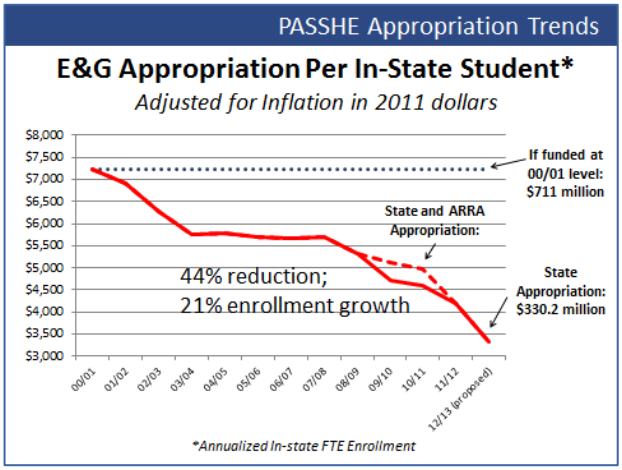
The Pennsylvania State System of Higher Education: Serving students and the Commonwealth

The proposed cuts in state support for the Pennsylvania State System of Higher Education (PASSHE) present the most challenging financial framework since the System's creation in 1983. The funding level recommended in the Governor's 2012/13 proposed budget is less than PASSHE received in 1988/89 – 24 years ago – when 23,000 fewer students attended the member universities.

In the current fiscal year, PASSHE is managing a loss of almost $90 million in state and federal appropriations. The Board of Governors has deferred a request to freeze an additional $20 million from this year's appropriation until it has had the opportunity to fully review the impact it would have on students and on academic programs. When combined with the proposed reduction of more than $82 million in the 2012/13 fiscal year, PASSHE could be facing a loss of almost $192 million, or 12.4 percent of its total Educational and General budget, in an 18-month period.

PASSHE's capital funding also has been reduced by 50 percent, from $130 million to $65 million annually. This will make it much more difficult for the universities to renovate outdated academic facilities, such as science labs, that are essential for providing students with the skills in demand by the Commonwealth's business community.

The Governor's budget also would eliminate all of the funding the System receives for maintenance of its facilities through the Keystone Recreation, Park and Conservation Fund (Key '93). Failure to maintain facilities now will inevitably result in much higher costs later.



The Commonwealth's withdrawal of financial support creates two major pressures. First, the rapid decline in state support is occurring faster than PASSHE can, in some cases, legally shed costs. At the same time, there is ever-increasing pressure from students and their families to keep the universities affordable. If funding is not restored, PASSHE's historic focus on access and affordability cannot be maintained.

Challenges to the Status Quo

The Commonwealth's dramatic funding reductions are occurring during a period when nearly every aspect of PASSHE is changing, from its leadership to academic opportunities it offers students.

Since 2008, PASSHE has named a new chancellor and has hired new presidents at Clarion, Edinboro, Indiana, Lock Haven and West Chester Universities of Pennsylvania. Presidential searches either are in progress or will soon begin at four additional universities: East Stroudsburg, Mansfield, Millersville and Slippery Rock. The perspectives offered by these new leaders, coupled with the insights

provided by the System's group of experienced presidents, will result in dynamic new approaches to effective management.

Significant changes continue to be made to academic program offerings at the 14 PASSHE universities; phasing out those that no longer command sufficient student interest, and, more important, introducing new fields of study specifically designed to meet the emerging needs of the Commonwealth.

Over the last four years more than 130 academic programs have been placed into moratorium or discontinued, primarily because of low student demand. Programs placed in moratorium no longer admit new students, but remain active until all currently enrolled or admitted students graduate.

Also since 2008, more than 60 programs have been reorganized to better respond to market demands. Examples include:

- A Bachelor of Science in Mathematics focused on biomathematics and actuarial science at Lock Haven University of Pennsylvania
- A Professional Science Master's in Applied and Industrial Chemistry at Indiana University of Pennsylvania
- A Bachelor of Science in Applied Engineering and Technology Management at Millersville University of Pennsylvania

PASSHE also has reallocated resources to create new educational opportunities that reflect emerging fields. All new programs must meet rigorous standards adopted by the Board of Governors that include a demonstrated strategic need for the Commonwealth, sustainable enrollment and collaboration among PASSHE institutions or, in some cases, with other institutions of higher education in the Commonwealth. Additionally, all new programs are subject to a formal review after five years; in order to continue, they must demonstrate sustained enrollment and evidence of appropriate student learning outcomes.

Twenty-three new degree programs have been approved by the Board of Governors under these standards, including programs leading to:

- A Bachelor of Science in Allied Health Leadership at Clarion University of Pennsylvania
- A Bachelor of Applied Science in Technical Leadership at Bloomsburg University of Pennsylvania, offered in collaboration with Lehigh Carbon Community College
- A Professional Science Masters in Integrated Science Applications at Millersville University of Pennsylvania
- A Master of Science in Weapons of Mass Destruction from Indiana University of Pennsylvania, offered in partnership with the FBI

New programs in development are focused on growth industries, including shale exploration and production and pharmaceuticals, and on those businesses that need workers with skills in the areas of science and technology, computer security and allied health. Examples include:

- A Bachelor of Science in Mechatronics at California University of Pennsylvania
- A Bachelor of Science in Software Engineering at Shippensburg University of Pennsylvania
- An Associate of Applied Science in Natural Gas Production and Services

at Mansfield University of Pennsylvania

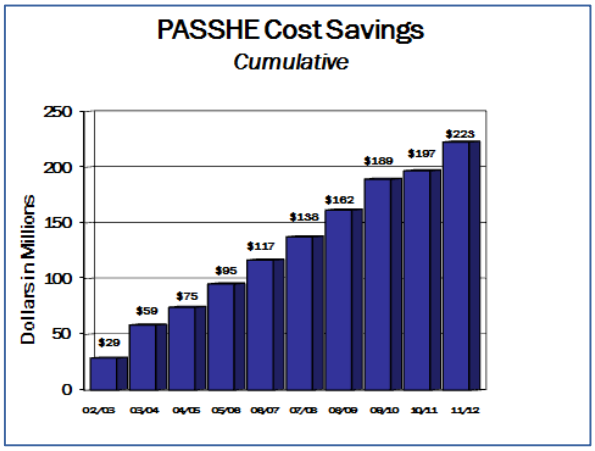
- A Bachelor of Science in Applied Physics and Renewable Energy Technology at Edinboro University of Pennsylvania.

These and other programs at PASSHE universities that have been created through collaboration with employers help fill the workforce training gaps that exist throughout the Commonwealth, including across Pennsylvania's Northern Tier.

Many of these new programs will take advantage of the latest technology, whether through virtual presence in real time or the use of high-tech classrooms or by being offered online.

In just the last two years, PASSHE increased the percentage of students who enroll in at least one online course from 25 percent to 35 percent. Mastering online learning prepares students for lifelong learning so they can remain current throughout their careers. However, a significant barrier to further online program development exists, and needs to be addressed. Currently, the Pennsylvania Higher Education Assistance Agency (PHEAA) will not provide need-based financial aid to students who take more than half of their courses online, preventing many students from taking advantage of this flexible study option.

Finally, the number of students earning PASSHE degrees annually has steadily grown since 2000/01, from 18,000 a year to 24,000, or by more than 34 percent. Contributing to this growth are students who transfer from community colleges and other institutions, active duty military personnel, military veterans and other returning adult learners. PASSHE is not satisfied with the significant progress it has made. As will be



described later, the State System has established even higher goals for degree completion at all levels by 2017.

Cost controls have reduced expenses by $223 million

Fully accepting the responsibility to be good stewards of both its state appropriations and student tuition and fees, PASSHE has done more over the last decade than any other four-year sector of higher education in the Commonwealth, not only to control its costs but also to hold down tuition rates.

Cost cutting/cost avoidance procedures system wide have generated $223 million in savings during that period. Combined with an aggressive management of tuition, the leadership of the State System has kept the cost of attending the universities as low as possible.

PASSHE was among the first public university systems in the nation to voluntarily adopt performance-based funding, to help ensure its universities were doing what they needed to do to enhance their students' opportunities for success and their own operating efficiency. The Board of Governors recently adopted revisions to the more than decade-old program to make it even more effective. The program changes, which place a much greater

focus on student outcomes, such as closing achievement gaps and setting even higher goals for degree completion, already have captured national attention from groups such as the Lumina Foundation, a philanthropic organization that promotes education advances.

PASSHE's redesigned performance funding program also will be featured in *Change* magazine. The article, written by PASSHE Chancellor John C. Cavanaugh and Executive Vice Chancellor Peter Garland, discusses performance funding in the context of the new environment facing higher education in the nation. They write:

> *"Greater accountability in public higher education systems is a fact of life in the current political climate. Increasingly, one form this accountability takes is performance funding, which arises from elected officials' need for assurance that taxpayer funds are not only being invested and used properly but are resulting in desired outcomes at acceptable levels or rates. Ideally, performance funding helps both those officials and institutions focus on what matters most, what measures best capture what matters most, and what incentives best ensure that the result is continuous improvement in what matters most."*

In these challenging fiscal times, PASSHE's presidents have made tough decisions to balance the universities' budgets. Among them are:

- Hiring fewer adjunct faculty, which has resulted in larger class sizes, especially in introductory level courses.
- Eliminating or holding vacant more than 900 positions on the campuses
- Postponing investments in new equipment and technology
- Delaying or canceling facility maintenance and renovation projects
- Eliminating athletic programs
- Consolidating business and IT operations

PASSHE will continue to explore ways to further reduce costs. The Office of the Chancellor and the university presidents are committed to identifying and implementing new cross-university collaborations in all areas of operation that could produce additional savings. For example, more back-office functions can be shared and/or operated on a regional or central basis, requiring fewer staff over time. All agree that certain functions do not need to be housed at every university.

Because 75 percent of university budgets are allocated to personnel costs – both salaries and benefits – efforts at additional significant cost savings must necessarily be directed to this area. New or replacement hires are rigorously reviewed, and position/cost reallocation is being viewed at the system level.

Two years ago, PASSHE offered a retirement incentive program that will produce savings of about $10.8 million annually. This year, negotiations with the seven unions that represent PASSHE employees took center stage, resulting in some progress in managing personnel costs.

Pay increases in the agreement negotiated between the Commonwealth and the American Federation of State County and Municipal Employees (AFSCME) – which includes about 4,000 PASSHE employees – largely will be offset by savings from changes in health care payments and work rules. Similarly, PASSHE's new contract with the

union representing its police and security officers will generate savings through work rule changes. Although new agreements have not yet been reached with either the Association of Pennsylvania State College and University Faculties (APSCUF), which represents PASSHE faculty and coaches, or the State College and University Professional Association (SCUPA), which represents professional staff, the focus of the negotiations has been on similar issues.

Rising healthcare, pension costs causing significant pressures

There are a number of factors that are not solely under PASSHE's control that, if not addressed, will create additional sustainability issues for the State System.

PASSHE's most expensive long-term obligations relate to annuitant health care and pensions. PASSHE active employees and annuitants, excluding those enrolled in the Pennsylvania Employee Benefit Trust Fund (PEBTF), are covered under a group health plan. Workforce demographics reflect an aging population – 50 percent of the System's current employees are over the age of 50. Annuitant health care costs, which total $41 million this year, are expected to continue to increase. By 2020 it is likely that the number of annuitants will exceed the number of active employees in the health plan. PASSHE's long-term annuitant health care obligation is $792 million, a figure that is now required to be reflected in the System's financial statements.

PASSHE employer funding obligations to the two state pension funds, SERS and PSERS, are increasing rapidly. It is projected that the employer contribution rate for SERS will grow from its current average of approximately 7 percent of salary to 25 percent in 2016/17, for an estimated increase in annual retirement costs approaching $80 million.

PASSHE receives no additional funding to offset these rising costs. System officials hope to work with the Administration and the General Assembly on possible solutions to both of these issues.

Higher Education Modernization Act critical to PASSHE's future

The Higher Education Modernization Act (HEMA) is critical to PASSHE's ability to compete on a level playing field with all other higher education institutions in the Commonwealth. Specifically, it would allow PASSHE universities to identify and develop new revenue sources through the commercialization of research and new product development. The legislation also would permit all PASSHE institutions to offer applied doctorates, a prerequisite for a number of professional occupations.

Separate legislation that would allow PASSHE universities to receive the proceeds from mineral extractions on campus properties also could produce a significant new revenue source for the universities.

Additionally, PASSHE is currently prohibited from joining multistate higher education purchasing consortia that could significantly lower the cost of procuring commodities and other goods and services.

Additional regulatory constraints on PASSHE that are not placed on other sectors of higher education in Pennsylvania add unnecessarily to the universities' costs. System officials look forward to working with the General Assembly on removing these barriers to additional cost reduction and cost containment.

There is no question that PASSHE has changed dramatically over the past several years. The result is better operational efficiency, leaner universities and a more focused set of academic programs aimed at meeting the Commonwealth's needs.

It is critically important that PASSHE receive predictable funding to continue the important work and challenges to the status quo that have been set in motion.