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UNOFFICIAL

MINUTES

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY

BOARD OF DIRECTORS' MEETING

JANUARY 31, 2006

The 262nd meeting of the Rhode Island Higher Education Assistance Authority was held on Tuesday, January 31, 2006 in the McKenna Conference Room of the Authority, 560 Jefferson Boulevard, Warwick, Rhode Island. Vice Chairman Santoro called the meeting to order at 9:35 a.m.

The following members were in attendance:

Dr. Anthony J. Santoro, Vice Chairman
 Dr. William Croasdale, Treasurer
 Mr. John Howell, Secretary
 Ms. Miriam Curtis Coleman
 Mr. William B. Hall
 Mr. Solomon A. Solomon
 The Honorable Paul J. Tavares, General Treasurer

Members Absent:

Dr. Robert J. McKenna, Chairman
 Ms. Laura DiSano

Also Attending:

Mr. William H. Hurry, Jr., Executive Director, RIHEAA
 Mr. Marc Lacroix
 Ms. Nancy Ann Dooley
 Ms. Mary Ann Welch
 Mr. Michael Joyce
 Mr. Steven Mollica
 Mr. Charles Miller
 Mr. Greg Silva
 Ms. Rebecca Johnson, Office of the General Treasurer
 Ms. Sue Zube
 Mr. Charles P. Kelley, Executive Director, NESLA
 Mr. Noel Simpson, Executive Director, RISLA
 Ms. Meredith Holderbaum, Senate Fiscal Advisor

2) Chairman's Report: Vice Chairman Santoro asked Mr. Hurry to present his report as there was no Chairman's Report.

3) Executive Director's Report:

a. Mr. Hurry updated the Board on Dr. McKenna's condition. He noted that he spoke with Dr. McKenna the previous day and his spirits are very good and he is steadily progressing. Dr. McKenna sends his "thank you" for the remembrances from the Board and others.

b. Mr. Hurry reported that Laura DiSano has submitted her resignation from the Board. Her current responsibilities at Bank of America do not allow the flexibility for her to attend the meetings. Mr. Hurry will be in contact with the Governor's appointment office shortly to discuss filling the vacancy as soon as possible.

c. RIHEAA will be receiving an award at the NEBHE 50th Anniversary Dinner. Mr. Hurry asked that Board members try to attend if possible. The dinner will be on Friday, February 24. The day before the 50th anniversary dinner is Dr. McKenna's 75th Birthday.

d. With respect to the "Separation of Powers" issue Mr. Hurry noted that proposed changes to the legislation have been resubmitted in both chambers. Copies of both the House and Senate bills were distributed. The language is identical in both bills. At the moment RIHEAA continues to operate under the current law.

e. Mr. Hurry updated the Board regarding the web-based portal project. He noted that the issue was on the Governor's PK-16 Council Agenda. Mr. Hurry attended that meeting. The council endorsed RIHEAA's going forward as the lead agency in an effort to develop an RFP for such a state-wide system. There being no objection from the Board RIHEAA will move forward expeditiously.

It is noted for the record that Mr. Solomon arrived at 9:40 a.m.

f. The US Department of Education Program review team visited the Authority to examine the Loan Division. The review went along smoothly. Mr. Hurry reported that the

exit interview showed there would be no significant findings in the report.

g. Regarding the RI.Gov hacking situation, Mr. Hurry noted that, with previous Board authorization, RIHEAA works with RI.Gov on the credit card payment of student loans. As of this morning, the Authority has approximately 300 student loan borrowers who have used the credit card methodology for payments since January 2005. The Authority has not received a list of any borrowers whose information may have been breached, nor has it received any calls from borrowers. That function, along with all other RI.Gov credit card transaction processes, has been suspended. This will continue to be monitored.

It is noted for the record that Ms. Coleman arrived at 9:43 a.m.

Mr. Howell asked if RIHEAA has felt an impact yet as a result of the suspension of the method of payment.

Ms. Dooley reported that we have but only to a small extent. Mr. Hurry stated that it is understood that the company who runs RI.Gov has indicated that additional security was installed in March 2005. The Authority did not begin the program until January 2005 and the period of breach is from January 2004 to January 2005.

h. Mr. Hurry distributed a newspaper article written by Neil Downing in which he quoted a previous report indicating that the CollegeBoundfund is ranked among the top five programs in the country based upon costs and earnings.

1) Approval of Minutes of the December 13, 2005 Board Meeting

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

VOTED: That the minutes of the Board of Directors Meeting held on December 13, 2005 be approved and placed on file.

Voting in favor: Dr. Santoro, Dr. Croasdale, Ms. Coleman, Mr. Hall, Mr. Howell, Mr. Solomon and General Treasurer Tavares. Voting against: none.

4) Financial Report:

With respect to the RIHEST funds, Mr. Hurry noted that the status of the funds is periodically reported to the Board. There is a report today along with associated issues to be discussed with respect to the potential Action Item and the Grant Allocation for the current year and the coming year. Mr. Lacroix will update the Board on the current plan, current Board approvals and current Board plans.

4.a.1) Mr. Lacroix noted that this report reflects the actual results from the inception of the program through June 30, 2005, along with projections for 2006, 2007 and 2008, except that the account maintenance fee for 2006 has already been received. The funds transferred were just over \$4.3 million and the account maintenance fee revenue should be accurate at that amount. The projections for the direct purchase commissions and other fees amounts are fairly conservative. Recently \$7.5 million was transferred from the Alliance Money Market Account to new accounts established at Sovereign and there will be additional interest income during the next few months.

The expense category in the report reflects the minimum amount for SLEAP match funding.

Mr. Lacroix noted that the Board has already approved 2006 and 2007 budgets that include \$4 million in supplemental funding for the state grant program, \$500,000 for the 5&10 Matching Grant Program and \$1 million for the Academic Promise Scholarship. The most recent calculations to arrive at what the total grant funding would need to be from both general revenue and other sources to qualify for LEAP and SLEAP in FY 2006 show that additional funds of just over \$395,000 would be required for SLEAP match. That amount will increase to approximately \$1 million in each of 2007 and 2008. Mr. Hurry explained that the increase supports the position which the Board has been in to supplement the state appropriation in order to make the state eligible for SLEAP.

Mr. Hurry noted that the Board has not approved the \$395,562 for 2006. The Board approved in the 2007 budget a \$4 million state grant supplement and the \$1.5 million for Board initiated grant programs. At the last meeting it was discussed that, if the Board wanted the Authority to

maintain a program level this year at \$13.8 million for the grant program, it would require the Board to authorize additional CollegeBoundfund revenues in the amount of \$395,562 in the 2006 Budget. It would need Board approval to authorize the Authority to increase from the already approved \$4 million to reach the \$13.8 million level in this year.

At this time Mr. Hurry asked the Board's permission to invite Mary Ann Welch to the table and move to item 6 on the agenda.

The immediate question for the Board is whether or not it wants the Authority to take actions to aim for a \$13.8 million program in the current year. To do this, Board authorization is needed for the additional \$395,562. We would also be going immediately into the waiting list to make additional awards to students for the current year.

4.a.2) This report shows the financial situation taking into account the budget office's proposal that in the current year they reduce the state appropriation by \$2.2 million and ask the Board to replace that amount with \$2.2 million from the CollegeBoundfund.

After further discussion, Mr. Hurry explained that it would not be appropriate at this time to take action on the \$2.2 million, but a decision whether or not to approve the \$395,562 is needed to instruct/authorize the Authority on whether or not to make additional awards in the current year.

Mr. Hurry introduced Meredith Holderbaum, who is with the senate fiscal staff. She is a Legislative Fiscal Analyst.

6.a and 9.a) Ms. Welch explained the Authority's current position with regard to the Budget Office's proposed reduction of 2005-2006 state grant appropriation. She distributed and reviewed the SLEAP Maintenance of Effort possibilities. Absent what the budget office is proposing, at this time the Board would need to consider whether to increase the CollegeBoundfund supplement for 2005-2006 by \$395,562 which would increase total funding available for the grant program from \$13.4 million to \$13.8 million and authorize awarding spring semester supplemental awards to approximately 700 students. Or, the Board would develop an alternative strategy to deal with the shortfall.

General Treasurer Tavares expressed that he would not want to see 700 students jeopardized in any way. He is, however concerned that, once *CollegeBoundfund* monies start being used to supplement state funding, this will be defeating the purpose.

Ms. Welch distributed a memo to the Board which shows a general overview of the budget office's proposal to reduce our appropriation by \$2.2 million. If the budget office reduces state funds, the Authority would not meet its LEAP maintenance of effort level. They are suggesting to use *CollegeBoundfund* revenues to make up the difference. The question then is whether *CollegeBoundfund* funds are considered "direct appropriated state funds". If the budget is reduced, and *CollegeBoundfunds* are used to replace state funds, there will be no monies to fund programs that are currently funded under the *CollegeBoundfund in the out years*.

After further discussion on motion duly made by Dr. Croasdale and seconded by General Treasurer Tavares, it was

VOTED: To increase the FY 2006 *CollegeBoundfund* revenue allocation to the State Grant Program by \$395,562.

Voting in favor: Dr. Santoro, Dr. Croasdale, Ms. Coleman, Mr. Hall, Mr. Howell, Mr. Solomon and General Treasurer Tavares. Voting against: none.

3 cont.) Mr. Hurry noted that with respect to the RIHEST audit and the Board's previous discussion regarding disclosures from Alliance, a copy of the assurance letter from them is included in the Board materials.

4.b) Mr. Lacroix distributed copies of RIHEAA's filing of the Financial Integrity and Accountability Report (FIAR) for FY 05 which includes the cover letter to the Governor for the FIAR, the Evaluation of Strategic Risk Issues, and final copies of RIHEAA's financial statement audit, single audit and business advisory letter. The audit materials are provided as part of the FIAR as evidence of sufficient internal controls. Also distributed were the RIHEST audit and SAS 61 communications.

5.a) Investment Report:

Mr. Lacroix explained that at December 31, 2005, the amount in the Alliance Contract account was \$1,167,000. This account is the source of the other \$1 million that totals the \$2.2 million that is proposed to be reduced from general revenue. Although this balance is shown with the RIHEST Administrative Fund in the schedule of cash and investments, it is not technically part of the trust.

Dr. Croasdale reported that we are receiving better interest rates at Sovereign.

7) Loan Programs Update:

Ms. Dooley reported that consolidations have remained steady due to timing. All Loan volume is up.

Collectors will begin training shortly with the new skip tracing company.

The credit card payment method has been in place for one year. We have processed approximately \$60,000 in payments and have received \$1200 in fees. The fees go to RI.Gov.

8) CollegeBoundfund Update:

Mr. Joyce reported that as of January 6, 2006, there are over 465,000 total accounts with 15,249 of those being Rhode Island resident accounts. Total asset value is approximately \$6.5 billion. Total asset value for Rhode Island resident accounts is currently at \$160 million.

The application process has begun for the fourth consecutive year of the 5&10 Matching Grant Program. Renewal applications have been sent out to all previous applicants.

As a footnote, Mr. Hurry noted that regarding the conversation with Mary Silvia Harrison of the RI Children's Crusade, a follow up meeting has been scheduled with additional people from the business side of the Children's Crusade to proceed to the next step in the possible synergies between the Crusade and the 5&10 Matching Grant Program.

Mr. Hurry mentioned that General Treasurer Tavares is a speaker at the College Savings Foundation Conference and Mr. Joyce and Mr. Hurry will be serving on separate panels later this week.

11) The next meeting is scheduled for Tuesday, February 14, 2006 at 9:00 a.m.

There being no further business to come before the Board, on motion duly made buy Dr. Croasdale and seconded by General Treasurer Tavares, it was

VOTED: To adjourn the meeting.

Voting in favor: Dr. Santoro, Dr. Croasdale, Ms. Coleman, Mr. Hall, Mr. Howell, General Treasurer Tavares and Mr. Solomon. Voting against: none.

Adjournment was at 10:41 a.m.

Mr. John Howell
Secretary