

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

July 22, 2010

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on July 22, 2010 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esquire; Mr. Richard Garcia; Mr. Edward Graham (teleconference); Ms. Wilma Harris; Dr. Harvey Kesselman; Ms. Rossy M. Matos; Ms. Jean McDonald Rash; Mr. Jonathan Nycz; Mr. Warren Smith (teleconference); Ms. Nancy Style, Treasurer's Designee; Ms. Kristy Van Horn (teleconference); and Mr. Wilmot Wilson, members.

ABSENT: Mr. Julio Marengo and Ms. Maria I. Torres.

CALL TO ORDER

Vice-Chairwoman Matos called the meeting to order at 10:05 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Matos led those present in the Pledge of Allegiance.

Ms. Matos welcomed the Board members and advised that because some members are participating via teleconference, Roseann Sorrentino will conduct a roll call for the resolutions.

Ms. Matos welcomed David Reiner, Esq., from the Governor's Authorities Unit; Cheryl Clarke, Deputy Attorney General; Dr. Robert Messina, Burlington County College; Rev. Michael Braden, St. Peter's College and Marguerite Beardsley, CHE.

She advised that no members of the public have registered to speak.

Deputy Attorney General Cheryl Clarke swore-in new SAC Board member Vice Chair Wilmot Wilson.

Ms. Matos asked Roseann Sorrentino to call the roll.

CONSIDERATION OF THE MINUTES OF THE APRIL 28, 2010 MEETING:

A motion to approve the minutes of the April 28, 2010 meeting was made by Dr. Harvey Kesselman and seconded by Jean McDonald Rash. The minutes were approved unanimously with two recusals, Jonathan Nycz and Wilmot Wilson, who did not attend that meeting. Wilma Harris was not yet present to vote on this matter.

CONSIDERATION OF THE MINUTES OF THE MAY 18, 2010 MEETING:

A motion to approve the minutes of the May 18, 2010 meeting was made by Dr. Harvey Kesselman and seconded by Jonathan Nycz. The minutes were approved unanimously with four recusals, Edward Graham, Rossy Matos; Warren Smith and Wilmot Wilson because they did not participate in the May 18, 2010 meeting. Wilma Harris was not yet present to vote on this matter.

REPORT OF THE BOARD BUDGET COMMITTEE

Dr. Harvey Kesselman reported that the HESAA Board budget committee met on July 8, 2010 to review several FY 2011 Full- and Part-Time Tuition Aid Grant funding models, as well as to discuss appropriated FY 2011 funding levels for all other State-supported programs administered by HESAA.

Dr. Kesselman expressed the Board's gratitude to Governor Christie and the Legislature for their support of New Jersey's State grant and scholarship programs during these challenging economic times. Their commitment was further demonstrated by the appropriation of \$25.411 million in FY 2010 supplemental funds to support the unprecedented growth in the full- time and part-time TAG programs, as well as in the NJ STARS and NJ STARS II programs.

The FY 2011 TAG appropriation of \$294.298 million is \$45.16 million higher than the original FY 2010 State appropriation, an increase of 18.1%. This is an extraordinary commitment of State funds in a year when New Jersey faced an \$11 billion budget shortfall. This increase includes funds to replace nonrecurring federal stimulus funds of \$34.08 million that were available during the 2009-2010 academic year. The balance of the increase will fund anticipated growth in the number of TAG-eligible students.

The Part-Time TAG for County Colleges Program is level funded for FY 2011 at \$9.611 million.

Although generous, these funding levels are insufficient to meet anticipated demand for full- and part-time TAG and require that awards be reduced below 2009-2010 levels.

Full-Time TAG Program

In FY 2010, more than 73,500 students, which equates to approximately 62,500 full-year equivalent awards, received \$312.6 million through the Full-Time TAG Program. To meet demand, \$6.462 million in contingency reserve funds, as well as a \$22 million supplemental appropriation, were required.

For the past six years, language in the Appropriations Act has required the Board to adopt a Full-Time TAG award table based on a one-year lag compared to tuition for students demonstrating the highest need, while all other awards were based on a three-year lag. Language in the FY 2011 Appropriations Act does not require that full-time TAG awards be set at a one- and three-year lag. Rather, within the limits of the available appropriation, awards **may not exceed** the 2009-10 in-state undergraduate tuition rate for students demonstrating the highest need, with comparable awards to students eligible for maximum awards at independent institutions. All other awards **may not exceed** 2007-08 in-state undergraduate tuition rates.

In light of this budgetary footnote language and available resources, the committee reviewed several full-time TAG award tables. The first model was based on a one-year/three-year lag compared to tuition, less an additional percentage to remain within available resources. One table funded 1,200 new awards, while the other funded 1,800 new awards.

The second model was based on a two-year/four-year lag, less an additional percentage to remain within available resources. Again, one table funded 1,200 new awards while the other funded 1,800.

A review of these award tables revealed that **most** of the highest need students would receive a larger award if the table based on a two-year/four year lag were adopted. This is the result of a 3% tuition cap at the four-year public institutions in 2009-2010, and the need to reduce 2010-2011 awards to remain within available resources.

In 2009-2010, the number of full-year equivalent awards increased by 8,848, or 16%, over 2008-2009 levels. This far exceeded the five-year growth rate of 4% and is unlikely to be repeated in 2010-2011. Mindful that budgeting for too many new awards would result in a larger than necessary reduction in award values, the committee discussed whether the table should include 1,200 or 1,800 new awards. In light of recent program growth, the continuing economic downturn, and a 9.8% increase in the number of 2010-2011 applications received as of early July, the consensus was that it is reasonable to budget for 1,800 new awards, which is a 3% growth rate.

In summary, the budget committee recommends the adoption of a full-time TAG award table which reflects a two-year lag compared to tuition, less approximately 7.7% for students demonstrating the highest need. All other awards are based on a four-year lag compared to tuition, less approximately 7.7%. This table is projected to fund 64,315 full-year equivalent awards – an increase of 1,800 awards over 2009-2010.

Part-Time TAG Program for County College Student

As previously mentioned, the Part-Time TAG for County Colleges FY 2011 was level funded at \$9.611 million.

In FY 2010, the number of part-time award recipients increased by 28%. Awards totaled more than \$8.985 million, which exceeded the \$7.115 million appropriation by approximately \$1.86 million. This shortfall was covered by a supplemental appropriation.

It is anticipated that demand for part-time TAG will remain strong. Accordingly, the FY 2011 Part-Time TAG for County Colleges award tables considered by the committee, which were based on the same parameters as the full-time TAG tables, include 1,900 new awards – a growth rate of 15%.

The committee recommends adopting a Part-Time TAG for County Colleges award table based on the same parameters as the Full-Time TAG award table. This means awards for the neediest students would be based on a two-year lag compared to tuition, while awards for all other students would be based on a four-year lag for all other students. **All awards** would be further

reduced to remain within the available appropriation. It is anticipated that this table would fund 14,500 students.

NJ STARS/NJ STAR II Programs

Demand for NJ STARS and NJ STARS II remained strong in 2009-2010, with nearly 5,600 students receiving approximately \$17.9 million. A supplemental appropriation was provided to cover costs in excess of the original \$17.769 million appropriation. Of this amount, nearly \$11.1 million was provided to NJ STARS students, while NJ STARS II students received almost \$6.8 million.

The FY 2011 Appropriations Act includes \$21.139 million for the NJ STARS and NJ STARS II Programs. It should be noted that while it was recommended that awards for 2010 high school graduates be suspended in 2010-2011, FY 2011 funding for these students was restored. However, NJ STARS-eligible 2010 high school graduates will be eligible to receive awards based on tuition only, rather than on tuition and fees. All other current NJ STARS students will continue to be eligible for awards covering tuition and fees in academic year 2010-2011.

Other than the **Part-Time TAG for EOF Students Program**, which was level funded at \$558,000, all of the other student assistance programs administered by HESAA were funded at reduced levels and closed to new students. This pertains to the following programs:

Survivor Tuition Benefits - funded at \$38,000, a \$12,000 reduction

Dana Christmas Scholarships for Heroism – no funds were appropriated, a \$50,000 reduction. Michael will discuss this further during his Executive Director Report.

Social Services Student Loan Redemption - funded at \$700,000, a \$2.8 million reduction

Teaching Fellows – funded at \$70,000, a \$62,000 reduction

Coordinated Scholarships – funded at \$5.352 million, a \$1.783 million reduction

Veterinary Medical Education – funded at \$170,000, a \$254,000 reduction

Primary Care Physician/Dentist Loan Redemption – funded at \$1.5 million, a \$500,000 reduction

World Trade Center Scholarships – funded at \$202,000 – a \$248,000 reduction

This concludes the report of the Board budget committee.

RESOLUTION 06:10 ADOPTING A TUITION AID GRANT AWARD TABLE FOR ACADEMIC YEAR 2010-2011

Ms. Sherry Fox presented this item to the Board.

Resolution 6:10 establishes a table of full-time Tuition Aid Grant award values for the 2010-2011 academic year, in accordance with the provisions of the Fiscal Year (FY) 2011 Appropriations Act.

As Dr. Kesselman reported, in order to remain within available resources, while recognizing a likely increase in the number of TAG-eligible students, the 2010-2011 Full-Time TAG Award Table recommended for adoption sets awards for students demonstrating the highest need at a two-year lag compared to tuition, less approximately 7.7%. Awards for all other eligible

students are based on a four-year lag compared to tuition, less approximately 7.7%. In other words, 2010-2011 awards would be equivalent to 2009-2010 awards, less 7.7%.

As shown in Attachment B, in addition to the State appropriation of \$294,298,000, budgeted FY 2011 full-time TAG resources also include a State appropriation of \$548,000 for part-time students receiving TAG through the EOF Part-Time Program, as well as \$2,022,000 in federal matching funds received under the LEAP/SLEAP Programs. Total available resources are \$296,878,000.

These resources are sufficient to fund the Full-Time TAG Table shown in Attachment B which will support 64,315 full-year equivalent awards.

It should be noted that budgetary footnote language permits the Authority to retain the unexpended balance in the TAG account as of June 30, 2010, as well as refunds recognized after July 31, 2010. These reappropriated balances are to be held as a contingency for unanticipated increases in the number of applicants qualifying for full-time TAG awards, to fund shifts in the distribution of awards that result in an increase in total program costs, or to offset any shortfalls in the federal LEAP/SLEAP Programs. Subject to the approval of the Director of the Division of Budget and Accounting, supplemental appropriations are available should these resources be insufficient to cover program costs.

It is recommended that the Board approve the Full-Time TAG Award Table for the 2010-2011 academic year shown in Attachment A.

Wilma Harris questioned how TAG was able to get a supplemental appropriation. Nancy Style explained, though she does not represent the legislature, this year the supplemental appropriations for the Student Assistance Program was part of a much larger budget balancing bill for FY 10. Ms. Style thanked the HESAA staff for providing information to the Administration and to the Legislature allowing OMB to make decisions and work with the Legislature.

Wilma Harris asked what the refunds tend to be after that July 31 date. Gene Hutchins responded that it varies from year to year and that because the final payment for the TAG table was delayed until June after the supplemental appropriations were passed, a lot of the reconciliation work was done in advance of those payments being made. Therefore, the refunds this year should be significantly less than the previous years.

Jonathan Nycz thanked the Governor and Legislature for approving additional funds for this program but also showed some concerns regarding the funding cuts to Higher Education Institutions.

A motion to approve this resolution was made by Richard Garcia and seconded by Jonathan Nycz. The motion passed with ten yes votes and one no vote by Jean McDonald Rash.

RESOLUTION 07:10: ADOPTING A PART-TIME TUITION AID GRANT AWARD TABLE FOR COUNTY COLLEGES FOR ACADEMIC YEAR 2010-2011

Ms. Sherry Fox presented this item to the Board.

Resolution 7:10 establishes a table of part-time Tuition Aid Grant award values for the 2010-2011 academic year, in accordance with the provisions of the Fiscal Year (FY) 2011 Appropriations Act.

The Part-Time TAG for County Colleges award table shown in Attachment A is based on the same parameters as the 2010-2011 full-time TAG award table. That is, awards for students demonstrating the highest need are based on 2008-09 tuition levels, a two-year lag, while all other awards are based on 2006-07 tuition, a four-year lag. All awards were then proportionately reduced from one-half and three-quarters of the full-time award values to remain within the appropriation. As a result, 2010-2011 part-time awards will be approximately 7% lower than in 2009-2010.

The FY 2011 appropriation for the Part-Time TAG for County Colleges Program is \$9,611,000. This appropriation is sufficient to fund the Part-Time TAG Table shown in Attachment B, which will provide awards to 14,500 students, an increase of 1,900 over the 2009-2010 academic year.

Budgetary footnote language permits the Authority to retain the unexpended balance in the part-time TAG for county colleges account as of June 30, 2010, as well as refunds recognized after July 31, 2010. These reappropriated balances are to be held as a contingency for unanticipated increases in the number of applicants qualifying for part-time awards or to fund shifts in the distribution of awards that result in an increase in total program costs.

It is recommended that the Board approve the Part-Time TAG Award Table for the 2010-2011 academic year shown in Attachment A.

A motion to approve this resolution was made by Wilma Harris and seconded by Wilmot Wilson. The motion passed with ten yes votes and one no vote by Jean McDonald Rash.

REPORT OF THE NOMINATING COMMITTEE AND ELECTION OF OFFICERS AND MEMBERS OF THE EXECUTIVE COMMITTEE (RESOLUTION 05:10 ELECTING A CHAIRPERSON, VICE CHAIRPERSON AND TWO MEMBERS OF THE EXECUTIVE COMMITTEE)

Wilma M. Harris made the following presentation to the Board.

In accordance with Article V of the Bylaws of the Higher Education Student Assistance Authority, the Chairperson appointed Harvey Kesselman, Warren Smith and Ms. Harris to the Nominating Committee to nominate a Chairperson and Vice Chairperson from among the public members of the Authority Board and two additional members of the Executive Committee, one from among the public members of the Board and one from among the institutional members of the Board; and

The bylaws include the State Treasurer or designee and the Executive Director as members of the Executive Committee, with the Executive Director serving as Secretary Treasurer. Accordingly, Nancy Style, as Treasurer's Designee is a member of the Executive Committee, and Executive Director Michael Angulo will serve as Secretary/Treasurer of the Executive Committee.

The Nominating Committee met on June 15, 2010 and recommend electing Richard Garcia as Chairperson, Rossy Matos-Miranda as Vice Chairperson, M. Wilma Harris as a member of the Executive Committee representing public members and Dr. Harvey Kesselman as a member of the Executive Committee representing institutional members, for fiscal year 2011.

A motion to approve Resolution 05:10 was made by Jean McDonald Rash and seconded by Jonathan Nycz. The motion was passed unanimously.

RESOLUTION 08:10 CONSIDERATION AND APPROVAL OF THE ANNUAL REPORT AS PER EXECUTIVE ORDER 37

Joel Mayer made the following presentation to the Board.

Executive Order 37, which was signed by Governor Corzine, requires that Boards of Independent Authorities be presented with the annual report of that Authority. This report is being presented for board action, review and formal resolution. The process from that point forward is that once the report is authorized, it will be presented to the Director of the Authorities Unit and will be posted as it always has been in the past, on HESAA's website. At the time the Report is presented to the Director of the Authorities Unit, it will be accompanied by a certification that is executed by Executive Director and Chief Financial Officer to confirm and certify that throughout 2009 the Authority followed all of the prescribed internal controls which are in place.

Mr. Mayer recommended that the Annual Report which includes HESAA's financials for FY 2009 and FY 2009 separately, be adopted.

A motion to approve Resolution 08:10 was made by Warren Smith and seconded by Richard Garcia.

During discussion on the Resolution Dr. Kesselman suggested that the Annual Report be footnoted to reflect that OSRP expended funds have decreased because the program has been eliminated. Executive Director agreed with this suggestion.

Resolution 08:10 passed unanimously, as amended by Dr. Kesselman.

RESOLUTION 09:10 CONSIDERATION OF PROPOSED AMENDMENTS OF THE REGULATIONS GOVERNING THE NEW JERSEY COLLEGE LOANS TO ASSIST STATE STUDENTS (NJCLASS), N.J.A.C. 9A:10-6

Marnie Grodman made the following presentation to the Board.

Resolution 09:10 proposes amendments to the regulations governing the NJCLASS program in order to implement updates to the program.

Each year when determining interest rates for NJCLASS HESAA looks at ways to improve the program and reduce default rates. For the 2010-2011 Academic Year it was determined that it

would be in the best interest of students and families to offer a 10-year repayment option where repayment of principal and interest would start immediately. This plan offers families a lower interest rate. Additionally, it is projected that the shorter repayment term will lead to less defaulted loans.

Additionally, for loans with the in-school interest only repayment option, instead of quarterly interest payments, the payments will now be monthly. The amount of the monthly payments will be smaller than quarterly, and it will help families with their payment planning by getting regular monthly bills.

In addition to implementing these changes, the regulatory amendments implement the MedNJ program. MedNJ was offered as a pilot program for the 2009-2010 Academic Year to medical and dental students working towards an MD, DO, DDDS or DMD degree to offer a fixed interest rate, flexible repayment options, a 25 year repayment term and a special 3-year residency deferment. Due to the success of this program, the regulations are being amended to implement it full-time.

Finally, as there will federal law as changed eliminating any new FFELP originations, the regulations are being amended to eliminate reference to the FFELP program.

A full copy of the regulatory amendments are included in the materials. Upon the Board's approval of Resolution 09:10, the proposed amendments to N.J.A.C. 9A:10-6 will be published in the September 7, 2010 New Jersey Register.

A motion to approve Resolution 09:10 was made by Dr. Harvey Kesselman and seconded by Nancy Style. The motion was passed unanimously.

RESOLUTION 10:10 CONSIDERATION OF PROPOSED AMENDMENTS OF THE REGULATIONS GOVERNING THE PRIMARY CARE PHYSICIAN AND DENTIST LOAN REDEMPTION PROGRAM, N.J.A.C. 9A:16

Marnie Grodman made the following presentation to the Board.

P.L. 2009 c. 145 was enacted on November 20, 2009 amending the Primary Care Physician and Dentist Loan Redemption Program. These regulatory amendments to title 9A; chapter 16 are being proposed to implement the statutory amendments. HESAA received input from UMDNJ on the proposed amendments.

The most noticeable change is to the name of the program, from the Primary Care Physician and Dentist Loan Redemption Program to the Primary Care Practitioner Loan Redemption Program.

Additional changes to the program include: adding definitions for "approved site," "primary care practitioner," and "total and permanent disability"; allowing participants to serve on a part-time basis after completing the first two years of initial service on a full-time basis; and providing a mechanism by which HESAA can make payments to reimburse participants for all or part of their increased tax liability incurred pursuant to the New Jersey Gross Income Tax Act, if there are available funds.

A copy of the regulations, containing all of the proposed amendments, is included with the materials.

Upon the Board's approval of Resolution 10:10, the proposed amendments to N.J.A.C. 9A:16 will be published in the September 7, 2010 New Jersey Register.

A motion to approve Resolution 10:10 was made by Jonathan Nycz and seconded by M. Wilma Harris.

During discussion Ms. Harris questioned the significance of the change from Physician and Dentist to Practitioner. Mr. Hutchins stated that the original 1992 statute limited the program to physicians and dentists only, but that previous statutory amendments expanded the program to nurse practitioners, physician assistants, and nurse mid-wives. The current name change reflects this previous expansion.

Dr. Kesselman questioned how many individuals are eligible for this program on an annual basis. Mr. Hutchins responded the program is closed to new participants for this year, and there are currently about 42 providers statewide.

The motion was passed unanimously.

RESOLUTION 11:10 CONSIDERATION OF PROPOSED REGULATIONS GOVERNING THE NURSING FACULTY LOAN REDEMPTION PROGRAM, N.J.A.C. 9A:10-4

Marnie Grodman made the following presentation to the Board.

P.L. 2009 c. 236 was enacted on January 16, 2010 creating a new loan redemption program, the Nursing Faculty Loan Redemption Program. Pursuant to section 8 of the new act, HESAA is responsible for promulgating rules and regulations to implement the Nursing Faculty Loan Redemption Program. This program provides loan redemption for up to five years for participants who earn an approved graduate degree within one year of commencing full-time faculty employment at an eligible School of Nursing. HESAA worked with the Robert Wood Johnson Foundation New Jersey Nursing Initiative in preparing the proposed regulations.

The statute provided funding for the Nursing Faculty Loan Redemption Program by dedicating 25% of the Primary Care Practitioner Loan Redemption Program appropriation. The statute further authorized HESAA to determine the amount of the loan redemption. Based on a historical appropriation of \$1.5 million to the Primary Care Practitioner Loan Redemption Program, the funding for the Nursing Faculty Loan Redemption Program would be \$375,000. In balancing the interests of making the award amount large enough for participants to apply, while ensuring that multiple participants would be funded, the loan redemption amount is recommended to be \$50,000 over 5 years.

Additionally, to provide further incentive for participants to stay in the program for the full five years, the amount of the redemption is graduated, providing \$5,000 for the first year, \$7,000 for the second year, \$10,000 for the third year, \$13,000 for the fourth year and \$15,000 for the fifth

year. At this time there is no funding for this program based on the appropriation language is because there is no funding for new participants in the Primary Care Practitioner Loan Redemption and the funding for this program is part of that appropriation.

A full copy of the regulations is included with the materials.

Upon the Board's approval of Resolution 11:10, the proposed regulations for the Nursing Faculty Loan Redemption Program will be published in the September 7, 2010 New Jersey Register.

Ms. Grodman then introduced Lynn Mertz from the Robert Wood Johnson Foundation Nursing Initiative.

Ms. Mertz thanked HESAA and Ms. Grodman; for assisting in drafting these regulations and looks forward the day the program is funded and the schools of nursing can use this as a marketing tool and an opportunity to help bring in nursing faculty to the state. The New Jersey Nursing Initiative is a program of the Robert Wood Johnson Foundation. It is a 5-year initiative whose goal is to educate and recruit more Nurse Faculty for the State.

A motion to approve Resolution 11:10 was made by M. Wilma Harris and seconded by Nancy Style.

FY 2011 HESAA ADMINISTRATIVE AND PROGRAM BUDGET OVERVIEW

Gene Hutchins provided the Board with an overview of the Budget that HESAA operates under for FY 2011. Under our authorizing statute and in accordance with directives published by the Office of Management and Budget (OMB), we submit an administrative program budget to OMB every year in October and that budget is submitted in accordance with various planning parameters and budgetary targets that are evolved at the state level starting about now. That process starts almost immediately following the signing of the current year's appropriations act.

Once our budget is submitted to OMB it undergoes technical review by OMB staff, reviewed by the Treasurer's office, the Governor's office, and once the Governor makes his recommendations to the legislature, they have a separate review process that they follow including appropriations hearings which Authority staff participate by appearing before the legislative budget and appropriation committees and providing testimony on the contents of our budget. The legislature enacts an appropriations act subject to signature and line item veto by the Governor. What is reflected in the charts attached to the memorandum are the results of that 10 month process that was completed at the end of June.

HESAA's administrative expenditure budgets for FY 2011 total about \$28.117 million, which a reduction of \$822,000 or -2.8% from FY 2010. The budget overall funds 179 HESAA positions and all associated non-salary costs associated with delivering the state and federal student assistance services to over a million New Jersey residents each year. Mr. Hutchins pointed out that the last chart in the package outlines what has been going on with HESAA positions over the last four years. In 2007 we had 225 positions and as previously mentioned we are down to 179 positions, a 46 position reduction or about 20% of our workforce. We do have some critical vacancies that we are discussing with the Governor's office, but this represents ongoing efforts

of HESAA to increase our productivity through investments and technology and other efficiency generating investments.

In that \$28.1 million for FY 2011, \$656,000 is appropriated from the state general fund for the administration of state programs that is a \$266,000 reduction from FY 2010 and represents an ongoing trend in our State Budget for administration. We continue to absorb more funds within our non-state revenue producing programs to support the delivery of state student assistance, primarily the TAG and scholarship programs.

For the federal student loan program administration, we anticipate a budget of \$16.9 million. The Health Care and Education Reconciliation Act of 2010 eliminated all new loan originations under the FFELP program; however, it doesn't replace the existing loan portfolio for the FFELP program. We will continue to administer that, but \$1.5 million that was previously realized from the origination of guarantees under FFELP program will no longer be generated. Those costs are being absorbed under the NJCLASS program which continues to grow.

New Jersey College Loans to Assist State Students (NJCLASS) Program has a \$1.7 billion dollar portfolio and originates \$350 million in new loans each year. There is an administrative budget of \$9.96 million for NJCLASS, which is the biggest increase in our budget, \$1.3 million or 15% over FY 2010. The two major things going on there, we are absorbing the cuts in the state program as well as the cuts in the federal program. NJCLASS is supporting about \$1.2 million in the State grants and scholarship administrative costs. This is addition to the federal loan program where there is about \$2 million of administrative costs directly associated with delivering state programs that are funded from that revenue source.

Mr. Hutchins referred to the chart on the Grants-In-Aid budgets, as Dr. Kesselman indicated the State made a significant commitment of funds totaling almost \$45 million for the tuition aid grant program but other programs in light of the fiscal situations were required to face a reduction. We do have federal grants for health services also for LEAP/SLEAP which contributes the costs of the Tuition Aid Grant program. Under all other funds there is detailed dedicated grant revenue other than the NJCLASS program.

Dr. Kesselman commented that over the course of the last four fiscal years there has been a 48% reduction in the number of lines that are funded by the State of New Jersey and asked what the increase in the total amount of aid awarded by HESAA has been in the same timeframe. Mr. Hutchins responded that the increase is approximately \$100 million, but that the increase in award amounts does not necessarily equate to an increase the amount of people getting awards. Mr. Hutchins explained that HESAA is a revenue producing entity and that HESAA works with OMB to determine which people working within the areas that deliver state student assistance have salaries either partially or entirely funded from revenue producing programs.

Dr. Kesselman asked what the increase in total number of students serviced by HESAA was in the last four fiscal years. Ms. Fran Andrea responded that in the grants area alone, there was over a 16% increase in application volume this past year. In addition the volume of students in the NJCLASS program has grown over the last four years approximately 25 – 30%. The exact numbers can be provided to the Board.

Dr. Kesselman stated that it is critical to put on the record that HESAA has been looked at carefully by a number of entities and that it has withstood review. Dr. Kesselman commended HESAA for insuring that it is not a drain on taxpayer funds but rather an example of an agency that can deliver more with significantly less.

Gene Hutchins provided the Board with an overview of the Budget that HESAA operates under for FY 2011. Under HESAA's authorizing statute, and in accordance with directives published by the Office of Management and Budget (OMB), HESAA submits an administrative program budget to OMB every year in October in accordance with various planning parameters and budgetary targets that are determined at the state level. That process starts almost immediately following the signing of the current year's appropriations act.

Once HESAA's budget is submitted to OMB it undergoes technical review by OMB staff, and is reviewed by the Treasurer's office and the Governor's office. Once the Governor makes his recommendations to the legislature, they have a separate review process that they follow as well, including appropriations hearings in which Authority staff participate. Authority staff also appear before the legislative budget and appropriation committees and provide testimony on the contents of HESAA's budget. The legislature enacts an appropriations act subject to signature line item veto by the Governor. Reflected in the charts attached to the memorandum are the results of that 10 month process that was completed at the end of June.

HESAA's administrative expenditure budgets for FY 2011 total about \$28.117 million, which is a reduction of \$822,000 or -2.8% from FY 2010. The budget overall funds 179 HESAA positions and all associated non-salary costs associated with delivering the State and Federal student assistance services to over a millions New Jersey residents each year. Mr. Hutchins pointed out that the last chart in the package outlines the evolution of HESAA positions over the last four years. In 2007 there were 225 positions, and as previously mentioned, HESAA is down to 179 positions, a 46 position reduction or about 20% of the workforce. There are some critical vacancies that HESAA staff is discussing with the Governor's office, but this represents ongoing efforts of HESAA to increase productivity through investments and technology and other efficiencies.

Of the \$28.1 million for FY 2011, \$656,000 is appropriated from the State federal fund for the administration of State programs. That is a \$266,000 reduction from FY 2010 and represents an ongoing trend in the State Budget for administration. HESAA continues to absorb more funds in non-State, revenue producing programs to support the delivery of State student assistance, and TAG scholarship programs.

For administration of the Federal student loan program administration, HESAA budgeted \$16.9 million. While, the reconciliation act of 2010 for Healthcare and Education eliminated all new loan originations under the FFELP program it does not eliminated the existing loan portfolio for the FFELP program. HESAA will continue to administer that portfolio, but \$1.5 million previously realized from the origination of guarantees under the FFELP program will no longer be generated. Those costs are being absorbed under the NJCLASS program which continues to grow.

New Jersey College Loans to Assist State Students (NJCLASS) Program Administration has a \$1.7 billion portfolio and originates \$350 million in new loans each year. There is an

administrative budget of \$9.96 million, which is the biggest increase in the budget, of \$1.3 or 15% over FY 2010. This increase was caused by absorbing the cuts in the State program as well as the cuts in the Federal program. NJCLASS also supports about \$1.2 million in the State grants and scholarship costs. Under the Federal program there is about \$2 million of administrative costs directly associated with delivering State programs that are funded from that revenue source.

Mr. Hutchins referred to the chart on the Grants-In-Aid budgets. As Dr. Kesselman indicated the State made a significant commitment of funds totaling almost \$45 million for the Tuition Aid Grant program, but other programs were required to face a reduction in light of the fiscal situations. There are Federal grants for health services and LEAP/SLEAP which contribute to the costs of the Tuition Aid Grant program.

Dr. Kesselman commented that over the course of the last four fiscal years there has been a 48% reduction in the number of lines that are funded by the state of New Jersey and asked what the increase in the total amount of aid awarded by HESAA has been in the same timeframe. Mr. Hutchins responded that the increase is approximately \$100 million, but that the increase in award amounts does not necessarily equal an increase the amount of people getting awards. Mr. Hutchins explained that HESAA is a revenue producing entity and that HESAA works with OMB to determine which people working within the areas that deliver state student assistance have salaries either partially or entirely funded from revenue producing programs.

Dr. Kesselman asked what the increase in total number of students serviced by HESAA was in the last four fiscal years. Ms. Fran Andrea responded that in the grants area alone, there was over a 16% increase in application volume this past year. In addition the volume of students in the NJCLASS program has grown over the last four years approximately 25 – 30%. The exact numbers can be provided to the Board.

Dr. Kesselman stated that it is critical to put on the record that this entity has been looked at carefully by a number of entities and that it has withstood review. Dr. Kesselman commended HESAA for insuring that it is not a drain on taxpayer funds but rather an example of an agency that can deliver more with significantly less.

REPORT OF THE STUDENT ADVISORY COMMITTEE

Gloria Green presented this item to the Board.

The first meeting of the 2010-2011 Student Advisory Committee (SAC) was held on July 6, 2010 at 2 Quakerbridge Plaza. Following the welcome and introductions, staff from the Higher Education Student Assistance Authority (HESAA) provided a comprehensive overview of HESAA programs, products, and services. In addition, the role and responsibilities of the SAC were also discussed.

EXECUTIVE DIRECTOR'S REPORT

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

Mr. Angulo Congratulated Richard Garcia on his election as HESAA Board Chair, and Ms. Rossy Matos as Vice Chair. He also congratulated and thanked Maria Torres for her 3 years of conscientious service and leadership as Chairwoman.

On June 29, 2010, the Appropriations Act was signed into law which requires a number of changes to the programs administered by HESAA.

Student assistance funding, even in these difficult financial times, has again been supported by the Governor and the Legislature, though not at the funding levels initially requested by the Board. The full-time Tuition Aid Grant program received an increase of \$23.16 million or 8.5% above the FY 2010 original appropriation for a total of \$294.298 million. This past year, due to the economic conditions which resulted in an unprecedented number of eligible students, the full time TAG program received a State supplemental appropriation of \$22 million, and other non-recurring resources to fund awards. HESAA is grateful to the Governor and the Legislature for their ongoing support of TAG, Part-time TAG, and NJSTARS, and their leadership towards ensuring that last year's programmatic shortfalls were funded despite the very difficult State budget.

The Board approved a Tuition Aid Grant table that will provide awards to an increasing number of students while remaining within the current appropriation. Thank you to the budget subcommittee for comprehensively evaluating all of the data and moving forward with the full time and part time TAG tables.

The Part-time Tuition Aid Grant Program has been increased by \$2.5 million or 35% from its FY 2010 original appropriation to \$9.611 million, enabling the Board to accommodate the projected increase in the number of eligible students, though with reduced awards. This program also received a FY 2010 supplemental appropriation of \$2.5 million.

Student Eligibility Notices (SENs) are being issued over the next few weeks notifying students of their revised Full-Time TAG eligibility.

NJ STARS program funding has been set at \$21.139 million, which will restore awards to first year students attending county colleges. Awards will be limited to tuition only for all 2010 high school graduates. Continuing STARS students will not be affected.

The funding level for the following programs remain as proposed in the Governor's budget and reflects reductions to suspend awards for non-renewal students:

COORDINATED GARDEN STATE SCHOLARSHIP PROGRAMS	\$5.352 MILLION
SURVIVOR TUITION BENEFITS PROGRAM	\$ 38,000
SOCIAL SERVICES LOAN REDEMPTION PROGRAM	\$ 700,000
PRIMARY CARE PHYSICIAN AND DENTIST LOAN REDEMPTION PROGRAM	\$1.5 MILLION
NJ WORLD TRADE CENTER SCHOLARSHIP	\$ 202,000
TEACHING FELLOWS PROGRAM	\$ 70,000

The Veterinary Medical Education Program funding of \$170,000 reflects the continuing phase out of the program.

Finally, the funding for Direct State Services which supports HESAA's administration of the state grant aid programs has been reduced by \$266,000, to a total appropriation of \$656,000. As in the past, HESAA will absorb this reduction through non-state revenue sources.

As Gene Hutchins detailed during his budget presentation, the Authority continues to do more with less. HESAA's operating budget is down 2.8% from the prior year and staff count is down by 46 employees or 20.4% since 2007. Yet programs like NJSTARS, NJBEST, and NJCLASS have grown substantially, outreach has touched more students/families, and the Authority is looking to grow its revenue generating business offerings.

In order to continue HESAA's success and business growth going forward, the Authority's operational integrity must be a paramount consideration. Last month, the Office of the Inspector General issued a report reviewing the internal controls at HESAA. To the extent possible, the Report's constructive findings have already been addressed. Among the actions taken, HESAA is seeking to fill key vacancies, the Authority's compliance program has been enhanced, and, beginning with the October Board meeting, HESAA's Financial Advisor and Senior Underwriter will present to the Board a detailed overview of the bond issuance process. However, a few conclusions in the Report require additional evaluation due to uncertainty or contention over the OIG's underlying considerations. That process, led by HESAA's Chief Compliance Officer, Joel Mayer, is underway, and the Board will be updated upon completion. The internal review is important not only to clarify and correct the record where appropriate, but also to assure investors and partners in the financial markets that, based on HESAA's extensive record of effective operations, NJCLASS bonds are deserving of their strong rating.

As background, among the unintended consequences of the OIG's Report was its potentially adverse impact on HESAA's bond rating. HESAA is proud to have a rating of AA3 from Moody's (a difficult achievement in a highly conservative credit marketplace) based upon HESAA's robust operations. In fact, HESAA's NJCLASS program is viewed as a national model that other states are attempting to imitate. HESAA's strong credit rating allows the Authority to keep the cost of capital at a minimum thereby allowing for favorable terms and low interest rates. HESAA staff worked diligently to address a flurry of questions in emails and teleconferences with rating agencies in response to the OIG Report, successfully averting any rating downgrade, and saving students tens of millions of dollars in additional costs.

The \$280 million bond issuance supporting NJCLASS for FY 2011 was completed this past June 21st. This provides funding for NJCLASS, NJCLASS for Graduate/Professional Students, and MedNJ. These products will continue to offer three repayment options as in past years, and HESAA was able to secure lower interest rates (starting at 7.59% for 20 year loans) than what was available last year. There will also be some changes to the NJCLASS program this year. Under repayment Option 2, borrowers will pay interest monthly rather than quarterly. Also, a three percent origination fee will be charged for loans utilizing repayment Option 3 – full deferral of interest and principal. However, recognizing that many choosing this option are economically disadvantaged, HESAA will pay the additional 1% on behalf of the borrowers for the coming year. Upon requests from customers HESAA also created a 10 year repayment program carrying an interest rate of 5.9%. This is a full 2% lower than the Federal PLUS loan.

As of last month for FY10, NJCLASS served more than 26,000 borrowers with almost \$354 million. As tuition continues to rise and other sources of aid diminish, it is anticipated that there will be a continuing strong demand for the affordable NJCLASS loan program.

To simplify the customer experience with NJCLASS, the electronic signature process is now operational. The electronic signature process will permit NJCLASS borrowers to electronically sign their applications improving the processing time by days and sometimes weeks. This project has been in the making for two years and has been thoroughly tested to insure the highest level of security. It is hoped to roll this process out to other areas of the organization over the next few months, further streamlining the operation and allowing HESAA to continue to move to a paperless environment.

In terms of outreach, HESAA once again exceeded the prior year's totals. Outreach efforts touched almost 276,000 students, parents, aid professionals, and guidance counselors. HESAA conducted more than 200 sessions for financial literacy and default aversion, co-sponsored College Goal Sunday, and coordinated with a number of Legislators to provide financial aid seminars for their constituents. The Authority processed 13,183 incoming emails, and expects that number to increase substantially this year since as there have been almost 11,000 emails through the end of June. Following a similar trend, staff handled nearly 271,000 calls and managed over 4 million pieces of mail.

The U.S. Department of Education has eliminated some data elements from the Free Application for Federal Student Aid. It is estimated that the cost to fund the Tuition Aid Grant Program would have increased by approximately \$10 million if HESAA had not collected this information from potentially eligible applicants. Staff had initially hoped to link directly to the FAFSA to request additional data elements, but the U.S. Department of Education was not able to accommodate this request in a manner timely enough to process applications for FY 2011. Therefore, the Authority built an application and process to collect the additional data. The application was launched on April 13, 2010, but not without some technical hurdles which have since been addressed. Through it all, students and parents were able to submit their information, either electronically, by fax, or by mail. To date, HESAA has received data from nearly 107,000 students and families.

In order to ensure HESAA's ongoing capacity to take on new initiatives like TAG data collection, e-signature, and so forth, the Authority is upgrading and expanding the technology infrastructure. HESAA's continued investment in technology is a critical component in the Authority's future ability to serve students and compete in the financial aid marketplace.

One of the electronic programs HESAA has been working on is the ISIR correction process. An Institutional Student Information Record (ISIR) is the resultant report provided to colleges after a student files the FAFSA. Often, corrections are necessary. For example, updating estimated tax information to actual tax income information. Prior to 2009-10, these corrections needed to be made twice, once on the federal system and once on HESAA's system. The ISIR correction process allows HESAA to capture changes made on the federal side, thereby eliminating the need for campus financial aid administrators to enter the data a second time for HESAA. In 2009-10, financial aid administrators were pleased with the new process. The process for 2010-11 was initially anticipated to be implemented in June. However, significant updates were required to enable HESAA to accept ISIR corrections for a student whose State grant records are

incomplete pending submission of the additional data requested. HESAA is testing these revisions and anticipates implementing the ISIR correction process by the end of July. In early August, students will receive revised Student Eligibility Notices (SENs) that reflect eligibility based on any ISIR corrections that may have been submitted as well as revised TAG award values.

There is some good news on the Federal front. Beginning in 2008, the USDE undertook reviews of all 34 Guaranty Agencies across the country to evaluate their transitions from the old guarantor funding model to the new funding model following the 1998 Reauthorization of the Higher Education Act (HEA). HESAA was reviewed in March of 2009. On June 23, 2010, the USDE closed its review without any adverse conclusions or penalties to HESAA. The outcome of the review can be largely attributed to the extensive and complete financial records maintained by the Authority staff.

Among the Federal opportunities HESAA is actively pursuing is that contained in the Health Care and Education Reconciliation Act (HCERA) of 2010. The Act provides for eligible nonprofit student loan agencies to perform servicing of a minimum of 100,000 federal Direct Loans under contracts with the US Department of Education (USDE). The first stage of the nonprofit servicer contracting process was initiated by the USDE on April 29, 2010 which requested that all interested nonprofit agencies submit documentation to support their eligibility for these servicing contracts. HESAA responded to this request and was included in the list of 12 nonprofit agencies initially qualified for Direct Loan servicing that was published by the USDE on June 29, 2010. This is an important first step in what is expected to be a long contracting process through which HESAA will be expected to meet extensive federal requirements before a contract is awarded for the servicing of Direct Loans. USDE does not expect nonprofit Direct Loan servicing contracts to be in place before July 1, 2011.

The Authority is also pursuing Federal grant funding. Through a collaborative effort with the Commission on Higher Education, the College Access Challenge Grant application has been submitted to the US Department of Education. Approval is expected in late summer. Upon approval, HESAA would receive funding to support and expand existing financial aid related activities, including initiatives to encourage the timely completion of the FAFSA, financial literacy training, and outreach.

HESAA has been designated by the Governor as the lead agency to administer the Federal John R. Justice Loan Redemption Program. This program, funded by a grant from the U.S. Department of Justice, is intended to redeem loans for prosecutors and public defenders. HESAA is coordinating with the Office of Attorney General (OAG) and the Office of the Public Defender (OPD) on the grant application and program parameters. Once the Federal grant is approved, HESAA, the OAG, and the OPD will publicly announce program information and begin to accept applications.

On a final note, through a generous contribution by the PSEG Foundation, the Dana Christmas Scholarship for Heroism will be funded and awards will be made to the 5 deserving students previously selected by program's selection committee. A ceremony will be held tomorrow, July 23 at the PSEG offices in Newark, and all Board member are invited to join the Executive Director, Ms. Dana Christmas, VIPs from PSEG, the student recipients, and other dignitaries for

this terrific event. A news release was distributed at which time Mr. Angulo briefly summarized the background of the scholarship recipients.

Mr. Angulo thanked the Board for their ongoing support and commitment to serving New Jersey's students.

NEW BUSINESS

Ethics Update

Marnie Grodman reminded the Board that their Financial Disclosure Statements must be filed by August 25, 2010 and that the online training must be completed by August 20, 2010.

Michael Angulo read a resolution acknowledging and thanking the Student Advisory Committee member Ron Subramaniam for his service and dedication to the Higher Education Student Assistance Authority Board.

Mr. Angulo also read a resolution thanking Marguerite Beardsley for her dedication to the New Jersey Higher Education community serving this field since 1984. A copy of the resolutions will be noted in all the official records of the Authority.

ADJOURNMENT

Ms. Matos announced the next Board meeting is scheduled for October 21, 2010. There will be an Audit Committee meeting immediately following today's meeting. A motion to adjourn was made by Dr. Harvey Kesselman and seconded by Wilma Harris.

Prior to voting to adjourn, Dr. Robert Messina, President of Burlington Community College, thanked HESAA for the layout of the full time TAG awards. Dr. Messina also commented on the cuts made to the Colleges in New Jersey, specifically Burlington Community College.

The motion to adjourn passed unanimously.

The meeting adjourned at 11:40 am.