

Please be advised that these unofficial minutes have not been approved by the RIHEAA Board of Directors and may contain incorrect and/or misleading information. These minutes are being submitted in accordance with the time requirements as specified in the Open Meetings Act. Official minutes will be submitted promptly after they have been approved and adopted by the Board of Directors at its next official meeting.

DRAFT/UNOFFICIAL MINUTES
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
BOARD OF DIRECTORS' MEETING
APRIL 11, 2006

The 265th meeting of the Rhode Island Higher Education Assistance Authority was held on Tuesday, April 11, 2006 in the McKenna Conference Room of the Authority, 560 Jefferson Boulevard, Warwick, Rhode Island. Vice Chairman Santoro called the meeting to order at 9:08 a.m.

The following members were in attendance:

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

Members Absent:

Dr. Robert J. McKenna, Chairman
Dr. William Croasdale, Treasurer
Ms. Miriam Curtis Coleman

Also Attending:

Mr. William H. Hurry, Jr., Executive Director, RIHEAA
Ms. Gail Mance-Rios, Deputy Director, RIHEAA
Mr. Joseph R. Palumbo, Legal Counsel
Mr. Marc Lacroix
Ms. Mary Ann Welch
Ms. Nancy Ann Dooley
Mr. Michael Joyce
Mr. Steven Mollica
Mr. Charles Miller
Ms. Marisol Garcia
Ms. Rebecca Johnson, Office of the General Treasurer
Ms. Meredith Holderbaum, Senate Fiscal Advisor
Ms. Sue Zube
Mr. Charles P. Kelley, Executive Director, NESLA
Mr. Noel Simpson, RISLA

1) Approval of Minutes of Board of Directors Meetings held on January 31, February 14 and March 14 2006.

On motion duly made by General Treasurer Tavares and seconded by Mr. Solomon it was

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

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

2) Chairman's Report: Vice Chairman Santoro noted that there was no report.

3) Executive Director's Report: Mr. Hurry updated the Board on Chairman McKenna's recovery. In speaking with Mrs. McKenna the previous day the Chairman is doing well and anxious to return.

Mr. Hurry introduced Marisol Garcia who is the new Director of Communications and Public Relations at RIHEAA.

a. As an update to the state budget Mr. Hurry noted that the Authority has had ongoing conversations with the House Finance Committee and has responded to additional questions. There is no clear picture as to what the result will be.

There has been concern at NEBHE regarding the University of Rhode Island giving notice that it was going to withdraw the Pharmacy program from the Regional Student Program (RSP). Mr. Hurry reported that the university has withdrawn its notice and instead, will restrict RSP eligibility to the last four years of the program.

Also with regard to NEBHE, there have been two vacancies on the Rhode Island delegation, both of which are appointments of the Speaker of the House. The vacancies were formerly seats held by the late Representative Sherlock and Representative Gordon Fox, who resigned from the NEBHE seat. A letter was sent on behalf of the Rhode Island delegation to the speaker asking him to take action to fill these vacant seats. There has been no response yet.

b. At this time Mr. Hurry asked Ms. Mance-Rios to update the Board on the RFP development for the web based information/outreach system.

Ms. Mance-Rios reported that the RFP development committee had met. One draft of the RFP is included in the meeting materials. Three vendors will be invited to meet with the development committee at the end of the month to help the members of the committee better understand what is available in order to draft a stronger RFP. It is expected that the RFP will be finalized the second week of May.

Mr. Howell suggested that, given the inquiries from Rep. Lewiss at the House Finance Committee hearing regarding this, it would make sense to invite him to the vendor demonstration along with Representative Costantino so that they will be better informed. Ms. Mance-Rios noted that the invitations will be sent.

4) Financial Report:

a. Mr. Lacroix reviewed the Budget vs. Actual reports for the Scholarship and Grant Program and the Tuition Savings Program for the six months ended December 31, 2005. He noted that these documents had been in the board materials for both the February and March meetings but had not yet been reviewed. He also noted that there have been significant changes since December 31, 2005. The general revenue appropriation in the grant program has been exhausted and \$4 million supplemental funding from the Tuition Savings Program has been provided. This leaves a current surplus of about \$1 million, but that surplus is reflective of the original enacted appropriation, as opposed to the \$2.2 million reduction which is fully expected to take place.

Personnel expenses are in line with the budget. Operating expenses are below budget for the six months, but any unexpended budget amounts available from operating categories at year end will be used to reimburse the Loan Division for expenses associated with the web-based grant program.

Regarding the loan division, the operating expenses for first six months are down from previous years. It is expected that the year will end at approximately a surplus net income of \$1.6 million.

5) Investment Report:

a. Mr. Lacroix reported that we have not been purchasing treasury notes and significant balances have been accumulating at Sovereign Bank. This is due to the LIBOR plus 20 rate's exceeding short-term treasuries. The long-term rates are lower than the short-term rates. He noted that Dr. Croasdale has expressed an interest in purchasing treasury notes again. Mr. Lacroix will consult with him regarding this.

Mr. Hurry suggested that the finance committee review this and come back to the Board with a recommendation.

6) Grant/Scholarship Update:

6.1. Ms. Welch reported that the State Grant Program for the current year is under expended by 1.5%. Award offers are out at \$13.699 million with total funding at \$13.8 million.

There are 12,457 awards. There is still approximately \$600,000 to be verified or confirmed for the remainder of the current year.

6.2 Regarding the 2006/2007 academic year, those awards have been sent out to over 14,000 students. The program has not gone out to waiting list yet due to the budget reduction act. There will be changes in the fiscal need analysis formula which may affect some of the students eligibility. Of the 14,000 awards that were sent out, 11,100 were e-mailed notifications, 78.88%. Most of the communications with the students is electronic.

6.3 The current year activity, 2005-06, for the Academic Promise Scholarship Program shows 431 awards out for just over \$1 million. There is no report for 2006-07 for Academic Promise because those awards have not gone out yet due to the snafu with the SAT scores. In response to Dr. Santoro's question, Ms. Welch reported that 4,400 students were affected by this problem.

7) Loan Programs Update: Ms. Dooley reported on the numbers for March. The most outstanding issue is the PLUS and Stafford Loans where there was not a lot of activity. Consolidation volume is slightly less than last year at this time.

At the last meeting it was mentioned that, in conjunction with NESLA, RIHEAA staff visited the New England College of Optometry and signed an agreement with them. RIHEAA will now be guaranteeing their loans, NESLA will be servicing their loans, and the school is actually going to be the lender. The first loan was processed.

NESLA and RIHEAA also visited the Universal Technical Institute and the Bancroft school of Massage Therapy.

Currently, this week, Sallie Mae is upgrading the collection system CAPS.

Mr. Howell noted that while the amount of loans is increasing, probably due to the rising cost of tuition, the number of borrowers seems to be decreasing and asked what that is reflective of. Ms. Dooly stated that it is possible that the schools are processing their loans earlier, but she will research this further.

8) CollegeBoundfund Update: Mr. Joyce reported that currently there are 470,228 accounts nationally; of that number 15,605 are native Rhode Island accounts. Total asset value is just over \$6.7 billion nationally. Total Rhode Island asset value is \$168,800,173.

Also included in the Board materials is the CollegeBoundfund 2005 Annual Report from AllianceBernstein. Pages four and five show photographs from many events/items that Ms. Jennifer Bramley spoke of at the last meeting, including the winning posters from last years' poster contest.

The General Treasurer noted that the tax permanency is an issue that, on the national level, has everyone very much involved. It has a sunset provision that would take effect in 2010. Presently national associations as well as Rhode Island have been promoting legislation that would eliminate that sunset provision. We have sixty-two U.S. Senators co-sponsoring the bill and approximately 100 Representatives. The entire Rhode Island delegation has signed on to the various proposals. The challenge in Washington is trying to find the right vehicle to attach it to, so that it can get through this coming year. Everyone is extremely optimistic regarding support for the proposal.

Regarding tax parity, the General Treasurer stated that in Rhode Island we offer to RI families who participate in the

CollegeBoundfund plan, a tax credit of \$500 for single filers, \$1000 for joint filers. We want participants to have the ability to choose any plan they wish and receive the tax benefits. The legislation is pending before the House and Senate. Maine is the first state in the nation to have a form of tax parity.

Mr. Palumbo referred to the copy of the letter from Ropes and Gray and the copy of his letter which was sent to the legal counsel for the House Finance Committee, at their request, which substantiates the respective positions as to why the funds in RIHEST may not be transferred to the state's general fund. Both letters were sent in March. There has been no formal response from either the legal counsel or the House Finance Committee. There was a meeting with the leaders in the Senate to discuss this issue. They are very understanding of our position. To date there has been no formal response.

9) Action Item: Decision on Implementation of Federal Default Fee.

Mr. Hurry stated that the Board sub-committee met twice. Dr. Croasdale is chair of the committee, but in his absence today General Treasurer Tavares will report on the meetings.

The General Treasurer reported that the committee met twice. Dr. Croasdale, Mr. Howell and the General Treasurer met with Mr. Noel Simpson, Mr. Charles Kelley, Mr. William Hurry and other appropriate staff. There are some common threads that were all agreed on. The first one was that, if at all possible, everyone wanted to hold harmless Rhode Island students and Rhode Island families. The second issue of concern was that we needed to remain competitive in the marketplace. The third issue the committee acknowledged and recognized is that this is very fluid. This is new, evolving, and there will be changes in the marketplace competitively and legislatively. The last issue relates as to what is the bottom line and how does it affect the overall picture.

The committee agreed that this action will take affect on July 1, when the fees need to be paid, and it will carry through to the end of 2006 but to be reviewed prior to the end of the year for reassessment and reevaluation as to moving forward.

The recommendation of the committee is that the Stafford Default fee would be picked up by RISLA understanding that they would have a new income stream coming into their side which would help offset some of their cash flow. The PLUS Default fee would be split between RIHEAA and RISLA. This would be for the six month period to be reassessed before the end of the year.

Dr. Santoro asked what the overall dollar implications would be to the agencies.

Mr. Hurry stated that on the Stafford side there is essentially a wash. On the PLUS side the estimated cost is \$1.4 million and that would be split between the two agencies.

The General Treasurer pointed out that was part of the conversation and was well presented by Mr. Simpson that there were concerns that, if income figures were hurt on their side, it could affect bond ratings. This is something that needs to be monitored continuously to see what the impact will be and adjustments.

Another issue worthy of note was trying to anticipate what could possibly be a future role of NELNET in this nationally. The sub-committee asked Mr. Kelley to speak with key people in NELNET regarding an agreement of "most favored nation". Mr. Kelley does have positive information.

Mr. Kelley reported that NELNET has put forth some suggestions in hopes that will help alleviate some of RIHEAA's financial straits. In the past \$100 million was offered in consolidation buying. Also, NELNET, through NESLA, is going to pay all of the PLUS loan fees outside of Rhode Island. Also, regarding the "favored nation" status, if RIHEAA uses Sallie Mae for its guarantee processing system NELNET also has a system, and they would give special pricing to Rhode Island if that would be helpful.

Mr. Hurry stated, for the record, that the information that Mr. Kelley is providing today puts RIHEAA in a position in dealing with the other lenders in a somewhat different way.

Mr. Kelley mentioned that the NELNET Board will be meeting in Newport on May 18 and 19. Information will be circulated, and Mr. Kelley invited all Board members to attend to meet the Board members of NELNET.

On motion duly made by General Treasurer Tavares and seconded by Mr. Howell, it was

VOTED: That, on recommendation by the sub-committee, the Stafford Loan Default Fee would be picked up by RISLA and one half of the PLUS Default Fee expense would be picked up by RIHEAA and the other half picked up by RISLA for the academic year starting July 1 to be reviewed for new policy for the next academic year this fall with a decision made prior to January 1, 2007.

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

Mr. Hurry noted that this fee is to be imposed effective with loans guaranteed on or after July 1, 2006. Schools will be processing loans for the next academic year prior to July 1. Our intention is, for those loans guaranteed prior to July 1, to waive those fees out of the federal fund up to July 1.

Mr. Hurry suggested the Board's consideration that the sub-committee continues to work with staff on the cooperative agreement.

It was agreed unanimously.

10) Communications: There were no Communications.

11) The date for the next meeting is May 9, 2006 at 9:00 a.m.

There being no further business to come before the Board, on motion duly made by Mr. Howell and seconded by Mr. Solomon it was

VOTED: To adjourn the meeting.

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

The meeting adjourned at 10:07 a.m.

Mr. John Howell
Secretary