



Office of the President and Chief Executive Officer  
1200 North Seventh Street, Harrisburg, PA 17102

February 12, 2018

The Honorable Stanley E. Saylor  
Majority Chairman  
House Appropriations Committee  
245 Main Capitol Building  
Harrisburg, PA 17120-2094

Dear Chairman Saylor:

This letter is in response to your letter, dated February 2, 2018, requesting Information Technology (IT) costs over a 10-year period. Please find attached two separate reports that itemize PHEAA's IT costs with total expenditures for each fiscal year ending June 30. I have also included anticipated IT costs through June 30, 2018.

At the time of the Appropriations Hearing, I will not have anticipated costs for Fiscal Year 2018-19, as we are in the midst of building the 2018-19 PHEAA administrative budget that will be presented to the PHEAA Board of Directors in June 2018. I can certainly provide those numbers once the budget is complete.

I would like to further point out that all administrative costs, including IT, are funded by PHEAA's business earnings. Therefore, PHEAA does not receive a separate appropriation for Agency operations from the General Fund, federal funds or any other funds.

Per your request, I have further broken out the IT costs by the servicing system which PHEAA maintains under our two nomenclature names of American Education Services (AES) and FedLoan Servicing (FLS). AES is focused on our commercial servicing activities and FLS is primarily our direct loan volume that we receive from the federal government. At the time of this writing, PHEAA is servicing a combined \$446 billion in loans – a 185 percent increase from the \$156 billion that we serviced in 2010. This is in line with our increase in operational IT costs for the same period.

The second report provides the IT cost break-out with respect to personnel, consulting, software, hardware, and other miscellaneous costs.

I look forward to testifying before your committee.

Sincerely,



James L. Preston

JLP/lag  
022118 Preston to Saylor

Enclosures

PHEAA IT Spend by Line of Business

Line of Business	Fiscal Year Ending								
	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018 Annualized
AES	44,188,689	41,897,757	39,839,511	49,857,440	43,475,485	45,164,801	47,421,588	55,674,804	56,074,223
FLS	11,439,283	13,763,092	17,251,502	29,325,931	42,406,996	57,621,301	91,322,913	107,521,405	115,371,540
Grants	5,050,124	5,379,596	4,556,108	5,644,463	6,426,173	8,281,119	8,514,204	9,597,243	8,955,856
Other	1,021,331	636,086	365,929	296,015	219,779	189,913	199,620	272,021	628,883
	<b>61,699,427</b>	<b>61,676,531</b>	<b>62,013,050</b>	<b>85,123,849</b>	<b>92,528,433</b>	<b>111,257,132</b>	<b>147,458,326</b>	<b>173,065,473</b>	<b>181,030,503</b>

Notes:

1. The numbers above are derived from the Agency's cost allocation by line of business process; these include the Digital Technology Solution division's operating expenses and modernization operating expenses.
2. The year ending 6/30/18 entails 7/1/17-12/31/17 annualized actuals.

PHEAA IT Spend by Expense Type

Expense Type	Fiscal Year Ending								
	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018 Annualized
Personnel	35,134,042	32,816,486	32,886,624	45,875,125	49,971,274	61,119,351	71,192,737	83,291,466	95,705,052
Consulting	194,767	205,469	604,814	2,212,027	1,213,671	585,559	18,054,163	23,379,306	14,922,375
Software	13,811,139	13,322,703	15,614,312	21,144,593	24,895,211	30,130,810	34,794,090	42,836,040	45,014,159
Hardware	3,260,795	4,405,129	4,035,321	5,232,213	5,678,628	6,947,517	8,177,421	7,549,231	5,857,665
Other	9,298,684	10,926,744	8,871,978	10,659,891	10,769,649	12,473,896	15,239,914	16,009,430	19,531,252
	<b>61,699,427</b>	<b>61,676,531</b>	<b>62,013,050</b>	<b>85,123,849</b>	<b>92,528,433</b>	<b>111,257,132</b>	<b>147,458,326</b>	<b>173,065,473</b>	<b>181,030,503</b>

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Mr. Chairman, members of the Committee and staff – on behalf of our Board of Directors, our employees who live and work throughout Pennsylvania, and the hundreds of thousands of students and families that we serve, I would like to thank you for this opportunity to provide testimony as you prepare the Commonwealth’s 2018-19 budget.

PHEAA was created nearly 55 years ago with the primary mission of creating affordable access to higher education for Pennsylvania students and families.

Since then, we have helped generations of Pennsylvania students achieve higher education – ultimately preparing them for employment opportunities and entrepreneurship, while strengthening the foundation of our economy.

This is important for the Commonwealth and individual citizens since studies show that higher levels of postsecondary education lead to lower unemployment rates, increased tax revenues, and greater social mobility.

Recent data also shows that median earnings of college graduates working full-time are significantly higher than those with just a high school diploma. And graduates with a bachelor’s degree earn on average 67 percent more than their high school graduate counterparts.

Clearly, a critical key to establishing a strong economy over the long term is to provide for an educated and diverse workforce.

As a self-sufficient organization – free of taxpayer support for its operating costs – PHEAA also saves millions of dollars annually for the Commonwealth while generating earnings that are used to fund a variety of public services programs and activities.

In fact, PHEAA’s business earnings have self-funded the agency’s general administrative budget since 1987, which has saved Pennsylvania taxpayers hundreds of millions of dollars over the last 30 years.

And as Pennsylvania’s higher education and career-planning needs have evolved over the years, so has PHEAA in order to best meet those needs regardless of the challenges.

### **State Grant Program**

The largest state-funded student aid program administered by PHEAA is 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.

Since inception, this Program has provided more than \$11 billion in grant awards to Pennsylvania students with financial need.

Currently, 99 percent of State Grant awards are used to pursue an education within the Commonwealth – which means that \$10.9 billion has been driven into Pennsylvania’s economy over the past 50 plus years; helping to support countless jobs in higher education and other supporting industries.

With a maximum award of \$4,123, this program is providing 144,400 grant awards to students during the 2017-18 academic year, including the preceding summer semester.

By any measure, the Pennsylvania State Grant Program is an excellent investment for the Commonwealth.

For example, award recipients achieve higher graduation rates than other undergraduates nationally. And more than 80 percent of all State Grant dollars are awarded to students who go on to achieve a postsecondary degree or other academic credential.

Studies show that students who received some postsecondary education but do not achieve a degree, still earn 9.25 percent more in the workforce than high school graduates working full time. Therefore, even among State Grant recipients who do not receive a credential, being the recipient of a State Grant award provides a tangible increase in future earnings.

These are just a few of the measures indicating that the Program goes far beyond providing basic financial assistance and is having a positive long-term effect on individual students and the overall strength of the Commonwealth's diverse workforce.

Thanks to recently passed legislation, beginning with the 2018-19 academic year, otherwise eligible Distance Education students enrolled in eligible participating institutions will be able to benefit from the State Grant Program. *(Pending the Governor's Signature as of 2/8/2018)*

Previous state law prohibited distance education students – as defined by taking more than 50 percent of their coursework online or enrolling in a course of study that is more than 50 percent online – from participating in the Program.

The timing of this legislation was crucial as the PHEAA-funded, 5-year, State Grant Distance Education Pilot Program was scheduled to expire at the end of the current academic year.

We expect this action to benefit an additional 15,000 Pennsylvania students with financial need – some of whom participated in the pilot program.

### **2017-18 State Grant Program (award reductions)**

For 2017-18, the Legislature approved a \$273.391 million appropriation for the State Grant Program. In addition to this amount, PHEAA's Board of Directors authorized \$87 million of agency resources to be used to supplement the Commonwealth's appropriation.

PHEAA's supplement is funded entirely from the agency's business earnings, which is in addition to the \$19.6 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 State Grant Program goes directly to support Pennsylvania students with the most financial need.

This year's awarding process was especially unique and challenging, due largely to an historic change to the federal student aid application timeline.

The State Grant Program, like many types of need-based student aid, uses the FAFSA® (Free Application for Federal Student Aid) as the foundational form to help determine student aid eligibility.

Beginning with the 2017-18 student aid application cycle, the FAFSA became available to applicants three months earlier, meaning students could begin applying for aid as early October 1, 2016.

The U.S. Department of Education made this change to better align the financial aid application process with the actual college admissions timeline, which typically begins much earlier than January 1.

The Department also modified its rules to allow applicants to complete the 2017-18 FAFSA using more readily available financial information from the 2015 tax year.

Previously, the FAFSA was available January 1 and required income data from the tax year that had just ended. However, since most people are not able to access the necessary tax information, like wage statements, to file their tax returns in early January, they had to complete the FAFSA using estimated data, which often needed to be amended after they filed their tax returns later in the year.

A key benefit of being able to use 2015 tax return data when completing the 2017-18 FAFSA is that more applicants can use the IRS Data Retrieval Tool, which automatically fills in the online FAFSA form with the necessary tax information. This streamlines the process significantly and increases accuracy.

Those changes, and the significant awareness efforts that were implemented to promote them, appear to have led to a larger-than anticipated number of 2017-18 State Grant applications, which placed additional demands on available resources.

Lacking historic precedent, PHEAA closely monitored enrollment and disbursement information throughout the summer and fall of 2017, notifying schools in late July that only fall awards were final, while spring awards remained tentative.

We had hoped to avoid any award reduction based on the number of applications from students who might not actually enroll at the same rate that they completed the FAFSA. And while awards have been canceled at a slightly higher rate than in prior years, PHEAA was still forced to match available resources to the revised real-world program demand.

As a result, it became necessary to adjust awards for the spring term of the 2017-18 Academic Year.

Affected students were notified of their adjustments at the end of October 2017, with reductions averaging \$131 and the maximum award being reduced from \$4,318 to \$4,123.

### **2018-19 State Grant Program**

For 2018-19, Governor Wolf has recommended a \$272.891 million appropriation for the State Grant Program, which is \$500,000 below the Commonwealth's 2017-18 appropriation.

Additionally, the Governor has asked PHEAA to provide \$87 million from its business earnings to supplement the State Grant Program.

Based on early application and cost projections for 2018-19, we estimate that this total proposed funding would allow PHEAA to provide State Grant awards to 152,500 students (for the academic year and summer 2018) and a maximum award of \$3,781.



Looking forward, PHEAA's Board of Directors has signaled that the agency should be in position to provide a \$50 million additional supplement for 2018-19. However, our ability to provide any supplemental funding is always contingent upon having sufficient financial resources to do so.

Based on the Governor's proposed appropriation combined with PHEAA's expected actual supplement of \$50 million, we estimate that the agency could provide State Grant awards to 152,500 students (for the academic year and summer 2018) and a maximum award of \$3,377.

This lower maximum grant award (from \$4,123) reflects the reduction in total funding due to PHEAA's lower supplement, a projected increase in expected applicants, higher tuition costs and the inclusion of approximately 15,000 eligible distance education students – not all of whom had participated in the pilot program.

Any proposed allocation of PHEAA resources is subject to our Board of Director's review and approval, which will most likely be addressed at the June 2018 Board Meeting.

### **Other PHEAA-Administered Student Aid Programs**

PHEAA administers several other important student aid programs for the Commonwealth.

- **Ready-to-Succeed Scholarship Program**

This \$5 million Program is funded by the Commonwealth and provides awards to high-achieving, middle-income Pennsylvania students.

PHEAA administers this program in cooperation with the Pennsylvania Department of Education, providing 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 Pennsylvania State Grant Program, the program offers a total award up to \$2,000 for full-time students and \$1,000 for part-time students.

More than 70 percent of Ready to Succeed Scholarship recipients reported that their award was a significant factor in their ability to stay in school, while more than 76 percent of these recipients borrowed less in student loans. These are two factors that significantly increase a student's chances for long-term financial success after graduation.

This program is currently benefiting approximately 3,154 students with an average award of \$1,584. However, due to limited funding and high program demand, approximately 6,100 applicants did not receive awards during 2017-18.

For 2018-19, Governor Wolf proposed \$5 million for this program, which is level with 2017-18.

- **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 \$25.749 million for 2018-19, which is level with 2017-18.

- The IAG Program provides formula-based grants which are tied to the number of State Grant recipients enrolled at a particular school. This assists independent, nonprofit colleges and universities in their efforts to stabilize costs, maintain enrollment levels and continue employing over 75,000 residents.

Since inception in 1974, this program has driven more than \$1.2 billion into Pennsylvania's higher education sector.

There are currently 88 IAG eligible schools, qualifying under the program's authorizing legislation.

For 2017-18, this program will provide an estimated per capita award of \$634 per student. Based on current projections and the Governor's proposal, we estimate that the per capita IAG award for 2018-19 will be approximately \$580.

- **Pennsylvania Targeted Industry Program - PA-TIP**

A great example of how we help to create a healthy, educated and well-trained workforce is the PHEAA-funded Pennsylvania Targeted Industry Program - PA-TIP, which 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.

For 2017-18, PA-TIP is providing awards to more than 1,006 Pennsylvania students with an average award of \$2,629.

Since inception in 2012, this program awarded nearly \$30 million in grants to more than 7,759 recipients. Following graduation, nearly 87 percent of program participants have achieved gainful employment.

We are able to track employment outcomes of PA-TIP participants thanks to our data-sharing relationship with the Department of Labor and Industry. This helps us ensure the program's effectiveness by matching employment data relative to a participant's field of study.

Due to program demand, we have currently exhausted all available funding for PA-TIP for 2017-18. However, eligible applicants not receiving awards may still receive awards as award cancellations come in from schools due to actual, real-time enrollment data.

For 2018-19, the Governor has asked PHEAA to provide \$6 million in funding for the program, which is level with the previous year.

- **Act 101 Program**

The Higher 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 \$2.246 million for 2017-18, PHEAA disbursed funds to Act 101 programs at 32 participating Pennsylvania postsecondary schools.



- Approximately 3,650 students are benefitting from the Act 101 Program during the current academic year.

Our most recent annual report on the Act 101 Program indicates a 75 percent first-year retention rate for Act 101 students, which exceeds the national average.

Additionally, participants earned a higher cumulative GPA of 2.45 in remedial courses compared to the 2.17 for the general undergraduate population.

Act 101 Programs structure services to best meet their students' needed – but they all typically provide career exploration and support services that help students translate higher education experiences into successful career paths after graduation.

For 2018-19, the Governor has proposed \$2.246 million for the Act 101 Program, which is level with 2017-18.

### **Additional Public Services**

During 2017-18, PHEAA disbursed a total \$108 million from its business earnings to directly supplement student aid programs in the Commonwealth.

For 2018-19, PHEAA's Board of Director's has signaled that the Agency should be able to provide a total of \$56 million in direct public service funding for the Commonwealth. This is a decision that will be made at the June 2018 Board of Director's meeting.

This amount is in addition to the \$19.6 million we invest annually to cover the administrative costs of programs and other services, such as our extensive outreach activities that encourage participation in higher education.

These activities include 14 PHEAA Higher Education Access Partners living and working throughout the Commonwealth who directly support Pennsylvania residents with hands-on assistance.

In 2016-17, these student aid professionals conducted 1,777 financial aid, FASFA completion and early awareness events for nearly 52,000 participants. They also hosted 110 training workshops for high school counselors and community organizations and conducted more than 500 site visits to Pennsylvania postsecondary schools. In total, these professionals conducted 3,734 events during the previous year.

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

We have also partnered with the Department of Labor and Industry's Pennsylvania CareerLink centers to provide 59 hands-on financial aid and FAFSA completion events.

### **Online Tools**

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

MySmartBorrowing.org 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 students' 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.

Additional 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.

### **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.

PHEAA's support of higher education in Pennsylvania helps create a powerful economic engine for the Commonwealth, supporting job creation and strengthening our economy by helping to facilitate the education of a skilled and educated workforce.

Through PA-TIP, we are working in partnership with trade and technical schools, career centers and the Department of Labor and Industry to address the growing need for skilled workers in high-demand industries within the Commonwealth.

We look forward to working with the Administration and members of this legislature to better prepare Pennsylvania's workforce – through planning tools and affordable access to postsecondary education – to better compete in a national and global economy.

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

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