



# Possible trajectories for PASSHE

Presented by the Chancellor to the PASSHE Board of Governors on July 16, 2020





# Framing the Problem

How to sustain affordable, high-quality education for all Pennsylvanians?

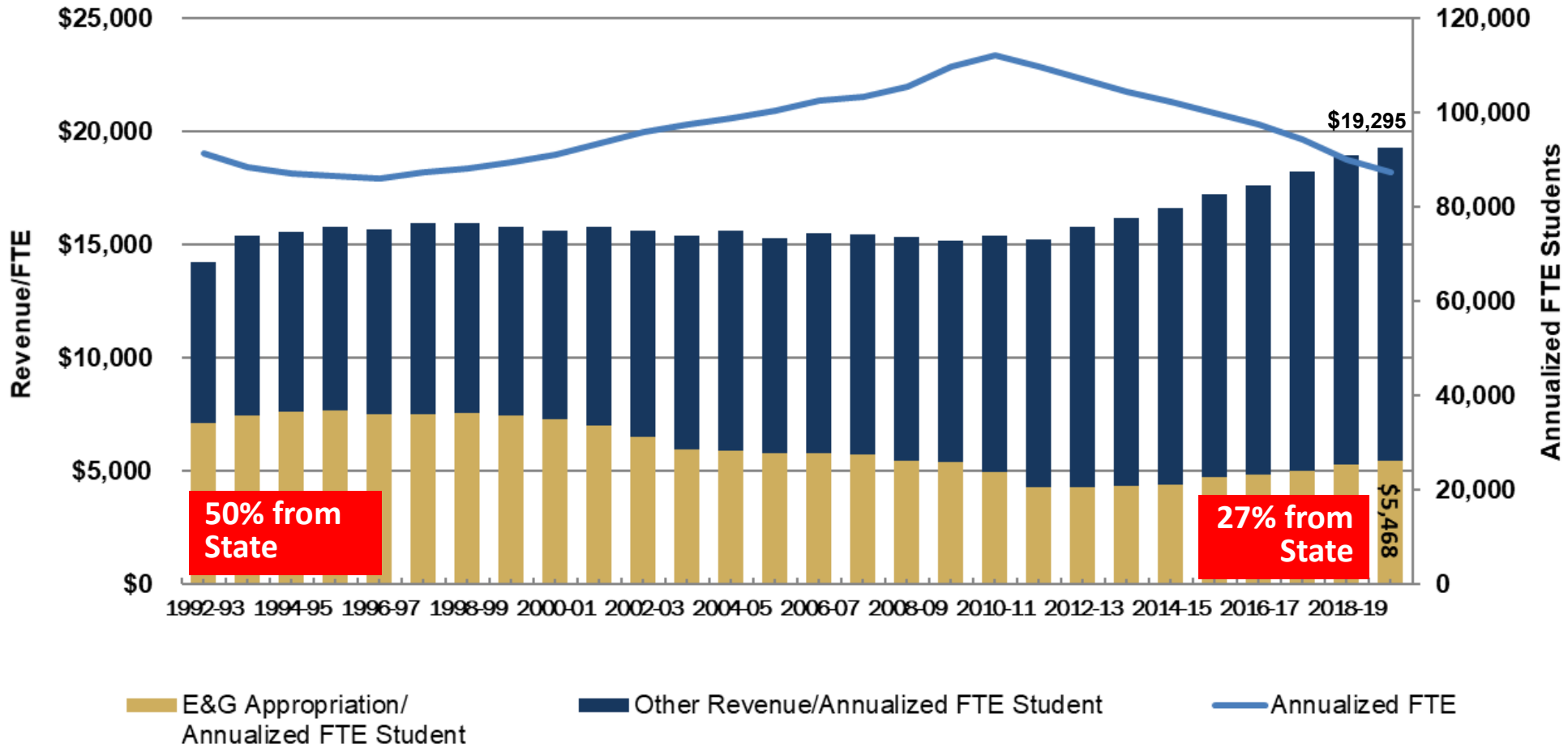


Pennsylvania's  
**STATE SYSTEM**  
of Higher Education

# State divestment...

State System, FY 1993-2020, Constant Dollars Adjusted by CPI

## History of E&G Revenue/Annualized FTE Student 1992-93 through 2019-20 Adjusted for Inflation—In 2019-20 Dollars



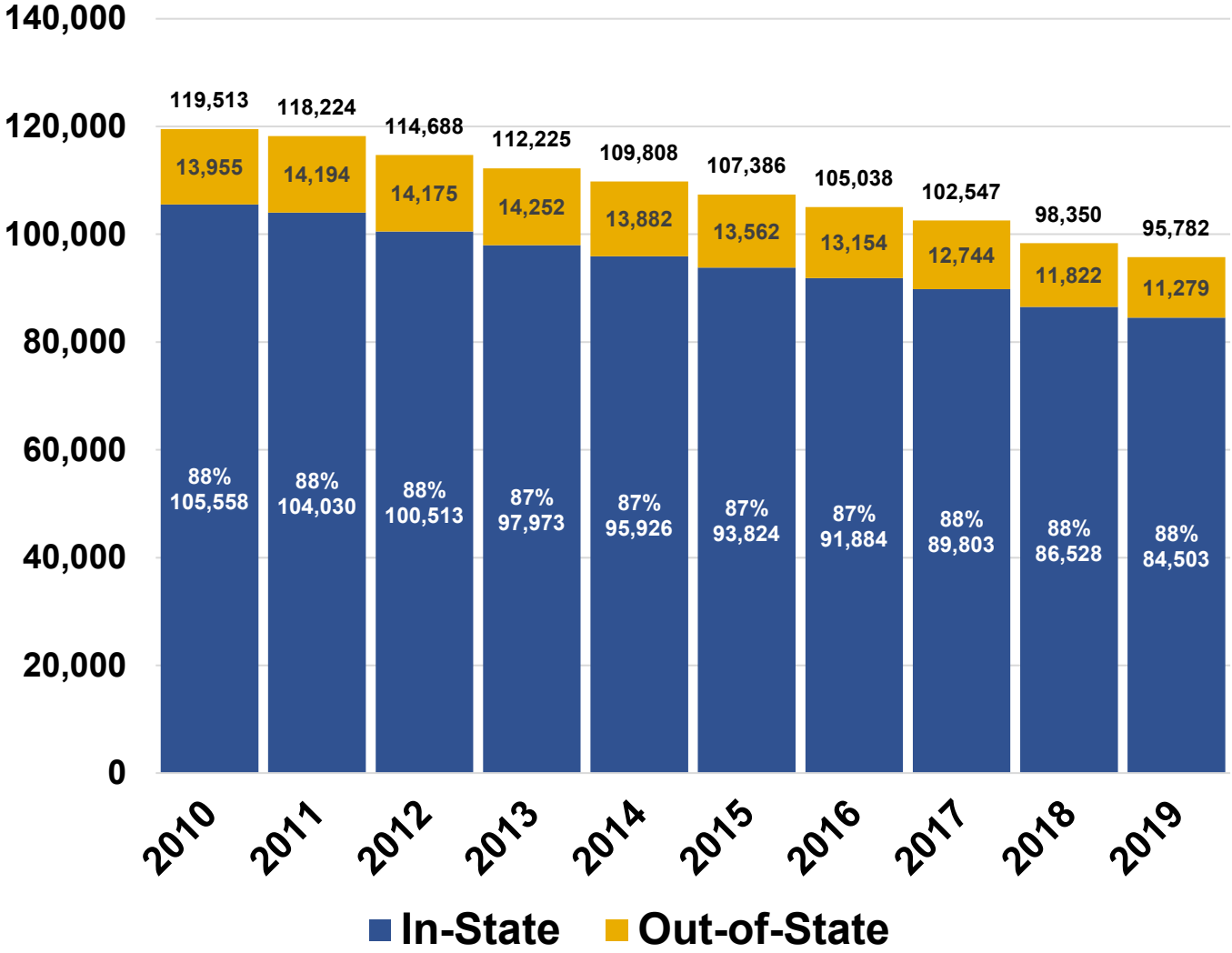
## ...drives tuition increases...

*Board-approved Tuition and Technology Tuition Fee Rates;  
Excludes University Mandatory Fees, Room and Board*

<b>Academic Year</b>	<b>Tuition and Technology Tuition Fee*</b>	<b>Percent Change</b>	<b>Annualized FTE Enrollment</b>	<b>Percent Change</b>
2011-12	\$6,588		111,806	
2012-13	\$6,786	3.0%	110,216	-1.4%
2013-14	\$6,990	3.0%	107,009	-2.9%
2014-15	\$7,242	3.6%	104,581	-2.3%
2015-16	\$7,496	3.5%	102,484	-2.0%
2016-17	\$7,686	2.5%	100,108	-2.3%
2017-18	\$7,956	3.5%	97,528	-2.6%
2018-19	\$8,194	3.0%	94,215	-3.4%
2019-20	\$8,194	0.0%	90,349	-4.1%

*\*Annual in-state rates for full-time undergraduates at most universities.*

# ...driving enrollment declines...



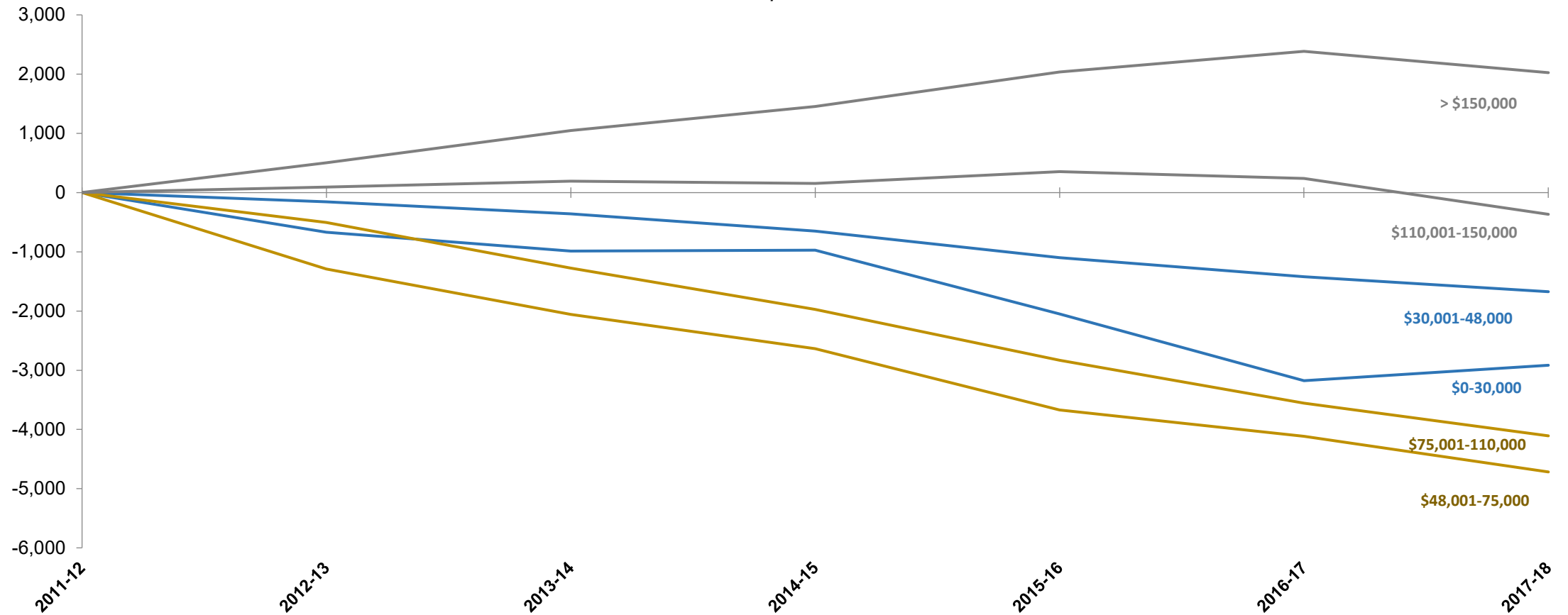
Fall	Headcount	Percent Change	
		Annual	Cumulative (since 2010)
2010	119,513		
2011	118,224	-1.1%	-1.1%
2012	114,688	-3.0%	-4.0%
2013	112,225	-5.1%	-6.1%
2014	109,808	-4.3%	-8.1%
2015	107,386	-4.3%	-10.1%
2016	105,038	-4.3%	-12.1%
2017	102,547	-4.5%	-14.2%
2018	98,350	-6.4%	-17.7%
2019	95,782	-6.6%	-19.9%

Source: Student Data Warehouse; student submission official fall freeze, end of 15<sup>th</sup> day

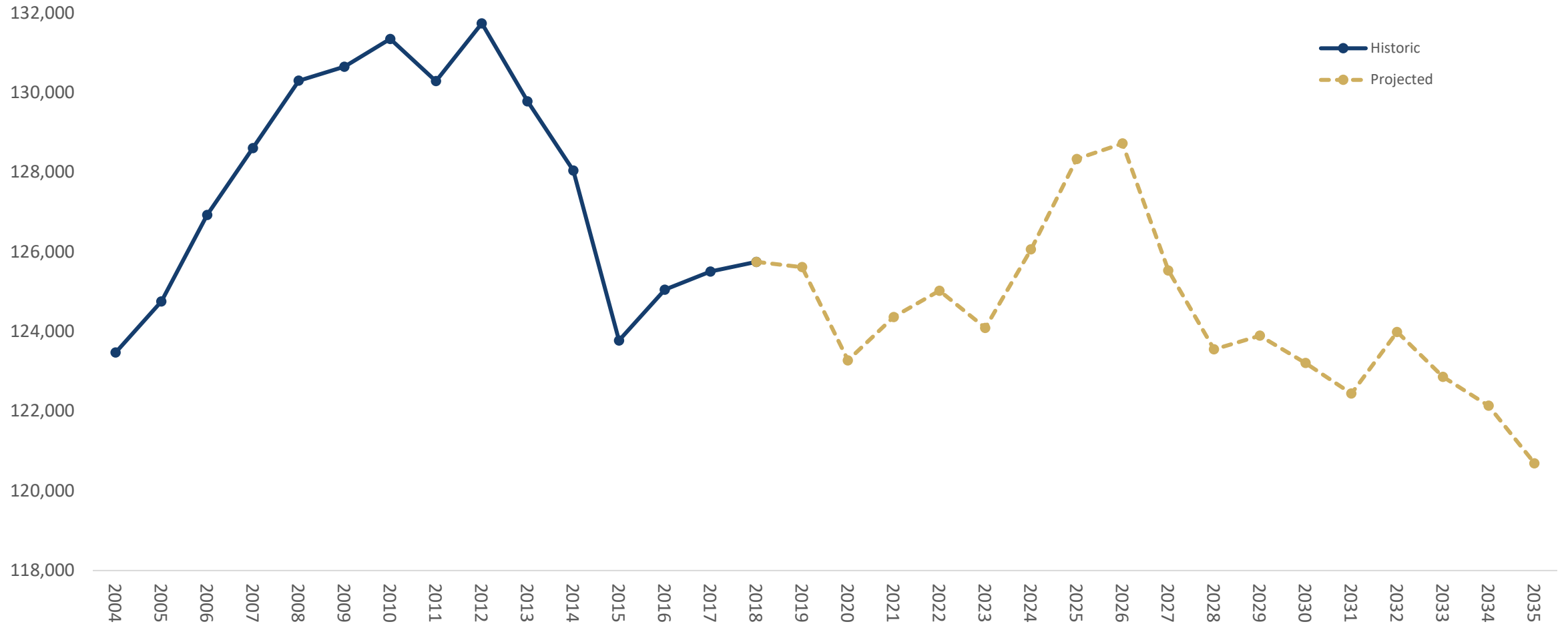
# ...that have impacted students differentially by income

(threatening our historic mission)

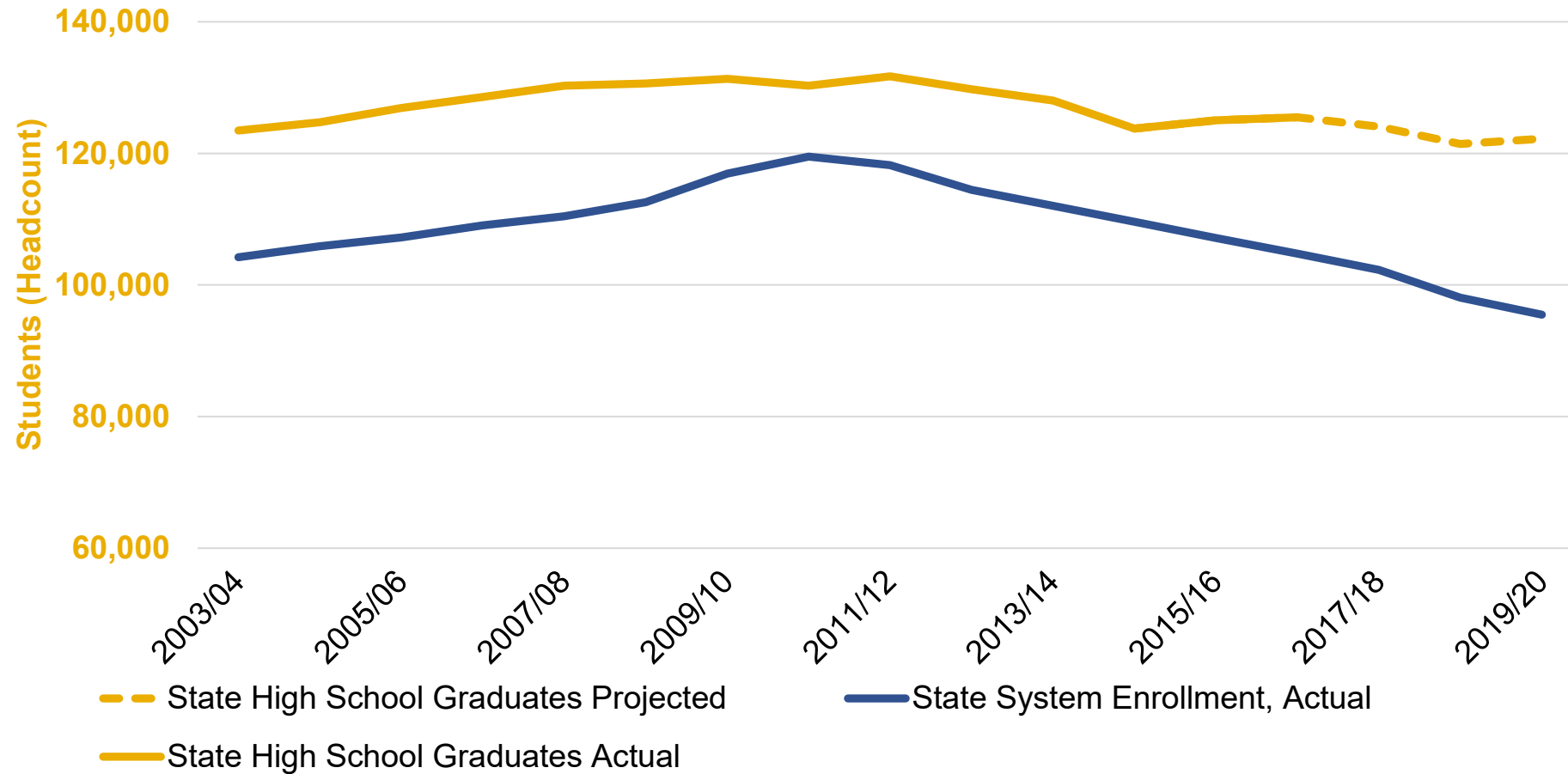
**Change in In-State Undergraduate Headcount  
by Family Income Level**  
*For those who completed the FAFSA*



# Enrollment decline reflects [but at many universities is greater than] the decline in size of the high school-leaving population



# We're losing market share. Why?



*\*Projected by Office of the Chancellor. No change estimated for out-of-state or graduate enrollment. Source for high school graduate estimates: Pennsylvania Departments of Health and Education. Methods based on Western Interstate Commission for Higher Education; updated by Advanced Data Analytics, updated November 2018.*



# Many reasons, including that we're losing the affordability advantage we once had...

Average Net Price (Cost of Attendance minus Average Grants)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage Change from 2009-10 to 2017-18
<b>State System</b>	\$12,677	\$14,211	\$15,342	\$16,310	\$16,333	\$17,696	\$18,482	\$19,763	\$20,270	59.9%
<b>PA State Related</b>	\$19,466	\$19,198	\$19,999	\$20,590	\$20,852	\$21,560	\$21,400	\$21,673	\$22,370	14.9%
<b>PA 4 Yr Privates</b>	\$21,431	\$22,301	\$22,613	\$23,309	\$23,421	\$22,881	\$22,585	\$22,745	\$22,939	7.0%
<b>National 4 Year Public</b>	\$11,645	\$11,933	\$12,579	\$12,999	\$13,090	\$13,486	\$13,739	\$13,957	\$13,977	20.0%

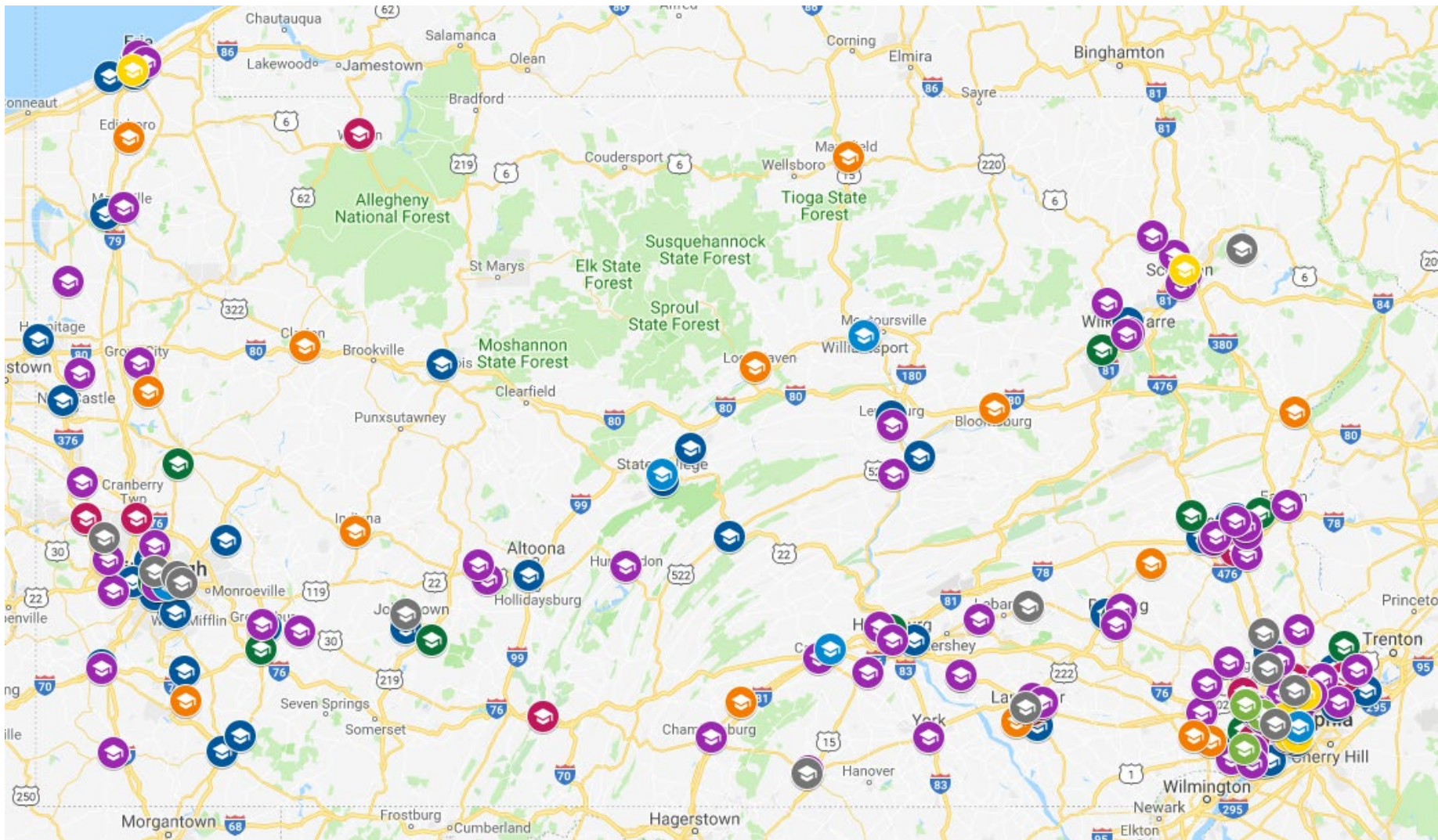
**Net Price**—Cost of Attendance minus Average Grants.

**Cost of Attendance**—Typical tuition, mandatory fees, room, board, books, supplies, other allowable expenses (per federal regulations)











**Average Grants**—All financial aid to the student from federal, state, local, or institutional sources (does not include private aid); that which does not need to be repaid. Includes need-based and merit-based awards, such as Pell grants, PHEAA grants, scholarships, waivers, tuition discounts, etc.; for all fall first-time, full-time, undergraduate students, the percent that received federal, state, local, or institutional grants.

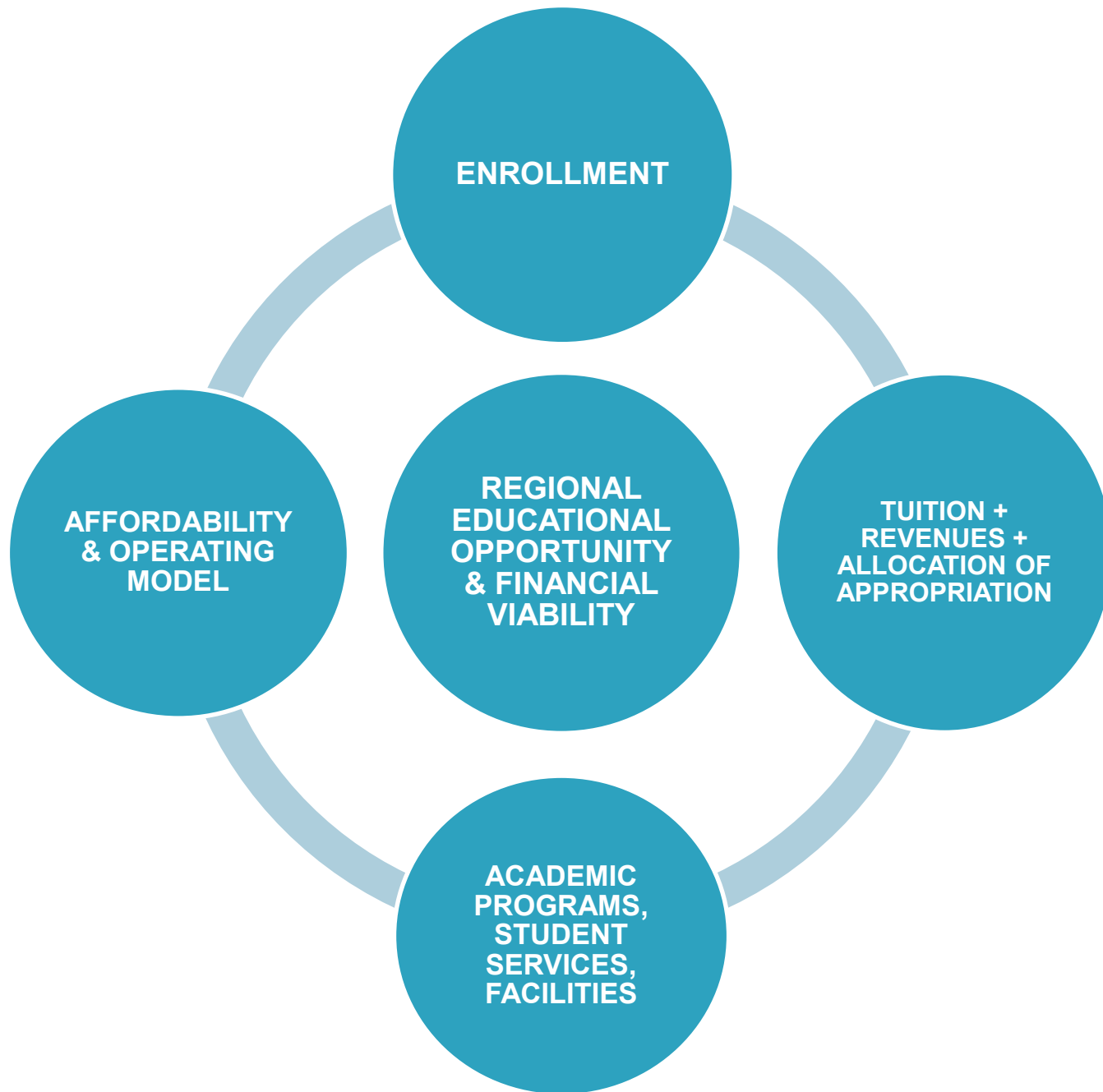
Source: IPEDS

State System 2018-19 Average Net Price was \$20,799

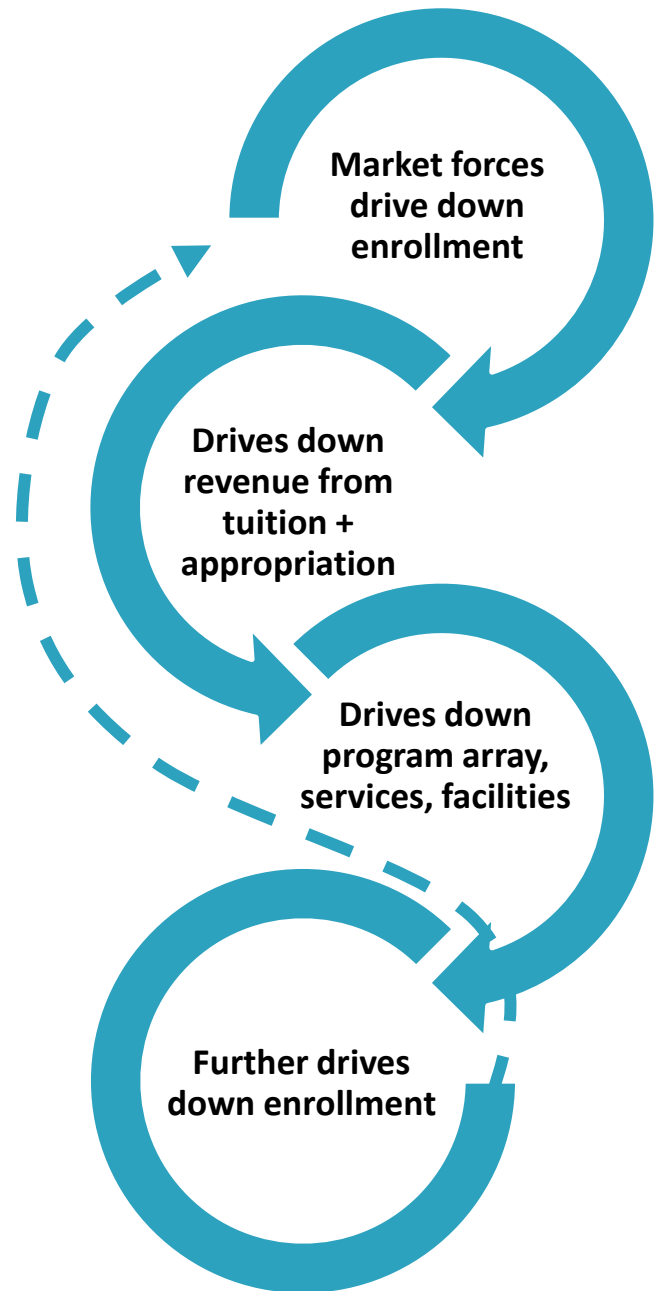


## Nearly 250 Institutions Offer Degrees in PA

-  PASSHE
-  Community Colleges
-  State-Related
-  Thaddeus Stevens
-  Private State-Aided
-  Private Colleges/Universities
-  Theological Seminaries
-  Private 2-Year Colleges
-  Specialized Associate Degree Institutions
-  Out-of-State Provider




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**

# Resulting Assumptions to Guide Planning and Decision Making

- Not enough enrollments to support 14 comprehensive universities operating as stand-alone entities in a shrinking market for traditional, residential, baccalaureate education where we are losing our affordability advantage
- Current operating model is unsustainable—employee headcount not aligned with enrollments; too many redundant, sub-optimized, and/or competing academic programs; housing debt challenges some universities with declining enrollment
- Limited agility with respect of new educational opportunities
- Financially weaker institutions put financial pressure on others at a time they can least afford it
- Aggressive advocacy for state support is critical, but so is pragmatism about the level of support needed to sustain current operating model and restore affordability advantage
- Challenges were urgent before pandemic; even more so now
- We have an obligation to find a way to fulfill our historic mission (high-quality and affordable education)



**How to sustain  
affordable,  
high-quality,  
education for all  
Pennsylvanians?**



# Defining and evaluating possible responses



Pennsylvania's  
**STATE SYSTEM**  
of Higher Education

# Trajectories:

**1** Dissolve the System

**2** Cease operations at some universities

**3** Substantially increase state funding

**4** Maintain the current path  
(financial sustainability plans, shared services)

**5** Pursue university integrations



# #1. Dissolve the System:

## Dissolution is either...

- De jure – requiring act(s) of legislation or
- De facto – results over time from un-arrested financial decline

## And it...

- Ends universities' financial interdependence, but creates uncertainty about where responsibility lies for universities' unmet financial obligations
- Likely puts upward pressure on net average price
- Creates greater uncertainty for financially challenged universities
- Potentially addresses oversaturation of higher education market

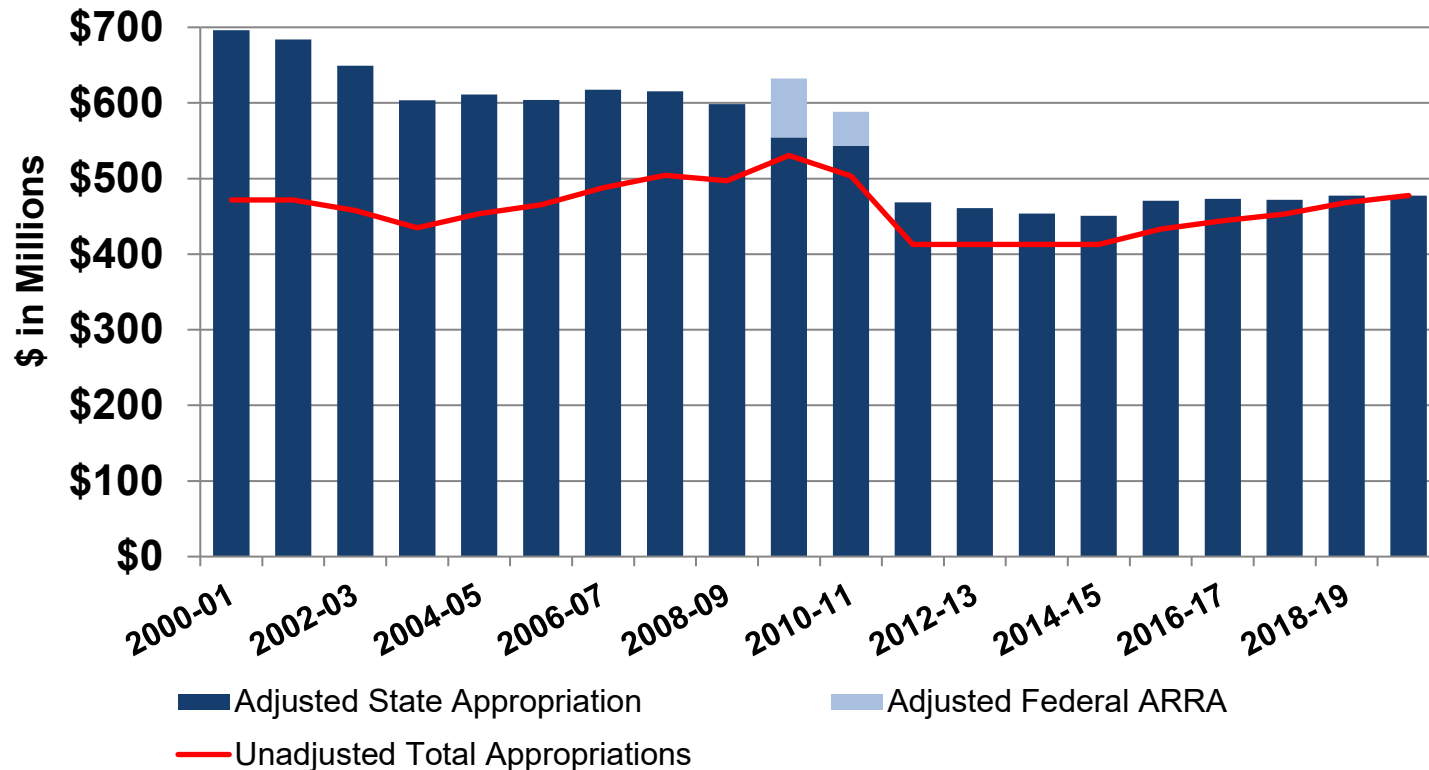
## #2. Cease Operations at Some Universities

- Requires serial exercise of Board Authority as specified in the Financial Sustainability Policy; actual closures require act(s) of legislation
- Creates "education deserts" in Western Pennsylvania
- Creates even greater financial burden for remaining universities (and/or the State)

# #3. Substantially Increase State Funding

Requires a sustained funding commitment from the General Assembly, including through periods of statewide fiscal constraint

**Current state funding is down \$220 million (32%) from 2000-01 inflation-adjusted dollars**



**Public Higher Education Appropriations per FTE Student 2018-19**

State System:	\$5,208
National average:	\$8,196
Top-funded (WY):	\$18,960

57% increase required to reach the national average (additional \$269 million recurring)

264% increase required to reach the top (additional \$1.2 billion recurring)

*\*Inflation adjustment based on CPI-U through 2018-19, and 2019-20 inflation of 2.0% per Congressional Budget Office projection.*

## #4. Maintain the Current Path (1 of 3)

Sustainability plans submitted June 2020 (v2) by **nine universities** show five universities with balanced budgets by FY 2021-22, and:

(1) Net assets of the nine reduced by \$90 million over 3 years

Version 2 Plans	FY2019-20	FY 2020-21	FY 2021-22	Cumulative Total
TOTAL	(\$38,731,707)	(\$58,163,016)	\$6,714,743	(\$90,179,980)

(2) One university with a \$23 million cash gap (before System loans)

Version 2 Plans	FY2019-20	FY 2020-21	FY 2021-22	Cumulative Total
TOTAL	(\$4,000,000)	(\$11,857,299)	(\$7,587,505)	(\$23,444,804)

Systemwide (all 14 universities), net assets reduced by \$263 million\*

Version 2 Plans	FY2019-20	FY 2020-21	FY 2021-22	Cumulative Total
TOTAL	(\$67,714,409)	(\$144,636,609)	(\$50,835,864)	(\$263,186,883)

\*Net assets are projected to be used to balance the E&G and Auxiliary budgets, as well as fund capital projects.

## #4. Maintain the Current Path (2 of 3)

Universities relying on aligning faculty and staff complement to overall lower enrollment levels

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	3-year % Change
Annualized FTE Enrollment <sup>1</sup>	90,629.61	88,338.77	85,816.29	86,397.27	-4.7%
Annualized FTE Faculty <sup>2</sup>	5,068.38	5,023.79	4,733.11	4,363.47	-13.9%
Annualized FTE Nonfaculty <sup>2</sup>	5,999.44	5,935.96	5,766.21	5,559.91	-7.3%
Annual Use of Net Assets		(\$67,714,409)	(\$144,636,609)	(\$50,835,864)	
Student/Faculty Ratio <sup>3</sup>	16.7	16.4	16.9	18.4	
Student/Faculty Ratio Target <sup>3</sup>				19.4	

<sup>1</sup> Includes clock hour students for Indiana University of Pennsylvania

<sup>2</sup> Unrestricted, includes E&G and Auxiliary

<sup>3</sup> Based on fall FTE faculty and fall FTE student enrollment, as reported in sustainability plans v2.

## #4. Maintain the Current Path (3 of 3) — Entails risk

- Projected enrollments show most universities continuing to lose share of regional high school-leaving population during period of modest population growth
- Projected draw on net assets leave four universities with <\$10M in reserves, five with <\$20M—limiting strategic investment opportunities and financial flexibility on the cusp of another major demographic change
- Projections do not account for further exogenous financial shocks (e.g., as may result from COVID-19)
- Leaves several universities with significantly reduced program array, threatening future enrollments
- No margin for execution error

# #5. Pursue University Integrations

## A CONTINUUM OF COLLABORATION

### Fully Independent

Free-standing institutions

### State-Related

Free-standing institutions with some public funding

### Pre-redesign PASSHE

Largely independent institutions

Some shared services

Limited student portability

A few shared academic programs

Weak accountability

### System Redesign PASSHE

Robust shared services, faculty and staff positions

Greater student portability

Systemwide academic planning and more shared programs

Strong accountability including for right-sizing according to V2 sustainability plans

### Recommended Future State

Everything from "System Redesign PASSHE"

+

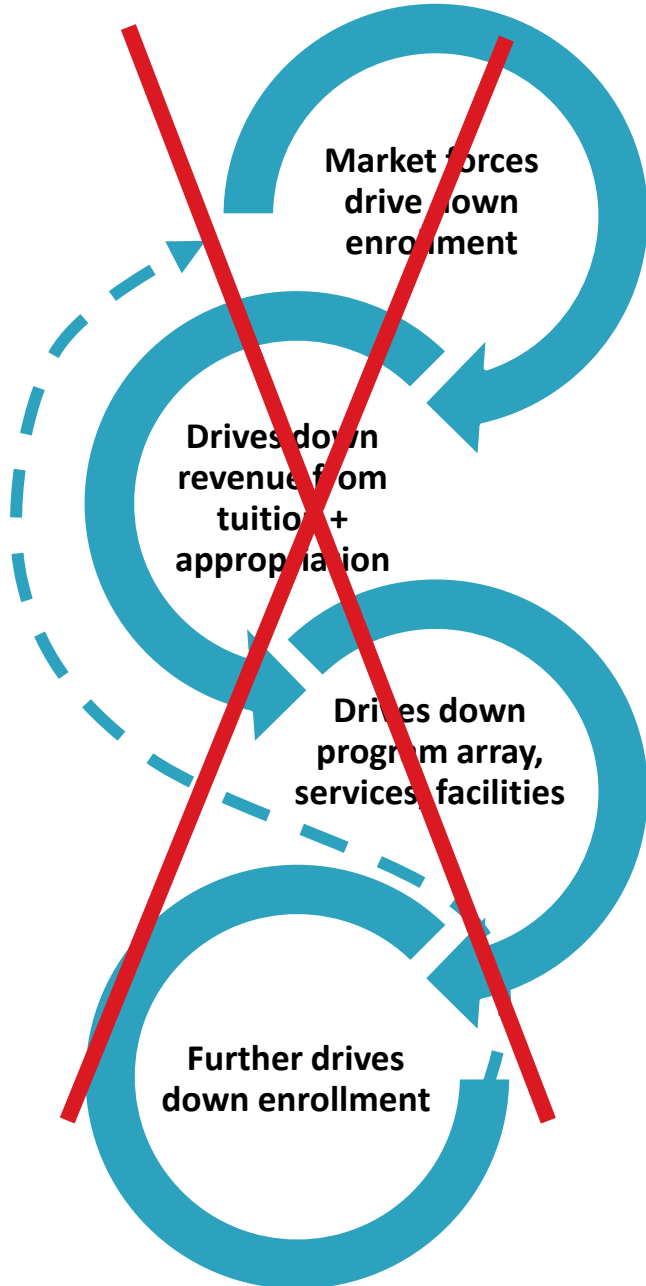
Integration of selected universities as deemed necessary to sustainably maintain educational opportunity for all Pennsylvanians

+

Regional collaborations among two, three, or more institutions

### Single Institution

Single accredited entity with branch campuses



## Goals of University Integrations

- Maintain or expand high-quality educational opportunities for students across PA
- Honor and engage local identity and key stakeholders (COTs, alumni, affiliates, donors, etc.)
- Meet regional economic and workforce needs
- Position institutions for growth including in new markets
- Realize cost-savings
- Leverage talented faculty and staff



# Criteria for University Integrations

Why chose certain universities for potential integration with each other?

## **Potential to Serve More Students, Grow into New Markets**

The integrations will allow growth into adjacent markets by combining the capacities of both institutions, which enables them to compete in the marketplace more effectively than if they stand alone.

## **Strong Regional Proximity**

Integrated universities must be able to sustain face-to-face instruction with a “single” or integrated faculty and administration. While a great deal can be done remotely, students involved in residential education have an expectation for an on-campus experience. Regional proximity also leverages the universities’ deep roots in their surrounding communities and, by working together, they can provide essential pathways into sustaining careers for people in those communities.

## **Opportunity for Cost Savings and Program Alignment**

All of the integration explorations will begin with a rigorous analysis of the academic program arrays, staffing structures, and potential cost savings that result from the integration process, thus enhancing financial sustainability.

# Process for Pursuing University Integrations

## Defined in Act 50 comprising the following milestones

- Conduct a **review** of the financial stability of System universities assuming the continuation of present operations and as impacted by... potential integrations (July - October 2020)
- Develop an integration **plan** or plans for candidate integrations identified by the review (October 2020 - April 2021)
- Submit integration plan or plans for **public comment**, etc.
- Submit integration plan for final **approval** by the Board
- Begin **implementation** (July 2021 - August 2022)

**The process is transparent and consultative by design with routine touchpoints with the General Assembly, as well as all other normal constituencies**

# University integrations engages all 14 of our institutions

not just those that may be part of an integration

## We need to work together across the system to

- Put students first in every decision we make in this process
- Drive down operating costs (e.g., by participating in multi-university shared services, shared contracts, shared staff lines, etc.)
- Participate in a system approach to academic planning that ensures breadth of opportunity for all students (e.g., through course and program sharing) and positions all institutions for success
- Seek out regional collaborations among two, three, or more institutions (beyond integrations) for operational and academic purposes



# Recommendations and next steps



Pennsylvania's  
**STATE SYSTEM**  
of Higher Education

# Recommendations to the Board (1 of 3)

- 1. Conduct financial stability review focusing on three combinations of potential university integrations**
- 2. Assume for the review that each integration entails:**
  - One leadership team
  - A single faculty and staff
  - A single program array
  - A unified enrollment management strategy
  - A single, combined budget
  - One reporting relationship through the Chancellor to the Board
- 3. Be open to analysis leading to different integration models/approaches and/or allow for different university combinations**

# Recommendations to the Board (2 of 3)

## 4. Focus review on three universities combinations:

- **California and Clarion** – in addition to on-campus programs, this integration seeks to stand up a low-cost, high-quality online undergraduate degree and degree-completion program that is not currently available in the state
- **Edinboro and Slippery Rock** – seek to strengthen and broaden available educational programming by adopting an aligned approach to the academic program array of the two universities—driving down operating costs (e.g., through programmatic alignment and through consolidation of administrative and business operations and staff functions) and through a coordinated enrollment strategy
- **Lock Haven and Mansfield** – seek to develop non-degree and stackable credentials that meet workforce needs in selected high demand occupations and concentrating on adult students—all in partnership with regional employers

# Recommendations to the Board (3 of 3)

## 5. Include in the review the following key components

- Implementation costs and funding sources
- High-level governance model and accreditation issues
- Academic program array opportunities and financial impacts
- Financial and administrative opportunities and financial impacts
- High-level recommendation to achieve financial sustainability
- Establishment of a collaborative consultation process for planning and implementation

## 6. Undertake policy and procedure reviews as may be required

- Financial (including appropriations formula), Academic, Student, Personnel

## 7. Ensure continuity of key System Redesign activities

- Implementation of v2 sustainability plans
- Shared Services Development and IT governance
- Academic Master Planning
- Infrastructure supporting Student Portability (e.g., OneSIS)

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