

**MINUTES OF THE FEBRUARY 18, 2016 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Chair Nowak called the February 18, 2016 meeting of the members of the Finance Authority of Maine to order at 9:05 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Chair Nowak noted for the record that the members had received an Agenda and Notice of Meeting (*see Certificate of Mailing attached as Appendix 1*), and that notices of the meeting had been published in certain newspapers throughout the state (*see Affidavits of Publication attached as Appendix 2*).

A. CALL TO ORDER

1: Ascertainment of Quorum

Chair Nowak called the roll of the members and noted that there were sufficient members present for the purpose of beginning the meeting.

Those members present were as follows:

Raymond Nowak, Chair
James Violette, Jr., Vice Chair
Cheri Walker, Treasurer
George Gervais (*entered the meeting at 9:08 a.m.*)
Terry Hayes
James Howard
Gregory Miller
Larry Mitchell
Rosaire Pelletier (*entered the meeting at 9:07 a.m.*)
Christopher Pierce
Richard Roderick
Susan Snowden

Those members absent:

Jonathan Block
Reis Hagerman
Patrick Keliher

Staff present:

Bruce Wagner, Chief Executive Officer
Christopher Roney, General Counsel
Carlos Mello, Chief Risk Officer
Elizabeth Vanderweide, Director of Business Development and Marketing
Martha Johnston, Director of Education
Jonathan Harvell, Chief Information Officer
Charles Emmons, Senior Commercial Loan Officer

Lisa Brown, Human Resource Manager
Jennifer Cummings, Senior Workout Office
Josh Dixon, Senior Accountant
Scott Weber, Senior Credit Officer
William Norbert, Governmental Affairs & Communications Manager
Eva Giles, College Savings Plan Manager
Adele Bickford, Executive/Legal Assistant

Guests Present:

Steve Thomas, Camden National Bank

Chair Nowak informed members that items D and F will be swapped in order to allow enough time for the Board Executive Session. Also, some other items will be added to the agenda when the section to which they pertain is reached.

A2: Approval of January 21, 2016 Board Meeting Minutes

Treasurer Hayes corrected the portion of the minutes referring to the FAME's 529 Plan to read Maine's 529 Plan. Chair Nowak suggested that staff make the correction anywhere it appears in the minutes. Also, Chair Nowak noted that the vote reflected that he did not vote, which is inconsistent with previous minutes. To be clear, his motivation for not voting is to be impartial as possible.

A motion was made by Treasurer Hayes and seconded by Mr. Mitchell to approve the minutes of the January 21, 2016 Board meeting as amended. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

R-02-18-16-01

CHAIR'S REPORT

B1: Acceptance of the Report of the Executive Committee Meeting of January 21, 2016

A motion was made by Treasurer Walker and seconded by Mr. Pelletier to accept the Report of the Executive Committee meeting of January 21, 2016. The motion was approved by a vote of 11 in favor, 0 opposed and 1 abstention (Ray Nowak).

R-02-18-16-02

B2: Maine College Savings Program Work Group Representatives

Chair Nowak announced that Richard Roderick and Larry Mitchell will represent the FAME Board on the Maine College Savings Program Work Group.

Chair Nowak congratulated Larry Mitchell and Jonathan Block on their reappointment to the FAME Board. All that remains to be completed is the Dedimus process.

Approval of Baker Newman and Noyes as Independent Auditor for FAME

Members were provided a handout of the Report of the Risk Management and Audit Committee Report of the meeting of February 16, 2016. Treasurer Walker explained that FAME went through a RFP process to select an independent auditor for FAME's financial statements. Baker Newman and Noyes (BNN), who has been FAME's auditor since 1995, and Berry Dunn (BD) made proposals. FAME staff is recommending retention of BNN in accordance with the materials provided in the handout. It is a six year contract with an annual renewal to allow for an understanding of fees.

A motion was made by Treasurer Hayes and seconded by Mr. Roderick to approve the selection of Baker Newman and Noyes as independent auditors to FAME. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

R-02-18-16-03

Acceptance of Risk Management and Audit Committee Report of February 16, 2016

Members were also asked to approve the Report of the Risk Management and Audit Committee.

A motion was made by Treasurer Hayes and seconded by Mr. Pelletier to accept the Report of the Risk Management and Audit Committee meeting of February 16, 2016. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

R-02-18-16-04

C: CEO's and STAFF REPORT

C1: CEO's Report:

Chair Nowak exited the meeting at 9:17 a.m.

Chair Nowak re-entered the meeting at 9:20 a.m.

Treasurer Walker exited the meeting at 9:27 a.m.

Mr. Wagner provided more detail on the item in his report related to the FFELP portfolio. Because of declining revenue resulting from Navient and Dept. of Education (DOE) changes, FAME is negotiating with two parties to transfer its FFELP portfolio. The impact to FAME has been less than originally expected because Navient has been able to work around the collection issue. Mr. Mello will update FFELP projections, which will be used to model an offer to one of the parties. Mr. Wagner will go to Washington, DC to speak with the DOE to obtain their approval to move forward.

Mr. Wagner updated members on the refinance loan product that FAME is in the midst of launching. Four institutions are committed and, there is a potential for two more. Mr. Wagner attended a Maine Bankers Association event and, he was approached by five banks wanting to meet regarding this program. The program has been held up about four or five weeks because the servicer, American Education Services (AES), has taken longer than expected to contract with the lending institutions. Mr. Wagner indicated that a sizable market exists in Maine for this product.

Mr. Wagner emphasized the importance of the Capital Formation Project that is outlined in his report. It is progressing well and is expected to grow FAME's loan programs and their impact on the state.

C1b: Committee Charters

The committee charters have a standard format and are being reviewed in each committee: Business, Education, Risk Management and Audit and the Advisory Committee on College Savings. Charters will be reviewed and accepted by their respective committees and then approved by the Board, which is expected to be in March. The charter has a policy section and each committee will be accountable for certain policies with an annual schedule for review.

C2: NextGen Status

Treasurer Walker re-entered the meeting at 9:45 a.m.

Mr. Wagner requested an executive session to update members on NextGen. Mr. Roney took the opportunity to handout a chart he created that outlines the reasons for going into executive session. It provides clarity by citing the specific authority for each reason to go into executive session.

Ms. Snowden moved to enter into Executive Session to discuss records for which confidentiality has been requested by the owner or the person to whom it pertains, and as to which the Authority determines the information in which gives the owner/user an opportunity to obtain business or competitive advantage over another person who does not have access to the information other than through the Authority, or that access to the information by others would result in a business or competitive disadvantage, loss of business, or other significant detriment and to consult with counsel. The motion was seconded by Mr. Roderick and approved by a vote of 10 in favor, 1 opposed (Terry Hayes) and 0 abstentions. Chair Nowak did not vote.

Members entered Executive Session #1 at 9:37 a.m.

Members exited Executive Session #1 at 9:56 a.m.

C3: Strategic Plan Update

Mr. Miller exited the meeting at 10:08 a.m.

Mr. Miller re-entered the meeting at 10:11 a.m.

Ms. Snowden exited the meeting at 10:12 a.m.

Ms. Snowden re-entered the meeting at 10:15 a.m.

Chair Nowak exited the meeting at 10:22 a.m.

Chair Nowak re-entered the meeting at 10:25 a.m.

The Strategic Plan update is in the same format as the first quarter update to offer consistency. A comment section has been added. Staff is on track with the high level goals that support FAME's vision. The executive accountable for each section will review their section: Ms. Brown – Human Resources; Ms. Johnston-Education; Mr. Mello-Business; and Ms. Vanderweide-Website and Marketing.

Mr. Wagner reported that as part of FAME's Growth goal, staff has met with the Maine Development Foundation (MDF), Educate Maine and the Maine State Chamber of Commerce (MSCC) as part of a coalition to align Maine's work force with what employers really need. The coalition will create programs to support and consider initiatives, such as the Alfond STEM program and will patent itself after a very successful New Hampshire program. The coalition will also avail itself of information from a Focus Maine group that identified three major areas for economic development: knowledge workers, agriculture and biopharmaceuticals. Staff continued to review their specific areas of the Strategic Plan, connecting the high level goals with actionable steps.

Responding to a question regarding what the Board's role is, Mr. Wagner indicated that members could be helpful with outreach.

C4: Quarterly Financial Report/2016 Year End Forecast

Tabled

C5: Scorecard

Tabled

C6: Quarterly Contributions, Sponsorships & Donations Report

Tabled

BREAK: 10:35 A.M. – 10:51 A.M.

F: BOARD EXECUTIVE SESSION

Mr. Roderick moved to enter into Executive Session to discuss a personnel matter. The motion was seconded by Ms. Snowden and approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 10:51 a.m.

Members exited Executive Session #2 at 11:49 a.m.

E: ACTION ITEMS

E1: Franklin Processing, Inc. – Request for Renewal of Commercial Loan Insurance

Camden National Bank is requesting renewal of 90% pro-rata insurance on a \$500,000 asset based line of credit with an extension of the maturity date until April 15, 2017. Ms. Garand cited the

reasons for the company's weak financials as resulting from two years of bumper crops, ten months of expenses supported by six months of revenue, and a stronger U.S. dollar. FAME is recommending approval based on support of the guarantor, adequate collateral, price stabilization and the company's recent Food Safety certification. Steve Thomas of Camden National Bank added his support of the company, its management and ample collateral.

Mr. Roney amended the Resolution, Section 6, to show "with a maturity not to exceed 14 months".

A motion was made by Ms. Snowden and seconded by Mr. Roderick to approve the Resolution authorizing renewal of loan insurance for a \$500,000 line of credit loan for Franklin Processing, Inc. as amended. The motion was approved by a vote of 10 in favor, 1 opposed (James Violette) and 1 abstention (Terry Hayes).

R-02-18-16-05

E2: Authorization of Funding for Academic Year 2016-2017 State of Maine Grants

Chair Nowak exited the meeting at 12:15 p.m.

Chair Nowak re-entered the meeting at 12:17 p.m.

Staff is requesting that the Board approve a \$2.5 million allocation from the FY17 NextGen College Investing Plan® for need based students. The request comes before the Board at this time to allow colleges and universities to get out their financial aid packages to eligible students. The \$2.5 million allocation, \$1.5 million from NextGen reserves and \$980,000 from NextGen revenue, along with the state appropriation, will allow the level of the grant to remain at the FY16 level of \$1,500 with an EFC cutoff of \$5,000. To put the \$5,000 EFC cutoff in perspective, it equates to a family income of \$50,000 and, the \$6,500 financial aid resulting from the EFC and Maine State Grant award of \$1,500 is a small part of the \$23,386 cost of attending the University of Maine and other institutions of higher learning.

A motion was made by Treasurer Hayes and seconded by Mr. Miller to approve the allocation of \$2.5 million from the FY 17 NextGen College Investing Plan® for need based student grants. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

R-02-18-16-06

E3: Ratification of Investment Purchases Oct-Dec

Mr. Mello referred members to their Board packets. The current investment portfolio including cash pool stands at \$123.5 million and the pool investment securities fall within the Investment Policy, with no exceptions. Members are being asked to ratify the investment activity for October 1 – December 31, 2015 as listed.

A motion was made by Mr. Howard and seconded by Mr. Pelletier to ratify investment purchases and sales Oct-Dec. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

D: NEXTGEN PRESENTATION/DISCUSSION

Mr. Howard exited the meeting at 12:30 p.m.

Mr. Pelletier exited the meeting at 12:30 p.m.

Mr. Howard re-entered the meeting at 12:32 p.m.

Mr. Pelletier re-entered the meeting at 12:33 p.m.

Treasurer Walker exited the meeting at 12:48 p.m.

Mr. Pelletier exited the meeting at 12:50 p.m.

Vice Chair Violette exited the meeting at 12:54 p.m.

Treasurer Hayes exited the meeting at 12:55 p.m.

Vice Chair Violette re-entered the meeting at 12:56 p.m.

Commissioner Gervais exited the meeting at 12:57 p.m.

Commissioner Gervais re-entered the meeting at 1:05 p.m.

Mr. Roderick exited the meeting at 1:11 p.m.

Mr. Roderick re-entered the meeting at 1:14 p.m.

Ms. Johnston reviewed the NextGen presentation in the Board packet and provided statistics for the program in the Direct and Select series. There are \$8 billion in assets currently under management, making it the fifth largest in the nation, \$300,000,000 in Direct and \$7.7 billion in Select, which is advisor sold. Nationally, there are 68,000 Direct accounts, 46,000 of which are in Maine.

Nationally, there are 320,000 accounts total, 251,000 are Select accounts with an average balance of \$31,000; the industry average is \$21,000. The average balance in a Maine Direct account is \$4,000, which is influenced by the influx of the smaller, Alfond accounts. Mr. Roney provided the statutory, regulatory and contractual history and context of the program, which was established in 1997 to encourage investment of funds to be used for education expenses at institutions of higher education. Under the tax code, earnings are tax free. He described the program as being both a Maine and a FAME program as it is Maine's College Savings program and FAME is legislatively designated as its administrator. Originally the funds were held by the State Treasurer to give it an appearance of state sponsorship although no state funds are utilized and in actuality, the funds reside with Merrill Lynch, the NextGen Program Manager. The legislation governing the program has been amended to remove the funds from the Treasurer's balance sheet and they now appear on FAME's balance sheet. By statute, the Advisory Committee on College Savings was established to advise FAME on the operation of the program and investment of funds. The Rule delegates the administration of the program to the Chief Executive Officer. FAME and the State Treasurer have a Program Management Agreement with Merrill Lynch, which was entered into originally in 1999 for

fifteen years and was renewed in 2014 for a seven year period. The Program Management Agreement with ML does not give any independent rights to the Treasurer and any rights the Treasurer has under the Agreement are shared with FAME. There is an Advisory Council, which is duplicative of the Advisory Committee in terms of purpose in its role of investment advisor. Ms. Johnston continued her program review describing the daily administration, program enhancements, fee comparisons with other 529 plans, and the Morningstar and Savings for College ratings. Mr. Mello provided the 10 year historical revenue and expense for the NextGen program, referring members to Attachment A for details. NextGen has brought in \$80 million in revenue at an \$18 million operating cost, leaving \$58 million to be distributed in benefits as matching grants or student financial aid awards to supplement the Maine State Grant program. Ms. Johnston added that while FAME's costs in administering the Alfond College Challenge exceed the support it receives from the Harold Alfond Foundation (HAF), it is a good partnership that has brought attention nationally to the program.

Chair Nowak asked members, after hearing the presentation, if they have any compulsion to alter the staff stated mission - what it is, what it has been or what it will be. Staff would like consensus from the Board on the direction of the program. There currently is no written mission statement. The proposed statement states that FAME will maximize the NextGen benefits for Maine citizens. Ms. Snowden suggested changes to the statement, which Mr. Wagner incorporated and read back to members as follows: *FAME will maximize the benefits of the NextGen College Investing Plan® program to Maine citizens by developing and deploying a national 529 plan that is highly respected and financially competitive for all participants.* Chair Nowak asked for a clear consensus of approval from the Board, which he received.

COMMISSIONERS' & TREASURER'S UPDATES

The meeting adjourned at 1:25 p.m.

Respectfully submitted,

James Violette, Jr., Vice Chair