

Legislative Alert

14th Edition,
March 27, 2008

Introduction

The following legislation reflects issues of importance for APSCUF. Please use this guide to review the legislation and contact your legislator with the bills that most concern you.

Please contact Laura Statler at lstatler@apscuf.org or (717) 236-7486 ext 3026 for additional information about these bills, sample letters and/or talking points.

Summary of Legislation important to APSCUF

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1) SERS/TIAA-CREF Pension Credit Transfer

Overview of previous legislation HB 870, SB 989 and other options

In September the Legislative Assembly unanimously approved this proposed legislation and it is currently being looked at in legislative offices. It was reviewed by Legal Counsel and provided to APSCUF in March. A legal counsel comment and the legislation is below:

As you can see, the language I am proposing is quite brief and simple. After reviewing our prior legislative proposal and the written commentary/criticism concerning that proposal, in my opinion the simpler the language is, the more likely it is that the bill will make it through the legislature.

I say this because regardless of how simple or complex the language may be, the SERS is very likely going to oppose this proposal. Certainly TIAA-CREF and the other alternative programs are going to oppose this proposal. It is indeed possible that others who oppose our efforts in 2005 will oppose any proposal to permit this election into SERS membership. In my view, the more complex and more detailed the language of this kind of legislation, the more material opponents are going to have spin and find fault with, and therefore obtain legislative opposition to, the bill.

In retirement matters, legislators' often do not possess the technical acumen to ascertain whether or not a technical objection to complex language is valid or not. However, I think the language I have drafted is simple and straightforward enough so that at least the members of the pertinent legislative committees are going to understand it and be less susceptible to misunderstanding not well-founded technical objection. In my opinion it would be counterproductive to, at this stage anyway, put in language to make it abundantly clear that, for example, 5 year vesting still has to occur, that an employee would have the right to purchase past military service, etc. I think that the impact of this language is clear that once you become a member, thereafter all the State Employees' Retirement Code and regulations apply.

1. Section 5301(c) is amended to read as follows:

(c) Prohibited Membership - The state employees listed in subsection (a) [(12), (13), (14) and (15)] shall not have the right to elect membership in the system.

2. Section 5301 is amended by adding a subsection to read as follows:

(g) All state employees listed in subsection (a) (12) shall have the right to terminate membership in an independent retirement program and elect membership in Class AA of the system within one hundred eighty (180) days of the effective date of this amendatory act. In addition, State employees listed in subsection (a) (12) who are employed in a tenure track position but who have not received tenure on the effective date of this amendatory act, shall have the right to terminate membership in an independent retirement program and elect membership in Class AA of the system within one hundred eighty (180) days of receiving tenure. Once such election is exercised, membership shall continue until the termination of state service.

3. This act shall take effect in 120 days.

Below, the following legislation would create an Optional Retirement Program for Public School and State Employees. APSCUF opposes this legislation

House Bill 385, P.N. 449 (Petri): Amends Title 24 (Education) further providing for definitions and for mandatory and optional membership; and providing for the Public School Employees' Optional Retirement Program. The "Public School Employees' Optional Retirement Program" is defined as the alternative defined contribution retirement program established under Ch. 85 Subchapter D (relating to Public School Employees' Retirement Program). The bill states that employees categorized under this

provision would not have the right to elect membership in the system. Under this program, retirement benefits would be provided for qualified employees who elect to participate in the program in lieu of membership in the system. The benefits for the program would come from participant-directed investments, in accordance with IRC 401(a). The powers and responsibilities of the Board in the administration of the program are further provided for under the bill. ***Introduced and referred to House Finance Committee, February 13, 2007.***

House Bill 386, P.N. 450 (Petri): Amends Title 71 (State Government) creating the State Employees' Optional Retirement Program, an alternative defined contribution retirement program under which retirement benefits will be provided for qualified employees who elect to participate in the program in lieu of membership in the system. The bill provides for the powers and duties of the board, investments and contributions. ***Introduced and referred to House Finance Committee, February 13, 2007.***

Below, the following legislation would require state, municipal, and school district employees hired after November 30, 2008, to be enrolled in a “defined-contribution” retirement plan that would match employer and employee contribution rates at 6 percent. APSCUF opposes this legislation

House Bill 1977, P.N. 2759 (Boyd): Amends Title 71 (State Government) providing for a unified retirement system for employees of the Commonwealth and its political subdivisions and other employers. The bill would create the Public Employees' Retirement System Board to administer and manage the Public Employee's Retirement System. The bill outlines the membership and duties of the board. The board would administer the system as a defined contribution retirement system under the IRC under which benefits will be provided for active members. The system would provide a variety of investment options. The bill outlines the plan structure. Regular active member contributions would be made to the system on behalf of each active member for current service in an amount equal to a percentage of the active member's pensionable earnings. The Commonwealth or any other employer would make payments to the trust fund on behalf of the active member. An active member would be vested after completing three years of service during which the person is an active member in the system. An active member that is considered part time would only be vested if the member is compensated for at least 1,000 hours per year. ***Introduced and referred to House Finance Committee, October 26, 2007. Press conference held October 30, 2007.***

2) TABOR

Senate Bill 707, P.N. 1101 (Folmer): The Taxpayer Protection Act states that total spending by the Commonwealth in any fiscal year would not exceed the spending appropriation limit, which is the average percentage change in personal income in PA for the three preceding calendar years or the average percentage change in inflation for the three preceding calendar years plus the average percentage change in the State population for the three preceding years. Additionally, the state's spending limit would be reduced by the amount of any reduction in state appropriations to a political subdivision for administration of a mandated service, without an equal or greater reduction in state-mandated expenses for the local government or a repeal of the mandate to provide program or service. The bill also provides for the distribution of surplus funds, establishing the Taxpayer Protection Fund, and repealing provisions of the Fiscal Code relating to the funding of a stabilization reserve. (Prior Printer Number: 783) ***Introduced and referred to Senate Finance Committee, February 13, 2007. Public hearing on April 26. Re-referred to Senate Appropriations June 28, 2007***

Senate Bill 7, P.N. 1099 (Regola): A Joint Resolution amending the PA Constitution by stating that total spending by the Commonwealth in any fiscal year would not exceed the spending appropriation limit in any fiscal year. The appropriation limit would be the average percentage change in personal income in PA for the three preceding calendar years or the average percentage change in inflation for the three preceding calendar years plus the average percentage change in the State population for the three preceding years. Additionally, the state's spending limit would be reduced by the amount of any reduction in state appropriations to a political subdivision for administration of a mandated service, without an equal or greater reduction in state-mandated expenses for the local government or a repeal of the mandate to provide program or service. The bill states that the limit may be exceeded for the following: in response to a gubernatorial or presidential declaration of emergency, other situations in which the Governor requests, if the General Assembly approves by two-thirds affirmative vote of the members elected to each house. (Prior Printer Number: 782) ***Introduced and referred to Senate Finance Committee, February 13, 2007. Public hearing on April 26. Re-referred to Senate Appropriations June 28, 2007***

Senate Bill 1100, P.N. 1665 (Rock): Joint Resolution proposing separate and distinct amendments to the PA Constitution providing for spending limitations on the Commonwealth and for imposition or levy of taxes or license fees. The bill would limit total spending by the Commonwealth to not exceed the "spending limit" in any fiscal year, which would be equal to the spending during the immediately prior fiscal year, adjusted by a formula as laid out in the bill. The bill would also require a three-fourths

majority in each chamber to impose or levy any tax or license fee. ***Introduced and referred to House State Government Committee, May 24, 2007***

3) Anti-Strike Legislation

Mellow's plan below, Senate Bill 20, would set into law an eight-month negotiating timeline. If the teachers' union or the school board fails to resolve their contract differences through a variety of means—including an impartial arbitration panel — each side would submit a "last best offer" to the county's President Common Pleas Judge. The judge would then be required to select one of the two last best offers. The judge's decision would be final and binding.

Mellow's plan is similar to a law in Connecticut. Based on experience from that state, only 10 percent of impasses reach arbitration and only 2 percent of all contract disputes go the entire way through the process.

Senate Bill 20, P.N. 144 (Mellow): The Collective Bargaining Dispute Resolution Act states that the settlement of an impasse in collective bargaining between an employee organization and a public employer would be by collective bargaining dispute resolution pursuant to this act. The bill provides for a collective bargaining timeline, panel selection and costs of resolution. The bill states collective bargaining dispute resolution would be limited to those issues which may be bargained under the Public Employee Relation Act and which are not agreed to in writing prior to the start of collective bargaining dispute resolution process. The decision of the president judge would be final and binding on the public employer and the employee organization, and no appeal of a determination would be allowed to any court. The bill also states that no school employee may strike or participate in a strike or similar interruption of government service. Also, no public employer may conduct a lockout or similar interruption of government service. Additionally, any strike, lockout or interruption of government service prohibited by this section would constitute an actionable breach of duty to members of the public. Lastly, Article XI-A of the Public School Code is repealed. ***Introduced and referred to Senate Labor and Industry March 5, 2007***

House Bill 1369, P.N. 2366 (Rock): Amends Public School Code by creating the Strike-Free Education Act. The bill states that collective bargaining is a mutual obligation of an employer, or its representative, and the representative of its employees to meet at reasonable times and confer in good faith. The obligation does not compel either party to agree to a proposal or require the making of a concession.

The bill provides for how parties would negotiate a collective bargaining agreement. If either party rejects the recommendation of the fact-finders, the parties would proceed immediately to nonbinding arbitration. The employer would then hold a public meeting not later than June 15 following the public posting of the nonbinding recommendation to solicit public input on the recommendation and to vote for the approval or disapproval of the recommendation of the panel. The employee organization would also provide the employees with an opportunity to vote for approval or disapproval of the recommendation of the panel prior to June 15. The bill states that strikes and lockouts are prohibited. ***Introduced and referred to House Labor Relations July 25, 2007. Press conference held October 15, 2007.***

4) Background checks

House Bill 145, P.N. 171 (Baker): The College and University Criminal History Background Investigation Act states that an institution of higher education may conduct a criminal history background investigation prior to hiring an individual for a full-time faculty or staff position. The bill also states that when an administrator of an institution of higher education is in receipt of information which is part of a final candidate's criminal history record information file, the administrator may use that information for the purpose of deciding whether to hire the candidate as a faculty member or staff member. Lastly, an institution of higher education may require an individual offered employment as a full-time faculty member or staff member to self-disclose certain criminal history information on a self-disclosure form.

Introduced and referred to House Judiciary January 31, 2007

*****Legislation is similar to HB 564 that passed the House 194/0 in June 2005 but failed to come up for a vote in the Senate.***

5) Retirement Legislation

APSCURF established a COLA coalition to make COLA efforts a reality. The coalition has met several times to work with the Governor's office and legislators to push for a COLA.

The retiree coalition also met with legislators directly involved in the Appropriations committee to request COLA support. We will also be educating freshmen legislators about the importance of COLAs and looking for legislators that desire to spearhead the COLA effort.

Below is legislation to assist with COLA efforts:

A. COLA

House Bill 350, P.N. 400 (Reed): Amends Titles 24 (Education) and 71 (State Government) providing for special supplemental annuities for certain annuitants by

stating that commencing with the first monthly annuity payment after the actuary the system certifies that sufficient reserves exist in the fund to allow for payment of the special supplemental annuities, any eligible benefit recipient would be entitled to receive an additional monthly supplemental annuity from the system. The amount of the special supplemental annuity would equal 5% of the monthly annuity payment and there would be four additional 5% increases, one in each of the next four years. The payment would be made automatically. Lastly, the bill states that no special supplemental annuity would be payable to the beneficiary or survivor annuitant of a member who died before December 31, 2007. ***Introduced and referred to House Finance Committee, February 9, 2007.***

Senate Bill 556, P.N. 596 (Kasunic): Amends Titles 24 (Education) and 71 (State Government) providing for permanent cost-of-living increases for retirees. ***Introduced and referred to House Finance Committee, March 19, 2007.***

House Bill 1387, P.N. 1734 (Gibbons): Amends Titles 24 (Education) providing for supplemental annuity commencing with the first monthly annuity payment after July 1, 2007. Any eligible benefit recipient would be entitled to receive an additional monthly supplemental annuity from the system paid over a five-year period. ***Introduced and referred to House Finance Committee, May 29, 2007.***

House Bill 733, P.N. 860 (Godshall): Amends Title 71 (State Government) further providing for member's options by adding Option 5 which states a benefit which would be certified by the actuary to be actuarially equivalent to the maximum single life annuity, subject to the following restrictions: (1) any annuity would be payable without reduction during the lifetime of the member; (2) the sum of all annuities payable to the designated survivor annuitants would not be greater than one and one-half times the annuity payable to the member; and (3) a portion of the benefit would be payable as annual supplemental annuities under section 5708.9 (relating to Option 5 annual supplemental annuities commencing 2008) if the member elects to have the total accumulated deductions standing to the member's credit retained by the fund and transferred from the member's savings account to the annuity reserve account in accordance with section 5933(b) (relating to members' savings account). The balance of the present value of the maximum single life annuity adjusted in accordance with section 5702(b) would be paid in the form of an annuity with a guaranteed total payment, a single life annuity, or a joint and survivor annuity, or any combination thereof, but subject to the restrictions of this option. Commencing with the first monthly annuity payment after July 1, 2008, and annually thereafter, any Option 5

benefit recipient would be entitled to receive monthly supplemental annuities from the system.

Introduced and referred to House Finance Committee, March 19, 2007.

Senate Bill 1054, P.N. 1358 (Kasunic): Amends Titles 24 (Education) and 71 (State Government), providing for permanent biannual cost-of-living increases for retirees. ***Introduced and referred to Senate Finance Committee, August 27, 2007.***

House Bill 2148, P.N. 3057 (McIlvaine-Smith): Amends Titles 24 (Education) providing for permanent biannual cost-of-living increases for retirees commencing with the first monthly annuity payment after July 1, 2008. Each biannual increase would have an effective date of July 1 or December 1. The additional liability for the increase in benefits would be funded in annual installments increasing by 5% each year over a period of 20 years beginning July 1, 2009. (Prior Printers Number 3056) ***Introduced and referred to House Finance Committee, January 3, 2008.***

House Bill 1991, P.N. 2792 (Readshaw): Amends Titles 24 (Education) and 71 (State Government) providing for permanent biannual cost-of-living increases for retirees commencing 2009. The additional liability for the increase in benefits would be funded in annual installments increasing by 5% each year over a period of 20 years beginning July 1, 2009. ***Introduced and referred to House Finance Committee, October 30, 2007.***

Senate Bill 1221, P.N. 1662 (Stack): Amends Titles 24 (Education) and 71 (State Government) providing for supplemental annuities for eligible benefit recipients in addition to established supplemental annuities, commencing after July 1, 2008. The amount of the annuities will be based on the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area, for the most recent 12-month period for which figures have been officially reported by the United States Department of Labor, Bureau of Labor Statistics, immediately prior to the date the adjustment is due to take effect. ***Introduced and referred to Senate Finance Committee, December 21, 2007.***

House Bill 2187, P.N. 3125 (Benninghoff): Amends Titles 24 (Education) and 71 (State Government) providing for supplemental annuities commencing 2008 that are calculated based on the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area, for the most recent 12-month period for which figures have been officially reported by the United States Department of Labor, Bureau of Labor Statistics, immediately prior to the date the adjustment is due to take effect, to the then-current annuity amount. The

additional monthly supplemental annuities would be paid automatically unless the intended recipient files a written notice with the system requesting that the additional monthly supplemental annuities not be paid. The additional liability for the increase in benefits would be funded in equal dollar annual installments over a period of 20 years beginning July 1, 2009. ***Introduced and referred to House Finance Committee, January 23, 2008.***

House Bill 2150, P.N. 3412 (Daley): Amends Title 24 (Education) and 71 (State Government) by adding that commencing with the first monthly annuity payment after July 1, 2008, a PSERS or SERS annuitant who initiates contributions of an additional 1% of annual salary would be eligible for a supplemental annuity (COLA) which would be the lesser of the percentage increase in the Consumer Price Index for All Urban Consumers or 3%. ***Introduced and referred to House Education Committee, March 12, 2008.***

House Bill 2379, Not Introduced (Nickol):

- . The COLA is structured similar to the last COLA passed in 2002, with a larger percentage increase for older retirees and smaller increases for those who retired after passage of Act 9.

The proposal would extend the amortization period to fund the COLA from 10 to 20 years. Most previous COLAs have been funded at 20 years because it reduces the annual cost. However, to be fair, this will increase the total cost of the proposal since payment will be made over a longer period.

B. INCREASE IN EMPLOYER CONTRIBUTION RATE

House Bill 126, P.N. 152 (Godshall): Amends Titles 24 (Education) and 71 (State Government) further providing for employer contribution rates on behalf of active members. The bill states that for members of PSERS the premium assistance contribution rate would not be less than 7% plus the premium assistance contribution rate for the fiscal year beginning July 1, 2007. The rate would not be less than the employer normal contribution rate plus the premium assistance contribution rate for the fiscal year beginning July 1, 2008 and each year thereafter. The bill also states that for SERS members the total employer contribution rate would not be less than: 5% for the fiscal year beginning July 1, 2007, 6% for the fiscal year beginning July 1, 2008, and the employer normal contribution rate for the fiscal year beginning July 1, 2009, and thereafter. ***Introduced and referred to House State Government Committee, January 31, 2007. Discussed in House Appropriations hearing, March 5, 2007***

House Bill 475, P.N. 585 (Nickol): Amends Titles 24 (Education) and 71 (State Government) further providing for the employer contribution rates on behalf of active members. The bill amends Title 24 further providing for the employer contribution rates on behalf of active members by revising the total contribution rate so that it cannot be less than 4% plus the premium assistance contribution rate for fiscal year beginning July 1, 2004; 7% plus the premium assistance contribution rate for the fiscal year beginning July 1, 2007; and the employer normal contribution rate plus the premium assistance contribution rate for the fiscal year beginning July 1, 2008, and every year thereafter. Title 71 is amended to provide for the Commonwealth and other employer contribution rates on behalf of active members by revising the total contribution rate so that it will not be less than 5% for the fiscal year beginning July 1, 2007; 6% for the fiscal year beginning July 1, 2008; and the employer normal contribution rate for the fiscal year beginning July 1, 2009, and every

year thereafter. ***Introduced and referred to House Finance Committee, March 6, 2007. Discussed in PERC meeting, October 23, 2007***

House Bill 876, P.N. 1031 (D Evans): Amends Title 71 (State Government) further providing for the employer contribution rate by adding that the employer contribution rate on behalf of active members cannot be less than 4%. ***Introduced and referred to House Finance Committee, March 22, 2007 Approved by Governor-June 27, 2007, Act 8***

Senate Bill 826, P.N. 1609 (Armstrong): Amends Title 24 Education and Title 71 (State Government) relating to actuarial cost method by stating that ending on June 30, 2008 the employer contribution rate on behalf of active members would be modified by experience adjustment factors but in no case would it be less than 4% plus the premium assistance contribution rate. Then, beginning July 1, 2008, the total contribution rate would be modified by the experience adjustment factors but in no case would it be less than 6.44% plus the premium assistance contribution rate. The bill states that the employer contribution rate on behalf of active members would be 4% through June 30, 2008 and then 5% for the fiscal year beginning July 1, 2008, and each fiscal year thereafter. Lastly, the bill states that if, prior to the effective date of this section, the Public School Employees' Retirement Board certifies employer contribution rates for the fiscal year beginning July 1, 2008, the board would recertify to the Budget Secretary and the employers, within 15 days of the effective date of this section, the employer contributions, rates, and factors. The recertification would supersede the prior certification for all purposes. ***Introduced and referred to Senate Finance Committee, May 10, 2007. Senate Passage 49 to 0, December 4, 2007. Referred to House Education, December 5, 2007. Discussed in budget hearings February 27, 2008***

C. Miscellaneous

House Bill 545, P.N. 615 (O' Neill): Amends Title 24 (Education) further providing for definitions and for actuarial cost method; providing for supplemental annuities commencing in 2007; and further providing for management of fund and accounts. Defines actual interest to mean the amount calculated by multiplying the difference of the fund's time-weighted rate of

return for the preceding year minus the board's actuarial interest rate assumption for the preceding year, times the mean amount of the annuity reserve account for the preceding year. Also defines the time-weighted rate of return to mean the funds total investment return. Further defines valuation interest to exclude the annuity reserve account and increases the computation of the accrued liability contribution rate from 10 to 20 years. The bill would increase the payment period for required supplemental annuity contributions from 10 to 20 years and would require that additional liabilities for supplemental annuities be calculated by the actuary as the supplemental annuity contribution attributable to the additional liability for the benefit increase, less the supplemental annuity adjustment factor. Sums calculated by the actuary would be funded in equal dollar annual installments over periods of 20 years. Beginning with the fiscal year ending 2007, changes in accrued liability for the crediting of actual interest would be amortized in equal dollar annual installments over a period of 20 years beginning with the July 1 next succeeding the actuarial valuation. It also provides for receipt of additional monthly supplemental annuities after July 1, 2007. Amounts of supplemental annuities would be calculated by applying the lesser of 3 percent or the percentage change in the Consumer Price Index for All Urban Consumers for the Pennsylvania, New Jersey, Delaware and Maryland area, for the most recent 12-month period for which figures have been officially reported by the Bureau of Labor Statistics of the United States Department of Labor, immediately prior to the date the adjustment is due to take effect, to the then-current annuity amount. No supplemental payments are authorized for beneficiaries or survivor annuitants after the death of the members.

Introduced and referred to House Finance Committee, March 6, 2007

House Bill 1097, P.N. 1328 (Buxton): Amends Title 71 (State Government) further providing for taxation, attachment and assignment of funds. The bill states that exemption from taxation, attachment and assignment of funds would not apply to a retiree organization affiliated with an employee organization certified or recognized as the collective bargaining representative of any unit of employees employed by the state. In this case, the Board would be authorized to pay from the fund the amount authorized pursuant to a deduction authorization card executed by the member and filed with the

secretary of the board. Amends the SERS Code to permit an annuitant to deduct and assign a portion of the annuitant's retirement benefit to a retiree organization affiliated with an employee organization recognized as a collective bargaining representative.

Introduced and referred to House Finance Committee, April 18, 2007. Passed over in House Finance Committee, October 3, 2007

Senate Bill 770, P.N. 865 (Orie): Amends Titles 24 (Education) and 71 (State Government) by stating that no increase in benefits, other than a supplemental annuity to reflect an increase in cost of living, would be effective until the increase in benefits has been approved by the electorate. The Secretary of the Commonwealth would submit the proposed increase in benefits to PA voters at the first primary, general or municipal election occurring at least three months after the legislation is passed by the General Assembly. The bill provides for the language of the referendum questions. ***Introduced and referred to Senate Finance Committee, April 20, 2007***

House Bill 1085, P.N. 1257 (Shapiro): Amends Title 71 (State Government) prohibiting investments in countries identified as sponsors of terrorism. The board may not invest in the stocks, securities or other obligations of any entity engaged in business with a state sponsor of terror. In the event the board becomes aware that it has invested in violation of this subsection, the board must immediately move to divest itself of the investment in a prudent manner. The legislation includes a humanitarian aid exception. ***Introduced and referred to House State Government Committee, April 16, 2007. Re-referred to House Rules June 30, 2007. Discussed in budget hearing February 25, 2008. Set on tabled calendar on March 31, 2008***

House Bill 1020, P.N. 2190 (Josephs): The Sudan Divestment Act prohibits the investment of public money in companies on the scrutinized companies list that have active business operations with Sudan. Activities that would be considered scrutinized are further specified. Exceptions are provided for and the bill states a social development company not complicit in the Darfur genocide would not be considered a scrutinized company. Within 90 days of the implementation of the act, the public fund would make its best efforts to identify all scrutinized companies in which the public fund has direct or indirect holdings or could possibly have such holdings in the future. For companies with

inactive business operations, the public fund would send a notice informing the company of this act and encouraging it to continue to refrain from business operations in Sudan. For those with active business operations, the public fund would send a notice informing the company of its scrutinized company status and that it may become subject to divestment by the public fund. A schedule is provided for the public fund to sell, redeem, divest or withdraw all publicly traded securities of the company. Reporting requirements to the legislature, Auditor General and to the United States Presidential Special Envoy to Sudan are further provided for in the bill. The legislation also provides for indemnification to certain persons. After the end of the fiscal year of each public fund, the public fund would be reimbursed from the General Fund for losses incurred by the public fund as a result of compliance with the provisions of this act.

Introduced and referred to House State Government Committee, April 23. House passage 194 to 3, July 6, 2007. Introduced and referred to Senate Finance Committee, July 8, 2007. Discussed in Senate Finance hearing, November 14, 2007

Additional Information on SERS and PSERS:

[House Finance](#)

HARRISBURG – (2/26/08, 10:00 a.m., Room G-50, Irvis Office Building)

The **House Finance Committee** held a public hearing with SERS and PSERS.

Members in attendance included Chairman Dave Levdansky (D-Allegheny) and Representatives Tim Seip (D-Schuylkill), Bill Kortz (D-Allegheny), Daryl Metcalfe (R-Butler), Scott Boyd (R-Lancaster), Jaret Gibbons (D-Lawrence), Adam Harris (R-Juniata), Dave Reed (R-Indiana) and Josh Shapiro (D-Montgomery).

Jeffrey Clay, Executive Director of PSERS, and Leonard Knepp, Executive Director of SERS, together provided an [overview](#) of the two systems. Clay explained both systems are governmental, cost-sharing, defined benefit pension plans and, as governmental plans, are not subject to ERISA. Each system is governed by a board of Trustees. Additionally, PSERS sponsors the Health Options Program, which is a voluntary group health insurance program for annuitants, their

spouses and dependents. SERS does not administer a retiree health benefit plan, but the majority of SERS retired members worked for agencies that participate in the Retired Employee Health Program administered by the PA Employees Benefit Trust Fund. As of 12/31/07, SERS has \$35.5 billion in total assets and PSERS has \$67.4 billion in total assets. Each system is funded by employer contributions, employee contributions and investment income. Investment income accounts for more than 80% of total funding in both systems. Clay also outlined the structure of the two benefit plans and the retirement benefit options. He noted that SERS and PSERS appear to be among the more favorable statewide plans because of higher benefit accrual rates and option of withdrawal of contributions and interest. Less favorable features of the plans include a higher employee contribution rate and lack of explicit guaranteed inflation protection.

Clay then discussed the projected contribution spike in 2012, which has been subject to much debate and discussion in recent years. He explained the projected increase is due to 2000–2002 bear market losses, Act 9 of 2001 benefit enhancements, the COLA of Act 38 of 2002, employer contributions were below normal cost, and the reamortization of liabilities from Act 40 of 2003. SERS was projected to spike to 28.6% in 2012, but that has been reduced to less than 9% and PSERS was projected to spike to 32.1%, but that has been reduced to 11.2%. The spike has been lowered through measures that include instituting employer contribution "floors" and due to stronger markets. To further ameliorate the spikes, Clay suggested three options:

- [SB 826](#), which would increase the employer contribution pension rate floor for PSERS from 4% to 6.44% and for SERS from 4% to 5%. This would reduce the PSERS spike to 10.5% and the SERS spike to 8.76% and would avoid future underfunding of the systems.
- Increasing employer contributions in a predictable and controlled manner that will permit employers to adequately budget for the increases and spread out their impact. In a scenario that ratchets the rate up to 9% for PSERS, the spike would drop to 10.08%.
- Actuarial "fresh start", in which PSERS' assets would be market at market value as of the 6/30/07 valuation and then resume a phased-in five-year

smoothing method. All existing and future gains and losses would be reamortized over 30 years. This proposal would decrease the PSERS spike to 6.65%, however the systems could be exposed to the risk of great volatility in rate swings in the initial years.

Lastly, Clay discussed COLAs. He stressed that each COLA creates a new unfunded liability that must be paid and cannot be paid from existing assets. He stated, "COLAs always increase employer/taxpayer costs." Clay explained the 2002/03 COLA cost \$1.752 billion with an annual cost of \$307.6 million. If that same COLA were replicated in 2006, it would have cost \$3.02 billion with an annual cost of \$505.4 million. Since 1967, PSERS has had ten COLAs and SERS has had nine.

Rep. Sainato asked about retirement benefit option three (page 22 of the testimony) and asked if the spouse would receive one-half of the original retirement benefit or one-half of the final retirement benefit. Clay stated one-half of the final retirement benefit. Spouses can receive a portion of a COLA if it was enacted while the beneficiary was alive; after the beneficiary's death the spouse cannot receive a COLA. Rep. Sainato then asked if there is an advantage for certain groups to withdraw all their money. Knepp stated it is an individual preference, to which Clay added age and circumstances do influence a retiree's decision.

Rep. Seip asked if it is true that there are members of PSERS that chose not to participate in Social Security. Clay stated that is true. He said there are about 114 such members and remarked that turned out not to be a good choice. He noted the system has worked out an agreement to enable them to get Medicare. Rep. Seip then asked if there is anything that is preventing the systems from achieving maximum returns. Clay explained they have full prudent investor authority and both systems are heavily diversified and doing well, so there is not much else that can be done.

Rep. Harris asked why more SERS retirees withdraw their deductions than PSERS members (91% vs. 80%). Clay replied the different demographics of the two systems may have contributed to the difference, but noted the only way to know would be to survey all the members.

Rep. Boyd remarked the charts in the testimony indicate the spike has been mitigated, but he cautioned that is just a snapshot and it is important to understand the spike issue is not dead. He asked how projections will be affected if the market turns down. Clay replied if there was a 0% rate of return this year, the spike would go from 11% to 15.02% for PSERS. He noted the rate before the spike would not increase.

Rep. Boyd then asked for further comments on the "fresh start" concept. Clay remarked the current market is volatile so if this option was pursued now it would be difficult to make an 8.5% rate of return. Rep. Boyd asked how the systems compare themselves with other systems. Clay replied they typically compare with other large pension plans and in such comparisons the systems rate in the top decile. The plans rate just as well when compared with private systems. Rep. Boyd noted the average employer contribution rate to keep the system funded is 8% and he asked when that amount was last contributed. Clay stated it has been below normal cost for the last ten years.

Rep. Metcalfe asked how much could be saved by moving to a defined contribution plan. Clay stated there are short- and mid-term problems with such a change, and explained that two plans would have to be simultaneously funded because the plan cannot be changed for existing members. He likened the costs to owning a house and paying a mortgage on that house, and then buying another house and having to pay that mortgage too. He said savings would be realized after 25 or 30 years. He suggested such a proposal requires close scrutiny before proceeding.

Andrew Ritter, Minority Executive Director, referring to page 18 of the testimony, asked how "well funded" is determined. Clay replied it is an industry standard. He added that being underfunded is not necessarily bad, provided there is a mechanism to return to full funding. Ritter then asked if the removal of the lump sum option would violate the constitutional clause prohibiting the impairment of existing contracts. Clay opined it would not, but added it would likely face a challenge.

Ritter also asked if PSERS had a role in the directive to school districts to prepare their budgets in anticipation of the increase in SB 826, which is still in

the House Education Committee. Clay replied they worked with the schools and constituent groups to get the word out. He commented that some schools may have budgeted accordingly, but others likely did not. He noted PSERS has not surveyed the schools to find out. Ritter asked if PSERS has had discussions with the Department of Education regarding SB 826. Clay replied no.

Rep. Kortz asked about the affect of baby boomers on the spike. Clay responded that has been forecasted and he offered to provide the numbers to the committee. He noted they will be fully funded when they retire.

Rep. Seip asked what kind of investment is needed to prefund a COLA. Clay relied that depends on how often the COLA will be done. He suggested it would be best to start small and build up a reserve, but cautioned that once a COLA has been announced it becomes an entitlement and must be implemented.

Rep. Boyd remarked there are certain assumptions in prefunding that require "legislative fortitude" to meet. Clay agreed, noting there is a smoothing mechanism to make it better. Rep. Boyd then asked about the "thirteenth check" model for COLAs, suggesting it could be quantified easily. Clay agreed it could be a graduated way to prefund.

Rep. Sainato asked if there is a law prohibiting the use of money in the system to give a COLA. Clay stated it is prohibited because that money is already promised. He explained a COLA borrows from the system and creates a debt that must be paid off. Rep. Sainato suggested creating an option in which members who choose not to withdraw could receive an automatic COLA. Knepp remarked that would likely be an elective option and would not be a problem.

Bob Kassoway, Executive Director, questioned if it would be possible to designate a portion of one's earnings for a thirteenth check. Clay indicated that would be viewed as "excess interest" and would ultimately cost taxpayers.

Chairman Levdansky suggested a system in which retirees could opt to leave their money in the system and use that to fund their own COLA. Clay indicated that is feasible because it would be up to the member to decide. The chairman then asked about the average size of a lump withdrawal. Clay stated he would

get that information. Chairman Levdansky commented that private sector pensions don't regularly receive COLAs. Clay stated that is generally true.

Chairman Levdansky then asked a series of questions about the projections of applying the 2002 COLA in 2006. Clay explained the \$1.752 billion cost of the 2002 COLA was amortized over 10 years, meaning each year the state is paying \$307.6 million for ten years. If the 2006 COLA had also been implemented, it would have cost \$3.02 billion and through the amortization the state would pay \$505.4 million over ten years. These two amortization periods would overlap for several years, meaning the state would be paying \$800 million for those years. Chairman Levdansky asked how the spike would be affected. Clay stated it would be 2.73% more for PSERS. Knepp stated SERS would go up 2.9%.

Rep. Boyd stated his belief that there is a "tremendous advantage" in defined contribution plans for both employees and employers. He stated it is worth a conversation. Clay stated he would be happy to have that conversation.

Kimberly Collins

D. 30 AND OUT

Senate Bill 130, P.N. 175 (Mellow): Amends Title 24 (Education) and 71 (State Government) providing for retirement eligibility after 30 years of service. ***Introduced and referred to Senate Finance Committee, March 5, 2007***

Senate Bill 228, P.N. 265 (Greenleaf): Amends Titles 24 (Education) and 71 (State Government) further providing for eligibility for limited early retirement. The legislation states that any member who, during the period of time from April 1, 2007, through June 30, 2007 has credit for at least 30 eligibility points, terminates school service and files an application for an annuity with an effective date of retirement not later than July 1, 2007, would be entitled to receive a maximum single life annuity calculated without any reduction by virtue of an effective date of retirement which is under the superannuation age. Additionally, any member who, during the period of time from April 1, 2008, through June 30, 2008 has credit for at least 30 eligibility points, terminates school service and files an application for an annuity with an effective date of

retirement not later than July 1, 2008, would be entitled to receive a maximum single life annuity without any reduction by virtue of an effective date of retirement which is under the superannuation age. Lastly, any eligible member who, during the period of time from July 1, 1999, through June 30, 2008 has credit for at least 30 eligibility points, terminates State service and files an application for an annuity with an effective date of retirement not later than July 1, 2008, would be entitled to receive a maximum single life annuity without any reduction by virtue of an effective date of retirement which is under the superannuation age.

Introduced and referred to Senate Finance Committee, March 7, 2007

House Bill 231, P.N. 1261 (Daley): Amends Title 71 (State Government) further providing for eligibility for special early retirement for certain members who meet eligibility standards outlined in the legislation. Each quarter the Secretary of the Budget would reduce the allocation for each Commonwealth agency for the ensuing calendar quarter by an amount equal to 60% of the net savings cost for that agency and transfer that amount to the fund. "Net savings cost" is defined as the difference between: (1) 25% of the total of the final salaries for members who retire from a Commonwealth agency under this section; and (2) 25% of the total of the entry level salaries to replace retired members in that Commonwealth agency. This section would expire June 30, 2012. ***Introduced and referred to House Finance Committee, April 13, 2007. Press Conference held April 18, 2007***

House Bill 230, P.N. 1252 (Daley): Amends Title 24 (Education) further providing for eligibility for early retirement benefits by stating that eligible members who, during the period of time from March 1, 2008, through June 1, 2008: (1) have attained either 30 eligibility points or a combination of age and eligibility points that totals 80, (2) terminates school service; and (3) files an application for an annuity with an effective date of retirement not later than July 1, 2008, would be entitled to receive a maximum single life annuity calculated pursuant to section 8342 (relating to maximum single life annuity) without any reduction by virtue of an effective date of retirement which is under the superannuation age and would be entitled to any insurance coverage under any contract of insurance affecting the member that is in effect on the effective date of retirement of the member. Also, any member, who during the period of time

from March 1, 2009, through June 1, 2009: (1) has attained either 30 eligibility points or a combination of age and eligibility points that totals 80; (2) terminated school service; and (3) files an application for an annuity with an effective date of retirement not later than July 1, 2009 would be entitled to receive a maximum single life annuity. ***Introduced and referred to House Finance Committee, April 13, 2007. Press Conference held April 18, 2007***

6) Higher Education Equal Opportunity Program and Older Pennsylvanian Higher Education Program

Senate Bill 411, P.N. 458 (Browne): Amends the Higher Education Equal Opportunity Act further providing for the Higher Education Equal Opportunity Program by adding that programs for which grants may be awarded include tutorial services, tuition and textbook assistance, child care assistance, additional staff for programs or discretionary funds to supplement financial aid on a case-by-case basis.

Introduced and referred to Senate Education Committee, March 13, 2007

House Bill 1020, P.N. 1193 (Reed): The Older Pennsylvanian Higher Education Program Act establishes the Older Pennsylvanian Higher Education Program to authorize institutions of higher education to develop a program for older adults to enroll in higher education courses tuition free. Each institution of higher education that chooses to participate in the program would promulgate specific guidelines regarding procedures and administration of the program, including, but not limited to, the following: (1) admitting participating older adults; (2) determining the availability of higher education courses; (3) determining if the program will be for credit, noncredit, certification, degree or enrichment; (4) disseminating to the local area agency on aging (AAA) a complete program description and technical assistance that explains the process of admission and availability of enrolling in higher education courses offered by the higher education institution; (5) coordinating with the local AAA to publicize and advertise the program; and (6) outlining course rules and responsibilities for participating older adults.

Introduced and referred to House Education Committee, April 5, 2007. Re-referred to House Appropriations, January 29, 2008

7) Independent Higher Education & Community Financing Program

Senate Bill 664, P.N. 714 (Erickson): The Independent Higher Education and Community Financing Act establishes the Independent Higher Education and Community Financing Program to assist independent institutions of higher education in capital projects related to community and economic development projects. The General Assembly would appropriate funds necessary to pay for 50% of the debt service on bonds issued by the authority under this act. ***Introduced and referred to Senate Education Committee, March 22, 2007***

House Bill 1258, P.N. 1671 (Tangretti): The Independent Higher Education and Community Financing Act establishes the Independent Higher Education and Community Financing Program to assist independent institutions of higher education in capital projects related to community and economic development projects. The General Assembly would appropriate funds necessary to pay for 50% of the debt service on bonds issued by the authority under this act. ***Introduced and referred to House Education Committee, May 24, 2007***

8) Tuition Fees

House Bill 1403, P.N. 1783 (Pallone): Amends the Public School Code further providing for powers and duties of the Board of Governors by stating that the board would fix the levels of tuition fees, except student activity fees. Tuition fees would be set so that the fee would not increase during the time that an individual continues to be enrolled as a full-time student. ***Introduced and referred to House Education Committee, June 5, 2007***

Senate Bill 1251, P.N. 1698 (Rhoades): Amends the Public School Code further providing for powers and duties of the Board of Governors by adding that the level of fixed tuition may not increase over the level of tuition fixed for the immediately preceding school year by more than the percentage increase in the Consumer Price Index as published by the United States Department of Labor, Bureau of Labor Statistics. If the increase exceeds this rate, the State System of Higher Education would be ineligible for any and all State appropriations otherwise authorized in the General Appropriation Act. ***Introduced and referred to Senate Education Committee, January 22, 2008. Companion legislation for the Community Colleges is SB 1249.***

9) PHEAA

Senate Bill 754, P.N. 830 (Rafferty): Amends the PA Higher Education Assistance Agency Act further providing for governing bodies and for audits and reports. Under this legislation, the eight members of the PHEAA Board appointed by the President Pro Tempore of the Senate would have to be confirmed by a majority of the members of the Senate, and the eight members appointed by the Speaker of the House would have to be confirmed by a majority of the members of the House of Representatives. Board members who are also legislators would be limited to two terms. Finally, the agency would be required to retain an independent auditor who would perform an annual internal audit of the expenses and revenues of the agency. In addition to examining the agency's financial statements, the independent auditor would be entitled to examine original source documents at such times as the auditor believes necessary, or may otherwise examine original documents on a random basis designed to ensure the integrity of the audit. The audit would include, but not be limited to, the expenses incurred by individual members of the board and reimbursed or otherwise paid for by the agency. The independent auditor would prepare a written report of its internal audit and the agency would submit a copy of the report to the Finance Committees of the Senate and House of Representatives no later than April 1 of each year. ***Introduced and referred to Senate Education Committee, April 10, 2007***

Senate Bill 1061, P.N. 1363 (Wondering): Amends the Pennsylvania Higher Education Assistance Agency Act further providing for powers and duties of the Pennsylvania Higher Education Assistance Agency and for audits and reports. The Agency would have the power and duty to enter into certain contracts and to pay certain costs and fees, provided that all fees and other charges and terms of such loans are charged and offered on a uniform basis and in a manner that does not discriminate against or advantage any particular lender or group of lenders. The duty to establish annually the award of the "assistance grant" is removed. The legislation adds certain provisions in connection with the exercise of the powers specified. Additionally, PHEAA is required to annually submit a performance audit of all its revenues and expenses to the House and Senate Appropriations Committees. All PA postsecondary institutions would

have access to the agency's data on grant programs and related information. All records of PHEAA would be subject to the Right-to-Know Law, with exceptions. ***.Introduced and referred to Senate Education Committee, September 6, 2007***

Senate Bill 1972, P.N. 2746 (Mcilvaine-Smith): Amends the Pennsylvania Higher Education Assistance Agency Act restructuring the governing body of PHEAA. The current board of directors would be dissolved and the new structure would be as follows: The Secretaries of Education and Banking, the State Treasurer, three members appointed by the Governor, four members appointed by the Senate Majority Leaders, two members appointed by the Senate Minority Leader, four members appointed by the House Majority Leader, two members appointed by the House Minority Leader and two members appointed by the Chancellor of the State System of Higher Education. The legislation outlines specific qualifications that the appointees must meet and states the terms of each. ***. Introduced and referred to House Finance Committee, September 6, 2007. passed over in House Finance November 20, 2008***

Senate Bill 1891, P.N. 2598 (Shapiro): Amends the Pennsylvania Higher Education Assistance Agency Act limiting members of the board of directors to service of no more than two consecutive terms, and requiring any non-profit corporation established by the agency to create an annual report detailing its condition at the end of every fiscal year. ***. Introduced and referred to House Finance Committee, October 4, 2007. Re-referred to House Appropriations, November 21, 2007. Discussed in PHEAA hearing, February 26, 2008***

10) Right-to-know

Senate Bill 1, P.N. 772 (Pileggi): Amends the Right-to-Know Law to further provide for public records of judicial agencies, legislative agencies and state-related universities. The bill establishes an open records officer in each agency and exceptions officers to hear appeals. The bill also creates the Open Records Clearinghouse in the Department of Community and Economic Development that will provide information relating to the implementation and enforcement of this act, issue advisory opinions to agencies and requesters, and provide annual training courses to Commonwealth agencies and local agencies. ***. Introduced and referred to Senate State Government Committee, March 29, 2007, Public hearing held June 4, 2007. House vote 199 to 0, Senate vote 50 to 0. Signed by Governor, February 14, 2008. Act 3***

House Bill 658, P.N. 745 (Nickol): Amends the Right-to-Know Law adding the Pennsylvania Higher Education Assistance Agency to include any information contained in a contract to service student loans, including schedules or exhibits relating to pricing or schedules relating to equipment, time charges, service charges or other charges pertinent to an agency contract to service student loans, the disclosure of which could cause a loss of revenue to any Commonwealth fund or the agency. ***Introduced and referred to House State Government Committee, March 9, 2007, discussed in Speaker's Reform Commission meeting held May 24, 2007***

House Bill 443, P.N. 813 (Mahoney): The Open Access Law requires a public record of the Commonwealth and its political subdivisions, authorities and agencies and other public bodies to be accessible for inspection and duplication by a requester in accordance with this act unless otherwise provided by law. The bill establishes the Office of Access to Public Records as an independent administrative agency and provides for its powers and duties. The Right-to-Know Law would be repealed. ***Introduced and referred to House State Government Committee, March 13, 2007, Public hearing held August 7, 2007. re-referred to House Appropriations December 5, 2007***

Senate Bill 765, P.N. 842 (Ferlo): Amends the Right-to-Know Law adding language requiring a public record of the Commonwealth and its political subdivisions, authorities and agencies and other public bodies to be accessible for inspection and duplication by a requester in accordance with this act unless otherwise provided by law. The bill establishes the Office of Access to Public Records as an independent administrative agency and provides for its powers and duties. The current language in the Right-to-Know Law would be repealed. ***Introduced and referred to Senate State Government Committee, April 12, 2007, Public hearing held June 4, 2007. Discussed in press conference October 15, 2008***

11) Faculty and College Excellence

House Bill 871, P.N. 1026 (Roebuck): Amends the Public School Code providing for Faculty and College Excellence, establishing the Higher Education Faculty Restoration and Equity Fund. Under the bill, a public institution of higher education that has at least eight full-time equivalent faculty positions would have to have at least 75% of the undergraduate courses taught by full-

time tenured and tenure-track faculty by 2008 or the institution in each succeeding academic year would have to increase the share of courses taught by full-time tenured and tenure-track faculty by 10% or more. By 2013 the 75% requirement would have to be met. Salaries are further provided for as are health care and retirement benefits for non-tenure track faculty members. The Higher Education Faculty Restoration and Equity Fund would be established as a separate fund in the State Treasury for the purposes of equity in salaries as provided for in the bill. ***Introduced and referred to House Appropriations Committee, March 22, 2007, Re-referred to House Education April 17, 2007***

House Bill 871, P.N. 1681 (Hughes): Amends the Public School Code providing for Faculty and College Excellence. The bill states that each academic department at a public institution of higher education that has at least eight full-time equivalent faculty positions must have at least 75% of the undergraduate courses offered within the department taught by full-time tenured and tenure-track faculty. Each academic department of a public institution of higher education that does not meet this standard must, beginning in September 2008, increase the share of courses taught by full-time tenured and tenure-track faculty by 10% or more over the previous academic year so that by 2013 the 75% threshold is met. The bill also states that each public institution of higher education would determine a salary standard for part-time or adjunct faculty employed in each academic department that is equal, on a pro rata basis, with that of tenured and tenure-track faculty of comparable qualifications doing comparable work. The bill also creates the Higher Education Faculty Restoration and Equity Fund, and money in the fund would be continuously appropriated to the Department of Education for distribution for the purpose of meeting the requirements of this section. ***Introduced and referred to Senate Education Committee January 14, 2008***

12) Reach Scholarship

House Bill 1722, P.N. 2281 (Payton): The Reliable Educational Assistance for College Hopefuls (REACH) Scholarship Act provides for the issuance of scholarships by PHEAA to eligible students. Each eligible student who will attend or attends a State-owned institution would receive a full-tuition scholarship and each eligible student who will attend or attends a State-related institution or private institution of higher education would receive the lesser of a full-tuition scholarship or a scholarship equal to the average tuition at the State-owned institutions as calculated annually by the agency. The legislation outlines the eligibility guidelines to participate and to maintain the scholarship.

A student may transfer a scholarship from one State-owned institution, State-related institution or private institution of higher education to another. The REACH Scholarship Fund would be funded by donations and contributions from all public and private sources, including the Federal Government, and any appropriations or transfers authorized by the General Assembly may be deposited in the fund, and interest earned by the fund. PHEAA would annually report to the General Assembly regarding the implementation and administration of this act. ***Introduced and referred to House Education Committee, August 9, 2007, public hearing held October 10, 2007***

Additional Information:

[House Education](#)

HARRISBURG – (10-10-07, 1 p.m., Room 60, East Wing)

The **House Education Committee** held a public hearing on college affordability and House Bills 1722, 1403 and 108.

[HB 1722 Payton](#) – (PN 2281) The Reliable Educational Assistance for College Hopefuls (REACH) Scholarship Act provides for the issuance of scholarships by PHEAA to eligible students. Each eligible student who will attend or attends a State-owned institution would receive a full-tuition scholarship and each eligible student who will attend or attends a State-related institution or private institution of higher education would receive the lesser of a full-tuition scholarship or a scholarship equal to the average tuition at the State-owned institutions as calculated annually by the agency. The legislation outlines the eligibility guidelines to participate and to maintain the scholarship. A student may transfer a scholarship from one State-owned institution, State-related institution or private institution of higher education to another. The REACH Scholarship Fund would be funded by donations and contributions from all public and private sources, including the Federal Government, and any appropriations or transfers authorized by the General Assembly may be deposited in the fund, and interest earned by the fund. PHEAA would annually report to the General Assembly regarding the implementation and administration of this act.

[HB 1403 Pallone](#) – (PN 1783) Amends the Public School Code further providing for powers and duties of the Board of Governors by stating that the board would fix the levels of tuition fees, except student activity fees. Tuition fees would be set so that the fee would not increase during the time that an individual continues to be enrolled as a full-time student.

[HB 108 Stairs](#) – (PN 131) The Pennsylvania Scholastic Achievement Award Act would recognize students' academic achievements and reward them for their academic excellence by providing them with full tuition scholarship awards to attend an eligible institution in PA. PHEAA would be responsible for calculating the amount of each student's award, and would establish renewal eligibility requirements. Awards received by an award recipient would not be considered taxable income. PHEAA would establish and administer a fund to be known as the Pennsylvania Scholastic Achievement Award Fund.

Members in attendance included: Minority Chairman Jess Stairs (R–Westmoreland), and Representatives Lawrence Curry (D–Montgomery), Thaddeus Kirkland (D–Delaware), Tony Payton, Jr. (D–Philadelphia), Rich Grucela (D–Northampton), Bernie O'Neill (R–Bucks), Thomas Quigley (R–Montgomery), Daryl Metcalfe (R–Butler), Duane Milne (R–Chester), John Yudichak (D–Luzerne), John Pallone (D–Westmoreland) and Jake Wheatley (D–Allegheny).

Rep. Payton mentioned that his bill, HB 1722, would create a statewide scholarship program called the Reliable Education Assistance for College Hopefuls (REACH). The REACH scholarship fund would offer students meeting certain criteria who attend state-owned, state-related and private institutions with financial assistance. Payton said the scholarship fund his bill would create is modeled after the HOPE program in Georgia.

Minority Chairman Stairs said his bill, HB 108, would create the Pennsylvania Scholarship Achievement Award, a merit scholarship program, to motivate students to attend Pennsylvania-based colleges and universities. His bill would assist students with financial aid based on academic achievement in high school.

[Dr. Sandy Baum](#), representing the College Board, provided the committee members with some background information on college prices and student aid from a national perspective along with her thoughts on the legislative proposals being considered. She said, "Although the sticker price exaggerates the amount the majority of students pay for college, the reality is that the cost to students of participating in higher education is significantly higher than just tuition and fees." She noted, "Room, board and other costs of attendance contribute to the affordability problem." According to Dr. Baum, "The focus of student aid policy should be on assuring that the programs are designed to optimize equity and efficiency, to be well-coordinated, and to minimize the burden of education debt for the many students who will continue to rely on borrowing." She further explained that basic principles for policy design should include simplicity, predictability and targeting in addition to adequacy of funding. Dr. Baum pointed out that Pennsylvania is one of the few states that have maintained a strong focus on need-based aid. She told the committee, "Targeting subsidies at students with the most limited financial resources gives state dollars the most impact." Dr. Baum also told the members, "Encouraging students to enroll early and to attend full-time is wise and has the potential to increase college success rates." However, she cautioned that "excluding students who cannot meet these conditions from grant programs is likely to exclude the students who most need the assistance." She further explained that the number of high school students going on to college has increased from less than 50 percent to approximately two-thirds over the past thirty years. "That could not have occurred without the significant contribution of federal and state aid programs."

Minority Chairman Stairs inquired about the number of students who actually finish college. Dr. Baum estimated that approximately 75 percent of students graduate after six years. She said some students from lower income families have lower graduation rates.

Rep. O'Neill asked if Pennsylvania has the highest average tuition in the nation. Dr. Baum said Vermont has the highest tuition of four-year colleges and Pennsylvania is higher than average.

Rep. Yudichak asked how much debt contributes to how many students go or do not go to college. Dr. Baum said debt is an important issue and students are borrowing more than they did ten years ago, but the debt problem is greatly exaggerated. She said debt is an especially difficult problem for low-income students and they are borrowing more than the average student.

Rep. Yudichak asked if as policy makers, the Legislature is making the right choices with small grant programs and programs like the Tuition Assistance Program (TAP). Dr. Baum said yes, and they should come up with additional, new ideas as well.

[Christine Zuzack](#), Vice President for State Grant and Special Programs with the Pennsylvania Higher Education Assistance Agency (PHEAA), testified that PHEAA administers a number of grant and scholarship programs for the Commonwealth and the Federal government and assists other entities and foundations in the operation of their scholarship efforts. She said PHEAA receives over 450,000 Free Application for Federal State Aid (FAFSA) forms per year. She further explained this form serves as the application for the Pennsylvania State Grant program and would be a REACH requirement. According to Zuzack, PHEAA would expect the number of applications to increase with an influx of REACH applicants who may not have previously considered applying for need-based financial aid. She explained that the Pennsylvania State Grant Program will serve about 166,000 full-time and part-time students this year. She noted that many of the administrative requirements in the Pennsylvania State Grant Program as well as the Federal Robert C. Byrd Honors Scholarship and the Academic Excellence Scholarship are found within the design of the REACH program which can help in the establishment of the administrative operation of REACH. Zuzack also noted the high school attendance, disciplinary, academic and residency records are a critical component of establishing initial eligibility for the REACH program. She cautioned, "The highly sensitive nature of disciplinary and attendance records may give some pause as to sharing this information from over 1,000 high schools and home study programs from across the Commonwealth with PHEAA." Zuzack recommended, "A better procedure might be for each high school to evaluate all graduating students according to the REACH criteria and

to communicate to PHEAA only those students who meet all eligibility parameters." She also noted that the administrative requirements of the REACH program would entail substantial start-up efforts so sufficient implementation time would be needed.

Minority Chairman Stairs wanted to know if financial aid should be merit-based or need-based. Zuzack said it is a big, philosophical debate and views differ between those with high incomes and those of lesser means.

[Mary Benner](#), a mother from Philadelphia, told the committee members, "I never dreamed that an opportunity such as REACH would be possible for our children, however, after doing my homework I learned that the implementation of REACH would not only ease the burden of tuition costs to families, but encourage economic growth as well." She described the program as offering "individuals the incentive to work hard, behave and attend school regularly." Benner concluded, "The payoff is that we keep our students off the streets and in the classroom and, following graduation, we keep our well-educated graduates within the Commonwealth so that they may enter the local work force and offer continuous support as residents, as taxpayers, as voters."

[Kaitlyn Benner](#), daughter of Mary Benner and a student, told the committee she learned of the REACH program through a local newspaper. After contacting Rep. Payton's office for more information, she began to spread the word about the program among her fellow high school students. She is continuing to promote REACH through flyers she made outlining the program and is supportive of the bill to create the scholarship program.

[Diana Simmons](#), a Philadelphia resident and a single mother of two, expressed her concern over how she would pay for college for her daughter. She told the committee that her best friend's daughter, who lives in Atlanta, Georgia has taken advantage of the HOPE scholarship program and gone to college. "This program is needed in our state," she said. "I know this is an expensive bill, but there should be no price tag on our children's future."

[Dr. Don Francis](#), President of the Association of Independent Colleges and Universities of Pennsylvania (AICUP), noted some of the stress points for college

presidents and boards of trustees when confronting the issue of affordability. He told committee members that these include: efficiency versus quality; student/parent expectations/versus willingness to pay; and "keeping up with the Swarthmores (or Penn States)" versus maintaining low tuition. Dr. Francis then suggested the following principles for state policymakers to consider when addressing the issue of affordability:

- Reward efficiency and quality (aka productivity).
- Keep expectations realistic in high school.
- "Don't feed the arms race".
- Increase transparency of educational cost through cost-based tuition.
- Target a larger portion of state dollars on students with need, including middle-income students.
- Pennsylvania has more of a competitive marketplace than almost any other state – use it.

[Brendan Boyle](#), President of the Philadelphia Policy Institute, helped Rep. Payton draft the bill creating the REACH scholarship program. "Every public, private and parochial school student who meets the base criteria would be eligible for the REACH Scholarship," he noted. "All high school students in Pennsylvania who achieve a 3.0 GPA and have at least 90 percent attendance would be eligible. It is a merit-based system that would reward those students who work hard, play by the rules and simply want to further their higher education."

[Robert Zemsky](#), Professor and Chair of The Learning Alliance for Higher Education at the University of Pennsylvania, is the author of the 2006 report "A Rising Tide: The Current State of Higher Education in the Commonwealth of Pennsylvania." He said in Pennsylvania there is a growing problem with affordability in higher education. Zemsky went on to say that Pennsylvania needs a higher participation rate among students. One solution is to increase the importance of community colleges, particularly in the middle of the state. He also said that reading tests statewide are too low among juniors in high schools. Given the importance of reading, more investments should be made in ensuring students can read well so they perform at a high level in college. His final observation was that Pennsylvania has a wealth of private, liberal arts

colleges and state-owned and state-related colleges and they should be encouraged to increase their private-public partnerships to bring programs into the high schools to increase achievement among students and foster a desire to go to college.

Rep. Wheatley asked Zemsky what the costs would be. Zemsky said that is unknown but somebody has to step up, create programs and then measure the results. He said if the results are not measured with benchmarks, any new programs would not succeed.

Rep. Payton wondered why Zemsky did not recommend investing in early childhood education rather than secondary school reading programs. He replied that while early childhood education is important, people want faster results and they can be measured more easily in secondary schools programs. He added that if there were unlimited resources, creating more programs for early childhood education is a good investment.

Written testimony also was submitted by the [PA Commission for Community Colleges](#).

Rick Morrison and Jeff Cox

13) Merit Scholarship and Loan Forgiveness

House Bill 108, P.N. 131 (Stairs): The Pennsylvania Scholastic Achievement Award Act would recognize students' academic achievements and reward them for their academic excellence by providing them with full tuition scholarship awards to attend an eligible institution in PA. PHEAA would be responsible for calculating the amount of each student's award, and would establish renewal eligibility requirements. Awards received by an award recipient would not be considered taxable income. PHEAA would establish and administer a fund to be known as the Pennsylvania Scholastic Achievement Award Fund. ***Introduced and referred to House Education Committee, January 30, 2007, public hearing held October 10, 2007***

Senate Bill 373, P.N. 418 (Boscola): The Academic Excellence Scholarship Program Act would reward educational excellence and provide an incentive to Pennsylvania students to pursue higher education. The bill states PHEAA may

provide scholarship grants to not more than 1,000 students. If more than 1,000 students apply, a lottery system would be employed. The grants may be issued to students only upon confirmation from approved educational institutions that the students have enrolled full time immediately following their high school graduation. The bill states that the scholarship grants would be awarded solely on the basis of merit and without regard to need. The bill outlines the eligibility requirements. Under the bill, PHEAA would issue scholarship grants, called the Academic Excellence Scholarship, in the amount of \$5,000 per academic year, to a student enrolled full time in an approved educational institution pursuing a bachelor's degree. ***Introduced and referred to Senate Education Committee, March 13, 2007***

House Bill 919, P.N. 2127 (Evans): The Teach for Pennsylvania Program Act states that qualified applicants who are selected for the Specialty Teacher Loan Forgiveness Program would be eligible to have the agency pay a portion of the debt they incurred through the agency-administered Federal Stafford Loan Program for the education necessary to be certified to teach in PA. The longer the individual teaches the greater percentage of loan forgiveness would occur, up to 40% for year five. The total amount of the loan to be forgiven, based upon the individual's grade point average is also provided for under the bill. The Secretary of Education would make awards to eligible applicants, priority funding would be given to eligible applicants currently receiving loan forgiveness awards. Awards to eligible applicants would be made for a five-year period and would be subject to renewal without limit. Qualifications for candidates are further provided for in the legislation. The bill requires that PHEAA would provide an annual report on the loan forgiveness program to the Department of Education and the Education Committees of the Senate and the House of Representatives. The sum of \$1,000,000 would be appropriated to the Pennsylvania Higher Education Assistance Agency for the fiscal year July 1, 2007, to June 30, 2008, for the Specialty Teacher Loan Forgiveness Program. The sum of \$500,000 would be appropriated to the Department of Education for the fiscal year July 1, 2007, to June 30, 2008, for the support of the Professional Personnel Recruitment Initiative Program. For subsequent years, the Secretary would have to submit funding requests. ***Introduced and referred to House Appropriations Committee, March 29, 2007. Re-referred to House Education, April 17, 2007. Re-referred to House Appropriations, September 24, 2007***

House Bill 1018, P.N. 1187 (Gergely): The Nursing Educator Loan Forgiveness and Scholarship Act establishes the PA Nursing Educator Loan Forgiveness Program to help repay the student loans of nursing educators. The bill specifies that an eligible nursing educator may receive up to \$30,000 over four years in loan repayments from the PHEAA. The bill also provides for the establishment of a state Nursing Education Scholarship Program, consisting of the Nursing Education Post-baccalaureate Degree Scholarship and the Nursing Education Baccalaureate Degree Scholarship. These scholarships are to be conferred after the application of available Federal and state grants. To be eligible, a student must have a high school diploma or GED, live in PA, and be enrolled full time in an approved educational institution pursuing a master's or bachelor's degree in nursing education. The amount of money that can be awarded to a student for a Nursing Education Post-baccalaureate Degree Scholarship is up to \$6,000 per academic year for a maximum of two years. The grant amount for the Nursing Baccalaureate Degree Scholarship is up to \$3,000 per academic year, for a maximum of four years. The bill specifies that no funds may be granted to anyone enrolled in a customized job training partnership program or continuing education course for which an employer is paying for more than half. ***Introduced and referred to House Education Committee, April 03, 2007.***

14) Union Fair Share Fee and Right to Work Legislation

House Bill 150, P.N. 2611 (Metcalf): The Freedom of Employment Act provides that employment cannot be conditional upon membership or payment to a labor organization. A person who violates this act commits a misdemeanor of the third degree and be fined up to \$1000, imprisoned for up to 6 months, or both. The act also provides relief to those threatened or injured by any action prohibited by this act and repeals other acts or parts of acts inconsistent with it. ***Introduced and referred to House Labor Relations Committee, October 15, 2007***

House Bill 151, P.N. 1664 (Rapp): Amends The Administrative Code further providing for the fair share fee for employees of public employers by removing school entities from the definition of "public employer". Additionally, the bill states no collective bargaining agreement made by a school district,

intermediate unit or vocational–technical school after the effective date of this section nor any extension of an existing collective bargaining agreement made by a school district, intermediate unit or vocational–technical school may require payment of a fair share fee to the exclusive representative by a nonmember of the exclusive representative. An employee organization acting as an exclusive representative in any school district, intermediate unit or vocational–technical school would owe no duty to and would have no obligation to represent any employee of a school district, intermediate unit or vocational– technical school who is not a member of the employee organization in any grievance or other proceeding filed with or against the school district, intermediate unit or vocational–technical school. . ***Introduced and referred to House Labor Relations Committee, May 24, 2007***

House Bill 1890, P.N. 2597 (Rohrer): An act relieving certain employee organizations of certain duties and obligations by stating that no collective bargaining agreement made by any political subdivision may require payment of a fair share fee to the exclusive representative by a nonmember of the exclusive representative. An employee organization acting as an exclusive representative would owe no duty and have no obligation to represent any public employee who is not a member of the employee organization in any grievance or other proceeding filed with or against a public employer. The bill also repeals the Public Employee Fair Share Fee Law. . ***Introduced and referred to House Labor Relations Committee, October 4, 2007***

15) Statewide Healthcare Plan for School Districts

House Bill 1841, P.N. 2593 (Surra): Amends Title 24 (Education) incorporating the Public School Employees' Benefit Act and establishing the Public School Employees' Benefit Board. This independent administrative board will carry out the design, implementation and administration of the school employee health benefits study – an evaluation of existing health care arrangements covering school employees – and administer either the Statewide health benefits or the alternative measures program based on the results of the study. If the Board elects to go forward with a Statewide Health Benefits Program, it may choose to develop itself, or contract out, an employee benefits program for eligible individuals. ***Introduced and referred to House Education Committee, October 4, 2007. Re-referred as amended to House Appropriations Committee, February 5, 2008. Public hearing held in***

Senate Finance, February 6, 2008. Discussed in PERC meeting, March 20, 2008

Additional Information:

[House Education](#)

HARRISBURG – (10/29/07, 10:00 a.m., Room G-50, Irvis Office Building)

The **House Education Committee** held a public hearing on House Bill 1841 creating a Public School Employees' Benefit Trust Fund Board.

HB 1841 Surra – (PN 3199) Amends Title 24 (Education) incorporating the Public School Employees' Benefit Act and establishing the Public School Employees' Benefit Board. This independent administrative board will carry out the design, implementation and administration of the school employee health benefits study – an evaluation of existing health care arrangements covering school employees – and administer either the Statewide health benefits or the alternative measures program based on the results of the study. If the Board elects to go forward with a Statewide Health Benefits Program, it may choose to develop itself, or contract out, an employee benefits program for eligible individuals. (Prior Printer Number: 2593, 3173)

Members in attendance included Chairman James Roebuck (D-Philadelphia), Rep. Karen Beyer (R-Northampton), Rep. Mark Longietti (D-Mercer), Rep. Mike Carroll (D-Luzerne), Rep. Scott Conklin (D-Centre), Rep. Patrick Harkins (D-Erie), Rep. Kathy Rapp (R-Warren), Rep. Curt Sonney (R-Erie), Rep. John Yudichak (D-Luzerne), Rep. Mike Fleck (R-Huntingdon), Rep. Daylin Leach (D-Montgomery) and Rep. Duane Milne (R-Chester).

Rep. Dan Surra (D-Elk), prime sponsor of the bill, told his fellow legislators that the bill takes "the aspect of teachers' health care and public school employees' health care out of the local bargaining situation and puts it on a local board." Rep. Surra continued by saying the cost of health care in education is "...one of the driving forces behind property taxes increasing and teachers' strikes that we've been experiencing across the Commonwealth." If the bill is passed and the plan is implemented, he estimated the potential

savings to taxpayers could be over \$550 million according to a Legislative Budget and Finance Committee study.

[Rep. Steve Nickol \(R-York\)](#), a co-sponsor of the bill, cited a Kaiser Family Foundation and Health Research and Educational Trust survey that found health insurance premiums have increased 87 percent since 2000. "Many school districts have tried to stem the increase in health insurance premiums by proposing changes to health insurance coverage or trying to shift some of the cost to their employees," he stated. "As a result, health insurance has become a sticking point in contract negotiations and a leading cause of school strikes." He told the committee that "It is incumbent on us to do what we can about the situation." Steps include looking to what large, private employers, some school districts and the Pennsylvania Employees Benefit Trust Fund (PEBTF) have done to control health care costs, including pooling large groups of employees into one plan, using consortiums to purchase insurance and striving to hold down administrative costs. Rep. Nickol said HB 1841 does not actually pick one of those models and impose it on school districts, but instead opens the door and provides options to come up with better plans than what exists under "...the fractured system in existence today."

[Tom Gluck](#), Executive Deputy Secretary, Department of Education, said that by leveraging the purchasing power of all state school districts and potentially 250,000 school employees, HB 1841 will create a statewide school health benefits system that is fair to taxpayers, fair to students and fair to teachers. He went on to say that a statewide health care system is fair to taxpayers because it offers potential for tremendous savings, it is fair to students because it reduces the potential for strikes and it is fair to teachers because it protects the quality of their benefits.

Chairman Roebuck asked if benefits would be only for those retirees under a current contract or would they be eligible for benefits under the new system. Rep. Nickol said it is complex because there are five classifications of retirees. Retirees 65 years old and under with 30 years of service have a right to buy into school district health plans at cost. That would not change as it is mandated under the school code. With less than 30 years service, some

retirees under age 65 can buy into their local school district plan where the district has made it available to them. HB 1841 would not take that option away from them. The bill would, however, open the option to retirees with less than 30 years service where the option to buy in is not currently offered to them. For retirees over age 65, the concept would allow them to migrate to the Pennsylvania State Employees Retirement System (PSERS) or allow them to fold into the plan under HB 1841. He cautioned however, that it would be better to allow them to be covered under the PSERS plan until the statewide plan under HB 1841 is established.

Rep. Beyer wanted to know if cyber and charter school employees would be included under this plan. Rep. Nickol replied, "Only to the extent to which they're already members of the plan. Right now cyber and charter school employees have an option to become members of a local school district plan. We don't change that option at all in this legislation." He further stated that those cyber and charter schools which have purchased insurance on their own would not be forced into this plan. Any of those who purchase insurance under their local school districts would be pulled into the plan under the legislation.

Rep. Beyer asked if Pennsylvania would be the first state to do this. Rep. Nickol said that several states have mandatory programs including Delaware and several states including New Jersey and South Carolina have mandatory, statewide participation plans. Ohio has determined that a statewide plan is not cost effective, but has built a model using consortiums across the state. He said there is a Hay Group report which lists the states that have plans.

Rep. Beyer inquired as to why the Philadelphia schools would not be covered under the plan. Secretary Gluck told her that Philadelphia schools are welcome to participate but because they have many employees, they already have purchasing power leverage. He said they might want to participate once a plan is active and they see what the cost savings are.

Rep. Daylin Leach asked about the potential for input by teachers. Rep. Nickol replied that school employees would have input through their handpicked union representatives. School boards would be represented by individuals picked by the PA School Boards Association. Rep. Surra added that there would

be premium plans available for purchase by employees that are above and beyond the basic health care plans that will be offered and individual employees can choose those plans on their own.

Rep. Conklin asked if school districts could purchase additional coverage over the basic plan. Rep. Surra said he was not aware of any provision that would prevent a district from adding more to the basic plan offered to its employees.

Rep. Milne asked what the plan under HB 1841 would do to local consortiums that purchase health care, i.e., does it negate their local arrangements or eliminate them. Rep. Nickol said there are opportunities to build on local consortiums which have been successful at controlling costs. He said the statewide board could build a plan around a consortium and caution should be used before a local consortium is eliminated and brought into the statewide plan. He said in Ohio they have used a "best practices" model and kept the ones which worked the best and eliminated the ones that were not effective. Rep. Surra said there is no "lockdown answer" because some of this would depend on what the statewide board would decide, with local input from their districts, and that regional differences between urban, suburban and rural areas would have to be taken into consideration.

Rep. Yudichak wanted to know if there would be gridlock on the buy-ins because of the qualified majority vote requirement, with two members of each group represented on the board having to vote for a plan in order for it to be accepted. Rep. Surra said he felt the qualified majority vote requirement would be fair and just to everyone and can't think of another way that would work any better. Rep. Nickol said the three-sided board model proposed in HB 1841 would give everyone a say in the process and give protection to each side that is similar to federal Taft-Hartley board compositions.

[Tim Allwein](#), Assistant Executive Director for Government and Member Relations, PA School Boards Association (PSBA), expressed the opinion that there are two major reasons why PSBA feels the bill will not realize a significant level of cost savings. First, he said the bill requires a state level board to consider allowing coverage to classes of employees that currently have no legal right to coverage. This opens eligibility for coverage to additional

employees and is an attempt to privatize school services. PSBA does not view these as effective measures for controlling costs. Another reason they don't like the bill is that it does not establish tangible thresholds for employee cost sharing and limits state funding. Allwein concluded by saying there is merit in the issue, but "...there is a long way to go before this proposal will accomplish the things that we all are expecting."

[Jay Himes](#), Executive Director, PA Association of School Business Officials (PASBO), said it is difficult to project savings from a state controlled health care plan unless the scope of the plan reduces benefits. He went on to say it is extremely difficult and dangerous to predict any reductions when "...we do not know the plan, eligibility, premium sharing by employees and who will participate initially." Himes concluded by saying the product should not be compromised with a sudden rush to consider a sweeping change from locally administered health care plans to a state mandated and controlled system.

[Joe Bard](#), Executive Director, PA Association of Rural Small Schools (PARSS), said his organization has significant concerns about the bill. He said they are concerned that if enacted the bill could financially penalize districts that are effectively operating employee health care programs at a level which may be determined to be below the recognized standard. He offered that rural and small schools typically have health care plans that are not as benefit "rich" as those of their urban and suburban counterparts. PARSS believes the legislation must recognize the existence of the many health care consortia currently operating in all regions across the state, he stated. He also suggested that the legislation must give more precision and depth to the Commonwealth's obligation to pay its share of the total costs of the program. "That the State would pay up to half of the year to year increase in health insurance premiums is praiseworthy, but then to cap the State's contribution, as HB 1841 does, simply runs contrary to maintaining the State's fiscal responsibility relative to yet to be determined increases which are wholly driven by third party providers over whom school districts have no control," Bard stated.

Rep. Beyer asked Himes if the current status of health care plans among school districts across the state is acceptable. Himes said he thinks school districts

have done a good job in many cases in administering health care and benefits.

Rep. Beyer said emphatically that the current system of school districts having many plans across the state is an ineffective "hodge podge." She further stated that the three previous testifiers, referring to Allwein, Himes and Bard, were doing nothing to "drive change" and the status quo is unacceptable. This legislation is attempting to set up a board to look into new plans and even though the board has not been established, the fight has begun, she retorted. She referred to her experience as a former school board member in the Saucon Valley School District and said in that experience they tried to insure all the employees they possibly could and that was a good idea. She disagreed with Allwein, who spoke against that idea in his testimony.

Rep. Yudichak wanted to know how effective the state's 501 school districts have been in sharing costs or premium share. Allwein said many contracts have cost share provisions currently but he did not know how many have premium share provisions. Rep. Yudichak then wanted to know if Himes had any evidence that there would be a disruption in coverage if this plan was enacted. Himes said that would be possible as different collective bargaining agreements ended before the plan under HB 1841 was enacted. Rep. Yudichak emphasized the need for comprehensive school district health care plans for the 501 school districts in the state.

[Pat Halpin Murphy](#), Director, Government Relations, American Federation of Teachers – Pennsylvania (AFT), said they have not taken a position on HB 1841 as a whole. However, she expressed concern about the Public School Employees' Benefit Board. She argued that the administration member seats on the Board function as employers since the school boards and the state will be jointly sharing costs of the plan. She noted that under the current language in the bill the Pennsylvania School Board Association and the administration representatives would have a total of eight seats while the employees have only four. AFT does not believe this is fair and suggests a Board that is equally divided among members representing employers and those representing employees, Halpin–Murphy stated. She urged the committee to consider the type of board authorized under federal law for joint health and welfare fund

administration. The committee had no questions for Halpin–Murphy.

[James Testerman](#), President, Pennsylvania State Education Association (PSEA), commented that HB 1841 represents a significant departure in the administration of health insurance in the public school arena. "The legislation, the Public School Employees' Benefit Act, would implement an infrastructure to create and deliver high quality health insurance to school employees throughout the commonwealth and be the most comprehensive of its kind in the nation," he said. He suggested that as the cost of providing health benefits continues to increase and this issue becomes more contentious at the bargaining table, it becomes more important than ever for the Legislature to fully explore potential solutions. PSEA believes that HB 1841 could save school districts an estimated 15–25% of the current health care costs. The bill would require direct state funding to cover a portion of the increase in employee health insurance costs, he noted. He added that the plan would establish Retirement Health Savings Plans for employees. The committee had no questions for Testerman.

[Vince Phillips](#), contract lobbyist for the PA Association of Health Underwriters (PAHU), commented that "although it sounds enticing to have one benefit package fitting all and supposedly reducing a collective bargaining area of tension between school boards and teachers, there are a number of drawbacks." He suggested that if the state decides which benefit package is best, it will move towards the more lavish plans already in place because someone with a rich plan will not wish to give up any of their benefits. "This works against the interests of smaller more rural districts with more frugal benefits," he said. He offered that additional classes of employees may be covered through state mandate, also impacting the total cost. Phillips opined that a state benefits package will discourage innovation in health benefits. He also stated there may be less public accountability if the state runs the school benefits program because State finances may be less transparent than school district finances. The committee had no questions for Phillips.

[Mike Garofalo](#), Vice President, Aon Consulting, suggested that proponents of HB 1841 may be trying to solve a problem that may not exist in certain parts

of the state. Health costs generally are a state problem, he stated, adding that insurance premiums are generally a problem to numerous private and public sector entities. However, they are not a problem in the Allegheny County School Health Insurance Consortium, he said. He offered that the Consortium is able to keep costs down because it has every incentive to be innovative, to be health cost conscious, and to maximize employee understanding that ultimately their use of the system will influence the premium. "My fear is that the flexibility and responsiveness built into the Allegheny County school benefit program will be lost once the state takes that local control away from us and run everything from the state," he remarked. The committee had no questions for Garofalo.

Written testimony also was submitted by [Jeff Hunsicker](#), Legislative Director, Service Employees International Union, Pennsylvania State Council (SEIU).

Rick Morrison

16) Textbooks

House Bill 2136, P.N. 3043 (Cohen): Amends Title 24 (Education) providing for publisher's lists and for roles of adopters. Each publisher, agent, or employee of a publisher of textbooks intended for use at a postsecondary educational institution would provide prospective purchasers with a complete list of all of the products offered for sale by that publisher and that are germane to the subject area of interest to the prospective purchaser and the wholesale or retail price of the product. For each new edition of a product the publisher would provide a complete list of all substantive differences or changes made between the current edition and the most recent previous edition of the textbook. The bill also adds that adopters are encouraged to consider cost in the adoption of textbooks. ***Introduced and referred to House Education Committee, December 18, 2007.***

17) Municipal Service Grants

House Bill 2235, P.N. 3210 (Mantz): Amends the Public School Code

providing for municipal service grants by adding that the Department of Community and Economic Development would make payments in the form of grants for the purpose of reimbursing those municipalities which provide primary municipal services to universities within the State System of Higher Education. The bill outlines a formula for the distribution of grants. \$3,000,000 is appropriated to DCED for the fiscal year 2008–2009 to carry out the provisions of this act. . ***Introduced and referred to House Education Committee, February 11, 2008. Presentation in House budget hearing, March 19. Meeting in House Education set for April 2, 2008.***

Additional discussion:

Rep. Carl Mantz (R–Berks) asked for consideration of [HB 2235](#), which would ease the burden on municipalities that host SSHE schools and neighboring municipalities. He explained the growing student populations have a negative impact on the municipalities because they demand additional services but suppress the per capita income tax collections. He asked for a supplement of \$3 million to fund the bill, which is scheduled to be considered in committee next month. (Appropriations Hearing–March 19, 2008)

18) Marriage Amendment

Senate Bill 1250, P.N. 1776 (Brubaker): Joint Resolution proposing an amendment to the PA Constitution providing no union other than marriage between one man and one woman would be valid or recognized as marriage or the functional equivalent of marriage by the Commonwealth. . ***Introduced and referred to Senate Judiciary Committee, February 14, 2008. Hearing in Senate Judiciary Committee, March 17, 2008. Voted out of Senate Judiciary, March 18, 2008. Set on Senate calendar, March 31, 2008.***

Summary of Senate Judiciary Committee:

[Senate Judiciary](#)

HARRISBURG – (3/18/08, 11:30 a.m., Room 8E–B, East Wing)

The **Senate Judiciary Committee** met to consider nine bills.

[SB 1250 Brubaker](#) – (PN 1776) Joint Resolution proposing an amendment to the PA Constitution providing no union other than marriage between one man and one woman would be valid or recognized as marriage or the functional equivalent of marriage by the Commonwealth. – The bill was **reported as committed** by a vote of 10–4 with Senators Pat Browne (R–Lehigh), Jay Costa (D–Allegheny), Jane Earll (R–Erie) and Wayne Fontana (D–Allegheny) voting in the negative.

Senator Earll said the issue addressed in the bill is emotional and sensitive. She noted that the bill was only referred to the committee in mid–February and only one public hearing had been held. There was information presented at that hearing that she was not aware of, including contradictory legal interpretations and conflicting polling data on both sides of the issue. The senator indicated that because of this conflicting information and because the state Constitution is proposed to be amended, she would like to have more public hearings held around the state. Additional hearings would give her constituents and people in other areas of the state the opportunity to offer their opinions. Senator Earll made a motion to table the bill with the intention of having additional hearings.

Senator Costa echoed the comments by Senator Earll that only one hearing had been held and there was a substantial amount of conflicting information. He expressed concern for constituents of his in Pittsburgh who are employed by the city and whose benefits could be affected if the legislation is enacted. He said it wouldn't be necessary to table the bill, but a vote on it should be postponed long enough to hold additional hearings.

Senator Jane Clare Orie (R–Allegheny) supports the bill but recognizes that there are some issues the bill raises, particularly for people living in Pittsburgh, that need to be vetted. After discussing it with several other senators, she noted that she agreed to a postponement for the purpose of holding additional hearings.

Senator Browne commented that doing Constitutional amendments requires a

special clarity and purpose. When the state Constitution was last amended dealing with the uniformity clause and the homestead exemption in 1998, there were hearings held all over the state, he said. He added that he didn't see the same level of focus on this issue that is clearly even more important.

Senator John Gordner (R-Columbia) explained that he opposes any postponement or tabling of the bill. He said there were a substantial number of testifiers at the hearing held in Harrisburg yesterday on the bill. The senator commented that a bill on the issue had been debated and voted on in the House previously and an amendment he offered with the same language that is in SB 1250 had been voted on and defeated in the Senate. Senator Gordner said this is the number one issue in his district, superseding even the tolling of Interstate 80. The issue should be turned over to the people of Pennsylvania and would require consideration by July, if it is going to be considered this year, because of advertising requirements.

Senator John Rafferty (R-Montgomery) commented that he is not opposed to an additional hearing but a specific timeframe for holding it would have to be in place.

Senator Mary Jo White (R-Venango) said she was influenced by the testimony she heard in the hearing yesterday. There was conflicting legal testimony offered and she said there was a distinct mistrust of the courts by people on both sides of the issue. The senator commented that she didn't want the Legislature to take itself out of the process of deciding on the language in the bill and didn't want to turn the matter over to the courts for definition. She said she is supportive of holding additional hearings to clarify legal questions.

Senator Rafferty said additional hearings must be held before the state's primary election in April. Delaying it until May or June would not provide ample time for hearings and to move the process along for consideration in the fall and subsequent passage by both chambers of the Legislature.

Senator Joe Scarnati (R-Jefferson) commented that he understands the concerns of senators who want to hold more hearings and those who do not. He said that when the bill left the Judiciary Committee it would go to the

Senate Appropriations Committee and he had received assurances from the chairman of that panel there would be additional hearings held on the bill. He offered that as a compromise in order to move the process along.

Chairman Stewart Greenleaf (R–Montgomery) said he would hold additional hearings if that is what the committee wanted. However, he doesn't feel there is a need for more hearings because there would be little in the way of new or different information presented.

Senator Costa said the bill is not a matter for the Appropriations Committee at this time. He said the jurisdiction of this piece of legislation lies with the Judiciary Committee. He doesn't want vague language in the bill which would result in the matter ending up in the courts. He also raised his concerns for constituents in Pittsburgh who could lose their benefits under the proposed Constitutional amendment. He said additional hearings could be held by June 1st and the bill could be considered that month.

Senator Barry Stout (D–Washington) vehemently stated that the first priority for the General Assembly in the next few months is passage of a state budget. He said that should be the focus and questioned when time could be found to hold additional hearings.

Senator Earll again called for her motion to table the bill and to hold more hearings to be considered. She said that when Chairman Greenleaf was advocating for video testimony for child victims, he spent a lot of time traveling all over the state holding hearings so citizens would understand the language of the ballot question they would be voting for and the consequences of the amendment. She said it is important to repeat that process and to get information out to various regions of the state about what the bill would do and to get more input.

A roll call vote on Senator Earll's motion to table was taken and was defeated by a vote of 6–8. Voting in the negative were Senators Lisa Boscola (D–Northampton), Gordner, Jeffrey Piccola (R–Dauphin), Orie, Rafferty, Stout, Greenleaf and Scarnati. Voting in favor were Senators Earll, White, Browne,

Costa and Fontana and Michael Stack (D-Philadelphia)

Senator Earll made another motion to send the bill to the Appropriations Committee for additional hearings.

Senator Piccola commented that the Appropriations Committee would get the bill anyway to assign a fiscal note.

Senator Gordner again expressed opposition to the motion to send the bill to Appropriations and hold additional hearings.

Senator Scarnati commented that a fiscal note and additional hearings could be taken care of in the Appropriations Committee and it is not a re-referral of the bill. He said his compromise was to have the Judiciary Committee to vote the bill out of the committee today.

Senator Costa noted that there is a need to conduct more hearings, as there was for bills dealing with gun violence and other important issues.

A roll call vote was taken on the new motion and it was defeated by a vote of 5-9, with Senators Boscola, Gordner, Orié, Piccola, Rafferty, Stout, White, Greenleaf and Scarnati voting in the negative. Senators Earll, Stack, Fontana, Browne and Costa voted for the motion.

On the bill, Senator Browne expressed concern over not establishing language defining marriage the committee is willing to stand by and to say, "...this is what this means. And to advance that to our constituents, we are not doing our full duty in letting them have the burden to decide, without our direction, on how to vote on this measure," he stated. The Judiciary Committee is the place where the issue needs to be considered and defined, he added. He expressed concerns over the potential loss of benefits and the functional equivalency of marriage not properly defined. He added that the committee must do its duty as it did with defining the Homestead Exemption. He said the appropriate place to do the work on SB 1250 is in the Judiciary Committee, not the Appropriations Committee.

Senator Gordner said he has concerns over existing legal rights and employment benefits for same-sex couples, while maintaining and preserving the sanctity of marriage. He said the language in a Pennsylvania Supreme Court decision in the case of *Devlin v. City of Philadelphia* should preserve benefits. He added the intent is not to provide for civil unions, but SB 1250 preserves existing rights and benefits for gay and lesbian couples. He said a Constitutional amendment gives the people of Pennsylvania the right to decide on the issue after passage in two consecutive sessions of the Legislature.

Senator Costa disagreed with the assertion that no one would be harmed. He said employees in Pittsburgh covered by city benefits would be harmed under the legislation.

A roll call on the bill was taken and it passed by a vote of 9-5. Voting yes were Senators Boscola, Gordner, Orié, Piccola, Rafferty, Stack, Stout, White, Greenleaf, Scarnati. Senators Browne, Costa, Earll and Fontana voted in the negative.

2008 Spring Session

2008 SENATE SPRING SESSION SCHEDULE

March 17, 18, 31

April 1, 2, 7, 8, 9, 28, 29, 30

May 5, 6, 7, 12, 13, 14, 19, 20, 21

June 2, 3, 4, 9, 10, 11, 16, 17, 18, 23, 24, 25, 26, 27, 30

2008 HOUSE SPRING SESSION SCHEDULE

March 17, 18, 31

April 1, 2, 7, 8, 9

May 5, 6, 7, 12, 13, 14

June 2, 3, 4, 9, 10, 11, 16, 17, 18, 23, 24, 25, 26, 27, 28, 29, 30

(nv)=non-voting

House Appropriations-PASSHE

HARRISBURG – (2/26/08, 11:30 a.m., Room 140, Main Capitol)

The **House Appropriations Committee** held a budget hearing with the State System of Higher Education (SSHE).

Members in attendance included Chairman Dwight Evans (D–Philadelphia), Minority Chairman Mario Civera (R–Delaware) and Representatives Craig Dally (R–Northampton), Kathy Manderino (D–Philadelphia), Scott Petri (R–Bucks), Gordon Denlinger (R–Lancaster), Bill Keller (D–Philadelphia), David Millard (R–Columbia), John Siptroth (D–Monroe), Jake Wheatley (D–Allegheny), Scott Conklin (D–Centre), Dan Frankel (D–Allegheny), Stephen Barrar (R–Delaware), Katie True (R–Lancaster), Don Walko (D–Allegheny), Fred McIlhattan (R–Clarion), Mario Scavello (R–Monroe) and Bryan Lentz (D–Delaware).

Representing SSHE at the budget hearing were Vice Chancellor for Student and Academic Affairs Peter Garland, Joe Pelzer, a senior at Shippensburg University and Student Senate President, and Angelo Armenti Jr., President of California University of Pennsylvania.

Chairman Evans asked for a discussion on teacher education. Peter Garland explained that the 14 SSHE universities prepare 40% of the new teachers in the state. One major concern is always the quality of education. Garland added that one current issue that presents a "major challenge" is the changing in the teacher education policy by the State Board of Education. "Those are strong changes," he noted.

Seeking a student's perspective on the SSHE, specifically on the level of tuition, Chairman Evans asked Joe Pelzer to address the Committee. In response, Pelzer explained that it was his choice to attend Shippensburg and looking back at the experiences he has gone through while at the university, he said that he would not change a thing. "The tuition is incredibly affordable," he emphasized.

Concerning the money market and mortgage market, how is SSHE preparing for loan and grant situations, Minority Chairman Civera inquired. Garland acknowledged that the instability of the credit market has an impact on PHEAA, which was the impetus behind the recent convening of a summit between SSHE

and PHEAA. "We don't necessarily know how that is going to affect the availability of loans," he said. Garland assured the Committee that they would be monitoring the situation very carefully. Offering his opinion that the money market is not moving in the right direction, Minority Chairman Civera asked if there would be a drop-off in SSHE attendance if the universities were not prepared to assist families financially. Garland responded that some families would look to other "loan mechanisms" and some families will move towards lower cost institutions such as community colleges. There is a "stress point", Garland explained, that could result in some students taking semesters off or reducing the number of credits taken during a semester.

Rep. Conklin stated that a concern has been voiced to him by members of higher education dealing with the loss of PA's professors. He noted that some states such as New York have implemented incentives to attract out of state, experienced faculty. "We are used to a certain level of competition in the market" for faculty, Garland explained. SSHE provides a very competitive salary and benefits package that helps to attract and retain high quality faculty. Retirement is a main concern that SSHE is focusing on because 38% of our faculty is over the age of 55, he emphasized.

Commending the previous Chancellor for her work, Rep. McIlhattan asked for the current enrollment of students in SSHE universities. A little bit over 110,000 students, Garland answered. How many are PA residents and how many of the graduates stay in PA, the Representative questioned. 90% are PA residents and 4 out of every 5 undergraduates stay in PA for their first job or to take graduate studies, Garland replied. Rep. McIlhattan inquired into the percentage of faculty that are tenured. Garland responded that 82% are full-time, tenured faculty and 18% are part-time, temporary professors. Nationwide, he added, the percentage is 50%. There is always going to be a need for non-tenured professors and "we think we have a pretty good balance point on that," Garland stated. What is the main course of study, Rep. McIlhattan asked. Education is our strong suit, Garland replied. Business and Science enrollment, for example, are increasing. Noting that SSHE requested a 5% budget increase and that the Governor has proposed a 3% increase, Rep. McIlhattan asked how a 3% increase would affect tuition this year and how much tuition has increased over the last 5 years.

Garland explained that with a 3% budget increase, tuition would have to increase by \$181, or 3.5%. Over the past 3–5 years, tuition has been raised by \$799. The last three years have been at or below the rate of inflation, he explained.

Rep. Keller inquired into Pelzer's plans for the future. Noting that he is currently looking at graduate schools as well as job opportunities, Pelzer stated that he plans to continue to reside in PA.

Commenting that the Chapter 49–2 regulations that set curriculum changes for teachers were unfunded mandates, Rep. Siptroth questioned the financial impact of those regulations. He noted that the President of East Stroudsburg University indicated that \$25,000 would help to pay for the mandate of nine additional special education credits. Acknowledging that he would not be able to come up with an exact dollar amount, Garland stated that the Chapter 49–2 changes will result in the need for faculty to take time to change their course curriculum over the next year. Part-time professors, which have limited office hours, may place a strain on full-time professors, Rep. Siptroth commented. SSHE looks at that issue very carefully, Garland responded. The collective bargaining agreement sets the pay scale for part-time, temporary faculty. There are some stress points. The Chapter 49–2 changes fall on the full tenured professors, he added. Would 10% be a better target, the Representative asked. There are different perspectives, Garland answered. "There is an ebb and flow", he explained. Rep. Siptroth explained that he would like to see increased marketing for SSHE universities. Garland welcomed any marketing assistance. Rep. Siptroth then thanked SSHE for its cooperation with community colleges. Garland commented that legislation requiring 30 foundation credits required the SSHE to work with the State Board of Education and community colleges to make the process of credit requirements easier for students to understand.

Citing campus safety as a major issue, Rep. Denlinger asked what has been done on a policy standpoint to ensure student safety. He also noted that some people feel that there should be a gun-free zone, but he stated that there are times when violence with force can only be stopped with equivalent force. After the shootings at Virginia Tech, SSHE held a summit to address campus

emergency operation plans, Garland explained. A federal grant was received to assist on this issue and a variety of communications strategies are in place. All campus police officers are armed, he said. Armenti explained that his university plans for these events, like the one that happened recently at Northern Illinois University. Armenti added that people are not "screened" for weapons when they come onto campus. Pelzer declared that this issue has fast become one of the top concerns of students. As a campus leader, meetings were held on student safety. It is important for campuses to take a proactive approach on this concern, Pelzer said. Rep. Denlinger asked if SSHE could quantify the number of violent or troubled students. Commenting that the 110,000 plus students enrolled in SSHE universities come from a wide range of backgrounds, Garland stated that problems and issues will emerge but he emphasized the importance of doing threat assessments.

Rep. Wheatley asked if there is a ban on guns on campus. Garland replied that universities have policies in place. Guns can be registered and stored with campus police. He explained that campuses do not have fences or use metal detectors to keep guns away. "There should not be guns on campus," he announced. Rep. Wheatley asked for a discussion on how all of the members of higher education in the state could coordinate their efforts. In response, Garland replied that it would be necessary to define expectations – what does the state expect from higher education? Also, what are the expectations for students? Rep. Wheatley asked Pelzer where he is from and also for his perspective on coordinating the "funding mechanism." Noting that he is from Bucks County, Pelzer replied that a joint effort is necessary. There are programs to encourage students coming out of K-12 to pursue higher education, he said. Pelzer commented that the strengths of SSHE institutions are having an affordable tuition and offering an incredible education. Rep. Wheatley commended the decision to bring in Pelzer to testify.

Recalling a previous comment by Pelzer that Shippensburg is the Harvard of the state schools, Rep. Scavello opined that East Stroudsburg is the Cadillac of SSHE. He noted that the university has a business incubator system and the majority of those graduating stay local. Voicing his concern that the Chapter

49-2 regulations were un-funded mandates, Rep. Scavello offered his support for SSHE's budget. This is "money well spent," he concluded.

Rep. Dally questioned if the articulation agreements are working. Garland replied that over the past five years, the number of community college transfers has grown 150%. The 30 foundation credit legislation will help to move that further, he added. It is important, Garland noted, to define the pathway in order to ensure that students know the articulation process. Armenti explained that California University has a partnership with a community college that offers an associate degree in nursing. He explained that California University, which only offers a 3rd and 4th year nursing program works with the community college to allow nursing students to complete their training. Rep. Dally inquired into the 4-year graduation rates for SSHE universities. Garland explained that 1 in 3 students graduate in four years. Five years ago, 1 in 4 students graduated in that time period. Nationally, he added, the number is 1 in 5 students.

Having recently written out three tuition checks, Rep. Millard commented that there are "an awful lot of fees." He asked if the fees are also raised when tuition is raised. The process of increasing fees and its impact on affordability are monitored, Garland replied. Of the states with a similar structure, PA ranks 46th out of 46 states in terms of the amount of tuition growth. "I think we are doing the best we can," he concluded. Armenti added that there is only one fee, the academic support fee, which automatically increases along with an increase in tuition. All others are monitored individually, he clarified.

Rep. McIlhattan commented that Garland has not applied for the position as Chancellor and he offered his opinion that Garland would be a good candidate for consideration.

Steven Cline

Senate Appropriations-PASSHE

HARRISBURG – (2/27/08, 3:00 p.m., Hearing Room 1, North Office Building)

The **Senate Appropriations Committee** held a budget hearing with the State System of Higher Education (SSHE).

Members in attendance included Chairman Gib Armstrong (R–Lancaster) and Senators Bob Regola (R–Westmoreland), Pat Browne (R–Lehigh), John Rafferty (R–Montgomery), Robert Tomlinson (R–Bucks), Mary Jo White (R–Venango), John Wozniak (D–Cambria) and Mike Waugh (R–York). Senate Education Committee Chairman James Rhoades (R–Schuylkill) and Minority Chairman Raphael Musto (D–Luzerne) also attended. Senator Vince Hughes (D–Philadelphia), a member of the SSHE Board of Governors, also attended.

The committee began immediately with questions for Dr. Peter Garland, SSHE Executive Vice Chancellor.

Chairman Armstrong inquired about SSHE's new computer system and how it is working. Chancellor Garland said the system began to be developed about seven to eight years ago. He said it is used for student registration, advising and enrollment, as well as some business operations of the universities. Chairman Armstrong said he has spoken with some trustees from the boards of some of the universities and they are not happy with the program and feel it is not doing as well as it should be at this point in time. He said the original cost estimate for the software was \$71 million, but it is now around \$150 million and some of the trustees felt they were forced into using the system.

Chairman Armstrong asked about SSHE's budget request of three percent and asked if it would result in an increase in tuition. Chancellor Garland said there is a potential increase of approximately \$181 in tuition for next year. Chairman Armstrong asked if there would be additional fees. Chancellor Garland said fees are decided on by each school and they can grow at different rates. He said out of 46 states that have similar university systems, Pennsylvania is 46th in terms of the growth of student fees.

Chairman Armstrong inquired about graduation rates. Chancellor Garland said four years ago one in four students graduated, now one in three graduate, while in other states with comparable university systems, only one in five

students graduate. He said SSHE is trying to eliminate barriers to students getting through and completing their college education.

Senator Rhoades asked if SSHE is doing anything to address the shortage of nursing, engineering, and technical graduates. Chancellor Garland said they are looking at regional demands, and are adjusting programs to the needs of the marketplace. He added that 90% of the students in the SSHE system are from Pennsylvania, and that 80% of those students return to their home regions and stay in Pennsylvania seeking employment. He said approximately 40% of the students in the SSHE system are education majors. He said there are approximately 18,000 students in science and that number is growing. He offered that there are an increasing number of nursing graduates, but nursing is an expensive program to operate and it is challenging to find clinical settings for them to get experience in.

Senator Rhoades inquired about the SSHE state appropriation and how it is distributed. Chancellor Garland explained the general allocation formula is based on the number of students at each university and other factors. He said some of those factors include the number of degrees awarded, four- and six-year graduation rates, and the diversity of staff hired at each institution. He noted that each institution is measured for improved performance from the previous year, improved performance versus benchmark institutions in other states and other performance measurements.

Senator Rhoades then asked how the system makes sure it is operating efficiently. Chancellor Garland said the SSHE system is committed to helping students to make sure they graduate, addressing cost efficiency, and keeping a careful watch on all its expenditures.

Senator Rhoades wanted to know why there are not more professional schools available such as law schools or medical schools. Chancellor Garland replied that the original intent of the SSHE system was to feature baccalaureate and graduate programs to meet regional needs. He noted there are other professional schools that already exist around the state and he feels students are prepared when they leave state system universities to attend those schools if they desire.

Senator Rhoades inquired about the articulation programs with the state's 14 community colleges. Chancellor Garland said the program is going well and there are 28,000 courses offered in conjunction with the state's community colleges. He said the number of community college transfers is up 150%.

Senator Musto inquired about the number of tenure-track professors going down and the number of full-time, non-tenure track professors going up. Chancellor Garland replied that his calculations are different than what the senator cited, explaining that 82% of the SSHE system professors are full-time tenure-track and 18% are part-time. He also said he would get back to the senator to compare his information with what the senator cited.

Senator Musto wanted to know what the SSHE administrators are doing to increase foreign language curriculum, foreign language certification programs and to increase the number of students studying foreign languages. Chancellor Garland said it is tough for SSHE because not all the high schools are preparing enough students to come to college with foreign-language skills. He said SSHE's general education guidelines have some foreign-language requirements, but, "We have concerns in this area." He said there don't seem to be enough foreign-language teachers in the high schools to prepare students with foreign-language skills.

Senator Musto asked if SSHE is concerned about building too many new facilities because the number of high school graduates is climbing by five percent. Chancellor Garland said they replace or renovate facilities to meet current demands. He said they are not building aggressively at this time because of the small increase in enrollment. He remarked that they are managing that effectively.

Senator Browne said the cost of attending a SSHE school is \$400 less than the national average and asked what that figure is based on. Chancellor Garland said that is based on tuition, fees, and room and board. Senator Browne wanted to know the cost to educate each student at a SSHE university. The chancellor said it is about \$12,000 per student. Senator Browne asked if that is about the national average. The chancellor said that is in the ballpark of the national average. Furthermore, he added the six-year graduation rate is above the

national average. He said 21.2% of the students graduate in four years. Senator Browne asked why that number is so low. Chancellor Garland said because of the need for remedial classes, family issues, and the need for students to work at outside employment to pay for their tuition and fees.

Senator Browne asked him to talk a little bit more about the need for remedial courses for more students. The chancellor said the need for remedial classes is fairly substantial but is less than the rate at community colleges. He said approximately 22% of students currently need remedial help with math, reading and writing. Senator Browne wanted to know what the cost of offering remedial courses is. The chancellor said the cost is mostly to the student because it takes them longer to graduate and they spend more in tuition and fees. He said it does cost SSHE approximately \$4 million to conduct remedial courses. He offered that the bigger concern is that it takes students longer to graduate and eventually costs them more in tuition.

Senator Browne queried about the breakdown in science, engineering and other technical fields. Chancellor Garland said the number of students in science is increasing as is the number of students in health-related curricula, engineering, and business. He said the number of students in the system in technical and engineering fields is approximately 1.4% of the total.

Senator Rafferty asked what SSHE is doing to increase and improve security on all campuses. Chancellor Garland said after the violent shooting incident at Virginia Tech, the Board of Governors appointed a task force to study security issues. They discovered a need to improve communication when an incident occurs, improve security protocols to prevent violence, and to assess individuals who are either living on campus or nearby, who pose a potential threat to commit a violent act on campus. Senator Rafferty inquired if all 14 SSHE universities have an on-campus police force. The chancellor said all 14 have police forces with officers who carry weapons.

Senator Rafferty asked what the value of a state system university is to a town. Chancellor Garland replied that the presence of a state system university is very valuable to the towns they are located near. He said most of them are located in rural areas near small towns, and for every one dollar that goes into the

university, ten dollars comes out in economic benefits to the local community. He added that the communities benefit through volunteers from universities and from the availability of arts and culture programs on each campus.

Senator Rafferty asked about the status of alcohol education programs at each campus. The chancellor explained that from the point of admission, each student is counseled about alcohol abuse and SSHE has a partnership with the Pennsylvania Liquor Control Board to help educate students about the effects of alcohol.

Senator Regola said the governor's budget proposal requests approximately a three percent increase for SSHE while SSHE's request is approximately five percent. He asked if the governor had been upfront with SSHE about the difference in the proposed level of funding. The Chancellor said three percent is a reasonable budget increase that would result in a reasonable tuition increase.

Senator Regola wanted to know what the average student debt is. Chancellor Garland said it is about \$22,000 on average.

Senator White inquired about percentage of students who live off campus. The chancellor said approximately 35 to 40% of students live on campus. Most of the others live nearby and a few others commute, he added.

Senator White asked about the annual technology fee of \$188. The chancellor said that fee is set by the system's Board of Governors. Senator White commented that the system should consider charging students a \$10 fee that would go to local municipalities to aid their public safety agencies such as police, firefighters, EMTs and codes enforcement personnel for the number of times they either respond to incidents on campus or must inspect off-campus housing.

Senator White asked about Key 93 money. The chancellor said there would be \$12.5 million this year for repairs under that fund.

Senator White wanted to know if SSHE is using distance learning to its fullest potential. The chancellor said the system can do more. Currently, enrollment in

distance learning classes has increased from one percent to four percent and it is growing everyday, he noted. He stated the study of foreign languages is an area that could benefit the most by connecting students to foreign language teachers in other areas of the state. He said students also benefit from distance learning during summer sessions when they are away from campus.

Senator Tomlinson asked how capital expenditures for student housing is handled. Chancellor Garland said there is a great need to renovate or build new buildings, especially dormitories, because many of them were constructed in the 1960s or 1970s and are outdated. He said there are many new dormitories that have been, or are in the process of being constructed on all campuses. He explained that there are approximately 10,000 new rooms in those dormitories and another 5,000 are being renovated, systemwide. He said the system tries to limit capital expenditures to academic programs as much as possible and uses student fees to construct recreational buildings, cafeterias and other non-academic facilities on each campus.

Senator Tomlinson inquired if this is happening across the entire SSHE system. The chancellor responded by saying that at California University of Pennsylvania, all dormitories have been replaced. He said on other campuses some have just started, while some are much farther along. He said the renovations and new buildings are popular with students and parents and improve the quality of student life on campus.

Senator Tomlinson asked how money gets distributed among the schools. The Chancellor said performance standards are established by the Board of Governors. He said there is a core allocation and each school is given money based on its performance and improvements from year to year.

Senator Wozniak wondered how many students who graduate from an SSHE school go on to get a Masters Degree. The chancellor noted that most SSHE graduates go on to seek employment immediately. He said the number of students at state-related universities and private institutions who go on to pursue graduate work is higher, but if SSHE students want to pursue graduate work, he feels they are well-prepared.

Senator Wozniak asked about the status of the Indiana University of Pennsylvania program that sends students to China and if other SSHE schools are developing international programs. Chancellor Garland replied that each university has or is making efforts in international exchange programs. He said the goal is to make sure as many students as possible are exposed to a global perspective, even if they never visit another country again in their lifetime.

Senator Wozniak asked how alumni outreach efforts are going. The chancellor commented that reaching out to alumni is a big part of SSHE fundraising efforts. He added that many state system graduates are employed in fields that SSHE students want to work in, and those alumni often are good contacts for internships and employment networking.

Senator Armstrong commented that Millersville University, in his district, is good at fundraising and has a good program in which many of its students go to China to study.

Senator Rhoades queried about the collective bargaining agreement reached in October. The chancellor said it is a good agreement that runs through 2011. He said the total cost of the contract with Association of Pennsylvania State College and University Faculty (APSCUF), including salaries and benefits is approximately 19% over the life of the new contract.

The senator wanted to know what the total cost of attending an SSHE university is. The chancellor said the total of tuition, fees and the most popular room and board program is just shy of \$13,200. Senator Rhoades remarked that it is a good education value for the money.

Senator Rhoades asked why SSHE accepts students who are in need of so much remedial help if they are not prepared adequately coming out of high school. The chancellor said most students are ready to pursue higher education with the exception of one area of weakness. He said students who need remedial help typically need a course in reading, math or writing and the system is there to help them along and doesn't want to deny them the opportunity to further their education if they can improve in just one area where they need academic help.

Senator Armstrong expressed his concern about the auction market for student loans and if SSHE has contingency plans for a further downturn in that market. Chancellor Garland replied that is an area of concern to SSHE management and they are not sure what to expect. It is hard to come up with appropriate numbers to address the issue at this time, but they will be assessing the situation frequently, he concluded.

Rick Morrison

House Appropriations-PSERS & SERS

HARRISBURG – (2/27/08, 1:30 p.m., Room 140, Main Capitol)

The **House Appropriations Committee** held a budget hearing with SERS and PSERS.

Members in attendance included Chairman Dwight Evans (D-Philadelphia), Minority Chairman Mario Civera (R-Delaware) and Representatives Gordon Denlinger (R-Lancaster), Scott Petri (R-Bucks), Dave Millard (R-Columbia), Bill Keller (D-Philadelphia), Craig Dally (R-Northampton), John Siptroth (D-Monroe), Katie True (R-Lancaster), Lawrence Curry (D-Montgomery), John Galloway (D-Bucks), Dante Santoni (D-Berks), Bob Godshall (R-Montgomery), Kathy Manderino (D-Philadelphia), Mario Scavello (R-Monroe) and Ron Miller (R-York).

Panelists representing SERS were Chairman Nicholas Maiale, Executive Director Leonard Knepp, and Chief Investment Officer John Winchester. Panelists representing PSERS were Chairman Melva Vogler, Executive Director Jeffrey Clay, and Chief Investment Officer Alan Van Noord.

Chairman Evans opened the meeting by asking the panelists to provide an overview of how the two systems are going. He noted the trouble that PHEAA is facing due to the lagging market. Maiale stated SERS is doing well, stating that the system had a 17.2% rate of return in 2007, which places it in the top 3% in the nation. SERS has ranked in the top 5% in the nation for the past five years. He discussed the projected rate spike in 2012 and stated original projections of 23% have been reduced to below normal costs due to the good returns in recent

years. He cautioned, however, that projections can change based on performance. Winchester acknowledged the volatile market and stated consumers are tightening their budgets, which will affect corporate income. However he projected SERS' rate of return is still ahead of the 8.5% normal rate of return. SERS operates on a calendar year fiscal year, whereas PSERS operates on a July 1 to June 31st fiscal year. Van Noord reported PSERS has also had exceptional returns. At the end of the previous fiscal year the rate of return was 22.9%. He noted the past six months have been "challenging".

Minority Chairman Civera referred to a recent SERS announcement regarding the reduction in the projected spike and asked how that will play with the lagging economy. Maiale stated past performance is not an indication of future performance and if there are a few bad years, the spike will go back up. He emphasized the importance of looking toward the future. Minority Chairman Civera asked if there is anything the General Assembly can do. Maiale stated action by the legislature last year to increase the contribution floor to 4% was very helpful. He stated another step that would help would be to not enhance benefits (COLA), but he noted this would not be very popular. Clay stated PSERS is projecting a spike to 11.23%, which is well below the original projection of 27.73%. He stated this reduction means a saving of \$2.73 billion, but noted if the markets go down the rate will go up. He urged the General Assembly to act on [SB 826](#), which would increase the floor to 6.44%. Without this floor, the rate will drop toward 4% and then spike. Clay stated this is like digging a trench before you climb a mountain.

Rep. Barrar noted six bills that would provide for a COLA have been introduced. He asked the panelists what they would recommend. Knepp stated SERS is 92% funded and noted the previous COLA cost \$650 million. He suggested that considering the direction of the markets, a COLA could present a problem. Rep. Barrar commented on a method that would pay for the COLA with surplus earnings above 8.5% and asked how much would be needed. Knepp responded returns are a moving target, noting they average 8.5% overall. He noted a newsletter that Rep. Barrar had referred to and explained it is referring to the "fresh start" concept. Knepp cautioned that with the combination of the Act 9 problem and the volatile market, any additional debt will increase the employer

contribution rate. Rep. Barrar asked about the impact of a COLA that would be the same as the 2002 COLA. Knepp stated they ran the numbers in 2006 and determined such a COLA would cost \$1 billion, which would increase employer rates by 2.9%. Clay stated it would cost \$2 billion for PSERS. The panelists stressed that any COLA will increase employer costs. Rep. Barrar suggested the systems look into the possibility of raising the employee contribution rate to provide for a COLA, remarking that the constant COLA debate needs to be settled.

Citing the troubles of PHEAA, Rep. Keller asked about the impact of the current economic issues on the funds. Van Noord stated the PSERS portfolio had little subprime exposure and was not as directly affected as PHEAA. He noted there has recently been a spike in the commercial mortgage market. Winchester indicated SERS also had minimal exposure.

Rep. Petri referred to a certain subset of retirees that did not qualify for Act 9 and asked about the cost to give them a COLA. Maiale sought to clarify that these were the individuals that received 2% instead of 2.5%. Knepp stated the system has 107,000 annuitants and 60% are pre-Act 9. He stated the cost of a COLA for them would be \$700 million. Clay stated the cost in PSERS would be \$1.4 billion. Rep. Petri asked for specifics, stating he has received a lot of questions on the issue. He then questioned if employers can choose to contribute above the contribution rate, for example if SB 826 is not enacted. Clay stated they cannot and explained the contribution rate will drop to 4.76%, however the Department of Education advised school districts to prepare their budgets in anticipation of the current rate of 7.13% continuing, that way they are prepared if SB 826 is enacted or have extra funds if it is not. Clay stated SB 826 needs to be passed before June 30. Rep. Petri asked if it is easier or harder for schools to budget if a floor is established. Clay stated schools like predictable numbers. Rep. Petri concluded by urging passage of SB 826 as soon as possible.

Rep. Siptroth asked about the cost of an automatic COLA and suggested creating an option where members could choose to leave their money in the system and receive a regular COLA. Clay referred to a Legislative Budget and

Finance Committee report on automatic COLAs and stated it would increase the total unfunded liability in the two systems by \$21 billion. He noted the suggestion to leave money in the system to receive a COLA has been looked at, but he wasn't sure how seriously. He offered to provide data to the committee.

Rep. Denlinger asked about accounting compliance under GASB 45. Knepp explained GASB 45 pertains to OPEB, or non-pension systems, therefore it does not apply to SERS. Clay noted PSERS runs two health care programs, one of which is not subject to GASB 45 and the other, the Premium Assistance Benefit, is. He stated this program has an OPEB liability of \$1 billion over 30 years. Rep. Denlinger asked about noncompliance penalties, to which Clay explained there are none as long as the information is disclosed. Rep. Denlinger indicated he has a different understanding and suggested the two meet at a later date.

Rep. Dally asked if SB 826 is enacted, what happens if a surplus develops. Clay acknowledged the potential for a surplus if the floor is close to the normal rate and stated if that occurs, the surplus could be used as a cushion for bad years or as a means to prefund a COLA. Rep. Dally then mentioned a work group that considered prefunding benefit enhancements. Clay replied that would make for consistent COLAs and would be cheaper in the long run. Rep. Dally then asked for data on the average withdrawal under option 4 for the past five years. The panelists stated they would provide it. Lastly, Rep. Dally asked how the systems' expense rates compare with other systems. Clay stated PSERS' investment expenses are 42 basis points and administrative expenses are seven or eight basis points, which compares favorably. Winchester stated SERS' expense rates are slightly higher due to the composition of the investments, but he stated the higher costs have borne out to be worthwhile.

Kimberly Collins

Senate Appropriations—PSERS & SERS

HARRISBURG – (2/27/08, 10:30 a.m., Hearing Room 1, North Office Building)

The **Senate Appropriations Committee** held a budget hearing with SERS and PSERS.

Members in attendance included Chairman Gib Armstrong (R-Lancaster) and Senators Sean Logan (D-Allegheny), Raphael Musto (D-Luzerne), Pat Browne (R-Lehigh), John Gordner (R-Columbia), John Rafferty (R-Chester), Lisa Boscola (D-Northampton), Jake Corman (R-Centre), Robert Tomlinson (R-Chester), Roger Madigan (R-Bradford), Barry Stout (D-Washington), Jim Rhoades (R-Schuylkill), Mike Waugh (R-York) and Mike Stack (D-Philadelphia).

Panelists representing SERS were Chairman Nicholas Maiale, Executive Director Leonard Knepp, and Chief Investment Officer John Winchester. Panelists representing PSERS were Chairman Melva Vogler, Executive Director Jeffrey Clay, and Chief Investment Officer Alan Van Noord.

Chairman Armstrong opened the meeting by asking the panelists to provide an overview of how the two systems are doing. Maiale stated SERS is doing well, with a 17.2% rate of return in 2007 placing it in the top 3% in the nation. SERS has ranked in the top 5% in the nation for the past five years. He discussed the projected rate spike in 2012 and stated original projections of 23% have been reduced to below normal costs due to the good returns in recent years. He cautioned, however, that projections can change based on performance. Winchester acknowledged the volatile market and stated consumers are tightening their budgets, which will affect corporate income. SERS operates on a calendar year fiscal year, whereas PSERS operates on a July 1 to June 31st fiscal year. Clay reported PSERS has also had exceptional returns. At the end of the previous fiscal year the rate of return was 22.9% and the projected spike has dropped to 11.23%. Chairman Armstrong remarked on the continual success of the two systems. He then asked about the impact of a COLA. Knepp stated if the 2002 COLA were replicated, it would cost \$1 billion on top of the current unfunded liability. He noted the system is currently 92.7% funded. Clay stated the 2002 COLA would cost \$1.9 billion for PSERS and said the system is currently 86% funded.

Senator Musto asked why the systems are performing so well. Maiale stated the key is diversification. Winchester explained the main contributors to the

success were international stocks, emerging markets, real estate and inflation protection. Senator Musto asked if the systems are ready for the retirement of baby boomers, when the number of annuitants will equal that of employees paying in to the system. Knepp stated that consideration will be factored into the normal cost formula. Maiale noted they project \$5 billion in payouts in 2017. Senator Musto also asked how the larger volume of retirees will be handled. Knepp stated 7,000 members retired last year; usually only 4,500 retire each year. He noted SERS was able to make payment in an average of seven weeks due to advanced planning.

Senator Musto then asked about strategies to mitigate the 2012 spike. Knepp noted the original spike was projected to reach 28% but with current returns it is expected to remain below normal cost. Chairman Armstrong commented every percentage point of return above 8.5% means an additional \$350 million for SERS and \$580 for PSERS.

Senator Browne asked about staffing needs. Knepp explained SERS' full complement is 197 and they have requested an additional 10% to fill vacancies from retirements. Clay stated PSERS' complement is 306 and they had requested an additional six staffers. The proposed budget provides for two new staffers, who would be in the investment office. These staffers are needed, he stated, because assets are growing. He noted the increased number of retirees in the system also necessitates more staff. Senator Browne then remarked on the investment fees and questioned why the fees are not proportionate to the investment classes. Winchester explained base fees tend to be higher for real estate and alternatives. He noted the increased fees are justified by the returns.

Senator Browne then discussed the increased attention on divestiture for social or political reasons and asked the panelists their opinion on the subject. Maiale stated in his tenure with the board it has never voted to divest for social reasons; however the board has begun to debate the merits of divesting from Sudan. He stated he views divestiture as a "slippery slope". Clay noted PSERS has had extensive discussions on the subject and the board does not believe it has the authority to divest for social or political reasons.

Senator Boscola continued the divestiture discussion and asked about the practice of investing in China, remarking that this is an economic issue as well as a social one. Clay stated the General Assembly would need to authorize divestiture, noting that this would likely mean lost profits. He stated these companies are already subject to economic sanctions and would not be impacted by the divestiture. Senator Boscola asked about divestiture from South Africa and Northern Ireland in the past. Clay stated the General Assembly instituted the Northern Ireland divestiture, noting that by the time it took effect it did not have much impact. He noted the divestiture from South Africa had a negative impact. He suggested that in the decision to divest, the General Assembly must determine if the divestiture will have an impact on that nation. He stated that to date, the answer to that question is no. Senator Boscola suggested the political statement is what is important.

Senator Gordner asked how many retirees choose the withdrawal option. Knepp stated 90% for SERS and 88% for PSERS. Clay noted pensions are reduced to reflect the withdrawal. Senator Gordner suggested providing COLAs for retirees that leave their money in the system. Knepp noted there have been discussions on that. Clay offered to provide the committee with the numbers on that. Senator Gordner then explained that college professors are given the option to join PSERS or TIAA-CREF when they are hired and many choose TIAA-CREF because they are not sure they will remain in PA. However, when they later realize they are staying they do not have the option to join PSERS. He suggested this could be remedied by allowing them to buy in from the ground level. These professors would then have retirement plans in both TIAA-CREF and PSERS. Clay indicated he would look into the idea. Chairman Armstrong remarked on the cost to have the professors in TIAA-CREF.

Senator Madigan asked what the systems will do due to the uncertainty of the markets. Van Noord affirmed the economy is slowing, but explained the system is diversified. He noted they will make some shifts, but stressed that investing is a long-term strategy. Winchester agreed.

Senator Tomlinson asked for calculations for doing a COLA this year. Clay stated it would have to be paid for and estimated a COLA at 50% of the

Consumer Price Index (CPI) for all retirees would be \$2.4 billion with an employer contribution rate increase of 3.12% or \$1.3 billion increase for just the TC class. He remarked PA's system is relatively unique in that retirees can opt to withdraw.

Senator Corman asked if any state allows for withdrawal and COLAs. No one was aware of any such states. Senator Corman asked if the system needs to be revamped as the number of retirees approaches the number of employees in the system. Clay noted this is an issue for Social Security, which is a pay as you go system, but SERS and PSERS are prefunded, so it is not an issue for the systems. He noted the addition of a COLA would be an issue because it would be a greater burden on the members. COLAs, he emphasized, have to be paid for and the only sources of revenue are employee contributions, employer contributions and investment returns.

Senator Corman remarked that he agrees divestiture is a slippery slope. He suggested if it is pursued, it should be done so in an organized manor that meets certain criteria; not just at the whim of the political climate.

Senator Stout asked about the impact of the national debt and the decline of the dollar. Clay stated the federal deficit does not have a direct impact. He noted unfunded mandates have an indirect impact because they limit the ability of employers to pay. Van Noord stated the investment strategy considers the weakened dollar, noting they have increased international exposure and done very well. He remarked it is unfortunate that an emerging nation has a profile similar to the United States. Winchester noted SERS has also increased its international exposure.

Senator Rhoades speculated on methods to provide a COLA to annuitants without imposing an additional burden on the systems. He remarked on the policy dilemma because annuitants claim the revenue from the investment returns is theirs. Knepp reiterated a COLA would cost \$1 billion for SERS, with a 2.9% increase in the employer rate. He noted the state contributes 4% to SERS. Clay said the employer contribution rate for PSERS is 7.13%, of which the schools pay 48%.

Senator Waugh asked if the governor's proposal is based on the 4% employer contribution rate floor for SERS. Maiale remarked there is no reason to think the budget doesn't include that rate. Clay explained the PSERS rate is 7.13% and it will drop to 4.76% next year. However, he explained, the Department of Education advised school districts to prepare their budgets in anticipation of the current rate of 7.13% continuing, that way they are prepared if [SB 826](#) (which increased the floor to 6.44%) is enacted or have extra funds if it is not. Senator Waugh asked if that will be sufficient, given the forecasted spike. Knepp reiterated that SERS is projected to remain below normal costs. Clay explained the PSERS spike is expected to be to 11.23% and he stated if the rate of return is zero this year, the spike would go to 15.02%.

Senator Stack read from an article praising the systems for their "transparent style of investing" and asked what that means. Clay explained PSERS has made a conscious effort to be more open about its investments and operations, provided it does not harm the portfolio. Senator Stack asked about the impact of the home market problems. Van Noord explained the subprime crisis has expanded into the fixed income market. He noted there are concerns it could spill into the commercial backed real estate market. This fear has led to a widening of spreads, shutdowns in auction markets, and investment banks moving to take risk off the table. He remarked this is not the first downturn and the system will work through. Senator Stack asked if there are any key sectors that are being watched, and inquired about the funding strategy in a recession. Winchester explained the financial sector was hit the hardest and home builders are under stress. He said there has been a positive return in the materials sector. He opined consumers will tighten their budgets, which will affect corporate earnings. He assured the members that an inflation protection strategy is in place. He estimated it will take a year or so for the market to work itself out.

Kimberly Collins

House Appropriations-PHEAA

HARRISBURG – (2/26/08, 3:30 p.m., Room 140 Main Capitol)

The **House Appropriations Committee** held a budget hearing with the Pennsylvania Higher Education Assistance Agency.

Members in attendance included Chairman Dwight Evans (D-Philadelphia), Minority Chairman Mario Civera (R-Delaware), and Representatives Scott Petri (R-Bucks), Gordon Denlinger (R-Lancaster), John Siptroth (D-Monroe), Dan Frankel (D-Allegheny), Craig Dally (R-Northampton), Fred McIlhattan (R-Clarion), Mario Scavello (R-Monroe), Bill Keller (D-Philadelphia), Dave Reed (R-Indiana), Brian Ellis (R-Butler), Katie True (R-Lancaster), Don Walko (D-Allegheny), Kathy Manderino (D-Philadelphia), Matt Smith (D-Allegheny), Scott Conklin (D-Centre), Josh Shapiro (D-Montgomery), Dave Millard (R-Columbia), Thaddeus Kirkland (D-Delaware), Bryan Lentz (D-Delaware), Jake Wheatley (D-Allegheny), Sean Ramaley (D-Beaver), and John Galloway (D-Bucks).

Rep. Bill Adolph (R-Delaware), Chairman of the Pennsylvania Higher Education Assistance Agency (PHEAA), acknowledged that, "like many agencies," mistakes were made in PHEAA. However, he went on, nearly half of the board is new and has brought about a number of changes in policy. Along with Vice-Chair Senator Sean Logan (D-Allegheny), Rep. Adolph noted PHEAA has adopted a new code of ethics, a revised travel program and a new mentality of transparency in the past year. He stated that if not for the major disruption in the capital markets, which he asserted, "no one could have predicted," PHEAA would be "in its best shape ever." That disruption, he went on, has cost PHEAA millions of dollars, and has spread throughout the country as similar agencies are suspending lending, firing employees, and even "getting out of the business altogether." In response to this country-wide crisis, Rep. Adolph reported that at a student loan summit involving a number of constituents and principals last week, it was realized that the problem cannot be solved by PHEAA or any other discrete organization alone. Members of the summit concluded the federal government must intervene, and Wall Street confidence needs to rebound.

Jim Preston, CEO of PHEAA, offered his thoughts on the crisis. He led members through a series of charts illustrating how the capital market crisis has led to a situation in which secondary markets, which include organizations such as PHEAA, can no longer advance or make money on loans originated by banks.

Noting the student loan summit's decision to appeal to Congress, he reassured members, "We believe lenders of last resort will get us through August," but acknowledged alternative loans may be a problem, and will require monitoring to assure that access does not become a problem. He declared the summit's message to Congress is that the issue needs to be discussed, as organizations like PHEAA cannot get bond insurance to do what they need to do.

Preston remarked on the College Cost Reduction Act, signed into law in 2007. Acknowledging it was something PHEAA saw coming and was prepared to manage, its effect combined with the capital markets disruption proved too much, and has left PHEAA's lending and secondary market business in bad shape. He reassured members that PHEAA's full service and remote services are "still going strong."

Prompted by Chairman Evans, Preston detailed the efforts of the summit to appeal to Congress. Despite working on two amendments that would have recognized the issue as a problem and calls for the Federal Financing Bank to provide as much liquidity as possible, neither was adopted. He stated PHEAA and others realized a grassroots effort was needed, and has urged constituents to make public appeals for a dialogue. Chairman Evans asked if \$35 million made in interested earned may disappear. Preston admitted it could, though he qualified it depends when the operating line of credit is filled up. He offered that on the state level, the General Assembly could help with advocacy, publicizing the crisis and making people aware of their options. He stated "Washington has to talk about it and debate the positives and negatives of what is next for higher education." He went on, noting reaction from schools in Pennsylvania has ranged from shock to skepticism. Preston explained that as a bond market issue, "you don't read about it every day," but in fact the situation is as dramatic as a stock market collapse, because "the bond market funds America."

Chairman Evans inquired about the potential suspending of the loan program for out of state students. Preston reported that two weeks ago, PHEAA stopped its lending activities "across the country," and one week ago halted its consolidation loans. He noted those decisions have not affected many students

so far. On March 7th, he went on, PHEAA will suspend lending, and will send out notice of that decision tomorrow. He emphasized the agency is going to remain in the servicing, originating and guaranteeing business, and will possibly return to actual lending at a later time when markets have settled. Preston stated the changeover to private lending from banks "should be seamless," and noted PNC is the major student loan provider.

Minority Chairman Civera commented the perception of PHEAA is "unfortunate," and remarked the agency's presentation was "startling." He asked if PHEAA has spoken with state schools about "holding the line" with regard to tuition. Preston stated there have been no discussions on that issue. Minority Chairman Civera observed the real situation will become apparent in August when the actions of Congress can be reviewed.

Rep. Galloway asked if the situation is truly a "nationwide" problem. Preston stated people in the industry are making very bleak comments about the capital markets.

Referring to a special performance audit of PHEAA by the Auditor General, Rep. Galloway inquired if Preston could speak to the reason it was conducted. Preston noted PHEAA has had a good working relationship with the Auditor General's office, and has provided all information that was requested. He offered that whatever results the Auditor General finds will be in keeping with what the new PHEAA leadership is trying to do. Rep. Adolph pointed out the special performance audit is based on findings from 2004, 2005 and 2006, and involves practices which were suspended as a result of new policies instituted by the board. He added PHEAA is now conducting its own internal performance audits on a semiannual basis.

Rep. Dally noted a rumor is circulating surrounding PHEAA's troubles with the capital markets is in fact due to the agency's own internal upheaval over the past year. Preston assured members PHEAA has a strong national reputation with rating agencies, and a global reputation as a servicing entity. Rep. Dally observed that at a budget hearing with the State Treasury yesterday, Treasurer Weissmann noted the Treasury would like to be repaid in full a \$700 million line

of credit taken out by PHEAA. Preston stated PHEAA has negotiated thus far a \$200 million payback to meet the immediate needs of the treasury.

Rep. Shapiro inquired if the "seamless transfer" to private banks will result in any changes to rates being paid by students. Preston confirmed there will be no rate spikes as a result of the changeover. Citing [HB 1891](#), which would provide for accountability measures for PHEAA, Rep. Shapiro asked what of the "wasteful spending" elements can be reinvested into grants. Preston remarked the basic business of PHEAA is a "solid business," and emphasized the agency will send every dollar it can towards grants. He could not guarantee that money saved from bonuses goes directly into grants.

Citing a presentation by the Federal Reserve he attended in December, Rep. Petri communicated his understanding that many of the "pools of investment" available in the capital markets have gone away, leading to a "credit crunch" that is affecting every facet of the economy, including the housing market and the lending markets. He observed PHEAA appears to have good assets and reasonable interest rate risk, but poor liquidity levels. Preston stated PHEAA has enough liquid assets to meet its current obligations, but it may be a while before it begins lending again.

Rep. Wheatley remarked on the dichotomy of Preston's implications that PHEAA faces a major crisis, but Pennsylvania families do not need to worry about the transition lending by private banks. Preston commented timing is an issue, but hopefully no one will run into access problems. He explained the Federal Family Education Loan Program (FFELP) is need-based, so credit is not an issue, but alternative loans may go down. Rep. Wheatley asked what policymakers can do to offset that potentiality. Rep. Adolph stated that at a recent education assistance workshop, he got the impression there is not much the General Assembly can do, which is why an appeal must be made to Congress.

Rep. Scavello inquired what reforms, apart from the reductions to grants, are covered in HB 1891 that were not already addressed internally by PHEAA. Rep. Adolph commented he believes everything else detailed in the bill has been addressed.

Rep. Scavello inquired how the Nursing Loan Forgiveness Program is performing. Kelly Logan, Executive Vice President of Public Service and Marketing, explained the PHEAA board made the decision in October that the program will continue to take applications through June of 2008.

With regard to the search for a permanent chief executive, Rep. Adolph reported the Search Committee will return its recommendation to the board at its March meeting.

Rep. Keller noted there was a "big push" in the legislature to assign PHEAA's duties to Sallie Mae, and asked if that would have been a good or a bad idea. Preston asserted students are better off when PHEAA is allowed to continue its job.

Rep. Manderino admitted she is still struggling with the issues of creditworthiness when trying to get alternative loans. Preston explained there are two components to the issue. FFELP loans are need-based, while alternative loans are not guaranteed by the federal government. He stated a "plus loan" can take the place of an alternative loan and would appear to be a "happy medium" between the two other kinds. While the credit check for a plus loan is minimal, Preston asserted the utility of plus loans is derived from educating families.

Rep. Ellis inquired if there is any idea what is happening with Keystone AES lending. Preston stated AES was working to originate service, with PHEAA acting as guarantor.

Rep. Smith noted HB 1891 would require annual performance audits, and asked if PHEAA would look into such reviews. Preston noted PHEAA is subject to these audits every year at the discretion of the Auditor General. Rep. Adolph observed audits generate significant costs in terms of time and money spent, and stated there is a point at which the cost of auditing no longer benefits the mission of the agency. He added PHEAA's new board members are its toughest critics.

Rep. McIlhattan inquired about the seeming under-use of science and technology scholarships. Logan noted the requirements for the scholarships are quite strict. She remarked legislation introduced in the Senate by Robert

Tomlinson (R-Bucks) would "take care of some of those issues." She added PHEAA is also working in conjunction with the Department of Labor & Industry (L&I) to determine how to allocate funding for the its nursing shortage initiative. She could not say if L&I received its own funding for the program.

Mike Howells

Comments from Legislators at the March 19, 2008 Appropriations Hearing

Rep. John Siptroth (D-Monroe) stated his ultimate goal is to get money for growing counties, noting there is no adjustment in funding for social services in growing counties. He expressed hope that funding struggles will be considered by the Department of Education, including special education and transportation. He also offered support for the following: county conservation districts; community colleges' capital improvement line item; restoration of the civil air patrol line item; restoration of the line item for county fairs; restoration of funding for centers for independent living; and **additional funding for SSHE**. Rep. Siptroth concluded by noting the importance of funding existing programs.

Rep. Mark Cohen (D-Philadelphia) spoke in support for increasing spending for crime prevention, education and low-income benefit programs. He expressed support for any reasonable program that fights guns from getting to criminals and state aid for law enforcement, probation officers and crime prevention. **Regarding education, he stated he supports the greatest possible amount of aid to school districts and he supports increased cyber school funding and SSHE, noting Philadelphia could use a state university.** He also stated the status quo for PHEAA should be reevaluated, noting the state could help with scholarships. Lastly, he discussed programs to aid low income individuals, expressing support for Rep. Evans' earned income tax credit proposal, which would increase the poverty exemption, and job training. He commented poverty in Philadelphia is at an all-time high, even though the overall population has declined.

Rep. John Evans (R-Erie) **advocated for funding for higher education and public safety. He stated the 2.9% funding increase proposal for the state system should be maintained and performance-based funding should be revisited with the hiring of the new chancellor.** Regarding public safety, he argued this is an issue that affects every Pennsylvanian. He said he is pleased with the governor's proposed increase for the State Police, noting they are often the only law enforcement agency in some areas. He expressed support for filling the complement by shortening or streamlining the academy classes, as suggested by PSP Commissioner Col. Miller.