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
HEAA Program Overview

- Scholarship and Grant Program
  - Need-based student financial assistance programs

- Tuition Savings Program
  - CollegeBoundFund 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.

Summary by Fund Source

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenues</td>
<td>$4.3</td>
<td>$4.3</td>
<td>$ -</td>
<td>$4.3</td>
<td>$ -</td>
</tr>
<tr>
<td>Tuition Savings</td>
<td>9.2</td>
<td>8.3</td>
<td>(0.9)</td>
<td>6.8</td>
<td>(2.4)</td>
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<tr>
<td>Federal Funds</td>
<td>13.3</td>
<td>12.3</td>
<td>(1.0)</td>
<td>13.3</td>
<td>-</td>
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<tr>
<td>Total</td>
<td>$26.8</td>
<td>$24.9</td>
<td>$(1.9)</td>
<td>$24.4</td>
<td>$(2.4)</td>
</tr>
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</table>
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

Need Based Scholarships and Grants by Fund Source

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenues</td>
<td>$4.3</td>
<td>$4.3</td>
<td>$-</td>
<td>$4.3</td>
<td>$-</td>
</tr>
<tr>
<td>Tuition Savings</td>
<td>8.0</td>
<td>8.0</td>
<td>-</td>
<td>6.5</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Guaranty Agency Reserves</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Total</td>
<td>$12.3</td>
<td>$12.3</td>
<td>$-</td>
<td>$12.3</td>
<td>$-</td>
</tr>
</tbody>
</table>
Need Based Scholarships: Fund Source and Average Award

(in millions)

Federal Funding
CollegeBoundfund
LEAP/SLEAP
General Revenues
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

<table>
<thead>
<tr>
<th>Element</th>
<th>Statutory</th>
<th>Board Policy</th>
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</thead>
<tbody>
<tr>
<td>Formula for calculating need</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Max/Min Award</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Amount of Award</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Type of Institution</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>(in state/out of state)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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
Need Based Scholarships and Grants

Sample Calculation:

<table>
<thead>
<tr>
<th>Calculating Financial Need</th>
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</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
</tr>
<tr>
<td>+ Standard living allowance</td>
</tr>
<tr>
<td>- Expected family contribution</td>
</tr>
<tr>
<td>- Pell grants</td>
</tr>
<tr>
<td>= Financial need</td>
</tr>
</tbody>
</table>

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

Need Based Scholarship and Grants

Average Award = $637
Average Need = $13,216

<table>
<thead>
<tr>
<th>Student</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Need</td>
<td>$1,000</td>
<td>$8,450</td>
<td>$25,000</td>
</tr>
<tr>
<td>Max Award</td>
<td>$250</td>
<td>$750</td>
<td>$750</td>
</tr>
<tr>
<td>Need Covered (%)</td>
<td>25%</td>
<td>8.9%</td>
<td>3.0%</td>
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</table>
Need Based Scholarships
Average Award = $637

<table>
<thead>
<tr>
<th>Institution</th>
<th>Tuition and Fees</th>
<th>Percent Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community College of Rhode Island</td>
<td>$4,676</td>
<td>13.6%</td>
</tr>
<tr>
<td>Rhode Island College</td>
<td>$7,602</td>
<td>8.4%</td>
</tr>
<tr>
<td>University of Rhode Island</td>
<td>$12,450</td>
<td>5.1%</td>
</tr>
<tr>
<td>Bryant University</td>
<td>$38,199</td>
<td>1.7%</td>
</tr>
<tr>
<td>Providence College</td>
<td>$43,115</td>
<td>1.5%</td>
</tr>
<tr>
<td>Brown University</td>
<td>$47,434</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

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
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

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)
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

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
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

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$97,802</td>
<td>$226,278</td>
<td>$270,082</td>
<td>$274,268</td>
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<tr>
<td>Contracted Services</td>
<td>14,361</td>
<td>50,000</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>Operating</td>
<td>22,291</td>
<td>131,711</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>Need Based Scholarships &amp; Grants</td>
<td>7,250,000</td>
<td>8,000,000</td>
<td>8,000,000</td>
<td>6,500,000</td>
</tr>
<tr>
<td>Academic Promise</td>
<td>1,000,000</td>
<td>800,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$8,384,454</td>
<td>$9,207,989</td>
<td>$8,330,082</td>
<td>$6,834,268</td>
</tr>
</tbody>
</table>
**CollegeBound Fund Marketing**

- First $750,000 funded by AllianceBernstein, portfolio manager of CollegeBound fund
  - 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

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**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
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

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
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

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
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

Salaries and Benefits

*Full-Time Equivalent Positions*

<table>
<thead>
<tr>
<th>Full-Time Positions</th>
<th>FTEs</th>
<th>Change To FY 2014 Enacted</th>
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<tbody>
<tr>
<td>FY 2012 Enacted</td>
<td>41.6</td>
<td>-</td>
</tr>
<tr>
<td>FY 2013 Enacted</td>
<td>38.6</td>
<td>-</td>
</tr>
<tr>
<td>FY 2014 Enacted</td>
<td>23.0</td>
<td>-</td>
</tr>
<tr>
<td>FY 2015 Request</td>
<td>25.0</td>
<td>2.0</td>
</tr>
<tr>
<td>FY 2015 Governor</td>
<td>25.0</td>
<td>2.0</td>
</tr>
<tr>
<td>FY 2013 Average Filled</td>
<td>24.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Filled as of March 10</td>
<td>22.0</td>
<td>(1.0)</td>
</tr>
</tbody>
</table>
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

Personnel Allocation by Function

<table>
<thead>
<tr>
<th>Type</th>
<th>Guaranty Agency</th>
<th>Scholarships and Grants</th>
<th>Tuition Savings</th>
<th>Wayto Go</th>
<th>Total</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Support</td>
<td>4.0</td>
<td>0.5</td>
<td>0.5</td>
<td>1.0</td>
<td>6.0</td>
<td>27%</td>
</tr>
<tr>
<td>Indirect Support</td>
<td>7.2</td>
<td>3.9</td>
<td>2.2</td>
<td>2.8</td>
<td><strong>16.0</strong></td>
<td>73%</td>
</tr>
<tr>
<td>Total</td>
<td><strong>11.2</strong></td>
<td><strong>4.4</strong></td>
<td><strong>2.7</strong></td>
<td><strong>3.8</strong></td>
<td><strong>22.0</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

Presented to the HEAA Board on March 7, 2014
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

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
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

Future of the Authority

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

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
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</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$26,339,726</td>
<td>$19,029,726</td>
<td>$18,579,726</td>
<td>$18,344,726</td>
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<tr>
<td>Expenses</td>
<td>$23,670,601</td>
<td>$18,766,826</td>
<td>$18,378,726</td>
<td>$18,021,351</td>
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<tr>
<td>Net Total</td>
<td>$2,669,125</td>
<td>$262,900</td>
<td>$201,000</td>
<td>$323,375</td>
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</table>
Future of the Authority

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

<table>
<thead>
<tr>
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<th>FY 2016</th>
<th>FY 2017</th>
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<td>$18,579,726</td>
<td>$18,344,726</td>
</tr>
<tr>
<td>Expenses</td>
<td>$23,670,601</td>
<td>$19,183,900</td>
<td>$18,798,175</td>
<td>$18,458,550</td>
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<tr>
<td>Net Total</td>
<td>$2,669,125</td>
<td>($154,174)</td>
<td>($218,449)</td>
<td>($113,824)</td>
</tr>
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</table>

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
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?

HIGHER EDUCATION ASSISTANCE AUTHORITY

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