

HIGHER EDUCATION ASSISTANCE AUTHORITY

FY 2014 Revised and FY 2015 Budgets
Staff Presentation
March 13, 2014

1

HEAA

- Authority created by statute in 1977
 - Promotes equal opportunity in higher education
 - Assists students with demonstrated financial need
 - Acts as guaranty authority for student loans
- Governed by nine-member board
 - Eight appointed by governor for five year terms:
 - Five members with educational or financial expertise
 - Three members with recommendation of educational associations
 - General Treasurer, ex-officio member

2

HEAA Program Overview

- Scholarship and Grant Program
 - Need-based student financial assistance programs
- Tuition Savings Program
 - CollegeBound*fund* is a qualified state tuition savings program
- Federal Loan Program
 - State's designated guaranty agency
 - Loan guarantees, application processing, repayment management, default aversion and collection, etc.

3

Summary by Fund Source

<i>(in millions)</i>	<i>FY 14 Enacted</i>	<i>FY 14 Gov. Rev.</i>	<i>Chg. To Enacted</i>	<i>FY 15 Gov. Rec.</i>	<i>Chg. to Enacted</i>
General Revenues	\$4.3	\$4.3	\$ -	\$4.3	\$ -
Tuition Savings	9.2	8.3	(0.9)	6.8	(2.4)
Federal Funds	13.3	12.3	(1.0)	13.3	-
Total	\$26.8	\$24.9	\$(1.9)	\$24.4	\$(2.4)

4

Target Budget

- Budget Office provided general revenue target of \$4.0 million
 - 7% reduction of \$299,721
- Authority's constrained budget met target by:
 - Cutting general revenue funding for need-based scholarships by 7%, \$299,721

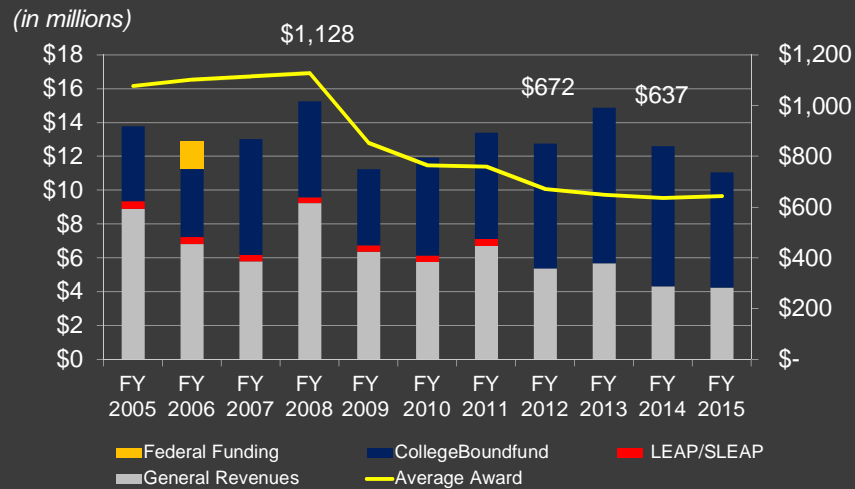
5

Need Based Scholarships and Grants by Fund Source

<i>(in millions)</i>	<i>FY 14 Enacted</i>	<i>FY 14 Gov. Rev.</i>	<i>Chg. To Enacted</i>	<i>FY 15 Gov. Rec.</i>	<i>Chg. To Enacted</i>
General Revenues	\$4.3	\$4.3	\$-	\$4.3	\$-
Tuition Savings	8.0	8.0	-	6.5	(1.5)
Guaranty Agency Reserves	-	-	-	1.5	1.5
Total	\$12.3	\$12.3	\$-	\$12.3	\$-

6

Need Based Scholarships: Fund Source and Average Award



Need Based Scholarships and Grants

- Established by statute in 1977; available only to Rhode Island residents
- Eligibility and need determined from information submitted on the FAFSA
- Statutory minimum \$250, maximum \$2,000
- Board set maximum at \$750

Need Based Scholarships and Grants

Element	Statutory	Board Policy
Formula for calculating need	X	
Max/Min Award	X	
Amount of Award		X
Type of Institution (in state/out of state)	X	

9

Need Based Scholarships and Grants

○ Calculating financial need

Tuition and fees capped for out of state students at highest in-state public institution's tuition and fee rate (\$12,450 for 2013-2014)

- + **standard living allowance:** \$5,000 for dependent students, \$6,000 for independent
- **expected family contribution** calculated through FAFSA
- Pell Grants

= **financial need**

○ Students must have financial need of at least \$1,000 to be eligible

- Financial Need multiplied by 25% to arrive at award

10

Need Based Scholarships and Grants

Sample Calculation:

Calculating Financial Need	
Tuition and fees	\$12,450*
+ Standard living allowance	\$5,000
- Expected family contribution	(\$5,000)
- Pell grants	(\$4,000)
= Financial need	\$8,450

*Capped at \$12,450 for students attending out of state institutions; no cap for in-state private schools

11

Need Based Scholarship and Grants

Average Award = \$637

Average Need = \$13,216

Student	A	B	C
Financial Need	\$1,000	\$8,450	\$25,000
Max Award	\$250	\$750	\$750
Need Covered (%)	25%	8.9%	3.0%

12

Need Based Scholarships

Average Award = \$637

Institution	Tuition and Fees	Percent Covered
Community College of Rhode Island	\$4,676	13.6%
Rhode Island College	\$7,602	8.4%
University of Rhode Island	\$12,450	5.1%
Bryant University	\$38,199	1.7%
Providence College	\$43,115	1.5%
Brown University	\$47,434	1.3%

13

Need Based Scholarships and Grants

- In 2013-2014 school year, 21,765 students were given awards; 16,727 (77%) in-state, 5,038 out of state (23%)
- Average grant award of \$637 covers 4.82% of average student's need
- 53.2% of eligible applicants projected to receive grants in FY 2014
- Awards given on a first come, first served basis

14

Need Based Scholarships and Grants

- Most states do not award grants to students attending out of state schools
 - Vermont only other regional state
- Most states do not have reciprocal agreements with other states
 - Rhode Island has agreements with Massachusetts and Pennsylvania
 - Connecticut and Maine do not have reciprocal agreements

15

Other Grant Programs

- Academic Promise
 - Scholarship for students who demonstrate academic achievement and financial need
- Matching Grant Program
 - Savings program that matches or doubles up to \$500 in contributions to college savings accounts
- Both established by HEAA Board in 2002; not statutory
- Funded from the tuition savings program (CollegeBoundfund)

16

Academic Promise

- ◉ Eligibility calculated using formula based on FAFSA and SAT or ACT score
- ◉ \$2,500 per year per student funded from Tuition Savings fees
- ◉ FY 2014 enacted: \$0.8 million
- ◉ Governor's FY 2014 Revised and FY 2015 removes all funding apparently in error
 - Budget documents indicate intended funding of \$0.8 million for FY 2014 and \$1.0 million for FY 2015

17

Matching Grant Program

- ◉ Established in 2002 by Board, funded from Tuition Savings fees
- ◉ Program awards a \$2 for \$1 match for families with AGI of \$68,000 or less
 - Maximum annual award of \$1,000
- ◉ \$1 for \$1 match for \$68,001 to \$83,000
 - Maximum annual award of \$500
- ◉ Last funded in FY 2006 at \$0.5 million
- ◉ 213 received matching grant awards in FY 2013
- ◉ Program is being phased out by Board, current participants can continue to receive matching awards for up to five years

18

CollegeBoundfund

- Qualified state tuition savings program
- Fees paid primarily by out-of-state participants are used for administrative expenses and financial assistance programs
- Fees will generate an estimated \$8.1 million in FY 2014
 - Primarily used to fund scholarships and grants program

19

CollegeBoundfund Expenditures

Category	FY 2013 Actual	FY 2014 Enacted	FY 2014 Gov. Rev	FY 2015 Gov. Rec.
Salaries and Benefits	\$97,802	\$226,278	\$270,082	\$274,268
Contracted Services	14,361	50,000	30,000	30,000
Operating	22,291	131,711	30,000	30,000
Need Based Scholarships & Grants	7,250,000	8,000,000	8,000,000	6,500,000
Academic Promise	1,000,000	800,000	-	-
Total	\$8,384,454	\$9,207,989	\$8,330,082	\$6,834,268

20

CollegeBoundfund Marketing

- First \$750,000 funded by AllianceBernstein, portfolio manager of CollegeBoundfund
 - If expenses exceed \$750,000, remainder paid for from tuition savings funds
 - Contract with AllianceBernstein expires in 2015
- Expenditures less than enacted:
 - In FY 2014 and FY 2015, the Authority did not request any funding for expenses above \$750,000
 - No spending above \$750,000 in FY 2013 or FY 2012

21

HEAA Guaranty Agency

- Provides indirect financial assistance through administration of federal loans
- Acts as guaranty agency under agreements with lenders and U.S. Department of Education
- Congress passed legislation that ends subsidies to lenders and originates all loans directly through federal government effective July 2010
- Authority continues to manage remaining portfolio
 - Current estimation for loan portfolio extinguishment: 5-8 years
 - \$1.2 billion as of March, 2014

22

HEAA Guaranty Agency

- ◉ Earns default aversion fees from the federal government by preventing delinquent loans from defaulting
 - Authority staff process claims, input data, interact with lenders
- ◉ Governor's FY 2015 Recommendation:
 - Default aversion services: \$0.2 million
 - Collections: \$7.0 million
 - \$5.0 million to collection agencies
 - \$2.0 million to Sallie Mae for managing collections

23

HEAA Guaranty Agency

- ◉ In December 2013, Congress passed a federal budget that significantly affects guaranty agency revenue from default collection fees
- ◉ Revenue reduced by approximately 50% or \$7.1 million for FY 2015
- ◉ Guaranty agency funds 19.5 of Authority's 22.0 full time positions

24

HEAA Guaranty Agency

- ◉ Guaranty agency operating reserves total approximately \$25.0 million as of March 2014
- ◉ Establishment required by federal law
- ◉ Contains revenue in excess of expenses from loan processing fees, portfolio management fees, default aversion fees, and Authority's share of collections on defaulted loans

25

HEAA Guaranty Agency

- ◉ Federal law limits use to loan disbursement, default aversion, collection activities, and other financial aid related activities
- ◉ State law limits use to ordinary expenses of the Authority; further it is the intent of General Assembly that funds eventually be used to increase financial assistance in form of scholarships and grants
 - Added by 2013 General Assembly in response to proposal from Governor to merge Authority with Office of Higher Education

26

WaytogoRI

- WaytogoRI: free, Internet-based program that helps students, parents, and educators explore educational and career goals
 - Available to all public and many private schools
- \$0.7 million recommended for FY 2014 revised and \$0.9 million for FY 2015
 - \$0.6 million for web portal maintenance contract
 - \$0.1 million for marketing and promotion
 - Governor recommends 2.0 new positions and \$190,000 for FY 2015

27

Salaries and Benefits

Full-Time Equivalent Positions

Full-Time Positions	FTEs	Change To FY 2014 Enacted
FY 2012 Enacted	41.6	-
FY 2013 Enacted	38.6	-
FY 2014 Enacted	23.0	-
FY 2015 Request	25.0	2.0
FY 2015 Governor	25.0	2.0
FY 2013 Average Filled	24.6	1.6
Filled as of March 10	22.0	(1.0)

28

Salaries and Benefits

- FY 2014: \$2.3 million from all sources
 - \$0.8 million less than enacted
 - \$2.0 million from federal funds; \$0.3 million from tuition savings funds
- FY 2015: \$2.4 million from all sources
 - \$0.9 million less than enacted
 - \$2.1 million from federal funds; \$0.3 million from tuition savings funds
- No general revenue funding for staffing
- 23.0 authorized FTEs
 - 22.0 filled as of March 10

29

Personnel Allocation by Function

Type	Guaranty Agency	Scholarships and Grants	Tuition Savings	Wayto Go	Total	Percent of Total
Direct Support	4.0	0.5	0.5	1.0	6.0	27%
Indirect Support	7.2	3.9	2.2	2.8	16.0	73%
Total	11.2	4.4	2.7	3.8	22.0	100%

Presented to the HEAA Board on March 7, 2014

30

Annual Reporting Requirements

- 2013 Assembly enacted legislation requiring OMB to prepare, review and inventory all reports filed with Assembly
 - Report to be presented to Assembly as part of budget submission annually
- Office is required to submit 3 reports
 - Audited financial statements
- Currently submitting all 3

31

House Committee on Oversight

- Committee began meeting in June 2013 to discuss status and future of the agency
- Authority has presented several options before the Committee, but no final plan has been submitted
- Written plan for future of Authority due to Committee by April 1st
- Committee's recommendation expected in April 2014

32

Future of the Authority

- ⦿ The Authority has discussed several possible options at House Oversight hearings and Board meetings and retreats
 - Outsource guaranty agency functions to Sallie Mae through full-service contract
 - FY 2015 cost: \$488,000, savings: \$412,900
 - FY 2016 cost: \$338,000, savings: \$412,900
 - Adjust funding formula for need based scholarships and grants
 - Endow guaranty operating reserves

33

Future of the Authority

- ⦿ Assuming discussed personnel reductions from outsourcing guaranty agency, Authority's net income will drop 90%

	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$26,339,726	\$19,029,726	\$18,579,726	\$18,344,726
Expenses	\$23,670,601	\$18,766,826	\$18,378,726	\$18,021,351
Net Total	\$2,669,125	\$262,900	\$201,000	\$323,375

34

Future of the Authority

- Assuming current staffing levels, current revenues will not be sufficient to cover current services by 2015

	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$26,339,726	\$19,029,726	\$18,579,726	\$18,344,726
Expenses	\$23,670,601	\$19,183,900	\$18,798,175	\$18,458,550
Net Total	\$2,669,125	(\$154,174)	(\$218,449)	(\$113,824)

35

Future of the Authority

What have other states done?

- 20 states have their Office of General Treasurer administer their 529 college savings (CollegeBoundfund) programs
- Other states (Colorado, Georgia, and Maine) have transferred their loan portfolios to 3rd parties

36

Questions to Consider

- ◉ Which programs should be continued?
 - How should these programs be funded?
 - Where should existing programs be placed?
- ◉ What level of staffing is required?
- ◉ Use of guaranty agency operating reserves?

37

HIGHER EDUCATION ASSISTANCE AUTHORITY

FY 2014 Revised and FY 2015 Budgets
Staff Presentation
March 13, 2014

38