

**AGENDA**  
**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2**  
**ON EDUCATION FINANCE**

**Assemblymember Julia Brownley, Chair**

**WEDNESDAY, APRIL 30, 2008**  
**STATE CAPITOL, ROOM 126**  
**4:00 P.M.**

ITEM	PROPOSED CONSENT CALENDAR	PAGE
<b>6120</b>	<b>CALIFORNIA STATE LIBRARY</b>	<b>2</b>
ISSUE 1	APRIL 1 <sup>ST</sup> DEPARTMENT OF FINANCE (DOF) LETTER: AMENDMENTS TO SUPPORT BUDGET	2
ITEM	ITEMS TO BE HEARD	PAGE
<b>6120</b>	<b>CALIFORNIA STATE LIBRARY</b>	<b>4</b>
	SUSAN HILDRETH, STATE LIBRARIAN OF CALIFORNIA	
ISSUE 1	SUPPORT BUDGET	4
ISSUE 2	PUBLIC LIBRARY FOUNDATION AND OTHER LOCAL ASSISTANCE PROGRAMS	6
<b>6420</b>	<b>CALIFORNIA STUDENT AID COMMISSION</b>	<b>7</b>
	DIANA FUENTES-MICHEL, EXECUTIVE DIRECTOR, CALIFORNIA STUDENT AID COMMISSION	
ISSUE 1	SUPPORT BUDGET	7
ISSUE 2	CAL GRANT PROGRAMS	9
ISSUE 3	ASSUMPTION PROGRAM OF LOAN FOR EDUCATION (APLE)	11
ISSUE 4	CALIFORNIA STUDENT OPPORTUNITY AND ACCESS PROGRAM (CAL-SOAP)	13
ISSUE 5	STATUS REPORT ON PLANNED EDFUND SALE	14
ISSUE 6	TRANSITIONAL ISSUES RELATED TO EDFUND SALE	16

## PROPOSED CONSENT CALENDAR (VOTE ONLY)

### ITEM 6120 CALIFORNIA STATE LIBRARY

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<b>ISSUE 1: APRIL 1<sup>ST</sup> DOF LETTER</b>
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#### **Amendment to and Addition of Various Budget Bill Items, Support, California State Library**

#### **Issue 487 – Items 6120-011-0001 and 6120-011-0890, Support, Redirection of Federal Funds.**

It is requested that \$168,000 of federal funds currently budgeted for operating expenses be redirected to fund 3.0 existing positions (Library Technical Assistants) in the Braille and Talking Book Library. This action will free up base General Fund dollars currently used to support these positions, and assist the California State Library (State Library) in implementing necessary budget reductions. The State Library advises that it is able to redirect the proposed federal funds from operating expenses and equipment without any adverse impact on service delivery.

#### **Issue 489 – Items 6120-011-6029, Support, and 6120-495 New Reversion, Realign Support Funds for Administering the California Cultural and Historical Endowment.**

It is requested that Proposition 40 (the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002) support funds for administering the California Cultural and Historical Endowment be decreased by \$972,000 in fiscal year 2008-09. And that a new reversion item be added (to revert \$1,466,000 from 2003-04, \$825,000 from 2006-07, and \$842,000 from 2007-08 from 2007-08) to align funding with projected expenditures. These actions will ensure that the State Library's support appropriations to administer the endowment do not exceed the 5-percent administrative cap authorized by Proposition 40. Prior carryover authority and baseline appropriations inadvertently exceeded the 5 percent administrative cap. Nevertheless, the State Library advises that it has not spent beyond the cap, and that remaining funds (including remaining base appropriations through 2010-11) are sufficient to effectively administer the program through the end of the program in 2010-11.

It is requested that Item 6120-495 be added to the Budget Bill to conform with this action, as follows:

6120-495 – Reversion, California State Library. As of June 30, 2008, the amounts provided in the following citations shall revert to the balance of the fund from which the appropriation was made.

- (1) \$1,466,000 from Item 6120-101-6029, Budget Act of 2003 (Ch. 157, Stats. 2003)
- (2) \$825,000 from Item 6120-011-6029, Budget Act of 2006 (Chs. 47 and 48, Stats. 2006)
- (3) \$842,000 from Item 6120-011-6029, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007)

## INFORMATION ONLY (HOLD OPEN)

### **Issue 488 – Items 6120-011-0001 and 6120-011-3085, Support, Mental Health Research Activities.**

It is requested that Item 6120-011-3085 be added to appropriate \$169,000 in Mental Health Services Act funds (Proposition 63 income tax for Mental Health Services ) for the State Library to partially fund 6.0 existing positions and expenses to conduct mental health reference, research, and evaluation services on behalf of the State Department of Mental Health to enhance service delivery. The Department of Mental Health concurs with this proposal, and advises that it is an appropriate use of the special fund. It is also requested that Budget Bill Language be added as follows:

#### Provisions:

1. The funds in this item shall be used to support existing positions and related expenses to conduct mental health research activities on behalf of the Department of Mental Health.

## ITEMS TO BE HEARD

### ITEM 6120 CALIFORNIA STATE LIBRARY (STATE LIBRARY)

#### ISSUE 1: SUPPORT BUDGET

The issue for the Subcommittee to consider is the State Library's support budget.

#### PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California State Library

#### BACKGROUND

The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Library Literacy Services, develops technological systems to improve resource sharing, and administers the Public Library Foundation (PLF) Act, which established a formula under which the State contributes funding for basic local library services through grants.

The following table provides information on the State Library's expenditures by fund including all funding sources that support the Library's programs:

<b>California State Library: Summary of Expenditures by Fund</b>			
<i>(Dollars in Thousands)</i>			
	<b>Actual 2006-07</b>	<b>Estimated 2007-08</b>	<b>Proposed 2008-09</b>
General Fund	\$62,592	\$48,990	\$45,800
California State Law Library Special Account	416	594	706
Deaf and Disabled Telecommunications Program Administrative Committee Fund	456	552	552
Federal Trust Fund	16,563	19,641	19,633
Reimbursements	330	1,730	1,704
California Public Library Construction and Renovation Fund	773	2,354	2,407
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	949	1,84	1,872
<b>Total Expenditures (All Funds)</b>	<b>\$82,079</b>	<b>\$75,703</b>	<b>\$72,674</b>

**GOVERNOR'S BUDGET  
BALANCING REDUCTIONS**

The Governor's budget proposes a total of \$72.6 million for the California State Library's operations and the various local assistance programs that comes from other sources, including state special funds, federal funds, and bond funds. The Governor's budget balancing reduction to the State Library totals \$5.1 million, or 10 percent, bring the total General Fund to \$45.8 million.

The Governor's budget includes funding for the following one-time expenses prior to implementing the proposed ten percent across-the-board reduction:

1. **Phase 2 of the Integrated Library System Replacement Project.** The Governor's budget provides \$1.4 million in funding for the second year of the three-year information technology project. According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the current vendor's phase-out of the existing information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the State Library indicates that the vendor who designed the supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded from additional state resources. The state provided \$52,000 in the current year for procurement-related activities; in year three, the project would require an additional \$136,000. On an ongoing basis, the State Library will need \$250,000 annually to maintain the new system.

2. **Temporary Space and Moving expenses related to the renovation of the historic Library and Courts Building.** In 2008-09, the historic Library and Courts building will undergo a significant renovation aimed at providing for fire, life, safety, and infrastructure improvements, as well as the rehabilitation of historically-significant architectural elements of the 1928 Library and Courts building, which is registered federal and state landmark.

The Library is seeking \$2.6 million for the temporary relocation of both its staff and the contents of its collections (books, materials, historical artifacts, and artwork), which must be moved and in some cases, stored in special conditions due to their notable value (the historic artifacts that is, not the people). Costs include such items as: moving expenses, art storage facilities; modular office space; installation of telephone and data lines.

**COMMENTS**

**LAO Recommendation.** The LAO recommends rejecting the Governor's approach of reducing funding for the State Library. Under the LAO's alternative budget, the State Library is funded at the Governor's workload budget level.

**ISSUE 2: PUBLIC LIBRARY FOUNDATION AND OTHER LOCAL ASSISTANCE PROGRAMS**

The issue for the Subcommittee to consider is the Governor's proposed reductions to the funding for Public Library Foundation and other local assistance programs.

**BACKGROUND**

**Public Library Foundation Program (PLF).** The Governor's budget proposes to reduce the amount of funding by \$1.4 million, or 10 percent, bringing the total funding to \$12.9 million in 2008-09. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operations; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials.

At its peak in 2000-01, the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries have experienced a rapid decline in support for the program, equating to an approximately 75 percent reduction over six years.

Statute dictates that in order for a local library to receive funding from this program the library must maintain the same level of local funding as was provided in the prior year; thus any reductions to library spending by local governments would cause them to be disqualified from receiving money from the Public Library Foundation.

**Civil Liberties Public Education Program.** The Governor's budget proposes to reduce funding by \$50,000, or 10 percent, bringing the total funding to \$450,000 in 2008-09. This program provides competitive grants for public educational activities and the development of educational materials concerning the internment of the Japanese-American community during World War II.

**California Newspaper Project.** The Governor's budget proposes to reduce funding by \$24,000, or 10 percent, bringing the total funding to \$216,000 in 2008-09. This program receives funding from the California State Library and The National Endowment for the Humanities. The endowment provides federal funds directly to the local libraries applying for the grants. The program identifies, describes, and preserves California newspapers.

**Direct & Inter-library Loan Program/California Library Services Act and English Acquisition & Literacy Program.** The Governor's budget proposes to reduce California Library Services Act funding by \$1.4 million, or 10 percent, bringing the total funding to \$12.9 million. The Governor's budget proposes to reduce funding by \$506,000, or 10 percent, bringing the total funding to \$4.6 million.

*Impact of Reduction to Both Programs:* Both programs fall under the federal maintenance of effort requirement for Library Services and Technology Act funds. The requirement states that expenditures must equal the average of the prior three years. This reduction could result in a loss in federal matching funds. The Administration indicates that it is currently in the process of working with the State Library to request a waiver from the federal government for the minimum state matching funds requirement. *Without a federal waiver, the state faces a loss of approximately \$1.8 million in federal funds.*

## ITEM 7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)

### ISSUE 1: SUPPORT BUDGET

The issue for the Subcommittee to consider is the California Student Aid Commission (CSAC) 2008-09 proposed support budget.

### PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Student Aid Commission

### BACKGROUND

California Student Aid Commission (CSAC) is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the federal guaranteed Student Loan Operating Fund (SLOF) program.

The Governor's proposed budget includes State and federal funds totaling \$921.3 million. Of these total funds, \$890.5 million is General Fund support, all of which is used for direct student aid for higher education. Funding for state financial aid programs would increase by \$49 million, or 5.7 percent, from the current year. This increase is primarily due to additional costs associated with the Cal Grant Entitlement Award Program (\$109 million), offset by reductions in the Cal Grant Competitive Award Program (\$60 million).

<b>California Student Aid Commission: Summary of Expenditures by Fund</b>			
<i>(Dollars in Thousands)</i>			
	<b>Actual 2006-07</b>	<b>Estimated 2007-08</b>	<b>Proposed 2008-09</b>
General Fund	\$794,822	\$842,887	\$890,500
Federal Student Loan Reserve Fund	878,070	1,031,917	-
Student Loan Operating Fund	103,816	98,497	-
Federal Trust Fund	10,622	10,622	10,952
Reimbursements	28,174	19,810	19,810
<b>Total Expenditures (All Funds)</b>	<b>\$1,815,504</b>	<b>\$2,003,733</b>	<b>\$921,262</b>

### GOVERNOR'S BUDGET BALANCING REDUCTIONS

As part of the Governor's across-the-board reductions, the proposed budget makes 10 percent reductions to the Governor's workload budget for state operations (-\$1.6 million) and to the California Student Opportunity and Access Program, or Cal-SOAP (-\$637,000). The proposed

budget also includes a net augmentation of \$1 million for state operations related to the planned sale of EdFund, and an augmentation of \$200,000 in federal funds to maintain the Cash for College Program, previously funded through EdFund.

The table below compares CSAC's revised 2007-08 budget with the proposal for 2008-09. As the table below shows, funding for State financial aid programs would increase by \$47.9 million, or 5.5 percent, from the current year. This increase is primarily due to the additional costs associated with the Cal Grant Entitlement Award Program (\$109 million), offset by reductions in the Cal Grant Competitive Award Program (\$60 million).

<b>Student Aid Commission Budget Summary</b>				
<i>(Dollars in Millions)</i>				
	2007-08 Revised	2008-09 Proposed	Change	
			Amount	Percent
<b>Expenditures</b>				
<b>State Operations<sup>a</sup></b>	\$15.8	\$14.6	-\$1.2	-7.7%
<b>Financial Aid Programs</b>				
Cal Grant Programs				
Entitlement	\$664.7	\$773.9	\$109.2	16.4%
Competitive	117.1	57.5	-59.6	-50.9
Pre-Chapter 403/00 <sup>b</sup>	0.5	0.2	-0.3	-68.8
Cal Grant C	7.9	7.9	—	-0.5
Subtotals, Cal Grant	(\$790.2)	(\$839.5)	(\$49.3)	(6.2%)
APLE <sup>c</sup>	\$40.7	\$40.6	-\$0.1	-0.4%
Graduate APLE	0.4	0.4	—	—
State Nursing APLE—faculty	—	0.2	0.2	—
State Nursing APLE—state facilities	—	0.1	0.1	—
National Guard APLE	0.2	0.3	0.1	48.5
Law Enforcement Scholarships	0.1	0.1	—	—
Cal-SOAP <sup>d</sup>	6.4	5.7	-0.6	-10.0
Cash for College Program	—	0.2	0.2	—
Other Grant Programs <sup>e</sup>	19.5	19.5	—	—
<b>Totals, Financial Aid Programs</b>	<b>\$857.5</b>	<b>\$906.7</b>	<b>\$49.1</b>	<b>5.7%</b>
<b>Grand Totals</b>	<b>\$873.3</b>	<b>\$921.2</b>	<b>\$47.9</b>	<b>5.5%</b>
<b>Funding Sources</b>				
General Fund	\$842.9	\$890.5	\$47.6	5.7%
Federal Trust Fund <sup>f</sup>	10.6	11.0	0.3	3.1
Reimbursements	19.8	19.8	—	—
<sup>a</sup> Reflects "budget balancing reduction" of \$1.6 million in 2008-09. Expenditures by EdFund are not included. <sup>b</sup> These programs predate the Cal Grant Entitlement programs and are being phased out. <sup>c</sup> Assumption Program of Loans for Education. <sup>d</sup> California Student Opportunity and Access Program. The 2008-09 amount reflects "budget balancing reduction" of \$637,000. <sup>e</sup> Byrd Scholarship, Child Development Teacher and Supervisor Grant, and California Chafee pro-grams—all of which are supported entirely with federal funds reimbursed by other state agencies. <sup>f</sup> These monies pay for Cal Grant and Cash for College program costs.				



**ISSUE 2: CAL GRANTS PROGRAMS**

The issue for the Subcommittee to consider is the Governor's proposed \$109 million increase to the Cal Grant Entitlement Program and the phase out of the Cal Grant Competitive Program.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Student Aid Commission

**BACKGROUND**

**Cal Grant Entitlement Awards.** The Governor's budget would increase funding for the Cal Grant Entitlement programs by \$109 million, or 16 percent. This increase largely reflects augmentations to increase the fee coverage portion of Cal Grants to match potential fee increases at the University of California (UC) and the California State University (CSU). The Governor defers to the segments' governing boards regarding fee levels but provides sufficient Cal Grant funds to offset increases of up to 30 percent at UC and 33 percent at CSU.

The Governor's budget proposes 3,875 fewer High School Entitlement awards in 2008-09 than in the current year, primarily to reflect a decline in the number of high school graduates based on current population estimates. The proposed number of Transfer Entitlement awards remains flat, at about 7,770 awards. The maximum Cal Grant award for needy students at private institutions would remain unchanged from the current year level of \$9,708.

**Cal Grant Competitive Awards.** The Governor's budget proposes to end the Cal Grant Competitive Awards Program. Although current law authorizes 22,500 new competitive awards annually, the Governor's budget includes no funding for new awards under this program in 2008-09. The Administration intends that the program be entirely phased out as existing recipients graduate or otherwise leave the program. This accounts for \$57 million of the \$60 million reduction to the competitive program.

**CAL GRANT PROGRAMS**

The following paragraphs provide more detail on the Commission's major award programs.

**High School Entitlement Program.** Under this program, every graduating high school senior who meets the financial needs and academic eligibility criteria, and applies by the deadline in the year of graduation or the following year, is guaranteed a Cal Grant A or B award. About 173,000 new and continuing high school entitlement awards are projected for 2008-09.

**Transfer Entitlement Program.** This program is for graduates of California high schools who transfer from a California Community College to a qualifying baccalaureate-degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 at the end of the year in which they first receive an award. About 8,000 new and continuing transfer entitlement awards are projected for 2008-09.

**Competitive Program.** This program is for students who meet the basic eligibility criteria of the entitlement program (such as income and grade point average), but do not qualify for those awards. This may be because of age, or a delay in attending college following high school graduation. About 57,000 new and renewal competitive grants were awarded in the current year.

**Cal Grant C.** This program provides up to \$2,592 for tuition and fees and up to \$576 for other costs for eligible low- and middle-income students preparing for occupational or technical careers. About 7,900 new awards are authorized for 2008-09.

## COMMENTS

### LAO RECOMMENDATIONS

**Reduce Funding Based on Lower Recommended Fee Increases.** The LAO recommends that Cal Grant awards be increased to fully cover the recommended fee levels of 10% at both UC and CSU, and the \$6 fee increase to CCC. This would require substantially less than the "placeholder" funding the Governor's budget includes for potential fee increases of up to 30 percent and 33 percent. According to the LAO, this would result in General Fund savings of \$74.3 million.

**Recommend Retaining Competitive Program.** The entitlement program is aimed at students who go to college directly from high school, which explains both the lower average age and, as these students are typically still financially dependent on their parents, the higher family income and size. The competitive program, on the other hand, is aimed at students who have been out of high school for several years. Both programs serve very low-income, financially needy students. Second, both programs serve academically successful students.

The Governor's budget does not offer a programmatic rationale for full funding for the entitlement program and elimination of the competitive program. The LAO believes the Cal Grant competitive program is an important component of the state's financial aid system. It serves nontraditional students who are seeking education and training. Eliminating the state competitive program undermines a key part of the state's affordability strategy.

According to the LAO, in order to maintain the state's commitment to affordability in higher education, they recommend the Legislature reject the Governor's proposed reduction of \$57.4 million in the Competitive Cal Grant program. In addition, they recommend augmenting this amount by \$925,000 to fully cover the recommended fee levels for new

**ISSUE 3: ASSUMPTION PROGRAM OF LOANS FOR EDUCATION (APLE)**

The issue for the Subcommittee to consider is the Governor's proposed 7,200 new APLE loan assumption warrants, a reduction of 800 awards, or 10 percent, for 2008-09.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Student Aid Commission

**BACKGROUND**

**Assumption Program of Loans for Education (APLE).** The number of new APLE warrants is reduced by 10 percent, or 800 awards, for a revised total of 7,200 awards for 2008-09. The Governor's budget maintains current funding levels APLE and Graduate APLE, which are loan forgiveness programs for undergraduate and graduate students who fulfill teaching commitments.

- **National Guard APLE (NG APLE).** The Governor's proposal does not authorize any new warrants for the NG APLE, which provides loan forgiveness for qualifying members of the National Guard, State Military Reserve, or Naval Militia who fulfill military commitments. Last year the Governor proposed to extend the July 1, 2007 sunset for NG APLE to July 1, 2010, but did not seek authorization for new warrants under the program. At the same time, the Governor proposed a new Tuition Assistance Program (TAP) in the Military Department for National Guard recruits that would provide direct grants to eligible National Guard members. The Legislature rejected the Governor's TAP proposal and authorized no additional NG APLE warrants in the 2007-08 Budget Act.

For 2008-09, the Governor again proposes a new tuition grant program in the Military Department, as described in the "General Government" chapter of the LAO's Analysis. This proposed program is similar to TAP and would be jointly administered with CSAC. It is recommended that if the Legislature wishes to provide fee support for National Guard members, to do so by renewing the NG APLE rather than funding a new program.

- **State Nursing APLE (SNAPLE).** The Governor's budget authorizes CSAC to issue 100 new warrants under each of the recently created loan assumption programs for nurses. The SNAPLE for faculty provides loan repayment for nursing faculty who teach at eligible California colleges or universities, and the SNAPLE for nurses in state facilities provides loan repayment for nurses who fulfill employment commitments at state facilities with high vacancy rates for registered nurses. The budget year is the first year that loan repayments will be made for warrants issued earlier under these programs.

**COMMENTS**

In past years, both the Department of Finance and the Legislative Analyst's Office have noted that the APLE program has been underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. Previously, DOF has cited this underutilization as a reason to restructure the program and set-aside warrants for the exclusive use of UC and CSU to attract math and science teachers. Thus, the proposed reduction in the number of warrants could be viewed as a "correction" to adjust for the demand for the program.

**ISSUE 4: CALIFORNIA STUDENT OPPORTUNITY AND ACCESS PROGRAM (CAL-SOAP)**

The issue for the Subcommittee to consider is the Governor's proposed reduction of \$637,000 to the Cal-SOAP, for a total funding level of \$5.7 million in the budget year.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Student Aid Commission

**BACKGROUND**

The California Student Opportunity and Access Program (Cal-SOAP) provides financial aid outreach and tutoring services to help economically disadvantaged K-12 students gain access to financial aid and postsecondary education. The Cal-SOAP also assists the matriculation of community college students to four-year institutions. There are 16 Cal-SOAP consortia operating in 17 locations.

The Governor's budget authorizes \$5.7 million in funding, a decrease of \$637,000 from the current year. Previously funded with dollars from EdFund, Cal-SOAP's budget declined from \$8.6 million in 2006-07 to the current year level of \$6.4 million.

**APRIL 1<sup>ST</sup> FINANCE LETTER**

As part of the April Finance Letter revision process, the Department of Finance (DOF) is proposing to shift funding for Cal-SOAP from the General Fund to federal funds. DOF anticipates that California will receive \$7.7 million from College Access Challenge Grant. As part of this agreement, \$1 million will be set-aside for public awareness and outreach activities related to career technical education (CTE), and require CSAC to work with the California Department of Education and the California Community Colleges Chancellor's Office in determining the usage of this \$1 million.

**Staff Notes.** It remains unclear if Cal-SOAP is the appropriate entity to conduct the outreach activities requested by the Department of Finance. *This item is recommended to be held open for further discussion.*

**COMMENTS**

Hold Open.

**ISSUE 5: STATUS REPORT ON PLANNED EDFUND SALE**

The issue for the Subcommittee to consider is an update on the planned EdFUND sale.

**PANELISTS**

- Department of Finance
- EdFund
- California Student Aid Commission

**BACKGROUND**

Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission, which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities, which offer student loan programs, have a choice between a variety of FFELP "guarantors" (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

**PLANNED EDFUND SALE**

The 2007-08 Budget Act authorizes the Department of Finance to sell EdFund, which is a nonprofit public benefit corporation that acts on behalf of CSAC to administer federal loan guaranty programs. The enacted budget assumed that the state would receive \$1 billion for this sale. With the sale of EdFund, it is expected that CSAC would relinquish its status as California's federally designated guarantor for the Federal Family Education Loan Program. In anticipation of EdFund's sale, the budget ceases the recent practice of supporting CSAC's administrative and selected programmatic costs with funding generated by EdFund's activities. To replace this lost revenue, the enacted current-year budget includes \$21.7 million in General Fund support for state operations and Cal-SOAP.

Subsequent to the enactment of the 2007-08 Budget Act, the federal government made changes to its loan programs that are affecting the revenue retained by guaranty agencies. Partly as a result of this development, the Governor's budget proposal reduces the anticipated revenue from EdFund's sale by half, to \$500 million. The proposal anticipates competition of the sale by June 30, 2008. In early January 2008, the Department of Finance engaged Bear Stearns as its advisor to assist in the sale of EdFund. The administration expects to solicit offers to purchase EdFund in March, when it intends to release a request for proposals.

**LENDER OF LAST RESORT**

Federal law guarantees the availability of a Federal Family Education Loan (FFEL) to eligible students through a lender-of-last-resort (LLR). A student, who is otherwise eligible for a Stafford Loan and, after receiving two rejections, has been unable to find a FFEL lender willing to make such a loan is eligible for the LLR program.

The guaranty agency must ensure that it, or an eligible lender act as a LLR in the state in which the guaranty agency is the designated guaranty agency. The first choice for an LLR process is to secure lenders who are willing to serve as lenders of last resort. During times where broad scale loan access problems prohibit the implementation of LLR programs, the Secretary of Education has the authority to advance federal funds to guaranty agencies to make LLR loans.

If too many loan providers opt out of the FFEL program, other banks will not have the capacity or infrastructure to fill the credit needs for all students, and low-income students are likely to be the first to get left out. Lenders have already begun opting out of the FFEL and LLR programs and are limiting the institutions that they will serve.

The actions of lenders exiting the FFEL program are prompting discussion of bills at the congressional level. The Secretary of Education is also working on the processes that need to be in place to ensure funds are available for FFEL program loans.

Student Aid Commission and EDFUND will provide an update on the status of the LLR program and its impact for California students.

**ISSUE 6: TRANSITIONAL ISSUES RELATED TO EDFUND SALE**

The issue for the Subcommittee to consider is an update provided by CSAC on transitional issues.

**PANELISTS**

- California Student Aid Commission
- EdFund

**BACKGROUND**

The Governor's budget includes several adjustments for 2008-09 related to the planned sale of EdFund. The Governor's budget provides a \$2 million augmentation for these costs, and 10.5 positions to account for the workload and related staff that will need to be "reclaimed" by the Commission. The Governor's budget proposes to remove \$1 million in funding for CSAC's Federal Policy and Programs Division, as oversight responsibilities will terminate with the sale of the corporation. However, the budget bill provides contingency language allowing CSAC to maintain that division and related funding in the event the EdFund sale is not finalized until 2008-09.

Since the inception, EdFund has been providing a number of administrative services for CSAC, including telephone, Internet, and mail processing services. These benefits will terminate with the sale of EdFund, and CSAC will have to procure these services. The lease for shared facilities expires August 31, 2008, and EdFund has leased a new facility beginning July 1, 2008. CSAC also intends to lease a new facility before the expiration date.

Further complicating matters, are the 20 remaining civil service employees that are on the Student Aid Commission's payroll, but were assigned to work at EdFUND, the bulk of which are long-time civil servants who are performing functions directly related to processing student loans. CSAC is transferring several civil service employees from EdFund to vacancies at the Commission, but lack enough vacant positions to accommodate all who are interested in transfers.