

Commissioner Of Higher Ed

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	49.20	0.00	9.00	58.20	0.00	9.00	58.20	58.20
Personal Services	1,931,167	(78,012)	354,350	2,207,505	(77,021)	353,518	2,207,664	4,415,169
Operating Expenses	3,113,126	51,642	500,000	3,664,768	61,934	500,000	3,675,060	7,339,828
Equipment	0	0	0	0	0	0	0	0
Benefits & Claims	19,921,785	8,936,000	0	28,857,785	11,170,000	0	31,091,785	59,949,570
Transfers	72,550	0	0	72,550	0	0	72,550	145,100
Total Costs	\$25,038,628	\$8,909,630	\$854,350	\$34,802,608	\$11,154,913	\$853,518	\$37,047,059	\$71,849,667
Federal Special	25,038,628	8,909,630	854,350	34,802,608	11,154,913	853,518	37,047,059	71,849,667
Total Funds	\$25,038,628	\$8,909,630	\$854,350	\$34,802,608	\$11,154,913	\$853,518	\$37,047,059	\$71,849,667

Program Description

The Montana Guaranteed Student Loan Program (GSL) operates under federal regulation with federal funds to guarantee student loans that are made by private lenders to Montana higher education students. GSL purchases and services student loans that are in default, works with students to prevent default, collects the outstanding balance from the defaulted loans for repayment to the US Department of Education, and provides training and technical assistance to schools and lenders. The Montana Guaranteed Student Loan program is authorized under Title 20, Chapter 26, MCA.

Program Highlights

Guaranteed Student Loan Program Major Budget Highlights	
<ul style="list-style-type: none"> • The executive budget increases federal funding authority in the GSL by \$20 million in the 2007 biennium as follows: <ul style="list-style-type: none"> • \$18 million to purchase defaulted student loans from private lenders • \$2.1 million to repay the US Department of Education the federal share of funds collected from defaulted student loans • The executive budget adds 9.00 new FTE and expands default reduction programs, funded with \$1.7 million of additional federal revenue. 	

Program Narrative

Starting in 1979, the Montana Board of Regents accepted responsibility to serve as the "guarantor" of the funds private lenders would loan to Montana students under the federal student loan program. Without a government entity serving as guarantor, there would be little incentive for private lenders to make student loans to young people who typically have a high-risk profile (based upon age, income status, length of employment, and their intention to be full-time students). Therefore, the Board of Regents created the GSL and agreed that they would purchase defaulted student loans from private lenders and take responsibility for collecting on these loans.

Funding

The following table shows program funding, by source, of the base year and for the 2007 biennium as recommended by the Governor. Funding is from a combination of federal and private revenues from the loan services provided. There is no state funding, as the loan programs require no state match.

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
03000 Federal Spec. Rev. Funds	\$ 25,038,628	100.0%	\$ 34,802,608	100.0%	\$ 37,047,059	100.0%
Grand Total	\$ 25,038,628	100.0%	\$ 34,802,608	100.0%	\$ 37,047,059	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(797)					238
Vacancy Savings					(77,215)					(77,259)
Inflation/Deflation					(665)					(408)
Fixed Costs					52,307					62,342
Total Statewide Present Law Adjustments					(\$26,370)					(\$15,087)
DP 9 - GSL Increased Claim Payments	0.00	0	0	8,000,000	8,000,000	0.00	0	0	10,000,000	10,000,000
DP 10 - GSL Collection Recoveries	0.00	0	0	936,000	936,000	0.00	0	0	1,170,000	1,170,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$8,936,000	\$8,936,000	0.00	\$0	\$0	\$11,170,000	\$11,170,000
Grand Total All Present Law Adjustments					\$8,909,630					\$11,154,913

DP 9 - GSL Increased Claim Payments - The executive budget proposes an additional \$18 million in federal authority in the 2007 biennium to fund claim payments that are made to private lenders as the GSL purchases defaulted student loans in their capacity as student loan guarantor and default loan collector.

DP 10 - GSL Collection Recoveries - The executive budget proposes an additional \$2.1 million in federal authority in the 2007 biennium to fund the anticipated increase in claim payments that are required by law to be paid to the US Department of Education as their share of the default loan collection recoveries received by the GSL from defaulted student loans.

**LFD
COMMENT**

In 1994 Montana State University opted out of the federal student loan program administered by the Montana Guaranteed Student Loan Program (GSL), choosing an alternate federal program that did not use GSL as the guarantor. For the 10 years 1994-2003, therefore, the GSL portfolio of defaulted student loans did not include those students attending Montana State University.

Starting in 2004, Montana State University has returned to the federal student loan program that is administered and guaranteed by the GSL. Therefore, the default loan volume that the GSL is managing has increased and their potential market of defaulted loans has increased going forward.

LFD COMMENT CONT.

These two decision packages represent the fiscal preparations for the two components of the program that GSL believes are necessary in anticipation of this increased student loan default volume. DP 9 increases program authority to spend the federal funds to purchase the default loans from private lenders at the default rate and loan balance that is projected in the 2007 biennium. DP 10 increases program authority to expend federal funds from the collections that are made from student loans in default, to reimburse the US Department of Education their share of these loan funds.

Therefore, these present law adjustment decision packages are based upon the program projections of the increased federal authority that will be needed to manage a higher loan volume, primarily a result of the return of Montana State University to the federal loan program that GSL administers and guarantees.

New Proposals

Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	General Fund	State Special	Federal Special	Total Funds	
DP 11 - GSL Default Reduction and Outreach										
12	0.00	0	0	500,000	500,000	0.00	0	0	500,000	500,000
DP 12 - Add 9 FTE to GSL										
12	9.00	0	0	354,350	354,350	9.00	0	0	353,518	353,518
Total	9.00	\$0	\$0	\$854,350	\$854,350	9.00	\$0	\$0	\$853,518	\$853,518

DP 11 - GSL Default Reduction and Outreach - The executive budget proposes a \$1 million increase of federal authority for the Montana Guaranteed Student Loan Program (GSL) to conduct targeted outreach and default reduction program activities.

LFD COMMENT

The US Department of Education has established funding to support the development and implementation of outreach and default reduction strategies by student loan guaranty agencies. GSL has developed programs that target low income and other at-risk students, including scholarship opportunities. This decision package is intended to expand these programs through the use of these additional federal funds.

DP 12 - Add 9 FTE to GSL - The executive budget proposes the addition of 9.00 FTE to the GSL at a cost of \$0.7 million of federal funding in the 2007 biennium.

LFD COMMENT

In anticipation of the increase in default loan volume resulting primarily from the return of the Montana State University student loan program, the executive budget adds the following 9.00 FTE to the Montana Guaranteed Student Loan Program (GSL):

- Information Technology Specialist – 2.00 FTE
- Default Prevention Counselor – 2.00 FTE
- Outreach Coordinator – 2.00 FTE
- Events Coordinator – 1.00 FTE
- Communication Specialist – 1.00 FTE
- Collections Technician – 1.00 FTE

In addition to default loan collections, GSL stages events and provides outreach and financial counseling to students and graduates to help prevent loan default and to assist with personal budgeting skills training so that repayment schedules may be met