

## MINUTES

### HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

February 8, 2006

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on February 8, 2006 at 10:00 a.m. at its offices in Hamilton.

**PRESENT:** Michael Angulo, Esq.; Mr. James Avery (teleconference); Dr. Phyllis Della Vecchia; Mr. Mubarak Guy, Ms. M. Wilma Harris (teleconference); Dr. Harvey Kesselman; Ms. Rossy Matos (teleconference); Ms. Jean McDonald Rash; Dr. William Rogers (Teleconference); Ms. Nancy Style, Treasurer's Designee; Warren Smith, Esq. and Ms. Maria I. Torres, members.

Mr. Al Ramey, Deputy Attorney General; Keith Barrack, Esq., Governor's Authority Unit and HESAA staff.

**INVITED GUEST:** Michellene Davis, Esq., Executive Director of the New Jersey Lottery

**ABSENT:** Ms. Dana Downer, Dr. Harold Deutschman, Mr. Frank Mertz; and Christian Samay, Esq.

#### CALL TO ORDER

Chairman Smith called the meeting to order at 10:04 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Smith welcomed the Board members. He advised members of the public who wished to speak to register with Ms. Merci Powell.

Mr. Smith asked Ms. Powell to call the roll.

Mr. Smith welcomed Al Ramey, Esq., DAG, Keith Barrack, Esq. from the Authorities Unit of the Governor's Office, Nancy Style, Treasurer's Designee and our guest, Michellene Davis, Esq., Executive Director of the New Jersey Lottery.

#### CONSIDERATION OF THE MINUTES OF THE OCTOBER 19, 2005 MEETING:

Dr. Harvey Kesselman made a motion to approve the minutes of the October 19, 2005 meeting. The motion was seconded by M. Wilma Harris. The minutes were unanimously approved.

**RESOLUTION 1:06 CONSIDERATION OF RULE ADOPTION:  
AMENDMENTS TO THE NEW JERSEY STUDENT TUITION ASSISTANCE  
REWARD SCHOLARSHIP (NJSTARS) PROGRAM REGULATIONS, N.J.A.C.  
9A: 9-10.6 ELIGIBILITY REQUIREMENTS AND 10.10 OUT-OF-COUNTY  
STUDENTS.**

Sudha Tiwari Kantor, Esquire presented this item to the Board.

The Proposed Rule No. PRN 2005-440, was published in the December 5, 2005 New Jersey Register at 37 NJR 4498 on the HESAA website at HESAA.org, sent to the Statehouse News Media and Secondary notice was published in HESAA's newsletter, "The Authority," which was mailed to interested parties. The proposed rule sought two amendments to the NJ STARS regulations.

The first amendment to the regulation concerns the enactment of P.L. 2005, c.168, which changes to the academic requirement for renewal of an NJ STARS award for the student's second year of county college enrollment from the current ranking in the top 20% of all first-time students enrolled in a full-time course of study during the student's initial year of enrollment at a New Jersey county college. NJ STARS recipients must now attain a cumulative grade point average (GPA) of at least 3.0 (on a 4.0 scale) by the start of the second year of county college enrollment in order to continue receiving a scholarship. In addition, this new legislation also requires that an NJ STARS recipient with a GPA less than 3.0 at the start of the second semester of his or her first year of enrollment, to participate in an enrichment program, designed by the county college, during the second semester of that first year.

The second amendment to this regulation concerns the attendance at an out-of-county college. Since the inception of the NJ STARS Program, and its subsequent administration for the 2004-2005 academic year, the Higher Education Student Assistance Authority (HESAA) has determined that additional clarification is needed in the current regulations regarding eligibility requirements for students to receive these scholarships. Under current regulations, NJ STARS-eligible students may attend another New Jersey county college, other than their county college of residence, if their desired program of study is not offered. The proposed amendment to N.J.A.C. 9A:9-10.10 provides that NJ STARS students may also use their awards at another New Jersey county college, and receive in-county tuition rates, if their county college of residence is unable to admit the students into the desired program of study due to lack of available space which will exist for at least one year pursuant to N.J.A.C. 9A:4-1.3.

The 60-day legislative review period for this rule expired on February 3, 2006, with no comments received. The public comment period for this rule expired on February 3,

2006, and HESAA received no comments requiring amendments to the regulations as proposed.

It was recommended that the Board approve Resolution 01:06 Adopting Amendments to the New Jersey Student Tuition Assistance Reward Scholarship (NJ STARS) Program regulations, N.J.A.C. 9A:9-10.6, Eligibility Requirements and N.J.A.C. 9A:9-10.10, Out-of-County Students.

A motion to approve this resolution was made by James Avery and seconded by Dr. Phyllis Della Vecchia. Ms. Powell took a roll call vote and the motion passed unanimously.

**RESOLUTION 02:06 – CONSIDERATION OF RULE ADOPTION: NEW RULE TO THE STUDENT LOAN AND COLLEGE SAVINGS PROGRAMS REGULATIONS N.J.A.C. 9A: 10-2, SOCIAL SERVICES STUDENT LOAN REDEMPTION PROGRAM (SSSLRP) REGULATIONS.**

Sudha Tiwari Kantor, Esquire presented this item to the Board.

The Social Services Student Loan Redemption Program Act was signed into law on July 14, 2005 and codified at N.J.S.A. 18A:71B-87 et seq. (“Act”). Pursuant to N.J.S.A. 18A:71B-96, the Higher Education Student Assistance Authority (HESAA) is responsible for promulgating rules and regulations in consultation with the Department of Human Services (“DHS”) and the Juvenile Justice Commission (“JJC”). The Act took effect on January 10, 2006.

The Proposed Rule No. PRN 2005-441, was published in the December 5, 2005 New Jersey Register at 37 NJR 4500, on the HESAA website at HESAA.org, sent to the Statehouse News Media and Secondary notice was published in HESAA’s newsletter, “The Authority” which was mailed to interested parties.

The 60-day legislative review period for this rule expired on February 3, 2006, with no comments received. The public comment period for this rule also expired on February 3, 2006. HESAA received written comments from two parties, Debra L. Wentz, Ph.D., CEO of the New Jersey Association of Mental Health Agencies, Inc. (“NJAMHA”) and Barb Sachau. These comments do not require amendments to the proposed Regulations. HESAA has made one technical amendment to N.J.A.C. 9A:10-2.8 (a)4., to clarify that commission of felonies includes crimes, as they are called in New Jersey, as grounds for termination of the service obligation and cancellation of the redemption contract.

HESAA also received draft and informal comments from JJC and DHS. HESAA has formed a SSSLRP working group with JJC and DHS to further address program implementation issues. We hope to work collaboratively to ensure that the purposes of the legislation are met. It is possible that there may be amendments to these regulations at a future date to ensure that the program is implemented as intended.

It was recommended that the Board approve the attached Resolution 02:06 – Adopting Social Services Student Loan Redemption Program Regulations, N.J.A.C. 9A:10-2.

A motion to approve this resolution was made by Mubarak Guy and seconded by James Avery. Ms. Powell took a roll call vote and the motion passed unanimously.

**RESOLUTION 03:06 – CONSIDERATION OF RULE ADOPTION: NEW RULES FOR THE OB/GYN STUDENT LOAN REIMBURSEMENT PROGRAM REGULATIONS, N.J.A.C. 9A:10-3.1 ET SEQ.**

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

The “New Jersey Medical Care Access and Responsibility and Patients First Act”, P.L. 2004 c. 17 was signed into law on June 7, 2004. (“Act”). Section 29 of the Act, establishes a student loan expense reimbursement program for obstetrician/gynecologists who agree to practice in State designated underserved areas. This program expires after three years.

The OB/GYN Student Loan Reimbursement Program (“LRP”) provides reimbursement of NJCLASS and federal loans to obstetrician/gynecologists. An obstetrician/gynecologist who receives a payment under the LRP is required to practice as an obstetrician/gynecologist in an underserved area in this State for a period of at least four years after receipt of the payment.

The LRP is funded through a \$1 million allocation from the Medical Malpractice Liability Insurance Premium Assistance Fund, established pursuant to section 27 of the Act. Funding becomes available in Fiscal Year 2006.

Pursuant to section 29 of the act, the Higher Education Student Assistance Authority (HESAA) is responsible for promulgating rules and regulations to effectuate the purpose of this section, including but not limited to: eligibility for the program, procedures for applications, selection of participants, establishment and nullification of contracts established with participants under the program, and reports to the program by participants.

The Commissioner of Banking and Insurance, in conjunction with the Board of Medical Examiners, will provide HESAA with the names of qualified OB/GYNs who may be eligible for the program.

HESAA will receive the list of underserved areas from the Commissioner of Health and Senior Services.

The amount of the reimbursement will be determined based on the number of applicants, not to exceed \$120,000. HESAA will be issuing funds as a joint check to the participant and the lender.

If the service agreement is terminated prior to completing four years of service, for reasons other than death, disability, extreme hardship, the participant must return the full amount of the reimbursed funds to HESAA.

The application deadline will be July 1 of each year.

A motion to approve this resolution was made by Mubarak Guy and seconded by Maria Torres. Discussion was made regarding the funding and program implementation issues. Ms. Powell took a roll call vote and the motion passed unanimously.

#### **RESOLUTION 04:06 – APPOINTMENT OF A FINANCIAL ADVISOR AND SENIOR MANAGER FOR AUTHORITY BOND ISSUES**

Robert Clark presented the recommendations of the RFP evaluation committee for appointments of a financial advisor and senior manager for the Authority's bond issues, Resolution 04:06 making the appointments, and as attachments A, B & C, respectively, the report of the RFP evaluation committee, and the RFPs for financial advisor and senior manager.

In addition to the Chief Financial Officer who, under the Authority's procedures, chairs the RFP Evaluation Committee, the Executive Director designated the Director of Student Loan Programs, the Controller and the Assistant Controller to participate in this review process.

This recommendation was brought to the Board under the established Authority procedures for the selection of financial advisors and senior managers. These procedures are fully described in Section A of the memo accompanying Resolution 4:06. Concerning selection of the financial advisor, five proposals were submitted, and the evaluation committee interviewed all five firms. Of these, Municipal Advisory Partners' or MAPs' proposal most closely matched the Authority's needs. The proposed fee for MAPs' financial advisor services is \$35,000, inclusive of expenses. MAP has also proposed a fee of \$30,000 for their support in the bidding, evaluation and award of the Guaranteed Investment Contracts in which bond proceeds are invested. These prices are considerably lower than most of the other bidders.

Concerning selection of the senior manager, nine proposals were submitted by underwriting firms. Three of the firms had limited student loan experience or were not price competitive and therefore were not interviewed. The evaluation committee interviewed the six remaining firms. Of these firms, UBS Securities LLC's proposal outlined a set of services that most closely matches the Authority's needs. UBS proposed to work closely with Authority staff in the continued development of financing structures tailored to match program delivery objectives. Additionally, of all the bidders, the UBS proposal and presentation best illustrated the depth of experience of assigned staff and the firm's strong support of the Authority's after bond sale needs, including evaluation of loan portfolios the Authority may want to purchase, consultation regarding proposed

changes to HESAA loan programs, and the effects of changes in FFELP financing regulations and policies.

The proposed fee caps to UBS are inclusive of management fees, expenses, and 'takedown' (which is the commission rate paid to the bond salespeople). UBS has proposed a cost of \$2.76 per thousand for auction rate certificate bonds, which is a decrease of \$0.49 per thousand from the firm's proposal the last time this RFP was issued in FY 2003. The proposed fees are based on an estimated \$200.0 million Authority bond sale.

On behalf of the evaluation committee, Mr. Clark recommended approval of the resolution, which ratifies the RFPs for Financial Advisor and Senior Manager and approves the appointment of Municipal Advisory Partners, Inc. as the Authority's Financial Advisor, and UBS Securities LLC as the Authority's Senior Manager.

A motion to approve this resolution was made by M. Wilma Harris and seconded by Dr. Harvey Kesselman. Ms. Powell took a roll call vote and the motion passed unanimously.

## **REPORT OF THE AUDIT COMMITTEE**

### **Program Review and Quality Control Committee**

Maria Torres reported that the Program Review and Quality Control Committee met on Tuesday, January 24, 2006. Included in this meeting were Warren Smith, Maria Torres, Michael Angulo and HESAA Staff members. In addition, three representatives from the State Inspector General's Office attended the meeting as part of their assessment of internal controls at HESAA in response to Executive Order #41. Ms. Torres provided the Board with an overview of the topics discussed at the Committee meeting.

Ken Jones, HESAA's Director of Audits & Quality Assurance was asked by Ms. Torres to provide the Board with a more in depth presentation on the review programs performed by HESAA to ensure compliance with Federal and State regulations and statutes. These include conducting Federal Family Education Loan (FFEL) Program Lender Reviews, State Grant & Scholarship Institutional Management Reviews, Special Counsel Reviews, the Annual Internal Control Evaluation, and Quality Assurance Reviews requested by HESAA's Executive Management.

For the past biennium (CY2004-05), HESAA participated with 31 other guaranty agencies in conducting joint FFELP lender/servicer reviews under the Common Review Initiative (CRI) authorized by the U. S. Department of Education. HESAA staff participated on two of these reviews. Two of the four reports have been issued and one is closed. The two unissued draft reports are being reviewed and revised by the review teams and are expected to be issued shortly.

For the current biennium (CYs 2006-07), HESAA staff will participate in five of the six CRI reviews required by HESAA to satisfy the federal mandate to review the Authority's

“Top 10 Lenders.” The CRI Review Selection Committee selected a HESAA staff member to lead two of these reviews (ACS & Citibank).

HESAA is not required to conduct any FFEL Program school reviews in calendar year 2006 due to the fact that none of our institutions exceed the student loan cohort default rate and loan volume that would trigger such a review.

HESAA conducts Institutional Management Reviews to ensure that institutions administer the State Grants & Scholarships programs in accordance with all applicable federal and state statutes, regulations, policies and procedures. These reviews are conducted jointly by the Authority Offices of Audits & Quality Assurance and Grants & Scholarships. These management reviews provide institutions with recommendations on how to improve their operations and delivery of State Grant & Scholarship programs, as well as ensure compliance with statutes and regulations.

Four management reviews completed in CY 2005 identified funds due HESAA totaling \$409,883. A fifth management review completed in CY 2004 resulted in a payment of \$1,238,161 in funds due HESAA on 1/11/2005, the institution was permitted to continue to participate in the TAG program only through the reimbursement process. Subsequent to the initial review, HESAA has conducted two follow-up reviews at this institution and a third is scheduled for June 2006.

HESAA performs management reviews biennially at eight Special Counsel performing collection activities on approximately 21,000 defaulted student loan accounts on behalf of HESAA. These collection attorneys manage portfolios of defaulted student loans ranging in size from approximately 300 to 8,100 accounts.

Based on the Special Counsel reviews conducted in the prior biennium, Audits & Quality Assurance has noted a marked improvement in the counsels’ collection practices. As a result of the reviews performed, HESAA collected \$30,801.74 in funds due HESAA/USDE. An additional \$933.16 was collected this week, and \$11,884.05 is pending final determination by HESAA of the amount due from two firms. All eight Special Counsel will be reviewed in CY 2006.

In addition, Audits & Quality Assurance coordinates the annual internal control self-assessment required by OMB. This evaluation is conducted between March and June each year, and all HESAA senior staff participate in the assessment process. Based on the results the internal control evaluations and quality assurance reviews, the Director of Audits & Quality Assurance issues a memorandum to HESAA’s Chief Financial Officer, Chief Operating Officer, and Executive Director detailing the review requirements, outline of the review program, and any findings and recommendations. On June 17, 2005, HESAA’s Executive Director and Chief Financial Officer sent the Director of OMB a letter confirming that HESAA performed the 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.

On January 12, 2006, the Department of the Treasury sent HESAA the 2006 Internal Control Assessment, along with the self-assessment questionnaires. This year the evaluation will focus on six target areas including: Expenditures, Revenue, Travel, Federal and State Grants, Audit Findings, and Off-line, Petty Cash and Special/Confidential Funds.

Maria Torres noted that staff shortages and HESAA's inability to hire due to the current statewide hiring freeze are inhibiting HESAA's ability to conduct institutional management reviews. In five reviews completed in the past year, HESAA identified over \$1.6 million in funds due the Authority and to date has collected over \$1,280,000 of the total identified. The reimbursement dollars are exclusively for program use. There are over 50 institutions given current personnel constraints, resulting in lost program dollars that otherwise would be refunded by the institution. The Board expressed support for increasing audit related staffing levels.

Mr. Jones presented and distributed the 2006 Program Review Schedule for Board approval. A voice vote was called and the 2006 Program Review schedule was unanimously approved by the Board.

#### **2005 DANA CHRISTMAS SCHOLARSHIP AWARD RECIPIENTS**

Mr. Smith reported on the 2005 Dana Christmas Scholarship Award Recipients. The press release and memo from the Executive Director regarding the details of these awards were distributed at the meeting. Mr. Smith announced that approximately 50 applications were received and reviewed, with 10 being forwarded to the HESAA Executive Committee, which selected 5 finalists for awards. Mr. Smith thanked the members of the Executive Committee and announced the 2005 recipients.

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

Mr. Michael Angulo delivered the Executive Director's report.

Mr. Angulo discussed the Final Report of the Higher Education Transition Policy Group and how it impacted HESAA. The Final Report was distributed during the meeting.

Mr. Angulo gave an update on the new Facility project. He also gave updates on several programmatic and operational matters at HESAA.

Mr. Angulo distributed the "Preliminary Review of the Provisions of the Deficit Reduction Act of 2005" and discussed its impact on HESAA.

In conclusion, Mr. Angulo stated that given the changes in the Statehouse, the State's budget deficit, and the activity on Capital Hill, 2006 will be a very busy and challenging year for the Authority. With the Board's support and the support of the community HESAA serves; HESAA will be able to continue improving upon its programs and

services to meet the increasing needs of students, while enhancing its business platform to ensure its competitiveness in the market.

**NEW BUSINESS:**

Warren Smith introduced Michellene Davis, Esquire, Executive Director of the New Jersey Lottery. Ms. Davis spoke about how the New Jersey Lottery supports Higher Education.

Warren Smith announced the resignation of Phyllis Della Vecchia today. In consideration of Dr. Della Vecchia's resignation, and in recognition of her excellent services as a member of the HESA Board, Mr. Smith presented a framed Resolution which he read and thanked Dr. Della Vecchia for her service throughout the years.

Mr. Smith notified the Board that in accordance with Executive Order 122, the Board Audit Committee would be meeting with the Authority's external auditing firm to review the results of the FY 2005 audits of the Authority's off-system program accounts immediately following the Board meeting.

Mr. Smith also informed the Board that two responses had been received to the EO 122 audit services RFP issued by the Audit RFP Evaluation Committee for FY 2006 and that these responses were being circulated to the Evaluation Committee for their review and subsequent recommendation to the Audit Committee and the Board.

**ADJOURNMENT:**

Mr. Smith announced that the next meeting would be on May 8, 2006 at 10:00 am.

A motion to adjourn was made by William Rogers seconded by Dr. Harvey Kesselman. The motion passed unanimously.