



TO: The Honorable Tom Wolf, Governor  
The Honorable Noe Ortega, Secretary of Education  
Senator Pat Browne, Majority Chair, Senate Appropriations Committee  
Senator Vincent Hughes, Minority Chair, Senate Appropriations Committee  
Senator Scott Martin, Majority Chair, Senate Education Committee  
Senator Lindsay Williams, Minority Chair, Senate Education Committee  
Representative Stan Saylor, Majority Chair, House Appropriations Committee  
Representative Matt Bradford, Minority Chair, House Appropriations Committee  
Representative Curt Sonney, Majority Chair, House Education Committee  
Representative Mark Longietti, Minority Chair, House Education Committee

CC: Board of Governors  
Council of Trustees Chairs  
University Presidents

FROM: Cindy Shapira, Chair, Board of Governors  
Dan Greenstein, Chancellor

DATE: November 15, 2021

RE: PASSHE Funding Needs: Background and Context

At its October 2021 meeting, the PASSHE Board of Governors approved a Fiscal Year 2022-23 general fund appropriations request of \$550 million. It also approved a motion to advocate for \$201 million annually in financial aid paid directly to students attending a PA State System university, including and especially emphasizing community college transfer students in programs of study leading to high-demand occupations.

In taking these actions, the Board assumed that the General Assembly would honor its three-year commitment made in June 2021 to allocate \$200 million of American Rescue Plan (ARP) funding to the State System – with \$50 million approved for distribution in the current 2021-22 fiscal year and the expectation that two subsequent \$75 million installments would be paid in the 2022-23 and 2023-24 fiscal years, respectively.

An attached briefing document provides the context and rationale for PASSHE's funding needs and an overview of what the commonwealth can expect from PASSHE for this level of investment, both in terms of student outcomes and affordability. Because PASSHE consists of state-owned universities dedicated wholly to advancing the goals and interests of this commonwealth, our budget needs are grounded in outcomes that address the state's most urgent challenges, notably having to do with its economic competitiveness and workforce. The briefing document discusses the state's 1) continued investment of ARP funding in PASSHE,

2) an increase in the base level of annual general fund appropriations, 3) new state appropriations supporting student financial aid to directly reduce the financial burden on our students, and 4) debt relief associated with under-utilized student housing.

The Board of Governors understands this is a transformational request of significant size, but it is also one that aligns directly with the magnitude and the urgency of the state's needs. Pennsylvania is experiencing a structural and chronic talent gap. Employers cannot find workers with adequate education to fill their needs. The gap is large; it is widespread across sectors; it is growing. And it is related directly to Pennsylvania's underfunding of public higher education and the upward pressure that puts on the net price a student pays to attend a state-owned university. Notwithstanding PASSHE universities being the most affordable 4-year higher education option in the state, it is still too expensive particularly for low- and middle-income students who are priced out of the higher education marketplace and as a result denied pathways into careers that drive the state's economy and, consequently, the opportunity to sustain themselves and their families.

The Board has deliberately withheld making such a request until it felt confident that PASSHE had responded to substantive and very appropriate concerns expressed by many stakeholders, including members of the General Assembly and the Administration. These concerns covered a range of issues, including the effectiveness, accountability, and transparency of the System's operations, its management, and its performance against key student outcomes and financial measures. Five years into a fundamental system redesign undertaken by the Board expressly to address these issues, we feel confident that PASSHE has responded in measurable ways to each of the concerns that the General Assembly and others have raised.

We are grateful to the General Assembly and the Administration for their expressions of support and promises made to consider a higher level of state investment for PASSHE upon addressing these concerns. Having accomplished addressing the concerns and putting in place a path forward toward sustainability, the System seeks to reengage in discussion with the General Assembly and the Administration about what that support looks like and how it will advance the interests of our students, their communities, Pennsylvania employers, and the commonwealth.

With this memo, we invite that conversation and look forward to discussing with you how fully funding PASSHE's FY 2022-23 budget needs can propel economic development and social mobility in Pennsylvania. The request included reflects a complete package that, if approved in its entirety, can significantly improve the outlook for the System, the commonwealth, and, most importantly, the students we were born to serve.



## The Power and Promise of Your State System

1. State System institutions are effective engines of workforce and economic development. PASSHE graduates in all disciplines—including those who begin in higher education at a community college—go on to meaningful and well-paid jobs in high-demand areas including business, health, STEM, and education. Nearly two-thirds of all PASSHE graduates work and live in Pennsylvania ten years after graduation (that number is three-quarters if you look specifically at students who begin at a PASSHE university as low-income students or as community college transfers).
2. State System institutions are effective engines of social mobility. PASSHE serves all Pennsylvanians, but as the state's most affordable four-year education option, it is particularly important for low- and middle-income students and for students from communities that higher education has historically underserved (including rural, underrepresented minority, and adult students).
  - Low- and middle-income students make up 70 percent (2019) of PASSHE universities' undergraduate enrollments; underrepresented minority students are about 20 percent; and adult learners represent about 10 percent.
  - Ten years after graduation, PASSHE university graduates who enrolled from low-income families earn about as much as those who enrolled from high-income families. The same is true when race/ethnic background is taken into consideration. For example, ten years after graduation, an underrepresented minority student who enrolled in a State System university from a low-income family will be earning about as much as a white student who enrolled in a PASSHE university from a high-income family.
3. PASSHE is a driver of regional economic development. Its universities:
  - a. support nearly 50,000 jobs across the state (49,237 per a 2021 economic impact study);
  - b. are often top-ten employers in their regions (7 of 14 universities); and
  - c. return more than \$8 in economic impact for every \$1 of state funds expended on them.

## Pennsylvania's Talent Gap: Its Impacts and Causes

4. Pennsylvania is experiencing a chronic "talent gap" that is starving employers of the educated workforce they need to remain competitive in Pennsylvania.

- a. Today 60 percent of Pennsylvania jobs require workers with some higher education, while only 50.7 percent of Pennsylvania adults have some higher education.
  - b. The talent gap exists across economic sectors: from trades and services through health care, agribusiness, financial services, IT, advanced manufacture, energy, education, and other areas.
  - c. The talent gap is growing: between 2020 and 2030 the commonwealth will need to close the gap and award 5.5 percent more associate's degrees, 8.1 percent more bachelor's degrees, 15.7 percent more master's degrees, 6 percent more doctoral degrees, and 4 percent more postsecondary nondegree credentials.
  - d. For PASSHE universities to contribute their current share of credentials towards closing the state's talent gap, they would need annually to award 2,000 more bachelor's degree and 1,200 more master's degrees. (As of 2019-20, they awarded just over 17,000 bachelor's and 5,000 master's annually).
  - e. The talent gap can only be filled by improving the education attainment level of low- and middle-income, underrepresented minority, and adult students.
  - f. If the talent gap is left unaddressed, the commonwealth will be unable to fill the jobs necessary for economic growth and ultimately experience divestment from employers.
5. Declining enrollments in higher education both cause and exacerbate the state's talent gap. Enrollment across the State System has declined 27 percent since 2010. About 6 percent of that can be attributed to impacts from the pandemic and another 5 percent from the shrinking number of Pennsylvania high school graduates. By far the largest contributing factor is the rising price of attendance. The average net price of attending a PASSHE university (tuition, fees, room/board, books and supplies less grant aid) rose more than 50 percent in the past decade amid lagging state funding. That puts a State System degree out of reach for many low- and middle-income families—the very student population that must help fill the commonwealth's talent and attainment gaps.
6. Price increases and the enrollment decline resulting from them are directly related to Pennsylvania's funding of higher education.
- a. Pennsylvania ranks 48<sup>th</sup> nationally in terms of public investment in higher education (46<sup>th</sup> with regard to investment in state-owned, four-year universities like those associated with the PA State System). Relatedly, the net price of attending higher education in Pennsylvania is 7<sup>th</sup> in the nation (10<sup>th</sup> for public, four-year institutions like PASSHE's), and graduating students have the 2<sup>nd</sup> highest debt load of students in all states.
  - b. As the price of attending a higher education institution rises, prospective students turn away or seek lower-cost options out of state, widening Pennsylvania's talent gap.
    - Pennsylvania falls further and further behind other states in the proportion of high school graduates and others who enroll in higher education.
    - Pennsylvania residents are increasingly seeking lower-cost higher education options from out-of-state providers. Data demonstrate that students who choose

to go out of state do not return to Pennsylvania after graduation to contribute to its economy and communities.

- The price burden falls most heavily on low- and middle-income students—groups that demonstrate the most precipitous enrollment declines. Currently, a middle-income family must spend as much as 44 percent of its annual household income sending one child to a State System university for one year. And a State System university is the most affordable four-year option in the state. Net price is only \$771 less than state-related institutions, and \$7,814 less than private institutions in Pennsylvania.
- c. PASSHE’s internal operations have also played a part in driving up the average net price of attendance. PASSHE was slow to adjust expenditures to diminished revenues that resulted from state under-funding and declining enrollments. Since 2018, internal operating policies and procedures have been in place that address:
- adjusting employee complement and academic program arrays to take account of new enrollment realities;
  - increasing the amount of student aid that universities make available; and
  - leveraging the System’s operating scale to achieve cost efficiencies
7. Failure to address the talent gap has severe and long-range consequences for Pennsylvania’s economic competitiveness and well-being, which appears to be slipping relative to other states in key indicators. Today, Pennsylvania ranks 41<sup>st</sup> nationally in terms of unemployment (ten years ago, it was 24<sup>th</sup>). Impacts are particularly profound for communities that rely disproportionately on PASSHE universities for their economic vitality as well as their future workforce. Between 2013-14 and 2019-20, the economic impact of State System universities declined by 9.5 percent, mainly as a result of declining student enrollment.

## **PASSHE Re-investment: The Most Efficient and Effective Means of Addressing the Talent Gap**

8. The Board of Governors has addressed financial management, sustainability, and other issues of substantive concern to key stakeholders, including members of the General Assembly and the Administration. As a result:
- a. PASSHE is aligning expenditures with revenues. By June 2022, it will have:
- eliminated \$173 million in cost over two years—well on the way to delivering the \$200-250 million reductions promised over five years (2020-25); and
  - aligned employee base with enrollments—achieving by June 2022 the two-year targets set in spring 2020 (new targets are set biennially).
- b. PASSHE is addressing the needs of its most enrollment-challenged schools, setting them on a path to better serve students and their communities in a financially responsible manner. As examples:
- Cheyney University’s accreditation is secured. It’s \$45 million debt to other State System universities is repaid. The university is operating in a financially stable way;

- IUP is implementing an exciting next-generation strategy—building back stronger than ever to meet the needs of the region, the state, and the nation; and
  - Campuses comprising the new “Penn West” university (California, Clarion, and Edinboro) and those in the yet-to-be-named northeastern integration (Bloomsburg, Lock Haven, and Mansfield) are building regional powerhouses to serve both traditional and new student groups.
- c. PASSHE has streamlined central administration—reducing headcount in the Office of the Chancellor by 30 percent since 2018 and narrowly focusing its work on strategy, policy, regulatory, and advocacy functions.
- d. PASSHE has effectively leveraged its operating scale to:
- manage educational program arrays such that programs respond to student and employer needs as well as enrollment and demographic trends, and operate without inefficient redundancy;
  - reduce cost and improve service capability through the introduction of shared services; and
  - increase savings through debt service restructuring and long-term retiree pension prefunding.
- e. PASSHE universities are now required by Board policy to operate in a financially sustainable manner—balancing budgets without reliance on reserves; yielding a modest positive annual operating margin; and maintaining primary reserve ratios and net reserves at minimum industry-standard threshold levels.

PASSHE is working aggressively to remain as the most affordable four-year postsecondary education option in the state. From 2011-2018, the average annual increase in the net price of attendance was 5.5 percent. Those increases have been eliminated since 2019, with the Board voting to hold tuition flat for three years straight. Universities are also controlling the price of room and board and have increased the amount of operating dollars spent on student aid to a historic level of \$100 million annually.

9. Re-investing in PASSHE is the most efficient means of improving credential productivity at the bachelor’s, master’s, and non-academic doctoral levels, thus shrinking the talent gap. Even as the rising cost of attendance at a State System university places higher education beyond the reach of more and more students and their families, it is still the most affordable option in the state for pursuing those degrees. Accordingly, the marginal cost of improved credential production is lower for PASSHE than for institutions in any other higher education sector.
10. PASSHE is ruthlessly focused on students—expanding access and improving outcomes. It is:
- a. improving undergraduate persistence and graduation rates by integrating industry-recognized best practices (4-year graduation rates have increased 10 percent in the past six years);
  - b. improving pipelines for traditional students by requiring universities to enroll as juniors, community college graduates who have obtained an associate’s degree, and

more than doubling high school dual enrollment and early-admit enrollments since 2014 (by 126 percent to 1021);

- c. Increasing online enrollments by 27 percent since fall of 2015, and short-course non-degree certificates by 246 percent since 2015 (to 1,220); and
  - d. implementing an aggressive strategy to ensure all students feel welcomed and have every opportunity to succeed—irrespective of zip code, race/ethnicity, gender identity, and political and world views.
11. PASSHE holds itself to the highest standards of transparency and accountability out of respect to the people who pay its bills—students who contribute 71 percent of its total revenues and taxpayers who contribute the other 29 percent. Unlike with other Pennsylvania-based colleges or universities that receive public support (and virtually all of them do), taxpayers and students know how PASSHE uses its funds, on what, and with what outcome.

## **PASSHE Funding Needs**

### **A second-year \$75M installment of the \$200M in federal ARP funds committed over three years in June 2021**

12. ARP funds are being used in three ways:

- a. to support universities' transition to sustainable operations, including the start-up of two new integrated universities in the west and northeast;
- b. to make strategic investments that improve students' success and expand into underserved markets (adult, online, and employer-aligned non-degree credentials); and
- c. to implement strategic and necessary investments that were deferred as a result of a decade's worth of recession management owing to state funding and student enrollment patterns.

13. NONE of the one-time funds will be expended in ways that incur ongoing operational costs, e.g., on permanent employees, base-building salary increments, etc.

### **\$550M annual General Fund appropriations**

14. The appropriation request deliberately addresses a question that has been asked for at least three years by the General Assembly and the Administration. That is, what are the real running costs of the System? In the past, PASSHE did not have a robust, analytically-driven answer because of the work it needed to do implementing transparent, financially sustainable operations and strengthening related institutional and individual accountabilities. That has changed.

15. A General Fund appropriation of \$550 million and subsequent annual increases at the prevailing (e.g., CPI rate of) inflation will enable the System to:
- a. manage viable instructional and residential operations across all fourteen sites, ensuring all universities, including the newly integrated ones, are operating in a financially sustainable manner;
  - b. eliminate all cross-subsidization through which financially healthier universities forego some of their formulaically allocated state appropriations and/or loan reserve funding to support financially less healthy universities;
  - c. freeze tuition and fee increases for 2022-23 and keep subsequent tuition and fee actions to within the prevailing rate of inflation;
  - d. increase student aid by at least 30 percent, from approximately \$100 million to \$130 million annually;
  - e. expand access to and success of underserved students who need help (and whose postsecondary success is critical if Pennsylvania is to meet its workforce need);
  - f. transition critical and ongoing strategic investments from rarely available one-time funds to recurring operating dollars;
  - g. move PASSHE from 46<sup>th</sup> to 38<sup>th</sup> among the states with respect of investment in public four-year universities; and
  - h. enable PASSHE universities to contribute over 1,100 more credentials annually to help Pennsylvania close its talent gap.
16. The appropriations request assumes that all universities continue to operate at or near peak efficiency, specifically that:
- a. universities continue to operate sustainably per Board policy, including keeping their employee complement within the current parameters as established by the Chancellor under the Board's sustainability policy;
  - b. the System continues to leverage its operating scale to improve efficiency and expand the capability of back-office functions;
  - c. academic programs remain responsive to student and employer needs and demographic and enrollment trends and are offered in a way that reduces inefficient redundancy across the system;
  - d. the System office remains streamlined and focused; and
  - e. resulting net average price of attendance enables PASSHE to restore enrollments to pre-pandemic levels.

## **\$201 million financial aid paid directly to students who attend a PASSHE university, including students who transfer with a community college degree**

17. The net price of attending a university or college is the largest single impediment to postsecondary participation in Pennsylvania, particularly for the low- and middle-income students that PASSHE universities disproportionately serve and whose postsecondary participation the state disproportionately relies upon to eliminate its talent gap.
18. Operating at peak efficiency and at the funding level referenced above, PASSHE can “freeze” students’ average net price of attendance at the current level in inflation-adjusted dollars—perhaps even achieve some modest reductions to it.
19. PASSHE cannot, without significant external support, reduce the average net price of attendance enough to expand postsecondary participation as needed to contribute its share in addressing the state’s talent gap.
20. The \$201 million annual investment made directly in students attending a PASSHE university (including students attending PASSHE after completing a community college degree) addresses the problem specifically.
21. Direct-to-student funding for PASSHE students will be distributed in a manner that addresses the root causes of the talent gap, emphasizing participation of low- and middle-income students attending programs of study that align directly with careers in industry sectors experiencing the greatest unmet demand for postsecondary educated workers. Attention will also be paid to the most efficient use of taxpayer dollars, which includes the establishment of low-cost degree pathways for students. In this regard, emphasis would be on students entering a PASSHE university with an associate’s degree from a Pennsylvania community college. Such students are drawn disproportionately from low- and middle-income backgrounds and participate in programs of study leading to high-demand occupations and accordingly fulfill these other primary objectives of student aid funding.
22. Recurring direct-to-student funding for PASSHE students at this level would:
  - a. result in an enrollment increase of at least 8 percent at PASSHE universities and an associated increase of enrollments in Pennsylvania community colleges (potentially much higher levels of enrollments will be possible depending on the basis by which criteria direct-to-student funding is distributed);
  - b. result in a 9 percent further increase in the number of credentials that PASSHE universities produce (coupled with the increase anticipated from adjustments in annual allocation, this improved productivity would enable PASSHE to contribute at least its share of the net additional credentials required by the state to address its growing talent gap); and
  - c. help close—but not eliminate—the gap between the price a Pennsylvania resident pays to attend a PASSHE school and the price that students living in five contiguous states pay to attend their local state-owned university.

## **\$30 to \$40M million for debt relief associated with student housing**

23. During the early 2000s, State System universities—like many other colleges and universities across the nation—invested in student housing to better compete in the higher education marketplace. The cost of these new buildings and subsequent enrollment declines have resulted in occupancy rates that do not generate the revenues necessary to meet debt service obligations. Results include increased room and board prices that further impact affordability for students seeking an on-campus experience, and/or use scarce educational and general funds to pay debt service.
  - a. The annual debt service for PASSHE’s integrating universities alone is approximately \$30 million, thus creating a significant financial challenge as they seek to serve students and achieve long-term sustainability.
  - b. Other rural universities are facing circumstances of low occupancy and inflexible debt payments.
  - c. To address this issue, universities are aggressively reviewing room and board pricing and occupancy with a view of achieving sustainable operations, taking underutilized buildings (including older university-owned residence halls) offline for demolition, seeking to monetize under-utilized facilities even where limited opportunities exist. However, further measures are necessary with the newer facilities where debt levels are not sustainable.
24. Debt relief could take many forms, including assistance through the 2019 capital bill, the acquisition of university housing that sits on commonwealth-owned property, strategic use of one-time funds for short-term limited relief, or additional funds designated toward debt relief.
25. Through long-term debt relief, universities will be able to provide more affordable housing options for students, which is an existing barrier for many students.
26. Additionally, if direct-to-student funding results in enrollment increases for undergraduate populations, it may have a compounding effect by increasing occupancy and reducing the financial strain associated with the long-term debt service.