



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
June 20, 2019 – 9:00 AM**

A meeting of the Board of Directors was held on June 20, 2019, at 9:00 a.m. in the Boardroom.

Those in attendance were:

Representative Michael Peifer, Chairman
Senator Wayne D. Fontana, Vice Chairman
Senator Ryan Aument
Senator John P. Blake
Representative Mike Carroll
Representative Angel Cruz
Representative Sheryl Delozier **(via teleconference)**
Senator Arthur Haywood **(via teleconference)**
Representative Anita Kulik **(via teleconference)**
Representative Steven Mentzer
Senator Kristin Phillips-Hill
Honorable Roy Reinard
Representative James Roebuck, Jr. **(via teleconference)**
Senator Mario Scavello **(via teleconference)**
Representative Curtis Sonney
Chancellor Timothy R. Thyreen **(via teleconference)**
Noe Ortega, Deputy Secretary for Postsecondary and Higher Education
James H. Steeley, President and CEO
Jim White, General Counsel

Those absent were:

Senator Vincent Hughes
Secretary Robin Wiessmann
Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig, Senator Hughes' office **(via teleconference)**; Stephanie Buchanan, Senator Aument's office; and the following PHEAA staff: Judith Bines, Bethany Coleman, Mike Garman, Lisa Gipe, William Fisher, Mubashar Hameed, Nathan Hench, Dana Hepner, Stephanie Martella, Elizabeth McCloud, Andy Mehalko, LaWanda Morris, Keith New, Todd Mosko, Jodi Shomper, Kathleen Smith **(via teleconference)**, Jean Svoboda, Tara Patterson, Crystal Fox, Rachel Hoover, James Nelson, Mike Sauers, and Martin Samaniego

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

1. **Minutes**

On a motion made by Representative Carroll and seconded by Representative Sonney, the minutes of the May 23, 2019 meeting were unanimously approved.

Before moving along the agenda, Chairman Peifer made a few announcements. He said that Senator Robert Tomlinson has resigned from the PHEAA Board of Directors leaving behind a proud history of accomplishments. Chairman Peifer called on Vice Chairman Fontana. Vice Chairman Fontana thanked the Chairman and said that Senator Tomlinson was first elected to serve in the Pennsylvania Senate in 1995 and is currently serving his seventh term representing residents of the 6th Senatorial District in Bucks County. Senator Tomlinson was initially appointed to the PHEAA Board of Directors in February of 1997 and has made substantial contributions to the Agency as Chairman of the Executive Committee and as a member of the Revenue Bond and Outreach Committees. Senator Tomlinson has served on a number of other Senate committees and also previously served in the Pennsylvania House of Representatives, representing the 18th District from 1991 to 1994. Senator Tomlinson is widely recognized for his charitable work on behalf of his local community. We thank Senator Tomlinson for his years of distinguished service and commitment to the Agency's mission. Vice Chairman Fontana read the resolution recognizing Senator Tomlinson's service to the PHEAA Board, which is attached to these minutes.

After the reading of the Board Resolution, Chairman Peifer welcomed and introduced Senator Kristin Phillips-Hill who joined the PHEAA Board replacing Senator Tomlinson effective immediately. He said that Senator Phillips-Hill was elected to the Senate to serve York County residents in District 28 in 2018 after serving two terms in the House of Representatives. Senator Phillips-Hill has served on the school board for the Dallastown Area School District for three years and her volunteer experience includes serving on the board of directors for both the York County Convention & Visitors Bureau and the York County History Center.

Senator Phillips-Hill thanked the Chairman said it sounds like she has big shoes to fill. She is happy to be here and happy to be serving on the PHEAA Board.

Chairman Peifer officially welcomed Ms. Jean Svoboda into her role as Board Secretary since this was the first meeting she led. Ms. Svoboda thanked the Chairman.

Chairman Peifer then called on Representative Carroll for Agenda Item #2.

2. **Committee Reports**

Representative Carroll thanked the Chairman and reported that the Audit Review Committee met yesterday and after establishing a quorum, the Committee accepted the minutes of the meeting held on April 24, 2019. The Committee next accepted the 2019/2020 meeting schedule as presented.

The Committee then went into Executive Session to consult with professional advisors regarding PHEAA finances, litigation and to consult with external and internal advisors. The purpose of the executive session was to discuss Agency business, which, if conducted in public, would lead to the disclosure of information and confidentiality that is protected by statute.

Following the executive session the Committee moved back to Regular Session and received a report from Ms. Judith Bines, PHEAA's Chief Audit Executive with regard to the proposed 2019/20 internal audit plan, of which the committee reviewed and adopted.

Mr. Kyle Lefever, PHEAA's Chief Accounting Officer then presented a proposal to extend PHEAA's audit and non-audit service contracts with external accounting firms Ernst & Young and Grant Thornton for a one year term. The Committee adopted the proposal as

presented and authorized PHEAA's Chief Financial Officer (or his designee) to negotiate final one year extension engagements with E&Y and GT.

The Committee then moved into private session with Ms. Judith Bines, PHEAA's Chief Audit Executive. Hearing no questions, Chairman Peifer called on Senator Fontana to provide a report of the Executive Committee.

Senator Fontana thanked the Chairman and reported that the Executive Committee met last evening, in the absence of a quorum moved into Executive Session to consult with professional advisors regarding PHEAA finances, litigation and to consult with professional advisors. The purpose of the executive session was to discuss Agency business, which, if conducted in public, would lead to the disclosure of information and confidentiality that is protected by statute.

The Committee then returned to Regular Session and Mr. James Steeley provided the Annual Complement Report of Nonunion Management Positions. There being no further business before the Committee, the meeting was adjourned.

Hearing no questions for Senator Fontana, Chairman Peifer called up Agenda Item #3.

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

Chairman Peifer called on Mr. Steeley. Mr. Steeley thanked the Chairman and 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, Chairman Peifer called up Agenda Item #4.

4. **2019-2020 Budget**

Chairman Peifer called on Mr. Andy Mehalko, Mr. Mehalko thanked the Chairman and deferred to Mr. Mike Sauers. Mr. Sauers said we are presenting for Board approval the PHEAA budget for the year ending June 30, 2020. This budget originates from a period in which PHEAA is experiencing significant change. PHEAA has engaged in a strategic program to help transform, enhance, and modernize PHEAA's employees, processes, and technologies, as well as bring on new revenue streams. Additionally, over the past few years there has been great uncertainty surrounding the future of FedLoan Servicing line of business, as a result of multiple solicitations issued by the U.S. Department of Education, Office of Federal Student Aid (FSA), which would fundamentally change PHEAA's role as a servicer. PHEAA's current contract with FSA for servicing expires in December of 2019 and represents approximately \$200 million and more than 1/3 of PHEAA's annual revenue. Finally, in preparing the budget PHEAA continues to be challenged with margin compression the most profitable lines of business, which are tied to the legacy FFELP Program, continue to run off at between 10 – 15% per year.

Mr. Sauers said the proposed budget was developed based on what PHEAA considers to be realistic and known expense and revenue assumptions. Mr. Sauers provided a summary of budget assumptions that includes: no impact (positive or negative) from the current solicitation issued by FSA, due to the uncertainty surrounding possible outcomes of the solicitation. If PHEAA is appointed as a component winner in the solicitation, the budget may change and PHEAA may need to come back to the Board for additional authorization. The

PHEAA owned loan portfolio will decrease by 14.6%, coupled with continued net interest margin compression due to rising rates. The FedLoan Servicing borrower volume is expected to decrease by 1.9%, but this should be offset by additional revenue on PSLF calls, emails and processing, as well as more borrowers in higher paying statuses; overall, a slight increase in servicing revenue of 1.6% is assumed. The Commercial Loan Portfolio PHEAA services for others (AES Line of Business) will decrease by approximately 12.7%. Guaranty Rehab volume is expected to decrease by 8.8% partially offset by increases in other collection types (borrower and consolidation); this would lower collection revenue. The sale price for rehab loans remains steady at or near par. PHEAA further assumes that Account Maintenance Fee (AMF) received on loans guaranteed by the Agency will be included in reauthorization legislation. The revenue included in the budget for these fees is \$11.6 million. PHEAA estimated the total pension obligations (cash and non-cash portions) to decrease to \$61.0 million, a 4.2% decrease from FY18-19. It was estimated that the total other post-employment benefit (OPEB) obligations to be remain steady at a negative \$3.6 million, which is based on assumptions from the most recent valuation. The proposed budget also includes negotiated union salary increases in July 2019 and April 2020, as well as a proposed management increase in January 2020.

Hearing no questions for Mr. Sauers on the proposed budget, Chairman Peifer asked for a motion. The Honorable Roy Reinard made the motion, it was seconded by Senator Fontana, and PHEAA's fiscal year 2019-20 Consolidated budget of \$506.9 million in operating expenses (\$505.8 million of which is the Administrative Budget), and \$52.1 million in capital items, totaling \$559.0 million was unanimously approved. The related resolution is attached to these minutes.

Chairman Peifer called up Agenda Item #5.

5. **Entry of Additional Orders of Default**

Chairman Peifer 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 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. Representative Delozier made the motion, seconded by Representative Carroll, and the Resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer called up Agenda Item #6.

6. **Other Business**

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

**A RESOLUTION of
THE PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
June 20, 2019**

WHEREAS, Senator Robert “Tommy” Tomlinson was elected to serve in the Pennsylvania Senate in 1995, currently serving his 7th term representing residents of the 6th Senatorial District in Bucks County; and

WHEREAS, prior to his election to the Pennsylvania Senate, Senator Tomlinson served in the Pennsylvania House of Representatives, representing the 18th District from 1991 to 1994; and

WHEREAS, Senator Tomlinson was appointed to the PHEAA Board of Directors in February of 1997 and has since made significant contributions to the work of the Board as a member of the Executive Committee, Revenue Bond Committee, and Outreach Services Committee; and

WHEREAS, Senator Tomlinson was instrumental in the leading PHEAA through the great recession of 2008, and transitioning the Agency through the national student lending paradigm shift from the Federal Family Education Loan Program to the Direct Lending Program; and

WHEREAS, Senator Tomlinson has Chaired the Executive Committee of the PHEAA Board of Directors since March of 2007, during which PHEAA’s total assets under management grew from \$124 Billion in 2007 to \$476 Billion in 2019 – representing a 285% increase; and

WHEREAS, Senator Tomlinson as Chairman of the Executive committee oversaw PHEAA’s expanded operations with a 33% growth in employment during his tenure; and

WHEREAS, during Senator Tomlinson’s time as Chairman of Executive Committee, PHEAA disbursed \$5.6 Billion awards to 2.2 million recipients, through the Pennsylvania State Grant Program, representing over 48% of the total disbursements since the Program’s inception in 1965; and

WHEREAS, Senator Tomlinson was instrumental in providing over \$675 million of PHEAA resources in direct public service to increase Pennsylvania State Grant awards to students and families; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere appreciation to Senator Tomlinson for his many years of service to the Agency and to the Commonwealth of Pennsylvania on the occasion of his leaving the Board.

Pennsylvania Higher Education Assistance Agency Budget Resolutions
Board of Directors
Adopted June 20, 2019

1. That the Agency's fiscal year 2019-20 Consolidated budget of \$506.9 million in operating expenses (\$505.8 million of which is the Administrative Budget), and \$52.1 million in capital items, totaling \$559.0 million be approved.
2. In addition to the spending authority for the above budget, in order to support the operations of the Agency, the following are granted:
 - a. That the President and Chief Executive Officer be given authority to respond to new business initiatives and is authorized to hire additional personnel and to incur necessary operating expenses and capital expenditures for such initiatives within the constraints of existing Agency cash reserves and approved budget and that the President and Chief Executive Officer shall report to the Board of Directors on a quarterly basis the status of any such initiatives.
 - b. That the President and Chief Executive Officer be given authority, in the event of an emergency, to implement the business continuity plan to address critical business needs and is authorized to hire additional personnel and to incur necessary operating expenses and capital expenditures for such initiatives within the constraints of existing Agency cash reserves, and that the President and Chief Executive Officer shall report to the Board of Directors on this activity within three days.
 - c. That the President and Chief Executive Officer be given authority to address increased fees to contract collection agencies in response to increased collection volume, provided that the increased revenue expected to be generated is equal to or greater than the fees, and that the President and Chief Executive Officer shall report to the Board of Directors on a quarterly basis in the event that this authority is exercised.
 - d. That the President and Chief Executive Officer be given authority to address an increase in the pension liability and other post-employment benefits if it should exceed this authorization, and that the President and Chief Executive Officer shall report to the Board of Directors in the event that this authority is exercised.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted June 20, 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 June 20, 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 June 20, 2019.