



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
May 28, 2020 – 10:00 AM**

A meeting of the Board of Directors was held on May 28, 2020, at 10:00 a.m. via teleconference only.

Those in attendance were:

Representative Michael Peifer, Chairman
Senator Wayne D. Fontana, Vice Chairman
Senator Ryan Aument
Representative Sheryl Delozier
Representative Steven Mentzer
Honorable Roy Reinard
Representative James Roebuck, Jr.
Senator Mario Scavello
Representative Curtis Sonney
Chancellor Timothy R. Thyreen
Executive Director Robin Wiessmann
Noe Ortega, Dep. Sec. for Postsecondary and Higher Ed.
James H. Steeley, President and CEO
Jim White, Board Counsel

Those absent were:

Senator John P. Blake
Representative Mike Carroll
Representative Angel Cruz
Senator Arthur Haywood
Senator Vincent Hughes
Representative Anita Kulik
Senator Kristin Phillips-Hill
Secretary of Education Pedro Rivera

Also in attendance:

Ms. Alycia Lauretti, Representative Roebuck's Office; Ms. Liz Craig, Senator Hughes' Office; Ms. Stephanie Buchanan, Senator Aument's Office; Ms. Beth Runkle, Deputy Secretary Ortega's Office; Nicole Duffy, AICUP; Tom Owad and Patty Smith, Rock the Capital; Jan Murphy, The Patriot News and PennLive, Julia Shanahan, Pennsylvania Capital Star; and the following PHEAA staff: Bethany Coleman, Mike Garman, Isaac Greene, Nathan Hench, Kyle Lefever, William Lindsey, Stephanie Martella, Elizabeth McCloud, Andy Mehalko, Keith New, Tara Patterson, Jodi Shomper, Kathleen Smith, and Jean Svoboda

Ms. Jean Svoboda, Board Secretary read the name of each board member in attendance. After establishing the presence of a quorum, Chairman Peifer called the meeting to order and called up Agenda Item #1.

1. **Minutes**

On a motion made by Chancellor Thyreen and seconded by Executive Director Wiessmann, the minutes of the April 23, 2020, meetings were unanimously approved.

Chairman Peifer called up Agenda Item #2 and called on Representative Mentzer for a report of the Audit Review Committee.

2. Committee Reports

Representative Mentzer thanked the Chairman and reported that the Audit Review Committee met on May 27, 2020. No quorum was established so the Committee entered into an informational session. The Committee then went into Executive Session and reviewed PHEAA's quarterly financial statements, received a report from Ernst & Young, PHEAA's independent auditors, a regulatory exam update, and an internal audit update. The purpose of the executive session was to discuss Agency business, which if conducted in public, could lead to the disclosure of information and confidentiality that is protected by statute. Following the Executive Session, the Committee returned to Regular Session and with no further business, the meeting adjourned. Representative Mentzer also noted that a special Audit Review Committee meeting will be scheduled for June and then concluded his report.

Hearing no questions for Representative Mentzer, Chairman Peifer called on Representative Roebuck for a report of the Executive Committee.

Representative Roebuck thanked Chairman Peifer and reported that the Executive Committee met on May 27, 2020. No quorum was established; so the Committee entered into an informational session. Mr. Steeley then requested that the Committee enter into Executive Session and the Committee received a financial report, discussed strategic plans, received a human resources update, and a technology update, which if conducted in public, could lead to the disclosure of information protected by statute. Upon returning to Regular Session, there was no other business and the meeting was adjourned.

Representative Roebuck concluded his report and hearing no questions from the Board, Chairman Peifer called up Agenda Item #3.

3. Needs Analysis and Aid Coordination Report and Distance Education

Chairman Peifer called on Chancellor Thyreen. Chancellor Thyreen thanked the Chairman and reported that the Committee on Need Analysis and Aid Coordination met May 20, 2020 and a quorum was present.

He reported that the Committee brought forth a recommendation at the March Board meeting that would have pre-decided the 2020-21 Matching Funds Program allocation. He asked the Members to turn their attention to the memo entitled "2020-2021 Matching Funds Program - Revised Recommended Motion" and stated that that the Committee took the Board's feedback and have revised its recommendation. He specifically noted that the Committee revised the matching funds proposal to authorize the President and CEO to provide funding for the four programs based on a percent allocation methodology. These allocations will only be finalized once the Commonwealth budget is adopted and the President and CEO will report back to the Board on any adjustments. Chancellor Thyreen further stated that no public announcement or awards will be made by PHEAA staff until the final Commonwealth budget is adopted and the exact 2020-21 appropriation for the Matching Funds Program is known.

Chancellor Thyreen stated the motion contained on page 2 of the memo would be in order, and respectfully asked Chairman Peifer and the Board adopt the motion.

Chairman Peifer asked if the Members had any questions. Mr. Nathan Hench stated that the motion was to adopt the allocations for the matching funds program and page 2 of the memo discussed the awarding formula. Mr. Hench read the following motion for the Board's consideration:

The Committee on Need Analysis and Aid Coordination hereby rescinds the March 17, 2020 recommendation to the Board of Directors regarding Matching Funds allocations. Further, the Committee on Need Analysis and Aid Coordination hereby recommends to the Board of Directors that the President and CEO be authorized to make 2020-2021 allocations among the individual Matching Funds Programs based on the above allocation methodology – to be calculated after the Commonwealth Budget is passed and signed into law. Further, that the President and Chief Executive Officer be given the authority to adjust the Matching Funds Program allocations from time to time if demands within the program change throughout the year, and report back to the Board within a timely manner regarding any adjustments that are made.

On a motion made by Representative Sonney, seconded by Senator Fontana, the motion unanimously passed.

Hearing no questions or comments, Chancellor Thyreen asked the Board to consider the 2020-2021 Pennsylvania State Grant Program awarding formula. Chancellor Thyreen reminded the members that a decision to vote on the formula at the March Board meeting was delayed to May with hope that additional clarity around the Commonwealth's 2020-2021 budget would be gained.

Chancellor Thyreen stated that the Committee would have been recommending that the Board recognize Governor Wolf's 2020-2021 proposed budget that provided for a \$29 million increase in the PA State Grant Program which would have allowed for a significant increase in the maximum award, but, after thoughtful deliberation, the Committee recommends that the Board adopt a formula that maintains the current maximum award of \$4,123.

Chancellor Thyreen also updated the Board stating that the grant applicant numbers are in and PHEAA did well with the Board's decision to extend the May 1st deadline with a 2-week extension. During that extension, PHEAA added 21,369 additional FAFSA applications for the PA State Grant Program and 15,000 of them came in following the May 7th virtual press conference held by Chairman Peifer. With that, PHEAA moved the negative 9% applicant inflation factor to negative 4.5%, which is only 1% off from the pre-Covid-19 estimates of negative 3.5%.

To fund the \$4,123 award formula that was recommended to the Board, the formula would benefit 126,455 applicants and the program will need \$325 million in TOTAL resources. With that, Chancellor Thyreen stated if the State appropriation is held level at \$310.7 million, an additional \$15 million in funding would be needed to make this formula a reality. Chancellor Thyreen asked the Members to turn their attention to the highlighted portion within the memo for two resolutions. The first resolution recommends a formula with a maximum award of \$4,123 with full integration of Distance Education, something that both the State Grant Advisory Committee and the Need Analysis and Aid Coordination Committee recommended, to bring parity to grant awards no matter the modality of study, especially in the current COVID-19

environment. And the second resolution would authorize the President and CEO to allocate up to \$15 million of Agency resources to the program to ensure that student grants are held level. Chancellor Thyreen also stated that if additional funds would become available, the funds would go to increase the maximum state grant award.

Chancellor Thyreen paused for any questions that the Members had and stated that Mr. Nathan Hench and Ms. Elizabeth McCloud were also available to help answer questions. Hearing no questions or comments, Senator Fontana made the motion to adopt both resolutions, seconded by Representative Mentzer and the motions were unanimously adopted and are attached to these minutes.

Chairman Peifer stated that the Commonwealth budget is very fluid, but the House passed a budget that flat-funded the grant program. He stated if PHEAA as an agency is able to contribute \$15 million to the state grant program, then students will be held harmless, same as last year, and we can meet that \$4,123 threshold that we've maintained for a number of years now. Chairman Peifer thanked Ms. Elizabeth McCloud, Mr. Nathan Hench, and Chancellor Thyreen for the work done to get to the maximum award of \$4,123 and for extending the state grant application deadline to increase the number of applications received.

Chairman Peifer called up Agenda Item #4.

4. PHEAA's Quarterly Financial Statements

Chairman Peifer called on Mr. Andy Mehalko, Chief Financial Officer who thanked the Chairman and asked the Members to turn to the PowerPoint presentation in Board Effect. He stated that a draft of PHEAA's Unaudited Quarterly Financial Report for March 31, 2020 and 2019, was provided.

Mr. Mehalko reviewed Slide 4, the summary of PHEAA's financial results for the nine months ended March 31, 2020. He reported that overall, PHEAA's consolidated operating income for the nine months ended March 31, 2020 was \$29.6 million, compared to \$33 million for the prior year nine month period. PHEAA's unrestricted operating revenues for the current nine month period ended March 31, 2020 were \$364.6 million compared to \$367.5 million for the prior year nine month period. Mr. Mehalko reviewed the key highlights that included increases in servicing revenues and retention of collections of \$6.6 million that was offset by a \$7.9 million decrease in net interest income year over year due to unrealized losses on investments at State Treasury and lower average investment balance year over year. He reported other revenues were down \$1.5 million year over year due to reduction in original principal balance outstanding on PHEAA's Guaranty portfolio. Mr. Mehalko reported that unrestricted operating expenses for the nine months ended March 31, 2020 were \$357.4 million compared to \$367.4 million in the prior year, a \$10 million decrease. This decrease was a result of PHEAA's continued cost management efforts and favorable OBEP and pension benefit valuations. Personnel and benefits decreased \$15.8 million and were driven by valuation changes of \$16 million, a reduction in payroll costs of \$7.9 million and \$2.9 million of capitalized software development payroll costs and offset by \$10.3 million increase in annual and sick leave accruals over the prior year due to change in methodologies. Professional services increased by \$7.3 million year over year as a result of outsourcing expenses for back-office processing and contact center services. In addition, there were increases in professional consulting services related to the data center move from the annex building to the Iron Mountain facility, and consulting fees in connection with PHEAA's continued DTS transformation efforts. Information technology expenses increased \$5.8 million as a result of the managed IT services contract for

PHEAA's mainframe operations. The final expense line item, other operating expenses, saw a decrease of \$7.3 million year over year due to the reduction in telephony and mail services as a result of implementing several of PHEAA's strategic projects, lower legal fees, with an increase in facilities costs from renovations, garage maintenance and lease buyouts. PHEAA's unrestricted operating income of \$7.2 million for the nine months ended, compared to breakeven for the prior year. Restricted operating income was \$22.4 million for the current year compared to \$32.9 million last year due to the continued pay-down of PHEAA's student loan portfolio from an average balance of \$4.2 billion in the prior fiscal year to \$3.7 billion in the current fiscal year.

Mr. Mehalko stated Slide 5 provides a waterfall in chart form for reference.

Mr. Mehalko reviewed budget to actual comparison for the nine months ended March 31, 2020 on Slide 6. He reported that PHEAA's budgeted consolidated operating income at this point in time was breakeven compared to an actual operating income of \$29.6 million. He highlighted the major drivers for the better than budgeted results on Slide 7. The favorable variance is due to better than budgeted servicing and retention of collections revenues of \$8.1 million. Personnel expenses have been better than projected by \$17.9 million as a result of the OBEP and pension valuations PHEAA is responsible for and professional services, mostly consulting fees, coming in lower than projected by \$4.0 million.

Mr. Mehalko reviewed PHEAA's condensed balance sheet for March 31, 2020 compared to June 30, 2019 on Slide 8. He reported that PHEAA's total assets have decreased by \$326 million, with the majority attributed to the runoff of the student loan portfolio of \$357 million, with increases in cash and investments of \$28.9 million due to the 2020A bond issue closing March 19th, and a \$20 million net increase in capital assets as a result of capitalized software development costs. Other assets decreased by \$17.8 million due to reduction in outstanding accounts receivables. PHEAA's total liabilities decreased by \$378.9 million during the current fiscal year to \$4.3 billion, driven mainly by the pay-down of bonds in PHEAA's student loan trusts of \$311 million, there were also decreases in PHEAA's OPEB liability of \$50 million and \$32 million reduction in other liabilities due lower borrower payments received during March 2020 and due to PHEAA's servicing clients. PHEAA's total net position increased \$31.6 million to \$206.1 million from \$174.4 million, but unrestricted net position decreased \$15.2 million to a negative \$335.3 million. This change was driven by the capitalization of software development costs and transfer of funds to supplement the state grant program and targeted industry program and offset by unrestricted net income and residual releases from the student loan trusts to PHEAA.

A draft of the March 31, 2020 unaudited Quarterly Financial Report is included in the Board package starting on page 24, and was provided to and reviewed with the Audit Review Committee on May 27, 2020. Ernst & Young has completed their review of the quarterly financial statements with no significant comments, and the financial statements will be finalized and posted to the investor relations section of PHEAA's website. Mr. Mehalko concluded his report and hearing no questions or comments, Chairman Peifer called up Agenda Item #5.

5. 2020 – 2021 Meeting Schedule

Chairman Peifer directed the Members' attention to the memo titled "2020-2021 Board Meeting and Compliance Schedule". The motion in the memo reads: *That the following schedule of meetings and Compliance Training of the PHEAA/AES Board of Directors for the 2020-2021 fiscal year be adopted and public notice thereof given. All meetings to start at 10:00*

a.m. and to be held in the PHEAA Board Room and Compliance Training to be held immediately following meeting adjournment:

Meeting Date	Compliance Training	Meeting Date	Compliance Training
September 17, 2020		March 18, 2021	Yes
October 15, 2020	Yes	April 15, 2021	
November 19, 2020	Yes	May 20, 2021	Yes
January 21, 2021	Yes	June 24, 2021	
February 18, 2021			

On a motion made by Senator Scavello, seconded by Representative Sonney, the 2020-2021 Meeting Schedule and Compliance Training was unanimously passed.

Chairman Peifer called up Agenda Item #6.

6. Federal Update

Chairman Peifer called on Ms. Kathleen Smith, Director of Federal Relations for a federal update. Ms. Smith thanked the Chairman and provided an update, beginning with the Congress. She reported that the Senate is in session, although with limited activity and the House is back in session with limited members on site for a vote on the FISA bill (Foreign Intelligence Surveillance Act). This vote will be the first in the history of the House that will allow for proxy voting. The House also approved a bill to provide the ability to conduct business such as hearings, etc. virtually.

She reported that House appropriations hearings continued both in person and remotely. House leadership indicated that they are working on twelve individual appropriations bills; however, it is unlikely that markups will occur until Congress can agree on the next coronavirus relief package which Senate Leadership, at this point in time, seems unwilling to rush into.

Ms. Smith reported that on May 15, 2020 the House passed the 1,875 page Health and Economic Recovery Omnibus Emergency Solutions Act or HEROES Act. The cost is reported to be an estimated \$3 trillion. The HEROES Act expands much of the CARES Act programs through September 30, 2021. She noted that student loan related provisions included the addition of FFELP, private and Perkins loans, suspension of payments through September 30, 2021, ICR and IDR income certification waivers, no interest accrual on student loans, a suspension of payments and none of the payments made on behalf of the borrowers will count as income for tax purposes.

Ms. Smith provided an update on a few other bills. As discussed during her last update the Equity in Student Loan Relief Act - H.R. 6597 that was introduced by Representative Stefanik on April 22, 2020, now has 20 co-sponsors including four from PA, Congressmen Smucker, Fitzpatrick, Wild and Lamb. The Board's support for parity and signing the letter to our PA delegation was very helpful in this endeavor.

Ms. Smith provided an update on the Opportunities for Heroes Act of 2020 – H.R. 6699 which was introduced on May 5, 2020 by Representative Fitzpatrick (PA) and Kuster (NH). The bill puts forward loan forgiveness benefits for those considered to be “essential workers” or determined to be engaged in essential employment. It established a commission to determine essential employment during the COVID-19 crisis period.

Ms. Smith reported that the Student Loan Forgiveness for Frontline Health Workers Act – H.R. 6720, was introduced on May 5, 2020 by Representative Carolyn Maloney (NY) of the House Financial Services Committee. The Act provides for student loan forgiveness benefits to health care workers who are on the front line in response to COVID-19. The Strengthening Loan Forgiveness for Public Servants During the COVID-19 Crisis Act – S. 3760, was introduced on May 19, 2020 by Senator Blumenthal and 9 others, to provide loan forgiveness through PSLF on a rolling two year – percentage basis.

Ms. Smith then reported that there will be many more bills to come and while none of these bills on their own will likely get action, they do provide a window into where members of Congress are and their priorities for the purpose of preparing for the next COVID-19 relief bill in the next several weeks, should it be necessary.

She reported that PHEAA's outreach to the Pennsylvania delegation continues and has garnered positive feedback. Ms. Smith will continue the weekly updates throughout the pandemic and as long as they are valuable, informative and ensure the constituents of the Commonwealth are well served. Information has been shared about the outreach that PHEAA's Access Partners are doing and some members are sharing that content with their constituents. PHEAA continues general outreach, analyzing and summarizing pending legislation, and monitoring bill activity.

PHEAA will continue working with trade organizations such as EFC, NCHER and SLSA. PHEAA will continue to follow and discuss with the PA delegation the parity issue, the appropriations process, the need for securing the good work (especially now) conducted with Account Maintenance Fund (AMF) and the importance of that funding. And, PHEAA is keeping the possible movement of any legislation regarding the HEA reauthorization in our sites as well.

Hearing no questions or comments for Ms. Smith, Chairman Peifer called for Executive Session. The Board went into Executive Session for Agenda Item #7 - President and Chief Executive Officer's Report. The following topics were covered: received an update on PHEAA finances and a strategy discussion. The purpose of the Executive Session was to discuss Agency business, which if conducted in public, could lead to the disclosure of information and confidentiality that is protected by statute.

7. Other Business

Upon the return to Regular Session and hearing no other business, Chancellor Thyreen made a motion to adjourn, seconded by Representative Delozier, and Chairman Peifer thanked the Members and adjourned the meeting.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
PA State Grant Program Awarding Formula
Adopted May 28, 2020**

That, effective with the 2020-2021 award year, the Pennsylvania State Grant Program establish the following parameters for students evaluated under the State Grant formula:

Set the cost tiers and minimum and maximum awards at Pennsylvania approved institutions to:

<u>Cost Tiers</u>	<u>Minimum Award</u>	<u>Maximum Award</u>
\$ 0 to \$12,000	\$500	\$2,500
\$12,001 to \$19,000	\$500	\$4,000
\$19,001 to \$29,000	\$500	\$4,300
\$29,001 to \$32,000	\$500	\$4,700

Cap college costs at \$32,000. Allowable costs are calculated using tuition, fees, a book allowance of \$1,000, and an educational expense allowance of \$4,000 for all applicants.

Make \$600 the maximum award for non-veterans at eligible out-of-state schools in reciprocal states, and \$800 for veterans at eligible out-of-state schools in reciprocal states.

Set the percent of need met based on an Expected Family Contribution (EFC) calculated in accordance with the Federal Need Analysis Methodology and PHEAA policies to:

	<u>EFC Range</u>	<u>Percent of Need Met</u>
(1)	0 to 4,000	50%
(2)	4,001 to 6,000	38%
(3)	6,001 to 8,000	32%
(4)	8,001 to 10,000	27%
(5)	10,001 to 12,000	14%
(6)	12,001 and above	3%

Apply an award adjustment factor of 0.8772 across all awards to keep expenditures within resources. This would set actual maximum awards for 2020-2021 as follows:

<u>Cost Tiers</u>	<u>Minimum Award</u>	<u>Maximum Award</u>
\$ 0 to \$12,000	\$500	\$2,193
\$12,001 to \$19,000	\$500	\$3,509
\$19,001 to \$29,000	\$500	\$3,772
\$29,001 to \$32,000	\$500	\$4,123

However, if this calculation causes the student's award to go below the minimum award, the student will instead receive the minimum award. All awards are equalized across terms.

If the available resources change at a later date, the President and Chief Executive Officer is authorized to reset the formula and award adjustment factor to keep the projected year-end expenditures for student awards within available resources.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
PA State Grant Program PHEAA Supplement
Adopted May 28, 2020**

That the President and Chief Executive Officer be given the authority to allocate up to \$15,000,000 to supplement the General Assembly's 2020-2021 appropriation for the 2020-2021 PA State Grant Program.