



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
May 23, 2019 – 10:00 AM**

A meeting of the Board of Directors was held on May 23, 2019, at 10:00 a.m. in the Boardroom.

Those in attendance were:

Senator Wayne D. Fontana, Vice Chairman
Senator Ryan Aument
Representative Mike Carroll
Representative Sheryl Delozier **(via teleconference)**
Honorable Roy Reinard
Representative James Roebuck, Jr. **(via teleconference)**
Chancellor Timothy R. Thyreen **(via teleconference)**
Senator Robert M. Tomlinson **(via teleconference)**
Noe Ortega, Deputy Secretary for Postsecondary and Higher Education
James H. Steeley, President and CEO
Jim White, General Counsel

Those absent were:

Representative Michael Peifer, Chairman
Senator John P. Blake
Representative Angel Cruz
Senator Arthur Haywood
Senator Vincent Hughes
Representative Anita Kulik
Representative Steven Mentzer
Senator Mario Scavello
Representative Curtis Sonney
Secretary Robin Wiessmann
Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig, Senator Hughes' office **(via teleconference)**; Alycia Laureti, Representative Roebuck's office **(via teleconference)**; Celeste Rippole, Representative Kulik's office **(via teleconference)**; Stephanie Buchanan, Senator Aument's office; Mary Young, Association of Independent Colleges and Universities (AICUP); Ed Haines, SAS; and the following PHEAA staff: Judith Bines, Amanda Foster, Nathan Hench, Keith New, Todd Mosko, Lisa Gipe, LaWanda Morris, Andrew Mehalko, Dana Hepner, James Jarecki, Jessica Guise, Andrew Petsu, Alec Spangler, Jodi Shomper, Kathleen Smith **(via teleconference)**, Jean Svoboda, Stephen Smith, and Abiola Olamoyegun

After establishing the presence of a quorum, Vice Chairman Fontana called up Agenda Item #1.

1. **Minutes**

On a motion made by Representative Carroll and seconded by Senator Aument, the minutes of the April 25, 2019 meeting were unanimously approved.

Vice Chairman Fontana called up Agenda Item #2.

2. **2019-2020 Meeting Schedule**

On a motion made by Chancellor Thyreen and seconded by Representative Carroll, the Board meeting and compliance training schedule for 2019-20 was unanimously approved.

Hearing no other questions or comments, Vice Chairman Fontana then called up Agenda Item #3.

3. **PHEAA's Quarterly Financial Statements – March 31, 2019**

Vice Chairman Fontana called on Mr. Andy Mehalko, Chief Financial Officer. Mr. Mehalko thanked the Chairman and called the Members' attention to the two documents included in BoardEffect under Agenda Item #3. He began his report with the PowerPoint presentation and summarized PHEAA's financial results for the nine months ended March 31, 2019.

Mr. Mehalko began with the PowerPoint presentation, which was the focus of his comments. He began on Slide 4, which was PHEAA's Actuals to Budget results for the nine months ended March 31, 2019. He highlighted a few numbers and provided a summary of the actuals to budget variances on the next page. The actuals figures are found under column 3 "YTD March 31 Actuals." PHEAA's Operating Revenues were \$367.5 million, which is \$7.8 million lower than the budgeted amount. Total Operating Expenses were \$367.4 million, \$68.2 million lower than budgeted. PHEAA's Unrestricted Operating Income was \$69,000, \$60.4 million better than the projected budget loss of \$60.4 million. PHEAA's Total Operating Income, after adding in PHEAA's Restricted Operating Income of \$32.9 million, was \$33.0 million for the 9-month period, which came in \$64.9 million better than the budgeted \$32.0 million loss.

Mr. Mehalko turned to Slide 5 and walked through the waterfall chart and provided a summary of the actuals to budget variances for the 9 months ended March 31, 2019. Moving from left to right through the chart, the first column shows the Budgeted Operating Loss of \$32.0 million. The second column on the chart shows the Unrestricted Revenue came in \$7.8 million lower than budget, which was mostly due to lower-than-projected revenue on servicing fees of \$5.4 million and retention of collections on defaulted loans of \$7.8 million, offset by \$4.4 million in investment income higher than budgeted with PHEAA's funds invested at the Pennsylvania State Treasury. The third column shows a favorable result compared to budget for Personnel Expense of \$35.8 million. \$5.3 million was due to lower salaries as a result of 400 less employees than budgeted in the Agency complement, along with a \$12.3 million reduction in accounting changes to the annual leave accrual and payouts methodology and reduction in Other Post Employment Benefit liability of \$18.2 million from the budgeted amounts. The fourth column was Professional Services, showing a favorable result of \$26.5 million compared to budget, due to several factors which included spending on strategic projects - to date this is \$23.6 million less than anticipated. He noted spending is expected to increase over the last three months of the fiscal year. Collection Agency fees were \$2.2 million lower due to the lower-than-budgeted Collections on Defaulted loan volume. The fifth column represented Other Expenses, which is \$5.9 million favorable than budgeted due to IT cost savings. Net Interest Revenue under Column 6 came in \$4.1 million higher than budgeted due to lower-than-projected runoff of PHEAA's student loan portfolio. The ending result in the last column is a \$32.9 million favorable actuals to budget variance for the period.

Mr. Mehalko turned to Slide 6, which showed PHEAA's Actual Results for the 9 months ended March 31, 2019 and March 31, 2018. He highlighted several figures on this page and provided a summary of the key items on the following page. PHEAA's Total Operating Revenues were \$367.5 million compared to March 2018 of \$399.7 million, a \$32.2 million decrease. Total Operating Expenses were \$367.4 million compared to March 2018 of \$425.9 million, a \$58.5 million decrease. PHEAA's Unrestricted Operating Income was \$69,000 compared to an Unrestricted Net Operating Loss of \$26.2 million at the same time in 2018. The bottom of the page showed that, after adding in PHEAA's Restricted Operating Income of \$32.9 million, the Consolidated Operating Income was \$33.0 million compared to \$18.7 million for the prior year's 9-month period.

Slide 7 is a waterfall chart which shows the changes in Consolidated Operating Income from March 31, 2018 to March 31, 2019. From left to right, Column 1 shows PHEAA's operating income of \$18.7 million. Column 2 shows PHEAA's unrestricted revenue for the current 9-month period decreased \$32.2 million from the prior year. The primary drivers for this decline continue to be the runoff of the commercial servicing portfolio and reduced retentions of collections on defaulted loans of \$21.0 million and \$11.2 million, respectively. Column 3 shows a \$56.7 million decrease in personnel expenses from the prior year. This was due to a number of items relating to changes in accounting estimates and Pension and OPEB liability reductions of \$36.1 million. In addition, there were reductions of \$20.6 million in salaries, overtime and contractor fees. In Column 4, there was an additional \$1.7 million decrease in other operating expenses, bringing the total Operating Expense Reduction for the current 9-month period to \$58.5 million. Column 5 shows PHEAA's Net Operating Income on Restricted Funds decreased \$12.0 million. This decrease was due to the continued runoff of student loan holdings, accounting for \$11.2 million of the decrease. The overall result of these changes is a \$14.3 million increase in Consolidated Operating Income from \$18.7 million at March 31, 2018 to \$32.9 million at March 31, 2019.

Slide 8 is PHEAA's rolling 5 quarters of performance as a reference. Mr. Mehalko then moved to Slide 9 which showed PHEAA's Condensed Balance Sheet. On March 31, 2019, PHEAA's Total Assets were \$5.1 billion, compared to \$5.7 billion at Fiscal Year End on June 30, 2018 - a decrease of \$504.5 million. This was due to the continued runoff of student loan portfolio of \$531.8 million, offset by increases in Cash and Investments of \$7.1 million and Capital and other assets of \$20.0 million. Total Liabilities were \$4.9 billion, compared to \$5.4 billion at June 30. A decrease of \$527.4 million, due to pay downs of \$497.5 million on the student loan trust debt, and \$81.9 million decrease in OPEB liability. There were increases of \$17.3 million for pension liability and \$34.7 million increase in other liabilities. PHEAA's Total Net Position decreased \$31.7 million to \$189.8 million at March 31, 2019 compared to \$221.5 million at June 30, 2018. PHEAA's Unrestricted Net Position decreased \$61.8 million to negative \$306.2 million from a negative \$244.4 million at June 30, 2018. This decrease was driven mainly by PHEAA's transfer of \$68.0 million of unrestricted reserves to supplement the State Grant Program Funding. PHEAA's Restricted Net positions for debt service and financial aid programs increased \$27.1 million from June 30, 2018.

Mr. Mehalko mentioned on Slide 10, Subsequent Events, PHEAA defeased \$14.6 million of outstanding 2012 Capital Acquisition Refunding Bonds from 2012 on April 10. The defeased bonds will be paid principal and interest in accordance with the debt service and optional redemption provisions stated in the trust indenture.

Mr. Mehalko concluded his report with the unaudited quarterly financial statements that were provided to the Executive Committee and said that Ernst & Young has completed their review of quarterly report with no significant comments. He said the unaudited financial

statements would be finalized and posted to the investor relations section of PHEAA's website by May 30.

Hearing no questions or comments, Vice Chairman Fontana called up Agenda Item #4.

4. **Committee Reports**

Vice Chairman Fontana called on Senator Tomlinson, who thanked the Vice Chairman and reported that the Executive Committee met last evening and once a quorum was established, the Committee reviewed and adopted the meeting minutes from the April 24, 2019 Executive Committee Meeting. The Committee then moved into Executive Session to receive a security, privacy, compliance, and litigation report from PHEAA's management, and to discuss Agency business which, if conducted in public, would lead to the disclosure of confidential information that is protected by statute. Upon returning to regular session, the Committee reviewed and adopted the 2019-20 Executive Committee Meeting Schedule. Once the 2019-20 schedule was adopted the Committee immediately adjourned.

Hearing no questions for Senator Tomlinson, Vice Chairman Fontana called up Agenda Item #5.

5. **President and Chief Executive Officer's Report**

Vice Chairman Fontana called on Mr. Steeley. Mr. Steeley began by introducing a few team member changes since the last meeting. Mr. Andy Mehalko officially dropped the "interim" from his title and became the permanent Chief Financial Officer. Concurrently, Mr. Kyle Lefever was appointed Chief Accounting Officer and oversees preparing PHEAA's external financial statements. In addition, Mr. Nathan Hench has been retitled Senior Vice President for Strategy and Public Affairs. Mr. Hench has been a key person in implementing and rolling out a strategy refresh, and is transitioning board-related duties to Ms. Jean Svoboda. Mr. Steeley noted his appreciation to these three individuals.

Mr. Steeley commented on the Financial Results and said Operating Income continues to exceed expectations at nearly \$33 million. Core Operations was negative by about \$10 million and, when layering in the pay downs of the student loan trusts, total operations had approximately \$25 million in positive cash flows. The majority of our \$112 million public service commitment for 2018-19 is drawing down reserves.

Mr. Steeley then called for an Executive Session to discuss Agency business, regulatory, and compliance issues which, if conducted in public, would lead to the disclosure of confidential information that is protected by statute.

Upon the return to regular session, Vice Chairman Fontana called up Agenda Item #6.

6. **Entry of Additional Orders of Default**

Vice Chairman Fontana called on Mr. Steeley, 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. Steeley suggested to Vice Chairman Fontana that the Board adopt the attached resolution in order to authorize PHEAA staff to continue to collect on the loans.

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

Vice Chairman Fontana called up Agenda Item #7.

7. **Other Business**

Hearing no other business, Senator Aument made a motion to adjourn, seconded by Representative Delozier, and Vice Chairman Fontana adjourned the meeting.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted May 23, 2019**

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 May 23, 2019; 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 May 23, 2019.