



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
February 15, 2018 – 10:00 AM**

A meeting of the Board of Directors was held on February 15, 2018 at 10:00 a.m. in the Boardroom.

Those in attendance were:

Representative Michael Peifer, Chairman
Senator Wayne D. Fontana, Vice Chairman
Senator Ryan Aument **(via teleconference)**
Senator John P. Blake
Representative Matthew D. Bradford **(via teleconference)**
Representative Mike Carroll **(via teleconference)**
Representative Paul Costa **(via teleconference)**
Representative Sheryl Delozier
Senator John Eichelberger, Jr. **(via teleconference)**
Senator Vincent Hughes **(via teleconference)**
Representative Bernie O'Neill **(via teleconference)**
Honorable Roy Reinard **(via teleconference)**
Representative James Roebuck, Jr. **(via teleconference)**
Chancellor Timothy R. Thyreen **(via teleconference)**
Senator Robert M. Tomlinson **(via teleconference)**
Secretary Robin Wiessmann **(via teleconference)**
Mr. Noe Ortega, Deputy Secretary for Postsecondary and Higher Education
James L. Preston, President and CEO
Jim White, General Counsel

Those absent were:

Senator Arthur Haywood
Representative David Hickernell
Senator Mario Scavello
Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig, Senator Hughes' Office, (via teleconference) ; Jen Smeltz, Senator Tomlinson's Office; Steph Applegate, Senator Aument's Office; Liana Walters, Esq., Senator Haywood's Office (via teleconference) Christine Zubeck, Senator Scavello's Office (via teleconference) and Andrew Armagost, Senator Eichelberger's Office; Ann Aerts, PwC; and the following PHEAA staff: Nathan Hench, Stephanie Martella, Keith New, James Steeley, Mubashar Hameed, Amanda Foster, Todd Mosko, Elizabeth McCloud, Isaac Greene, Bethany Coleman, Will Lindsey, Judith Bines, Mike Garman, Dan Weigle, William Fisher, Dana Hepner, Lisa Gipe and Karen Garbacik

Upon establishing the presence of a quorum, Chairman Peifer welcomed Mr. Noe Ortega, Deputy Secretary, as the designee for Secretary Pedro Rivera, Department of Education to the PHEAA Board of Directors. Mr. Ortega thanked the Chairman.



Chairman Peifer called up Agenda Item #1.

1. **Minutes**

On a motion by Vice Chairman Fontana, seconded by Representative Delozier, the minutes of the January 18, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **Election of Board Officers**

Chairman Peifer called on Mr. Reinard. Mr. Reinard thanked the Chairman and reported that the Agency's Bylaws provide that the election of both Chairman and Vice Chairman of the Board and of the Executive Committee, all of whom are to serve for a term of one year to begin March 1, is to be held at the February meeting.

In accordance with the Bylaws, the following nominations for those offices were submitted by the Nominating Committee at the Board's January 18, 2018 meeting.

Mr. Reinard said that the Board received the nominations and by vote of the Board, nominations were closed.

Chairman of the Board
Vice Chairman of the Board

Representative Michael Peifer
Senator Wayne D. Fontana

Chairman of the Executive Committee
Vice Chairman of the Executive Committee
Members of the Executive Committee

Senator Robert M. Tomlinson
Representative James R. Roebuck, Jr.
Representative Sheryl M. Delozier
Senator Vincent J. Hughes
Honorable Roy Reinard
Chancellor Timothy R. Thyreen

Mr. Reinard said he would like to move that there be a motion to accept the election of the Chairman, Vice Chairman and Executive Committee. Representative Costa made a motion, seconded by Senator Blake, and the motion was unanimously accepted.

Chairman Peifer thanked the Members and said that he appreciates all the time the Members put into helping the students and families in the Commonwealth, especially considering the many challenges that families face. Chairman Peifer noted that he looks forward to carrying on PHEAA's public service mission. Vice Chairman Fontana also thanked the Members and said he looks forward to working with Chairman Peifer and colleagues as we continue to find new ways to improve access to higher education in Pennsylvania.

Chairman Peifer called up Agenda Item #3.

3. **2018-2019 Commonwealth Appropriations**

Chairman Peifer called on Mr. Nathan Hench, who thanked the Chairman and reported that Governor Wolf released his proposed budget for 2018-2019 on February 6, 2018.

Illustrated on the chart located in the memo in the Members' materials under Agenda item #3, entitled 2018-2019 Commonwealth Appropriations, are the 2017-2018 program funding levels, the 2018-2019 Board requests, and the 2018-2019 Governor's recommendations. If the Pennsylvania Higher Education Assistance Agency's (PHEAA's) request had been approved, overall funding of PHEAA's programs from the general fund would have increased by about \$32.06 million or approximately 9.96% when compared to the 2017-2018 appropriation, which was used as a base for the State Grant appropriation request (\$321.789 million in 2017-2018). In addition to the Commonwealth-appropriated funds, PHEAA supports the State Grant Program, the State Grant Distance Education Pilot Program, and the Pennsylvania Targeted Industry Program with supplemental funds from its business earnings. All supplements for 2018-2019 are determined at the June 2018 Board meeting.

Mr. Hench reported that for the Pennsylvania State Grant Program the Governor recommended funding of \$272.891 million for 2018-2019, slightly reduced funding compared to the 2017-2018 appropriation. Governor Wolf recommended that PHEAA supplement the State Grant Program at \$87 million for 2018-2019. A smaller amount of \$50 million was the anticipated 2018-2019 supplement for the State Grant Program; however, a final determination of the PHEAA supplement will be addressed at the June 2018 Board of Directors meeting. In the meantime, staff will be completing analyses for the consideration of the Board at the April meeting when a decision needs to be made for 2018-2019 awards to students.

Mr. Hench reported that in the Members' materials are copies of what PHEAA submitted to the House and Senate Appropriation Committees. PHEAA is scheduled to present to the House Appropriations Committee on February 21, 2018 at 10:00 AM along with Department of Labor and Industry and the Department of Community and Economic Development. Also included is the biography for James Preston, history information on PHEAA and a response to Chairman Saylor's request for PHEAA's Information Technology costs for over a 10-year period.

Hearing no questions, Chairman Peifer called up Agenda item #4.

4. **Financial Update**

Chairman Peifer called on Mr. James Steeley. Mr. Steeley thanked the Chairman and reported that under Agenda Item #4 in BoardEffect, there are three documents: The first being a PowerPoint presentation, summarizing our results for our first two quarters of the 2017-18 Fiscal Year; a draft of the Quarterly Financial Statements; and an Annual Compliance Certificate regarding our public disclosure requirements as an issuer of municipal securities.

Mr. Steeley said that the PowerPoint presentation would be the focus of the majority of his comments.

Pages 4 and 5 of the presentation summarize our operating results compared to the budget that the Board approved at our June meeting.

Page 5 serves as a visual representation of how our actual consolidated operating performance varied with budget. In this chart, the green bars represent positive changes to operating income and the red ones represent negative changes. The bars between the budgeted income of \$15.8 million on the left and the \$7 million of actual income on the right represent the variances against budget. The majority of our variance to budget was due to

unrestricted revenue from our servicing and guarantee operations coming in at \$264.6 million, \$14.2 million less than budget. \$3.2 million was due to servicing and the remainder was due to a decline in the volume of loans that were rehabilitated by our guarantee agency operations in the first 6 months of the year, which is the primary revenue driver for this line of business.

Pages 6 through 8 present our quarterly results compared to the prior fiscal year, which is what appears in our quarterly financial statements.

Mr. Steeley noted that Page 8 provides a visual walk forward of the changes in operating income from the six months of last year on the left of the chart to the first six months of this year on the right. Again – green is a positive change and red is a negative change. Declines in operating income were due to the decline in revenue from our core servicing and guarantee lines of business, increased personnel costs and drops in net interest income. This was offset by a positive change of \$7.8 million in our restricted activities, which mostly was due to securitization related expenses incurred in the first two quarters of last year that were not present in the current year.

Page 9 presents our consolidated balance sheet, which continues in run-off mode, due to the repayment of our FFELP loan portfolio. This is shown on a rolling 5 quarter basis. Of note is the decline in Student Loan Receivables of \$5.5 billion to \$4.8 billion, a decline of \$700 million and almost 13%.

Page 11 presents our public service benefits. For the first quarter, PHEAA provided direct cash funding to the State Grant and Special Programs of \$94.6 million out of our earnings and reserves. When layering on our costs of running these grant programs at our own expense as well as the outreach activities we perform, our total public service benefit for quarter was \$104.4 million. These amounts will continue to increase as we move through the fiscal year. On a rolling 10 year basis, our total self-funded public service benefit grows to \$843.6 million.

Mr. Steeley referred to the Quarterly Financial Statements that were in the Members' packet. He noted that during yesterday's Audit Review Committee, we reviewed key areas of accounting and financial reporting judgement. Additionally, Ernst & Young has completed their review procedures and they have no further comments on the financial statements. He noted that we plan to finalize the statements today and post them to the investor relations section of our web site in the next few days. The final document includes a certification from Mr. Steeley, ensuring that PHEAA adhered to the requirements of the Municipal Securities Rule Making Board (MSRB) by making the appropriate and timely filings on the Electronic Municipal Market Access (EMMA) System.

Hearing no questions, Chairman Peifer thanked Mr. Steeley and called up Agenda Item #5.

5. **Committee Reports**

Chairman Peifer called on Senator Hughes who thanked the Chairman and reported that the Audit Review Committee met yesterday afternoon. As the first order of business, the Committee adopted the minutes for the meeting held on November 15, 2017. Management presented the Quarterly Financial Results Summary and Ernst and Young presented their review of PHEAA's quarterly financial procedures.

As the second order of business, the Committee entered Executive Session to discuss Compliance Matters and Internal Audit matters. The Audit Review Committee reviewed and accepted a motion to adopt revisions to the Internal Audit and Audit Review Committee charters which have been included with this Committee report. Senator Hughes then recommended that the following motion be approved by the Board:

“That the PHEAA Board of Directors approves the 2017 Internal Audit Department and Audit Review Committee Charters, as presented by the Audit Review Committee. And, that the PHEAA Board of Directors delegates to the Audit Review Committee authority, from time to time, to review and make revisions to both the Internal Audit Department and Audit Review Committee Charters provided that such adjustments, edits, or changes shall be reported to the PHEAA Board at the next regularly scheduled meeting.”

Senator Blake made a motion, seconded by Representative Delozier, and the Internal Audit Department and Audit Review Committee Charters were unanimously passed. The Audit Review Committee then returned to Regular Session and having no other business, the meeting was adjourned. Senator Hughes then said he would be glad to respond to questions.

Hearing no questions, Chairman Peifer called on Senator Tomlinson, who thanked the Chairman and reported that the Executive Committee met last evening and the first order of business was to adopt the minutes from the January 17, 2018 meeting. The Committee then moved into Executive Session for Legal and Compliance reporting matters. The Committee then returned to Regular Session and reviewed and approved changes to the 2018-19 Enterprise Ethics, Compliance and Risk Management Program Overview. As the Board will recall, the Executive Committee makes adjustments to the overview on an annual basis. Senator Tomlinson concluded his report and said he would be happy to answer any questions that the Board members may have.

Hearing no questions, Chairman Peifer called up Agenda Item #6.

6. **President and Chief Executive Officer’s Report**

Chairman Peifer called on Mr. Preston, who thanked the Chairman and called for an Executive Session to discuss Legal and Contractual Matters.

On the return to Regular Session, Chairman Peifer called up Agenda Item #7.

7. **Entry Orders of Default**

Chairman Peifer called on Mr. Preston, who reported that there are several orders of default that require Board action. The borrowers outlined on the attached spreadsheet have been notified several times by PHEAA that they need to repay certain obligations to the Agency. In all of these cases, recipients received a grant for college but did not fulfill their obligations for receiving the grant. Board action is necessary in order for PHEAA staff to continue to attempt to collect on these grants - now converted to loans – as required by the program’s statutes.

Mr. Preston suggested to Chairman Peifer that the Board adopt the attached Resolution in order to authorize PHEAA staff to continue to collect on the loans.

Hearing no questions, Chairman Peifer called for a motion to adopt the Order of Default Resolution, as presented. Vice Chairman Fontana made the motion, seconded by Representative Delozier, and the Resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer called up Agenda Item #8.

8. **Other Business**

Chairman Peifer called on Mr. Jim Preston. Mr. Preston thanked the Chairman and said he would like to announce his retirement to the PHEAA Board of Directors, effective July 2018. Mr. Preston said that he has had a long, rewarding career here and is proud of what we have accomplished together. Mr. Preston said that he is now looking forward to spending more time with his family. He thanked the Board for working with him these past 15 years, and said it has truly been his pleasure.

Chairman Peifer thanked Mr. Preston for his leadership and dedication to higher education for Pennsylvania families.

Chairman Peifer said that with Mr. Preston's retirement announced and due to the restructuring, it is desirable to re-establish the position of Chief Operating Officer and to set forth the duties to include the overseeing of the day to day operations of the Agency. Chairman Peifer announced the Board's appointment of James H. Steeley to the position of Chief Operating Officer. Mr. Steeley will remain in his position as Chief Financial Officer of the Agency. The Resolution before the Members would be in order. A motion was made by Vice Chairman Fontana, seconded by Senator Blake and the Resolution was unanimously passed and is attached to these minutes.

Hearing no other business from the Board Members, Chairman Peifer adjourned the meeting.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted February 15, 2018**

WHEREAS, Act 102 of 1982 authorized an Administrative Loan Collection Process for the Pennsylvania Higher Education Assistance Agency, including use of a Statement of Claim; and

WHEREAS, this legislation provides that the Agency "may initiate action against borrowers whom it deems to be indebted to it by filing a statement of claim in the records maintained by the Agency"; and

WHEREAS, a Statement of Claim has been filed against each of the borrowers whose names appear on the List of Recommended Cases for Entry of an Order of Default dated February 15, 2018; and

WHEREAS, a summary of the Statement of Claim has been served on each such borrower by first-class mail in compliance with the requirements of Act 102; and

WHEREAS, 30 days from the date of service have elapsed and none of these borrowers has filed a response to the Statement of Claim as required by Act 102; and

WHEREAS, the President and Chief Executive Officer has recommended to the Board of Directors of the Agency that an Order of Default against these borrowers be entered by the Board to be lodged in Agency records;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Pennsylvania Higher Education Assistance Agency enters an Order of Default to be lodged in Agency records against each borrower whose name appears on the List of Recommended Cases for Entry of an Order of Default dated February 15, 2018.

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY**

Establishing Chief Operating Officer Position – James H. Steeley

February 15, 2018

WHEREAS, James L. Preston has informed the Board of Directors of the Pennsylvania Higher Education Assistance Agency (the "Agency") that he is retiring from his position as the President and Chief Executive Officer of the Agency; and

WHEREAS, the Agency is currently restructuring in order to better fulfill its governmental purposes set forth under the Act of August 7, 1963, P.L. 549, as amended (the "Act") to improve the higher educational opportunities who are attending approved institutions of higher education, in the Commonwealth of Pennsylvania or elsewhere, and to assist students and/or parents in meeting their expenses of attending approved institutions of higher education in the Commonwealth of Pennsylvania or elsewhere; and

WHEREAS, the Board of Directors hereby determines that in connection with the transition resulting from Mr. Preston's retirement and due to the restructuring, it is desirable to re-establish the position of Chief Operating Officer and to set forth the duties of such officer to include the overseeing of the day to day operations of the Agency; and

WHEREAS, the Board hereby determines to appoint James H. Steeley to the position of Chief Operating Officer.

NOW, THEREFORE, IT IS RESOLVED, that the position of Chief Operating Officer of the Agency is hereby re-established. The Chief Operating Officer shall be an officer of the Agency with all rights, privileges, and responsibilities as set forth in the Agency's Bylaws. The Chief Operating Officer shall be responsible for day to day operations of the Agency and to achieve the Agency's goals. All operating divisions of the Agency (such divisions not to include any function under the supervision of the Chief Financial Officer) shall report to the Chief Operating Officer. The Chief Operating Officer shall also have such other powers and perform such other duties as are incident to the office of the Chief Operating Officer or as may from time to time be required by the Board of Directors. The Chief Operating Officer shall report to the Chief Executive Officer of the Agency.

FURTHER RESOLVED, that James H. Steeley is appointed to the position of Chief Operating Officer of the Agency.

FURTHER RESOLVED, that in addition, James H. Steeley shall remain in his position as Chief Financial Officer of the Agency.

FURTHER RESOLVED, that the Chief Operating Officer is hereby authorized to sign on behalf of the Agency to the same extent as the President and Chief Executive Officer has previously been authorized to do so by resolution of this Board of Directors.

FURTHER RESOLVED, that each of the officers of the Agency be, and each of them hereby is, authorized and directed to take all such further action and to execute, deliver and file all such further agreements, certificates, instruments and documents, in the name and on behalf of the Agency, as in such officer's sole discretion shall be necessary or appropriate to carry out the intent and to accomplish the purpose of the foregoing resolutions.

FURTHER RESOLVED, these resolutions shall become effective immediately.

FURTHER RESOLVED, in the event any provision, section, sentence, clause or part of these resolutions shall be held to be invalid, such invalidity shall not affect or impair any remaining provision, section, sentence, clause or part of these resolutions, it being the intent of the Agency that such remainder shall be and shall remain in full force and effect.