

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

October 23, 2019

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 23, 2019 at 10:00 am at the HESAA offices in Hamilton.

PRESENT: HESAA Board Members Ms. Stephanie Berdugo-Hernandez; Dr. Jon Larson; Ms. Jean McDonald Rash; Mr. Bader Qarmout (via teleconference); Ms. Madeline Perard (via teleconference); Mr. Robert Shaughnessy, Treasurer's Designee; Ms. Angela Bethea, Secretary of Higher Education's Designee; Mr. David Socolow; Ms. Maria Torres; and Ms. Christy Van Horn.

CALL TO ORDER

Christy Van Horn called the meeting to order at 10:03 am and David Socolow stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Van Horn led those present in the Pledge of Allegiance.

Ms. Van Horn welcomed the Board members and advised that because some members were participating via teleconference, Roseann Sorrentino would conduct a roll call for the resolutions.

Ms. Van Horn welcomed Joy Johnson, Associate Counsel from the Governor's Authorities Unit; Geoffrey Stark, Deputy Attorney General from the New Jersey Division of Law; and Tim Webb, Hilltop Securities.

Ms. Van Horn advised that no members of the public registered to speak.

Ms. Van Horn asked Roseann Sorrentino to call the roll.

CONSIDERATION OF THE MINUTES OF THE JULY 24, 2019 MEETING

A motion to approve the minutes of the July 24, 2019 meeting was made by Dr. Jon Larson and seconded by Ms. Jean McDonald Rash. The minutes were approved unanimously with two abstentions: Ms. Angela Bethea, Secretary of Higher Education's Designee, and Mr. Bader Qarmout, each of whom did not participate in the July 24, 2019 meeting.

REPORT OF THE AUDIT COMMITTEE AND RESOLUTION 19:19 ACCEPTING AND ADOPTING THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS FOR FISCAL YEAR 2019

Ms. Maria Torres introduced Andy Lee, Assurance Principal and Nancy Gunza, Engagement Principal, of CliftonLarsonAllen (CLA), HESAA's independent auditors, to present on their report of HESAA's programs for the year ended June 30, 2019.

Mr. Lee presented the audit results for the New Jersey Higher Education Student Assistance Authority for the year end June 30, 2019. CLA was engaged to opine on three financial statements: the NJCLASS/FFELP loan program, the other fiduciary programs and funds, and lastly the New Jersey World Trade Center Scholarship Fund program. As a byproduct of this report CLA also had to provide to HESAA the required government communications letter and auditor's report over interim controls for financial reporting and compliance. Mr. Lee explained that although CLA does not give an opinion on interim controls they do get an understanding of interim controls at the Authority by various methods.

Mr. Lee stated that the good news is that for all three reports CLA is providing an unmodified opinion, which is the best opinion they can give as external auditors. With regards to interim controls, no material weaknesses were noted. Additionally no other non-compliance matters were noted. Mr. Lee thanked the accounting team for assisting in another smooth audit for the year ended June 30 2019.

Christy Van Horn thanked the whole team.

A motion to approve Resolution 19:19 was made by Ms. Maria Torres and seconded by Mr. Robert Shaughnessy.

The motion passed unanimously.

REPORT OF THE BUDGET COMMITTEE AND RESOLUTION 20:19 ADOPTING A BOARD BUDGET POLICY STATEMENT FOR FISCAL YEAR 2021

Dr. Jon Larson made the following presentation to the Board:

I am pleased to report that the Budget Committee of the HESAA Board met on October 2, 2019 to review Fiscal Year 2021 Full-Time Tuition Aid Grant models, as well as anticipated funding requirements for all other State-supported programs administered by HESAA.

Our committee agreed to propose for the Board's approval a Budget Policy Statement for Fiscal Year 2021 that reflects the Board's fundamental principles of promoting access and affordability to postsecondary education for New Jersey's residents through need-based student financial aid, merit-based scholarship, and loan redemption programs. The proposed statement expresses the Board's gratitude to Governor Murphy and the Legislature for their continued support of New Jersey's state grant and scholarship programs. It also notes that during the 2019-20 academic year, the State's financial aid programs will provide more than 94,000 awards to State residents to pursue a postsecondary education, which ultimately will build prosperity in New Jersey's economy.

In developing the recommendations in this Budget Policy Statement, the committee was mindful of the on-going fiscal challenges facing the State of New Jersey. While the statement confirms the Board's commitment to full funding of the full-time TAG Program in future years, the recommended policies also reflect the State's ongoing fiscal constraints.

Our proposed budget policy recommendations are as follows.

Full-Time TAG Program

As you will recall, at the July 2019 meeting, the Board approved a Full-Time TAG Award Table for the 2019-2020 academic year that included the following parameters:

- Maintain TAG award values in each cell of the TAG Table at the same amounts as in the previous year (2018-19).
- Continue funding TAG awards to New Jersey Dreamers who were first eligible for TAG in Fiscal Year 2019 and who apply for State-funded student assistance by using an alternative application in lieu of the Free Application for Federal Student Aid (FAFSA).
- Begin funding TAG awards to certain incarcerated students participating in the New Jersey Department of Corrections (DOC) college program.
- Fund additional TAG awards anticipated at county colleges due to the second-order effect of the Community College Opportunity Grant (CCOG) program.
- Maintain the enhanced Income Protection Allowance (IPA) for all independent students at the level that was set in 2018-19, to allow independent full-time students to continue excluding this amount of their own earnings from HESAA's financial aid eligibility calculations.

At our budget committee meeting on October 2, we reviewed models for Full-Time TAG in Fiscal Year 2021 (academic year 2020-21), based on updated projections for the current year that reflect 2018-19 end-of-year data. We applaud the elimination in academic year 2020-21 of the burdensome requirement that New Jersey aid applicants were faced with answering additional state-specific questions. However, when forecasting TAG expenditures in Fiscal Year 2021, we note that, even though students will not have to complete the state questionnaire, TAG applicants' information will continue to be determined from alternative sources and will still count as income in the students' New Jersey Eligibility Index calculation of need for TAG funding.

The committee discussed several model TAG Tables for Fiscal Year 2021, such as:

- Increasing the income protection allowance for independent students
- Funding the additional TAG award amounts that would result if the Earned Income Tax Credit were not to be considered income in calculating need for TAG
- Increasing awards in each cell of the TAG Table by an across-the-board percentage
- Setting the same TAG Award amounts for all students with the same NJ Eligibility Index score, regardless of the institution they attend

After considering a wide array of options, the committee recommends the proposed Board Budget Policy Statement, which calls for an additional increase in the income protection allowance for independent students in Fiscal Year 2021, and also taking the first step toward a gradual elimination of the use of the Earned Income Tax Credit (EITC) as "income" in the New Jersey Eligibility Index calculation.

In addition to recommendations for the Full-Time TAG program – by far the largest program for which HESAA receives State appropriations – the committee proposed recommendations for HESAA's other State budget line items, several of which I will now highlight briefly:

Community College Opportunity Grant (CCOG) Program

Our proposed Budget Policy Statement recommends full funding of the CCOG program, including the projected funding needed for additional eligible students anticipated due to increasing awareness of the availability of tuition-free county college enrollment as the program reaches its second full year of operation in Fiscal Year 2021.

Part-Time TAG Program for County College Students

The proposed Budget Policy Statement recommends sufficient funding for the Part-Time Tuition Aid Grant Program for County College Students in Fiscal Year 2021 to support anticipated part-time enrollment increases.

Governor's Urban Scholarship (GUS) Program

Fiscal Year 2021 would be the ninth year of this program. The proposed Statement recommends continued funding of \$1,000 annual GUS grants for all eligible students as well as a persistency award of \$500 for graduating students.

NJ STARS and NJ STARS II Program

The proposed Budget Policy Statement recommends increased funding for Fiscal Year 2021, based on enrollment trends and additional tuition increases, to support all students who meet the eligibility requirements of the NJ STARS and NJ STARS II Programs.

On behalf of the Budget Committee, I recommend that the Board adopt the Fiscal Year 2021 Budget Policy Statement.

A motion to approve Resolution 20:19 was made by Mr. Bader Qarmout and seconded by Ms. Angela Bethea.

Christy Van Horn noted that the Budget Committee focused on where they saw the most need and made their recommendations based on those needs.

The motion passed unanimously.

RESOLUTION 21:19 APPOINTING A SENIOR FOR AUTHORITY BOND ISSUES

Jerry Traino presented Resolution 21:19 to the Board.

Good morning and thank you all for your attention to Resolution 21:19 addressing the appointment of a Senior Managing Underwriter for the Authority for calendar year 2020.

As it relates to HESAA's annual issuance of Student Loan Revenue Bonds for our NJCLASS program, the Senior Managing Underwriter is responsible for developing a financing structure to meet HESAA's loan financing needs. The Underwriter, with input from the Authority staff and other professional advisors, works with Rating Agencies to obtain the appropriate rating on our

bonds. The Underwriter's role in this process includes the production of management and rating agency cash flows, communication with the investor public, and ultimately the marketing and initial sale of the Authority's bonds.

On August 21, 2019 HESAA issued a Request for Proposals (RFP) seeking proposals from bond underwriting firms. The Authority sent the RFP to seven nationally recognized firms, posted the RFP on HESAA's website, and advertised the RFP in New Jersey-based newspapers.

HESAA received three proposals from underwriting firms: Barclays Capital Incorporated, Bank of America Merrill Lynch, and RBC Capital Markets.

As part of the selection process an evaluation committee made up of HESAA's Chief Financial Officer, HESAA's Controller and Mr. Tim Webb, a representative from the Authority's Financial Advisor, Hilltop Securities, reviewed the three proposals.

The Evaluation Committee deemed Barclays unresponsive as the firm only sought to be a co-manager. Regarding the responsive proposals, both Bank of America Merrill Lynch and RBC Capital Markets outlined a set of services that closely matches the Authority's needs. Both proposed to work closely with Authority staff in the development of a financing structure(s) that matches the Authority's objectives as well as provide year-round analytical services for other NJCLASS program-related issues. Both firms are highly regarded in the student loan financing sector, and both firms have proven track records in bringing bond issues to market in an effective, efficient, and timely manner. In addition to reviewing their proposals, the evaluation committee met in person with the teams from both firms.

After a thorough review process of these proposals, the evaluation committee recommends appointing RBC Capital Markets as HESAA's Senior Managing Underwriter.

The committee does not make this recommendation lightly, as both proposals reflect extensive student loan industry experience. If the committee were to view them independently, both proposals are well developed and responsive to all questions presented in the RFP. However, as the committee is compelled to view these proposals in comparison, it found that the proposal submitted by RBC Capital Markets offers a more detailed and innovative response.

The evaluation committee recognized that both firms presented an experienced project lead staff and competent support staff but found that RBC had a deeper bench of practical experience on both the banking and quantitative sides, including two managing director level bankers, each with more than 30 years of student loan experience, and two director level quantitative bankers with seven plus decades of cumulative student loan sector analytics experience.

As detailed in the Board memo, both proposals presented a fee structured on a hypothetical negotiated student loan revenue bond transaction totaling \$275 million. The fees quoted are on the basis of dollars per thousand dollars of bonds sold. When factoring all components of the quoted fees, RBC Capital's fee was roughly \$90,000 less expensive than BAML's full service proposal.

Based on these factors, the Evaluation Committee determined that RBC Capital Markets' approach to developing the Authority's bond financings and the scope of services proposed is superior to the other respondent, and more closely aligns with the current needs of the Authority.

It is recommended that the Board approve the attached Resolution 21:19 approving the appointment of RBC Capital Markets as the Authority's Senior Managing Underwriter for 2020.

A motion to approve Resolution 21:19 was made by Ms. Jean McDonald Rash and seconded by Ms. Maria Torres.

Christy Van Horn noted that this is a one-year appointment.

Maria Torres asked how many years Bank of America/Merrill Lynch was HESAA's Senior Manager. Jerry Traino responded that it had been approximately nine years, most of which were through two-year contracts.

The motion passed unanimously.

RESOLUTION 22:19 APPROVING SPECIAL COUNSEL TO ASSIST IN THE REVIEW OF MATERIALS RELATED TO 529 PLANS AND PROVIDING GENERAL TAX ADVICE

Marnie Grodman presented Resolution 22:19 to the Board.

HESAA engages outside counsel to provide general tax advice as well as to advise on the 529 plans Franklin Templeton administers on HESAA's behalf.

As the agreement with HESAA's current firm expires at the end of November, on August 28, 2019 the Authority issued a Request for Qualifications for a firm to provide these services. The RFQ was sent to HESAA's current firm, Obermayer Rebmann Maxwell & Hippel LLP, as well as to 18 other firms found on the Attorney General's Approved Special Counsel lists. The RFQ was also posted on HESAA's website and advertised in the state's NJ Advance Media and Gannett newspapers.

HESAA received four responses to the RFQ, none of which were from the Authority's current firm.

An evaluation committee comprised of HESAA's Chief of Staff, Chief Financial Officer and Director of Legal & Governmental Affairs reviewed and scored the four proposals. Based on the evaluation scoresheets that were included in the material provided to the Board for this meeting, the committee recommends that the Board appoint Ballard Spahr as special counsel. Of all the proposals received, Ballard Spahr's demonstrated the widest breadth of experience in both 529 plans and tax law, including engagements to provide advice on both the Alabama and Illinois 529 plans.

Ballard Spahr proposed a reasonable blended hourly rate of \$410 per hour for the first two years with a 3% increase in the blended hourly rate for each of the three option years. While this is slightly higher than their associate's standard hourly rate, it represents a discount from the standard hourly rate of the three partners to be assigned to HESAA's matters, ranging from 28.7% to 48.4%.

In addition, Ballard Spahr's proposal describes a well-developed approach to communication with HESAA and the firm has a strong New Jersey presence.

The Evaluation Committee recommends that the Board appoint Ballard Spahr as Special Counsel to assist in the review of materials related to 529 plans and to provide general tax advice upon request for a term of two years with three optional one-year extensions.

A motion to approve Resolution 22:19 was made by Mr. Robert Shaughnessy and seconded by Ms. Christy Van Horn.

Christy Van Horn noted Ballard Spahr's experience with 529 plans in Alabama and Illinois.

The motion passed unanimously.

CHIEF COMPLIANCE OFFICER'S REPORT

Christy Van Horn introduced Greg Foster, Chief Compliance Officer and advised that the auditors questioned the audit committee about their knowledge of HESAA's internal controls. This annual report from HESAA's Chief Compliance Officer is intended to inform both the audit committee and full board.

Greg Foster presented the attached power point on risk management.

Dr. Larson questioned the types of training provided as well as the source of the training.

Mr. Foster explained that there are several levels of training at HESAA, starting when an employee is first hired and on-boarded by Human Resources. Staff receives some training directly through the State and some through HESAA, including training on ethics, privacy, policies, and SANS security, as well as additional training on a unit level. There is annual follow up on the SANS and ethics training as well as whenever there are updates to policy or procedures.

Jon Larson asked whether Mr. Foster is comfortable with staff's level of awareness regarding Risk Assessment. Mr. Foster responded that he is comfortable with staff's level of awareness because HESAA provides substantial role-based training, uses the same NIST training as most Federal agencies, and uses multiple risk mitigation tools such as role-based access, disaster recovery, and business continuity plans as well as multiple security backups in place.

EXECUTIVE DIRECTOR'S REPORT

Thank you Chairwoman Van Horn, members of the Board, and guests. I appreciate this opportunity to provide updates on HESAA's activities since the last Board meeting in July.

Helping Students Meet Basic Needs and Pay for Non-Tuition Costs of Attending College

HESAA is committed to empowering financial aid officers at colleges and universities to think holistically about their students' overall financial needs and the potential for public benefits to fill in the gaps and help with living expenses. We recently launched a project to inform financial aid professionals about how to connect their low-income students with public programs that offer food, health care, cash assistance, child care, housing, and other services and benefits. HESAA leads the State's significant investment in financial aid that helps tens of thousands of students pay

their college tuition – but student aid alone is not always enough to help low-income students achieve their postsecondary dreams. Students who struggle to meet their basic human needs can have a greater opportunity for success if they receive support in covering the indirect costs of attending college as well as the direct costs of tuition and fees. The professionals who work directly with students to help them pay for tuition are in a unique position to offer counsel about available supports.

To raise awareness in the financial aid community, HESAA hosted a webinar last month with subject matter experts from the New Jersey Department of Human Services (DHS) and the Department of Community Affairs (DCA), who covered such topics as the State’s new policies to increase needy college students’ access to food assistance through the SNAP program, initiatives to help more low-income parents pay for child care, improvements to monthly cash assistance payments, and federal and state housing vouchers and rental assistance. The recording of the webinar is now available for those who were unable to watch it live, and we also presented a summary of this information to more than 100 professionals at last week’s Fall Forum of the New Jersey Association of Student Financial Aid Administrators. In the coming months, we will amplify these important messages to continue promoting opportunities to go beyond financial aid in helping students address unmet needs.

Grants and Scholarships

HESAA’s 2019-2020 grant and scholarship programs are well underway. Last week colleges began using HESAA’s NJFAMS system to certify the state financial aid that is credited to students’ accounts. In the weeks since the July Board meeting, HESAA’s staff has worked effectively and expeditiously to prepare our systems, procedures, and records; verify tens of thousands of students’ eligibility; respond to the annual flood of inquiries from students, parents, and financial aid administrators; and many other vital tasks to get the new school year off to a great start. I am grateful to every member of the HESAA team for their dedication and superb efforts.

Even as this school year has begun, we are already starting the next academic year, as the financial aid cycle kicked off with the opening of the 2020-2021 Free Application for Federal Student Aid (FAFSA) on October 1 and HESAA’s Alternative Financial Aid application for New Jersey Dreamers on the same day. Just in the past three weeks, more than 60,000 New Jersey students have applied for financial aid for academic year 2020-2021, including nearly 600 New Jersey Dreamers. Notably, starting with academic year 2020-2021, HESAA will no longer require applicants for state aid to complete extra questions in addition to the FAFSA. This will remove an administrative burden from both students and schools.

This fall we are also expanding our efforts to provide updated information about financial aid to high school counselors, whose guidance is often young people’s primary source in planning for college. Our 12 workshops this year – two more than in prior years – are slated to be attended by almost 1,000 secondary school counselors at sites across the state from October through December.

Transparent Financial Aid Notifications

Public Law 2019, chapter 201, which was signed into law on July 30, 2019, requires all licensed degree-granting institutions of higher education in New Jersey to provide their students with standardized, transparent financial aid notifications, starting with academic year 2020-2021. In coordination with the Secretary of Higher Education, on September 4, 2019 HESAA published a

guidance memo together with a template for New Jersey's "Financial Aid Shopping Sheet," which colleges can now use to present the required information to students in a rational, clear manner.

As required by the new law, these Shopping Sheets will provide each student a customized one-page summary of the total costs of attendance and the grant and scholarship awards, which are funds that the student will not have to repay. The Shopping Sheet then calculates each student's "net cost" as the total cost of attendance minus the grants and scholarships the student is offered. After prominently displaying the net cost under the heading "what you will pay for college," the Shopping Sheet separately provides space for institutions to suggest options for paying the net costs, such as student loans or earnings from work-study employment. This design makes clear to students the true cost they will pay and shows that paying for college with work-study and/or loans means using their own money or money that they will have to pay back with interest. We are now assisting New Jersey's colleges and universities in converting their aid notifications to coordinate with the standardized Shopping Sheet. This model is far better than "aid award letters" that can confuse students and families by presenting the sum of grants, loans, and work-study as a total financial aid package, which can give the misleading impression that the net cost is lower than it truly is.

NJCLASS Loans

This academic year, the NJCLASS loan program features the lowest interest rates HESAA has offered in many years, which are particularly valuable for working-class families financing a New Jersey student's college education. Nearly 35 percent of the borrowers of NJCLASS loans so far this year have had annual incomes between \$40,000 and \$80,000. NJCLASS loans provide a vital service to these middle-class New Jersey borrowers, who would otherwise typically have to pay much higher interest rates for private supplemental student loans.

Starting next week, we will begin offering new loan refinancing options, including a 15-year repayment term that will give many borrowers an opportunity to lower their monthly payments by choosing to refinance at today's interest rates. Also starting next week, for the first time we will begin refinancing private student loans, provided that the school that the student attended can certify that the loan did not exceed the net cost of education at the time of origination.

Additionally, we are now featuring an even lower interest rate for NJCLASS Consolidation loans, consisting of the blended weighted average interest rate of the underlying NJCLASS loans minus 0.5%. We have also begun offering an optional 0.25% reduction in the interest rate for borrowers of all new NJCLASS loans who choose to make automatic recurring monthly payments. Together, these enhancements to the NJCLASS loan program represent another step forward to improve financing options for New Jersey students and families.

FFELP

As I mentioned at the last Board meeting, HESAA is ending our status as a guaranty agency under the Federal Family Education Loan Program (FFELP). New Jersey's FFELP portfolio has been declining since Congress eliminated the program in 2010, and no new FFELP loan has been originated in almost a decade. The U.S. Department of Education has assigned a successor guaranty agency for New Jersey's remaining FFELP portfolio: the Kentucky Higher Education Assistance Authority (KHEAA). We have formed a task force to work with our counterparts from KHEAA and staff from the Federal Student Aid office (FSA) to ensure a smooth transition of

records, accounts, and processes by the end of the year. Once this conversion becomes effective in January 2020, over the subsequent 18 months we will gradually deploy existing staff and resources to perform other important functions at HESAA. This restructuring will be coordinated with the workflow and process changes needed to implement the new CLASS technology project and decommission HESAA's antiquated mainframe computer system.

Recent HESAA Staff Changes

In the past month we've welcomed one new employee to a key role in our Loans Division and have promoted one of the long-standing leaders of our organization.

Unfortunately, however, we recently lost a respected member of our HESAA family on October 3rd when Karen Grant passed away after 44 years of service in HESAA's Loans Division. Karen was a superb analyst with a deep reservoir of valuable institutional memory. As her longtime colleagues are quick to point out, Karen's exceptional knowledge and ability was instrumental in the launch and success of the state's student loan program. Her efforts may never be directly known by the general public but her positive impact on access to higher education in New Jersey will be a major part of her legacy. Karen offered a constant smile and she will be sorely missed. We extend condolences especially to her cousin Roseann Sorrentino, whom you all know as our dedicated liaison to the Board.

In addition, last month we were delighted to welcome Richard Bates as Associate Director of Servicing and Collections in the Loans Division. To this crucial role, Richard brings a wealth of experience in customer call center management, including decades of leadership at Horizon Blue Cross Blue Shield and Aetna. Richard will play an important part in our continued enhancement of customer service and in the implementation of our new technology system for servicing and collections.

Finally, I am pleased to announce that David Gillespie, after more than a year as Acting Director of the Loans Division, is now serving as Director. Dave has shown strong commitment in taking on multiple complex projects since 2018, and we look forward to his continued leadership of the Loans Division.

Thank you.

OLD BUSINESS

Dr. Larson congratulated the Administration, Secretary of Higher Education, and HESAA for the New Jersey Shopping Sheet. He appreciates how this initiative addresses the student loan credit crisis. Many students and families do not understand that loans need to be paid back and that they should borrow as little as necessary, which may not be the full amount that is offered.

NEW BUSINESS

Christy Van Horn reminded Board members that the ethics briefing is required to be completed by November 29, 2019 and that it can be found at nj.gov/ethics/training and Board members should select the Special State Officer Training Module.

ADJOURNMENT

Ms. Van Horn advised that the next regularly scheduled Board meeting is Wednesday, January 22, 2020 at 10:00 am.

A motion to adjourn was made by Ms. Maria Torres and seconded by Mr. Robert Shaughnessy. The motion passed unanimously.

The meeting adjourned at 11:03 pm.



State of New Jersey

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PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

DAVID J. SOCOLOW
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

FROM: HESAA Board Audit Committee

SUBJECT: Report of the Audit Committee and Resolution 19:19 Accepting and Adopting the Financial Statements and Independent Auditors' Reports for Fiscal Year 2019

DATE: October 23, 2019

Summary

Attached for review, comment and approval is Resolution 19:19 Accepting and Adopting the Financial Statements and Independent Auditors' Reports for Fiscal Year 2019.

Background

The Higher Education Student Assistance Authority (HESAA) Audit Committee is comprised of Christy Van Horn, Chair; Maria Torres, Vice-Chair; and Treasurer's Designee, Robert Shaughnessy as the member of the Board having accounting or related financial experience.

The Committee met with representatives of CliftonLarsonAllen on October 17, 2019 to review and discuss the 2019 Financial Statements and CliftonLarsonAllen's unmodified reports.

Recommendations

The Audit Committee recommends that the HESAA Board accept and adopt the Financial Statements and Independent Auditors' Reports for Fiscal Year 2019.

Attachment

RESOLUTION 19:19

ACCEPTING AND ADOPTING THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS FOR FISCAL YEAR 2019

Moved by: Ms. Maria Torres
Seconded by: Mr. Robert Shaughnessy

WHEREAS: The Higher Education Student Assistance Authority (HESAA) prepared three separate financial statements for Fiscal Year 2019 ("2019 Financial Statements") which were audited by the independent auditor CliftonLarsonAllen LLP; and

WHEREAS: The members of the Board Audit Committee met with CliftonLarsonAllen LLP on July 24, 2019, prior to the commencement of the audit; and

WHEREAS: The members of the Board Audit Committee have received and reviewed the Financial Statements and the unmodified reports of CliftonLarsonAllen LLP dated for the year ending June 30, 2019; and

WHEREAS: The members of the Board Audit Committee met with representatives of CliftonLarsonAllen LLP on October 17, 2019 to discuss the 2019 Financial Statements and CliftonLarsonAllen's unmodified reports; and

WHEREAS: The members of the Board Audit Committee recommend that the HESAA Board accept and adopt the Financial Statements and Independent Auditors' Reports for Fiscal Year 2019.

NOW THEREFORE, BE IT:

RESOLVED: That the HESAA Board accepts and adopts the Fiscal Year 2019 Financial Statements and Independent Auditor's Reports as attached hereto; and be it further

RESOLVED: That the attached Fiscal Year 2019 Financial Statements and Independent Auditor's Reports shall be posted on HESAA's website at www.HESAA.org, and submitted to the State Treasurer and the Governor's Authorities Unit.

October 23, 2019



State of New Jersey

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PHILIP D. MURPHY
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SHEILA Y. OLIVER
Lt. Governor

DAVID J. SOCOLOW
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

FROM: David J. Socolow 
Executive Director

SUBJECT: Report of the Budget Committee and Resolution 20:19 Adopting a Board Budget Policy Statement for Fiscal Year 2021

DATE: October 23, 2019

Summary

Attached for review, comment, and approval is Resolution 20:19 Adopting a Board Budget Policy Statement for Fiscal Year 2021. Dr. Jon Larson will report the results of the Budget Committee's meeting.

Background

The members of the Budget Committee of the Authority are Christy Van Horn, Maria Torres, Jon Larson and David Socolow.

The Committee met on October 2, 2019 with HESAA staff to develop the attached Board Budget Policy Statement for Fiscal Year 2021.

Recommendations

The Budget Committee recommends adoption of Resolution 20:19 and the attached Budget Policy Statement.

Attachments

RESOLUTION 20:19
ADOPTING A BOARD BUDGET POLICY STATEMENT FOR
STATE FISCAL YEAR 2021

Moved by: Mr. Bader Qarmout

Seconded by: Ms. Angela Bethea

WHEREAS: The Higher Education Student Assistance Authority (HESAA) Board is responsible for recommending budget policies in support of New Jersey's student financial aid programs; and

WHEREAS: On October 2, 2019 the Board's Budget Committee met with staff to review background information and to draft a FY 2021 budget policy statement for consideration by the full Board.

NOW THEREFORE, LET IT BE:

RESOLVED: That the HESAA Board strongly affirms the importance of preserving education access and affordability for all residents of the State of New Jersey and recognizing academic achievement; and be it further

RESOLVED: That the Board hereby adopts the budget policy statement for FY 2021 as advanced by the budget committee and described in the attachment to this resolution; and be it further

RESOLVED: That HESAA shall endeavor to maximize FY 2021 resources available for State-funded student assistance programs in keeping with the attached budget policy statement, subject to refinement of underlying projections.

October 23, 2019

**FY 2021 BUDGET POLICY STATEMENT OF
THE HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY BOARD**

Pursuant to N.J.S.A. 18A:71A-9f., the Higher Education Student Assistance Authority (HESAA) is the lead State agency in determining policy on student assistance issues. Consequently, the HESAA Board is charged with developing budget recommendations for all postsecondary financial aid programs administered by the Authority. These recommendations are submitted to the Executive Director for review and submission to the Office of Management and Budget.

The Board, on behalf of the students and families served, would like to thank Governor Murphy and the Legislature for their sustained support of New Jersey's State grant and scholarship programs during these challenging fiscal times. During the 2019-2020 academic year, the State's financial aid programs are projected to provide more than 94,000 awards to State residents to pursue a postsecondary education, contributing to these students' individual success and strengthening New Jersey's economy and society.

The Fiscal Year 2021 (FY21) Budget Policy Statement reflects the Board's fundamental principles of promoting access to and affordability of postsecondary education for New Jersey residents through need-based student financial aid and merit-based scholarship programs. Over the course of the budget process, and subject to available funding, the Board urges HESAA's staff to advance the Board's funding recommendations and priorities expressed in this policy statement.

The Board is mindful of its role as an advocate for students, while also recognizing the fiscal challenges facing the State of New Jersey. In developing these recommendations, the Board considered several options for funding and policy changes for the Tuition Aid Grant (TAG) program, as well as options for other State aid programs. The Board agrees that the funding recommendations outlined below are the most reasonable in light of the State's fiscal constraints and the needs of New Jersey students and families. However, the Board continues to reaffirm its long-standing commitment to achieving full funding of the full-time TAG Program and thus promoting affordability, access, and choice for all students. The full-time TAG Program is one of the most important sources of aid available to lower-income New Jersey students, who face growing challenges in paying for the ever-increasing expenses of postsecondary education. Fully funding the TAG Program would help these students meet expenses and achieve their educational goals, ultimately benefitting New Jersey's economy.

General Policy Recommendations

- The role of the HESAA Board in the budget process is to advocate policies that advance higher education access, choice, affordability, and academic achievement for New Jersey residents.
- The Board supports, as its funding priority, ensuring protection of the State's historic commitment to all eligible full-time students under the need-based TAG Program.
- The Board supports continued funding of P.L. 2018 c. 12, which enables qualifying New Jersey Dreamers to apply for state-funded financial assistance to attend college here in their home state, where they attended and graduated from high school, so they may pursue postsecondary education and continue to make important contributions to our state and local communities.
- The Board supports full funding of the Community College Opportunity Grant Program in FY21.

- The Board supports continued funding of the Part-Time TAG Program for County College Students. Future award values, funding, and expenditures for the Part-Time TAG Program for County College Students, from year to year or within a year, must always be considered separately from award values, funding, and expenditures for the full-time TAG Program, because full-time TAG and part-time TAG are required by statute to be separate line items in the State budget.
- The Board supports continued support for the Governor's Urban Scholarship program and encourages exploration of the revision and potential expansion of the list of municipalities where residents may be eligible for Governor's Urban Scholarship awards.

One important way to provide higher education access and affordability for New Jersey families is by maintaining the predictability and stability of State grant programs for financially needy students and their families. With this goal in mind, we present the following specific funding policy recommendations:

FY21 Funding Policy Recommendations

Tuition Aid Grants (TAG) for Full-Time Students

The HESAA Board recommends the following funding policies for the full-time TAG program:

- Fund awards to all eligible students who apply by the application deadlines.
- Provide for a contingency mechanism that ensures sufficient reserves to cover increases in program costs not anticipated in the budget.
- Any increase in funding that is available for TAG in FY21 should be dedicated to improving eligibility rules to align with the State's policy goals of re-engaging working adults in postsecondary education and reducing barriers to access for low-income and first-generation students. The Board notes that more than two-thirds of today's students work in outside employment for significant hours in addition to attending college, with an increasing share of students working full-time. In particular, the Board recommends additional TAG funding to:
 - Increase New Jersey's income protection allowance so as to provide higher TAG award amounts to low-income working independent students.
 - Stop counting Earned Income Tax Credits (EITC) as income in the calculation of need for TAG, to align the TAG eligibility rules with the methodology for calculating need for federal aid (e.g., Pell Grants). The Board applauds the elimination, starting with the 2020-2021 academic year, of the burdensome requirement for New Jersey State aid applicants to answer state-specific questions after completing the Free Application for Federal Student Aid (FAFSA). However, TAG applicants' EITC information will continue to be ascertained using alternate sources, and will still count as income in the need calculation. The Board supports the additional funding needed to provide the higher TAG awards that would result if HESAA were to phase out its policy of treating EITC as income.
- Fully fund anticipated increases in full-time TAG awards at county colleges due to the projection that in FY21 additional county college students who apply for financial aid in response to CCOG ultimately will be found eligible for full-time TAG.
- Fully fund TAG for all New Jersey Dreamers with verified eligibility per P.L. 2018 c. 12.

Community College Opportunity Grant (CCOG) Program

The Board recommends full funding of the Community College Opportunity Grant Program for students attending all 18 community colleges to meet projections that the CCOG program will reach additional eligible students in FY21 as the availability of tuition-free county college becomes more widely known and CCOG participation ramps up from the initial spring 2019 pilot and the expanded program's first full year of operation in FY20.

Part-Time Tuition Aid Grant Program for County College Students

The Part-Time Tuition Aid Grant Program for County College Students has received level funding over the last several years, which has been sufficient to fully fund all eligible students. Based on anticipated part-time enrollment increases resulting from the expanded awareness of and participation in the CCOG program, the Board recommends an increase in FY 2021 funding to ensure this line item is sufficient to continue providing part-time TAG awards to all eligible county college students who apply by the application deadlines at one-half or three-quarters of the dollar value of full-time awards.

Part-Time Tuition Aid Grants for EOF Students

The Board recommends funding for the Part-Time TAG for EOF Students Program at a level sufficient to maintain the current program.

NJ Student Tuition Assistance Reward Scholarship/NJ Student Tuition Assistance Reward Scholarship II Programs (NJ STARS/NJ STARS II)

Funding for the NJ STARS and NJ STARS II Programs has been level over the last several years, which has been sufficient to fully fund all eligible students. Based on enrollment trends and annual tuition increases, the Board recommends an increase in FY 2021 funding to support all students who meet the eligibility requirements of the NJ STARS and NJ STARS II Programs.

Governor's Urban Scholarship (GUS) Program

The Governor's Urban Scholarship Program, created in 2012, provides aid to New Jersey high school students who reside in 14 high-need communities. For FY21, the Board recommends providing funding for the ninth class of \$1,000 renewable scholarship awards to be made available to New Jersey high school graduates who rank in the top 5% of their class with a GPA of 3.0 or higher and demonstrate financial need, no matter whether they attend a public or non-public high school. In addition, a persistency award of \$500 should continue to be provided to students in their final term of the scholarship upon completion of their associate or baccalaureate degree. In addition to continued funding to support GUS recipients, the Board recommends that HESAA's staff renew consultation with the state Department of Education and Department of Community Affairs to review the original 14 communities identified for this program and consider changes to or expansion of the program to students residing in other high-need municipalities.

Survivor Tuition Benefits (STB) Program

The Board notes that, given anticipated program participants, projected program balances will be sufficient to fund FY21 awards.

World Trade Center (WTC) Scholarship Program

Recognizing that the WTC program is committed to funding the majority of the students through 2024, the Board recommends continuation of level funding to support WTC Scholarship recipients. The Board also notes the existence of other revenue sources for the WTC Scholarship Program, including public and private donations.

Primary Care Practitioner Loan Redemption Program and Nursing Faculty Loan Redemption Program

The Board recommends continued level funding for these two loan redemption programs, which support partial redemption of student loans for primary care practitioners who commit to serving in medically underserved areas across the State, as well as student loan redemption for nurses who commit to teach at schools of nursing in order to address the shortage of nurses and nursing faculty.

HESAA Revenue and Fee-Supported Programs

The Board notes that the following services and activities are not funded through the State's general appropriation process but remain key elements of HESAA's mission:

- Law Enforcement Officers Memorial Scholarship Program
- New Jersey Governor's Industry Vocations Scholarship for Women and Minorities (NJ GIVS)
- NJBEST Scholarships
- New Jersey Better Education Savings Trust (NJBEST) College Savings Program
- New Jersey College Loans to Assist State Students (NJCLASS)



State of New Jersey

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PHILIP D. MURPHY
Governor


SHEILA Y. OLIVER
Lt. Governor

DAVID J. SOCOLOW
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

THROUGH: David J. Socolow
Executive Director 

FROM: Jerry Traino
Chief Financial Officer 

SUBJECT: Resolution 21:19 Appointing a Senior Managing Underwriter for Authority Bond Issues

DATE: October 23, 2019

Introduction

The Higher Education Student Assistance Authority (“HESAA” or the “Authority”) engages a Senior Managing Underwriter (the “Underwriter”) in connection with the issuance of HESAA’s Student Loan Revenue Bonds (the “Bonds”). In a negotiated sale the Underwriter, with input from the Authority staff and other professional advisors, is responsible for developing a financing structure to meet HESAA’s financing needs, working with the relevant professionals to obtain the appropriate rating on the Bonds, including the production of management and rating agency cash flows, communication with the investor public, and ultimately the marketing and initial sale of the Authority’s Bonds. The Underwriter works with HESAA’s financial advisor to resolve issues raised by bond counsel, the bond trustee, rating agencies, and potential investors.

Background

A. Selection Process

Authority procedures call for Request for Proposal (“RFP”) documents to be developed and circulated to prospective underwriting firms by Authority staff. On August 21, 2019 the RFP was sent to seven (7) nationally recognized bond underwriting firms, firms with experience underwriting complex asset-backed revenue bond transactions as senior managing underwriter.

The RFP was posted on HESAA's website, and was advertised in the state's NJ Advance Media and Gannett newspapers. An evaluation team consisting of the Chief Financial Officer, Controller and a representative from HESAA's Financial Advisor, Hilltop Securities, reviewed the proposals based on the following criteria:

1. The experience of the firm in advising on tax-exempt student loan revenue bond offerings;
2. the relevant experience of the staff assigned to the Authority;
3. the quality of the response to the RFP, including innovative financing solutions and comprehensiveness;
4. the ability to meet the needs of the Authority; and
5. proposed fees.

HESAA received three proposals from underwriting firms. One response was deemed non-responsive because that firm proposed to serve as a co-manager, not a Senior manager. The two responsive proposals were submitted by Bank of America Merrill Lynch and RBC Capital Markets. Both Bank of America Merrill Lynch and RBC Capital Markets outlined a set of services that closely matches the Authority's needs. Both propose to work closely with Authority staff in the development of a financing structure(s) that matches the Authority's NJCLASS program delivery objectives. Both firms are highly regarded in the student loan financing sector, and both firms have a proven track records in bringing bond issues to market in an effective, efficient, and timely manner. In addition to reviewing their proposals, the evaluation committee met in person with the teams from both firms.

Both proposals reflect extensive student loan industry experience. When viewed independently, both proposals are well developed and responsive to all the required elements of the RFP. However, when viewed in comparison, the proposal submitted by RBC Capital Markets offers more detailed and innovative responses. Additionally, the committee noted the added level of quantitative analysis performed by RBC Capital Markets regarding potential refunding opportunities. RBC Capital Markets' response to the RFP includes detailed analysis of bond refunding for both tax-exempt and taxable options and addresses the potential impact of issuing on a stand-alone basis and as a component of a 2020 new money issuance.

The committee found that both firms present an experienced project lead staff and competent support staff. The committee's evaluations gave an edge to RBC Capital Markets due to the deep bench of practical experience on both the banking and quantitative sides. This deep bench includes two managing director level bankers, each with more than 30 years of student loan experience, and two director-level quantitative bankers with more than seven decades of cumulative student loan sector analytics experience.

The respondents were instructed to submit a proposed fee structure for an illustrative future negotiated student loan revenue bond transaction totaling \$275 million. Fees for negotiated underwritings generally include a management fee (the fee paid to a firm for managing/structuring the transaction), a "takedown" (the fee paid to a firm's underwriting desk, which fee includes compensation to the firm's salesman for selling the bonds), and an expense component (expenses incurred by the underwriting firm during the process of structuring and sale of bonds). These fees

are quoted on the basis of amount of fees per thousand dollars of bonds sold. Together, the management fee, takedown, and expense component is referred to as the underwriter's discount.

RBC Capital Markets proposes an underwriter's discount of \$6.67 (exclusive of underwriter's counsel fees). Bank of America Merrill Lynch proposes a fee of \$7.20 per thousand (inclusive of underwriter's counsel). If RBC Capital Markets' bid is adjusted to include the same projected underwriter's counsel fee estimate as included in Bank of America Merrill Lynch's submission, RBC Capital Markets' fee would be approximately \$90,000 less expensive overall.

It is worth noting that Bank of America Merrill Lynch also submitted an alternative discounted pricing structure option, with a management fee reduction of \$150,000 if Bank of America Merrill Lynch were not to assume any responsibility for the production of financing analytics (including rating agency cash flows). While HESAA has made strides to better understand and analyze its portfolio data and maintains a long-term goal to produce its own cash flow analyses, at the present time the Authority does not have the requisite skill set and computation software to do so. HESAA staff recognizes that these bond financings are complex transactions and believes that it is prudent to consult an independent calculation produced by an outside party. Hence, any savings due to a reduced management fee would be offset by increased costs associated with contracting with a third party to procure these services.

RBC Capital Markets has indicated its commitment to provide year-round analytical services for other NJCLASS program-related issues at no additional cost. These services may include assisting HESAA through post-sale management of trust estate finances; advising the Authority's finance staff on the early retirement of bonds, when possible; prepayment analyses; and other periodic analytical services.

It is the opinion of the RFP Evaluation Committee that RBC Capital Markets' approach to developing the Authority's bond financings and the scope of services proposed is superior to the other respondent, and more closely aligns with the current needs of the Authority.

Recommendation

It is recommended that the Board approve the attached Resolution 21:19 Approving the Appointment of RBC Capital Markets as the Authority's Senior Managing Underwriter for 2020.

Attachments

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Senior Manager Proposal Evaluation)	
BIDDER Bank of America Merrill Lynch	DATE		
SUMMARY OF EVALUATION TEAM'S COMMENTS: experienced project lead staff and competent support staff; fee of \$7.20 per thousand (inclusive of underwriter's counsel); also submitted an alternative discounted pricing structure option in the event that the bidder does not assume any responsibility for the production of cash flows.			

Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response						
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL	
The experience of the firm in advising on tax-exempt student loan revenue bond offerings	8	8	8	20%	4.80	
The relevant experience of the staff assigned to the Authority	8	7	7	20%	4.40	
The quality of the response to the RFP				20%		
(a) Comprehensiveness	7	7	7		2.10	
(b) Innovation in addressing needs of the Authority	4	7	7		1.80	
The ability to meet the needs of the Authority	6	7	7	20%	4.00	
The fee proposed	5	7	8	20%	4.00	
Total				100%	21.10	

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Senior Manager Proposal Evaluation)			
BIDDER	DATE				
RBC Capital Markets					
SUMMARY OF EVALUATION TEAM'S COMMENTS: extensive student loan industry experience; more detailed and high level of quantitative analysis; deep bench of practical experience on the banking and quantitative side; underwriter's discount of \$6.67 (exclusive of underwriter's counsel fees).					
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response					
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
The experience of the firm in advising on tax-exempt student loan revenue bond offerings	10	9	9	20%	5.60
The relevant experience of the staff assigned to the Authority	9	9	10	20%	5.60
The quality of the response to the RFP				20%	
(a) Comprehensiveness	9	9	9		2.70
(b) Innovation in addressing needs of the Authority	9	8	9		2.60
The ability to meet the needs of the Authority	8	7	7	20%	4.40
The fee proposed	8	7	9	20%	4.80
Total					25.70

RESOLUTION 21:19

APPOINTING A SENIOR MANAGER FOR AUTHORITY BOND ISSUES

Moved by: Ms. Jean McDonald Rash

Seconded by: Ms. Maria Torres

WHEREAS: There is a need for the Higher Education Student Assistance Authority (the "Authority") to appoint a Senior Manager in connection with its Student Loan Revenue Bonds; and

WHEREAS: The Authority has established procedures for the methods of procurement of underwriting services related to the issuance of bonds; and

WHEREAS: Pursuant to these procedures on August 21, 2019 a Request for Proposals was sent to seven nationally-recognized bond underwriting firms with experience underwriting complex asset-backed revenue bond transactions as senior managing underwriter, posted on HESAA's website, and advertised in the state's NJ Advance Media and Gannett newspapers; and

WHEREAS: The Authority received three proposals in response to the RFP, one of which was deemed non-responsive; and

WHEREAS: An Evaluation Committee comprised of the Authority's Chief Financial Officer, Controller, and a representative from HESAA's Financial Advisor, Hilltop Securities, reviewed all of the proposals; and

WHEREAS: RPC Capital Markets received the highest score as a result of such evaluation.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board approves a one-year appointment of RBC Capital Markets as the Senior Manager at a cost of \$6.67 per thousand (exclusive of underwriter counsel's fees) for fixed rate bonds based on a \$275 Million bond issue.

October 23, 2019



PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

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DAVID J. SOCOLOW
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

THROUGH: David J. Socolow
Executive Director *DJS*

FROM: Marnie B. Grodman, Esq. *MBC*
Director, Legal & Governmental Affairs

SUBJECT: Resolution 22:19 Appointing Special Counsel to Assist in the Review of
Materials Related to 529 Plans and Provide General Tax Advice Upon Request

DATE: October 23, 2019

Background

The Higher Education Student Assistance Authority (HESAA) administers the New Jersey Better Educational Savings Trust (NJBEST) program, New Jersey's State qualified tuition program under Section 529 of the Federal Internal Revenue Code of 1986, as well as the Franklin Templeton 529 College Savings Plan ("529 Plans"). On August 28, 2019, HESAA issued a Request for Qualifications (RFQ) seeking proposals from qualified law firms for the appointment of Special Counsel to assist in the review of materials related to the 529 Plans as well as to provide general tax advice as questions arise. The selected firm will serve for a term of two (2) years with three optional one-year extensions.

The appointed firm will provide opinions and advice to HESAA on all documents prepared by HESAA's investment manager, Franklin Templeton, related to the 529 Plans. These documents include but are not limited to: investor handbook supplements, disclosure updates, contract amendments and supplements, and dealer program distribution agreements.

Additionally, HESAA requires responses to specific tax questions that may arise from time to time in relation to its business and program, including but not limited to issues related to student loans, student loan forgiveness, scholarships, and employee benefits.

HESAA sent the RFQ to the law firm currently providing these services under contract with HESAA as well as 18 other firms found on the Attorney General's Approved Special Counsel

lists, posted the RFQ on HESAA's website, and advertised the RFQ in the state's NJ Advance Media and Gannett newspapers.

HESAA received proposals from four law firms.

Selection Process

An evaluation committee made up of HESAA's Chief of Staff, Chief Financial Officer, and Director of Legal and Governmental Affairs met and reviewed each of the proposals.

The selection criteria for reviewing Special Tax Counsel proposals are as follows:

- Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically;
- Resources of the firm;
- Approach to communication with HESAA; and
- Fees.

Attached to this memo is a summary of the scores each firm received from each member of the evaluation committee.

Based on a thorough review of the proposals, the evaluation committee recommends appointing Ballard Spahr LLP as special counsel to assist in the review of materials related to 529 Plans and to provide general tax advice upon request. Of all the proposals received, Ballard Spahr's demonstrated the widest breadth of experience in both 529 plans and tax law. Specifically, the team Ballard Spahr has proposed to assign to HESAA's matters include a partner with expertise in investment management law which governs all of the underlying mutual funds and other investments handled by program managers of state 529 plans. This partner has been legal counsel to multiple parties in the 529 plan space for over 20 years and currently represents the program managers of both the Illinois and Alabama 529 plans. Another partner on the team previously served as Senior Counsel in the Enforcement Division of the Securities Exchange Commission enabling him to guide HESAA through the regulatory requirements and exemptions of federal and state securities law.

Recommendation

It is recommended that the Board approve Resolution 22:19 Appointing Ballard Spahr LLP as Special Counsel to Assist in the Review of Materials Related to 529 Plans and to provide general tax advice upon request at a blended hourly rate of \$410 per hour for a term of two years with three optional one-year extensions, with a 3% increase in the blended hourly rate for each of the three option years.

Attachments

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)			
BIDDER Ballard Spahr LLP		DATE 10/7/2019			
SUMMARY OF EVALUATION TEAM'S COMMENTS: This firm demonstrates extensive experience with 529 plan, including providing advice on both the Alabama and Illinois plans. In addition, their proposal describes a well-developed approach to communication with HESAA. Two members of the team are licensed in New Jersey and the firm has strong New Jersey connections.					
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response					
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	9	7	9	25	625
Resources of the firm	10	7	9	25	650
Approach to communications with HESAA	8	8	8	25	600
The fee proposed	4	4	6	25	350
Total					2225

EVALUATION SCORE SHEET	HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)	
BIDDER Dillworth Paxson LLP	DATE	10/7/2019
SUMMARY OF EVALUATION TEAM'S COMMENTS: While this firm demonstrated a strong commitment to New Jersey and extensive experience working with the IRS, the proposal did not demonstrate extensive experience with 529 plans.		

Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response

CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	6	7		7 25	500
Resources of the firm	4	6	7	25	425
Approach to communications with HESAA	2	6	5	25	325
The fee proposed	10	9	10	25	725
Total					1975

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)			
BIDDER Gibbons P.C.	DATE	10/7/2019			
SUMMARY OF EVALUATION TEAM'S COMMENTS: This firm demonstrates very strong connections with New Jersey. However, the proposal did not demonstrate any expertise in 529 plans.					
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response					
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	3	4		5 25	300
Resources of the firm	7	7	6	25	500
Approach to communications with HESAA	7	5	7	25	475
The fee proposed	3	3	4	25	250
Total					1525

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)			
BIDDER Ice Miller LLP		DATE 10/7/2019			
SUMMARY OF EVALUATION TEAM'S COMMENTS: This firm has no offices in New Jersey and only one attorney on the team has a New Jersey license. The proposal focused mostly on employee benefit plans and had very little focus on the firm's 529 experience. In addition, the pricing was for one year only and was subject to change annually.					
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response					
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	7	8		4 25	475
Resources of the firm	6	6	6	25	450
Approach to communications with HESAA	6	7	7	25	500
The fee proposed	2	3	3	25	200
Total					1625

Bidder	Score
Ballard	2225
Dilworth	1975
Gibbons	1525
Ice	1625

RESOLUTION 22:19

APPOINTING SPECIAL COUNSEL TO ASSIST IN THE REVIEW OF MATERIALS RELATED TO 529 PLANS and PROVIDE GENERAL TAX ADVICE UPON REQUEST

Moved by: Mr. Robert Shaughnessy

Seconded by: Ms. Christy Van Horn

WHEREAS: On August 28, 2019, the Higher Education Student Assistance Authority (HESAA) issued a Request for Qualifications (RFQ) seeking proposals from qualified law firms for the appointment of Special Counsel to assist in the review of materials related to the 529 Plans and to provide general tax advice upon request; and

WHEREAS: HESAA sent the RFQ to the law firm currently providing these services to HESAA as well as 18 other firms found on the Attorney General's Approved Special Counsel lists, posted the RFQ on HESAA's website, and advertised the RFQ in the state's NJ Advance Media and Gannett newspapers; and

WHEREAS: Four firms submitted proposals; and

WHEREAS: An evaluation committee made up of HESAA's Chief of Staff, Chief Financial Officer, and Director of Legal and Governmental Affairs met and reviewed each of the proposals; and

WHEREAS: Ballard Spahr LLP received the highest score as a result of such evaluation.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board appoints Ballard Spahr LLP as Special Counsel to Assist in the Review of Materials Related to 529 Plans and to provide general tax advice upon request at a blended hourly rate of \$410 per hour for a term of two years with three optional one-year extensions, with a 3% increase in the blended hourly rate for each of the three option years.

October 23, 2019

Report of Chief Compliance Officer to HESAA Board on Risk Management

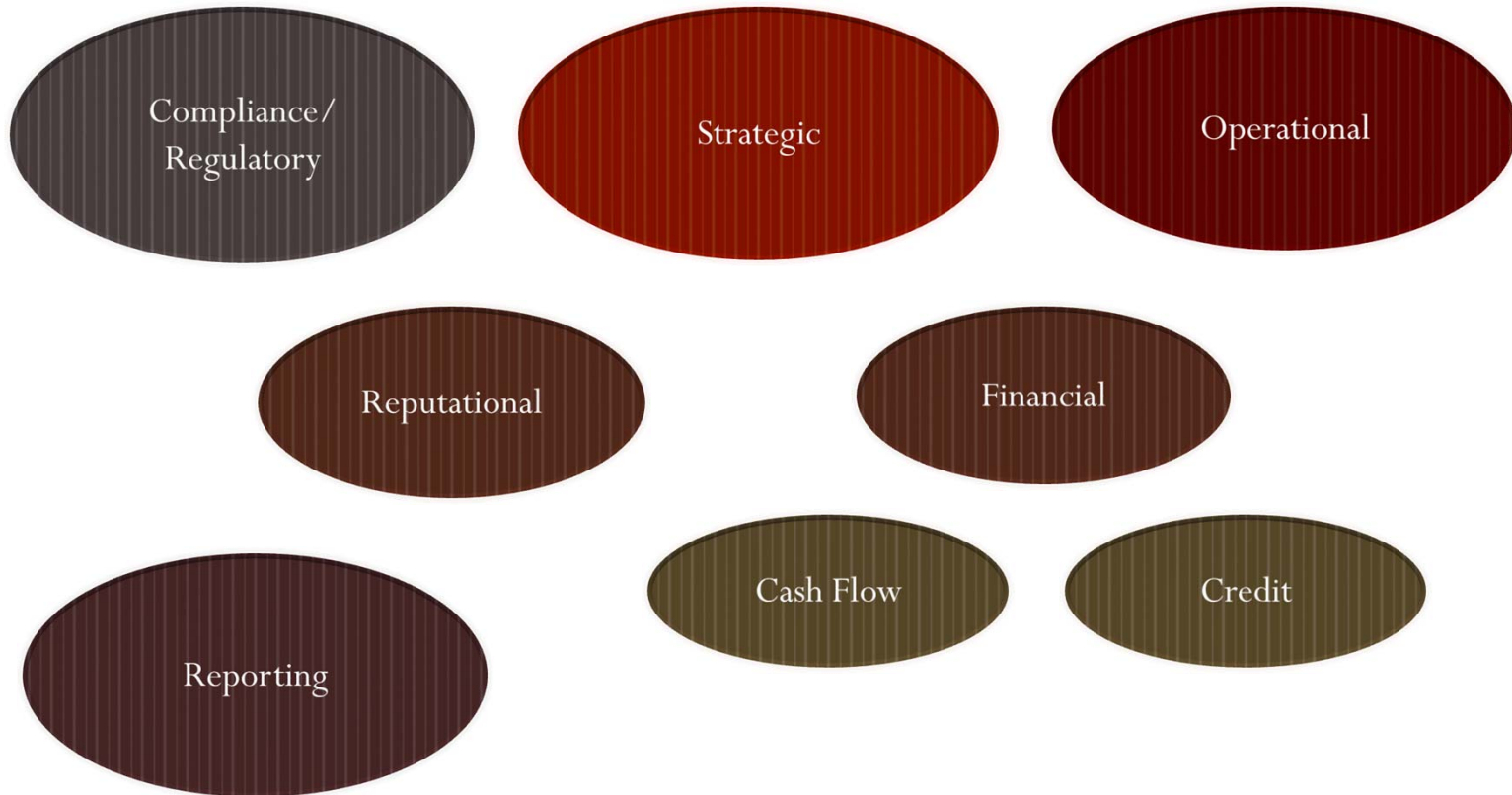
Greg Foster

October 23, 2019



Types of Risks

(Examples)



Governance is the oversight role and the process to identify, manage, mitigate, and monitor RISK

Risk Identification

- Audits internal & external
- Risk Assessments
- Help Lines for employees and customers to raise concerns
- Spot checks and investigations
- Informal communications
- External reporting

Risk Management

- Accept, Mitigate, Monitor, Avoid (based on risk appetite)
- Used in decision making
- Implement controls
- Monitor
- Investigation and Corrective action
- Logs, analysis and follow up training
- Training, code of conduct, P&P's, manuals, and enforcement
- Audits to confirm controls are effective and followed (Full Circle)

Controls

Examples:

- Risk Management framework
- Disaster Recovery Plan
- Independent Audits
- Business Continuity Procedure
- Policies and Procedures
- Training
- Compliance Program
- Code of Conduct
- Regulatory oversight & reporting

● Preventative Controls

- Controls used to prevent an error before it occurs
 - Authorizations, verification, segregation of duties, training, policies and procedures, discipline; testing prior to production

● Detective Controls

- Controls used to discover errors or irregularities after they have already occurred
 - Reconciliations, reviews of management reports, audits, open communication, monitoring,

● Mitigating Controls

- Risk response used to manage, reduce, and monitor elevated risks identified by audits or assessments

Board's Role in Managing Risk

- The Board receives regular reports regarding the organization's risk mitigation and compliance efforts—separately and independently—from a variety of key players, including those responsible for audit, compliance, finance, legal, executive director, and other internal or external sources.
- Training and Ethics Requirements
- Voting on resolutions, contracts, expenditures, and major changes
- Internal and external audits,
- Various Internal and External Reportings,
- Independent Compliance program, laws, regulations, structure

An Independent Compliance Department ensures that an organization has the processes and internal controls to meet the requirements imposed by governmental bodies, regulators, industry mandates or internal policies

- Learns about its compliance responsibilities;
- Ensures that employees understand these responsibilities;
- Ensures that requirements are incorporated into business processes;
- Identifying and prioritizing potential risk areas to implement prevention and controls;
- Reviews operations to ensure responsibilities are carried out and legal requirements are met through audits and monitoring;
- Takes corrective action and updates tools, systems, and materials as necessary;
- Periodic reviews of business practices, procedures, policies, and internal controls
- Independent “escape valve” allowing escalation of critical issues directly to the board;
- Provides regular reports to the Board;
- Investigates and responds to complaints and regulatory inquiries; and
- Enforces Compliance and code of conduct with discipline.

....where oversight and responsibility for compliance is shared...

Tone and Oversight		
Risk Assessment		
Management	Compliance	Internal Audit
<ul style="list-style-type: none">• Owns and manages risks• Responsible for maintaining effective internal controls	<ul style="list-style-type: none">• Oversees/monitors risks• Helps to translate legal interpretation of laws into actionable standards	<ul style="list-style-type: none">• Provides independent assurance• Scope of assurance is broad - from strategic to compliance risks
Monitoring		
Auditing		

The best offense is an effective compliance program...



Updates

Questions

Thank you