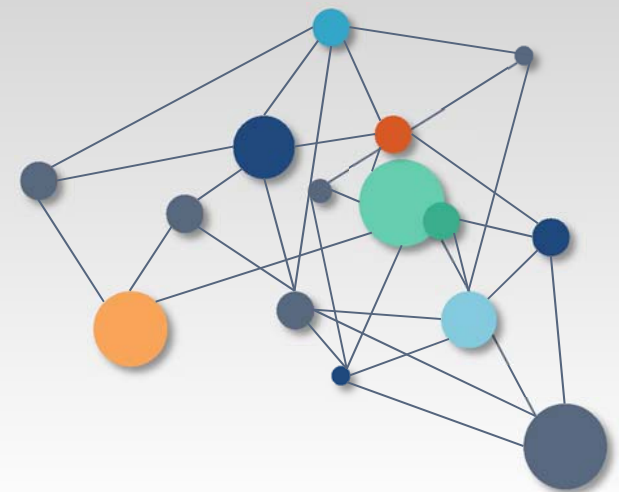# Pennsylvania State System of Higher Education
Strategic System Review
Findings and Recommendations

July 12, 2017

NCHEMS

National Center for Higher Education Management Systems

nchems.org • higheredinfo.org

System Review Charge

From the RFP

The System Review "requires an in-depth assessment of both organization and operations – at the system and university level – and requires the development of options for change…"

- Examine long-term sustainability
  - Funding streams
  - Student enrollment
- Evaluate Act 188 and capacity to respond to challenges
- Review
  - Office of the Chancellor
  - Individual institutions
- Make recommendations consistent with the context of Pennsylvania's higher education landscape

Process

- Environmental scan/data analysis
- Document review
- Stakeholder engagement (over 120 meetings)
  - The Office of the Chancellor
  - Tour of State System Universities (leadership, students, faculty shared governance, local unions, community & local business leaders, Councils of Trustees)
  - Statewide Council of Trustees conference
  - Legislators and executive branch
  - Statewide collective bargaining units
  - Others (PA Commission for Community Colleges, AICUP)
  - Public website to gather feedback
- Draw on extensive experience in other states facing challenges of sustainability and governance
- No prior vetting of findings or recommendations with anyone in Pennsylvania

Principles

- Give priority to the needs of Pennsylvania's students and communities

- Ensure access to high-quality, affordable education in all parts of the state, aligned with the needs of each community/region

- Promote an effective system that:
  - Recognizes substantial differences among institutions and the circumstances they face
  - Leverages the collective educational assets effectively

- Respect the role of collective bargaining and the need to promote trust, mutual respect, and transparency
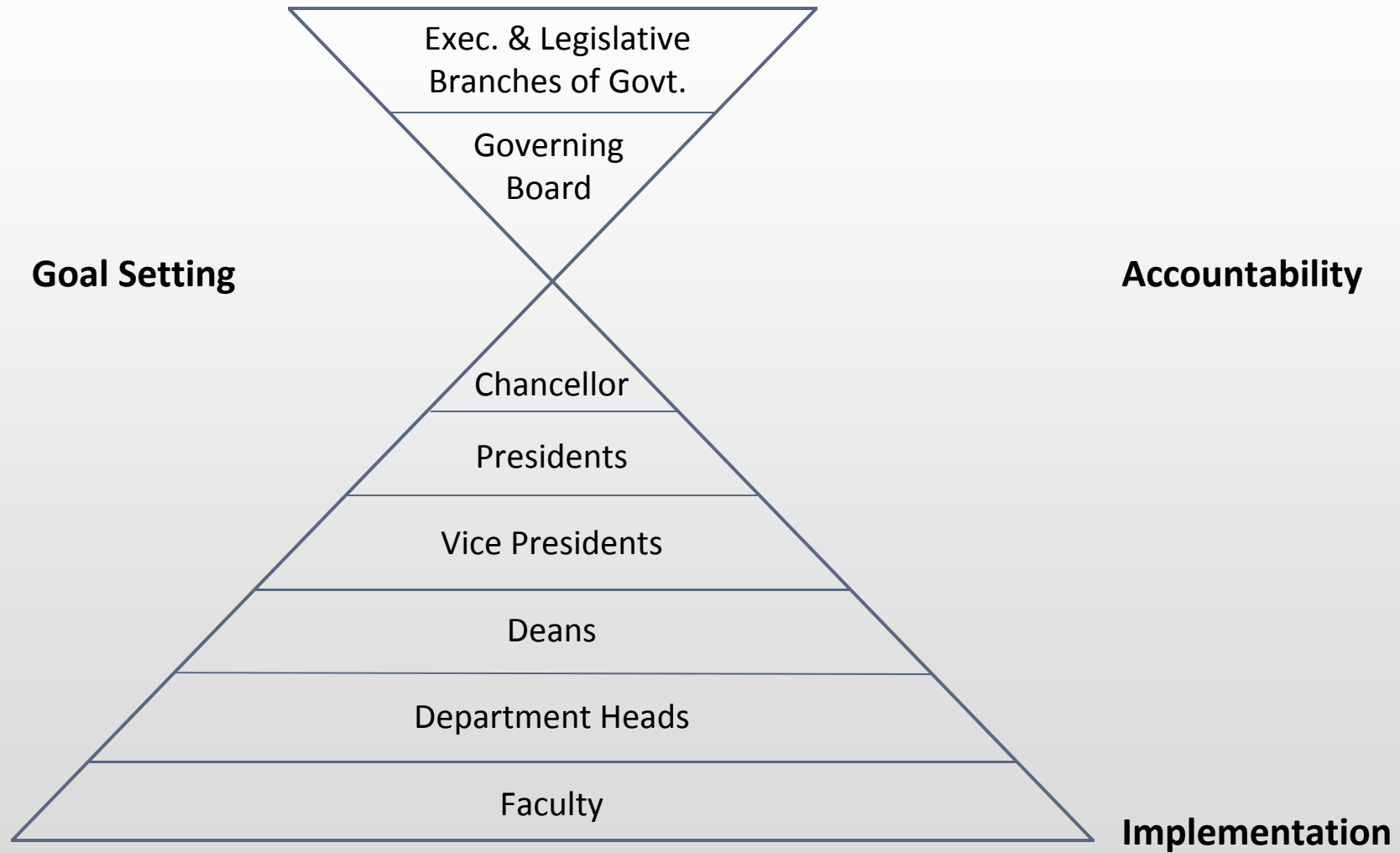
Two Truths

1. All parties have had a hand in digging the hole that the State System is in.

2. All parties will have to work together to dig their way back out.

The Hierarchical Realities

Exec. & Legislative Branches of Govt.

Governing Board

Goal Setting

Accountability

Chancellor

Presidents

Vice Presidents

Deans

Department Heads

Faculty

Implementation

The system [education] is *bottom heavy* and *loosely coupled*. It is bottom heavy because the closer we get to the bottom of the pyramid, the closer we get to the factors that have the greatest effect on the program's success or failure. The system is loosely coupled because the ability of one level to control the behavior of another is weak and largely negative…

The skillful use of delegated control is central to making implementation work in bottom-heavy, loosely controlled systems. **When it becomes necessary to rely mainly on hierarchical control, regulation, and compliance to achieve results, the game is essentially lost.**

Richard F. Elmore, *Complexity and Control: What Legislators and Administrators Can Do About Implementing Public Policy*

THE STATE SYSTEM & POSTSECONDARY EDUCATION IN PENNSYLVANIA

Pennsylvania's State Postsecondary Education Goal

- 60 percent of 25-64 year olds will have a postsecondary credential by 2025
  - A stretch goal
  - Cannot be reached without enrolling and graduating many more adult learners

Summary of Conditions

- Hyper-competitive market
- Shrinking pool of high school graduates
- Long-term decreasing state support
- Student ability to pay is reaching limits
- Gaps in service for adults and the northern tier
- Limited maneuverability
- Costs outpacing revenue
- Limited capacity to link state policy to goals

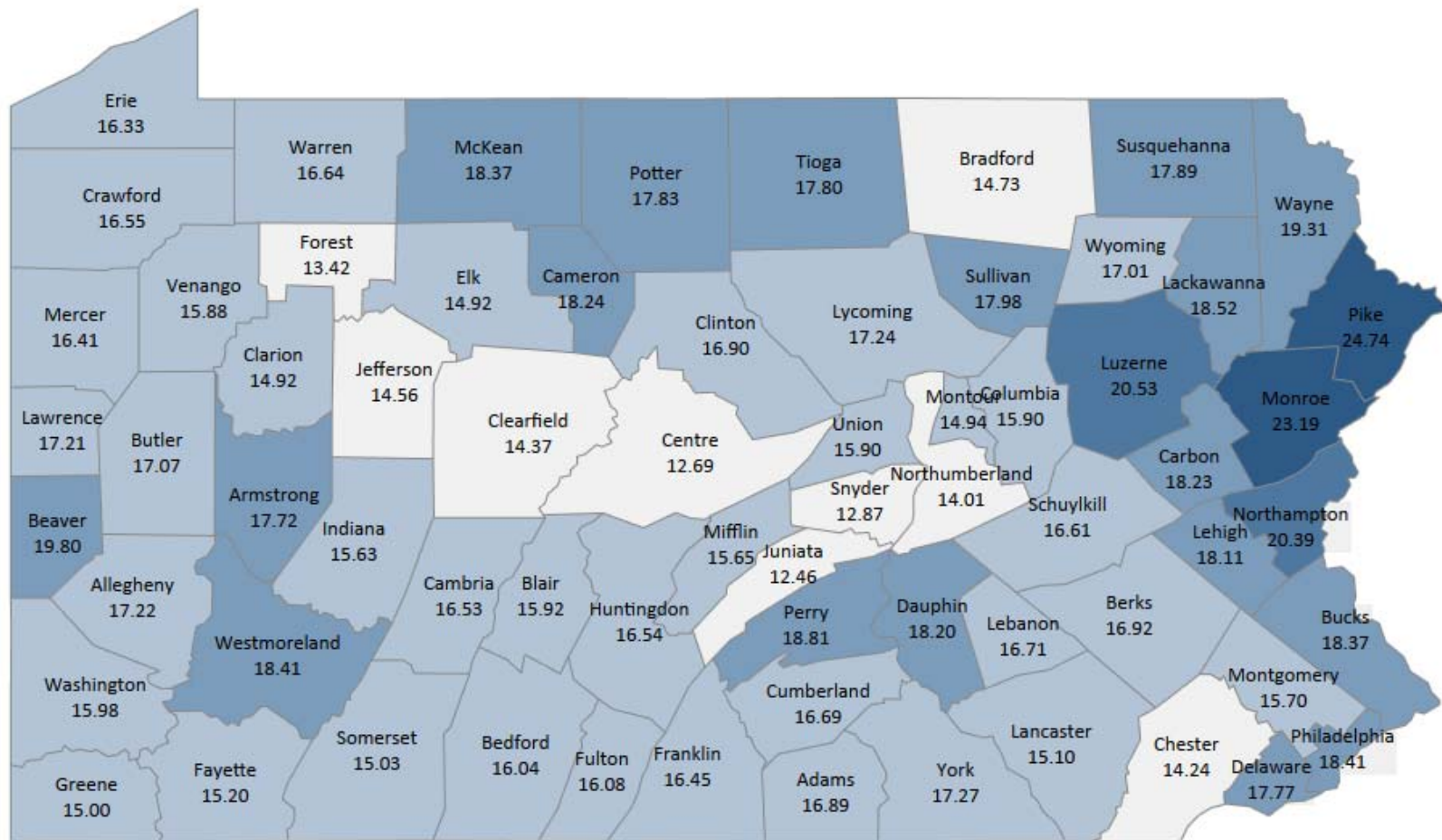# A Crowded Postsecondary Market

Color Code
- PASSHE
- Penn State
- Private Non-Profit
- Public, Other
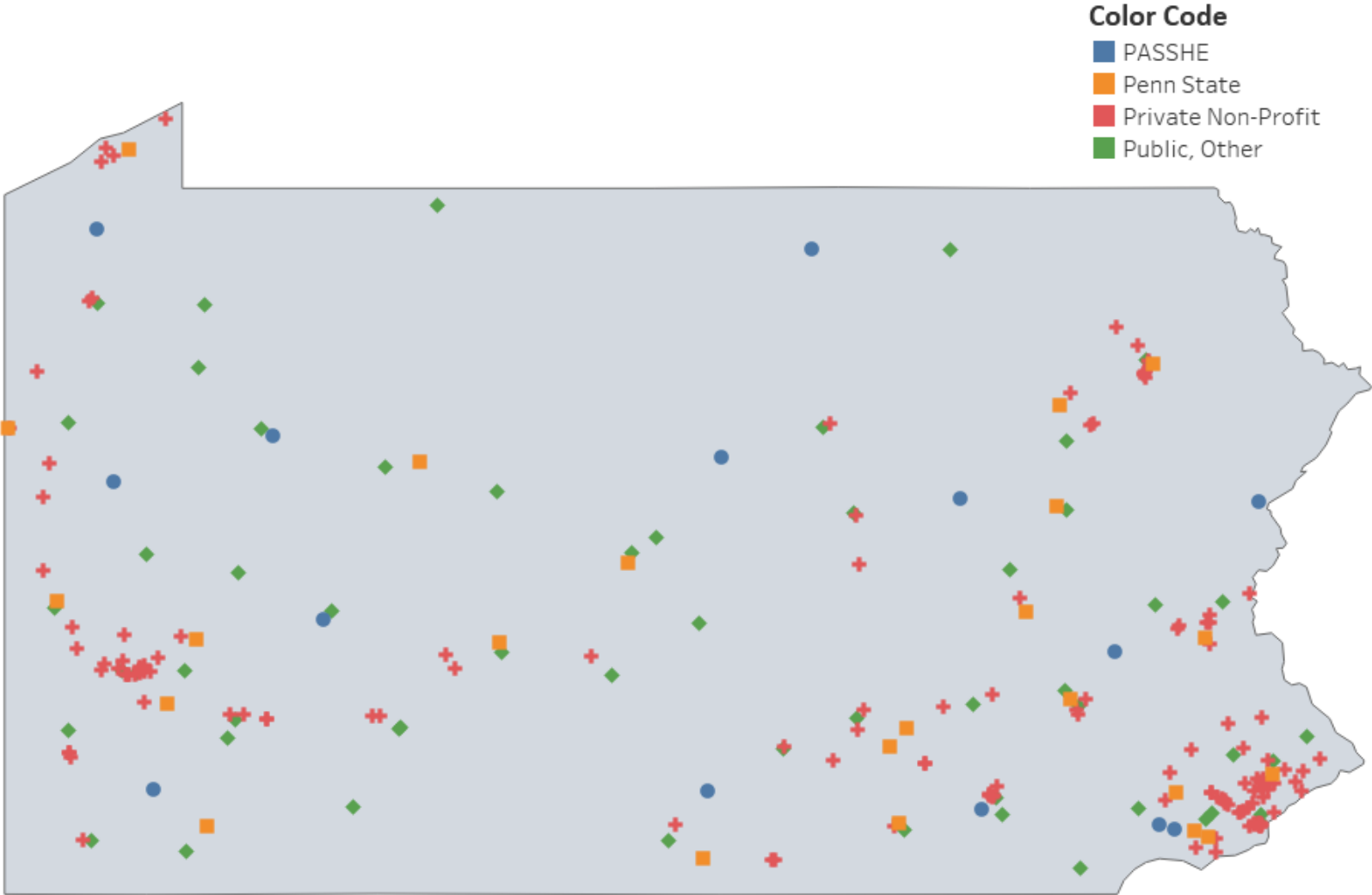
Percent of Adults Aged 25-64 with an Associate's Degree or Higher, by State, 2015
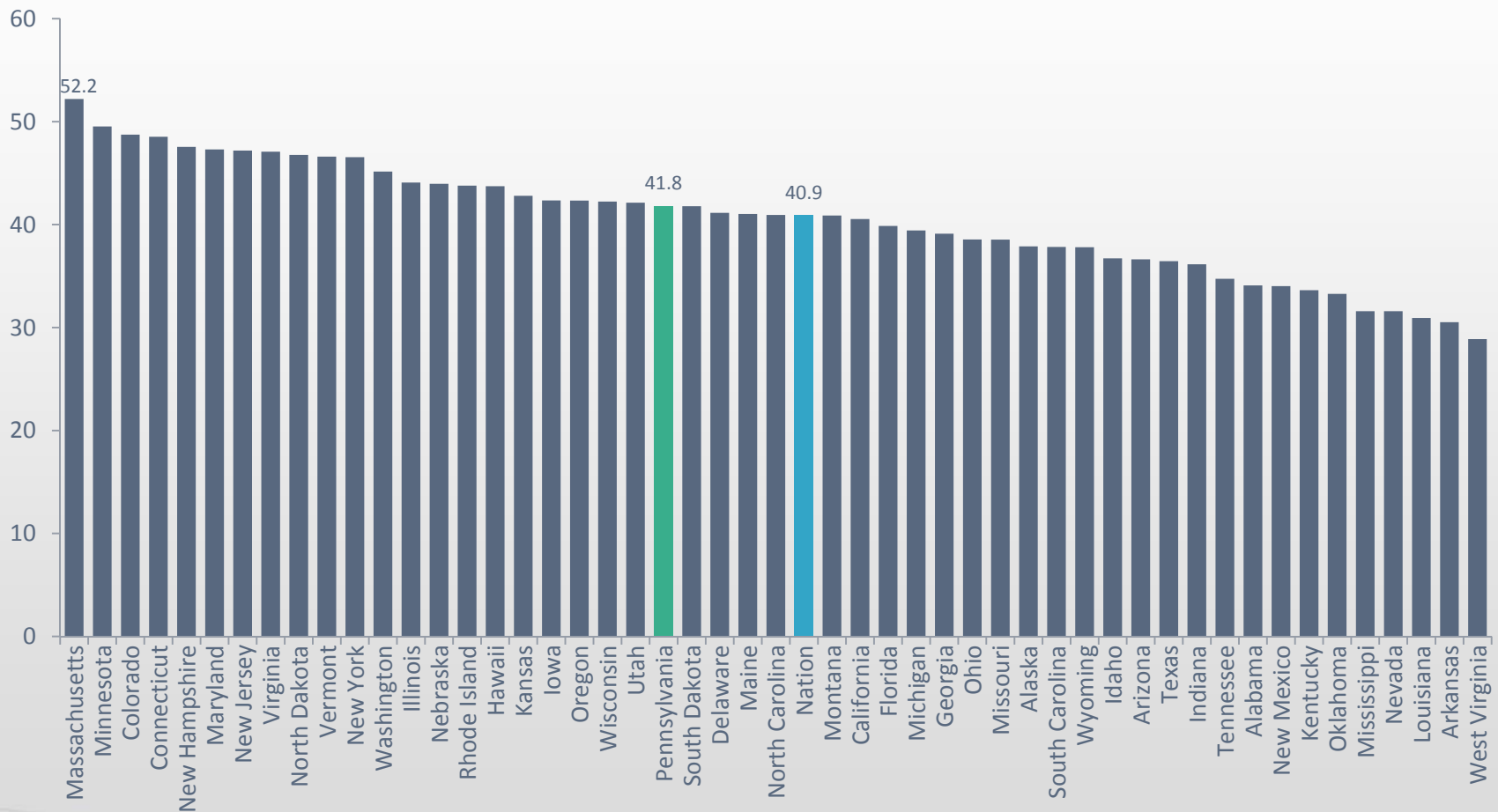
Percent of Adults 25-64 with Some College, No Degree, 2011-15

Undergraduate Enrollment Relative to Population
With Less Than an Associate's Degree, 25-49 Years Old

Pennsylvania US Average Median, Top 5 States

2003:
- Pennsylvania: 4.4
- US Average: 6.3
- Median, Top 5 States: 8.1

2013:
- Pennsylvania: 5.3
- US Average: 7.9
- Median, Top 5 States: 11
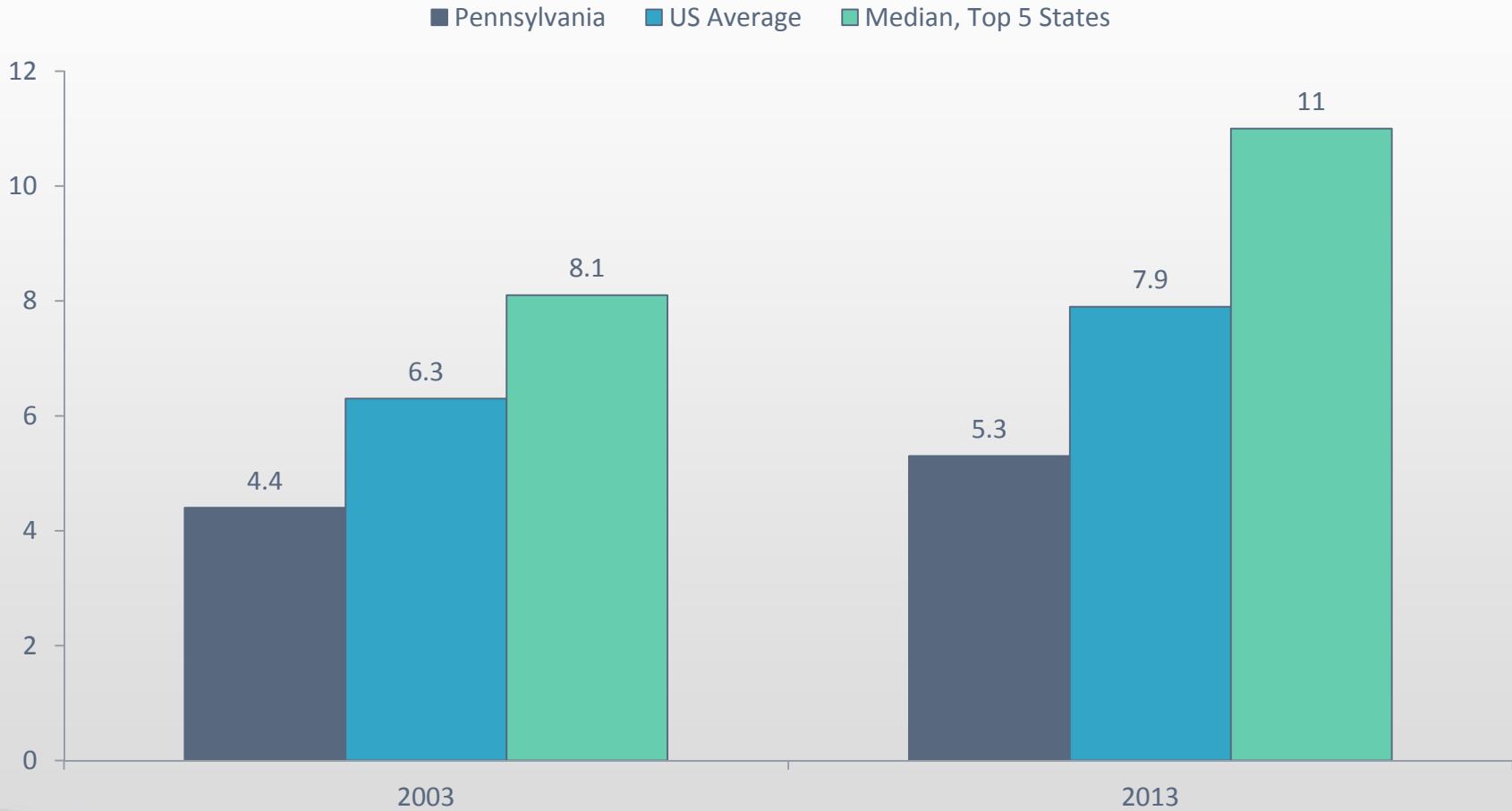
Source: U.S. Census Bureau American Community Survey, NCES IPEDS.

Per Capita Income by County, 2015

Per capita personal income (dollars)

25,039 ▭▭▭▭ 73,803
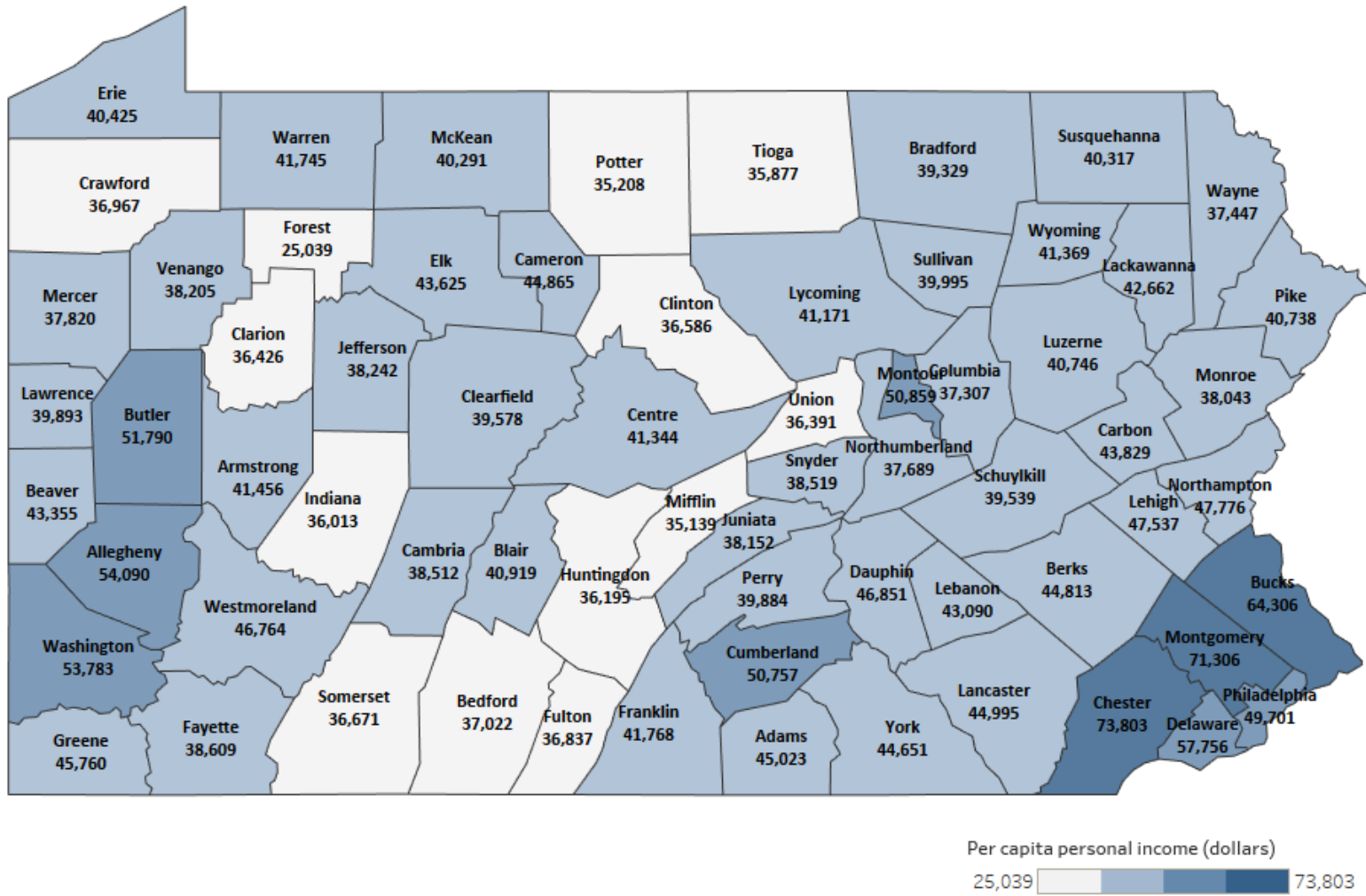
Source: U.S. Census Bureau American Community Survey

Proportion of Entering Class by Income Category, 2014-15

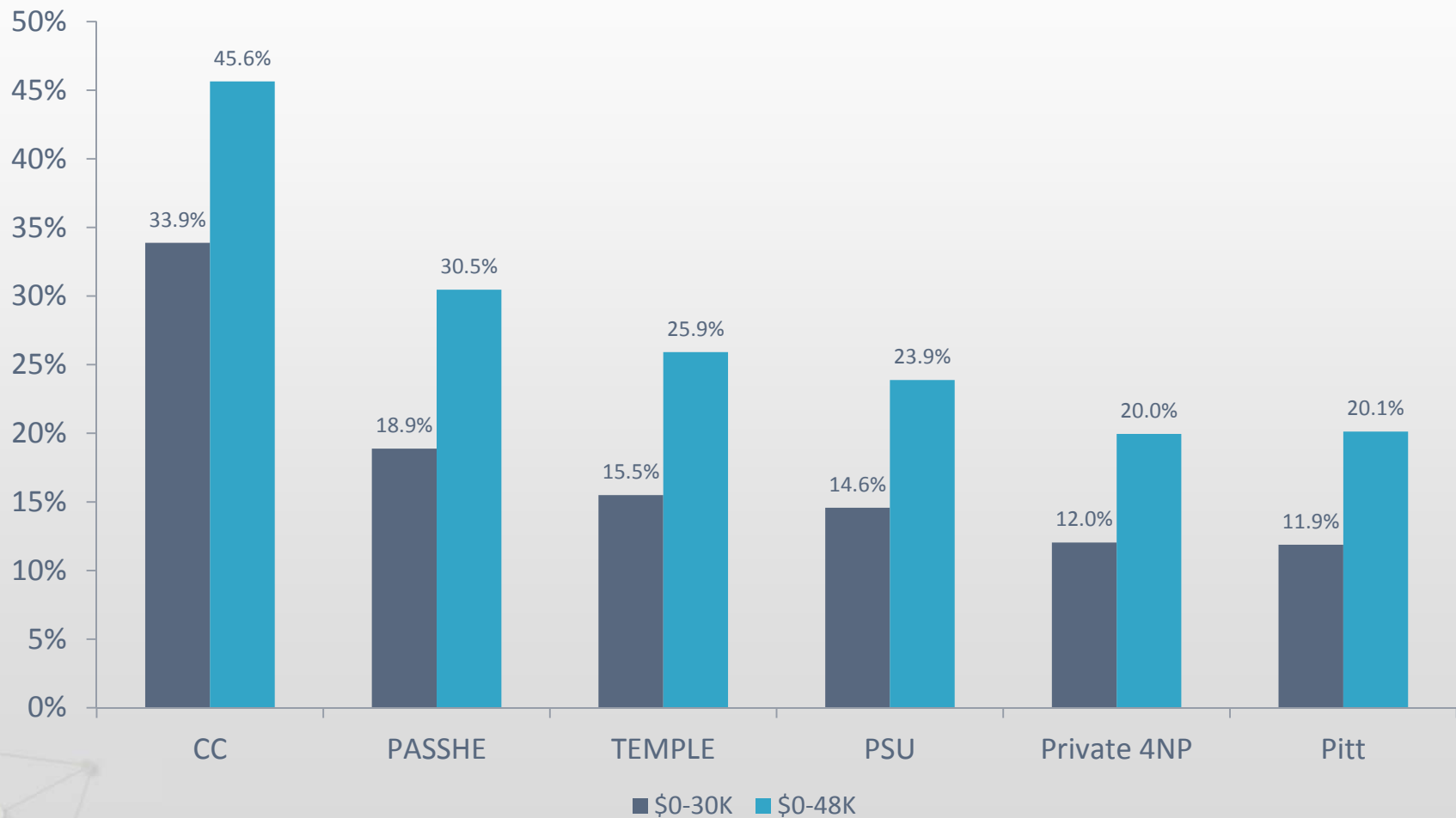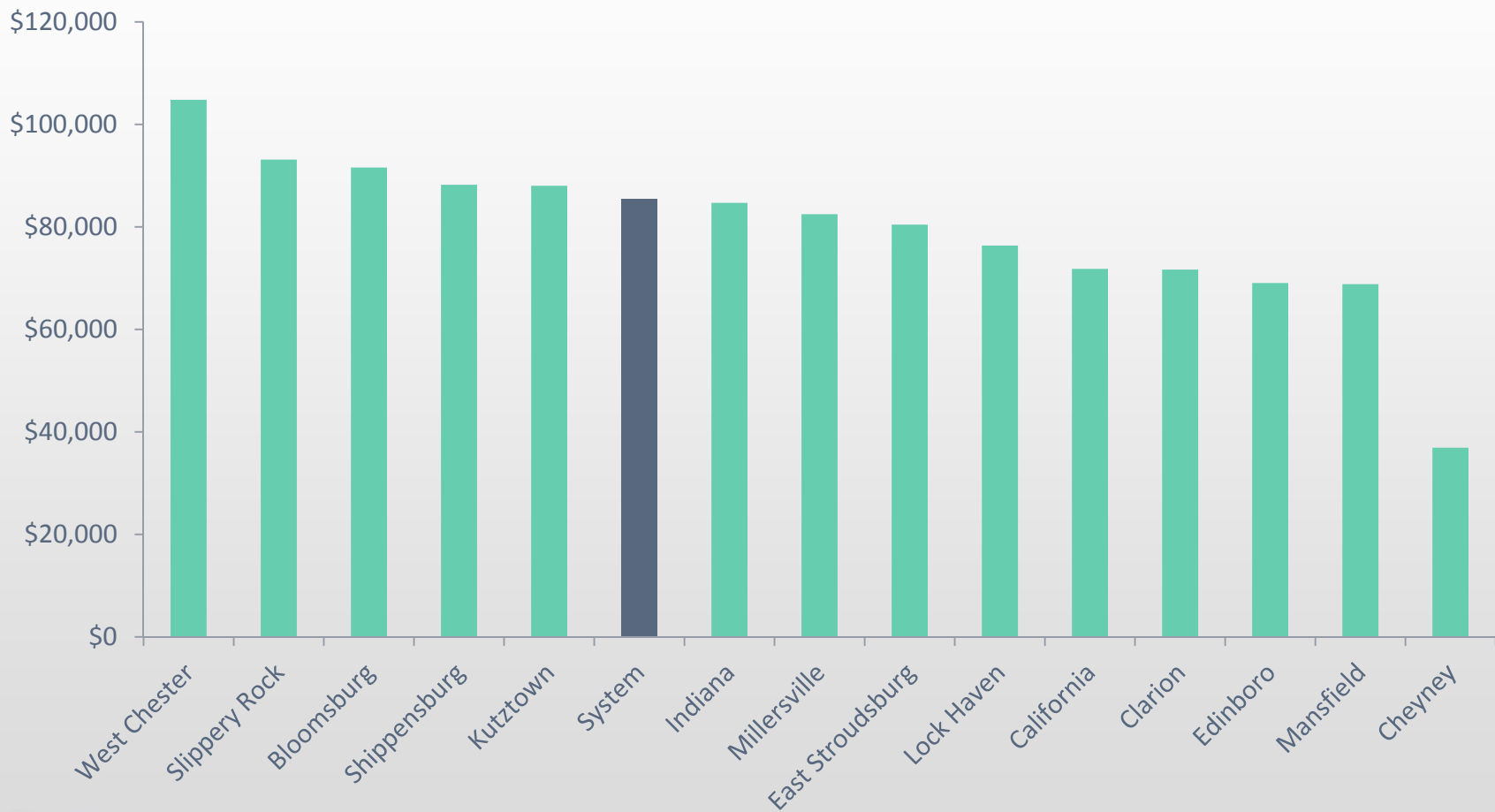|	CC	PASSHE	TEMPLE	PSU	Private 4NP	Pitt
$0-30K	33.9%	18.9%	15.5%	14.6%	12.0%	11.9%
$0-48K	45.6%	30.5%	25.9%	23.9%	20.0%	20.1%

■ $0-30K ■ $0-48K

Average Income of Fall 2015 Undergraduates

Change in Enrollment of In-State Undergraduates by Income, 2011-12 to 2015-16

Change in Headcount

- $150,001 and more
- $110,001-150,000
- $30,001-48,000
- $0-30,000
- $75,001-110,000
- $48,001-75,000

(Headcount axis: 3,000 / 2,000 / 1,000 / 0 / -1,000 / -2,000 / -3,000 / -4,000)

(Years: 2011-12, 2012-13, 2013-14, 2014-15, 2015-16)

Change in Percentage Points

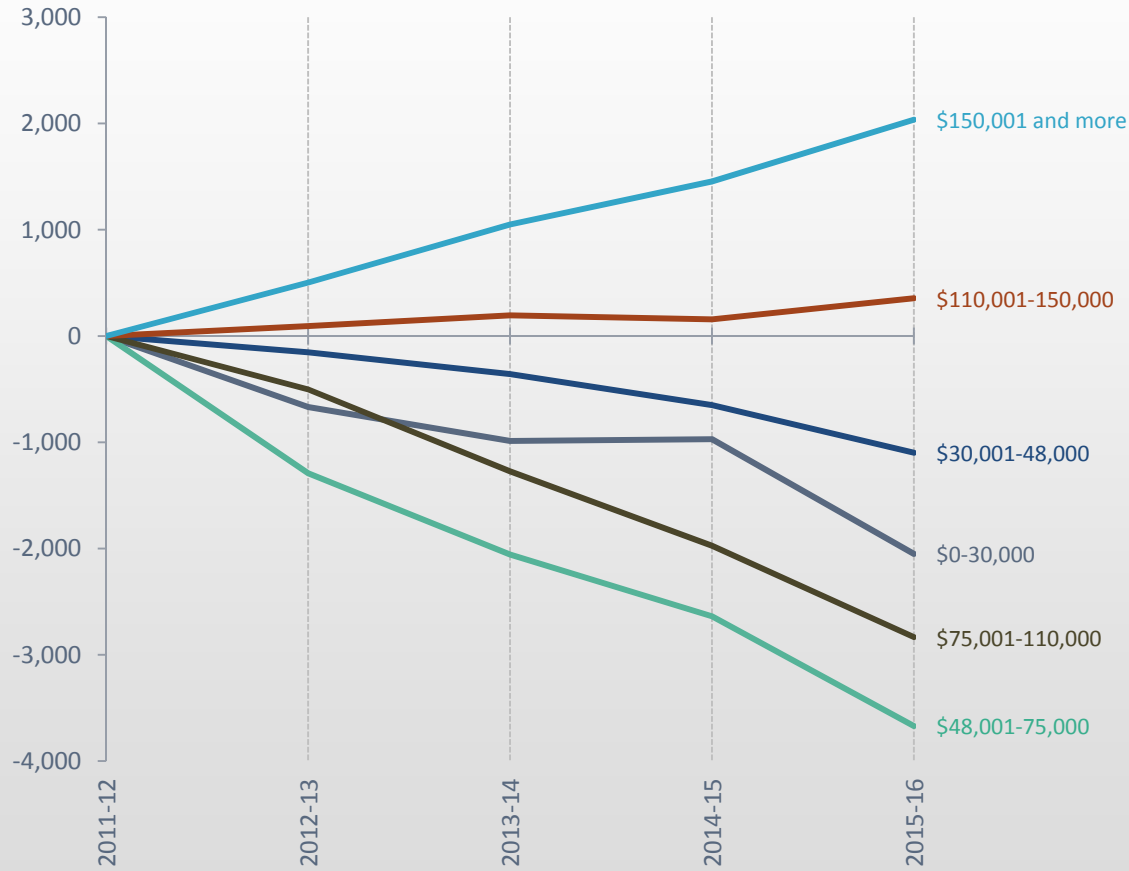| Income	Change
$0-30,000	-0.2
$30,001-48,000	-0.3
$48,001-75,000	-3.2
$75,001-110,000	-1.8
$110,001-150,000	1.8
$150,001 and more	3.7

Source: Pennsylvania State System of Higher Education Office of the Chancellor. Data are for FAFSA Filers Only.

CONVERGING PRESSURES

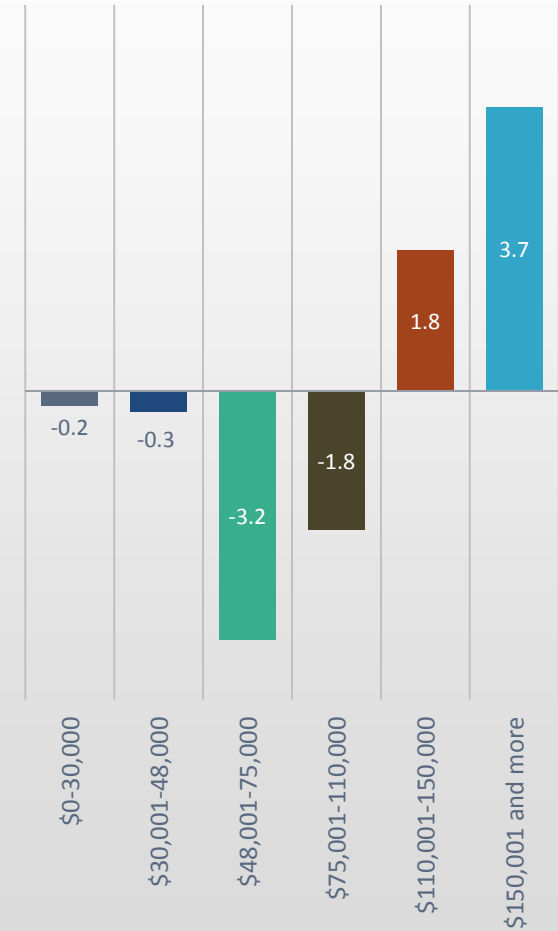# Actual and Projected High School Graduates in Pennsylvania

20
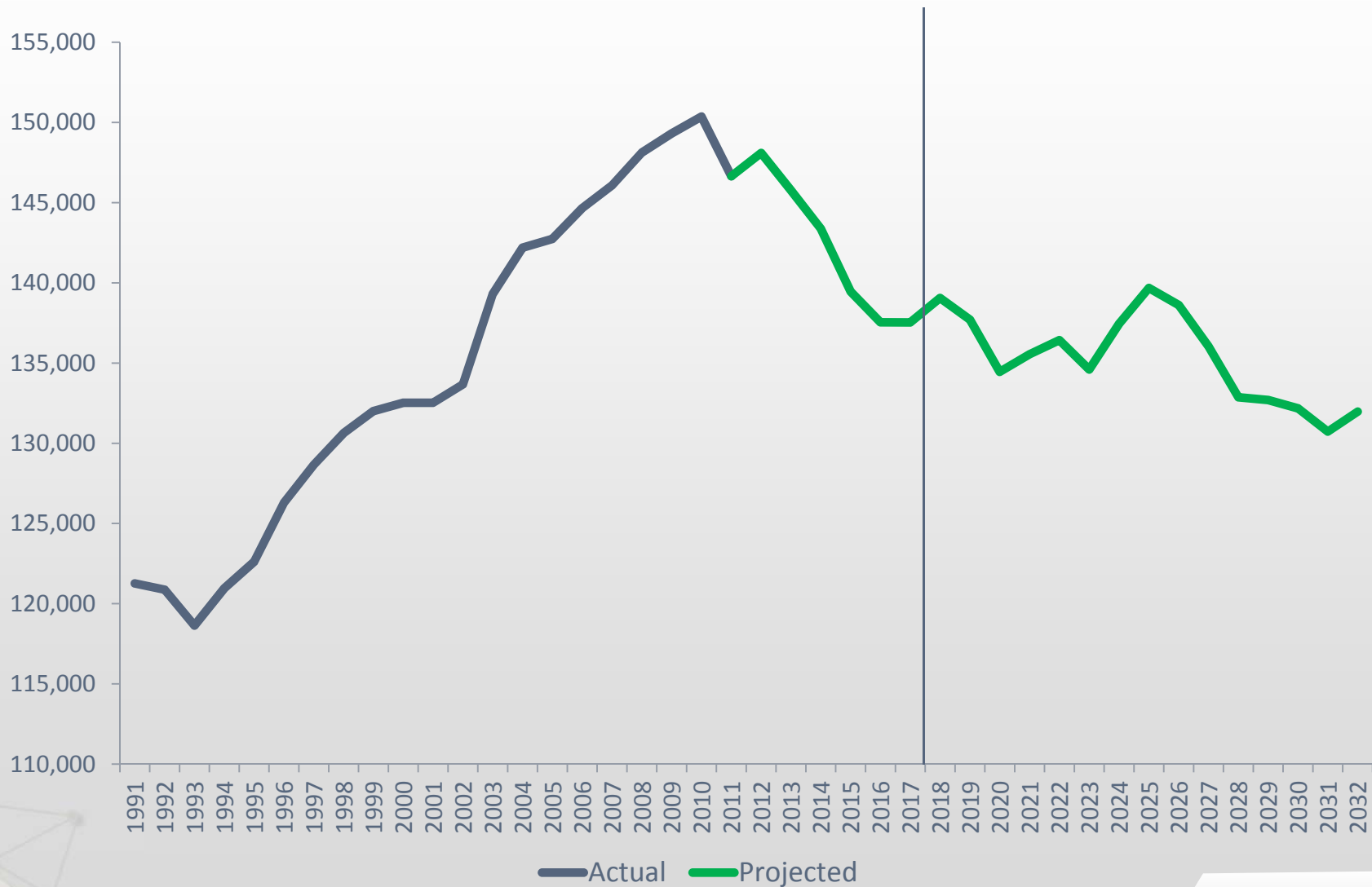
FTE Enrollment at State System Institutions, 1990-2015
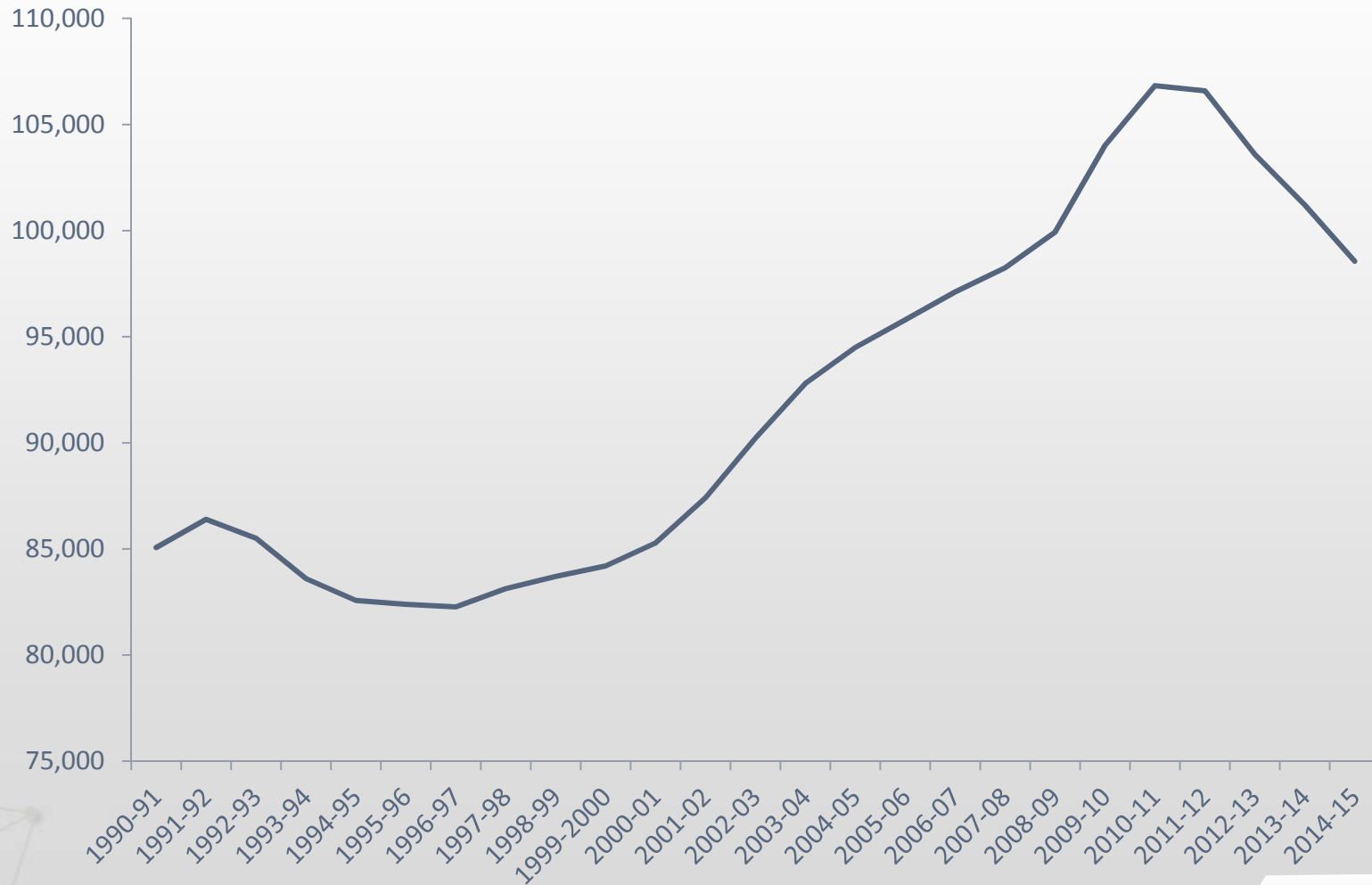
Source: NCES IPEDS

The Flow of Funds

Philanthropy & Other Sources

States

Operating Support – Outcomes-Based Funding as One Component

Student Aid

Student Aid

Students

Tuition & Fees

Scholarships & Waivers

Institutions/ Sectors

Pell Grants & Tax Credits

Outcomes

Federal Government
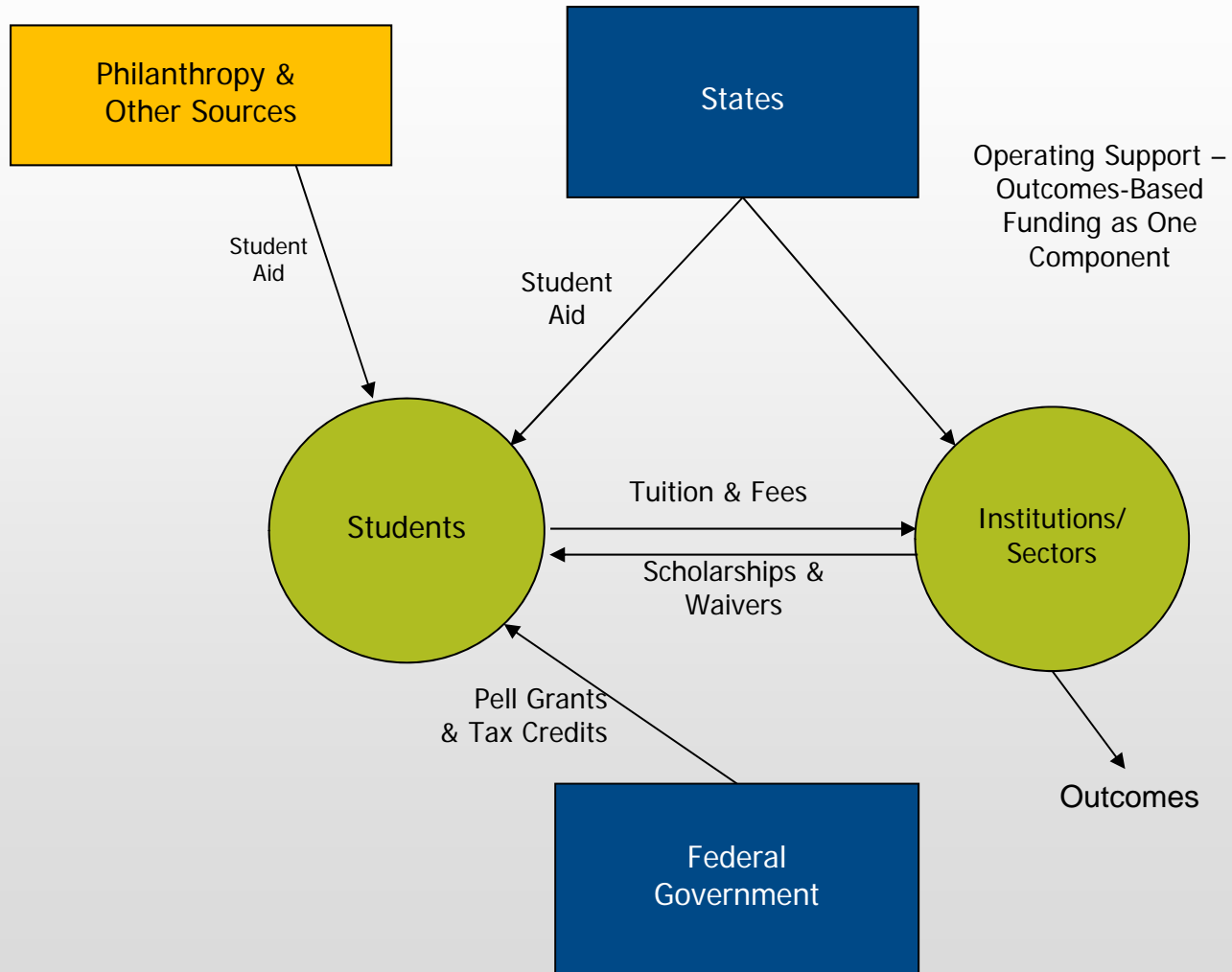
Revenue and Expenditures for State System Institutions, 2007-08 to 2014-15

Legend: Revenue, Expenditures
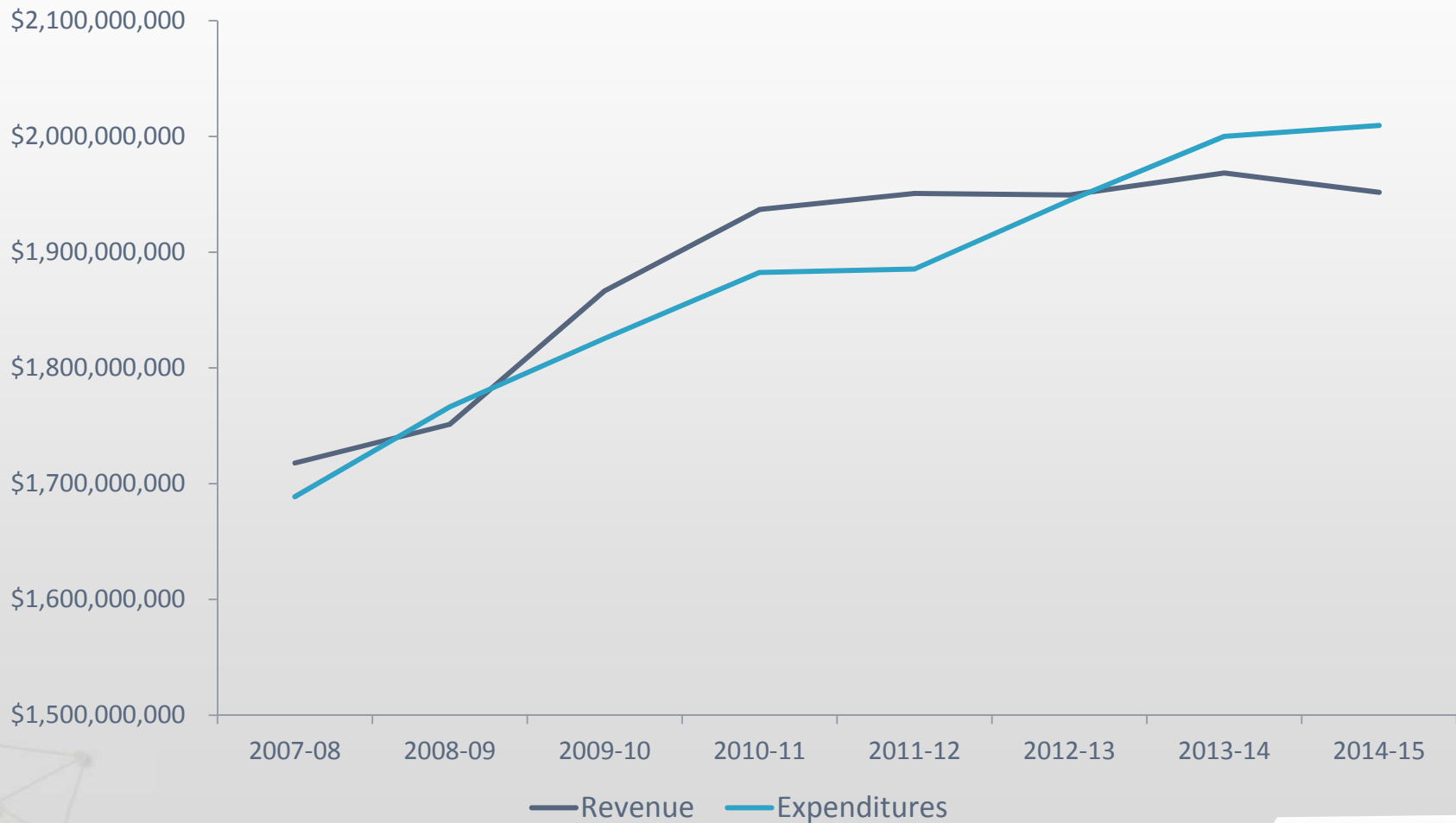
Source: NCES IPEDS

Costs at All Institutions Have Grown

- All State System institutions are more expensive in 2014-15 than in 2009-10: changes in expenditures have not kept pace with changes in enrollment
  - Even when institutions have reduced total spending, enrollment has declined faster, leading to more spending per student
  - Institutions with enrollment growth have increased spending even faster, leading to more spending per student

- Different stories at different institutions

Percent Change in Spending and FTE Enrollment, 2009-10 to 2014-15

Legend: FTE Change | Total Spending per FTE | Total Spending

Categories (top to bottom): Cheyney, Clarion, Millersville, Shippensburg, Mansfield, Kutztown, Edinboro, California, Bloomsburg, Lock Haven, Slippery Rock, West Chester, Indiana, East Stroudsburg

X-axis: -40%, -30%, -20%, -10%, 0%, 10%, 20%, 30%, 40%
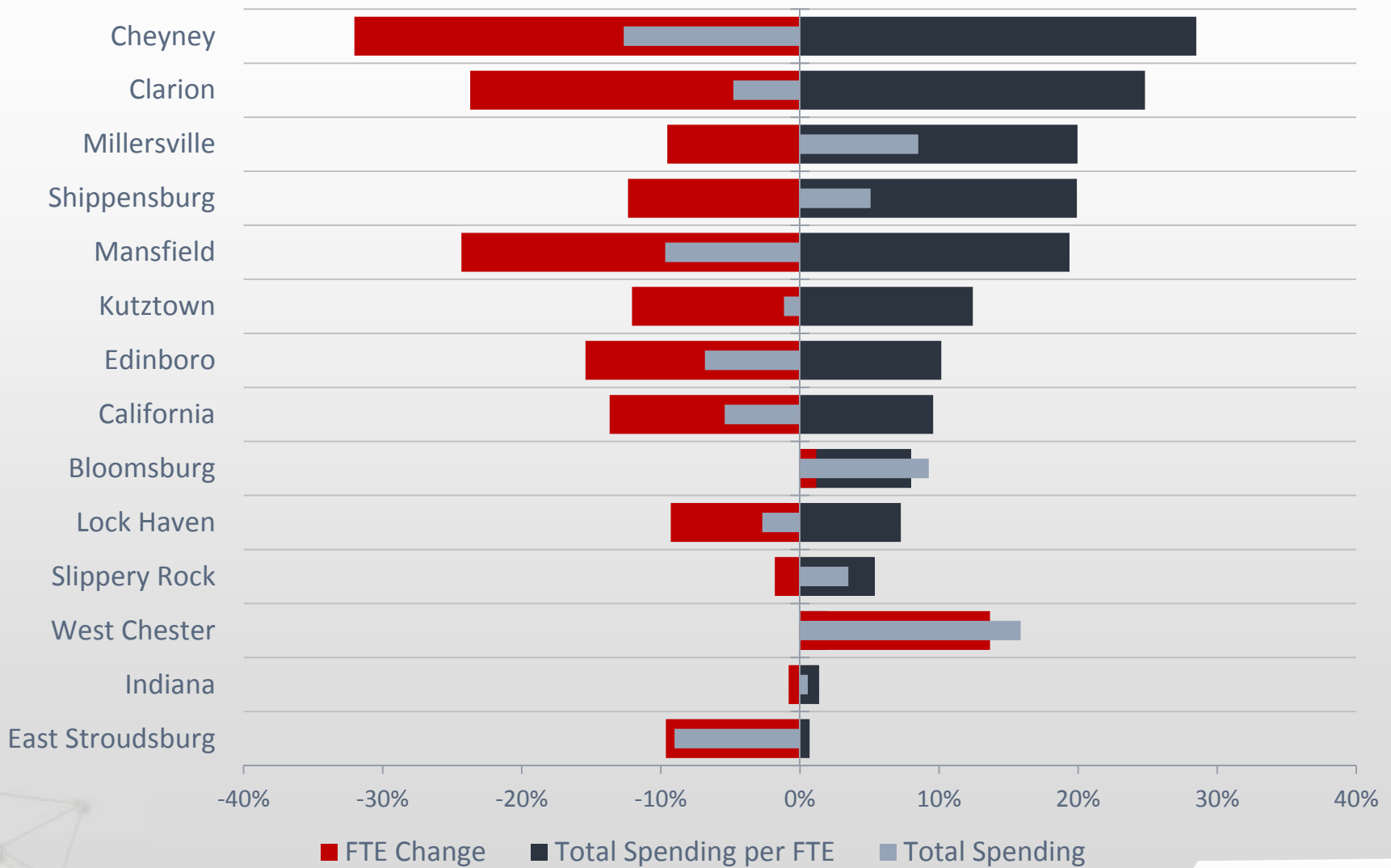
The State System's Options for Increasing Revenue

- Garner additional state appropriations, but…
  - Pennsylvania ranks 46th in funding higher education
  - Pie unlikely to grow
  - Shifting shares among sectors
- Increase revenue from tuition and fees
  - New enrollments
    - Intensifying marketing for traditional students
    - Reaching new populations
  - Raise prices

  But…

  - Competition for limited pool of traditional age students
  - Major changes in delivery to serve adults
  - Ability to pay
- Intensify philanthropic efforts, but…
  - A major difference-maker only for elite institutions

The State System's Options for Reducing Costs

- Closures, but…
  - Obligations linger
  - Costs to regions in jobs and opportunities
- Mergers, but…
  - Costs likely rise in short term
  - Longer-term savings are not necessarily significant, especially in comparison to shared services
  - Impact on local identity
- Elimination of system office, but…
  - Further erosion of capacity to link state assets to state and regional future
  - Loss of economies of scale
  - Destructive competition
  - Weakened advocacy
  - Increased costs of local governance
- Changes in staffing levels
- Shared services, but…
  - Unlikely to be sufficient

Campuses Have Limited Ability to Adapt

- Policies and regulations that fail to recognize the differences among institutions and the regions they serve
  - State regulations
  - Board policy
  - Collective bargaining agreements
  - Pricing
- State allocation mechanism that exacerbates competition
- Time-consuming, multi-layered academic review process
- High turnover in leadership

CONCLUSIONS

Governance Not Up to the Current Challenges

- Governance has not changed with the times
- Ambiguity in allocation of decision authority in Act 188
- Capacity to exercise proper fiduciary responsibility
  - Approval of a collective bargaining agreement with no realistic plan to cover costs
  - Lack of urgency to address fiscal problems before they reach a crisis
  - Not exercising management responsibilities consistently
- Inadequate support for campus leaders facing difficult problems

Resulting Conditions

- Limited tools for chancellor to lead the system strategically, especially with respect to his relationship to presidents

- Compliance and regulatory mindset orientation at the Office of the Chancellor

- "Distance" between Office of the Chancellor and institutions

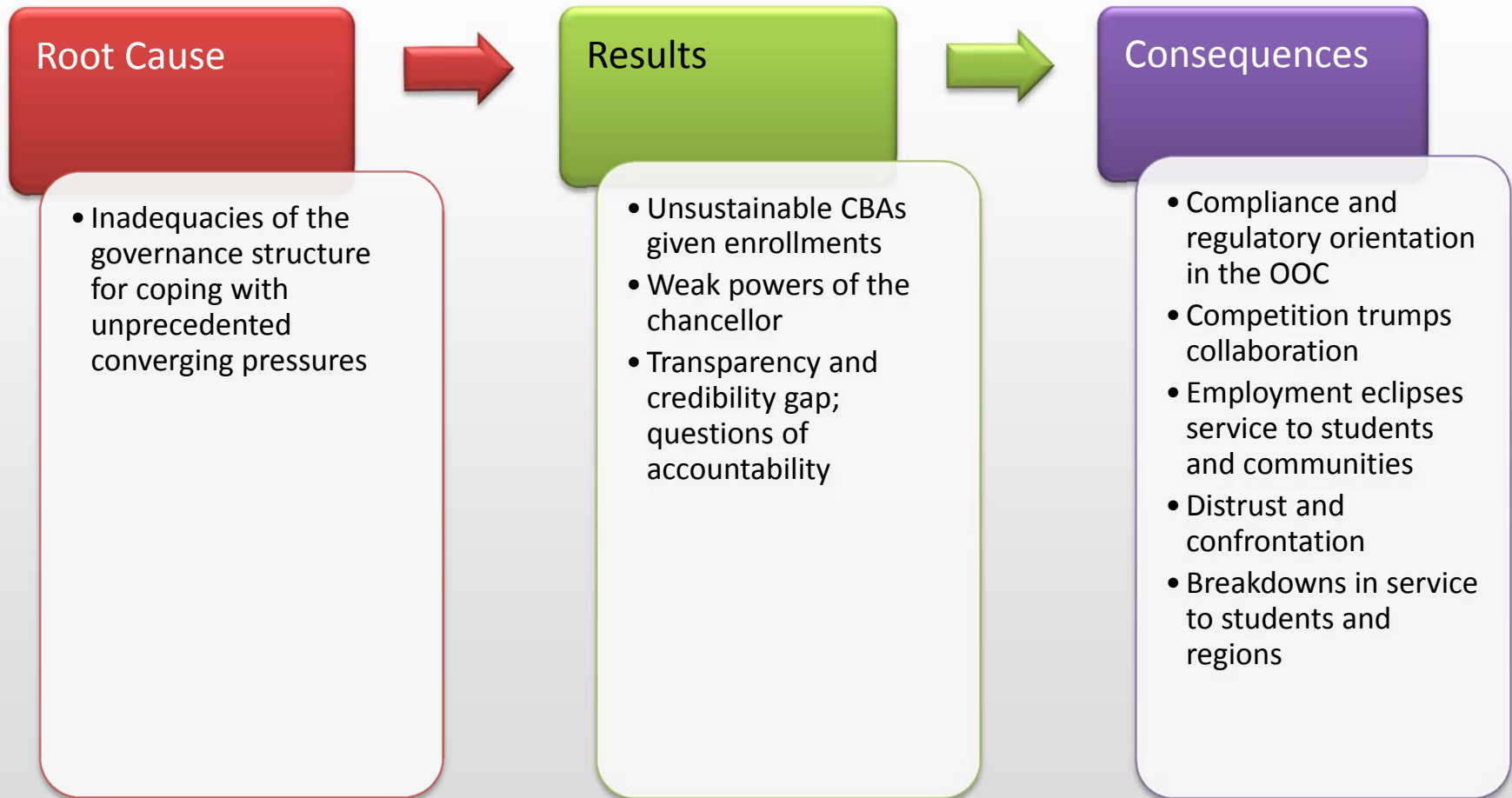- Competition vs. collaboration within the system

Resulting Conditions

- Universities as employers
- Climate of confrontation and distrust → Transparency and credibility gaps
- Tendency to centralize rather than find local solutions
- Distortion in academic policymaking leading to the management of the system according to the APSCUF agreement rather than leadership guided by Act 188

The Bottom Line

Root Cause

- Inadequacies of the governance structure for coping with unprecedented converging pressures

Results

- Unsustainable CBAs given enrollments
- Weak powers of the chancellor
- Transparency and credibility gap; questions of accountability

Consequences

- Compliance and regulatory orientation in the OOC
- Competition trumps collaboration
- Employment eclipses service to students and communities
- Distrust and confrontation
- Breakdowns in service to students and regions

RECOMMENDATIONS

What Not to Do

- The system and the Office of the Chancellor should not be eliminated.

- No university should be closed.

- No universities should be merged.

- No university should be separated from the system.

- There should be no attempt to undermine the collective bargaining process.

Fundamental Change Needed

FROM

- An emphasis on institutions as employers first and providers of services to students and communities second

TO

- A dynamic system and constituent institutions that are focused on the needs of students and regions

Fundamental Change Needed

FROM

- A climate of distrust, non-transparency, confrontation and competition

TO

- A climate of trust, transparency, and collaboration at and between every level of the system

Fundamental Change Needed

FROM

- Weak leadership capacity at every level (imposed in part by a byzantine set of layers of authority)

TO

- Better streamlined and unambiguous layers of authority to be exercised in addressing issues at the most appropriate level (statewide or local), supported by robust consultative and advisory roles

Fundamental Change Needed

FROM

- Decision-making that is more heavily influenced by politics and interests rather than policy leadership on behalf of students and communities

TO

- Strategic leadership capacity to make decisions in the best interests of students and regions

Fundamental Change Needed

FROM

- Governance and management that is driven more by the provisions of collective bargaining agreements than by the exercise of leadership and authorities granted under Act 188 (and Act 195 that specifies the limits of collective bargaining agreements in relationship to management responsibilities)

TO

- Respect for the historic and appropriate role of unions and collective bargaining agreements to defend employee rights and privileges, while balancing that with the responsibilities of system and institutional leadership to manage the system to ensure the sustainability of high-quality, affordable postsecondary education options for students

Recommendation #1

Retain and ensure sustainability of the State System's capacity in every region to carry out its historic mission to serve students and communities with high-quality, affordable postsecondary opportunities for working-class families.
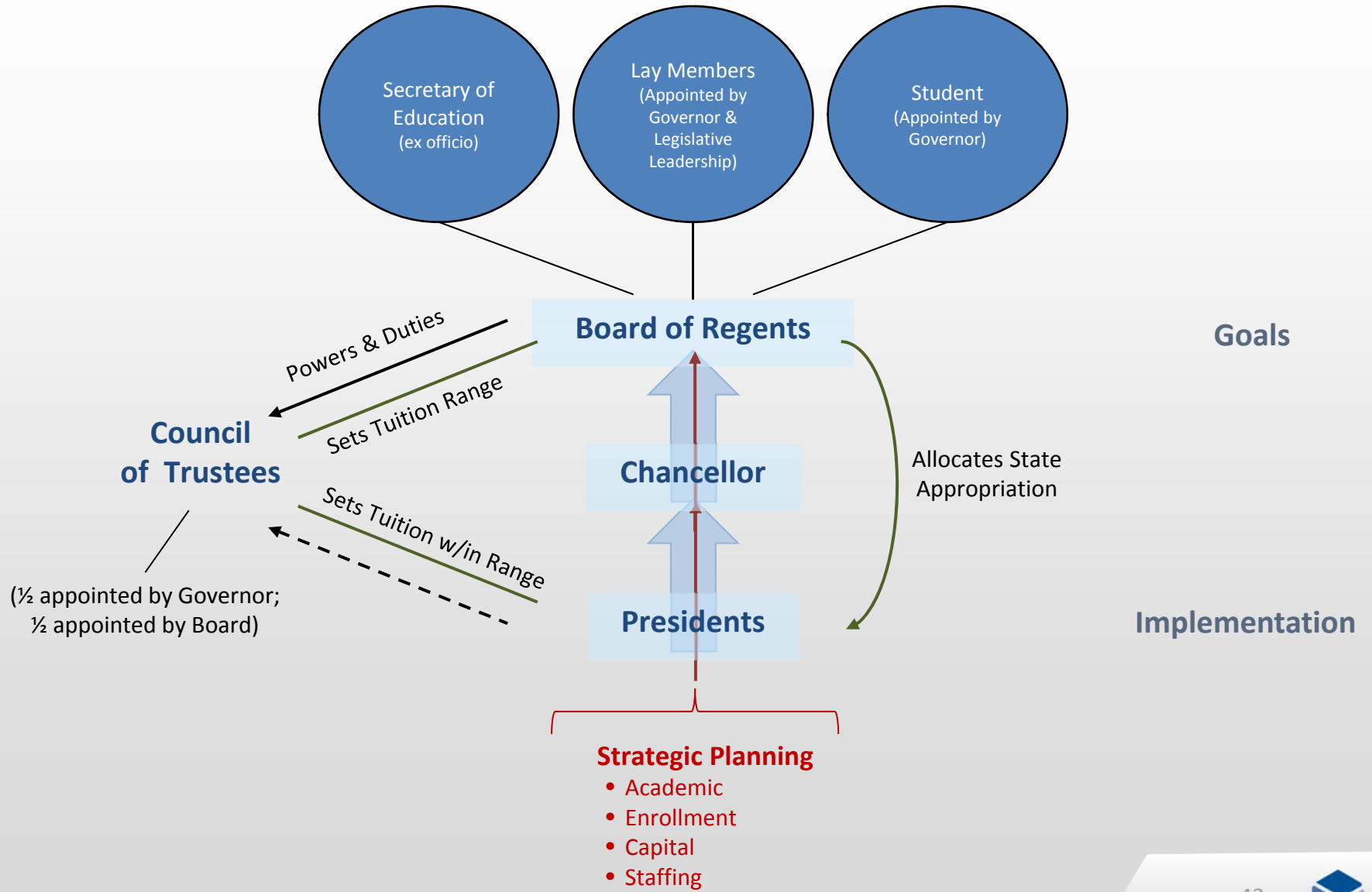
Recommendation #2

Amend Act 188 to:

- Replace the current Board of Governors with a Board of Regents made up of lay members.

- Clarify the distribution of authority among the Board, the Chancellor, the institutional Presidents, and the Councils of Trustees.

Recommended Governance Structure

Secretary of Education (ex officio)

Lay Members (Appointed by Governor & Legislative Leadership)

Student (Appointed by Governor)

Board of Regents

Council of Trustees

(½ appointed by Governor; ½ appointed by Board)

Powers & Duties

Sets Tuition Range

Sets Tuition w/in Range

Chancellor

Presidents

Allocates State Appropriation

Goals

Implementation

Strategic Planning
- Academic
- Enrollment
- Capital
- Staffing

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Recommendation #3

Reorient the State System's Board and its Office of the Chancellor toward:

- Greater responsibility for policy leadership.

- Reduced emphasis on management and compliance activities.

- Provide support and assistance to institutional leadership.

Chancellor's Office

- Ensure that institutions are well led.
  - Presidential selection and evaluation
  - Support for presidential leadership
  - Orientation and professional development of institutional leaders (president, cabinet, Trustees)
- Consultation and transparency in developing:
  - Clear institutional missions
  - Staffing plans
- Leadership for regional and system-wide multi-campus partnerships
  - Academic collaboration
  - Shared services
- Support for data and research capacity

Recommendation #4

Reconfigure institutions facing the most severe sustainability challenges as universities

- Retain their unique character and core programs

- Leverage system-wide and regional resources to:

  – Deliver programming.

 – Share administrative functions more efficiently.

Implications for Reconfigured Universities

- Retain local leadership, name, symbols, etc.
- Strengthen core of sustainable academic programs
- Expand capacity and incentives to bring programs from other institutions to meet local needs and student demand
- Expand local student support services to foster student success

A Consortium Model
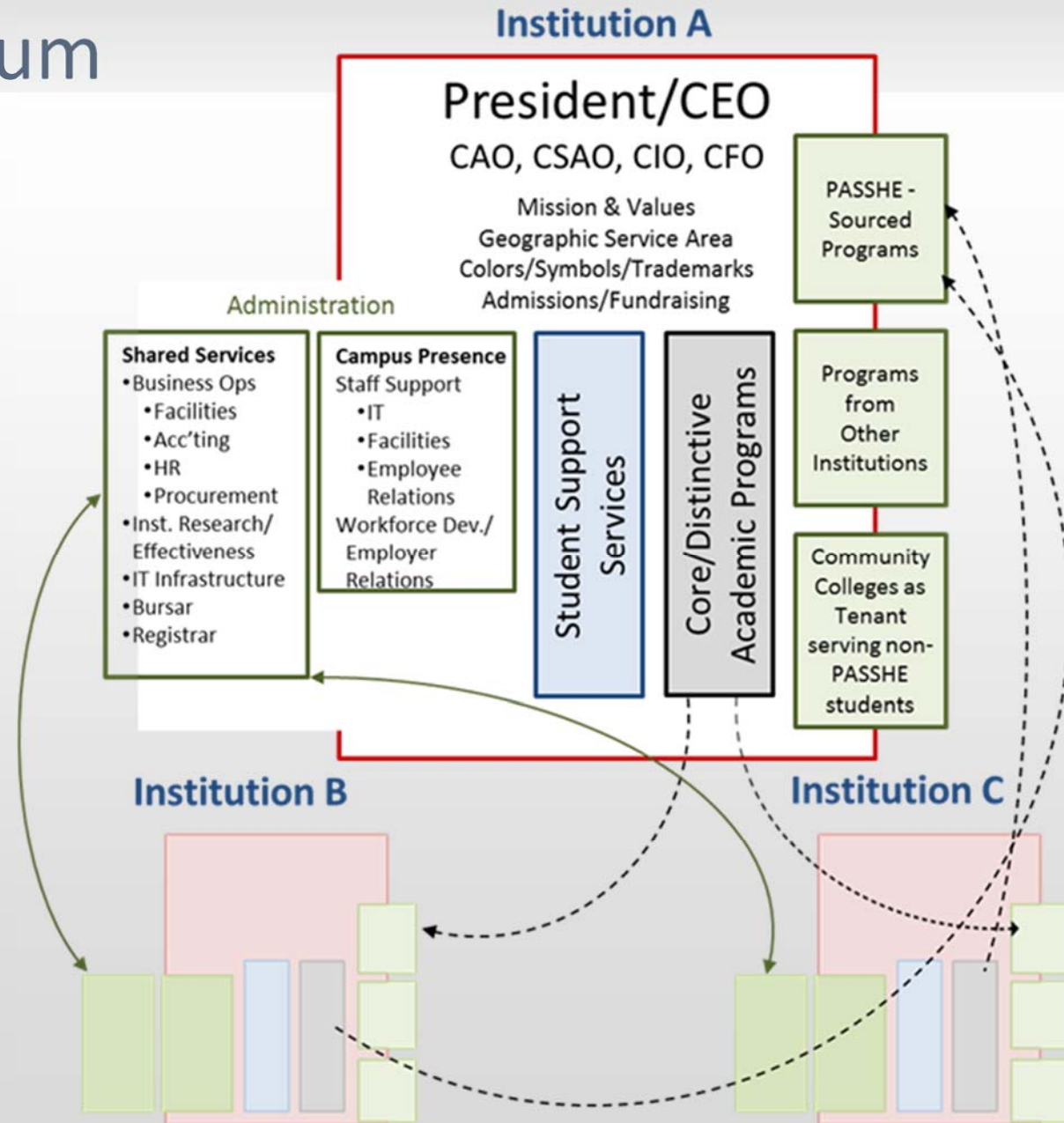
Recommendation #5

Adopt a strategic financing model that:

- Fits the varied circumstances facing the State System's institutions

- Incentivizes collaboration over competition.

Recommendation #6

Ensure that future agreements with collective bargaining units are designed to:

- Promote nimbleness in response to institutional and system-wide challenges and opportunities

- Be financially feasible for all institutions and the system.

Recommendation #7

Recommit to a robust shared governance process that respects the appropriate role of faculty in advising and consulting on matters of academic policy, as distinct from the role of collective bargaining which seeks to advocate for employee rights and privileges.

Recommendation #8

The Pennsylvania legislature should consider permitting the State System to offer early or phased retirement incentives in a way that allows the Chancellor and institutional presidents to align staffing levels strategically with enrollment.

Recommendation #9

Establish a statewide entity with authority and responsibility for statewide policy coordination and leadership across all of Pennsylvania's postsecondary education institutions, with authority to recommend the allocation of state funds among the State System, state-related institutions, community colleges, and PHEAA.

Contact Info

NCHEMS
National Center for Higher Education Management Systems

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