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# CHAIRMAN ADOLPH AND VICE CHAIRMAN LOGAN'S REPORT OF PHEAA ACCOMPLISHMENTS & REFORMS

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COMMONWEALTH OF PENNSYLVANIA

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY



# PHEAA CHAIRMAN ADOLPH AND VICE CHAIRMAN LOGAN'S REPORT OF PHEAA ACCOMPLISHMENTS & REFORMS

## PHEAA SETTING FEDERAL STUDENT LENDING POLICY

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In early 2008, PHEAA witnessed the implementation of considerable regulatory changes in the federal student loan industry. At the same time, PHEAA leadership identified interlocking market conditions and circumstances which foretold of the looming financial crisis that would soon hit the financial services sector of our economy, with specific negative ramifications for the student loan industry. **This prompted PHEAA's Board of Directors to quickly convene an emergency Student Loan Summit on February 21, to highlight the coming danger and to facilitate solutions to mitigate the potential damage for Pennsylvania students, families and schools.** This Summit was specifically focused on making sure that student loan funding, despite deteriorating capital market conditions, would be available to students and schools for the 2008-09 academic year

Following the summit, on March 12, Chairman Adolph and Vice Chairman Logan traveled to Washington, D.C. to urge the Pennsylvania Congressional delegation and representatives of the Secretaries of Education and Treasury to act immediately to seek solutions to the unfolding student loan crisis. The Pennsylvania Delegation appreciated our briefing on the severity of the student lending industry.

**Due to PHEAA's efforts to make the relevant parties in Washington, D.C. aware of the crisis, Congress took swift action and quickly passed H.R. 5715, entitled, "The Ensuring Continued Access to Student Loans Act of 2008" (ECASLA).** The President signed the bill in short order. The legislation provides the following noteworthy provisions:

- Increases the Federal Stafford Loan limits for which undergraduate students are eligible
- Provides a grace period for repayment of Parent PLUS Loans until six months after the student graduates
- Further provides for the Lender of Last Resort (LLR) by granting additional authority to the U.S. Secretary of Education to ensure that students will have access to the necessary financing tools this summer and fall
- Establishes the U.S. Department of Education as a secondary market for the purpose of purchasing federal student loans to free up liquidity for future lending

**Congress, realizing the importance of these measures, recently extended ECASLA for 2009-2010.**

## Suspension of Student Lending

Despite the efforts from the Student Loan Summit and the passage of ECASLA by Congress, PHEAA was forced to indefinitely suspend student lending and acquiring loans. This decision was not taken lightly, but was necessary due to the turbulence in the capital markets that were used to secure the necessary tools that provided the financing for PHEAA to secure funding to lend to borrowers. There is no assurance that we could borrow the funds from any source at any price. If we could have borrowed at Libor plus 200 (approximately 6.5%) and obtained market access at acceptable ratings, the additional annual loss would have been \$8 million. Additionally, we estimate we would have had to contribute \$50 million of cash, cash that we do not have, to overcollateralize the financing. Therefore the total savings from PHEAA's suspension of student lending is approximately \$58 million for one year.

## PHEAA ON ADMINISTRATIVE REFORMS

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Since Chairman Adolph and Vice Chairman Logan were elected by the Board of Directors in February 2007, PHEAA has undergone significant administrative and accountability changes. The implementation of these new policies and procedures were further refined throughout 2008.

### Travel Guidelines

**On March 22, 2007, the PHEAA Board of Directors set strict guidelines governing reimbursements for travel and business expenses.** In addition, it adopted new approval controls and a review process that has, since implementation, provided greater transparency and more accountability into business expense reporting and appropriate use of operating revenues for business travel and related expenses.

Under these new policy guidelines, acceptable business-related expenses are defined as only those necessary to the operations of the enterprise that are appropriate in nature and are clearly documented. **It should be noted that these travel and expense policies are stricter than those employed by the Commonwealth of Pennsylvania and the Internal Revenue Service.**

### Code of Ethics

**On April 20, 2007, PHEAA adopted an industry-leading Code of Ethics, formalizing longstanding agency practices and policies.** The Code is one of the strictest in the industry and PHEAA has urged competitors and partners to also adopt it.

Under this Code, PHEAA will not provide any postsecondary school with financial benefits or inducements for preferential treatment or competitive advantage. Equally important, this Code makes it clear that PHEAA chooses to partner with only those lenders and schools that provide products and services that directly put the interest and financial needs of students and families first, without regard for financial benefits or gain to a school or lender.

### Appointment of new President and CEO

**In March 2008, the Board appointed Mr. Jim Preston the full-time President and CEO of PHEAA and directed him to continue to make further reforms of the Agency.** The process for selecting the President and CEO was an exhaustive process that was chaired by Representative Jennifer Mann and also included Vice Chairman Logan, Senator Jane Earll, Representative Craig Dally, and Mr. William Schenck III.

The Search committee met numerous times from October 2007 to March 2008 and worked closely with DHR Executive Search, an internationally recognized search firm, to seek out the best pool of candidates for the position. In March 2008, the Search Committee identified two candidates that the committee was prepared to recommend to the full PHEAA Board of Directors. However, one candidate withdrew his name from consideration, citing concerns over the turbulent financial markets and the stability of PHEAA.

## COST SAVINGS

### General Overview

President and CEO James Preston, under the Board's guidance, was to conduct a complete evaluation of expenses and identify areas of potential savings from operations. By focusing efforts on providing access to higher education for Pennsylvania students, PHEAA has been able to derive savings from operations that do not currently meet the goals and objectives set forth by the Board.

From October 2007 through December 2008 PHEAA was able to realize a savings of \$77.7 million. These savings were derived from careful evaluation and prudent decision-making on the part of executive management, including:

SAVINGS FOR LISTED APPROVED FISCAL YEAR BUDGETS		
2008-09	Workforce Reduction - Annualized	\$23.7 million
	Elimination of Management Bonus and Automatic COLA Increases for Non Union Associates	\$4.4 million
2007-08	Personnel - Other	\$5.5 million
	Professional Services	\$15.2 million
	Travel and Professional Development	\$1.5 million
	IT, Equipment and Supplies	\$8.7 million
	Conference	\$0.4 million
	Promotion of Business	\$1.0 million
	Advertising	\$7.4 million
	Sponsorships	\$1.5 million
	Elimination of Management's Vehicles and Other Vehicles 73 vehicles were reduced down to 42	\$0.1 million
	Other	\$8.3 million
	<b>TOTAL SAVINGS</b>	

### Workforce Optimization

In July 2008, President and CEO James Preston reported the conclusion of PHEAA's first-ever Workforce Optimization Program. Because PHEAA suspended lending, it was necessary to realign the workforce to match operations. **The Workforce Optimization Program, realized 264 voluntary departures.**

All of these savings are being continually tracked and reported to the Board of Directors.

**NOTE:** The Governor has asked that all state agencies freeze their discretionary expenditures by 4.25 percent for the 2008-09 year. PHEAA has responded by freezing uncommitted funds in special programs.

## PUBLIC SERVICE

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### Foundation Direct Contribution

Due to PHEAA's financial situation, the Board of Directors voted to suspend all public service programs including the \$10 million contribution to the Pennsylvania Higher Education Foundation (PHEF). During 2008, PHEF reconstituted its Board to bring in members that could more closely assist with attracting other donors to ensure the continuation of the public service initiatives that the Foundation benefits.

### State Grant Program

Despite the difficulties of the 2008-09 fiscal year, the PHEAA Board of Directors was able to lobby the General Assembly to increase the State Grant Program funding by 5.5 percent. This effort meant that over \$407 million would be directed to Pennsylvania students through higher education grants. The PHEAA Board will continue its effort to protect the state allocation to the State Grant Program for future years. As in years past, and as with PHEAA's entire administrative budget, the Agency managed to continue funding the administrative support for the State Grant Programs and other state-funded aid programs from its business earnings without spending one penny of taxpayer resources.

## AUDITOR GENERAL'S PERFORMANCE AUDIT

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Auditor General Jack Wagner, in his performance report issued in August 2008, made 20 specific recommendations to PHEAA. Even prior to reading the Auditor General's final report, PHEAA had already acted on 18 of the 20 recommendations. The new leadership of the PHEAA Board of Directors recognized the need to make change and already had acted on many of the same issues that the Auditor General proposed. The reforms include, but are not limited to, the following:

- Eliminate all management bonuses and incentives.
- Eliminate all employee appreciation events.
- Eliminate all professional services and sponsorship contracts that are not in line with PHEAA's mission.
- Implement a policy to adhere to the policies of the procurement practice.
- Eliminate or reduce any and all spending that is not in line with PHEAA's mission.
- Implement a strict vehicle policy, specifically stating that agency vehicles can only be used for business use.

It is noteworthy that the Auditor General made 27 positive comments about PHEAA and the reforms that the Board of Directors have instituted.

## CONCLUSION

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While calendar years 2007 and 2008 were some of the most challenging years, PHEAA was **successful in saving \$77.7 million in operation costs during that time frame**. PHEAA also lobbied Congress to pass a meaningful piece of legislation that would ensure that students have access to loans and financing sources to go to college.

Because of the turbulent time, PHEAA realized an operating loss of \$27 million for the 2007-08 fiscal year. However, due to the quick and decisive action of the Board, PHEAA is starting to rebound. **For the first quarter in 2008-09 fiscal year, PHEAA has realized a positive operating income of \$17.1 million.**

Despite all of the financial challenges that PHEAA has faced and continues to maneuver through, it reacted effectively to ensure access and choice to the students of higher education in the Commonwealth.