

# Item 1

## Information Item

### Update on EdFund matters

---

#### **SUMMARY:**

Staff of the California Student Aid Commission (Commission) has been researching federal and state tax laws and state law governing nonprofit corporations, as well as State government law, to determine potential uses of funds held by EdFund, the Commission's nonprofit auxiliary organization. We are also researching alternatives to the EdFund organization that could assist the Commission to achieve its goals. We have not yet completed this review, and, therefore, will schedule this item for consideration at a future meeting.

#### **RECOMMENDATION:**

Both the Commission and the EdFund Board have roles in determining how to use EdFund funds and in determining viable alternatives to EdFund. Therefore, we recommend that these issues be considered at future meetings of the Commission and the EdFund Board.

#### **BRIEF HISTORY OF KEY ISSUE(S):**

The Commission created EdFund as its non-profit, 501(c)(3), auxiliary organization in 1997, under authority granted by Education Code sections 69522-69529.5. The charitable purpose of EdFund is to "promote and assist the programs of the California Student Aid Commission."

At the time, the Commission was designated by the federal government as a guarantor of federal student loans through the Federal Family Education Loan Program (FFELP). EdFund administered the Commission's responsibilities as a guarantor and received fees in the hundreds of millions of dollars annually.

In some years, the State of California ultimately used a portion of those fees to fund Cal Grants. The Commission also used about \$25 million of the fees to underwrite a three-year outreach campaign. In addition, EdFund provided administrative support and services to the Commission, thereby saving State General Fund dollars.

However, in 2010, the federal government began emphasizing its direct lending student loan program, ended its FFELP relationship with the Commission, and designated ECMC to be the FFELP guarantor in place of the Commission. The transition from the Commission to ECMC took several years, resulting in all the non-State EdFund employees moving to ECMC, and State employees working at EdFund returning to the Commission.

Ultimately, on February 20, 2014, the Commission directed the EdFund Board to dissolve the EdFund corporation, and on February 21, 2014, the EdFund Board voted to dissolve. Regulatory and administrative steps were taken toward dissolution.

## **EDFUND**

However, about May 2016, EdFund received a \$103,000 payment related to EdFund insurance. This payment had not been anticipated. Further, potential funds belonging to EdFund from California and other states' unclaimed property programs have been identified.

Therefore, until the Commission and EdFund Board determine the appropriate use of the new funds, the dissolution process has been temporarily suspended.

Further, recognizing that having an auxiliary organization, even absent the guaranty function, could provide resources to the Commission that could be used to facilitate the Commission's mission and goals, both the Commission and the EdFund Board have asked for alternatives to consider in place of a nonprofit auxiliary organization.

### **ANALYSIS:**

We have not yet completed a review of relevant laws and procedures, and, therefore, will schedule this item for consideration at future meetings of the Commission and the EdFund Board.

### **RESPONSIBLE PERSONS:**

Keith Yamanaka  
Chief Deputy Director  
California Student Aid Commission