

MINUTES
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
BOARD OF DIRECTORS' MEETING
JUNE 14, 2005

The 257th meeting of the Rhode Island Higher Education Assistance Authority was held on Tuesday, June 14, 2005 in the McKenna Conference Room of the Authority, 560 Jefferson Boulevard, Warwick, Rhode Island. The meeting was called to order at 9:10 a.m.

The following members were in attendance:

- Dr. Robert J. McKenna, Chairman
- Dr. Anthony J. Santoro, Vice Chairman
- Ms. Kerrie Bennett, Designee of General Treasurer
- Mr. William B. Hall
- Mr. John Howell
- Mr. Solomon A. Solomon

Members Absent:

- Dr. William Croasdale, Treasurer, Acting Secretary
- Ms. Miriam Curtis Coleman
- Ms. Laura DiSano

Also Attending:

- Mr. William H. Hurry, Jr., Executive Director, RIHEAA
- Ms. Gail Mance-Rios, Deputy Director, RIHEAA
- Mr. Marc Lacroix, Chief Financial Officer, RIHEAA
- Mr. Joseph Palumbo, Legal Counsel, RIHEAA
- Ms. Mary Ann Welch
- Mr. Michael Joyce
- Mr. Steven Mollica
- Mr. Greg Silva
- Ms. Sue Zube
- Mr. Mr. Noel Simpson, RISLA
- Mr. Dick Davies, Alliance Capital
- Ms. Jennifer DeLong, Alliance Capital
- Ms. Jennifer Bramley, Vision Strategies

1) Approval of Minutes of the April 12, 2005 Board Meeting:

On motion duly made by Mr. Solomon and seconded by Ms. Bennett, it was

VOTED: That the minutes be accepted and placed on file.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

2) Chairman's Report: Chairman McKenna noted that the General Assembly is still working on the budget. There is no clear idea as to when it will be adopted.

3) Executive Director's Report:

a. Mr. Hurry reported that with regard to the Governor's proposal, there is no further information. Also, there is no firm confirmation as to whether or not there is a proposal for new revenues from the video lottery terminals at the Lincoln Track.

b. With respect to the Separation of Powers, a summary of the changes in the two bills currently under consideration that relate specifically to the RIHEAA Board were distributed. The current bills would decrease the Board number from eleven to nine members, two legislative members would no longer serve, the Governor would appoint eight of the nine members, five of them from experiential backgrounds relating to educational finance and personal investing, etc. and three would be appointed by the Governor after giving due consideration to recommendations from the Chairman of the Board of Governors and the Chair of the Rhode Island Independent Higher Education Association. The General Treasurer or his/her designee would serve ex-officio.

One issue of concern is that all Board members would have to be residents of the state of Rhode Island.

Members of the Board would be required to participate in an orientation within six months of their appointment.

Both the House and Senate have passed the bill.

c. Mr. Hurry stated that there is a letter at tab 10 of the Board Book which was sent to the Governor from the President of NEBHE. He noted that for the state's payment of about \$135,000 in state assessment, the impact on the state in terms of reduced student fees for students going out of state and fees coming from students out of state coming to Rhode Island institutions is approximately \$9 million for the last year.

d. Mr. Hurry advised the Board that under Agenda Item number 8, there is a copy of a document which he signed in May 2005 relating to the discussion that will take place later in this meeting regarding the change in underlying investments in *CollegeBoundfund*. He wanted to make the Board aware that the statement of intent had been signed but no action has been taken vis a vis any of that which would come following whatever decision the Board makes today and the SIC makes at it's meeting next Wednesday.

Mr. Hurry welcomed and introduced Mr. Dick Davies and Ms. Jennifer DeLong from Alliance Capital and Ms. Jennifer Bramley from Vision Strategies.

4) Financial Report:

a. Mr. Lacroix reported on budget versus actual results for the Scholarship and Grant and the College Savings Programs for the nine months ended March 31, 2005. The expenditures are on target as expected. Personnel budget versus actual results are close. There is a significant under-expenditure in the rest of operating expenses in the actual versus the comparable budget amounts. This is due to significant adjustments to be recorded at the end of the year to reimburse the Loan Division for expenses incurred in support of grant program system development. All of the operating expenses will be expended either by virtue of expenses as they fall in or because the debt to the loan division for the grant system development will be paid down.

For the College Savings Program Mr. Lacroix noted that the entries to move additional funds to essentially zero out the student financial assistance section are still happening. The March 31st cut off does not reflect the additional \$1.5 million that was moved for the state grant program. Purchased services and operating are

significantly under-expended. The payment to Alliance Capital for marketing expense, which happens at year end, will expend most of it. Where the \$500,000 that was allocated to 5&10 Matching Grant Program was used, those dollars have been expended in the regular state grant program. To the extent that marketing was under-expended it might be considered funding additional 5&10. This decision has not been made.

Mr. Howell asked how much is anticipated to be unspent in marketing, thereby providing funds for 5&10.

Mr. Lacroix stated that the expense is \$400,000 on a budget of \$600,000.

Regarding the Loan Division budget versus actual for nine months ended March 31, 2005, Mr. Lacroix reported that the balance is much closer to the budgeted amount. The aggregate expenses in the Loan Division are also closer.

With respect to the Separation of Powers, Mr. Lacroix mentioned that the Authority was very fortunate to obtain a change to the financial statement and other disclosure section of proposed legislation. It is a small change in terms of the language, but it represents a substantial benefit to the Authority.

5) Investment Committee Report: Mr. Lacroix noted that there is nothing unusual to report. The balances in the federal fund continue to decline as expected.

We fully expect that revenues provided to the guarantee agencies will be cut when Reauthorization takes place. The other issue to be addressed is whether or not the fee that supported the Federal Reserve Fund is going to be either reinstated by virtue of the agencies' making their choice or because the Reauthorization legislation will include some provision(s) either to require it or to change to another source of revenue from lenders.

4.b. Banking Services Transition Update - Mr. Lacroix reported that we are still in the process of transitioning to Sovereign Bank. We need Board Action to keep the process moving. Once the Corporate Resolution is approved and signed, it will be submitted to Sovereign, and the transition should begin in earnest.

9.e. Action Item:

Mr. Hurry explained that the corporate resolution is a document which is required for purposes of designating authorized officials to open accounts and sign checks, etc. It has been reviewed by Mr. Palumbo, legal counsel.

Mr. Palumbo reported that Dr. Croasdale recommended that there be a distinction made between the normal private corporation and this Authority. A footnote to this effect was added at the bottom of the standard form which signifies that the Authority is a public corporation and a governmental agency of the State of Rhode Island.

On motion duly made by Mr. Howell and seconded by Mr. Solomon, it was

VOTED: To approve adoption of the Corporation Resolution pertaining to the transition to Sovereign Bank.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

6) Scholarship and Grant Update:

Ms. Welch reported that for the 2004/2005 academic year, as of May 31 the program was 5% over-expended. There is \$14.1 million awarded in grants for this year to 13,072 students. The 5% over commitment represents \$706,000 and of that approximately \$314,000 are for students that no school has yet verified for any academic term. Also, a portion of that is for students that have not indicated whether or not they will be attending school.

For academic year 2005/2006 the program is over-expended by 34%. This is the same as last year at this point in the cycle. There are 14,132 students who have been awarded grants for 2005/2006 for \$17.9 million. The new academic year begins July 1, 2005; therefore, the schools will be paid beginning July 1.

Under new business, Mr. Howell felt it was appropriate at this time to state that he heard of possible legislation that would charge students a \$100 "assessment" per semester to cover the cost of emergency services that cities and

towns provide to the school which they are attending. The hearing for this bill is scheduled for Thursday, June 16. The Chairman stated that we need to find out if this will be a joint hearing. He also noted that this proposal needs to be monitored very closely. If any action is to be taken by the Authority to address this bill, it would likely require a special Board meeting.

Ms. Bennett stated that she would call Senator DaPonte today to find out what the prospects of the bill are and report back to Mr. Hurry this afternoon.

It is noted for the record that Chairman McKenna turned the meeting over to Vice-Chair Santoro at 10:12 am.

6 cont.) Ms. Welch reported on the Academic Promise Scholarship Program activities for 2004/2005 academic year. There were 322 students awarded totaling \$777,000, and for 2005/2006 academic year there are 408 students awarded for approximately \$1 million.

6.a/9.g. Ms. Welch proposed, for possible Board action, that the language in the regulations for the Academic Promise Scholarship Program be revised to say that funds available from any given cohort of students may be redistributed to other cohorts.

It is noted for the record that Chairman McKenna returned to the meeting at 10:16 am.

9.g) Action Item: Possible Revision to Academic Promise Scholarship Recommendation.

On motion duly made by Dr. Santoro and seconded by Mr. Hall, it was

VOTED: To amend the regulations for the Academic Promise Scholarship Program as recommended by staff in the preceding presentation and discussion.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

7) Loan Division Update:

Mr. Silva reported that the Authority recently hosted its twice yearly loan workshop for all the schools in Rhode Island. It was the highest turn out ever. It was recommended by the schools to change the name from loan workshop to financial aid workshop, better to reflect the comprehensive scope of the workshop.

Mr. Silva has been visiting different schools to get end of year feedback. It is reported that the schools are very satisfied with the services they receive from RIHEAA.

For the RIASFAA 35th Anniversary meeting last week Mr. Hurry approved having a representative from Mapping Your Future (MYF), a nationally award winning website sponsored by the 36 guaranty agencies, give a presentation. Ms. Cathy Mueller, executive director for MYF explained the website to all the Rhode Island schools, most of which have not been using it to its fullest extent.

Mr. Silva also noted that certificates of guarantee for May 2005 are up from last year. Consolidations last year were \$2.5 million in May, and this year at the same time they are \$14.1 million. The increase in consolidations is due to the June 30 deadline to lock in the current historically low interest rates.

Mr. Hurry informed the Board that the Director of the Collections Department, Tricia Tedeschi, has left the Authority for another position in state service.

8) CollegeBoundfund Update:

Mr. Joyce reported that as of May 27 total assets are exceeding \$5.6 billion with over 450,000 accounts. Of those totals \$135 million are Rhode Island assets with over 14,000 RI accounts.

Included in the meeting materials there is a copy of the advertisement piece that is being circulated for the second annual poster contest.

Regarding the CollegeBoundfund Breakfast, Mr. Joyce noted that it was a success. A great deal of thanks is given to Jennifer Bramley for coordinating the entire event. There were 70 attendees.

For the record, Mr. Solomon expressed his apologies for not attending the breakfast. Other pressing commitments prevented his attendance.

At this time, Mr. Joyce turned the report over to representatives from Alliance Capital, Mr. Davies and Ms. DeLong.

Mr. Davies noted that he and Ms. DeLong will give a formal update on the *CollegeBoundfund* program and will walk the Board through some of the proposed investment changes.

Ms. DeLong presented a brief program update. Regarding the *CollegeBoundfund* summary, there continues to be good growth in the program.

For investment options that participants use, in terms of total assets approximately 60% of the assets are in the age-based growth and age-based aggressive growth plans.

Competitively, *CollegeBoundfund* has a strong leadership in the industry. Rhode Island and *CollegeBoundfund* is the second largest single-state plan following Virginia.

In terms of performance, the program continues to be very strong. In comparison with competitors *CollegeBoundfund* is performing extremely well.

One item of interest refers to the settlement with NY Attorney General and SEC. Ms. DeLong reported that the SEC is still reviewing the methodology for determining payments.

Currently Alliance is working with the RI marketing team on the marketing plan for 2005-2006.

Regarding the proposal, Mr. Hurry stated that there is an action item on the agenda that would authorize the changes that will be recommended that deals with underlying investments and change in the management agreement which reflects the methodology for determining the pricing payment to Alliance Capital for its work. Whatever action is taken today by the Board will be contingent upon the action of the SIC at its meeting next week.

For background purposes Ms. DeLong reviewed the current investment options.

Mr. Davies gave an overview of the proposed enhancements to CollegeBoundfund. The changes include a key pooling structure, improved and expanded marketing, additional portfolio management resources, reworked asset allocations, improved cash flow allocation, a new rebalancing methodology and a new fixed pricing structure.

Ms. DeLong recommended that the program have two different age-based options. In terms of the fixed allocations portfolios she recommends that the current aggressive growth option be merged with the current growth portfolios to offer one solid 100% equity option. She also recommends a new portfolio called preservation which is 35% equity.

The revised appendix shows the details of the actual underlying allocations.

Other Benefits using the new pooling structure and style blend team include being able to view portfolios rebalancing in a smarter way. In going forward Alliance will be setting more specific, strategic targets and rules.

Mr. Davies reported that one of the changes will allow them to redirect cash to under funded categories on a daily basis which will help to avoid the need for rebalancing. Rebalancing reduces the probability of a bad outcome. It reduces the risk in the portfolio.

In going forward the changes in the underlying funds will not affect the performance track record. Only the underlying funds will change.

Regarding portfolio pricing Ms. DeLong recommended going back to the original way of pricing used during the first three years of the program. Every portfolio had a set price, and the participants knew what they paid regardless of any fluctuation in the cost of underlying funds. Alliance is recommending using the same methodology.

Ms. DeLong reported that upon approval from the RIHEAA Board at today's meeting and approval from the SIC on June 22, Alliance will begin mailing the revised program description to all participants and financial advisors on or about July 1. The portfolio changes and transition of assets to pools will begin in August.

9.h. Action Item:

On motion duly made by Mr. Howell and seconded by Mr. Solomon, it was

VOTED: To endorse, contingent upon concurrent approval of the SIC at its June 22, 2005 meeting, modifications to *CollegeBoundfund* Investment Options and Portfolio Construction which deal with underlying investments.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

9.i. Action Item:

On motion duly made by Ms. Bennett and seconded by Mr. Solomon, it was

VOTED: To approve the amendment to *CollegeBoundfund* Management Agreement regarding pricing methodology.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

Two footnotes regarding the *CollegeBoundfund*, Mr. Hurry notified the Board that legislation has been submitted both in the U.S. House and Senate to eliminate the sunset provision on the tax exempt status of withdrawals from 529 programs. The other issue is that the first five-year term of the contract with Alliance will expire on June 30, 2005. Mr. Hurry suggested that it is anticipated that the renewal will go smoothly.

9.a. Action Item:

On motion duly made by Mr. Solomon and seconded by Dr. Santoro, it was

VOTED: To request from the Governor that Mr. Howell be reappointed to the Board for a 5 year term.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall and Mr. Solomon. Voting against: none. Mr. Howell abstained.

9.b. Action Item:

On motion duly made by Mr. Hall and seconded by Mr. Solomon, it was

VOTED: To appoint Mr. Howell to the position of Secretary of the Board.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

9.c. Action Item:

On motion duly made by Mr. Solomon and seconded by Mr. Howell, it was

VOTED: To reappoint Mr. Robert Weygand to the NEBHE Board for a three-year term through May 31, 2008.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

9.d. Action Item:

On motion duly made by Ms. Bennett and seconded by Mr. Solomon, it was

VOTED: To reappoint Mr. William Hurry, Jr. to the NEBHE Board for a three-year term through May 31, 2008.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

9.f. Action Item:

On motion duly made by Mr. Santoro and seconded by Ms. Bennett, it was

VOTED: To authorize the reallocation, as necessary, of up to \$500,000 of CollegeBoundfund revenues to cover 2004/2005 over-expenditure in the State Grant Program that otherwise would have been applied to the 5&10 Matching Grant Program.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell and Mr. Solomon. Voting against: none.

11) The next meeting is scheduled for July 12, 2005 at 9:00 a.m.

There was no need for an Executive Session.

There being no further business to come before the Board it was agreed to adjourn the meeting.

On motion duly made by Mr. Howell and seconded by Mr. Hall, it was

VOTED: To adjourn the meeting.

Voting in favor: Chairman McKenna, Dr. Santoro, Ms. Bennett, Mr. Hall, Mr. Howell, and Mr. Solomon. Voting against: none.

The meeting adjourned at 11:30 a.m.

Mr. John Howell
Secretary