

## **MINUTES**

### **HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY**

April 26, 2011

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on April 26, 2011 at 10:00 a.m. at the HESAA offices in Hamilton.

**PRESENT:** Mr. Michael Angulo, Esquire; Mr. Richard Garcia; Ms. Wilma Harris; Mr. Julio Marengo (teleconference); Ms. Rossy M. Matos (arrived after approval of February Minutes); Ms. Jean McDonald Rash; Mr. Jonathan Nycz; Mr. Warren Smith (teleconference, left after approval of Resolution 10:11); Mr. Christopher McDonough, Treasurer's Designee; Maria I. Torres (teleconference); Ms. Christy Van Horn; Mr. Wilmot Wilson, members.

**ABSENT:** Mr. Edward Graham and Dr. Harvey Kesselman.

Participating in person were Leah Sandbank, Bond Counsel, McManimon and Scotland; Joseph Santoro, Senior Manager, Bank of America/Merrill Lynch; Steven Kantor, Financial Advisor, FirstSouthwest; and via teleconference DAG Aimee Manacchio-Nason, DAG.

#### **CALL TO ORDER**

Chair Garcia called the meeting to order at 10:03 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Garcia led those present in the Pledge of Allegiance.

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

Mr. Garcia welcomed Brandon Minde, Esq., from the Governor's Authorities Unit; Cheryl Clarke, Deputy Attorney General; Rev. Michael Braden, St. Peter's College, and Aimee Manocchio-Nason, DAG, Attorney General's Office. Mr. Garcia introduced State Treasurer's Designee, Christopher McDonough, Deputy Director, Division of Investment.

Deputy Attorney General Cheryl Clarke swore-in Mr. McDonough.

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

Mr. Garcia asked Roseann Sorrentino to call the roll.

#### **CONSIDERATION OF THE MINUTES OF THE JANUARY 25, 2011 MEETING:**

A motion to approve the minutes of the January 25, 2011 meeting was made by

Warren Smith and seconded by Wilma Harris. The minutes were approved unanimously with three recusals Christopher McDonough, Julio Marenco and Wilmot Wilson because they did not participate in the January 25, 2011 meeting.

#### **CONSIDERATION OF THE MINUTES OF THE FEBRUARY 24, 2011 MEETING:**

A motion to approve the February 24, 2011 minutes was made by Wilma Harris and seconded by Jean McDonald Rash. The minutes were approved unanimously with (3) abstentions Julio Marenco, Warren Smith and Wilson Wilmot because they did not participate in the February 24, 2011 meeting.

#### **RESOLUTION 04:11 - ADOPTING A SCHEDULE OF MEETINGS FOR FISCAL YEAR 2012**

Marnie Grodman, Esq., presented Resolution 04:11 to the Board.

At the last Board meeting of the fiscal year HESAA sets the meeting schedule for the next fiscal year in order to provide notice to the public. After polling the board members regarding their availability it is recommended that for fiscal year 2012 Thursday July 21, 2011, Wednesday October 26, 2011, Tuesday January 24, 2012 and Wednesday April 25, 2012.

In addition, HESAA may call additional meetings, including telephone conference meetings, and specific notice of each meeting will be provided prior to each meeting pursuant to the Open Public Meetings Act.

A motion to approve Resolution 04:11 was made by Christy Van Horn and seconded by Wilmot Wilson. The FY 2012 meeting schedule was approved unanimously.

#### **RESOLUTION 05:11 – APPOINTING INDEPENDENT AUDITORS**

Richard Garcia presented this item to the Board.

The current members of the Higher Education Student Assistance Authority (HESAA) Board Audit committee are Rossy Matos, Wilma Harris, Christopher McDonough and me. As Board chair, I appointed Christy Van Horn, Harvey Kesselman, Jonathan Nycz and Maria Torres to serve on the ad hoc Audit Evaluation Committee. At the request of the Audit Evaluation Committee, staff at HESAA developed an RFP for E.O. 122 auditing services for review and approval by the Evaluation Committee. Following the Committee's approval, the RFP was issued on February 28, 2011. HESAA mailed the RFP to 28 auditing firms, posted the RFP on HESAA's website and advertised the RFP in the Trenton Times, Star Ledger, Courier News, and Home News.

Four firms, Bowman & Company LLP, Clifton Gunderson LLP, Mercadien, PC, and Patrizio & Zhao, LLC responded to the RFP.

The Audit Evaluation Committee met on April 4, 2011 by teleconference to evaluate these proposals using the criteria contained in Section 6.0 of the RFP as the primary guidance in its selection process. At that time two of the Committee members, Dr. Kesselman and Ms. Torres,

needed to recuse themselves from discussing one of the firms due to previous dealings with that firm. In order to ensure that each firm would receive a full review from a full panel of Audit Evaluation Committee members, as Board Chair I then appointed Jean McDonald Rash as an alternate member. The reconstituted committee, made up of Christy Van Horn as chair, Jonathan Nycz and Jean McDonald Rash reconvened via teleconference on April 12, 2011.

Based on their review and determination, on April 13, 2011 Christy Van Horn, as Chair of the Audit Evaluation Committee, reported to the Audit Committee recommending the selection of Clifton Gunderson LLP as the auditing firm for HESAA for the initial term of three years, beginning with the 2012 fiscal year, subject to two one-year extensions at the option of HESAA. Ms. Van Horn reviewed the attached Evaluation Score Sheets with the Audit committee. The Committee gave the highest score to Clifton Gunderson because Clifton Gunderson had an overall superior technical approach to the job, which was well framed in their proposal. This firm's wealth of experience stood out to the Audit Evaluation Committee, as it is a national firm with strong practice in dealing with complex issues. The Audit Evaluation Committee was equally impressed by Clifton Gunderson's depth of staff with a number of years of relevantly focused experience.

After hearing Ms. Van Horn's report the Audit Committee agreed with the Audit Evaluation Committee's recommendation. While Clifton Gunderson LLP's was not the lowest bid, the Audit Committee agreed with the Audit Evaluation Committee's assessment that they are the most qualified firm. The cost for this engagement is \$75,000 for the first year, with a total cost of \$398,025.50 for the full five year engagement.

It is recommended that the Board approve the attached Resolution 05:11 – Appointing Clifton Gunderson as Independent Auditor, at a cost of \$75,000 for the first year, with a total cost of \$398,025.50 for a five years engagement.

A motion to approve Resolution 05:11 was made by Maria Torres and seconded by Christy Van Horn.

The motion was passed unanimously.

## **RESOLUTION 06:11 APPROVAL OF HESAA'S FY 2012 ADMINISTRATIVE BUDGETS**

Wilma Harris presented this item to the Board.

The HESAA Board Budget Committee met with HESAA Staff on April 13, 2011 regarding the proposed FY 2012 administrative and capital budgets for the Authority.

The operating budget of \$28.3 million represents a reduction of \$357,000 or -1.2% from the FY 2011 final budget and strikes a balance between realizing cost savings wherever possible and ensuring that adequate resources are allocated to the student financial services required by the State's students, families and institutions.

In FY 2012, HESAA's administrative budget will for the first time be 100% supported from revenues generated by the Authority through its programs, as the \$656,000 in Direct State

Services appropriation and \$231,000 in fringe benefit support is eliminated. Positions previously funded by State appropriation will be transferred to non-state revenue supported positions

The budget includes the filling of 14 critical vacancies that both generate revenue for HESAA and provide direct services to our constituents, and the Board Committee believes very strongly that the quality of service that HESAA provides is important and reflects directly on how people view the State as a whole. These positions are currently under review by the Governor's Office and will not be filled without their approval.

The budget contains no salary increases for HESAA employees other those increases mandated by State collective bargaining agreements, though an increase would be equitable for unclassified staff who have not received a raise since 2007.

The amount of the administrative budgets will be supported by the NJCLASS program which continues to grow by \$2.8 million, while amounts funded by the FFELP program administrative are reduced by \$1.3 million as part of continuing to service the remaining \$3.7 billion FFELP guaranty portfolio.

Both NJCLASS and FFELP now support a total of \$2.7 million in costs associated with delivering State-funded grants and scholarship programs.

The capital budget of \$515,000 includes investments in HESAA technological infrastructure which continues to improve staff productivity at HESAA and on the campuses and makes it easier for constituents to contact HESAA or to seek information on their financial aid grants and loans, as well as to improve the overall security of our data systems.

The budget projects \$34.7 million in administrative revenues, an increase of \$4.5 million over FY 2011. The increased revenue is partially based on filling of 5 servicing positions, but even without these positions, the budget would be balanced with an ending surplus of \$1.8 million. However, as noted above, these positions are self supporting and contribute directly to maintain adequate customer service levels, and the Board strongly urges that they be approved for filling. The Budget Committee recommends the Board approval of the Authority's FY 2012 administrative and capital budgets.

A motion to approve Resolution 06:11 was made by Wilma Harris and seconded by Rossy Matos.

Christopher McDonough questioned the nature of "services other than personnel" which were listed on the Appropriated Administrative Expenditures FY 2011-2012. Gene Hutchins explained these include data processing, travel and professional services. Christy Van Horn clarified that these expenses include HESAA's extensive outreach services to campuses. Mr. McDonough requested a further breakdown of this line item which will be provided.

Christopher McDonough asked whether there was a risk that these budgets would not be met and if so, what the consequences would be. Michael Angulo responded that there is not a great risk because HESAA has budgeted for a slight surplus. If HESAA is able to fill the critical vacancies these risks are even smaller as the vacancies are revenue generating.

Christy Van Horn expressed great concern that HESAA will not be able to meet its fiduciary obligations if proper staff is not in place. She fears that HESAA will be in danger of federal penalties if deadlines are missed, or work is not completed due to insufficient staffing. These penalties would be using funds that could otherwise be used to support programs. Wilma Harris added that the Budget Committee also noted that HESAA's lack of staffing negatively affects the State's reputation as a result of declining service levels. Ms. Van Horn added that HESAA has been able to keep default rates low but is worried that they will increase if HESAA cannot hire staff. As a public member she feels the Board's responsibility is to provide resources for education and cannot understand why hiring isn't occurring when it does not require state funds.

Mr. Garcia acknowledged that the Board has ensured that the Authorities' Unit is aware of the critical staffing needs.

Ms. Van Horn questioned whether HESAA's credit rating would be lowered if there were not sufficient people to do the work. She further noted that the staffing situation hasn't improved the entire time she has been a member of the HESAA Board. To which Ms. Harris added her concern that HESAA is losing a great deal of subject matter expertise with pending retirements.

The motion was passed unanimously.

**RESOLUTION 07:11 AUTHORIZING THE ISSUANCE AND SALE OF STUDENT LOAN REVENUE BONDS AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL INDENTURE, FINAL OFFICIAL STATEMENT, CONTINUING DISCLOSURE AGREEMENT, BOND PURCHASE AGREEMENT AND OTHER MATTERS IN CONNECTION THEREWITH**

Gene Hutchins presented this item to the Board.

Before you for consideration is the proposed resolution relating to the 2011-1 Bond Issue together with drafts of the various bond documents referenced in the resolution. The resolution authorizes a total bond sale not to exceed \$450.0 million in fixed rate bonds with a final maturity not later than June 1, 2046. These bonds are being issued under the 2010-2 Master Trust Indenture. The proceeds of the bonds (net of funds required for bond reserves) will be used to finance fixed rate standard NJCLASS loans, including the second year of the Ten Year Option 1 Loan program with some additional capacity for graduate/professional NJCLASS Loans and NJCLASS Medical/Dental Student Pilot Loans.

In addition, the proceeds of the 2011-1 bonds will be used to purchase NJCLASS loans from the HESAA 1998 Bond Trust Estate which will enable the Authority to continue to reduce its exposure to the failed Auction Rate Bond market. The funds received by the 1998 Trust for the purchase of the NJCLASS loans will be utilized to retire additional auction rate bonds at a discounted purchase price and reduce the Authority remaining auction rate bond exposure to approximately \$140 million from the current balance of \$220 million. The auction bonds from bond series 2002-2007 are able to be sold to the Authority through the tender process authorized in the bond resolution. The loans purchased will be transferred to the 2011-1 bond series to secure these Bonds as well as any future additional bonds financed out of the 2010-2 Indenture. The 2011-1 bonds will benefit from the purchase of the NJCLASS Loans since it is acquiring seasoned performing loans that will strengthen the cashflows of the 2011-1 bonds.

The bond resolution also authorizes refunding of the 1998, 1999 and 2000 series fixed rate bonds to achieve a lower cost of capital and contribute additional equity to the transaction.

Credit market conditions make it most advantageous for the Authority to continue the structure of last year's bonds of fixed rate serial and term bonds.

Market conditions also continue to make it possible for the Authority to offer a 10-year Option 1 Loan that will allow families that can afford higher monthly repayment amounts to borrow under this option at a significantly lower interest rate. Similarly, to achieve interest cost savings to traditional Option 1 and Option 2 borrowers, these loans are being reduced to a 15 year term. Option 3 loans with higher balances continue to be 20 years. All three interest rates should remain below the federal PLUS rate of 7.9%.

The 2011-1 bonds will be uninsured since the downgrade of all municipal bond insurers and the high premiums the insurers are charging make the use of bond insurance uneconomical, i.e., the insurance rates charged would exceed the reduction in interest rates on the bonds in the market and result in higher interest rates to students.

The provisions of the American Recovery and Reinvestment Act of 2009 expired at the end of 2010. Therefore, the 2011-1 HESAA Student Loan Revenue bonds are once again subject to the Alternative Minimum Tax provisions of the IRS Code as they had been in years prior to 2009 and will result in marginally higher costs of capital.

Total NJCLASS loan volume for academic year 2011-12 is expected to be close to \$425 million, although until interest rates can be better estimated, total sizing of the bond issue will not be finalized. This is an increase in volume from academic year 2010-2011 and results from potential freezes or reductions of federal grant aid (PELL and SEOG), ongoing tuition increases and the potential elimination of in-school interest subsidies for federal Direct Loans.

Beginning with academic year 2010-2011 loans, the origination fee for NJCLASS Option 3 Loans (those loans with full deferment of interest and principal payments during the in-school period) was increased from 2% to 3% with the additional 1% fee being added to the borrowers' loan balance. These loans have been defaulting at significantly higher rates than Option 1 Loans, where repayment of interest and principal begin immediately following origination of the loan, and Option 2 Loans where interest payments begin immediately and principal payments are deferred during the in-school period. The higher default rate of Option 3 Loans results in part from the fact that interest accumulated during the in-school period capitalizes (that is it is added to the loan principal balance) and significantly increases the amount that must be repaid. Additionally, all Option 3 Loans that a borrower has taken out enter repayment at the same time, and can create difficulty for families in adjusting their monthly budgets, particularly where large amounts have been borrowed.

The Authority continues to counsel borrowers to borrow under lower cost NJCLASS alternatives where some level of payment is made during the in-school period.

I will now turn the presentation over to Leah Sandbank, Bond Counsel to review the Bond resolution with you.

Leah Sandbank presented Resolution 07:11 which sets forth the authorizations for multiple transactions to finance the Authority's loan origination needs for the upcoming academic year, to complete the next phase of the Authority's reduction of its auction rate securities liability and to currently refund certain fixed rate bonds of the Authority. The resolution first authorizes the Authority to provide an offer to current bondholders of Student Loan Revenue Bonds Series 2002-2007, which are the remaining outstanding auction rate series under the 1998 Trust, to sell their bonds back to the Authority. The purchase price for the tendered bonds will be paid for by a combination of Authority funds available for such purpose in the revenue accounts established under the 1998 Indenture and new bond proceeds (as discussed below). It is anticipated that the Authority will retire and cancel approximately \$80 million of outstanding auction rate bonds. In connection with this offer, Bank of America Merrill Lynch acting through Merrill Lynch Pierce Fenner & Smith is appointed as dealer manager for a fee not to exceed \$1.25/1,000 of principal amount of auction bonds purchased plus reasonable fees of counsel to the Dealer-Manager. The Resolution authorizes the publication of the necessary tender documents, including an invitation to offer to sell bonds and a Q&A sheet which set forth the terms and conditions of the offer. Also in connection with the tender, Wells Fargo who acts as Trustee, is appointed Information and Tender Agent for a fee not to exceed \$4,000 per CUSIP offered for sale. This is a change from the amount stated in the bond resolution that was sent to the Board. Authorization is given to the Chairperson, Vice Chair, Secretary-Treasurer, Executive Director and Chief Financial Officer to execute documents and take actions necessary to effect the Offer.

Second, the resolution sets forth the customary authorizations for a new issue of Student Loan Revenue Bonds, Series 2011-1. The 2011-1 Bonds are fixed rate bonds authorized in an amount not to exceed \$450,000,000, for the purpose of (i) originating new student loans, (ii) currently refunding all or any portion of the Authority's fixed rate student loan revenue bonds, series 1998, 1999 or 2000, (iii) paying a portion of the purchase price of the tendered bonds, (iv) making the necessary deposits to the capitalized interest and debt service reserve funds and (v) paying costs of issuance of the Bonds. The Underwriter appointed for the 2011-1 Bonds is Bank of America Merrill Lynch acting through Merrill Lynch Pierce Fenner & Smith for an underwriter's fee of .710% of the principal amount thereof pursuant to a bond purchase contract, the form of which is authorized therein.

This resolution further authorizes the Authority to enter into a second supplemental indenture with Wells Fargo Bank serving as trustee, as a supplement to the 2010-2 Indenture of Trust, as well as a preliminary and final official statement, servicing certificate, escrow deposit agreement for the current refunding, if necessary, and continuing disclosure agreement in the forms attached to the resolution, which are all customary forms. Authorization is given to the Chairperson, Vice Chair, Secretary-Treasurer, Executive Director and Chief Financial Officer to execute documents and take actions necessary to effect the sale and issuance of the 2011-1 Bonds.

The resolution was amended to reflect the change noted by Ms. Sandbank in her presentation. Section 3: was amended to replace "not to exceed \$69,000" with "not to exceed the lesser of \$84,000 or \$4,000 per CUSIP". Wilma Harris moved to accept the amendment, Jonathan Nycz seconded the motion. Motion was passed unanimously with one recusal, Rossy Matos.

Motion to approve Resolution 07:11 as amended was made by Wilma Harris and seconded by Julio Marengo. Motion passed unanimously with one recusal, Rossy Matos.

## **RESOLUTION 08:11 APPROVING PURCHASE OF SOFTWARE**

Marnie Grodman presented this item to the Board.

In July 2010, HESAA implemented an electronic signature software product, the Silanis ApproveIt® Web Server (AWS), to give customers the ability to electronically sign their NJCLASS applications and promissory notes. For compliance purposes, HESAA needs to maintain a recording of each loan's electronic signature ceremony. Using AWS the process is recorded online, which uses a great deal of storage.

Silanis has since developed the ApproveIt® Web Server Database Archival Module or "ADAM" to automate and streamline the archival of the electronic signature process offline rather than keeping it online. This archival software is part of the Silanis electronic signature software product suite and is proprietary sole source software. ADAM works in conjunction with the AWS software HESAA is currently using to archive the recording sessions.

HESAA staff recommends purchasing the ADAM software because it will:

- Ensure compliance with records retention requirements for maintaining NJCLASS application/promissory note electronic signature ceremony information;
- Ensure electronic signature sessions are properly archived from the database to ensure compatibility for proper restoration to the database if needed as evidence in court; and
- Ensure online application processing time is not degraded because of a large database.

HESAA can purchase the ADAM software for \$47,000, which includes the software, the first year maintenance and fees, and implementation services. The continuing maintenance fee, to be paid at the start of each year, is currently \$7,000.

Pursuant to HESAA's Pre-Set Procurement Policy and N.J.S.A. 52:34-10(c), the Board is authorized to purchase this software through a bid waiver instead of issuing a Request for Proposal because Silanis is the only source of supply for this product.

Accordingly, staff is recommending that the Board approve Resolution 08:11 Approving Purchase of the ApproveIt® Web Server Database Archival Module software, the first year maintenance and fees and implementation services for the cost of \$47,000, with a recurring annual fee of \$7,000 for continuing maintenance.

A motion to approve Resolution 08:11 was made by Jean McDonald Rash and seconded by Rossy Matos.

The motion was passed unanimously

## **RESOLUTION 09:11 REPLACEMENT OF IKON CPP500 PRINTER**

Marnie Grodman presented this item to the Board.

HESAA uses an in-house color copier/printer to produce the tri-fold brochures and other literature Client Services uses for HESAA's outreach activities. The machine HESAA is currently using was installed in September 2005 through a five year lease to purchase plan, costing \$2,575 per month. While HESAA currently owns this machine, it costs \$808.50 per month for maintenance. Approximately one year ago this machine started to experience more frequent breakdowns due to parts wearing down. Due to the age of the color copier/printer the replacement parts are becoming obsolete and repair time causes downtime in being able to use the machine. Additionally, in the interim Ricoh has purchased Ikon, the maker of the current machine, and is phasing this particular model out completely. In order to avoid delays and possible missed outreach deadlines it is necessary to replace this piece of equipment.

HESAA can enter a four year lease on the Ikon Ricoh Pro C700 color copier/printer under State Contract number 51565 for \$1,450.00 per month, with a total cost of \$69,600.00 over 48 months. This cost is reflected in the amended Resolution that was handed out at this meeting and is pursuant to the final quote provided by Ricoh, which was received after the Board mailing was sent. This cost includes monthly lease, service and supplies. In addition to being a newer model, the Ikon Ricoh Pro C700 has many upgrades compared to current machine. The new model increases output from fifty to seventy pages per minute, provides the latest in color technology, and in addition to creating tri-folded brochures has the capability to produce booklets.

By obtaining the replacement color copier/printer from HESAA's current vendor, HESAA is ensured that the machine will be removed and replaced in the same day, eliminating the time HESAA will be without color copying/printing capabilities. This replacement is also guaranteed to fit HESAA's space and power capacities, eliminating the need for any additional work or costs related to the replacement.

Pursuant to N.J.S.A. 18A:71A-10 d., the Board may approve the purchase of materials, supplies or equipment pursuant to a contract entered into on behalf of the State, without advertising for bids. Accordingly, staff recommends that the Board approve Resolution 09:11 Approving Purchase of Replacement for Ikon CPP500 Printer. This replacement will be accomplished through a four year lease to purchase of the Ikon Ricoh Pro C700 color copier/printer at a cost of \$1,450.00 per month, with a total cost of \$69,600.00 over 48 months.

A motion to approve Resolution 09:11 was made by Jean McDonald Rash and seconded by Christy Van Horn.

Wilma Harris questioned whether HESAA would be obligated to purchase the color copier/printer at the end of the four year lease term to which Marnie Grodman responded that while HESAA has the option to purchase, purchase is not required. Ms. Harris then asked why HESAA purchased the printer we are now replacing at the end of its five year lease term. Ms. Grodman explained that it was more cost efficient to purchase the equipment instead of continuing to lease prior to receiving approval to procure a new machine.

The motion was passed unanimously.

**RESOLUTION 10:11: APPROVING PURCHASE OF INTERACTIVE VOICE RESPONSE PLATFORM PURSUANT TO STATE CONTRACT TELECOMMUNICATIONS EQUIPMENT WIRED, T1316**

Marnie Grodman presented this item to the Board.

HESAA needs to replace the current interactive voice response platform. The IVR platform is an automated voice response system that provides a verbal response to a caller's inquiry without involving staff. The current IVR platform was originally purchased on February 21, 1991 and its last generational update was in July 1998. The hardware components utilized by the current IVR are no longer manufactured and the software is no longer able to be updated or upgraded to a newer version.

Since the 1998 upgrade, IVR platforms have evolved to become more complex and more closely integrated with telephone switches and computer systems. Newer technologies and software language for IVR platforms have emerged that have significantly enhanced the performance and capabilities of IVRs.

An updated IVR platform will improve constituent satisfaction with HESAA's services by decreasing wait times, increasing the speed in which callers can obtain the information they need, and enabling individuals to call HESAA at their convenience, even after business hours. The increased access will permit individuals to obtain information on a 24 hour, 7 days a week basis. As part of the updated IVR installation, HESAA will be adding a Spanish language application to better serve our growing number of Spanish-speaking customers. That application is not available on the current IVR platform.

HESAA staff recommends purchasing this needed equipment from AVAYA because the IVR platform offered is designed to be integrated with the other highly complex components of the AVAYA telephone system and computer platforms already owned by HESAA. This integration will leverage the strengths of each of the platforms. For example, by combining the text-to-speech and natural speech capabilities of the IVR with the capabilities of the existing predictive dialer, HESAA will be able to deliver a constituent specific message to an individual. This also enables HESAA to reach a greater population of individuals than current staffing resources permit.

The AVAYA IVR platform and professional services are available for purchase pursuant to State Contract number T1316 for \$334,222.60. As discussed above, the costs for this purchase will be offset by the increased revenue achieved through increased borrower contact, as well as by reduced operating expenses achieved through this system and the increase in the rate of collection costs assessed to defaulted Federal Family Education Loan Program borrowers as required under federal regulations.

Pursuant to N.J.S.A. 18A:71A-10 d., the Board may approve the purchase of materials, supplies or equipment pursuant to a contract entered into on behalf of the State, without advertising for bids. Accordingly, HESAA staff recommends that the Board approve Resolution 10:11 Approving Purchase of AVAYA IVR and professional services Pursuant to State Contract, which will enable staff to purchase from HESAA's capital fund the IVR platform for the cost of \$334,222.60.

A motion to approve Resolution 10:11 was made by Warren Smith and seconded by Jonathan Nycz.

The motion was passed unanimously

## **REPORT OF THE PROGRAM REVIEW AND QUALITY CONTROL COMMITTEE**

Richard Garcia reported that the Program Review and Quality Control Committee met on April 13, 2011 at HESAA's Quakerbridge Plaza Office. Present at the meeting along with myself were: Harvey Kesselman and Wilma Harris. Participating on behalf of HESAA were Joel Mayer, Fran Andrea, Gene Hutchins and Gena Carapezza, HESAA's new Director of Audits and Quality Assurance. Mr. Garcia provided the Board with an overview of the topics discussed at the Committee meeting.

HESAA's Chief Compliance Officer, Joel Mayer, made a presentation to the committee on the status of active program reviews, including federally mandated reviews, HESAA initiated management reviews, special counsel reviews and the annual internal control evaluation. Mr. Garcia asked Joel to present a more comprehensive review to the Board. Mr. Garcia relayed that 2010 met the Program Review and Quality Assurance Unit with unprecedented challenges as a result of key vacancies in the Audits and Financial Aid Services Units. Those vacancies required the Authority to suspend Institutional Management Reviews and caused delays in the completion and issuance of reports relating to previously completed management reviews. Despite those challenges, HESAA continued to make progress towards the issuance of reports and with the cooperation of one institution whose report is nearing completion of a draft report, the Authority recovered in excess of \$425,000. Another previously outstanding review was closed with monetary findings of approximately \$25,500.

At the Committee meeting they were pleased to meet HESAA's new Director of Audits and Quality Assurance, Gena Carapezza. Gena comes to the Authority with an impressive resume of audit and management experience. Thanks to her addition, the Authority will be scheduling two Institutional Management Reviews in 2011 and will be returning to a full schedule of four reviews in 2012 and thereafter. HESAA has proposed a management review schedule for 2011 comprising those two institutional reviews and Mr. Garcia advised that later in the meeting the Board would be asked to consider and approve that proposed schedule.

The committee was also advised that HESAA participated in independent federally mandated reviews. These Federally mandated reviews, known as the Common Review Initiative, are required by all Guaranty Agencies to ensure compliance with the various federal and state requirements. The reviews target lenders, servicers and guaranty agencies and are staffed by teams from each of the Guaranty Agencies in order to share the staffing and workload needs. Again, despite staffing challenges with the audit unit at HESAA, HESAA audit teams participated in six CRI reviews and completed two CRI Prohibited Inducement Reviews in 2010. HESAA audit teams will again participate in CRI reviews in 2011.

The committee also discussed the status of Special Counsel Reviews. In 2010, HESAA contracted with seven law firms to perform collection activities on delinquent FFELP loans. Three of those firms also performed collection activities on behalf of the Authority on delinquent

NJCLASS loans. In order to assure that the special counsels perform those obligations in accordance with all of the required federal, state and HESAA policies, the firms are reviewed by the Audit & Quality Assurance Unit for program compliance. All seven Special Counsels were reviewed and it is anticipated that by the end of May, 2011, at least one will be closed, Final Reports will have been issued on two others and Draft Reports issued on the remaining four. With regards to findings, we were pleased to learn that there were no unusually high incidents of findings at any one firm. Mr. Garcia asked Joel to provide the Board with more details regarding those findings at the conclusion of his report.

The Committee also learned that the Authority was required to draft and issue a Request for Qualifications in order to attempt to identify additional firms to act as Special Counsel. As a result of that RFQ, two new firms were added after on-site visits by HESAA staff. Two of the Special Counsel firms already retained by the Authority were renewed resulting in a total of four Special Counsel Firms.

Mr. Garcia also reported that Joel briefed the committee on the Annual Internal Control Evaluation. HESAA is one of the Authorities required to conduct annual internal control evaluations by the State's Office of Management and Budget. Joel was asked to present a more comprehensive review of the nature and results of the 2010 evaluation. In accordance with State directives, HESAA's Executive Director and Chief Financial Officer confirmed that HESAA performed the 2010 internal control evaluation as required and that HESAA's system of internal accounting and administrative controls complies with the requirements set forth by the State.

This year's Annual Internal Control Evaluation is nearing completion under the supervision of the new Director of Audits and Quality Assurance and Mr. Garcia mentioned that Gena Carapezza would brief the full Board on the timing and process of this year's evaluation.

Mr. Garcia then announced that Joel Mayer and Gena Carapezza would be presenting more comprehensive reports to the Board. He further announced that the Program Review and Quality Assurance Committee recommended that the full Board approve the proposed 2011 Review Schedule.

Joel Mayer reported to the Board:

To ensure HESAA's programs are in compliance with federal and state statutes, regulations, policies and procedures, the Audits & Quality Assurance unit is tasked with conducting Federal Family Education Loan (FFEL) Program Reviews of lenders and schools, Institutional Management Reviews in conjunction with Grants and Scholarships operations staff focusing on State Grants & Scholarships Programs, Special Counsel Reviews, Internal Control Reviews and Evaluations, and Quality Assurance Reviews of HESAA's programs.

### **Federally Mandated Reviews**

Pursuant to Federal Regulation, Guaranty Agencies are responsible for taking all necessary measures to ensure the vigorous enforcement of all federal, state, and guaranty agency requirements. To ensure compliance with this requirement, HESAA's Audits & Quality Assurance unit is responsible for conducting biennial reviews of HESAA's ten largest lenders. These reviews are conducted jointly by 32 Guaranty Agencies under the Common Review

Initiative (CRI), a program approved by the U.S. Department of Education. During the 2010-2011 biennium, HESAA's ten largest lenders were administered by seven servicers. All seven servicers fall within the parameters of CRI.

For the 2008-2009 biennium (January 1, 2008 through December 31, 2009), HESAA's required FFELP lender/servicer reviews (six) were conducted by CRI review teams. Three of these reviews were conducted in CY 2008 and three were conducted in 2009. Two reviews conducted in 2009 were open at the end of 2010 and remain open pending responses from the lender/servicers.

Seven lender/servicer reviews are required for the 2010-2011 biennium (January 1, 2010 through December 31, 2011). Four reviews were conducted in 2010:

Two were closed in 2010;

Two remain open;

The three remaining reviews are scheduled to commence in April 2011.

For the 2008-2009 biennium, USDE required Prohibited Inducement reviews of all lenders, at the lender level, to ensure compliance with the prohibited inducement provisions in federal regulations, promulgated on November 1, 2007. HESAA was assigned four (4) lenders for desk review during 2009. Two reviews were closed in 2009 the other two reviews were closed in 2010. Findings of all the reviews were submitted to USDE.

Prohibited Inducement Reviews are not required for the 2010-2011 biennium.

The US Department of Education revised the guidance for CRI reviews beginning with the 2010-2011 biennium. The new guidance requires increased sample sizes designed to ensure all guaranty agencies and lender IDs are included in the testing process and adds the testing of LaRS reporting which was previously reviewed by the Department of Education. Desk reviewers were added to the review teams for larger servicers in 2010. The addition of the desk reviewers allowed the on-site review teams to remain at five to six reviewers. On-site reviewers serve as coordinators for the desk reviewers for their respective chapters.

HESAA staff participated in two reviews as desk reviewers in 2010 and are scheduled for one review in 2011.

In addition, HESAA is also required to conduct reviews of all schools whose cohort default rate exceeds 20 percent and have at least \$100,000 of loans entering repayment in each of the last two years. No New Jersey institutions were identified from the 2008 Cohort Rate report, (the most recent report published by the US Department of Education), that met the review requirement.

### **HESAA Initiated Reviews**

HESAA's capacity to undertake on-site management reviews in the 2010 calendar year was adversely impacted by key vacancies in the Audits and Financial Aid Services Departments. Continuing obligations and commitments toward other mandated projects (as detailed in this report) resulted in the commencement of no new institutional management reviews in calendar year 2010. Mr. Mayer reported that the Audit Unit will resume work on management reviews

for 2011, and it is expected that the volume of reviews will return to normal levels (4-5 reviews per calendar year) beginning in 2012.

Mr. Mayer also welcomed and introduced Gena Carapezza, HESAA's new Director of Audits and Quality Assurance. Mr. Mayer reported that Gena comes to HESAA with an extensive background and impressive array of audit and management accomplishments. Most recently, Ms. Carapezza was a Senior Auditor with State Street Corporation in Boston. Prior to that, she held significant positions at PricewaterhouseCoopers both domestically and internationally, serving as their Assistant Manager in Dublin, Ireland. Gena began this past February and in keeping with her experience as former NCAA track & field athlete at the University of Delaware, she hit the ground running. Mr. Mayer reported that the Authority is fortunate to have her and looks forward to her leadership.

#### Current Year Reviews

Scheduling for 2011 is currently underway. It is expected that 2 reviews will be performed during the calendar year.

#### 2009 reviews

A final report was issued in April 2011 for one review performed in 2009. A closing report will be issued pending receipt and review of responses received from the institution. Monetary findings totaled \$25,508.

#### 2008 reviews

Two reviews commenced in 2008 remain open:

One final report is expected to be issued in May 2011. Monetary findings related to that report are approximately \$28,000.

One draft report is expected to be issued after thorough review of the findings with the new Audits & Quality Assurance Director. That institution's ongoing cooperation has resulted in the return of \$425,353 to date.

**Special Counsel Reviews** – Mr. Mayer advised that HESAA contracts with Special Counsels to perform collection activities on delinquent FFELP loans, several of these Counsels also administer collection activities for delinquent NJCLASS loans. The Audit and Quality Assurance unit conducts biennial program compliance reviews on all Special Counsels. As of the end of the 2008-2009 biennium, seven attorneys performed collection activities for 15,201 defaulted debtors. Their defaulted loan portfolios ranged in size from 255 to 6,216 debtors. Reviews, for the 2008-2009 period were opened on all (seven) Special Counsels during 2009.

One report is closed.

One final report issued in July 2010 remains open (awaiting response from the Special Counsel).

Four draft reports have been issued and are awaiting responses from the Special Counsels.

A draft report for the remaining review is expected to be sent in May 2011.

The current biennial reviews, which will cover the review period of 2010-2011 for nine Special Counsels, are scheduled for July through September 2011.

The following presents a summary of common findings from the 2008-2009 biennium reviews:

- Inaccurate payment records and reports (5)
- Refund due to borrower not reported to HESAA (4)
- Incorrect interest rate (4)
- Unresolved differences (3)
- TOP offsets improperly posted (2)
- Untimely notification to HESAA of status changes (2)
- Collection Activity not performed in a timely manner (2)

At the request and direction of the Governor's Office, HESAA drafted and issued an RFQ (Request for Qualifications) for Special Counsel on September 3, 2010. The RFQ was issued for the purposes of identifying additional firms capable of handling collections and securing default judgments on behalf of the Authority relative to defaulted loan files. As a result of the RFQ process, 2 new firms were added to the list of firms who provide Special Counsel services.

### **Annual Internal Control Evaluation**

Mr. Mayer reported that consistent with prior years, The State Office of Management & Budget (OMB) requires all executive branch agencies to conduct an annual self-assessment of their internal controls. For fiscal years 2010 and 2011 the Office of Management and Budget selected 10 target areas, including expenditures, revenue, segregation of duties, travel, Federal & State Grants, audit findings, agency spending plans, and information security. The Authority participates in this process through a series of evaluations and discussions that are conducted each year between April and June by HESAA's program managers and the Audits & Quality Assurance unit. The results of the internal control evaluations are provided to HESAA's Executive Staff in a memorandum detailing the review requirements, program reviews conducted, and any weaknesses identified with recommendations.

On June 29, 2010, HESAA's Executive Director and Chief Financial Officer sent a letter to the Director of OMB confirming that HESAA performed the 2010 Internal Control Evaluation as required and that HESAA's system of internal accounting and administrative controls complies with the standards prescribed by the State of New Jersey. No material deficiencies were observed; however, continuing challenges resulting from further staff depletions were reported. Mr. Mayer advised that similar challenges relating to staff depletions were reported in 2009. HESAA continues to address staffing shortages by hiring temporary staff where appropriate, shifting existing staff to address critical cyclical needs and enhancing the technology infrastructure to achieve efficiencies.

HESAA is currently in the process of completing the 2011 assessment. A kick-off meeting was held in March 2011 and evaluations are currently being completed.

Gena Carapezza, Director of Audits and Quality Assurance reported on the Internal Control Assessment. In the past HESAA completed the internal control assessments in a paper based format, however the Department of the Treasury also provides an electronic version of that same

questionnaire and it was determined for the sake of efficiency that the Authority would, for the first time, utilize the electronic version for the current year assessment. That decision came after reviewing both the electronic and paper based formats, it was also determined that the electronic version appeared to facilitate more feedback from the units and produced reports that were more meaningful and organized for review. A kick-off meeting was held several weeks ago to begin this year's assessment, the units have been working to complete the questionnaires, and in fact the results are due to be returned to Audits & QA by end of day tomorrow (April 27). Ms. Carapezza reported that she looked forward to reviewing those responses later this week. She also related that management personnel from all relevant units were quite happy with the new process.

After reviewing the Proposed FY 2012 Review schedule motion was made by Jonathan Nycz to approve the schedule, seconded by Wilmot Wilson. Motion was approved unanimously.

### **CHAIR TO ANNOUNCE NOMINATING COMMITTEE APPOINTMENTS**

Mr. Garcia announced that Wilma Harris has agreed to chair the Nominating Committee and that Jean McDonald Rash and Maria Torres have agreed to be on the Nominating Committee. Mr. Garcia thanked them for agreeing to be on this committee. The Nominating Committee will meet in June to select the Chair, Co-Chair and Executive Committee for the HESAA Board, which will be announced at the July meeting.

### **EXECUTIVE DIRECTOR'S REPORT**

Following through on the recommendations of the Higher Education Task Force, chaired by former Governor Kean, Governor Christie signed Executive Order Number 52 creating the Governor's Higher Education Council and the University of Medicine and Dentistry of New Jersey (UMDNJ) advisory committee. The Council will serve as an advisory body to the Governor on all higher education matters and provide recommendations on statewide initiatives for the higher education system. These two important bodies will provide the Administration with recommendations and ongoing guidance for the long-term needs of higher education and graduate medical education. The Council will be chaired by John McGoldrick, Other members will include: Vice Chair Anne Evans Estabrook, Chief Executive of Elberon Development Co. and a longtime college trustee; Patricia Nachtigal, former Vice Chair of Rutgers's Board of Governors; John Wefing, Esq., Law Professor at Seton Hall University; and Dr. Richard Wellbrock, former Chairman of Raritan Valley Community College Board of Trustees and Chairman of Hilltop Community Bank of Summit. Each member will be appointed to a 5-year term.

The UMDNJ Advisory Committee will focus on examining the most effective and efficient delivery of graduate medical education in the State. The Advisory Committee will also review the recommendations made by the Higher Education Task Force concerning graduate medical education and UMDNJ's structure. They are charged with outlining their recommendations by September 1, 2011 at which time their service will expire.

These steps are part of the Governor's broader vision to improve higher education's overall quality and effectiveness. Board will be kept apprised of any pertinent student financial aid matters addressed by these committees.

As outlined in the budget discussion earlier, HESAA continues to do more with less, and achieve savings, while at the same time meeting growing customer service demands. Staff appreciates the Board's support in the filling of critical vacancies, and in making investments in the Authority's technological infrastructure that will enhance staff productivity and constituent service levels. With the elimination of the final \$887,000 in State administrative funding, it is even more critical for HESAA to maximize revenue opportunities and ensure the continued delivery of high quality services and programs.

The State budget process is underway and must be finalized by July. On February 22, 2011, the Governor presented his \$29.4 billion budget to a joint session of the Legislature. In his budget address, he emphasized the need for restructuring public pensions and benefits, and the funding of increased property tax relief to middle class New Jersey families. The Governor also focused on the need to continue to review all State funded programs and make reductions where program funding is not sustainable. In keeping with the Governor's priority to improve higher education, the fiscal year 2012 budget proposal preserves the current level of support for higher education while continuing to recognize the importance of student financial aid. The recommended FY 2012 programmatic budget for HESAA is \$353.3 million, a net increase of \$19.0 million over the FY 2011 appropriation of \$334.3 million.

This includes \$319.456 million in funding for the Full-Time TAG Program, which is an increase of \$25.2 million, or 8.5%, over the FY 2011 State appropriation.

Budgetary footnote language sets the parameters for determining TAG award values. While the details will not be final until the Appropriations Act is adopted by the Legislature and signed into law by the Governor, language in the Governor's recommended budget stipulates that full-time award values for students eligible for the maximum award (those with NJEIs below 1500) cannot exceed the 2009-2010 in-State undergraduate tuition rate for the institution, with comparable awards provided to students eligible for the maximum award at nonpublic institutions. In essence, this is a two-year lag compared to tuition. Awards for all other TAG-eligible students may not exceed the in-state undergraduate 2007-2008 tuition levels, representing a four-year lag compared to tuition.

Projections reflect an anticipated 3.8% increase in the number of full-time equivalent awards, for a total of 66,700. To remain within appropriated resources, all awards will be reduced by 9.2%. Nevertheless, the increased funding for the full-time TAG program should allow for a slight increase in most awards compared to the prior year.

Understanding that the TAG award follows the student, and to lessen the financial burden on affected students, this year's proposed budgetary footnote language would also restore awards to students attending proprietary institutions to the independent sector level.

The FY 2012 funding recommendation for the Part-Time TAG for County Colleges Student Program is \$11.679 million, an increase of \$2.068 million, or 21.5%, over FY 2011. At this funding level, HESAA will be able to provide increased awards to more than 16,600 part-time students. Once the full-time TAG table parameters are established, the same parameters will be used to determine the part-time TAG award values.

In the Part-Time TAG for EOF Students Program, the recommended funding level is \$558,000.

The recommended funding level for the NJSTARS and NJSTARS II programs for FY 2012 is \$16.417 million, a reduction of \$4.722 million compared to FY 2011. As you may recall, FY 2011 NJ STARS funding and programmatic changes were not known until the budget was finalized in July 2010. This timing was among the reasons that contributed to the decline in students participating in the NJ STARS Program in 2010-2011. Consequently, the FY 2012 appropriation has been reduced to reflect the resulting reduction in renewal students in FY 2012, as well as the proposed changes in budget footnote language that will impact the NJ STARS II scholarship for non-renewal students.

As in FY 2011, budgetary footnote language limits NJ STARS awards to tuition only for eligible students who graduated from high school in 2012 and subsequent years. In addition, NJ STARS payments to fund summer enrollment are not permitted.

Modifications are recommended for non-renewal NJ STARS II program students. First, NJ STARS II students would be permitted to use their awards at any four-year TAG-participating institution, public or private. Second, students would receive an award of up to \$1,250 per semester, subject to the prior application of other State and Federal grants and scholarship aid towards tuition charges. NJSTARS II awards would be completely paid for by the State appropriation, thereby eliminating the obligation of the four-year public institutions to match the State's contribution for FY 2012.

The recommended funding level of \$3.315 million for the Coordinated Garden State Scholarship Program, which includes Distinguished and Urban Scholars, would provide annual awards of \$930 to renewal students, while continuing the suspension of awards for non-renewal students which began in 2010-2011.

The recommended funding level for the Survivor Tuition Benefits Program is \$38,000. While the Governor's budget calls for the continued suspension of awards for non-renewal students, many non-renewal students who would have been qualified through this are eligible to receive funding through the Law Enforcement Officer Memorial Scholarship program.

An appropriation of \$202,000 is recommended for the NJ World Trade Center Scholarship Program.

In FY 11, the executive committee of the HESAA Board selected four (4) deserving New Jersey students as recipients of the Dana Christmas Scholarships for Heroism. Since no State appropriation was available, HESAA has once again partnered with PSE&G to fund the \$10,000 scholarships. While no State funding is recommended for the Dana Christmas Scholarships for Heroism in FY 2012, HESAA will pursue corporate funding to support this program.

The recommended funding for the Primary Care Physician and Dentist Loan Redemption Program is \$1.5 million; \$375,000 of which will be dedicated to the new Nursing Faculty Loan Redemption Program. This program is designed to address the current and projected critical shortage of nurse faculty in the State of New Jersey. The program will provide an incentive for persons to enter graduate nursing education programs by offering student loan redemption in exchange for full-time faculty employment at a school of nursing in the State of New Jersey.

The redemption program runs for a five-year period following completion of the approved graduate degree program.

The Veterinary Medical Education Program is recommended for \$138,000 in funding which reflects the continuing phase out of this program.

No funding was recommended for either the Social Services Student Loan Redemption Program or the Teaching Fellows Program.

The Governor's FY 2012 budget recommendations are being reviewed by the Legislature. This process will be completed once the FY 2012 Appropriations Act is adopted and signed into law by the Governor in late June.

The Authority has continued to experience significant growth in the number of grant applications. As of late March, approximately 530,000 applications for the 2010-2011 academic year had been received, compared to 500,000 in 2009-2010 reflecting a 6% increase. This year, an estimated 75,000 students will receive a full-time Tuition Aid Grant (TAG) award with an estimated expenditure of \$291.0 million.

To contain costs and remain within available FY 2011 appropriations, last summer HESAA implemented a process to collect additional data from applicants. As of mid-March, this process had reduced 2010-2011 TAG expenditures by more than \$19 million dollars, allowing HESAA to meet its objective of assisting both low-and middle-income students without the need for a supplemental appropriation or additional cuts to awards.

This data collection initiative that HESAA began with the U.S. Department of Education nearly two years ago culminated this year when HESAA's 2011-2012 FAFSA on the Web page went "live" on January 1, 2011. This link enables New Jersey residents to respond to the additional State questions necessary to determine TAG eligibility in one seamless process. Last year was less seamless because HESAA did not have a link. Undergraduates who do not respond via the FAFSA link are receiving Applicant Information Requests (AIRs) if the family income is within established thresholds, a TAG-participating college has been listed, and they filed within applicable deadlines. Applicants may also respond online by registering and logging into HESAA's website. As of early April, nearly 40,000 applicants responded online. Those who did not, have received AIRs. Staff is closely monitoring this process and are working with other states that have links to FAFSA on the Web as well as the U.S. Department of Education to enhance the visibility of the state link as well as the language regarding the link on the FOTW confirmation page.

HESAA staff was also pleased to provide institutions with the 2011-2012 grant system in early February, four weeks earlier than last year. As of mid April, more than 250,000 applications had been processed.

SYSTEM development moves ahead, staff was cognizant of the federal issues impacting institutions. Under the Higher Education Opportunity Act of 2008 (HEOA), all institutions participating in student aid programs must implement a net price calculator on their website by November 2011. This calculator is designed to help students at all family income levels determine their likely "net price" for attending higher education institutions.

The Department of Education has released a template that colleges and universities can use to develop a net price calculator for prospective students. Numerous vendors are not using the federal template. Since institutions make individual decisions regarding the product they will use, and recognizing how important it is to provide New Jersey students with a complete picture of what their estimated financial aid package may be, HESAA developed a simple and straight forward process that enables students and families to estimate TAG award eligibility from a TAG-participating institution's website so they can make informed enrollment decisions. The process allows TAG eligible institutions to link to the TAG Estimator from their website. Once the student enters the data, TAG eligibility information is displayed.

The student may determine the final net price at a particular institution by deducting the estimated TAG award from the school's calculated net price. This process requires the least amount of school support and maintenance while providing a simple path for students and families to determine their estimated TAG eligibility. Staff provided the financial aid community with the link and sample language that they can incorporate on their websites to assist students with this process. HESAA will continue working with NJACSA, the advisory committee, to review future options.

Mr. Angulo announced that on April 10<sup>th</sup>, he appeared before the Senate Budget and Appropriations Committee along with a number of college presidents and the Commission on Higher Education Acting Director to discuss Higher Education Services. Questions regarding HESAA programs focused on the maximum income ceiling of \$250,000 for NJ STARS II recipients, the changes to the STARS II scholarship, and how students are notified of their potential NJ STARS eligibility. Questions were also raised about career school eligibility for State aid, and the continuity of the Vet Med program. This past Thursday, April 21, the Senate Budget Committee also heard testimony from former Governor Tom Kean regarding the Task Force on Higher Education's Report. During that hearing, the EOF program was mentioned with Governor Kean offering his strong support for program funding.

HESAA's appearance before the Assembly budget committee Higher Education is scheduled for May 3, 2011.

Consistent with HESAA's outreach objectives, staff routinely provides presentations and workshops to inform students and families of the availability of student financial aid and the application process. HESAA's outreach counselors present to student groups, community organizations, and middle and secondary school students throughout the state. During the past year, HESAA conducted 869 events, bringing our message of affordability and access to a higher education to more than 249,000 students and families. HESAA also conducts GEAR UP Workshops on behalf of the Commission on Higher Education at secondary schools throughout the State.

HESAA will support and expand existing financial aid related activities, including initiatives to encourage the timely completion of the FAFSA, financial literacy training, outreach throughout the state with special attention to underserved areas, and the development and distribution of the new "High School Reach Higher" workbook. Reach Higher is a component of a nationwide trend to increase high school students' awareness of the importance of establishing a strong decision making process about their postsecondary educational opportunities. These activities

were funded through the Federal College Access Challenge Grant awarded to the Commission on Higher Education in partnership with HESAA.

In addition to HESAA's core functions of public outreach and administering grants and scholarships the Authority is also responsible for the State's supplemental loan program, NJCLASS. This year marks the 20<sup>th</sup> year of the NJCLASS program.

For FY 11 there was an overwhelming demand for the new repayment option offered in the NJCLASS Fixed Rate Program offering borrowers a choice of immediate repayment with a shorter loan term of 10-years in exchange for a significantly lower interest rate (5.9%). Despite allocating \$30 million to this new choice, all funds were expended. There was also a spike in applications for the full deferment option. By September 9, 2010, the funding available in both of the 10-year and full deferment options was fully expended. Staff worked closely with individual families who requested one of the discontinued options, accommodating some and assisting others with funding alternatives.

With your approval this morning of the NJCLASS Bond Resolution, HESAA will bring the bond issue to market by the middle of May and close by mid June. The timing is critical because Federal government announced that they may be increasing interest rates. Representatives from Bank of America Merrill Lynch and FirstSouthwest are here to answer any questions. Although the financial markets are more difficult than last year, we anticipate offering affordable fixed rate loan products for our students and their families.

The Authority also accomplished several important NJCLASS related goals this year:

- Successful installation of eSignature in all three of the online applications.
- Implementation of TILA, the new Federal Truth-in-Lending Act regulations.
- Installation of a new borrower counseling tool in the form of a repayment calculator that presents all of the repayment options available to the borrower with estimates of the monthly payments and total costs associated with each repayment option for the requested loan amount. It also displays the potential savings for each of the repayment options if the borrower were to make payments while in school.

As part of the annual bond issuance process, HESAA staff undertakes a review of the NJCLASS program parameters and operations. HESAA also uses this information to leverage favorable consideration by rating agencies. During meetings with Fitch and Moody's earlier this month, HESAA was able to note that the historical default rate for the NJCLASS portfolio, totaling over \$2.6 billion in loans, is less than 3 percent. Moreover, HESAA's recovery rate is very close to 100%. These are strong performance indicators that allow the NJCLASS program to receive favorable financial ratings necessary to obtain highly competitive interest rates. This also reflects a highly professional, effective, and dedicated servicing staff at HESAA.

On the federal front, HESAA awaits USDE guidance on the not-for-profit direct loan servicing contracts. HESAA has issued an RFP for a direct loan servicing platform and responses are due back to the authority by May 26, 2011. The outcome of this RFP will be discussed with the Board at the next meeting.

The Federal FY2011 Budget negotiations have resulted in reductions for federal student assistance as part of the overall \$38 billion reduction. These reductions include the permanent

repeal of year round Pell grants beginning in academic year 2011-12, elimination of the Leveraging Educational Assistance Partnership (LEAP) Program which provided approximately \$890,000 to fund low income TAG recipients. OMB was advised of this action by the federal government and will provide funding to address this shortfall. It is important to note that the maximum 2011-12 Pell award is maintained at \$5,550. HESAA will continue to monitor developments in Washington and keep you informed of any additional changes to Federal Student Assistance Programs.

After the report, Wilma Harris indicated appreciation of Governor's request for additional \$19 million for TAG in these austere times.

## **NEW BUSINESS**

### Dana Christmas Scholarship

Francine Andrea reported to the Board.

Four remarkable young New Jerseyans were selected as recipients of the Dana Christmas Scholarship for Heroism. This scholarship is named after the Seton Hall student who, at great risk to her own safety, saved many students by alerting them to evacuate during a devastating dormitory fire. Ms. Christmas was herself the first recipient of the scholarship. Each year, the scholarship honors young people who display the heroism, selflessness and bravery exhibited by Dana Christmas and provides a one-time award of up to \$10,000.

To be eligible for a scholarship, recipients must be a New Jersey resident (both at the time of the act of heroism and upon application). They must be age 21 or younger at the time of the heroic act and a U.S. citizen or eligible non-citizen and registered with Selective Service (if required). Final selections are made by the Executive Committee of the HESAA Board based on the nominations received from the community, school officials and/or individuals from across the state.

The Dana Christmas Scholarship for Heroism was made possible through the vision of the Board and the donations received from a public private partnership with PSE&G Foundation. As in the past, the 2010 recipients exhibited great courage and composure in times of crisis and HESAA is pleased to be able to support their educational needs.

The Executive Committee had the difficult task of selecting the finalists from this pool of deserving and courageous applicants. Ms. Andrea thanked the members of the Executive Committee for their excellent work on this important program.

Provided below is the information on the outstanding recipients:

### Neil Mehta

On July 10th, 2010 Neil and his friend Bhargav were involved in a horrific car accident caused by a deer suddenly crossing the road in front of them in rural southern New Jersey. The car flipped numerous times, landing upside down. Luckily, fighting through his own injuries Neil regained consciousness in time to crawl out of the car unbuckle and perform CPR on his dying friend. In

the midst of his frantic efforts to save his friend's life, Neil discovered he had lost his phone during the accident, crawled back into the car that was leaking gasoline, to unplug his friend's phone and call 911. Emergency crews rushed Neil and Bhargav to the hospital and due to Neil's efforts that night and 4 subsequent brain surgeries his friend survived the accident.

#### Tim Ghanny

On August 31, 2010 Tim Ghanny, his parents and 82 year-old grandmother were at home when their house caught fire. Although, Tim's mother alerted the family that the house was engulfed in flames, it was not until Tim and his parents were safely outside when Tim realized his grandmother was still in the burning house. Tim knew that his grandmother had trouble walking and without hesitation rushed back into the house, picked up his grandmother from her second story bedroom, climbed onto the roof, and subsequently lowered her to the ground. If not for the quick and decisive actions of Tim, police firmly believe his grandmother would have not survived the fire which completely destroyed the home.

#### Paul Tarashuk

On February 24, 2010 Paul Tarashuk was driving home and noticed an elderly woman turn off of his street and onto a major highway .....into oncoming traffic. Paul knew that the woman would either get killed or possibly kill someone else. Without time to think about his actions Paul followed the woman onto the highway, trying to get her to drive her car to the side of the road. After chasing the woman the wrong way on a major highway, Paul was able to maneuver her car off the road and out of danger. Approaching the woman, Paul stayed with her as she was scared and cold until the police arrived. Paul initially felt he was no longer needed, but as he saw the woman being put into the ambulance he remembered her pleading with him to stay with her which he did until her family arrived at the hospital.

#### Kayla Irwin

In February 2006 Joseph Viscuso took his family on a skiing vacation. His 6 year old daughter Sydney asked to ski with friends. Joe and his wife agreed as long as she used the lift with an adult. Unfortunately, the adult they entrusted with their daughter let the kids use the lift by themselves. The resort was quite busy and so the lifts were moving at a higher speed than normal. Sydney was fortunately paired with Kayla, 12 and upon jumping on the lift Sydney missed the seat due to the speed and her size. Kayla held onto Sydney arms and tried to get the attention of the attendants, but to no avail due to loud music playing on the slope. As the lift continued to rise up the mountain, Kayla continued to hold Sydney without the security of the safety bar. Kayla kept reassuring Sydney and held on to her until another skier could position themselves under the lift among the jagged rocks below. Once Kayla assured Sydney that she would be fine she let go and Sydney's fall was broken by the skier below. At this point they had risen over 25 feet in the air and were 120 feet up the mountain. Understandably, it took a long while before Sydney would ski again.

Again, The Executive Committee did an excellent job in selecting four candidates and HESAA is pleased that the PSE&G Foundation was able to assist us this year with the awards.

#### Ethics Update

Marnie Grodman reminded the Board that their Financial Disclosure Statements must be filed by May 15, 2011.

**ADJOURNMENT**

Chair Garcia announced that after adjourning this Board Meeting the Board will enter a closed session, pursuant to the Open Public Meetings Act, to discuss pending litigation. This will be a closed session pursuant to N.J.S.A. 10:4-b(7), matters that fall under the attorney-client privilege. Details of the discussion that takes place in the closed session cannot be disclosed to the public until the conclusion of the litigation. A motion to adjourn and go to closed session was made by Wilma Harris and seconded by Wilmot Wilson.

Chair Garcia thanked all of the sub-committee members for their exemplary work.

The motion to adjourn passed unanimously.

The meeting adjourned at 12:00 pm.