

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

October 24, 2007

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 24, 2007 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esquire; Mr. James Avery; Mr. Raymond Castor; Mr. Kevin Collins (teleconference); Ms. Wilma Harris; Ms. Tabatha Ialacci; Dr. Harvey Kesselman; Dr. Joann LaPerla-Morales (teleconference); Ms. Jean McDonald Rash; Mr. Warren Smith, Esquire; Ms. Nancy Style, Treasurer's Designee; and Ms. Maria I. Torres, members.

ABSENT: Ms. Rossy Matos-Miranda

CALL TO ORDER

Chairwoman Torres called the meeting to order at 10:00 a.m. and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Torres welcomed the Board members.

She advised no members of the public registered to speak.

Ms. Torres asked Ms. Merci Powell to call the roll.

MINUTES

A motion to approve the minutes of the July 25, 2007 meeting was made by Warren Smith and seconded by James Avery. The minutes were approved unanimously. Wilma Harris was not present at the time of the vote.

REPORT OF THE BUDGET COMMITTEE AND RESOLUTION 09:07 ADOPTING A BOARD BUDGET POLICY STATEMENT FOR FISCAL YEAR 2009

Harvey Kesselman made the following presentation:

I am pleased to report that the budget committee of the HESAA Board met on October 9, 2007 to review various FY 2009 Full-Time Tuition Aid Grant models reflecting different award parameters, as well as anticipated funding requirements for all other State supported programs administered by HESAA.

The FY 2009 Board Budget Policy Statement reflects the Board's fundamental principles of promoting access and affordability to postsecondary education for New Jersey's residents through need-based student financial aid and merit-based scholarship programs. In formulating this budget policy statement, the committee was mindful that the State of New Jersey continues

to face fiscal challenges. There was a lengthy discussion regarding the Board's role as student advocate to achieve full funding of the full-time Tuition Aid Grant (TAG) Program, as well as to recommend appropriate funding levels for all other grant and scholarship programs administered by HESAA.

Full-Time TAG Program

Full-time TAG funds have been awarded in accordance with budgetary footnote language for the last four years. During each of these academic years, students who demonstrated the highest need (those with average family incomes of \$15,400) received TAG awards based on the prior year's tuition levels (a one-year lag between tuition and award values), while all other students received awards that reflected a three-year lag compared to tuition. The only deviation from these parameters occurred during FY 2007, when an additional \$5 million was appropriated to offset a percentage of 2006-07 tuition costs for students who demonstrated the highest need.

The Board's first priority has been and continues to be full funding of the full-time TAG Program. While cognizant of the fiscal constraints that have faced the State over the last few years, the Board has consistently recommended funding the full-time TAG Program at a level sufficient to narrow the gap that exists between award values in the first and second NJEI cells. Unfortunately, these funding recommendations have not been effectuated due to the budgetary constraints facing the State.

Students in the second NJEI cell, who come from families with estimated average incomes of \$23,200, demonstrate significant need. However, their TAG awards are considerably lower than those received by students in the first NJEI cell. For example, at Rutgers, second cell awards are approximately \$1,500 less than first cell awards. Similar differences exist in the other sectors. The budget committee strongly believes that narrowing the gap between the first and second NJEI cells is critical to ensure access for all needy students and has recommended funding to address this in FY 2009.

The Higher Education Reconciliation Act of 2005 mandated an unprecedented number of federal need analysis changes. A number of these changes, including the annual adjustments to the income protection allowances, could not be incorporated into the 2007-08 New Jersey Eligibility Index (NJEI) calculation. The income protection allowance represents the amount of after-tax income required by a student to meet basic living expenses and is adjusted annually to reflect cost of living increases. Historically, these allowances were adjusted annually in the NJEI calculation. To ensure that needy students do not experience a decrease in TAG eligibility, such as moving from the first NJEI cell to the second, it is recommended that funding be provided to increase the income protection allowances in 2008-09.

In summary, the budget committee recommends that HESAA's Executive Director, Michael Angulo, request the funding required for the full-time TAG Program to achieve the following:

- Maintain the one-year lag in award values for students demonstrating the highest need (NJEIs below 1500) by increasing awards to reflect 2007-08 tuition levels.
- Recognize the high level of need demonstrated by students in the second NJEI cell (NJEIs between 1500 and 2499) by increasing awards based on 2006-07 tuition levels. This would reduce the lag between award values and tuition levels from

three years to two, thus narrowing the gap that currently exists between awards in the first and second NJEI cells.

- Maintain the current three-year lag compared to tuition by increasing awards based on 2005-06 tuition levels for students with NJEIs above 2499.
- Recognize a likely increase in the number of eligible recipients to include 913 additional new awards. This number includes new students who will qualify as a result of updates to the New Jersey Eligibility Index calculation.

The projected cost to fund these award increases and provide for 913 additional new awards at these levels is \$257.173 million, an increase of \$24.557 million over the FY 2008 appropriation.

Part-Time TAG for County College Students Program

The committee recommends \$5.970 million in funding to continue the Part-Time Tuition Aid Grant Program for County College Students. This represents an increase of \$476,000 over the FY 2008 appropriation.

NJ STARS Program/NJ STAR II Program

The committee recommends \$18.499 million in funding to support all students who meet NJ STARS and NJ STARS II eligibility requirements. This is an increase of \$4.71 million over FY 2008.

Coordinated Garden State Scholarship Program

Funding for the Coordinated Garden State Scholarship Program was decreased by \$427,000 during FY 2008, which resulted in a reduction in the Distinguished and Urban Scholar annual award amount from \$1,000 to \$930.

The Urban Scholar Program is important to the State of New Jersey since it provides access to postsecondary education to students from disadvantaged areas of the State. Nearly 63% of the students who are offered Urban Scholar awards accept these awards and attend New Jersey colleges and universities. Without an Urban Scholar award, these students may not have been able to attend college.

The committee recommends \$7.760 million in funding for the Coordinated Garden State Scholarship Program, an increase of \$625,000, which would restore annual awards to \$1,000.

Outstanding Scholar Recruitment Program

- The Board supports funding current program participants who will be seniors during the 2008-09 academic year.

All Other HESAA Programs Funded through State Appropriations

The committee recommends level funding for all other programs administered by HESAA that require a State appropriation.

Dr. Kesselman stated that serious discussion is still needed in the future regarding NJSTARS II due to the costs to the institutions. He stated that last year it cost Richard Stockton University \$100,000.00 and will cost \$405,000.00 this year, and that the average income of the students receiving NJSTARS at Richard Stockton is \$96,000.00. Ms. Torres responded that the Budget committee should convene before the next full Board meeting to discuss this further. Mr. Avery questioned whether that meeting would include a review of all schools to which Dr. Kesselman responded yes.

Jean McDonald-Rash asked if the Board had decided not to attempt to receive full funding for OSRP. Dr. Kesselman responded that there has been no indication that there will be an increase in OSRP so the priority has been TAG and other need-based programs. We also need to discuss merit programs, for example, the Urban Scholars Program has had a fabulous yield rate of 63%. The intent of all of the programs is wonderful however; they are not always helping the intended constituents.

A motion to approve this resolution was made by Raymond Castor and seconded by Tabatha Ialacci. The motion passed unanimously with one abstention, Nancy Style, Treasurer's Designee.

RESOLUTION 10:07: READOPTION OF THE PRIMARY CARE PHYSICIAN AND DENTIST LOAN REDEMPTION PROGRAM REGULATIONS

Marnie B. Grodman, Esq., presented this item to the Board.

N.J.A.C. 9A:16, the rules regulating the Primary Care Physician and Dentist Loan Redemption Program, are set to expire on November 20, 2007. HESAA staff, in consultation with staff from UMDNJ, have reviewed the rules and found them to be necessary, reasonable and proper for the efficient operation of the Program. The re adoption of these rules will ensure the continuity of the Program. At this time no amendments are necessary.

The proposed re adoption of N.J.A.C. 9A:16 is summarized as follows:

N.J.A.C. 9A:16-1 sets forth the general provisions of the Program, explaining that the Program provides for the redemption of eligible student loan expenses of its participants in exchange for a specified period of service in such medically underserved areas and defining words and terms used in the Chapter.

N.J.A.C. 9A:16-2 sets forth the Program requirements. This subchapter includes the eligibility provisions, application and selection requirements for participants, terms and procedures for the loan redemption and conditions for cancellation of the contract and termination of an individual's participation in the Program.

It is recommended that the Board approve Resolution 10:07 Consideration of Proposed Re adoption of Regulations Governing the Primary Care Physician And Dentist Loan Redemption Program, N.J.A.C. 9A:16, so that the proposed re adoption can be published in the New Jersey Register.

A motion to approve this resolution was made by Wilma Harris and seconded by Warren Smith. The motion passed unanimously.

RESOLUTION 11:07: CONFIRMING THE EXTENSION OF THE APPOINTMENTS OF THE FINANCIAL ADVISOR AND SENIOR MANAGER FOR A PERIOD OF ONE YEAR

Mr. Robert Clark presented this item to the Board

Resolution 11:07 requests your approval of the extension of the appointments of the Authority's Financial Advisor and Senior Manager for a period of one year.

As outlined in the memorandum, the Authority, at its February 8, 2006 meeting, approved Resolution 4:06 appointing Acacia Financial Group, Inc, formerly (Municipal Advisory Partners, Inc.) as Financial Advisor and UBS Securities, LLC as Senior Manager in connection with its issuance of its Student Loan Revenue Bonds. The appointments were made as a result of a competitive process as required by Executive Order 26 (1994). The appointments were for a term of two years (2006 and 2007) subject to one additional extension year at the Authority's discretion and at the same costs specified in the February 6, 2006 resolution.

In light of the quality of services provided by both Acacia Financial Group, Inc., and UBS Securities LLC, and the fact that both firms have agreed to hold fees level with this past year, it is recommended that their appointments be extended for the one-year period provided for in Resolution 4:06.

It should be further noted that both Acacia Financial Group, Inc. and UBS Securities LLC have complied with the provisions of EO 134 by filing the certifications regarding the absence of political donations within the 18-month period prescribed by the Executive Order.

A motion to approve this resolution was made by James Avery and seconded by Nancy Style. The motion passed unanimously.

EEO POLICY AND PROCEDURES UPDATE

Robin Bridges Johnson reported on the EEO Policy and Procedures Update. As a function of the Agency's EEO Officer, I am charged with the responsibility of disseminating the EEO Policy and Procedures and ensuring that all employees acknowledge receipt. Until recently, the State of New Jersey has been operating under the Interim Policy Prohibiting Discrimination, Harassment or Hostile Environments in the Workplace (Interim Policy). On July 11, 2007, at the Merit System Board approved revisions to the Interim Policy and the final, approved Policy, renamed Policy Prohibiting Discrimination in the Workplace ("Policy"), along with the Model Procedures for Internal Complaints Alleging Discrimination in the Workplace ("Procedures") were published in the August 20, 2007 edition of the New Jersey Register. The Policy and Procedures became effective on this date.

As it relates to Authorities, Boards and Commissions, every employee and/or member of an Authority, Board or Commission under the jurisdiction of an appointing Authority/Agency must receive a copy of the Policy and Procedures. The Policy and Procedures must be disseminated to

all employees and/or members annually and to new employees and/or members when they begin service. Each member must sign a statement acknowledging receipt of the documents so after your review, please sign and return to me.

Ms. Harris asked if there are education procedures in place. Ms. Johnson responded that we provided training within the last six months.

EXECUTIVE DIRECTOR'S REPORT

Executive Director Michael Angulo made the following report to the Board:

Let me begin by updating you on our dealings with the U.S. Senate Higher Education, Labor and Pensions Committee, i.e., the HELP committee, and the New Jersey Attorney General's Office. On September 4th, Senator Edward Kennedy, D-MA, chair of the Senate HELP Committee, issued its report entitled "Second Report on Marketing Practices in the Federal Family Education Loan Program". As we expected, HESAA was referenced in the Report, and criticized for certain historical practices. The Report also contained allegation about HESAA that we vigorously disagree with. HESAA's opposition was effectively noted in the Report. Without getting into specifics, I am happy to say that the Report did not diminish HESAA's operations or reputation. Quoting U.S. Senator Mike Enzi, R-WY, who sits on the HELP Committee along with Senator Kennedy, the Report was "built on vague, inconclusive evidence and poorly-documented allegation." We have not heard further from Senator Kennedy's office, and I am hopeful that this is now behind us.

With regard to the New Jersey Attorney General's Office, HESAA continues to cooperate fully with the investigation. I have met with the Deputy Attorney General in charge of the investigation, and am looking forward to a positive conclusion in the near future. I remain optimistic that no misconduct has occurred, and I am proud of the hard work and dedication of financial aid professionals at HESAA and throughout New Jersey.

I want to thank our many colleagues from the higher education community for their enduring support and encouragement, particularly those institutions who resisted the temptation of taking a reactionary and convenient course, either through distance or derision, and instead resolved to focus on students' best interests.

Though Senator Kennedy's Report has come and gone, we continue to face significant challenges resulting from recent federal action. Last month, the College Cost Reduction and Access Act was signed into law by the President. Under this Act, a staggering \$22 billion in lender and guaranty agency revenue was cut from the FFELP sector. This is on top of the recent \$18 billion in cuts from the Higher Education Reconciliation Act of 2005. If there is any silver lining, the cuts to FFELP are intended to primarily fund increased PELL Grants. The major 30% cut (from 23% to 16%) in collection retention funding and the 40% reduction (from .10% to .06%) in Account Maintenance Fee (AMF) funding for guaranty agencies will reduce HESAA FFELP program resources by 20%, or over \$4 million, annually. HESAA is evaluating potential revenue opportunities, as well as enhancing existing programs, like NJCLASS, to offset the cut in FFELP revenue.

The Act also requires immediate programmatic changes to our system. We have already assembled a team to address these changes, and I am grateful for their prompt action.

Compounding the federal cuts to our revenue is another austere State budget. Preliminary projections estimate a \$3 billion shortfall in revenues compared to expenditure levels. Consequently, all State programs and expenditures will again be analyzed for efficiencies. HESAA, along with other State agencies, is performing budget reduction exercises for State budget planning purposes.

The HESAA Board's budget policy statement, approved earlier today, will be forwarded to the Office of Management and Budget and the Governor's Office. I am pleased that the Board's statement outlines the Board's financial aid priorities while recognizing the on going fiscal challenges facing New Jersey. Your recommendations stress the significance of need-based funding for the full time Tuition Aid Grant (TAG) program and the undeniable correlation between student assistance and the economic health of New Jersey. This policy statement recommends changing the TAG table philosophy towards further assisting those who cannot afford a higher education. Recognizing that funding the table in full is currently unaffordable, focusing limited resource on the students in the first two cells of the TAG table will continue to support enrollment at New Jersey colleges and universities. Students in the first cell, those with the highest need with estimated family incomes averaging \$16,400, would continue to receive awards based on the prior year's tuition levels (a one year lag between tuition and award values), students in the second cell, those with estimated average family incomes of \$23,200, would receive awards based on a two year lag between tuition and award values. All other students would receive awards reflecting a three-year lag compared to tuition. This is a positive step towards the ultimate goal of fully funding the TAG table in the future, while immediately narrowing the gap for our highest need students.

Advocating policies that advance higher education access, choice and affordability, while recognizing academic achievement in difficult budgetary times, is an arduous task. I thank the Board, and particularly the Budget Committee, for your efforts in evaluating and prioritizing the student aid programs in support of New Jersey's students.

As you know, HESAA is overwhelmingly self-funded. Given federal and State fiscal circumstances, it is increasingly important to protect our competitive position in the marketplace. Notably, HESAA's competitors from across the country actively compete for New Jersey loan volume currently guaranteed by HESAA. Since New Jersey is among the largest exporters of college students in the nation, business growth outside the State is a real opportunity. To that end, in addition to diligently maintaining our current New Jersey student loan portfolio, HESAA is working to increase our student loan business out of state. HESAA representatives are attending industry events, conferences, and conventions in Pennsylvania, New York and other states with a high concentration of New Jersey students. Only through strong revenue continuity can HESAA support New Jersey's comprehensive outreach initiatives and student friendly services.

A sample of HESAA's recent or upcoming outreach activities includes participating in

- ✓ the annual New Jersey Counselors Association meeting attended by over 1,000 guidance and admission counselors,

- ✓ the New Jersey School Board Association conference attended by over 5,000 school board members, superintendents, and business administrators,
- ✓ the Parent Teacher Association Convention attended by over 800 parents, teacher and guidance counselors, and
- ✓ the New Jersey Education Association conference attended by thousands of teachers and school administrators.

HESAA's student-friendly services include default aversion counseling, financial literacy training, and our "Real Money 101" offering. Collectively, these stress the critical importance of debt management, credit scores, and balancing personal finances. Since June we have meet with over 1,130 students statewide.

I am pleased to inform you that on October 12 HESAA launched its new website. The website has a fresh look and feel, and easier navigation for our customers. It will also incorporate tools to assist our institutions adhere to federal directives. This is just the beginning of product offerings we will be rolling-out over the next year.

The site has interactive sections for Students & Parents, Financial Aid Professionals, Lenders & Servicers, and High School Counselors. Our governance page has been expanded to include both board agendas and meeting minutes. You will be contacted shortly for your professional bios that will also be posted.

The website's Students and Parents section includes topics such as: Choosing a College, Applying to College, Paying for College and Repaying Your Student Loans. There are also links that will be helpful to students and parents - links to New Jersey colleges and universities, as well as links to NJ Transfer, the NJ Commission on Higher Education, and the Office of Federal Student Aid, to name a few.

HESAA worked closely with both the Student Advisory Committee and the New Jersey Advisory Committee on Student Aid to review and refine the site. (Ray, Tabatha – I want to thank you and your committee for your input.) I urge the Board to visit our website at www.hesaa.org. This re-design is the first step in enhancing the accessibility of information to the public. I welcome your feedback.

In terms of HESAA administered programs, I am happy to report of significant milestones in NJCLASS and NJBEST.

Incredibly, NJCLASS has surpassed last year's unprecedented growth. From June 1 through September 30, 2007, the NJCLASS Program approved 19,638 loans for \$277,940,955. This represents a 47.7% increase in the number of loans approved as compared to the same period in 2006. The average loan amount for 2007 is \$14,153 as compared to last year's average of \$13,519. The program's success reaffirms HESAA's strategy of using operating revenue to buy down the NJCLASS interest rate, making it the lowest 20-year fixed rate supplemental loan in the nation.

HESAA also implemented new features for NJCLASS, such as email notifications when a student's promissory note is received, and enhancing the disbursement function to handle three loan disbursements. Many schools have expressed their appreciation for this feature since the

three disbursements allow schools to include summer sessions within the loan period; or the multi-disbursement timing better matches the school's academic cycle.

NJBEST, the State's college savings plan, has also experienced tremendous success. (A report on the NJBEST program is being circulated.) With now over 186,000 participants, NJBEST has been the fastest growing college savings plan in the country over the last two years. NJBEST is among the top performing plans and remains the only college savings plan that offers a scholarship as an incentive to saving for college. On September 30, 2007, NJBEST assets eclipsed \$2.0 billion. Contrast that to the \$300 million in 2004. The comprehensive report includes details on all aspects of the NJBEST program. It was shared with the Legislature, the Governor's Office, and the Treasurer, among others. If you have any questions on the program, please feel free to contact me.

Finally, included in your Board mailing was the HESAA FY 2007 Year End Financial Report. As the report indicates, HESAA finances are sound, and will be critical as we confront the challenges presented by the College Cost Reduction and Access Act, and State reductions in DSS funding. If you have any questions on the report, please direct them to Gene Hutchins.

As I have just outlined, this past year has, at times, been trying, and others, remarkable. Clearly, the Authority does not have the luxury of being complacent. We will continue to vigorously work towards improving our products, services, and infrastructure. So long as we continue doing so, HESAA will remain well positioned to provide comprehensive financial aid information, outreach, programs, and services critical to our institutions, students and their families. Thank you.

Mr. Avery questioned whether we provide any information at the conferences we attend. Mr. Angulo responded that we have exhibit booths at all the different conferences and conventions and that when we have the opportunity we also do presentations. Dr. Kesselman asked how the 5.75% NJCLASS interest rate compares with the federal program. Mr. Hutchins responded that the Direct Plus Rate is 7.9% and the FFELP is 8.5%.

ADJOURNMENT

Ms. Torres said the next meeting would be on February 7, 2008.

A motion to adjourn was made by Harvey Kesselman and seconded by Wilma Harris. The motion passed unanimously.

The meeting adjourned at 10:45 a.m.