



2015 House Appropriations Hearing
PHEAA Testimony - Submitted
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Mr. Chairman, members of the Committee and staff - on behalf of our Board of Directors, our nearly 3,500 employees who live and work throughout Pennsylvania, and the hundreds of thousands of students and families that we serve, I would like to express our appreciation for this opportunity to provide testimony as you prepare the Commonwealth of Pennsylvania's 2015-16 budget.

PHEAA remains dedicated to supporting the needs of Pennsylvania students, families and schools. We accomplish this through our longstanding efforts to fulfill our public service mission and through the success of our business operations.

As a self-sufficient organization - free of taxpayer support for its operating costs - PHEAA saves tax dollars while generating earnings to fund programs and services for the Commonwealth.

The agency was created by the General Assembly more than 50 years ago with the primary mission of creating affordable access to higher education for Pennsylvania students and families. Since then, PHEAA has helped generations of students achieve their goal of a higher education.

And as their needs changed over the years, so has PHEAA in order to best meet those needs regardless of the challenges.

State Grant Program

One example of this evolution is our administration of the Pennsylvania State Grant Program. This program, which launched in 1966, has grown into one of the largest and most efficient programs of its kind in the nation.

For 2014-15, the Commonwealth appropriated \$344.8 million for the program. PHEAA's Board of Directors authorized an additional \$75 million from PHEAA's business earnings to supplement the program, which brought total funding to \$420 million. This enabled PHEAA to provide grant awards to 177,000 Pennsylvania students, with a maximum award of \$4,011.

PHEAA's supplement is funded entirely from the agency's business earnings, which is in addition to the \$15.8 million that we invest annually to administer the program and to provide public service outreach, at no cost to taxpayers. This means that every dollar that is appropriated to the program goes directly to support Pennsylvania students with financial need.

Combined with the maximum federal Pell Grant of \$5,645, a maximum State Grant award for 2014-15 covered approximately 60 percent of the cost of tuition and fees for an average Pennsylvania college student across all higher education sectors.

For 2015-16, Governor Wolf has recommended level funding for the State Grant Program. Additionally, the Governor has asked PHEAA to provide another \$75 million from its business earnings to supplement the Grant Program, which is equal to the previous year's supplement.

Based on early application and college cost projections for 2015-16, we estimate that total proposed funding would allow PHEAA to provide State Grant awards to 172,725 (for the academic year and summer 2016) and a maximum award of \$ 4,368.

Looking forward, we believe that we will be in position to provide this supplement. However, our ability to provide supplemental funding is always contingent upon PHEAA having the sufficient financial resources to do so. And any proposed allocation of PHEAA resources is subject to the Board's review and approval, which would most likely be addressed at the June 2015 Board Meeting.

State Grant Program Outcomes Study

Since the State Grant Program was created more than 50 years ago, PHEAA has awarded more than \$9.4 billion to 6.4 million Pennsylvania students with financial need. And while the overall benefits of the Program are obvious to generations of students who have achieved a higher education - a comprehensive understanding of specific outcomes across the program has never occurred until now.

I am pleased to report that PHEAA has completed the first-ever Pennsylvania State Grant Program Outcomes Study, which is a 6-year analysis of 34,593 2007-08 State Grant recipients. The study was structured to best measure specific student outcomes that are relative to policy and administrative decisions.

Measures such as graduation rates, persistence rates, time-to-degree completion, and dollars awarded per completion were analyzed to gain a better understanding of the program's effectiveness.

Based on this study, I am pleased to report that State Grant recipients achieved higher graduation rates than other undergraduates, both nationally and in Pennsylvania.

Overall, the first-year persistence rate for State Grant recipients was higher than comparable national rates for first-time college students.

Additionally, 74 percent of all State Grant funding was awarded to students who achieved some type of credential.

These measures indicate that the impact of the program goes beyond basic financial assistance and is having a positive long-term impact on individual students and the wellness of the Commonwealth's workforce.

We have provided the Appropriations Committee with copies of this study, which goes into much greater detail.

Distance Education Pilot Program

One aspect of the State Grant Program that continues to be of great interest is the way in which the Program approaches the eligibility of programs of study that are offered through distance education. As distance education continues to evolve, it is increasingly recognized as an effective delivery tool for higher education – especially in our rural communities.

Currently, program guidelines specifically exclude students who take more than 50 percent of their coursework online or who are enrolled in programs of study that are structured to be more than 50 percent online from receiving grant awards.

To best address this issue from an administrative and feasibility perspective, PHEAA pursued several initiatives to better understand distance education as it relates to the State Grant Program.

First, we established a Distance Education Study Group, beginning in 2011, that is comprised of higher education professionals throughout Pennsylvania. We also met with schools that had already been offering distance education courses to learn about their real-world experiences, especially with regard to student engagement.

Additionally, we carefully surveyed the Commonwealth's postsecondary schools to learn what distance education courses were being offered to students and how they were being received.

Based on the results of these efforts, a proposal to establish a Distance Education Pilot Program was formalized as legislation by this General Assembly in July of 2013. This legislation directed PHEAA to undertake a 5-year pilot program, which is now in its second year.

Through this Pilot Program, students are able to retain their State Grant eligibility while taking approved online courses at participating institutions. Essentially, as long as the participating student is eligible to receive an award under current guidelines, then distance education exclusions would not apply for the purposes of the Pilot Program.

To preserve limited Commonwealth funding for the State Grant Program, PHEAA's Board of Directors approved \$10 million from agency resources to be used to fund the Pilot Program annually for each of the program's 5 years.

All Pennsylvania-based State Grant-eligible schools are able to participate. However, participation is voluntary and schools must nominate their eligible student for participation.

The Pilot Program, while providing financial assistance for participating students, also enables PHEAA to collect relevant data which can be used to make recommendations regarding long-term policy changes to the State Grant Program.

Eighty schools (including branch campuses) and 4,205 students are currently participating in the Pilot Program.

Ready-to-Succeed Scholarship Program

The **Ready-to-Succeed Scholarship Program**, now in its first year of operation, was proposed by Governor Corbett as part of the Commonwealth's 2014-15 State Budget. This \$5 million program is funded by the Commonwealth and provides awards to high-achieving, middle-income Pennsylvania students.

The program is administered by PHEAA in cooperation with the Pennsylvania Department of Education and provides income-based scholarships to academic achievers from families earning no more than \$110,000.

Scholarships are awarded to eligible students who are entering their sophomore, junior or senior year in college while maintaining a 3.25 GPA or higher.

In combination with the State Grant Program, the program offers a total award up to \$2,000 for full-time students and \$1,000 for part-time students.

Since schools are responsible for certifying a student's GPA and academic eligibility, those institutions will be responsible for nominating students for participation in the new program.

We expect this new program to benefit approximately 3,348 students during the current academic year.

For 2015-16, Governor Wolf has proposed a 200 percent funding increase, or \$15 million, for the Ready-to-Succeed Scholarship Program. Based on early projections, we expect this amount of funding to provide scholarships for approximately 10,000 Pennsylvania middle-income students.

The Pennsylvania Targeted Industry Program

The Pennsylvania Targeted Industry Program - PA-TIP - was created by legislation in 2012. This program provides grant awards to students interested in working in the fields of energy, advanced materials and diversified manufacturing, or agriculture and food production.

PA-TIP is currently funded with \$6 million from PHEAA's business earnings and provides need-based grant awards up to the equivalent of the maximum State Grant award - currently \$4,011.

Eligible courses of study must be more than 10 weeks and less than 2 academic years in length.

Currently, PA-TIP is providing awards to nearly 1,150 Pennsylvania students, with an average award of \$2,764.

For 2015-16, the Governor has asked PHEAA to increase its funding of the program to \$7 million. Again, this funding, if financially feasible and approved by the PHEAA Board, would come from PHEAA's business earnings, without any taxpayer support.

Institutional Assistance Grant (IAG) Program

Another relatively large student aid program administered by PHEAA is the Institutional Assistance Grant (IAG) Program, for which the Governor has proposed a 20 percent increase in state funding. This would increase the program's appropriation from \$24.3 million to \$29.3 million.

The IAG Program provides formula-based grants which are tied to the number of State Grant recipients enrolled at the school. This assists independent, nonprofit colleges and universities in their efforts to stabilize costs and maintain enrollment levels

There are currently 89 institutions participating in IAG, which are specifically identified in the program's authorizing legislation.

For 2014-15, this program provided an average award of \$542 per student. Based on current projections and the Governor's proposal, we estimate that the per capita IAG award for 2015-16 will be approximately \$650.

Act 101 Program

The Education of the Disadvantaged Program, more commonly known as the Act 101 Program, provides support services to undergraduate students with economic and educational disadvantages so they can succeed in higher education

With a Commonwealth appropriation of \$2.2 million for 2014-15, PHEAA disbursed funds to 35 Act 101 programs. Each program must assist, at a minimum, between 50 and 300 students. The total number of students served for 2013-14 was 4,187.

Our most recent annual report on the Act 101 Programs indicates the excellent success rate of these students in spite of the many challenges that they face. Our neighbors New York and New Jersey provide \$66 million and \$40 million, respectively, to support developmental education in those states.

For 2015-16, the Governor has proposed level funding for the Act 101 Program.

Newly Proposed Programs

As part of Governor Wolf's 2015-16 budget proposal, he has called upon PHEAA to fund several new or expanded programs from its business earning without any Commonwealth funding.

Specifically, he asked PHEAA to fund and administer a new \$7.5 million STEM Scholarship Program, a \$9 million Dual Enrollment Grant Program and an \$8.5 million loan forgiveness program for Primary Care Physicians.

As we understand the proposals at this early stage of the budget process, the proposed STEM Scholarship Program would enhance financial incentives for students to pursue careers in fast-growing Science, Technology, Engineering and Math (STEM) fields.

The Dual Enrollment Grant Program would re-establish a similar program that was administered by the Pennsylvania Department of Education and covered the cost of tuition, textbooks and other expenses so that high school students can also enroll in college-level classes.

In total, the Governor is asking PHEAA to increase its self-funded direct public service contribution to the Commonwealth from \$91 million to \$117 million for the 2015-16 fiscal year.

As I mentioned, PHEAA's ability to support any financial contribution to the Commonwealth is dependent on the agency's available resources, which are subject to market and regulatory forces that are beyond the agency's control.

Additionally, PHEAA's Board of Directors must decide, based on all available variables - including contractual and operational obligations - what financial supplement, if any, the Agency is able to provide.

Student Debt

The issue of student loan debt continues to be of serious concern – not just for PHEAA, but for members of this Committee, as well.

We have been tracking the growing trend of college graduates leaving school with alarming levels of student loan debt. Today, a typical 4-year college graduate in Pennsylvania who borrowed money for school must deal with a student loan debt burden of more than \$31,000.

PHEAA has consistently advocated for students and families to avoid unnecessary loan debt and has been leading this effort aggressively with extensive community outreach, planning guides, online tools, and other resources.

Despite these efforts, it seems that more and more student borrowers are only becoming aware of their debt levels after they leave school. But by then, this realization is often too late.

To help reverse this troubling trend, PHEAA created MySmartBorrowing.org.

This useful tool engages high school students and their families early in the planning process – before any decisions are made to borrow money - helping them to make smart choices as they develop their higher education success plan.

In addition to useful information, MySmartBorrowing.org provides unique estimators that help determine a student's possible higher education costs at different schools, future salary expectations for a particular degree, availability of related employment opportunities, and their potential ability to repay student loans comfortably while also affording an independent lifestyle after graduation.

Since its launch in the fall of 2013, nearly 12,000 unique visitors have used MySmartBorrowing to help them make more informed and cost-effective college-planning decisions.

We encourage you to share this tool with your constituents. We believe that it can help make all the difference toward achieving an easily manageable higher education funding experience.

We are currently preparing the “Phase 2” launch of MySmartBorrowing.org and look forward to sharing the site’s increased functionality and improved user experience with you in the coming months.

Additional Public Services

Tying all of PHEAA’s efforts and activates together is an underlying dedication to supporting the needs of Pennsylvania students, families and schools. We accomplish this through our long-standing commitment to fulfill our public service mission and through the success of our business operations.

During 2014-15, PHEAA allocated \$91 million from its business earnings to directly supplement student aid programs in the Commonwealth. For 2015-16, the Governor is asking PHEAA to increase its direct public service contribution to the Commonwealth to \$117 million.

This is in addition to the nearly \$15.8 million we invest annually to cover the administrative costs of those programs and other services, such as our extensive outreach activities that encourage participation in higher education.

These activities include 15 PHEAA Higher Education Access Partners living and working throughout the Commonwealth who directly support Pennsylvania residents with hands-on assistance.

In 2013-14, these Access Partners conducted more than 961 financial aid, FASFA completion and early awareness events for more than 43,000 participants. They also hosted 40 training workshops for high school counselors and community organizations and conducted more than 1,305 site visits to Pennsylvania postsecondary schools.

Of those events, many were held in cooperation with local legislators, including community presentations and visits to legislative offices.

PHEAA also provides a variety of useful online tools and resources, all of which are provided free to the Commonwealth.

In addition to MySmartBorrowing.org, these resources include EducationPlanner.org, which is PHEAA’s one-stop career and college-planning website; YouCanDealWithIt.com, which helps graduates and soon-to-be graduates prepare for life after college with debt management and career development advice; and PHEAA.org, which provides useful information on available state and federal student aid programs, including the Pennsylvania Student Aid Guide.

Business Lines

PHEAA is able to provide funding for these student aid programs and services without any taxpayer support, thanks to the success of our business lines - all of which are aligned with our public service mission for the Commonwealth.

In total, PHEAA's combined student loan servicing and guaranty operations are helping nearly 10 million borrowers manage nearly \$256 billion in student loans.

FedLoan Servicing

PHEAA continues to service federal student loans for the U.S. Department of Education as FedLoan Servicing. I am pleased to report that our federal student loan portfolio has grown from \$184.6 for 6.9 million borrowers at the beginning of the fiscal year to \$213.9 billion for 7.2 million borrowers today (as of January 2015).

In 2011-12, PHEAA was selected by the U.S. Department of Education as the sole servicer for borrowers who participate in the federal Public Service Loan Forgiveness (PSLF) Program. Today, we have approximately 200,000 participants who are pursuing student loan forgiveness by working in public service careers such as law enforcement, nursing, teaching, and social work.

In 2012-13, PHEAA was selected by the U.S. Department of Education to administer the federal Teacher Education Assistance for College and Higher Education Grant (TEACH) Program. This program encourages students to enroll in curriculums to become a teacher who serves low-income students in high need fields of study. The program provides grants of up to \$4,000 to help them afford their tuition. We are currently assisting approximately 78,000 participants in the TEACH Program.

In 2013-14, PHEAA, along with three other Department of Education's federal student loan servicers, began to originate Direct Consolidation Loans. This program allows borrowers to consolidate their federal loans and select the servicer of their choice to originate and service their Consolidation Loan. To date, we have originated approximately 360,000 Consolidation Loans for a total of \$21.4 billion.

In June 2014, we accepted a new 5-year servicing contract with the U.S. Department of Education.

American Education Services

PHEAA also services student loans commercially as American Education Services (AES), which currently helps nearly 2.5 million borrowers manage \$43.3 billion in student loans on behalf of lending institutions throughout the nation.

Servicing Operations

In total, PHEAA's servicing staff process nearly 40 million borrower inquiries each year. This includes phone calls, emails and other correspondence.

To help keep pace with the customer service demands of our operational growth, PHEAA operates four call center facilities – with locations in Allegheny, Centre, Cumberland, and Delaware Counties - in addition to our Headquarters Building in Harrisburg.

The geographic diversity of these facilities provide us with the workforce capacity and operational redundancy and flexibility needed to operate at peak efficiency.

Student Loan Guarantor

Federal law stipulated that, beginning in July of 2010, all federal student loans would be originated by the Federal Direct Student Loan Program, which began the wind-down of the Federal Family Education Loan Program (FFELP). Prior to this, PHEAA had been one of the nation's largest federal student loan guarantors.

PHEAA, as a guarantor, currently manages \$38.2 billion in FFELP loans for borrowers throughout the nation. We expect this number to fluctuate over time as borrowers pay off their student loans.

As part of our federal guarantor activities and in keeping with our public service mission in Pennsylvania, PHEAA works closely with borrowers to help them to develop good repayment habits while avoiding delinquency and default.

In the event that a borrower defaults on their federal loan, we do everything we can to help them rehabilitate their loans back into good standing - which saves tax dollars and clears the default from the borrower's credit report while helping to put them on the path toward financial stability.

Since 1995, when the federal government first allowed defaulted student loans to be rehabilitated, we have successfully restored defaulted loans to good standing for more than 191,000 borrowers, which has saved federal taxpayers more than \$3.4 billion.

Closing

In closing, please remember that our Higher Education Access Partners are available to personally assist you in providing student aid and higher education planning outreach to your constituents in your districts.

This is a great opportunity for us to work with you in support of your college-bound constituents and their families. We hope that you will take advantage of the services that we offer to you and your communities.

This concludes my remarks. I want to thank you again for the opportunity to appear here today. I welcome the opportunity to answer your questions.