Meeting adjourned at approximately 10:09 a.m.

Josefina Baltodano
Chair

**CALIFORNIA STUDENT AID COMMISSION
FISCAL POLICY AND LONG-RANGE PLANNING COMMITTEE
TELECONFERENCE MEETING**

**MINUTES
JANUARY 12, 2006**

A teleconference meeting of the California Student Aid Commission's Fiscal Policy and Long-Range Planning (Fiscal) Committee was convened at 9:00 a.m. on Thursday, January 12, 2006 at various locations listed on the Amended Notice of Teleconference Meeting dated January 10, 2006.

Fiscal Committee Members Present:

Josefina Baltodano, Committee Chair (arrived after roll call)
Sally Furay
Adele Levine

Other Commissioners Present:

James Fousekis
James Sandoval, Commission Chair

AGENDA ITEM 1 – REVIEW OF AND POSSIBLE RESPONSE TO THE GOVERNOR'S 2006-07 BUDGET

Janet Mc Duffie, Chief Management Services Division introduced Bob Illa, Manager, Fiscal & Administrative Services Branch. Mr. Illa presented the Governor's Proposed Budget for 2006-07 as it relates to the Commission's budget. Major changes included:

State Operations:

- \$1,569,000 increase, in one-time Student Loan Operating Funds (SLOF), for the Grant Delivery System (GDS) Service-Oriented Enhancement Budget Change Proposal to modify the GDS by developing real-time processing.

Commissioner Furay expressed her objection to using the SLOF to fund this request and further objected to funding Student Aid Commission operations from the SLOF.

Commissioner Furay explained that there is so little money left in the SLOF and that there is a cash flow problem. She also wanted to know if Interim President Sam Kipp was present. Ms. Duffie indicated that Interim President Kipp was not present; however he was informed of the meeting and was provided an agenda.

- \$276,000 increase, in one-time Student Loan Operating Funds, for the 2006-07 Student Expenses and Resources Survey (SEARS).

Commissioner Furay expressed support for this request

Local Assistance:

- \$51.4 million baseline adjustment increase, which includes the restoration of the maximum award at non-public institutions from \$8,322 to \$9,708 (at a cost of \$11.9 million). Fees at the UC and CSU remain at 2005-06 levels.
- \$51 million to replace prior year's (2005-06) draw from Student Loan Operating Fund with General Fund. There is no additional draw from the Student Loan Operating Fund for Cal Grants in 2006-07.
- \$6.816 million increase to reflect additional loan assumption payments for APLE recipients.

Other Items:

- Cal SOAP (\$8.567 million) and the Commission's operations budget (\$15.4million) remain funded from the Student Loan Operating Fund in 2006-07.
- 100 new awards are authorized for the National Guard APLE program. Funding for loan assumption payments is not needed until 2007-08. Staff will seek appropriate resources for administration of the program in 2006-07.

Additional Information:

- From 2001-02 through 2004-05, the budget appropriation fully funded the Cal Grant Entitlement Program. Initial projections indicate that additional funds might be needed for 2005-06. Staff will continue to monitor the program, revise the projections as necessary, and discuss any budget adjustments with the Department of Finance. The enabling legislation for the Cal Grant Entitlement Program ensures that the program is to be fully funded and that an augmentation, if needed, can be obtained with a 30-day written notice from Department of Finance to the Legislature.

Commissioner Furay indicated that Interim EDFUND President Sam Kipp and Len Hyde, Vice President Default Management Division, are in the process of a fiscal analysis of the proposed federal changes in the student loan program and that the analysis will be needed before action is recommended. Ms. Duffie requested Commissioner Furay's assistance in expediting the analysis from EDFUND. Commissioner Furay explained that it would be difficult but she would do her best.

AGENDA ITEM 2 – UPDATE AND POSSIBLE DIRECTION ON ISSUES RELATED TO THE CALIFORNIA COMMUNITY COLLEGE TRANSFER ENTITLEMENT PROGRAM

Commissioner Sandoval explained that Commission staff will be meeting downtown today regarding Assembly Bill 840 (AB 840). AB 840 intends to "make a narrow retroactive change in current law to make it unnecessary to attempt to collect funds that have already been disbursed to students and to allow specified students who received their awards in error to complete their education according to the award commitment."

Diana Fuentes-Michel, Executive Director, explained that Commission staff worked with the Administration, the Legislative staff, Secretary of Education Alan Bersin, Department of Finance,

and Deputy Legislative Secretary Paul Narvarro to respond to questions related to the transfer entitlement issue.

Max Espinoza, Division Chief, Program Administration & Services Division explained that the Transfer Entitlement Program requires students to be a California resident at the time of high school graduation among other statutory requirements. Mr. Espinoza explained that he would outline for the Committee how the error in the program was discovered by the current management team and what the Commission staff has been doing in response to correct the error and ensure it does not happen again. Mr. Espinoza deferred to John Bays, Division Chief, Information Technology Division to explain to the Committee how the recently discovered error occurred in 2002.

Mr. Bays indicated, in 2002, Commission staff created business rules to implement the Community College Entitlement Transfer Program. The specific Entitlement Transfer business rule developed at that time by Commission staff for California residency business rule only required that a student be a resident of the State at time of application and did not require that the student also be a resident of the State of California at the time of high school graduation. The edit for this incomplete business rule was subsequently incorporated in the Grant Delivery System in 2002.

Mr. Espinoza continued the background information by describing how this issue surfaced to the current Commission management team. In preparation for the 2006-07 State Budget with the Department of Finance, Commission staff noted a dramatic growth in the Transfer Entitlement Program between the fiscal year 2004-05 and 2005-06. The growth noted was approximately 64%. In addition, Anne Robertson, Grant Operations Manager, also notified Mr. Espinoza that there may be an issue. Mr. Espinoza explained that upon notification to the Executive Director, Ms. Fuentes-Michel directed staff to further research the issue. Staff discovered, as Mr. Bays previously explained, an edit was not created to determine that students were residents of the State of California at the time of high school graduation.

After legal review and discussions with Department of Finance, it was determined that in order to stop committing the State's funds illegally, the Commission had no choice but to stop payment by communicating to the affected students that there was an issue and that the Commission would no longer continue payment until the issue was resolved. It was also important to Commission staff to allow those students affected to provide any information to clarify and correct their specific situation. A communication was also provided to the institutions to allow them to prepare for inquires from affected students.

As the process evolved, discussion with Department of Finance continued and also began with legislative staff. Legislative staff indicated a concern that these students should not be penalized for an error by the Commission and that an appropriate resolution was needed.

At the same time, Executive Director Fuentes-Michel directed staff to develop an edit to ensure the error was not repeated. Mr. Espinoza explained that this edit would involve taking information that is available on the FAFSA as well as information that is available through the GPA verification process and performing a follow-up process as needed for those students identified without sufficient information to determine eligibility.

Mr. Espinoza further explained that Executive Director Fuentes-Michel directed Commission staff responsible for communications and outreach to review and revise all publications and take immediate steps to clarify and communicate the eligibility requirements in statute to students,

counselors and outreach practitioners. She also instructed staff to review practices and policies related to verification of Cal Grant eligibility by participating institutions, including any prior guidance and recommend changes as needed to facilitate the Commission's fiduciary oversight over State Cal Grant funds.

Mr. Espinoza informed the Committee that Executive Director Fuentes-Michel noted that this may be the only issue that we have discovered at this time, but there may be others; therefore it is important that we perform a comprehensive review of all of our processes going forward, particularly given that we are five years out from the initial implementations of Senate Bill 1644.

In response to deliberations about a possible remedy for the affected students, the Administration and Legislative staff requested Commission staff to develop fiscal projections of what it would cost to keep the students affected in the program and how the Commission would verify actual enrollment and eligibility for affected students and other students going forward. Based on information available in December 2005, Commission staff initially provided projections of \$7 million to ensure payment of these students through 2007-08.

In working with the various segments, Commission staff was able to refine the projected fiscal impact to \$5.3 million, which was then provided to the Administration and Legislative staff. Mr. Espinoza explained that there have been challenges collecting enrollment data from the private institutions due to the decentralized nature of the segment and the lack of a central data collection entity. As a result, the new revised fiscal projections include a 60% enrollment rate for private institutions. Commission staff continues to work with the private institutions to gather data to confirm or refine that number, including contacting institutions by phone to verify enrollment of students.

Of the \$5.3 million, these students have received payments of \$2.7 million. As previously discussed, Commission staff will be meeting with the Assembly Higher Education Committee today to discuss AB 840. Commission staff has minor technical amendments to the proposed legislation, and have been in contact with committee staff and the author who have indicated the desire to work with Commission staff.

Executive Director Fuentes-Michel added that Commission staff has been in the process of meeting with various members of the Higher Education Committee and responding to a series of questions posed by the Higher Education Committee consultant. Currently, the Commission has not officially stated a position on AB 840 because of the timing of the issue in holding a full Commission meeting. Executive Director Fuentes-Michel indicated that Commission staff welcomes any questions at this time.

Commissioner Fousekis asked if these students eventually became California residents. Mr. Espinoza confirmed that the students self-reported being California residents at the time of application.

There was a lengthy discussion regarding the direction the Fiscal Committee should provide to Commission staff at the meetings with Legislative staff. The consensus of the Committee and Chair Sandoval was:

1. The Committee supports the proposal in AB 840 that funds already paid to these students need not be recovered.
2. The Committee supports the proposal in AB 840 that students and institutions should be held harmless for current year disbursements.

3. The Committee is currently neutral until more information is available regarding the proposal in AB 840 allowing the cohort of students affected to continue to receive payments to complete their education programs.

Meeting adjourned at approximately 10:00 a.m.

Josefina Baltodano
Chair