

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION



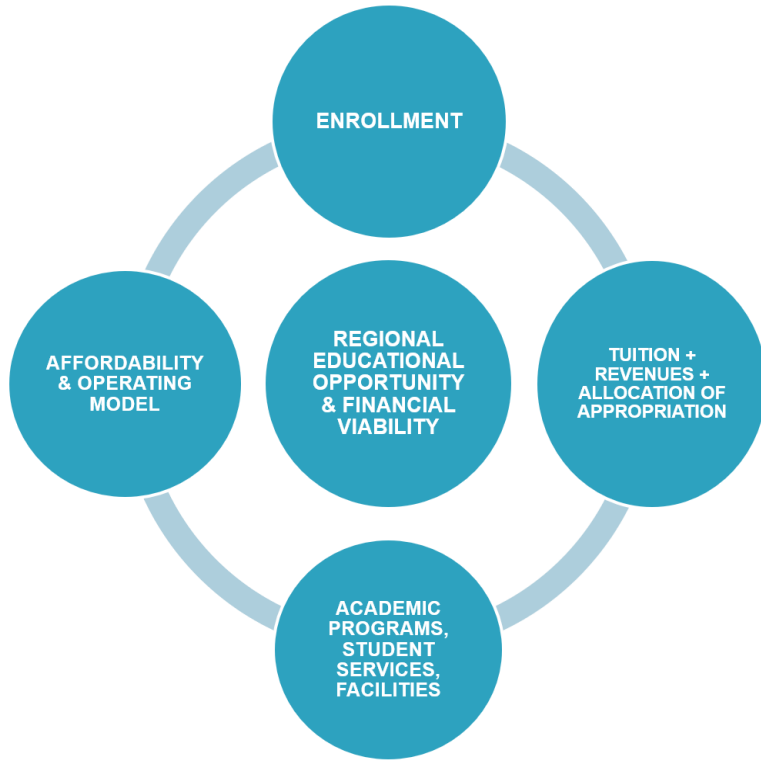
Board of Governors Integrations Update Workshop

June 30, 2021

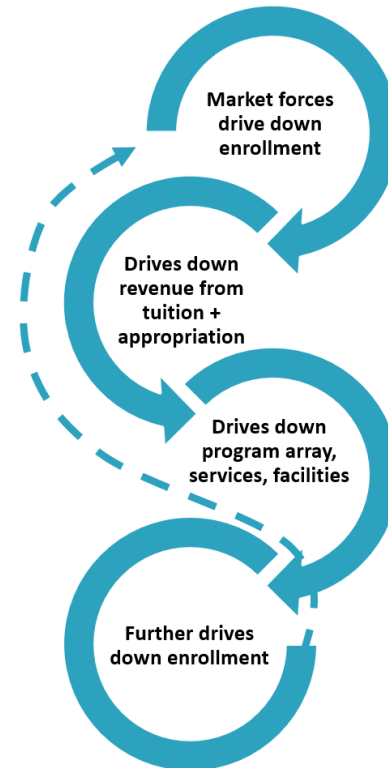
Integrations Update Workshop - Agenda

- The Why, What, and How of Integrations (Reminder)
- Activities Since May
- Public Comment Update
- Plan updates
- Additional Information As Promised in Response to Early Comment
 - Economic Impact Study
 - Revised Financial Projections
 - Student Survey
 - Governance

WHY Integration? (1 of 2)



An “every tub on its own bottom” model works for public universities when enrollment-driven, state, and other revenues are sufficient to meet operating costs



Confronted with the forces described above, the model unravels, threatening a university’s financial viability—most seriously at institutions with relatively low enrollments and/or high debt loads

WHY Integration? (2 of 2)

Because integrating institutions can do more together than on their own

REINVENT

higher education from a student-facing perspective

DEEPEN

vibrant campus relationships with the community and region

GROW

enrollments, serve new populations, and meet employer needs

EXPAND

experiential learning opportunities, strengthening career readiness

HARNESS

the collective strengths of the institutions and leverage them to best meet student needs

SUPPORT

financially sustainable operations to ensure our mission continues

SUSTAINABLY operate **COMPREHENSIVE** universities that provide **ACCESS** in all regions across PA

WHAT is Integration? (1 of 2)

What is Integration?

Three great institutions combined to form
a single powerhouse university

One accreditation, president, leadership team, budget, and
reporting relationship through Chancellor to BOG

One staff, faculty, and academic program array

A unified enrollment management strategy

Three vibrant campuses, each with its
own identity and athletics teams



Best of both worlds

- The full advantages of a residential experience (campus life, athletics, co-curricular)
- With access to a broader range of academic programs than any one university can sustain



More for students

- Re-tooled student supports and services
- Lower cost degree pathways
- Support for underserved students/employers



Focus on success

- Greater financial stability for the universities and the System
- Stronger Rol for students AND the State

HOW is Integration Being Pursued?

JULY 2020 TO OCTOBER 2020

- Conducted review of financial impacts of potential integration

OCTOBER 2020 TO APRIL 2021

- More than 1,000 students, faculty and staff working in 200+ teams developed draft implementation plan(s)

APRIL 2021 TO JULY 2021

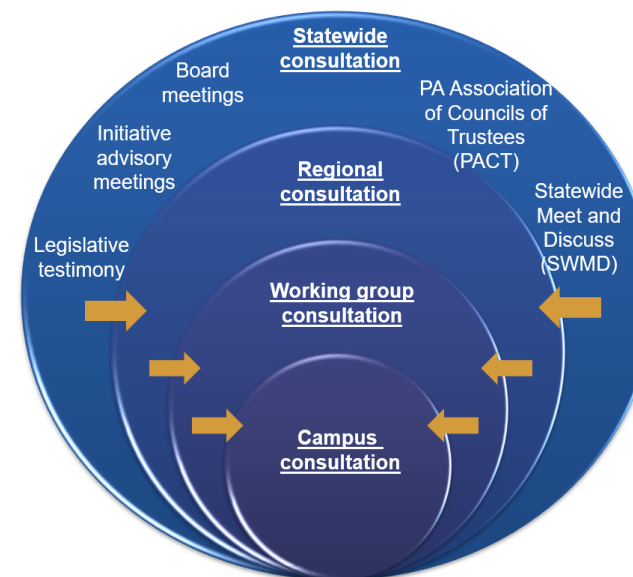
- Board considers initial approval to launch public comment/review (April 2021)
- Public comment period (April-June 2021)
- Board considers final approval (July 2021)

JULY 2021 TO JULY 2022

- Begin phased implementation* plan with a Fall 2022 opening and continue development thereafter (*upon Board approval)

As
prescribed
by Act 50

Inclusively and
transparently



Who has driven the process?

- **Organically.** More than 1,000 students, faculty and staff worked in 200+ teams to develop the implementation plans
- **Transparently.** Consultation has been multi-layer and robust throughout the process
- **Publicly.** Reports are available to the world and the process includes a 60-days public review and comment period

Activities Since May

4 Public Hearings

Meetings with union
leaders

Meetings with
community leaders

Meetings with
alumni & donors

Meetings with
Trustees

Meetings with
Governor
and/or staff

Meetings with
Legislators

Weekly review of
public comments

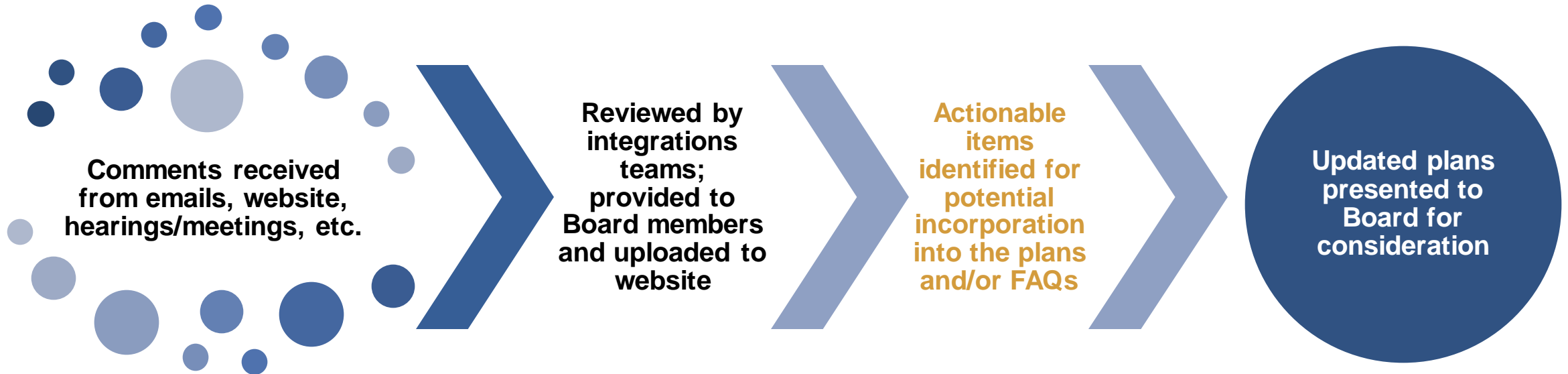
Media and social
media engagement

Student Survey
(in final stages)

Economic
Impact Study
(in final stages)

Third-Party
Financial Review

Public Comment Process



How Updated Plans Will Be Presented in July

- A revised version with all changes made visible using track changes
- A clean, revised version
- A guide identifying topics raised during public comment that impact the final plans

Overview of Public Comment Analysis

Received via email, website form, etc.

| | April 28 - May 17 | May 18 - June 20 | Total (as of 6/20) |
|---|----------------------|---------------------|-----------------------|
| Combined Comments (W + NE) | 299 | 439 | 738 |
| Plan actionable Unique actionable comments that impact the plan; note that several comments had duplicative actions | 22 | 12 | 34 |
| Non-plan actionable Comments that are already addressed in the plan and/or are specific enough to lead to an update in other documents such as FAQ, website information, or to be saved for consideration during implementation | 48 | 70 | 118 |
| Viewpoint comments Comments about the overall plans, approach, or other | 229 | 369 | 598 |

Public Hearings | Participation

| | ZOOM webinar total attendees | ZOOM webinar peak concurrent viewers | YouTube peak concurrent viewers during LIVE stream | YouTube recording views (as of 6/20/21) | Public speakers |
|--|------------------------------------|---|---|---|--------------------|
| Hearing 1 June 9 – 8 a.m. | 92 | 66 | 230 | 1189 | 22 |
| Hearing 2 June 9 – 4:30 p.m. | 85 | 61 | 138 | 724 | 22 |
| Hearing 3 June 10 – 8 a.m. | 86 | 72 | 231 | 859 | 28 |
| Hearing 4 June 10 – 4:30 p.m. | 107 | 91 | 119 | 829 | 43 |
| Total number of non-duplicated public speakers across all hearings: 102 | | | | | |

System Level Communications and Engagement

- **4 Public hearings** - Promoted through seven print publications, social media, OOC website, and email
- **28 Student focus groups** - Conducted through the Chancellor's campus visit schedule each semester
- **28 Open forums** - Conducted through the Chancellor's campus visit schedule each semester, including students, faculty, staff, and others
- **4 Legislative hearings** - Both in the senate and house, comprised of the appropriations and education committees
- **3 Community open forums** - Attendees included local government and community leaders
- **6 Board of Governors public meetings/workshops** - To keep the Board and public informed of our progress
- **89 Legislator meetings** - Meetings included individual legislators and larger groups, like the System Caucus
- **6 System-Level Advisory Group meetings** - A group comprised of leaders from multiple stakeholders to receive updates and provide feedback
- **6 Board of Student Government Presidents meetings** - Group comprised of student government presidents from all 14 universities
- **6 Chancellor blogs** - Regular updates including about integration progress
- **Ongoing, multi-channel digital communications** - At least monthly communications from OOC to all faculty and staff, through social and email

University- and Regional-Level Engagement

- **43 Trustee meetings** (statewide and local)
- **Over 100 APSCUF meetings** (state and local “Meet and Discuss”)
- **Routine multi-media, multi-channel information campaigns**, often conducted weekly, and reaching students, faculty and staff
- **Countless regular and ongoing leadership engagement** in town-halls, “teas”, 1:1 and small group meetings with students, faculty, staff, local community leaders, alumni, etc.

Response to Public Comment

Overview of Revisions Since May 2021

- Extended timeline for curriculum integration
- Clarified intended use of, support for, and reliance upon online modalities
- Surveyed current & prospective students & their parents to understand openness to online instruction
- Conducted community impact study showing impacts of (a) enrollment decline, 2014-20, and (b) projected impacts of integration (2022-25)
- Included COT recommendations
- Revised and conducted third-party review of financial projections
- Built in transitional financial protections for universities operating sustainably at integration
- Clarified integration goals and objectives
- Clarified implementation timelines including timelines for more detailed organizational information
- Clarified importance and role of advocacy for greater state funding

Public Comment Themes

Plan Section 5: Academic Programs, Non-Academic Units and Accreditation (1 of 3)

| Topics | Action | Plan Update |
|---|---|-------------|
| Timeline for integrating the curriculum | <p>(New Item) Academic curriculum is being adjusted to provide for phased-in integrated curriculum development, review, and implementation with a targeted completion by August 2024.</p> <p>Advantages include:</p> <ul style="list-style-type: none">- better, more thoughtfully developed integrated curriculum- additional time for increased faculty engagement, program specific accreditation- greater certainty for both new and current students with clear paths to graduation <p>Associated milestones for key aspects of the plan will be adjusted in support of the phased-in curriculum development, review and implementation. This includes, but is not limited to, information technology and student recruitment and enrollment.</p> <p>There is no impact on the Middle States submission process, on appointment of integration leadership team or on start date of integrated entity.</p> | Yes |

Public Comment Themes

Plan Section 5: Academic Programs, Non-Academic Units and Accreditation (2 of 3)

| Topics. | Action | Plan Update |
|--------------------|---|-------------|
| Method of Delivery | <p>(New Item) Additional clarifications were added to address how the curriculum will be delivered, including through the use of online and other remote technologies, notably with regard to:</p> <ul style="list-style-type: none">•the relatively limited overall reliance on online modalities for residential students;•the perception of Zoom and/or asynchronous online as the learning tool of choice given the recent experiences resulting from the rapid transition to remote learning due to the COVID pandemic•planned investment in faculty and staff professional development and the technology environment as required to deliver the highest quality educational experiences, ensuring the broadest possible access and the best available student outcomes. | Yes |

Public Comment Themes

Plan Section 6: Student Impacts

| Topics | Action | Plan Update |
|---|---|-------------|
| Include data from the already completed NE and W student surveys in the final report | ✓ Completed surveys shared with legislators and others as requested and will be included in the final report | Yes |
| Build on student survey data collected in the NE to assess market demand for higher ed experiences that engage online and hybrid learning to expand academic program breadth and maintain affordability | <ul style="list-style-type: none">• (Update) Within this section the results of three student surveys are provided including a new survey conducted in June 2021 demonstrating that the integrated entity's reliance on online instruction is well within willingness and expectations of current and prospective students, and their parents. | Yes |

Public Comment Themes

Plan Section 7: Community

| Topics | Action | Plan Update |
|--|---|-------------|
| Conduct an economic impact study related to potential impacts on the community | (Update) Engaged the same firm that conducted the System's 2015 economic impact study to update the analysis and look at two areas: a) impacts of declining enrollments and resulting reduction in expenditure and workforce (FY15/16-FY 21/22), and b) impacts of integration (FY 22/23 – FY 25/26); report to be completed by end of June Plans will be updated to show results from analysis | Yes |

Public Comment Themes

Plan Section 8: Governance

| Topics | Action | Plan Update |
|--|--|-------------|
| Include options for future COT composition developed by leadership and governance working groups | (Update) Will include along with a discussion about what is required to implement an option (legislative action) and what will happen regarding COTs if state legislature does not act to implement | Yes |
| Clarify that governance of university affiliates is NOT impacted by integrations | ✓ Contained within the Community section of the April plans, but will amplify in final report and add to the Governance section | Yes |
| Address the concern stated by some that an integrated entity can cease operations at a partner campus (effectively closing it) | <ul style="list-style-type: none">✓ Reiterate in the plan that the Board has no authority to close a university; furthermore, there is no plan to close a partner campus; doing so would create a higher education desert in the region and be cost prohibitive and counterproductive to System Redesign; the Board retains authority to preclude such actions✓ Board resolution to approve integration will include language that prohibits a president from closing any partner campus that was previously an independently accredited university | Yes |

Public Comment Themes

Plan Section 9: Organization

| Topics | Action | Plan Update |
|--|---|-------------|
| Provide greater detail in the proposed organizational charts | (Update) Following BOG approval, more detailed organizational chart inclusive of all HR/LR and change management activities work effort will begin;. <ul style="list-style-type: none">• The proposed organizational structure of the division of Academic Affairs in the integrated university was shared with faculty (June 23, 2021) for feedback as part of the implementation plan activities.• Based on the current timeline, it is anticipated that the proposed organization structure at the division levels for the remaining functions within the university will be shared in early August following the Board of Governor's meeting. | Yes |
| Provide greater detail about the roles and responsibilities of executive leadership including President of the integrated entity and the Campus Executive role | ✓ To be provided in the section on organization | Yes |

Public Comment Themes

Plan Section 10: Financial (1 of 2)

| Topics | Action | Plan Update |
|---|--|-------------|
| Conduct objective third-party review of financial projections and their assumptions | (Update) Adding results to the narrative and appendix. Assumptions found to be within the standard range for projections. | Yes |
| Explain financial review data to clarify at what point the West will reach positive financial standing | ✓ Contained within the appendix of April plans, will amplify in final report | Yes |
| Explicitly identify sources of projected cost savings in both plans | ✓ Adding to narrative and appendix | Yes |
| Include explicit information about increased state funding levels required to achieve certain specific financial goals to support broader advocacy effort | ✓ Contained in Conclusion and appendix, but will update to clarify and include funding levels that <ul style="list-style-type: none">- get West to net positive revenues in 2 years- eliminate need for System cross subsidization- achieve specific student affordability, student outcome, and DEI-related goals | Yes |

Public Comment Themes

Plan Section 10: Financial (2 of 2)

| Topics | Action | Plan Update |
|---|---|-------------|
| Update financial data to reflect new information | (Update) Revised projections added to narrative and appendix | Yes |
| Include information about potential impact of deferred maintenance costs | ✓ Contained within the conclusion of April plans, will amplify in final report | Yes |
| Provide information about potential options associated with buildings and debt service at selected universities | ✓ Working with elected officials for potential additional funding | TBD |
| Protecting reserves of campuses operating sustainably in advance of integrations | (Update) Provided transitional protections from various fund sources and included in financial projections | Yes |
| Clarify integration goals and how they will be achieved | (New) Included a terse statement of goals and objectives | Yes |

Public Comment Themes

Plan Section 11: Timeline

| Topics | Action | Plan Update |
|--|--|-------------|
| Articulate the timeline associated with consideration of the plans | <p>(New) The major upcoming activities to be completed over the first quarter of fiscal year 2021/2022 upon Board approval include the below. Based on the completion of these activities the timeline will be adjusted accordingly:</p> <ul style="list-style-type: none">• Detailed plan for phased-in curriculum development and implementation developed• Middle States submission of Complex Substantive Change Request (full detail is available in Section 5 of the Plan)• Organization charts at the division level (academic organization charts were distributed to faculty for feedback and are currently under review)• Marketing and Branding strategy• Student facing systems' integration implementation plan <p>The timeline is iterative and a planning document and will be adjusted for a phase-in of integrated curriculum development, review and implementation and the associated impacts of aligning supporting systems and business functions.</p> | Yes |

Public Comment Themes

Plan Section 12: Additional Considerations and Conclusions

| Topics | Action | Plan Update |
|-------------------------------------|--|-------------|
| Advocacy for enhanced state funding | (Update) Clarification that integration is not a substitute but a necessary complement to greater state investment in the State System | Yes |

Public Comment Themes

Process Updates

| Topics | Action | Plan Update |
|--|--|-------------|
| Create a process for analyzing public comment and include summary in the plans | ✓ A process of weekly review by the integrations team has been created; analysis will be shared with the Board and public at intervals prior to the July meeting; include summary in the plans | Yes |

Public Comment Common Themes

For future consideration

Note: These items are more operational in nature and are being shared with the integration teams for consideration during implementation phase.

| Category | Suggestion |
|--------------|---|
| Academic | Consider new academic and adult education programs |
| Partnerships | Consider new children and young adult programs |
| Financials | Explore leveraging scale of campus bookstore operations to achieve economies and improve availability of print textbook options |

Updated Financial Projections

Public Comment Themes

Plan Section 10: Financial Projections – Northeast Financial Results

(June 2021 – Updated projections for Stimulus Funds and FY22 Tuition Rate Update)

UNRESTRICTED BUDGET (EDUCATIONAL AND GENERAL AND AUXILIARY)

| (\$ in Millions) | | | | | | | | | | | | | | | | | | | | | |
|---|-------------------------|----------------|-----------------|--------------------|---------------|-----------------|------------------------|----------------|-----------------|-----------------------|------------------------------|-------------------------------|------------------------|------------------------------|-------------------------------|------------------------|------------------------------|-------------------------------|------------------------|------------------------------|-------------------------------|
| Revenues | Current Year FY 2020-21 | | | Revised FY 2021-22 | | | FY 2022-23 Projections | | | | | | FY 2023-24 Projections | | | FY 2024-25 Projections | | | FY 2025-26 Projections | | |
| | BL | LO | MA | BL | LO | MA | BL | LO | MA | Integrated University | Adjustments from Assumptions | Revised Integrated University | Integrated University | Adjustments from Assumptions | Revised Integrated University | Integrated University | Adjustments from Assumptions | Revised Integrated University | Integrated University | Adjustments from Assumptions | Revised Integrated University |
| Tuition | \$71.9 | \$27.6 | \$12.9 | \$74.3 | \$27.5 | \$13.9 | \$77.8 | \$28.8 | \$14.2 | \$120.8 | \$0.0 | \$120.8 | \$120.8 | \$2.4 | \$123.2 | \$123.2 | \$2.5 | \$125.6 | \$125.6 | \$2.5 | \$128.1 |
| Fees | 15.7 | 6.8 | 2.7 | 24.9 | 8.3 | 3.1 | 26.2 | 8.6 | 3.5 | 38.3 | 0.0 | 38.3 | 38.3 | 0.8 | 39.0 | 39.0 | 0.8 | 39.8 | 39.8 | 0.8 | 40.6 |
| State Appropriation | 38.4 | 25.7 | 18.1 | 38.4 | 25.7 | 18.1 | 38.4 | 25.7 | 18.1 | 82.2 | 0.0 | 82.2 | 82.2 | 0.8 | 83.0 | 83.0 | 0.8 | 83.9 | 83.9 | 0.8 | 84.7 |
| Auxiliary Sales | 19.2 | 2.8 | 5.2 | 34.7 | 10.3 | 10.8 | 38.3 | 10.9 | 11.0 | 60.2 | 0.0 | 60.2 | 60.2 | 1.2 | 61.4 | 61.4 | 1.2 | 62.6 | 62.6 | 1.3 | 63.9 |
| All Other Revenue | 13.7 | 7.6 | 3.2 | 16.5 | 8.8 | 5.3 | 6.0 | 3.9 | 2.8 | 12.7 | 0.0 | 12.7 | 12.7 | 0.0 | 12.7 | 12.7 | 0.0 | 12.7 | 12.7 | 0.0 | 12.7 |
| Total Revenues | \$159.0 | \$70.6 | \$42.1 | \$188.8 | \$80.6 | \$51.3 | \$186.7 | \$77.9 | \$49.5 | \$314.1 | \$0.0 | \$314.1 | \$314.1 | \$5.2 | \$319.3 | \$319.3 | \$5.3 | \$324.6 | \$324.6 | \$5.4 | \$330.0 |
| Expenditures | | | | | | | | | | | | | | | | | | | | | |
| Compensation Summary: | | | | | | | | | | | | | | | | | | | | | |
| Salaries and Wages | \$77.9 | \$38.5 | \$22.3 | \$75.1 | \$38.7 | \$20.8 | \$77.7 | \$36.3 | \$19.9 | \$133.9 | (\$1.9) | \$132.0 | \$132.0 | \$1.9 | \$133.9 | \$133.9 | \$1.3 | \$135.3 | \$135.3 | \$1.3 | \$136.6 |
| Benefits | 38.7 | 19.3 | 10.8 | 39.6 | 20.3 | 10.3 | 41.5 | 19.8 | 10.2 | 71.5 | (0.5) | 71.0 | 71.0 | 1.6 | 72.7 | 72.7 | 1.3 | 74.0 | 74.0 | 1.3 | 75.3 |
| Subtotal, Compensation | \$116.7 | \$57.8 | \$33.1 | \$114.7 | \$58.9 | \$31.0 | \$119.2 | \$56.2 | \$30.1 | \$205.4 | (\$2.3) | \$203.1 | \$203.1 | \$3.5 | \$206.6 | \$206.6 | \$2.7 | \$209.3 | \$209.3 | \$2.7 | \$212.0 |
| Student Financial Aid | 5.5 | 3.7 | 4.7 | 6.5 | 3.5 | 5.0 | 7.0 | 3.8 | 4.2 | 15.0 | 0.0 | 15.0 | 15.0 | 0.3 | 15.3 | 15.3 | 0.3 | 15.6 | 15.6 | 0.3 | 15.9 |
| Other Services and Supplies | 40.6 | 12.7 | 12.9 | 46.6 | 14.6 | 15.5 | 50.0 | 14.5 | 15.8 | 80.3 | (1.7) | 78.6 | 78.6 | (0.5) | 78.1 | 78.1 | (0.6) | 77.5 | 77.5 | (0.5) | 77.0 |
| Subtotal, Services and Suppl | \$46.1 | \$16.3 | \$17.5 | \$53.1 | \$18.0 | \$20.5 | \$56.9 | \$18.3 | \$20.1 | \$95.3 | (\$1.7) | \$93.6 | \$93.6 | (\$0.2) | \$93.3 | \$93.3 | (\$0.3) | \$93.1 | \$93.1 | (\$0.1) | \$92.9 |
| Capital Expenditures and Debt Principal Payments | 6.6 | 3.5 | 3.2 | 7.8 | 3.3 | 3.6 | 8.2 | 3.2 | 3.5 | 14.8 | 0.0 | 14.8 | 14.8 | (0.1) | 14.8 | 14.8 | (2.9) | 11.9 | 11.9 | 0.3 | 12.2 |
| Total Expenditures | \$169.4 | \$77.6 | \$53.9 | \$175.6 | \$80.3 | \$55.2 | \$184.2 | \$77.7 | \$53.6 | \$315.5 | (\$4.1) | \$311.5 | \$311.5 | \$3.2 | \$314.7 | \$314.7 | (\$0.5) | \$314.2 | \$314.2 | \$2.8 | \$317.1 |
| Revenues Less Expenditures | (\$10.4) | (\$7.0) | (\$11.8) | \$13.2 | \$0.4 | (\$3.9) | \$2.5 | \$0.2 | (\$4.1) | (\$1.4) | \$4.1 | \$2.6 | \$2.6 | \$2.0 | \$4.6 | \$4.6 | \$5.8 | \$10.4 | \$10.4 | \$2.6 | \$13.0 |
| Transfers to Plant Fund | (\$1.6) | (\$6.2) | \$0.4 | \$4.0 | (\$1.3) | (\$0.2) | \$4.4 | \$0.7 | (\$0.2) | \$4.9 | \$0.0 | \$4.9 | \$0.0 | \$6.7 | \$6.7 | \$0.0 | \$10.6 | \$10.6 | \$0.0 | \$10.6 | \$10.6 |
| Revenues Less Expenditures and Transfers | (\$9) | (\$0.8) | (\$12.2) | \$9.2 | \$1.7 | (\$3.7) | (\$1.9) | (\$0.5) | (\$4.0) | (\$6.3) | \$4.1 | (\$2.3) | \$2.6 | (\$4.7) | (\$2.1) | \$4.6 | (\$4.8) | (\$0.2) | \$10.4 | (\$8.0) | \$2.4 |
| Loans To/From Auxiliary Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Unrestricted Net Assets, Estimated End of Year Balance | \$47.4 | \$41.0 | (\$17.7) | \$58.4 | \$40.8 | (\$21.6) | \$60.1 | \$40.7 | (\$25.8) | \$75.1 | \$4.1 | \$79.1 | \$81.8 | \$2.0 | \$83.8 | \$88.4 | \$5.8 | \$94.2 | \$104.5 | \$2.6 | \$107.1 |
| Total Unrestricted Cash, Estimated Beginning of Year Balance | \$84.3 | \$58.0 | \$2.4 | \$63.8 | \$46.4 | (\$9.4) | \$74.8 | \$46.2 | (\$13.3) | \$107.8 | \$0.0 | \$107.8 | \$109.3 | \$0.0 | \$109.3 | \$113.9 | \$0.0 | \$113.9 | \$124.3 | \$0.0 | \$124.3 |
| Total Unrestricted Cash, Estimated End of Year Balance | \$63.8 | \$46.4 | (\$9.4) | \$74.8 | \$46.2 | (\$13.3) | \$76.5 | \$46.1 | (\$17.4) | \$105.2 | \$4.1 | \$109.3 | \$111.9 | \$2.0 | \$113.9 | \$118.5 | \$5.8 | \$124.3 | \$134.7 | \$2.6 | \$137.3 |

Public Comment Themes

Plan Section 10: Financial Projections – Northeast Financial Viability

(June 2021 – Updated projections – Stimulus Funds and FY22 Tuition Rate Update)

Northeast Integration

| | Revised Annual Integrated Ratios | | | |
|-----------------------|----------------------------------|---------|---------|---------|
| | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
| Operating Margin | 0.8% | 1.4% | 3.2% | 3.9% |
| Primary Reserve Ratio | 25.4% | 26.6% | 30.0% | 33.8% |

Key Ratios -

- Includes additional recognition of \$32.3M of HEERF 2 and 3 stimulus funds across FY 21 and 22
- Adjustment to remove 1% Fall '21 tuition increase assumption and replace with flat tuition impacts Net Revenue by approximately \$2M annually throughout the plan timeframe
- Operating Margin achieves goals established by Financial Sustainability Policy for financial health
- Primary Reserve achieves steady improvements (improved year-over-year from April)

1: Operating Margin Ratio = (Total Revenues – Total Expenditures) / Total Revenues

2: Primary Reserve Ratio = (EOY Net Asset Balance) / Total Expenditures

3: 2023-2026 financial viability metrics include operational savings in combined institution set

Public Comment Themes

Plan Section 10: Financial Projections – West Financial Results

(June 2021 – Updated projections – Stimulus Funds, FY22 Tuition Rate Update, Personnel updates, and Debt Relief)

UNRESTRICTED BUDGET (EDUCATIONAL AND GENERAL AND AUXILIARY)

| (\$ in Millions) | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---------|----------|----------|--------------------|---------|---------|------------------------|----------|---------|------------------|-----------------------|------------------------------|-------------------------------|------------------------|-----------------------|------------------------------|-------------------------------|------------------------|-----------------------|------------------------------|-------------------------------|------------------------|-----------------------|------------------------------|-------------------------------|
| Current Year FY 2020-21 | | | | Revised FY 2021-22 | | | FY 2022-23 Projections | | | | | | | FY 2023-24 Projections | | | | FY 2024-25 Projections | | | | FY 2025-26 Projections | | | |
| Revenues | CA | CL | ED | CA | CL | ED | CA | CL | ED | Online Offerings | Integrated University | Adjustments from Assumptions | Revised Integrated University | Online Offerings | Integrated University | Adjustments from Assumptions | Revised Integrated University | Online Offerings | Integrated University | Adjustments from Assumptions | Revised Integrated University | Online Offerings | Integrated University | Adjustments from Assumptions | Revised Integrated University |
| Tuition | \$59.7 | \$33.2 | \$36.4 | \$58.1 | \$31.3 | \$36.3 | \$57.6 | \$31.6 | \$38.1 | \$8.4 | \$135.7 | \$0.0 | \$135.7 | \$6.7 | \$142.4 | \$2.5 | \$144.9 | \$7.3 | \$152.2 | \$2.6 | \$154.8 | \$8.8 | \$163.6 | \$2.6 | \$166.3 |
| Fees | 14.2 | \$11.7 | \$9.7 | \$15.3 | \$12.5 | \$9.8 | \$14.4 | \$12.6 | \$10.3 | \$0.0 | \$37.4 | \$0.0 | \$37.4 | \$0.0 | \$37.4 | \$0.8 | \$38.1 | \$0.0 | \$38.1 | \$0.8 | \$38.9 | \$0.0 | \$38.9 | \$0.8 | \$39.7 |
| State Appropriation | 34.2 | \$26.5 | \$28.6 | \$34.2 | \$26.5 | \$28.6 | \$34.2 | \$26.5 | \$28.6 | \$0.0 | \$89.3 | \$0.0 | \$89.3 | \$0.0 | \$89.3 | \$0.9 | \$90.2 | \$0.0 | \$90.2 | \$0.9 | \$91.1 | \$0.0 | \$91.1 | \$0.9 | \$92.0 |
| Auxiliary Sales | 2.8 | \$6.6 | \$3.1 | \$13.0 | \$15.0 | \$11.4 | \$12.7 | \$15.0 | \$11.9 | \$0.0 | \$39.6 | \$0.0 | \$39.6 | \$0.0 | \$39.6 | \$0.8 | \$40.4 | \$0.0 | \$40.4 | \$0.8 | \$41.2 | \$0.0 | \$41.2 | \$0.8 | \$42.0 |
| All Other Revenue | 11.1 | \$12.7 | \$11.8 | \$12.9 | \$12.9 | \$19.6 | \$6.6 | \$7.0 | \$7.3 | \$0.0 | \$21.0 | \$12.5 | \$33.5 | \$0.0 | \$33.5 | (\$12.5) | \$21.0 | \$0.0 | \$21.0 | \$0.0 | \$21.0 | \$0.0 | \$21.0 | \$0.0 | \$21.0 |
| Total Revenues | \$122.0 | \$90.6 | \$89.6 | \$133.6 | \$98.2 | \$105.7 | \$125.5 | \$92.7 | \$96.2 | \$8.4 | \$322.8 | \$12.5 | \$335.3 | \$6.7 | \$342.0 | (\$7.5) | \$334.5 | \$7.3 | \$341.8 | \$5.1 | \$346.9 | \$8.8 | \$355.7 | \$5.2 | \$360.9 |
| Expenditures | | | | | | | | | | | | | | | | | | | | | | | | | |
| Compensation Summary: | | | | | | | | | | | | | | | | | | | | | | | | | |
| Salaries and Wages | \$57.2 | \$42.2 | \$46.4 | \$55.5 | \$37.5 | \$42.3 | \$56.7 | \$39.4 | \$44.2 | \$2.3 | \$142.6 | (\$5.2) | \$137.6 | \$1.3 | \$138.9 | \$1.7 | \$140.6 | \$1.1 | \$141.7 | \$1.3 | \$143.0 | \$1.2 | \$144.2 | \$0.6 | \$144.7 |
| Benefits | \$25.7 | \$20.9 | \$23.4 | \$25.5 | \$19.7 | \$22.7 | \$26.6 | \$20.6 | \$23.1 | \$0.0 | \$70.2 | \$0.1 | \$70.3 | \$0.0 | \$70.3 | \$1.3 | \$71.7 | \$0.0 | \$71.7 | \$1.1 | \$72.8 | \$0.0 | \$72.8 | \$0.9 | \$73.6 |
| Subtotal, Compensation | \$83.0 | \$63.1 | \$69.7 | \$81.0 | \$57.2 | \$65.0 | \$83.3 | \$60.0 | \$67.3 | \$2.3 | \$212.8 | (\$5.1) | \$207.9 | \$1.3 | \$209.2 | \$3.0 | \$212.3 | \$1.1 | \$213.4 | \$2.4 | \$215.7 | \$1.2 | \$216.9 | \$1.4 | \$218.4 |
| Student Financial Aid | \$8.0 | \$6.2 | \$2.7 | \$8.0 | \$6.7 | \$4.6 | \$8.0 | \$7.2 | \$5.5 | \$0.0 | \$20.6 | \$0.0 | \$20.6 | \$0.0 | \$20.6 | \$0.4 | \$21.1 | \$0.0 | \$21.1 | \$0.4 | \$21.5 | \$0.0 | \$21.5 | \$0.4 | \$21.9 |
| Other Services and Supplies | \$25.4 | \$29.1 | \$24.8 | \$31.3 | \$28.1 | \$25.1 | \$27.9 | \$28.0 | \$25.1 | \$6.1 | \$87.1 | (\$0.7) | \$86.4 | \$4.9 | \$91.3 | (\$0.6) | \$90.8 | \$5.5 | \$96.3 | (\$0.6) | \$95.7 | \$6.0 | \$101.7 | (\$0.6) | \$101.1 |
| Subtotal, Services and Suppl | \$33.3 | \$35.3 | \$27.6 | \$39.3 | \$34.8 | \$29.7 | \$35.9 | \$35.2 | \$30.6 | \$6.1 | \$107.8 | (\$0.7) | \$107.1 | \$4.9 | \$112.0 | (\$0.1) | \$111.8 | \$5.5 | \$117.3 | (\$0.1) | \$117.2 | \$6.0 | \$123.2 | (\$0.2) | \$123.0 |
| Capital Expenditures and Debt Principal Payments | \$6.4 | \$4.4 | \$6.5 | \$8.1 | \$4.4 | \$5.3 | \$8.0 | \$4.3 | \$5.5 | \$0.0 | \$17.8 | \$0.0 | \$17.8 | \$0.0 | \$17.8 | (\$0.3) | \$17.5 | \$0.0 | \$17.5 | \$1.1 | \$18.6 | \$0.0 | \$18.6 | (\$0.1) | \$18.6 |
| Total Expenditures | \$122.7 | \$102.8 | \$103.8 | \$128.4 | \$96.4 | \$100.0 | \$127.2 | \$99.4 | \$103.4 | \$8.4 | \$338.4 | (\$5.8) | \$332.8 | \$6.2 | \$339.0 | \$2.6 | \$341.6 | \$6.6 | \$348.2 | \$3.4 | \$351.6 | \$7.2 | \$358.8 | \$1.2 | \$359.9 |
| Revenues Less Expenditures | (\$0.8) | (\$12.3) | (\$14.1) | \$5.2 | \$1.8 | \$5.7 | (\$1.7) | (\$6.7) | (\$7.2) | \$0.0 | (\$15.6) | \$18.3 | \$2.5 | \$0.5 | \$3.0 | (\$10.1) | (\$7.1) | \$0.7 | (\$6.4) | \$1.7 | (\$4.7) | \$1.6 | (\$3.1) | \$4.0 | \$0.9 |
| Transfers to Plant Fund | \$0.0 | (\$6.4) | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | |
| Revenues Less Expenditures and Transfers | (\$1) | (\$5.9) | (\$14.1) | \$5.2 | \$1.8 | \$5.7 | (\$1.7) | (\$6.7) | (\$7.2) | \$0.0 | (\$15.6) | \$18.3 | \$2.5 | \$0.5 | \$3.0 | (\$10.1) | (\$7.1) | \$0.7 | (\$6.4) | \$1.7 | (\$4.7) | \$1.6 | (\$3.1) | \$4.0 | \$0.9 |
| Loans To/From Auxiliary Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | |
| Total Unrestricted Net Assets, Estimated End of Year Balance | \$22.2 | (\$7.9) | (\$1.6) | \$27.1 | (\$6.1) | \$4.1 | \$25.4 | (\$12.8) | (\$3.1) | \$0.0 | \$9.5 | \$18.1 | \$27.6 | \$0.5 | \$30.7 | (\$10.1) | \$20.6 | \$0.7 | \$14.2 | \$1.7 | \$15.9 | \$1.6 | \$12.8 | \$4.0 | \$16.8 |
| Total Unrestricted Cash, Estimated Beginning of Year Balance | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Unrestricted Cash, Estimated End of Year Balance | \$37.8 | \$9.6 | \$22.2 | \$36.7 | (\$2.7) | \$8.0 | \$41.6 | (\$0.9) | \$13.7 | \$0.0 | \$54.4 | \$0.0 | \$54.4 | \$0.0 | \$57.4 | \$0.0 | \$57.4 | \$0.0 | \$51.1 | \$0.0 | \$51.1 | \$0.0 | \$48.0 | \$0.0 | \$48.0 |
| Total Unrestricted Cash, Estimated End of Year Balance | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Unrestricted Cash, Estimated End of Year Balance | \$36.7 | (\$2.7) | \$8.0 | \$41.6 | (\$0.9) | \$13.7 | \$39.9 | (\$7.6) | \$6.5 | \$0.0 | \$38.8 | \$18.1 | \$56.9 | \$0.5 | \$60.5 | (\$10.1) | \$50.4 | \$0.7 | \$44.7 | \$1.7 | \$46.4 | \$1.6 | \$44.9 | \$4.0 | \$48.9 |

Public Comment Themes

Plan Section 10: Financial Projections – West Financial Viability

(June 2021 – Updated projections for Stimulus Funds, FY22 Tuition Rate Update, , Personnel updates, and Debt Relief)

West Integration

| | Revised Annual Integrated Ratios | | | |
|-----------------------|----------------------------------|---------|---------|---------|
| | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
| Operating Margin | 0.8% | -2.1% | -1.3% | 0.3% |
| Primary Reserve Ratio | 8.3% | 6.0% | 4.5% | 4.7% |

Key Ratios -

- Includes additional recognition of \$31.6M of HEERF 2 and 3 stimulus funds across FY 21 and 22
- Adjustment to remove 1% Fall '21 tuition increase assumption and replace with flat tuition impacts Net Revenue by approximately \$2M annually throughout the plan timeframe
- Operating Margin improving through FY26 (Variance in FY24 due to elimination of one-time debt relief). Efficiency savings address shortfalls in later years, leading to positive operating margin in FY26
- Primary Reserve stabilizing as compared to standalone projections (improved from April due to stimulus funds reflected, debt relief and efficiency savings)

1: Operating Margin Ratio = (Total Revenues – Total Expenditures) / Total Revenues

2: Primary Reserve Ratio = (EOY Net Asset Balance) / Total Expenditures

3: 2023-2026 financial viability metrics include operational savings in combined institution set

Economic Impact Study

Economic Impact Study

Plan Section 7: Community

Overall Results:

Impact of Proposed Integrations

- **West** – \$758.6M in FY 2025/2026, an 8.1% increase over the combined three-university impact projected in FY 2022/23 (and 11.7 percent over that for FY 2019/20)
- **Northeast** – \$573.5M in FY 2025/2026, an 1.9% increase over the combined three-university impact projected in FY 2022/23 (and 5 percent over that for FY 2019/20)

Impact of State System contraction FY 2013/14 - FY 2019/20

- -9.5% impact largely due to decreased student spending associated with 14.7% enrollment decline and change in industry-accepted economic multipliers
- Reduction in employee headcount contributed only modestly to total decline, owing to increase in salaries

Systemwide Sustainability Planning Headcount Reductions (per sustainability plans review 2/21)*

| Total Annualized Unrestricted FTE Employees | | | | | | | |
|---|---------------|---------------|---------------|-------------------------|--------------|-------------------------|--------------|
| | 2018-19 | 2019-20 | 2020-21 | Inc/(Dec) '20 to '21 | 2021-22 | Inc/(Dec) '21 to '22 | 2022-23 |
| Faculty | 5,069 | 5,010 | 4,716 | (294) | 4,331 | (385) | 4,260 |
| Non Faculty | 5,979 | 5,833 | 5,577 | (256) | 5,299 | (278) | 5,257 |
| Total | 11,048 | 10,843 | 10,293 | (550) | 9,630 | (663) | 9,517 |

Reductions accomplished through a variety of means including elimination of vacant posts, temps and contract staff, retirements (including ESLP).

Retrenchments / furloughs make up one component:

- Faculty: 32 of the total faculty
- Non-faculty: 178 of the total non faculty

*Projections are sensitive to student enrollments and revenues

Third Party Financial Review

Third Party Financial Review

Overview

- Engaged Clifton Larson Allen (CLA), the Commonwealth and System's auditor, to conduct a review of the projections.
- CLA reviewed and scored the assumptions including tuition and auxiliary revenue and operating and personnel savings.
- CLA utilized a scale that placed an assumption between conservative and aggressive with a recommended appropriate range (highlighted in blue on the following slides) based on best practices.
- Overall the assumptions utilized for both regions fall within the appropriate range with those that are more sensitive aligned toward more aggressive based on historical trends and ability to execute against plans.

Third Party Financial Review

DRAFT – PRELIMINARY RESULTS

Plan Section 10: Financial

West Integration FY23 – FY26

- CLA scored undergraduate and graduate tuition between moderate and aggressive, due to the variables in control surrounding increases in online enrollment.
- Due to the correlation between enrollment and auxiliary sales, CLA scored the auxiliary sales assumption between moderate and aggressive.
- CLA scored the personnel expenditures slightly beyond moderate, due to the variables in control surrounding the efficiencies to be gained through the reduction of redundancies at the integrated university.
- Overall projections are scored within the appropriate assumption range for the west integration from FY23 – FY26.

| Key Assumption | CLA Assessment of Management's Assumptions | | |
|--|--|--------------|----------------|
| | ← Conservative → | ← Moderate → | ← Aggressive → |
| OVERALL PROJECTIONS | | ★ | |
| REVENUE | | | |
| Tuition | | | |
| <i>Undergraduate Tuition</i> | | ★ | |
| <i>Graduate Tuition</i> | | ★ | |
| Fees | | ★ | |
| State Appropriation | | ★ | |
| Auxiliary Sales | | ★ | |
| All Other Revenue | | ★ | |
| EXPENDITURES | | | |
| Personnel | | ★ | |
| Student Financial Aid | | ★ | |
| Other Services and Supplies | | ★ | |
| Capital Expenditures and Debt Principal Payments | | ★ | |

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Third Party Financial Review

DRAFT – PRELIMINARY RESULTS

Plan Section 10: Financial

Northeast Integration FY23 – FY26

- Based on the historical trends in enrollment, CLA scored undergraduate tuition between moderate and aggressive and graduate tuition as slightly beyond moderate.
- Management assumed an increase of personnel expenditures, due to pay increases. CLA scored the personnel expenditures as moderate, due to the projected increase in personnel expenditures.
- Other expenditure assumptions were scored as moderate, due to there being achievable plans in place.
- Overall projections are scored within the appropriate assumption range for the northeast integration from FY23 – FY26.

| Key Assumption | CLA Assessment of Management's Assumptions | | |
|--|--|--------------|----------------|
| | ← Conservative → | ← Moderate → | ← Aggressive → |
| OVERALL PROJECTIONS | | ★ | |
| | | | |
| REVENUE | | | |
| Tuition | | | |
| <i>Undergraduate Tuition</i> | | | ★ |
| <i>Graduate Tuition</i> | | ★ | |
| Fees | | ★ | |
| State Appropriation | | ★ | |
| Auxiliary Sales | | ★ | |
| All Other Revenue | | ★ | |
| | | | |
| EXPENDITURES | | | |
| Personnel | | ★ | |
| Student Financial Aid | | ★ | |
| Other Services and Supplies | | ★ | |
| Capital Expenditures and Debt Principal Payments | | ★ | |

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Analysis of the Financial Projections: Conclusion

Scoring of Assumptions

- It appears that sufficient elements have been considered, and all information utilized appears to be reasonable.
- Management's projections for the integration are all within the appropriate assumption range.

Greatest Sensitivities

- CLA has given consideration to all revenue and expenditures.
- Through our analysis it was determined that the assumptions with the greatest sensitivities are undergraduate and graduate tuition revenue driven by enrollment.
- Personnel expenditures was also an assumption CLA considered to have sensitivity.
- Our analysis determined that financial sustainability will be most significantly impacted by the assumptions with the greatest sensitivities.

Initiatives

- Projections are within the appropriate assumption range. However, it is important the following initiative are implemented with success:
 - *Online offerings in the West*
 - *Increased enrollment of 1%*
 - *Increased retention through additional student support*
 - *Implementation of strategic discounting to balance gross revenue and student financial aid*
 - *Projected workforce to achieve student to faculty ratio goals and reduce redundancies in the integrated universities*

Student Survey

Student Survey Preliminary Results

Plan Section 7: Student Impacts

Prospective students:

- 88% are willing to take at least up to 25% courses online to have access to wider range of degrees/majors
- 90% are willing to take at least up to 25% of their courses online in order to keep the price they pay the lowest
- 91% are willing to take at least up to 25% of their courses online in order to earn their degree more quickly

Current students:

- More than 90% of current students are willing to take at least up to 25% of their courses online for any of three reasons tested

Parents:

- 99% are comfortable with their child taking at least up to 25% of their courses online for any of the three reasons tested

Governance — Councils of Trustees

Councils of Trustees

Plan Section 8: Governance

The roles and responsibilities of the Council of Trustees were reviewed by the leadership and governance working group.

Several options were considered in the NE including:

- Single COT as currently defined (10+1 student) with Student Advisory Committee
- Single COT with more members (15 + 3 students)
- Single COT with more members (15 + 3 students) and Campus Advisory Boards
- Multiple COTs

Several options were considered in the West including:

- Single COT as currently defined (10 +1) with Student Advisory Committee
- Single COT with more members (15 + 4 students)
- Single COT (15+4 students) with Campus Advisory Board

Of the above options, legislative action would be required for all except the first option in each group.

Integrations Plans available online at:

- To view submitted public comments, visit www.passhe.edu/publiccomment
- View the FAQ page [HERE](#)
- View the proposed Northeast Plan [HERE](#)
(will be updated prior to July board meeting)
- View the proposed West Plan [HERE](#)
(will be updated prior to July board meeting)

