

The Pennsylvania State System of Higher Education: Focused on the Future

The Pennsylvania State System of Higher Education (PASSHE) is the largest provider of higher education in the Commonwealth. PASSHE universities long have been recognized for both their high-quality academic programs and their affordability. Many of the universities are regularly cited in national publications, including *Kiplinger's* magazine and *The Princeton Review*, for the excellence of the educational opportunities they provide their students.

As Pennsylvania's public university system, PASSHE is committed to ensuring its programs are relevant and to focusing resources both on what students want and what the Commonwealth needs. Many key initiatives underway and in the planning stages will ensure the State System retains these commitments. **Those initiatives are highlighted throughout this document.**

For the vast majority of students who enroll at one of the 14 PASSHE universities, that institution was their first choice school. Across the State System, students receive outstanding value from quality academic programs that prepare them for the demands of post-college life. That quality comes at the lowest cost among all four-year colleges and universities in Pennsylvania.

At PASSHE, performance counts. For more than a decade, the System's nationally recognized performance funding program has rewarded universities based on a variety of relevant measures of student success. As PASSHE continues to refine its performance funding program, its focus is on **increasing the number of students who earn a degree or credential, and preparing them for successful lives and careers.**

PASSHE is working to increase the diversity of the student body beyond the traditional 18- to 22-year-old high school graduates by attracting and retaining a broader representation of Pennsylvanians, including

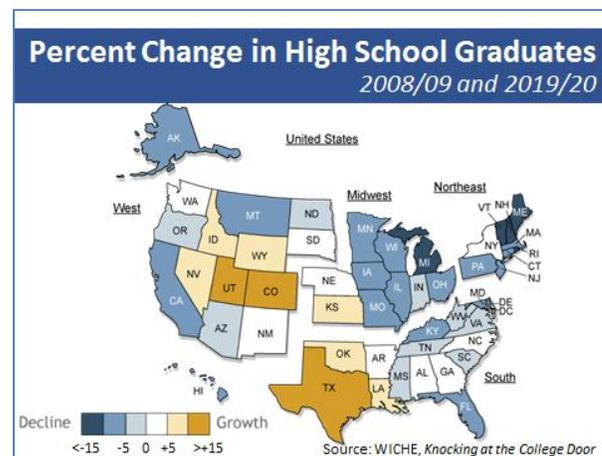
adult students, veterans, lower income students and underrepresented minorities.

To assure that its application process is customer friendly, PASSHE has introduced a new Multi-University Electronic Admissions Application (MUEAA) that showcases all of the PASSHE campuses and their program offerings in one convenient place and assists prospective students in applying to one or more PASSHE universities. This new tool is expected to produce increased enrollments.

Increasing the number of graduates requires a focus on retention. Universities are employing best practices for improving student retention, such as student engagement in campus activities, residence hall study groups, improved new and transfer student orientation and online tutorials for developing critical competencies.

PASSHE in transition

Like other higher education institutions across the country, both public and private, PASSHE is in the midst of an historic period of transition, driven by internal and external forces. Key among them are changing student demographics; new workforce demands; and the rapid evolution of how, where, when and by whom courses and programs are offered.



After more than a decade of record-setting enrollment growth, most PASSHE universities have been experiencing declines in recent years, primarily as a result of the shrinking number of high school graduates in the Commonwealth. The System's experience tracks national trends, vividly reflected in U.S. Census Bureau data that show almost 500,000 fewer college students nationally in 2012 than the previous year. The number of high school graduates in Pennsylvania is expected to decrease by almost 10 percent between 2011/12 and 2014/15. The overall decline is projected to continue until 2016, with varying experience by region.

The most immediate and visible impact of this trend on the System has been financial, given that PASSHE universities garner almost 70 percent of their Educational and General (E&G) budget revenues from tuition and fees.

PASSHE has proactively responded in a number of ways, the most important of which is the systematic review and realignment of academic program offerings to better respond to student and workplace needs.

University efforts to retool by realigning programs predate the current demographic changes and have been focused on meeting evolving workforce needs. Over the past five years, the Board of Governors has approved **56 new academic programs** while the universities have **placed 158 low-enrolled programs in moratorium**, meaning they no longer accept new students while ensuring currently enrolled students receive the classes and support they need through graduation. The universities also have **discontinued 40 programs** in which no students were enrolled and **reorganized 90 others** to ensure their relevancy.

The early results from this transformation are in: new and existing programs in science, technology, mathematics, business and finance, and allied health are enrolling more students now than PASSHE's historical strengths in education and other public service programs.

Providing new learning opportunities to all students

Many programs and courses are being offered online or at urban and suburban multi-university locations, providing increased opportunities for students—especially the adult learner. For example, four universities have joined together to meet the workforce needs for affordable baccalaureate and post-baccalaureate education in downtown Philadelphia at PASSHE Center City. Similar centers are located in Harrisburg, Cranberry Township (outside of Pittsburgh), and Bethlehem.

PASSHE is addressing the needs of returning students and veterans by providing **greater access to programs and courses through online opportunities**, recognizing **the value of prior learning experiences** and improving the consistency of policies across PASSHE to better guide students on a path to success.

PASSHE universities continue to work with community colleges to implement Act 114 and Act 50 to enable students to seamlessly transition from any of the 14 Pennsylvania community colleges to any PASSHE university. In addition, PASSHE universities are reaching out to students with some college credits to help them finish their degrees.

A recurring issue is the lack of a community college in the Commonwealth's northern tier. PASSHE universities located in that region are increasing access to associate's degree and certificate programs that serve local communities in that region. The System's leadership is eager to work with the General Assembly, local stakeholders, and the community colleges to systemically address this region's needs.

Each PASSHE university has unique strengths that not only must be preserved, but also enhanced. Each is striving to find the right balance among existing and new programs on its campus, which includes dedicating resources to growth areas and reducing services and resources in programs that have low or no demand.

Ongoing program review is designed to assure each student receives a quality academic experience, as well as to align programs with the economic and social needs of the region.

Each university is dedicated to ensuring programs provide graduates with the skills and competencies that prepare them for future career success: critical thinking, oral and written communication, working in teams, and preparing for lifelong learning. These experiences are designed to enable students to connect the classroom to the community.

PASSHE universities also are working toward aligning their mix of programs, in terms of both how they are delivered and what is delivered. The supply and demand function is different for the various regions of the Commonwealth. **To better serve our communities, PASSHE will conduct a “gap” analysis to identify shortages for selected career opportunities by region and the role PASSHE universities can play in meeting those needs.**

Seeking to balance costs

The System universities are continuing to seek the right balance in the decisions they make to address the continuing impact of the \$90 million reduction in the base appropriation enacted in 2011; limits on pricing and affordability; and personnel cost increases, including major increases in the System’s required contributions to the state’s pension funds.

PROGRAM ALIGNMENT	
PASSHE universities are realigning programs to meet the needs of the Commonwealth and the changing workplace. Realignment involves not only adding new programs, but also redesigning or discontinuing programs that no longer have student demand or have less relevance to today’s environment. A few recent examples of program alignment include:	
Nursing	Bloomsburg University of Pennsylvania partnered with Geisinger Health Systems to increase the number of local nurses who have earned a Bachelor of Science in Nursing (BSN) or a Master of Science in Nursing (MSN) to meet healthcare needs of patients.
Energy	Clarion University of Pennsylvania added a Natural Gas Technology specialization to the associate’s degree in Industrial Technology by partnering with two career centers, the Precision Manufacturing Institute, local employers and economic development agencies.
Advanced Manufacturing	Edinboro University of Pennsylvania designed an associate’s degree in Applied Technology for workers in General Electric’s apprenticeship program.
STEM	Indiana University of Pennsylvania redesigned a graduate program in Chemistry to become a Professional Science Masters (PSM) program in Applied Industrial Chemistry to meet workforce demand in high-technology sectors in the Commonwealth.
Business and Engineering	Shippensburg University of Pennsylvania , in response to the needs of the Volvo Group and the Commonwealth, realigned existing programs and developed new programs in software and computer engineering, advanced supply chain management and logistics, and international studies. Volvo Construction Equipment, headquartered in Shippensburg, is expanding, including moving the company’s sales headquarters from North Carolina.

Balancing the financial challenges of pensions and health care cost increases while ensuring relevance in the classroom, without significant increases in the cost to students, has become increasingly difficult. **As PASSHE continues to develop new and emerging programs in high-need areas, many of which are more expensive science, technology and healthcare programs, the System will consider various pricing alternatives.** However, PASSHE understands many students and their families are approaching the point where they cannot absorb additional price increases and the System continues to be committed to both limited changes in pricing and working with students and their families to secure financial aid.

Not a week goes by without an article in the media about the rising cost of higher education. No sector of higher education in the Commonwealth has been as focused on this issue as PASSHE. According to the latest

study by the College Board, the average total cost of attendance at a State System university—combined tuition, fees, room and board—remains below the national average for all four-year public colleges and universities and significantly below the median in the Middle States region (Delaware, Maryland, New Jersey, New York, Pennsylvania and Washington, D.C.).

Not only has PASSHE's cost to the student remained below the national average, the rate of increase in cost of attendance continues to be less than experienced elsewhere nationally and in Pennsylvania. This has been possible only through cost-saving strategies. Over the last decade, PASSHE institutions have avoided more than \$250 million in mandatory costs by achieving efficiencies through strategic sourcing, energy management, automating processes and services, complement reductions, and the elimination of noncore and lower-priority programs and functions. **Efforts to identify additional areas where the universities can share services to further reduce costs and increase efficiency will continue.**

To continue to increase efficiencies, PASSHE must take greater advantage of being a System while preserving the unique strengths of each university. Currently, the universities consolidate business operations in payroll, human resources, legal, construction management, and information systems, reducing redundancy and costs.

These efficiencies help maintain the affordability of PASSHE's administrative

functions and academic programs, thus reducing the cost of education to the student and to the Commonwealth. **The cost-to-degree is being tracked by university to assure students progress efficiently toward the completion of their degrees.**

PASSHE's record of providing outstanding educational value to students will continue to be a hallmark of its new strategic plan, which is currently being finalized. The universities' individual strategic plans will share in this overall effort. Each university will continue to strive to be its best, focusing on its strengths, maintaining its quality programming, and developing new academic offerings that respond to changing workforce demands.

PASSHE's 2014/15 appropriations request supports these realignment efforts occurring strategically throughout the System to ensure the right mix of programs are provided in the right regions of the Commonwealth, meeting workforce needs without unnecessary duplication. In addition, a nonrecurring investment is sought to bridge the transition to new and emerging academic offerings that better align with workforce needs.

PASSHE's primary mission has been, and will always be, to serve the needs of students and the Commonwealth. As those needs change, PASSHE must continually adapt in order to be best positioned to ensure student success, both in their careers and throughout their lives. PASSHE looks forward to the Commonwealth's assistance in fulfilling this commitment.

2014/15 Appropriation Request

PASSHE's 2014/15 proposed Educational and General (E&G) budget recognizes the significant economic challenges that continue to impede Pennsylvania's economy and revenue outlook. Limited Commonwealth resources, mandatory cost increases that exceed revenue projections, and continued pressures on state retirement programs all indicate the potential for a challenging

Commonwealth budget for fiscal year 2014/15.

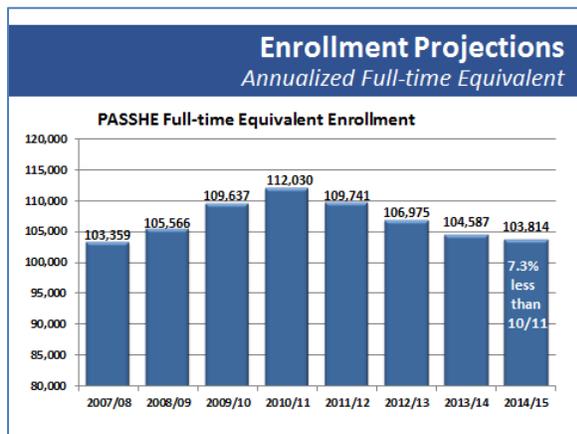
The System's 2014/15 budget requirements have been developed based upon university budgets submitted in adherence to specific guidelines and statutory requirements. PASSHE continues to operate in a recession recovery mode, limiting growth in operating

costs through strategic redirection of resources; embracing efficiency initiatives; and aggressively managing its physical, financial, and human resources. The 2014/15 operating budget builds upon this cost control climate and provides for limited increases in basic operating costs.

The following basic adjustments are reflected in the 2014/15 E&G budget.

Enrollment—Fall 2013 statistics indicate a continuing enrollment decline at all but two PASSHE universities, resulting in an overall one-year reduction of approximately 2,400 FTE students, or 2.2%.

The general economic environment and declining numbers of high school graduates are contributing factors. In addition, changes in state and local policies regarding advanced degrees for teachers continue to contribute to an overall decline in graduate enrollment. Nine universities anticipate no growth or continued reductions in enrollment for fiscal year 2014/15, resulting in budget estimates based on an overall enrollment decrease of almost 800 FTE, or 0.7%. However, enrollment projections vary significantly by university.



Employee Complement—PASSHE has worked diligently in recent years to manage its human resources, filling only essential positions as they become vacant. With annual work force cost increases outpacing anticipated revenue increases, PASSHE continues to ensure the proper alignment of human and fiscal

resources with the strategic directions and operational responsibilities of the System through work force planning. Through a combination of retirements, voluntary separations, and furloughs, PASSHE has 540 (5 percent) fewer permanent employees today than in fall 2008, while serving approximately the same number of students.

Given the combined impact of the fiscal climate, enrollment reductions, and program relevancy, several universities are in the midst of program realignment and work force planning efforts that might result in eliminating faculty and/or nonfaculty positions over and above the complement changes reflected in this document. These complement adjustments typically are excluded from the estimates, as universities are at various stages in the planning process.

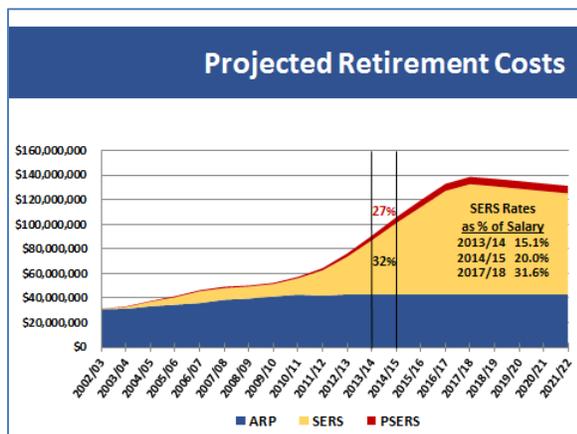
Salaries—PASSHE has collective bargaining agreements in place for all of its employee groups, which provide a basis for calculation of 2014/15 compensation. These requirements, combined with projected complement adjustments, will generate an estimated increase in employee salaries and wages of \$27.1 million, or 3.4%.

Employee Benefits—Of those employees who receive health benefits, approximately 63% are enrolled in PASSHE's health care program. PASSHE continues to experience record enrollment in Healthy U, the System's wellness program. Employees who do not participate in the wellness program pay a larger portion of their health care premiums. PASSHE projects the employer share of health care costs for active and annuitant employees within the System-managed programs to increase an average of 4.6% next year based upon a combination of national trends, PASSHE's health care experience, participation in the wellness program, and the anticipated change in complement. These estimates also include additional costs required by federal health care reform.

The remaining 37% of PASSHE's employees receive health care through the Pennsylvania

Employees Benefit Trust Fund (PEBTF). These rates are established in the AFSCME collective bargaining agreement, which reflects an employer rate increase of 7.1% for 2014/15. In addition, the Commonwealth’s retiree health care rates are anticipated to increase 9.5%, according to the Commonwealth budget guidelines. Combined health care costs are anticipated to increase \$9.8 million, or 5.5%.

The two primary Commonwealth retirement programs, State Employees’ Retirement System (SERS) and Public School Employees’ Retirement System (PSERS), continue to anticipate significant contribution rate increases. Approximately half of PASSHE’s employees have chosen SERS or PSERS as their retirement vehicle. In accordance with Commonwealth budget guidelines, the most common SERS employer contribution rate is projected to increase from 15.1% to 20.0% of salaries, or an increase of 32%. PSERS rates are expected to increase 27%. The combined cost associated with SERS and PSERS rate increases alone is \$13.2 million. Retirement rates associated with the alternative retirement programs remain the same. Combined retirement costs—rate increases applied to a higher salary base—are expected to increase in 2014/15 by \$16.7 million, or 20%.



Overall, employee benefits expenditures are expected to increase \$31.2 million, or 8.8%.

Utilities—In recent years, PASSHE universities experienced higher than normal electricity

rate increases because of the phased implementation of electric deregulation. Now fully deregulated, PASSHE’s 2014/15 utilities costs are anticipated to increase at a more reasonable rate of \$0.4 million, or 1.3%, to address anticipated rate adjustments and additions to university square footage. Rate increases are partially offset by energy conservation efforts derived, in part, through the use of energy savings corporations (ESCOs) and some universities converting to more efficient fuel sources. University utility cost increases vary significantly, depending on the mix of utilities, changes in space, and status of ESCO projects.

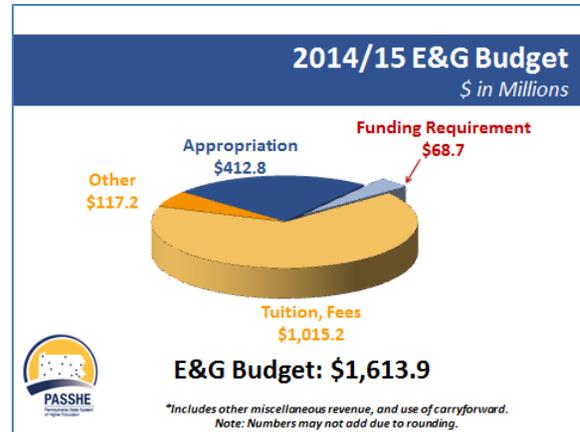
All Other Basic Operating Expenditures—Given the current fiscal environment, universities continue to limit all nonmandatory spending. Therefore, anticipated expenditures for services, supplies, and materials are projected to increase \$5.2 million, or only 1.9%. This is made possible partially through the use of strategic sourcing contracts, which combine the purchasing power of PASSHE’s universities to obtain optimal pricing on services, supplies, and equipment. Capital expenditures and transfers, which represent PASSHE’s investment in its physical resources from the E&G budget, are projected to decrease at most universities that experienced higher capital expenditures in 2013/14 because of the availability of project-specific resources. In total, noncompensation expenditures are estimated to decrease \$6.9 million, or 1.7%.

As stated above, expenditure requirements are primarily driven by mandatory cost increases, such as contractual compensation requirements, SERS/PSERS rate increases, and health care costs. However, the expenditure requirements also incorporate, to a smaller extent, the net effect of realignment efforts, which include (1) reducing under-utilized programs and services, and (2) expanding and/or creating relevant, high-need programs. This latter phase of realignment has an upfront, nonrecurring cost (e.g., feasibility studies, curriculum development, new faculty, instructional space and

equipment, and instructional resources). Other costs are recurring and will be sustained in the future through enrollment-driven revenue. These combined adjustments result in an overall 2014/15 E&G expenditure requirement of \$1.61 billion, an increase of \$51.5 million, or 3.3%.

Assuming no change in PASSHE's E&G appropriation or tuition rates, university revenue estimates reflect a \$4.5 million reduction in tuition and fee revenue attributed to projected declines in enrollment at six universities. The net loss in recurring, enrollment-driven revenue combined with PASSHE's expenditure requirements totals \$56.0 million. In addition, a \$12.7 million reduction in nonrecurring revenue is primarily attributed to the universities' transition toward realignment plans that began in 2013/14. The combined revenue and expenditure estimates result in a total requirement of \$68.7 million in both recurring and nonrecurring adjustments.

On October 16, 2013, the Board of Governors approved an E&G appropriation request for \$429.3 million, an increase of \$16.5 million or 4.0 percent and a line item request for Pennsylvania Priority Programs of \$18 million



to support the expansion and/or creation of relevant, high-need programs. Although no decision was made concerning tuition rate increases at that time, an assumption was made that tuition and fee revenue will increase at an amount similar to the Consumer Price Index, which the Congressional Budget Office estimated to be 3.0% for the upcoming year. In addition, the universities will be expected to reduce expenditures by \$7.0 million to balance the budget. These adjustments have been incorporated in the following tables. The Board will address the System's remaining budgetary requirements in light of the results of the appropriations process and other Systemwide budget management and planning efforts.

Line Item Request: Pennsylvania Priority Programs

A line item of \$18 million is requested for the purpose of aligning academic program offerings to current and emerging high priority occupations across the Commonwealth. The System will use this targeted funding to accelerate the development and implementation of academic programs that will provide PASSHE graduates with the skills to take advantage of employment opportunities that will allow them to remain in Pennsylvania; hold rewarding and family sustaining jobs; and contribute to the economic, social and cultural vitality of their region and the Commonwealth as a whole.

Funding will invest in the development and/or expansion of innovative academic programs

within high priority occupation clusters, such as Advanced Manufacturing and Materials, Biotechnology, Life Sciences, Information Technology and Energy. Graduates will be prepared for careers such as biological/biomedical technicians, market researchers, logisticians, engineers and engineering technicians, health care technicians and other health care professionals, computer systems analysts, software developers, and entrepreneurs within the respective industries.

The line item will be distributed to universities through a program proposal process, as non-recurring funds, to assist with the start-up costs of expanding existing programs and/or

developing new programs that align with the high priority occupation needs of the Commonwealth.

The curriculum development process will be competency-based and aligned with the needs of business and industry to ensure relevancy and application. Programs will be expected to include student experiences such as, but not limited to, internships, field experiences, and research experiences that help to ground classroom learning in the context of regional needs and the “real-life” experiences that

employers are asking for. In addition, flexible curriculum design will use various delivery methods to meet the needs of students and will ensure broad accessibility via multiple pathways for high school students, transfer students, and adult students.

These programs will expand job opportunities and meet the needs of employers, thereby providing increased value to their regions. The line item for Priority Programs/Priority Occupations is an investment in the future of Pennsylvania.