Pennsylvania Higher Education:
Sectors
Governance/Coordination
Programs and Students

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The following slides provide an overview of the higher education providers in Pennsylvania. The Commonwealth enjoys a rich history of higher education opportunities across various “sectors.”
239 Institutions of Postsecondary Education authorized to grant degrees

- 14 State System Universities
- 14 Community Colleges
- 5 State-Related Universities
- 8 Private State-Aided Colleges/Universities
- 1 State College of Technology—Thaddeus Stevens
- 89 Private Colleges and Universities
- 15 Seminaries
- 6 private 2 years Colleges
- 85 Specialized Associate Degree-Granting Institutions
- 2 Other Approved Schools Awarding Associate Degrees
But it’s really 259...

- An additional 20 are categorized as “other college and university”

- PDE* has approved the college/university to operate in PA as a foreign entity and to grant degrees accordingly. Such colleges/universities include:
  - University of Phoenix
  - Allegany College of Maryland
  - Saint Bonaventure University (New York)
  - etc.

*Pennsylvania Department of Education
Students by Sector

- **Privates***: $316,319
- **State System**: $112,225
- **State-Relateds**: $158,690
- **Community Colleges**: $137,646

Fall 2013

*Four-year not-for-profit
Because of the wide variety of higher education providers across various sectors (state-owned, state-related, community colleges, privates) higher education governance in Pennsylvania is very complex.
Because of the complex governance structure, it is difficult for the State Board of Education, or the Commonwealth’s leaders, to effect meaningful change throughout higher education across the state.
Fundamental Observations

- The organization and delivery of higher education is due more to *default* than *design*.
- Funding for higher education is best categorized as *maintenance* not *strategic investment*.
- Alignment with statewide economic/workforce development is *tenuous*.
Philosophical Debates

- Prepare students for lifelong learning
- Prepare students for jobs
- Prepare students to adapt to changing careers
- Prepare students for jobs that don’t yet exist
Study Commissions for Higher Education

- **Rising Tide** (2006)
  Concluded that affordability was not an issue (given increasing enrollments) generally, but found pockets where higher education had priced certain students out.

- **Governor’s Advisory Commission on Postsecondary Education** (2012)
  1. Affirm opportunities for lifelong learning
  2. Ensure greater public access, affordability, and usability of postsecondary education
  3. Recognize and support the diversity and richness of the postsecondary education system
  4. Enhance Pennsylvania’s economic vitality and the ability for the Commonwealth to compete globally
Who are the students?

- Pennsylvania high school graduates
- Out-of-state high school graduates
- Adult students
- Lifelong learners
- Trends
The State System’s enrollment trends mirror the change in Pennsylvania’s high school graduates.
Change in high school graduates over the next several years varies significantly by county. System universities tend to attract students regionally; the changing number of high school graduates effect System universities differently based on the primary counties from which they attract students.
The overall decline in high school graduates is not just a Pennsylvania issue, but is common across the country, as children of the “baby boomer” generation reach adulthood.
In addition to serving the traditional college-age population, the State System needs to attract the adult worker market—especially the more that 1 million that have some college education but no degree.
State System Snapshot of Majors

- Not unique to the State System
- Shift is seen across other sectors
- Response to student demand and career opportunities
We are not the same universities that we were even 5 years ago. There has been a significant shift in programs and student demand for programs. With the growth in STEM-H (Science, Technology, Engineering, Math, and Health Professions), come significant additional costs as these programs are more expensive to offer.
Academic Program Array
All Academic Programs

- 50 **Associate** Degrees
- 715 **Baccalaureate** Degrees
- 256 **Master’s** Degrees
- 16 **Doctoral** Degrees
Again, System universities continue to change, ensuring relevant educational opportunities in fields that address Commonwealth workforce needs and student demand. Most new programs are in STEM-H disciplines, which typically are more expensive to offer than programs that have been eliminated. Once a program is placed into moratorium (no new students are accepted into the program while it is being reviewed to determine if it should be improved, reorganized or eliminated), the university has a responsibility to “teach out” all students currently enrolled in that program.
The State System has been facing significant financial challenges over the past several years. These challenges are not only recognized by the System, external rating agencies have also identified these as PASSHE’s challenges...but also as challenges for much of public higher education in the Northeast.

The following slides will address each of these challenges.
The State System’s enrollment has been declining since 2010/11; some universities began experiencing enrollment declines one or two years earlier. As System universities are highly traditional, serving primarily 18-24 year-olds from the same region as the university, this trend closely follows the annual change in new high school graduates. Today’s enrollment is very similar to the enrollment levels in 2006/07; however, it may vary significantly by university. This downward trend in enrollment is experienced across all higher education sectors in Pennsylvania and in most states throughout the nation as baby-boomer children have now made their way through high school. It is anticipated that Pennsylvania’s high school graduates will begin to increase slightly in 2016, but it is not expected to return to the 2010 levels.
Over the last 5 years, Pennsylvania’s state funding for higher education (all sectors—public, private, state-related, community colleges, and PHEAA state grant programs) decreased almost 16%; during the same period, state funding for higher education across the country increase on an average of 3.4%. The System’s reduction during this period was 18%. Traditionally, Pennsylvania ranks poorly in its funding for higher education.
Pennsylvania’s rich array of higher education institutions creates a high level of competition, not only for students, but also for state funding. Pennsylvania’s PHEAA State Grant Program is among the largest in the country, providing need-based financial aid for students who attend any Pennsylvania institution—public or private. Pennsylvania is also a national leader in the amount of state funding it provides to private institutions.
The System’s state funding was reduced $90.6 million in 2011/12, or 18%. It’s state appropriation has remained at $412.8 ever since. Prior to 2011/12, the System used to receive some separate state funding for special initiatives (line items); now the System only receives one Educational and General appropriation. In 2009/10 and 2010/11, the System was appropriated federal ARRA one-time funds in place of state appropriations. Today’s funding level is similar to the appropriations received in 1997/98.
The System’s current year budget of $2.2 billion is comprised of the Educational and General (E&G) budget, Auxiliary budget, and Restricted budget. The E&G budget provides for the educational enterprise, the administrative and support services for the academics and students, and the operation and maintenance of physical plant for academic and administrative facilities; it is funded primarily by student tuition and state appropriations. The Auxiliary budget supports university housing, dining services, student unions and recreation centers; it is funded by user fees. The restricted activities reflect funds provided to the universities from external sources for specific purposes, such as sponsored research and public services and student financial aid. The Board of Governors focuses almost exclusively on the E&G budget, given the Board’s influence over its fund sources. The Councils of Trustees also focus on the auxiliary enterprise, as it sets auxiliary fees. The remainder of this presentation focuses on the E&G budget.
The decline in state funding and the resulting pressure on student tuition has led to a major shift in the source of revenues that support PASSHE’s E&G budget. Today, the state funds only 26% of our E&G operating budget. When the System was created, the state funded 63%. The percentage of the budget supported by direct appropriation has been declining annually since the beginning of the System in 1983.
We can see that the relatively poor state funding for higher education has resulted in significantly higher student funding of higher education in the State System. As a larger proportion of funding comes from the student, enrollment becomes more important in each university’s financial health.
As the source of funding per student has changed over time (less from the state; more from the student), the total average E&G funds per student (adjusted for inflation) have remained fairly constant since 1993. We have today about the same amount per student as more than 20 years ago. But we provide very different programs and services, including technology, today than 20 years ago.
How do we have the same funding level today that we had 20 years ago? It’s because annually the System meets its ongoing mandatory cost increases with a combination of changes in state appropriations (blue bar), increase in tuition (yellow bar), and university cost-cutting (red bar).
This pattern of relying on university cost-cutting has resulted in reducing the System’s overall E&G base budget by approximately $270 million over the last 10 years. These cost cutting efforts have included some of the previously mentioned actions of eliminating academic programs, but also utility savings, collaborative procurements that drive down costs, greater use of technology coupled with aggressive workforce management, etc.
System Budget Process
For 2015/16 Budget Request Cycle
The point of this slide is to show that universities have budget processes that occur independent of the System’s budget process. The System office gives the universities parameters by which to develop your budget request at the beginning of the process, and at the end we provide you with your appropriation and tuition rates. In between the universities have extensive internal processes to develop your university budgets—all of which are different.

Employees may hear about the university budget, the System budget, and the state budget. All are important to determine the revenues available to the university, but the university budget process is where the academic department chairs involvement will occur.
The System’s budget process supports the Commonwealth’s budget process and operates over a year-long cycle. The process begins each summer with the System providing universities with instructions for developing budget request documents. Those documents (known as the BUD Report) are submitted to the System Office every September and are the basis for the development of the System’s budget request, as presented to the Board every October. After the Board approves the System’s budget request, it is submitted to the Commonwealth late October. Typically every February, the Governor presents his budget recommendations to the Legislature, which begins the Legislative process. Typically the Legislature passes a budget bill around June 30, which is then signed into law by the Governor. The Board finalizes the budget process by setting tuition and approving the allocation of the E&G appropriation to the universities. Then the process begins again for the new budget request year.
Every year the System’s budget request is built off the current year’s budget. For example the 2015/16 request is built off of the current 2014/15 budget. Consideration is given to the university’s ability to generate revenue, including the effect of projected enrollment changes on tuition and fee revenue.
Similarly, expenditure estimates include known changes to salaries and wages, based on existing collective bargaining agreements for the 8 union-represented employee groups, as well as changes in health and retirement benefits. Inflationary increases in nonpersonnel cost categories are considered as well.
The main expenditure costs drivers are reflected, as of April 9, 2015. Note, practically no salary adjustments are included due to the fact that almost all collective bargaining agreements end June 30, 2015. As such, there is no basis for salary adjustments for 2015/16; this is not a bargaining position.

Additional information regarding the major cost drivers of health care and retirement follow.
The System’s health care program serves 62% of the System’s employees. (The others are covered by the Commonwealth’s “PEPTF” health care program. In both cases, health benefits offered to System employees are rich, compared to the national average; and the employee pays a smaller portion of the total cost. As health care is negotiated with our unions, it has been difficult to change this paradigm.
This chart reflects the historical and future trends in retirement costs, as required by statute. About half our employees are in alternative retirement programs, with an employer annual cost of 9.29% of salary (as required by statute). The remaining half of employees are in the Commonwealth’s defined pension plans, primarily SERS. The employer’s contribution to these state pension programs has been growing annually, as required by statute. Unless there is pension reform legislation passed, the System will experience a 22% increase in pension costs for next year.
These cost drivers result in a new funding requirement of $55.5 million. This is slightly revised from the new funding requirement of $49.9 million from last October, for which the Board requested full funding from the Commonwealth.
This chart gives you a snapshot of what levels of state appropriations we have had in recent years compared to what is proposed for us next year. In 08/09, you see the clear box, which represents the 4.25% “give back” we had to do; in 09/10 and 10/11 you see the nonrecurring federal ARRA funds that were appropriated by the state in place of state appropriations. In 11/12, appropriations were cut 18% and have remained at that level ever since. The Governor has recommended increasing the System’s appropriation by $45.3 million and another $45.3 million in 2016/17, to restore the 11/12 cut.

Similar to the System, the Commonwealth continues to face a structural deficit, in which mandatory cost increases outstrip anticipated revenue increases. The Governor’s budget includes, not only increased funding for the System and all higher education sectors, but also increases for other agencies and initiatives. These budget increases cannot be sustained without tax increases, which have been proposed by the Governor. This is still the beginning of the legislative process; it is unclear as to whether or not this funding level will be supported by the legislature, given the ongoing fiscal constraints of the Commonwealth.
Pricing and Affordability
The System’s mission is to provide high quality education at the lowest possible cost to the student. There is much news nationally about the affordability of higher education, especially in regard to student debt.

Although the State System’s in-state undergraduate full-time tuition is $6,820 for an academic year, when university fees, room, and board are added in the average university price to an in-state student living on campus is $18,868. This is just under the national average of all public higher education universities. In comparison, Penn State is about $10,000 more annually.

Pennsylvania is known as a high tuition/high aid state. Pennsylvania chooses to fund students (through PHEAA state grants), rather than fund its universities. In addition, the state ranks very low nationally in total higher education funding (including state grants and aid to privates). Pennsylvania’s public and state-related universities must garner more of its funding through tuition than their peers. As a result, Pennsylvania students tend to graduate with more debt.
Regardless of the funding received from the Commonwealth, the System is concerned about ensuring access to Pennsylvania students. If students cannot afford to attend a System university, they may not be able to afford a bachelor’s degree, as the System has the lowest “sticker price” in the state. (However, some privates offer scholarships to reduce their price below ours.)

In its efforts to strike a reasonable balance between quality and affordability, the Board has been careful in recent years to keep tuition increases near the price of inflation. But the Board only sets tuition and the technology tuition fee (combined total of $7,321 for 2014/15); the Council of Trustees sets most university fees. In addition, the student government association, in conjunction with the president, sets the activity fee; housing fees at most universities partially are driven by the requirements associated with privatized student housing. Note, most of the significant increase reflected in room and board in the above chart is due to new housing.

All these components combine to make the total price to the students. All governing entities must work together to ensure affordability to our students.
The previous chart reflected the System average price to the student. This chart reflects the price to the average price to the student (living on campus) by university. Much of the difference is associated with privatized student housing. Also, note that Millersville’s tuition is higher—this reflects the impact of its per-credit tuition pilot on a student taking 15 credits each semester, as they are no longer charged a flat rate for students enrolled full-time (12-18 credits).
Affordability—Focus on the net cost borne by the student/family. This includes what would be covered by loans—the student is still responsible to pay.

April 2014, the Board of Governors amended Board Policy 1996-01-A, Sources of Funds for University Scholarships. This now allows universities to spend up to 5% of their tuition and fee revenue on need-based aid for Pennsylvania students; and up to another 5% of out-of-state tuition revenue for any kind of student aid—all with Council of Trustees approval. This is another tool now available for universities to ensure access and affordability, recognizing the need for local decisions and differences in student affordability at different universities.
Another tool now available for universities to balance affordability and quality, recognizing the need for local decisions, is the Board’s Pricing Flexibility Pilot Program. This program allows universities to test new pricing methods on a temporary pilot basis.
Pilots are approved by the Board on a case-by-case basis, upon the recommendation of the Council of Trustees. They are for a finite period of time and must be monitored consistently. At the end of the pilot period a determination will be made whether adopt or abandon the model. Lessons learned may also result in applying the new model to other universities, if so desired.
23 pilots have been approved to date.
The remaining slides address how universities receive their resources—both capital funding and their share of the System’s Educational and General (E&G) appropriation.
A significant role of the Council of Trustees is to inspect university facilities and make recommendations regarding the university’s capital budget. Almost half of the System’s facilities are 25 years or longer past their last major renovation. This contributes to the System’s deferred maintenance backlog of over $2 billion. The longer we wait to properly maintain our facilities the more it costs.
The state provides the System $65 million annually for capital facilities and infrastructure projects. In addition the System annually received approximately $13-18 million in “Key ’93” funds for deferred maintenance (varies annually as it is a percentage of realty transfer tax revenue). Both of these sources of funds are outside of the System’s operating budget. The System’s capital appropriations are distributed based upon the Board-approved 5-year capital plan. Key ‘93 deferred maintenance funds are distributed primarily based on the size and value of each university’s physical plant.

These state funds combined does not provide enough funding for the appropriate renewal of the System’s existing facilities. Universities also must fund capital needs from its own resources. This is done in two ways:

1. Projects are funded from university operating budgets, either directly or as a “transfer to plant” for future projects. Universities may set funds aside annually to save up “unrestricted net assets” designated for certain capital projects.

2. Projects are funded through bond financing. The Office of the Chancellor, upon approval of the Board of Governors, manages bond financing on behalf of the System. The Council of Trustees may approve a request for bond financing of certain projects—a funding stream for debt service payments is required. This method is typically used for auxiliary facilities.
The System adopted a new allocation formula, July 2014, which is used to allocate the E&G appropriation to all universities. Of this year’s E&G appropriation of $412.8, $370.6 million was distributed through the allocation formula.

Of the $42 million that was not, $37.4 was distributed to the universities through performance funding. (This presentation does not explain how performance funding works—that’s a topic for another day). The remaining $4.7 million funds several System-wide initiatives, including the academic enterprise at Dixon University Center, McKeever Environmental Learning Center (through Slippery Rock), Internal Audit and Risk Assessment, Collective Bargaining Agreement requirements for professional development, and the Office of the Chancellor.

The remainder of this presentation will focus on the distribution of $370.6 million through the allocation formula.
University Base Appropriation = Fixed Costs + (Instructional Costs per In-State FTE Student + Support Costs per In-State FTE Student + Plant Costs per Gross Square Foot + Percentage of Replacement Value) funded proportionately with remaining appropriation.

Fixed Costs—All universities experience significant fixed costs that do not vary as enrollment changes. (Previously fixed costs were recognized only at our smallest universities.)

The fixed-cost component, which is fully funded from the E&G appropriation, is established based upon an analysis of E&G costs and enrollment of public institutions, resulting in the above fixed-cost values that were determined based upon comparisons with all other similar public universities in the nation.

FTE Student—The average enrollment for the previous two years of actual in-state FTE enrollment by course discipline; in-state and out-of-state doctoral enrollment is included.

Instruction—Detailed on next slide.

Support Costs—There is one support cost value applied to FTE students based upon the System’s average costs per student in the functional areas of academic support, student services, and institutional support. Each university’s support costs are determined based upon the same FTE student used in the instructional component.
Plant Costs—This category includes 2.5 percent of the E&G facilities replacement value, 1.5 percent of the infrastructure replacement value, and a dollar amount per gross square foot of E&G space. The E&G square footage is the average of space guidelines’ estimated space required and university inventory space. Inventory space includes all leased and owned space, but only 50 percent of space that is off-line indefinitely.
Instructional Costs—Differences in instructional discipline costs will be recognized by the following weights per FTE in-state student. FTE by discipline is based on the courses in which students are enrolled, not by major.

<table>
<thead>
<tr>
<th>Instructional Discipline Category</th>
<th>Weight</th>
<th>2014/15 Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Division, Normal Cost</td>
<td>1.0</td>
<td>$4,490</td>
</tr>
<tr>
<td>Lower Division, High Cost</td>
<td>1.3</td>
<td>$5,837</td>
</tr>
<tr>
<td>Upper Division, Normal Cost</td>
<td>1.5</td>
<td>$6,735</td>
</tr>
<tr>
<td>Upper Division, High Cost</td>
<td>2.4</td>
<td>$10,776</td>
</tr>
<tr>
<td>Master’s, Normal Cost</td>
<td>2.0</td>
<td>$8,980</td>
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<tr>
<td>Master’s, High Cost</td>
<td>2.4</td>
<td>$10,776</td>
</tr>
<tr>
<td>Doctoral</td>
<td>2.6</td>
<td>$11,674</td>
</tr>
</tbody>
</table>

High-cost undergraduate and master’s instruction refers to courses identified with the above listed federally defined Classifications of Instructional Programs (CIP) codes.
Pennsylvania's
STATE SYSTEM
of Higher Education

14 universities. Infinite opportunities.