

# **Pennsylvania State System of Higher Education**

## Strategic System Review

### Findings & Recommendations

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July 21, 2017



The National Center for Higher Education Management Systems

## **Executive Summary**

The twin challenges of demographic decline and diminished state support confront the Pennsylvania State System of Higher Education with a bleak fiscal future. Several of its institutions are now in immediate crisis. If current trends continue, it is just a matter of time before all of the universities become financially unsustainable. Recognizing these challenges, the Board of Governors, with the leadership of Chancellor Frank Brogan, initiated a far reaching review of the system. In testimony before the House and Senate Appropriations Committees, the Chancellor called the current way the system is organized “unsustainable” and advised a thorough review was underway to “come up with recommendations for change for the future.”<sup>1</sup> Following through with this commitment, the State System contracted with the National Center for Higher Education Management Systems (NCHEMS) to conduct a critical review of the system—its ability to navigate these challenges, its leadership and management, founding legislation (Act 188), funding sources and expenditure patterns, and statewide and regional variation in educational needs and delivery. Drawing on data analyses supplemented with extensive input from stakeholders at the state level and at each of the individual universities, NCHEMS produced this report and recommendations for action.

The State System’s historic mission of providing high-quality, affordable postsecondary education opportunities to Pennsylvanians in every region of the state remains essential. Unfortunately, that mission is threatened by years of:

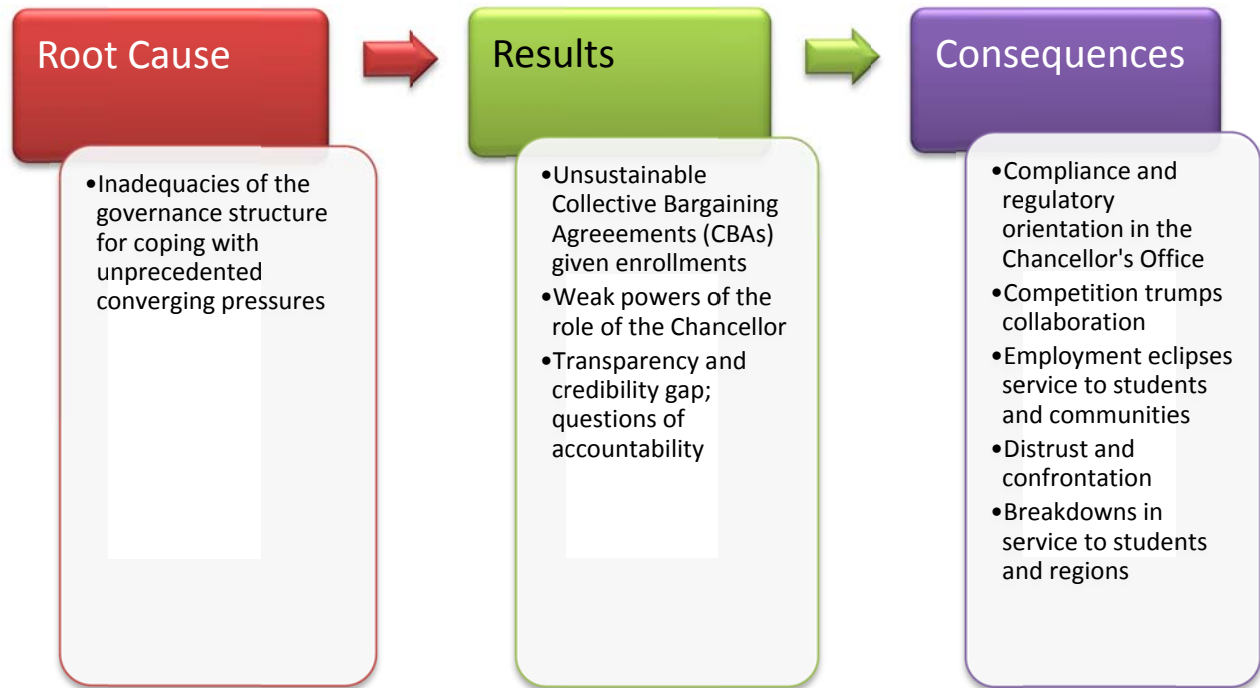
- Unsustainable expenditures relative to the revenue that institutions are able to garner.
- Inflexible rules that are often standardized at the state level rather than being adaptable to local conditions.
- A longstanding climate of distrust and confrontation within the institutions and between institutional stakeholders and the Office of the Chancellor.
- Regulatory burdens imposed by the state.
- Unhealthy competition among institutions where collaboration would better serve students and the state.
- Leadership capacity at all levels of the System weakened by provisions of the founding legislation.
- A mindset of viewing the universities as employers first and only second as educational institutions.

Ultimately, these problems can be traced to one root cause: Act 188 established a governance model that is no longer adequate for exerting bold and strategic leadership in response to today’s converging pressures. Instead, Act 188 specifies a governing board that struggles to make difficult decisions due to its politicized nature, a membership that represents a constituency of points of view rather than the needs of students and the Commonwealth, and confused lines of authority that promote the status quo and the avoidance of accountability. This point deserves special emphasis –

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<sup>1</sup> Frank T, Brogan, testimony at Senate Appropriations Committee budget hearing, February 23, 2017, Pennsylvania Legislative Services (PLS) News. [http://www.ctbpls.com/htbin/web\\_crnews?17RSAC=SAC170223.A100017R](http://www.ctbpls.com/htbin/web_crnews?17RSAC=SAC170223.A100017R)

the finding is not a judgment about the leadership of any individuals in the State System. It is an indictment of the governance structure itself, which creates an environment that stifles the exercise of effective and strategic leadership. These defects have been present in the governance structure since the enactment of Act 188, but they have become especially apparent only in recent years as severe demographic and funding pressures have converged on the State System.



In trying to address its challenges, the State System is also hampered by the absence of a statewide entity charged with coordinating policy for all of postsecondary education in the state. Among the results are gaps in service and program delivery and an inability to harness strategically the state's postsecondary resources to meet its needs. In this way, Pennsylvania's postsecondary policy allows institutional needs and state budgetary considerations to take priority over students' needs.

All participants own a share of the responsibility for the State System's current problems. Returning the State System to a better future will require hard work and a willingness on everyone's part to work together to shape solutions. Success demands an updated vision for the State System that shifts mindsets and structures from characteristics noted on the left side of the table below, to those on the right.

FROM	TO
<ul style="list-style-type: none"> <li>• An emphasis on institutions as employers first and providers of services to students and communities second</li> </ul>	<ul style="list-style-type: none"> <li>• A dynamic system and constituent institutions that are focused on the needs of students and regions</li> </ul>
<ul style="list-style-type: none"> <li>• A longstanding climate of distrust, non-transparency, confrontation and competition</li> </ul>	<ul style="list-style-type: none"> <li>• A climate of trust, transparency, and collaboration at and between every level of the system</li> </ul>
<ul style="list-style-type: none"> <li>• Weakened leadership capacity at every level (a result in part of an excessively complicated authority structure)</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined and unambiguous layers of authority that allow issues to be addressed at the most appropriate level (statewide or local), supported by robust consultative and advisory roles</li> </ul>
<ul style="list-style-type: none"> <li>• Decision-making that is heavily influenced by politics and special interests</li> </ul>	<ul style="list-style-type: none"> <li>• Decision-making that acts strategically in the best interests of students and regions</li> </ul>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>	<ul style="list-style-type: none"> <li>• Respect for the historic and appropriate role of unions and collective bargaining agreements to defend employee rights and privileges, while balancing this role 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</li> </ul>
<ul style="list-style-type: none"> <li>• Implementation of uniform solutions across highly diverse institutions and regions.</li> </ul>	<ul style="list-style-type: none"> <li>• Balancing system-wide solutions with the ability to address local challenges and opportunities</li> </ul>
<ul style="list-style-type: none"> <li>• A system office oriented toward compliance and regulatory functions</li> </ul>	<ul style="list-style-type: none"> <li>• A system office with a service orientation that amplifies institutional successes, differentiates appropriately among institutions, identifies and addresses problems proactively, consults frequently, and actively promotes collaboration.</li> </ul>

### What Not to Do

Given how much controversy has surrounded NCHEMS' system review, we feel it is important to be clear about what we are **not** recommending. Some options, although possibly appropriate, do not have good prospects for improving educational service to Pennsylvania's students and communities. Rather than successfully addressing the State System's challenges, they would put them off until a later date, or actively make them more severe. These options constitute a succinct list of "what not to do."

- The system and the Office of the Chancellor should not be eliminated.
- No State System institutions should be closed.
- There should be no mergers of any State System institution with another that results in the loss of an individual institution's name, colors, symbols, or separate institutional

accreditation. However, we recommend a new model for substantial institutional collaboration and sharing of services and academic programs.

- No institution should be separated from the State System.
- There should be no attempt to undermine the collective bargaining agreements or processes between the State System and the various unions.

### Recommendations

The State System needs a fundamental overhaul in its governance, a new model for enhanced institutional collaboration, and a culture of trust throughout the State System office. NCHEMS recommends the following to achieve those ends.

1. Retain and ensure sustainability of the State System's capacity to carry out its historic mission to serve students and regions with high-quality, affordable postsecondary opportunities for Pennsylvania families from every region of the state.
2. Amend Act 188 to replace the current Board of Governors with a Board of Regents made up of lay members and to clarify the distribution of authority among the Board, the Chancellor, the institutional Presidents, and the Councils of Trustees.
3. Reorient the State System's Board and its Office of the Chancellor toward greater responsibility for policy leadership, with a reduced emphasis on operational management and compliance activities.
4. Reconfigure institutions facing the most severe sustainability challenges as universities that retain their unique character and core programs while leveraging system-wide and regional resources to deliver programming and share administrative functions more efficiently.
5. Adopt a strategic financing model that is a better fit for the varied circumstances facing the State System institutions and that provides incentives for collaboration over competition.
6. Ensure that future agreements with collective bargaining units are designed to promote nimbleness in response to institutional and system-wide challenges and opportunities, and that are financially feasible for all institutions and the system.
7. Recommit to a robust shared governance process that respects the appropriate role of faculty in advising and consulting on matters of academic policy, in contrast to the role of collective bargaining, which seeks to advocate for employee rights and privileges.
8. Offer early or phased retirement incentives, established through legislative action, in a way that allows the Chancellor and institutional Presidents to align staffing levels strategically with enrollment changes.
9. Establish a statewide entity with authority and responsibility for statewide policy coordination and leadership across all of Pennsylvania's postsecondary institutions, with authority to recommend the allocation of state funds among the State System, state-related institutions, community colleges, and the Pennsylvania Higher Education Assistance Agency (PHEAA).

## **Introduction**

From their shared beginnings as normal schools, the universities in the Pennsylvania State System of Higher Education (the “State System”) have been the affordable option for baccalaureate education for Pennsylvania’s families, providing locally accessible, high-quality instruction to all corners of the Commonwealth. Fully owned and operated by the state, these institutions are the only truly public four-year institutions in Pennsylvania. As such, they have a special responsibility to serve their local communities. They have done so admirably over the years, typically recruiting most of their students from counties adjoining the institutions themselves and returning their graduates to find employment and productive lives as citizens mostly in those same local regions. Each institution is thus a tremendous asset to its local setting and to the state as a whole, and most sit at the core of their relatively rural communities – and economies.

In spite of these critical roles, the State System’s institutions individually and collectively face a fiscal future made bleak by a converging set of challenges. Widespread demographic changes are intensifying an already hyper-competitive landscape for student enrollments in Pennsylvania and nearby states. Erosion in state funding levels that accelerated during the Great Recession is now compounded by competing demands for resources and policy attention at the state level. Together, these pressures mean a perilous future for the State System and its institutions: several are now in immediate crisis and, if current trends continue, it is probably just a matter of time before all of them become financially unsustainable.

In an effort to address these challenges and plan a more sustainable future, the State System contracted with the National Center for Higher Education Management Systems (NCHEMS) to conduct a system review leading to recommendations for action. NCHEMS’ charge and scope of inquiry were wide-ranging, with expectations that we address matters related to system and institutional governance, including an examination of Act 188 and its impact on the system’s ability to navigate these challenges; leadership and management of the system; funding levels from the state, tuition revenue, and any other potential sources; and statewide and regional variation in educational needs and delivery. In particular, NCHEMS was asked to take a critical look at the State System’s Office of the Chancellor and the Board of Governors, as well as the individual institutions.

To begin this task, NCHEMS examined a wide range of data from public sources as well as from the State System. These analyses provided a foundation for us to specify problems, informed our strategies for stakeholder engagement, and suggested potential avenues for solutions. NCHEMS conducted numerous interviews and focus groups with as many stakeholders as possible during the information-gathering phase of our work. These efforts involved extensive travel in Pennsylvania, including:

- Meetings in Harrisburg with the Chancellor’s Office leadership, members of the Board of Governors, policymakers in the legislative and executive branches, and leadership of the statewide unions.
- Attendance and listening sessions at the Pennsylvania Councils of Trustees annual meeting.
- Daylong visits to each of the 14 universities, where our agendas typically included meetings with the president and his or her cabinet, representatives of the unions, members of the

faculty shared governance structure, community members and business leaders, councils of trustees, and students.

- Phone conversations with representatives of additional actors in the state's postsecondary education enterprise.

Ultimately, we participated in over 120 meetings that involved hundreds of individuals all over the Commonwealth.

NCHEMS also created a website to gather input from additional stakeholders and the general public. As of June 30, 2017, we had received 856 comments from Pennsylvania residents, current and former faculty and staff, and current and former students from the State System.<sup>2</sup>

Drawing on all of these sources, this report argues that the State System is in need of significant realignment in order for its institutions to continue to serve their missions. Most critically, this includes a full reconfiguration of the system's governance structure. The current climate needs to change fundamentally. Each campus primarily exists in competition with its sister institutions for students and state funding support, rather than as complementary. Struggling institutions are both allowed to be a drain on the enterprise as a whole and are expected to right their ships largely in isolation. Meanwhile, the trust and sense of common cause needed to address pressing challenges is scarce; and attempts to innovate are either stymied or allowed to wither. At the root of the problem, NCHEMS found that the benefits of being a **System** are poorly understood by all concerned and, consequently, have been far less effectively realized than they should be. A major contributing factor to these challenges is an outdated governance model with confused lines of authority that is no longer up to the task of coping with the unprecedented conditions the System faces. To address these problems, this report makes recommendations in the following areas:

- Amendments to Act 188 to repair a broken governance model.

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<sup>2</sup> Several themes emerged as most common in the website feedback, which generally aligned with the feedback NCHEMS gathered through the in-person focus groups we hosted on the campuses and in the state capital. Among them were:

- Passion from students, alumni, faculty, and community members for the institutions they attended, employ them, or that are located in their communities.
- Complaints about insufficient focus on students' needs by individual institutions and the system as a whole.
- Issues with the quality of academic instruction or the student experience (which most often were submitted by students), or with the academic preparation and commitment of students themselves (which typically came from faculty members). Such comments were balanced by praise for faculty and staff as effective mentors and for the mission of the State System institutions as places that make a significant difference in the lives of the students who attend them.
- Frustration with diminished state funding support.
- Questions about the role of the State System and the Office of the Chancellor.
- Arguments for the closure of struggling institutions.
- Worry about competition over a shrinking pool of prospective students with other public and private institutions.
- Skepticism about NCHEMS' independence as a consultant hired by the State System.

- Adjustments to focus the Office of the Chancellor’s role less on regulation and compliance to focus more on policy leadership, especially for promoting collaboration in order to better mobilize the system’s collective assets.
- A model for institutional collaboration across administrative and academic services.
- Alterations to current collective bargaining agreements and processes.
- Improved transparency, communication, and consultation between and among the System, its institutions, and key stakeholder groups.
- A call for a more deliberate and coordinated statewide dialogue linking identified postsecondary needs to educational assets and delivery.

The report first specifies a set of principles that NCHEMS has found useful in shaping its work. It then lays out our principal observations and findings from quantitative analyses, stakeholder engagement activities, and reports on themes derived from comments to the public website. Here we attempt to distill our observations into the most essential elements while the appendix provides additional, selected data analyses and observations. Finally, the report lays out our recommendations for moving forward.

### **Principles**

Throughout the project, NCHEMS developed and used a set of principles to guide its inquiry and recommendations. NCHEMS commonly adopts such principles in its work elsewhere. These principles include:

- Put first priority on the needs of the System’s students – as well as the needs of Pennsylvania’s residents and communities. Issues of institutional health and the sustainability of the System are important but they remain secondary to that larger aim.
- Fit solutions into the broader context of the postsecondary education market in Pennsylvania. The State System’s cumulative effort to serve students and communities should be directed to statewide needs and investment opportunities.
- Ensure that access to a high-quality, affordable postsecondary education is available to residents in all parts of the state.
- Recognize that there are substantial differences among institutions and regions and leave room in the authorized roles and actions of individual institutions to capitalize on their strengths, serve their region’s specific needs, and provide incentives for local flexibility and ingenuity.
- Energize the capacity of the system by establishing a network of delivery and shared capacity to amplify the ability of the institutions to thrive.
- Respect Pennsylvania’s established history of organized labor and collective bargaining. Addressing the State System’s challenges will require that all stakeholders work collaboratively in a manner that recognizes and respects the role of unions and deliberately develops a climate of trust, mutual respect, and transparency at all levels of the system.



## **Findings and Observations**

NCHEMS' analyses typically start by establishing basic facts about the state, its postsecondary needs, and important regional variation within the state. These analyses provide a foundation for understanding the particular needs for postsecondary education in different parts of the state.

Several factors threaten to erode the financial sustainability of the State System's institutions and limit their ability to fulfill their mission in the coming years:

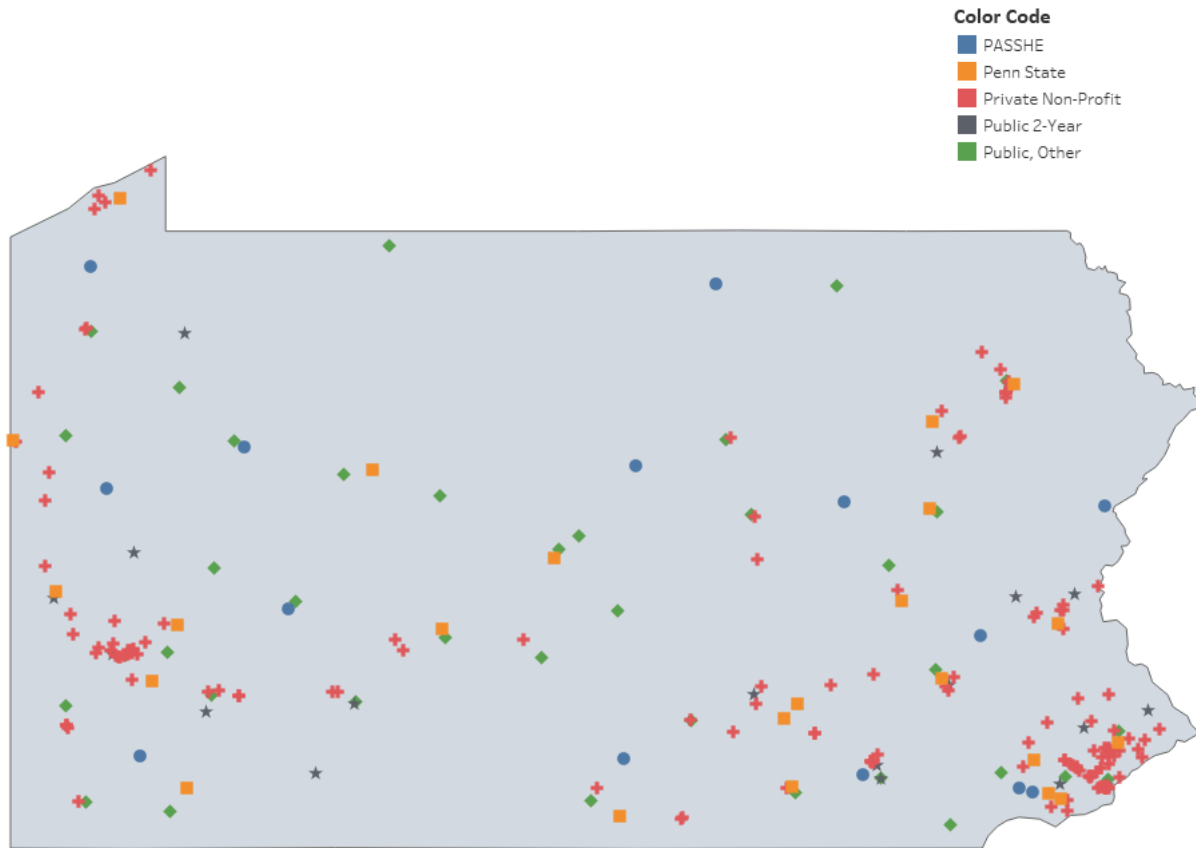
- Unfavorable demographic changes.
- Eroding financial support from the state.
- A longstanding and profound lack of trust among key stakeholders.
- An overly regulatory and compliance-oriented approach to system management.
- A dysfunctional governance structure that weakens leadership capacity at every level of the system.
- The absence of an entity responsible for policy leadership for all of postsecondary education within Pennsylvania.

These topics will be addressed in this section, starting with a discussion of the characteristics of postsecondary education in Pennsylvania and how the State System fits within it.

### **The State System and Postsecondary Education in Pennsylvania**

Pennsylvania is a state with an extraordinarily diverse postsecondary education sector. In addition to the State System, it is comprised of state-related four-year institutions, community colleges, and independent institutions. Pitt and (especially) Penn State each has an extensive network of branch campuses. Figure 1 shows the location of these institutions.

**Figure 1. Title IV-Eligible, Degree-Granting Postsecondary Institutions in Pennsylvania**



A few key observations follow from this pattern of diversity and geographic distribution:

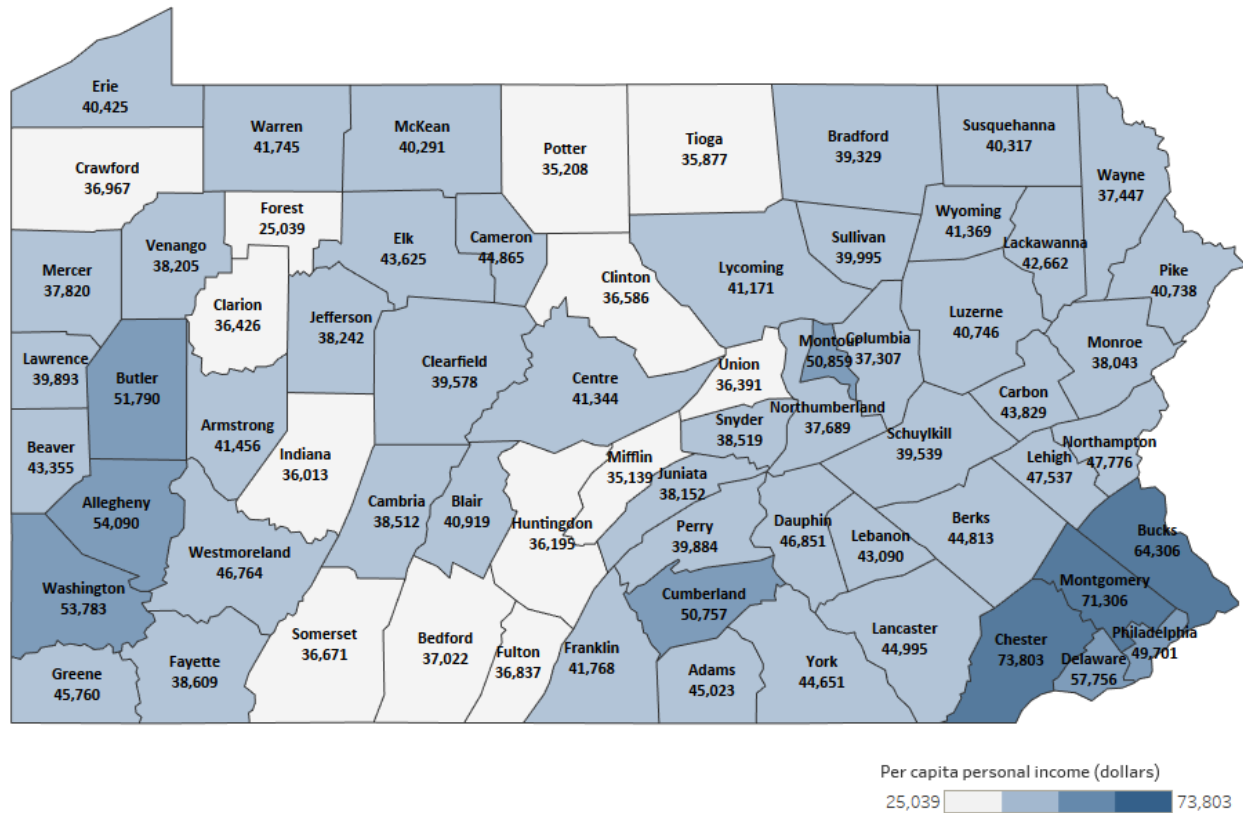
- Pennsylvania has the 13<sup>th</sup> most dense concentration of postsecondary institutions relative to its population. Among states with more than 500,000 18-34 year old residents, Pennsylvania ranks 4<sup>th</sup>. The state is also especially dense with private institutions, ranking 4<sup>th</sup> among all states.
- There are currently no community colleges in Pennsylvania north of Interstate 80.
- Adjacent states also have high concentrations of postsecondary institutions facing similarly unfavorable demographic conditions. This fact contributes to a hyper-competitive market for students and the State System’s institutions historically have attracted only modest numbers of out-of-state students. New York’s new free tuition policy for families with incomes up to \$125,000 is sure to be another factor limiting the State System’s institutions’ ability to attract students from that state.

Within this constrained market, the State System’s institutions have pursued a mission to serve residents of Pennsylvania and their local communities primarily with baccalaureate programs.

- The State System’s institutions overwhelmingly serve a traditional-age student population, and a large proportion of their student bodies are residential and full time.

- The State System’s institutions draw most of their students from the counties in which they are located together with a few surrounding counties (see the appendix).
- Figure 2 shows the variation in income that exists across the state. The fact that per capita income ranges so widely –residents of the wealthiest county (Chester) earn roughly three times as much as residents of the most impoverished county (Forest) – has clear implications for college affordability for a system of institutions that are so closely tied to service to particular geographic regions and that have tuition rates that are essentially the same.

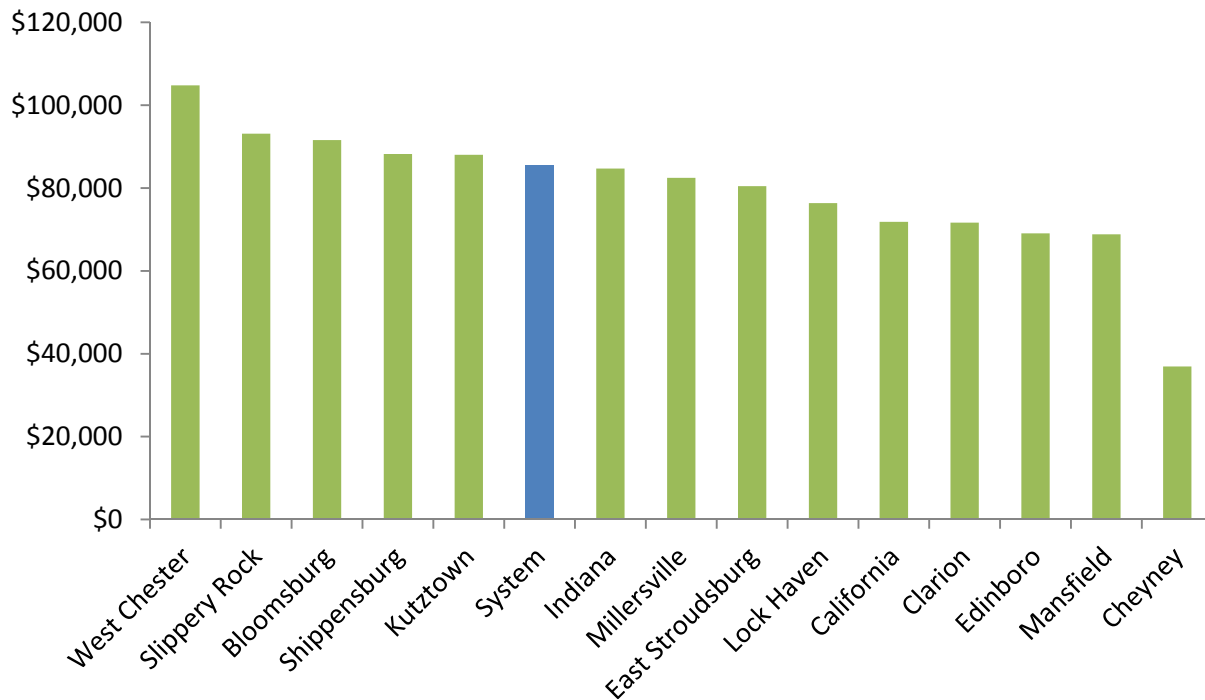
**Figure 2. Per Capita Income by County, 2015**



Source: Bureau of Economic Analysis.

- Reflecting these patterns of income variation by county, institutions in the State System enroll student bodies with average incomes that are quite different from one another (Figure 3). Not surprisingly, the institutions that tend to be in the greatest financial distress are also the ones that enroll the lowest-income students.

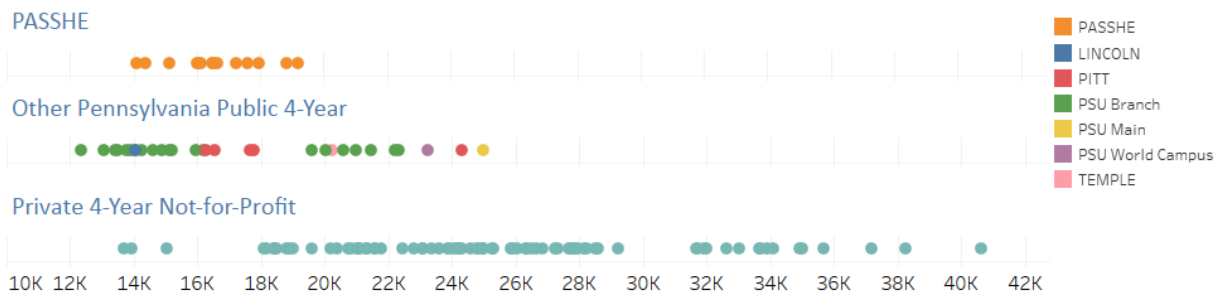
**Figure 3. Average Family Income of Fall 2015 State System Undergraduates by Institution**



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

- The State System’s institutions are the low-cost alternative for baccalaureate education in the state. Figure 4 shows the average net price (which accounts for the full costs of attendance after grant aid) of first-time full-time students in 2014-15, the State System institutions (shown in orange) are clustered among the least-expensive four-year institutions in the state.

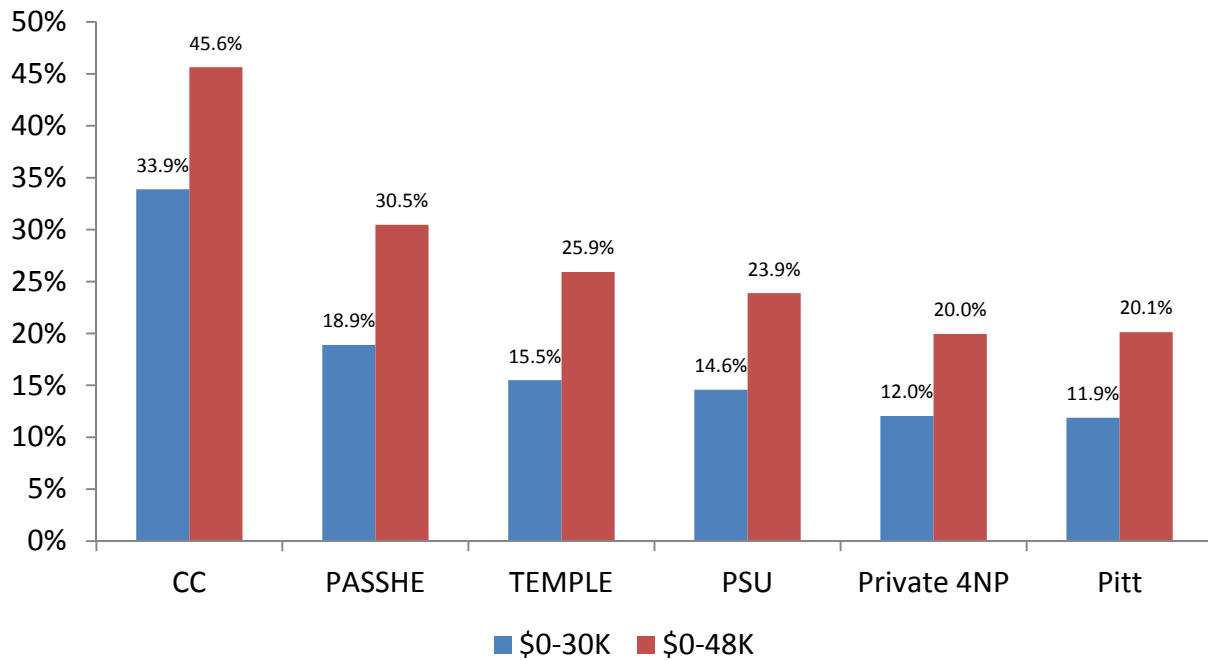
**Figure 4. Average Net Price for First-Time Full-Time Undergraduates, 2014-15**



Source: NCES IPEDS.

- The State System’s institutions have the largest shares of low-income students among first-time freshmen in Pennsylvania, apart from the community colleges (Figure 5).

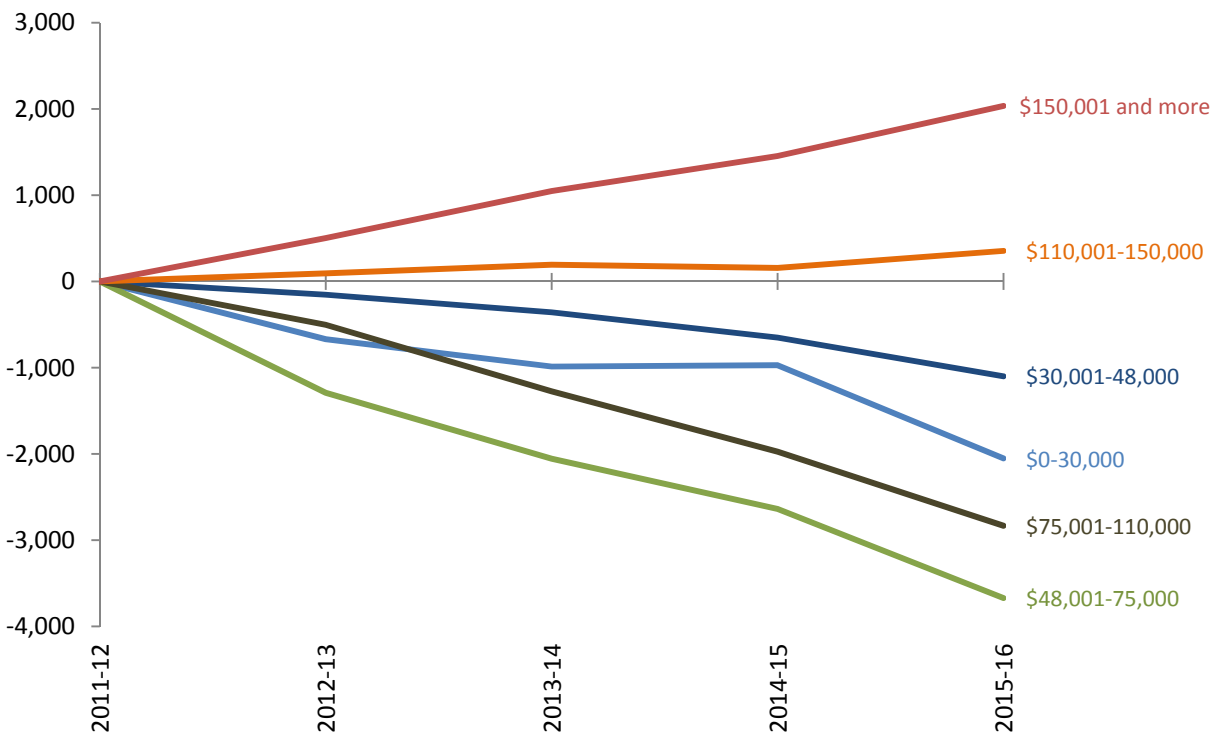
**Figure 5. Share of Entering Class by Family Income Category, 2014-15**



Source: NCES IPEDS.

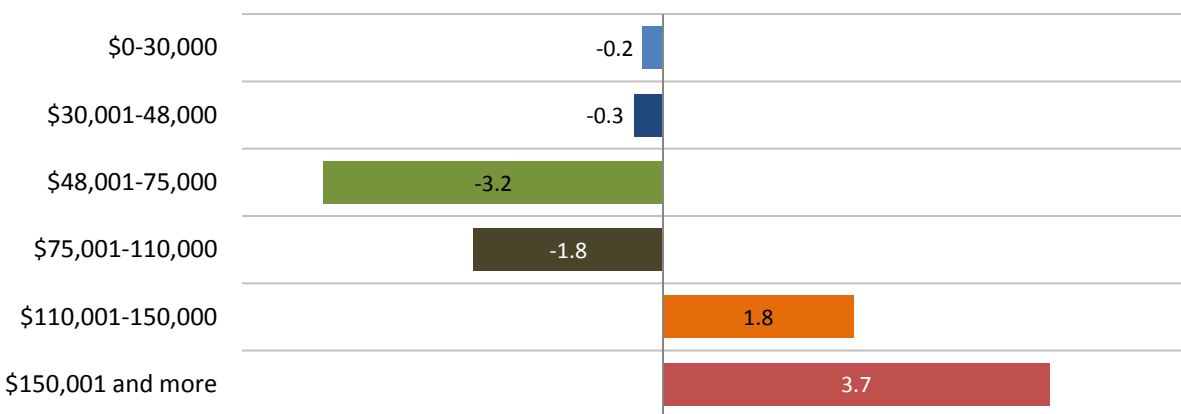
- Over time, however, State System institutions' students are coming from wealthier backgrounds. In fact, students from families with incomes above \$110,000 is the only population whose numbers are growing system-wide (Figure 6). As a proportion of student enrollments system-wide, this increase in relatively well-to-do students contrasts with a decline in the share of students from middle income backgrounds (Figure 7).

**Figure 6. Enrollment of In-State Undergraduates, by Family Income**



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

**Figure 7. Percentage Point Change Between 2011-12 and 2015-16 in Proportion of State System Undergraduates by Income**



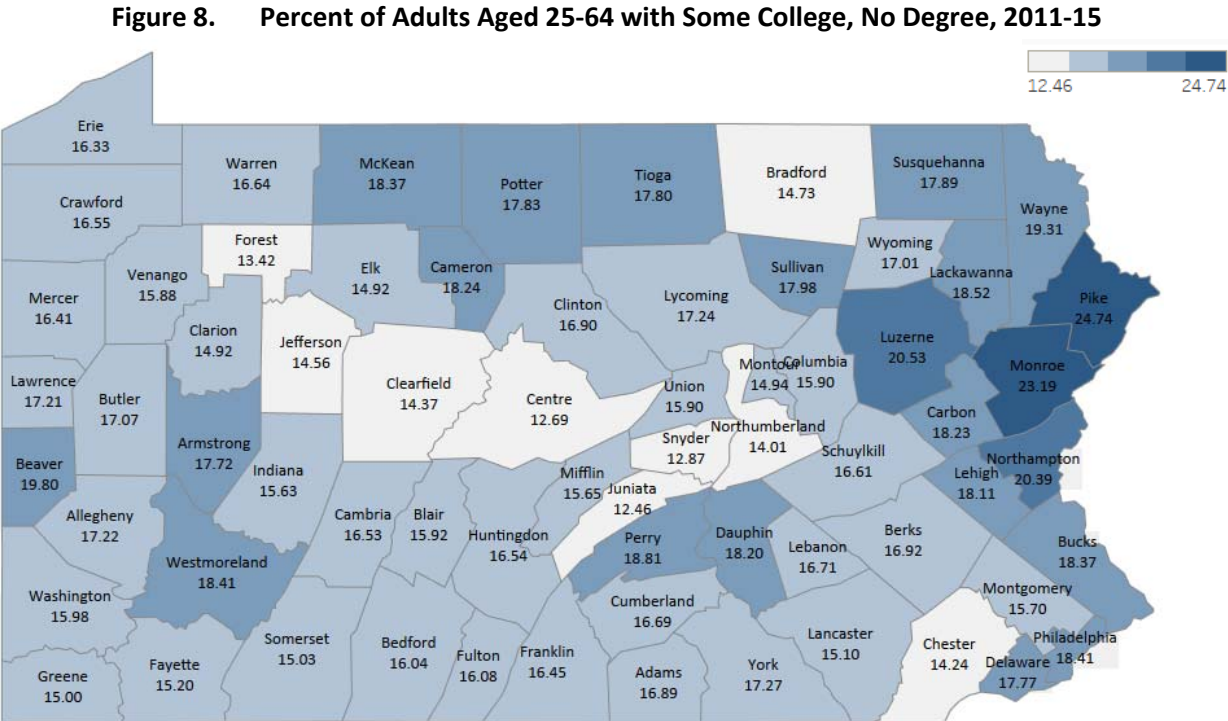
Source: Pennsylvania State System of Higher Education Office of the Chancellor. Data are for FAFSA filers only.

- Average state grant awards from PHEAA to those students attending the State System’s institutions who received one was \$3,145 in 2015-16, as compared to \$3,751 for award recipients at independent four-year institutions and \$3,682 at state-related institutions. Average awards in each sector increased in the prior year: in the State System the increase was \$149, as compared to increases of \$307 at independent institutions and \$297 at the

state-related institutions. Overall PHEAA grant funds to students at the State System institutions grew by less than \$150,000 in the prior year, reaching \$85.5 million, which amounted to 22 percent of all of the state grants awarded by Pennsylvania. By comparison, the one-year increase in total grant funding spent on students at independent institutions was 25 times greater, while the increase in total grant funding spent at the state-related institutions was 11 times greater.<sup>3</sup>

- The array of academic programs at State System institutions is dominated by baccalaureate programs in a large number of fields that overlap.
- Expenditures at State System institutions are about average amongst a set of national peers. Many of these peers (listed in the appendix) are places where collective bargaining is a feature.

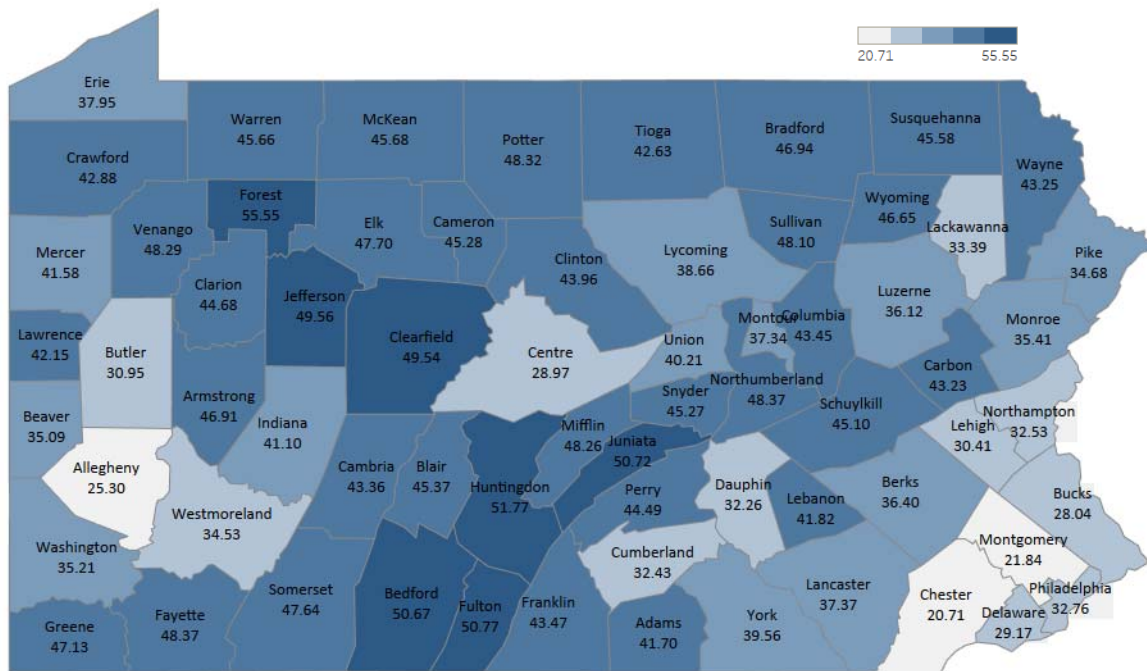
Figures 8 and 9 illustrate the variation in degree attainment across the Pennsylvania population. These figures suggest the size of the market for adult learners in the state.



Source: U.S. Census Bureau, 2011-15 American Community Survey Five-Year Estimates, Table B15001.

<sup>3</sup> Pennsylvania Higher Education Assistance Agency. 2015-16 Pennsylvania State Grant Program: Year-by-Year & Institutional Statistics Report.

Figure 9. Percent of Adults Aged 25-64 with Just a High School Diploma, 2011-15

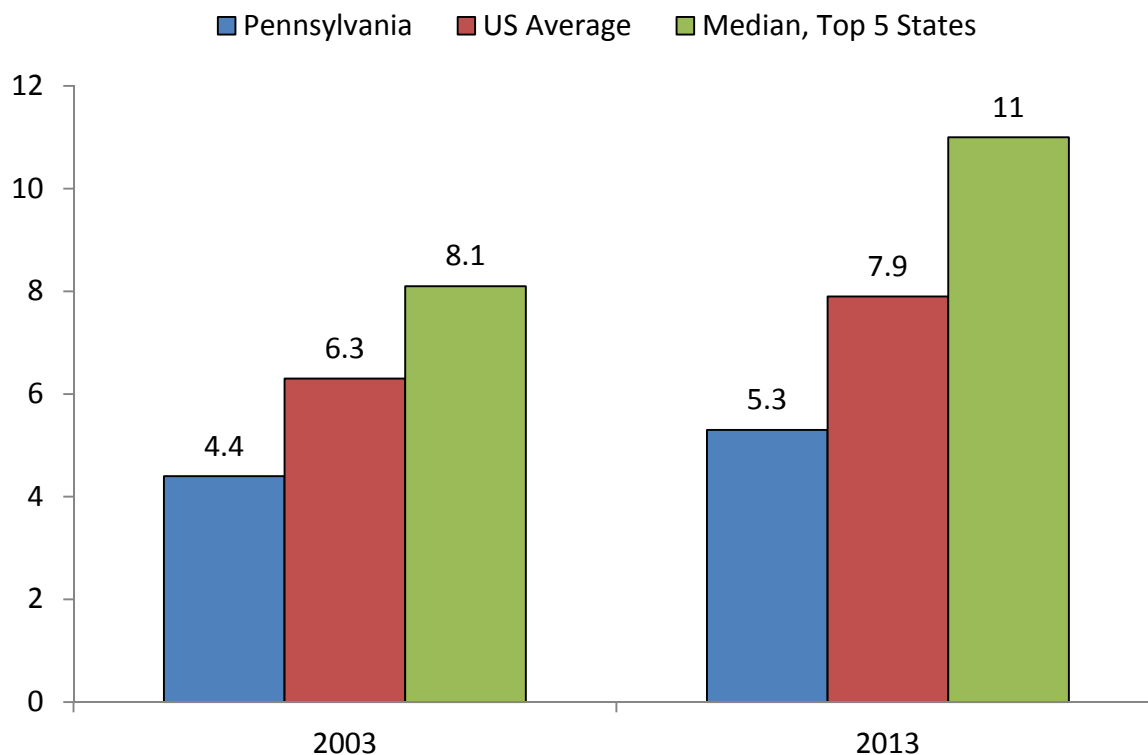


Source: U.S. Census Bureau, 2011-15 American Community Survey Five-Year Estimates, Table B15001.

Pennsylvania has historically been among the least active states in serving adult student populations. In 2013, adults in Pennsylvania were about half as likely to be pursuing postsecondary credentials as their counterparts in the top-performing states (Figure 10). Figure 10 also shows that this gap has grown over the last decade.



**Figure 10. Undergraduate Enrollment Relative to Population With Less Than an Associate’s Degree, 25-49 Years Old**



Source: U.S. Census Bureau; NCES IPEDS.

### Converging Pressures

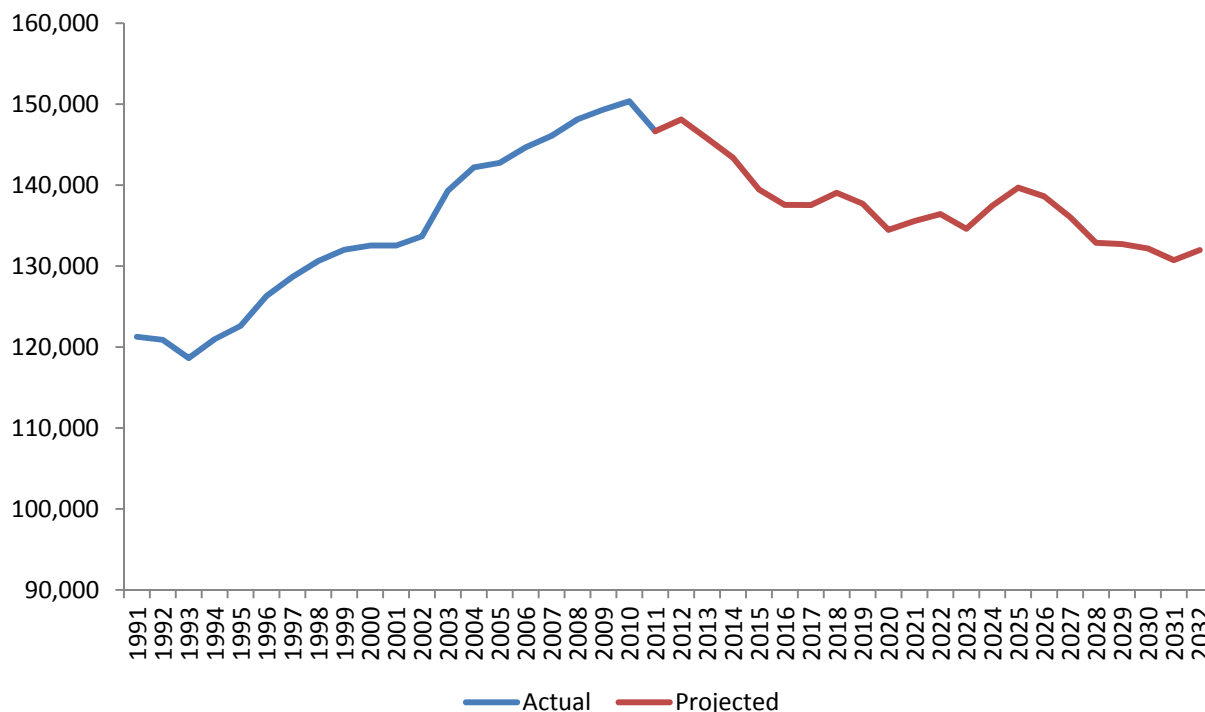
The outlook for postsecondary institutions, especially those located in the northeastern U.S., has grown dramatically weaker over the past decade. Two sources of pressure—demographic changes and an erosion of public support—have put institutional finances in an increasingly tight bind. State System institutions are in an especially difficult position to respond to these pressures because of constraints on their ability to control costs and align academic programs and human resource capacity to changing conditions. These pressures have now mounted to the point where they threaten the sustainability of the entire enterprise.

### *Demographics*

First among the challenges has been a dramatic decline in the number of high school graduates produced in Pennsylvania and nearby states. Recently released projections estimate that between its high point in 2010, when about 150,000 students completed high school, and 2020, Pennsylvania will produce 15,500 fewer high school graduates. Although this decline will slow, it

will continue with few interruptions (Figure 11).<sup>4</sup> This shrinking pool of prospective students are also much more likely to be from lower-income and first-generation backgrounds, and be less well-prepared for success in college. They will have fewer financial resources to pay the costs of college and will also need enhanced academic support that is costlier to deliver, if they are to be successful.<sup>5</sup>

**Figure 11. Pennsylvania High School Graduates, 1991-2011 (Actual) and 2012-2032 (Projected).<sup>6</sup>**



Source: Western Interstate Commission for Higher Education.

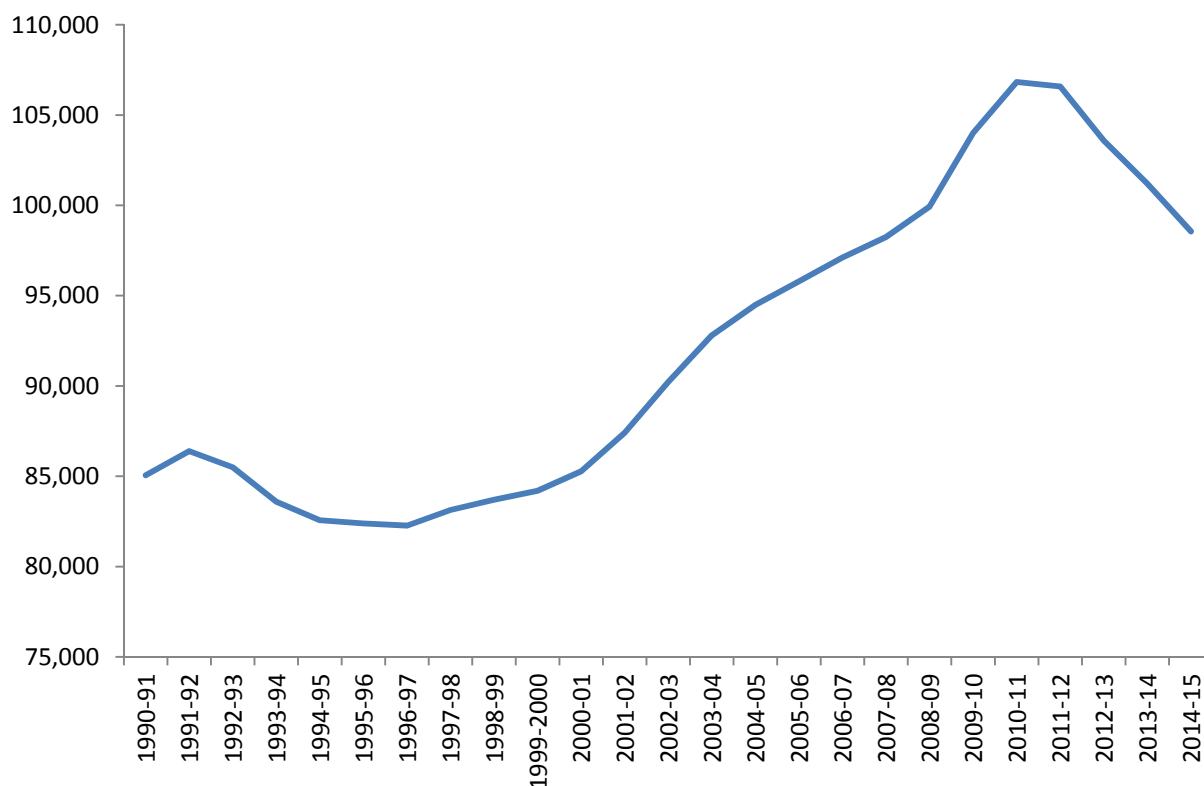
It is also important to understand that between the mid-1990s and 2010, Pennsylvania witnessed a rapid and sustained increase in the number of high school graduates. This increase provided an ever-growing pool of prospective students. In pursuit of their mission’s emphasis on access, the State System institutions grew in response (Figure 12). As a new era of reduced demand for traditionally-aged students unfolds those same institutions face the challenge of right-sizing themselves appropriately.

<sup>4</sup> Western Interstate Commission for Higher Education (2017). *Knocking at the College Door* (9<sup>th</sup> Ed.). (Boulder, CO: Author.) [www.knocking.wiche.edu](http://www.knocking.wiche.edu).

<sup>5</sup> Prescott, B.T. (2013). *Demography as Destiny: Policy Considerations in Enrollment Management*. (Boulder, CO: Western Interstate Commission for Higher Education). <http://wiche.edu/pub/16709>.

<sup>6</sup> The Office of the Chancellor has done its own projections of high school graduates, which track very closely with the trends in WICHE’s national report.

**Figure 12. FTE Enrollment at State System Institutions**



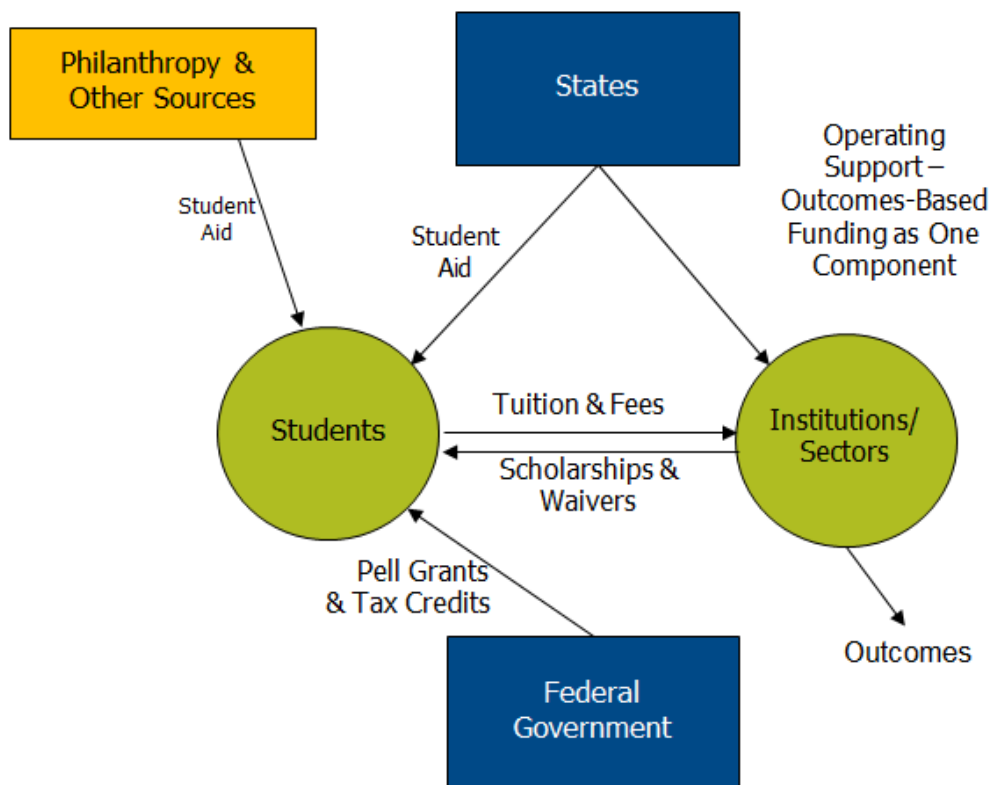
Source: NCES IPEDS. State appropriations per FTE are in constant 2015 dollars.

The shallower pool of recent high school graduates means that institutions seeking to maintain enrollment levels can do so by attracting other populations. Pennsylvanians with some college seeking to complete a degree or certificate are an obvious possibility given how few of them are currently being served by postsecondary education in comparison to other states. Successful outreach to adults would require the State System’s institutions to deliver a greater proportion of courses and programs online and in the evenings and on weekends. It would also require them to provide student support services in formats and at times convenient to adult student schedules complicated by work and family commitments.

*Eroding Public Support*

Demographic challenges are compounded by the growing fiscal threats facing Pennsylvania. As shown in Figure 13, public institutions typically have two sources of revenue that provide the bulk of funding for their operations: state appropriations and tuition revenue. Unfortunately for the State System, the outlook for both of those revenue sources gives little reason for optimism.

**Figure 13. The Elements of Finance Policy**



Reductions in state appropriations to Pennsylvania higher education during the 2008 recession have not been fully restored, leaving public postsecondary institutions statewide in 2015 with just under 64 percent of the revenue they received from state appropriations in 2008. To help fill the gap, institutions raised tuition levels enough to collect 23 percent more in tuition revenue per student over the same time period.<sup>7</sup> In the State System, revenue from appropriations per student in 2015 was just 76.5 percent of its 2008 level (after adjusting for inflation), while tuition revenue climbed 26 percent to help offset these losses.<sup>8</sup>

Tuition hikes of this magnitude are unlikely to be sustainable, especially in the demographic climate just outlined and for the students that traditionally attend State System institutions. The State System’s institutions could garner additional tuition revenue without raising tuition rates if they can attract more adult learners. The State System’s institutions might also garner more revenue from philanthropic sources, although comprehensive institutions like those in the State System are rarely able to mount fundraising campaigns big enough to fundamentally alter the basic fiscal calculus. In addition, most charitable revenue tends to be restricted.

<sup>7</sup> SHEEO, State Higher Education Finance, <http://www.sheeo.org/projects/shef-fy15>.

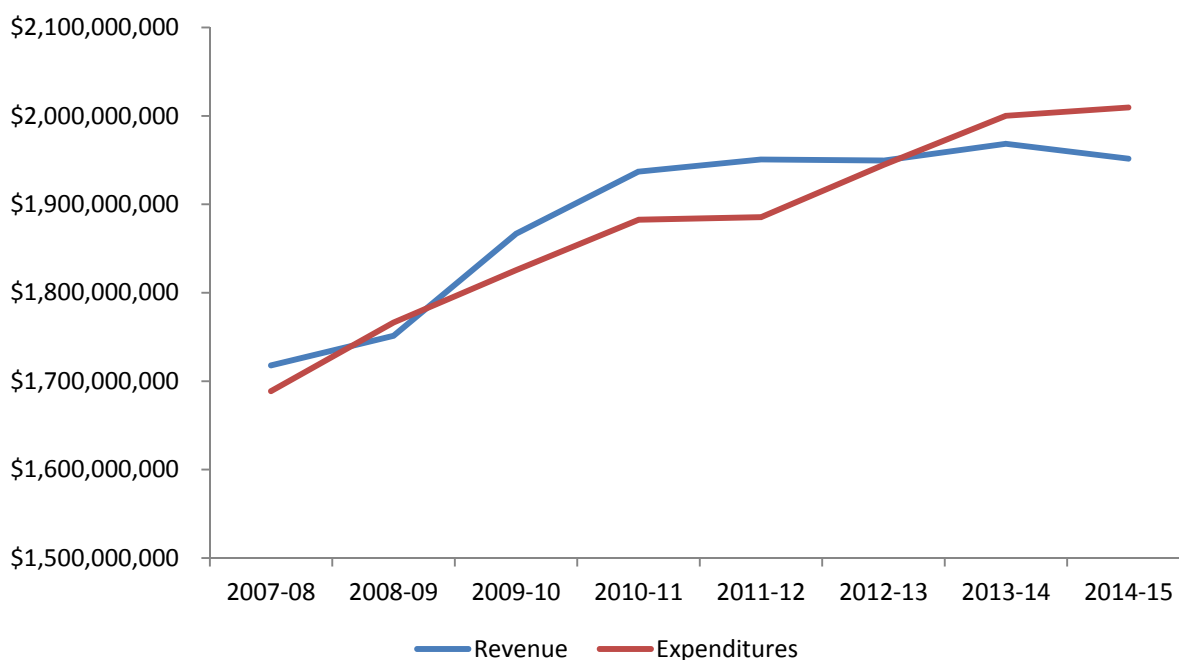
<sup>8</sup> NCHEMS calculations using data from NCES IPEDS.

Meanwhile, even though Pennsylvania provides relatively meager funding to public higher education in comparison to most other states, there is little reason to believe that much relief for the State System’s institutions is likely to come from substantially increased state funding. Competing demands for public spending, especially given the implications for state budgets of the health care legislation currently moving through Congress and the state’s high unfunded pension liabilities, will be an ongoing reality that limits the State System’s state funding. Absent a much healthier appetite for tax increases in Pennsylvania, boosts in state funding are thus unlikely to be the way out.

*Unsustainable Costs and Inflexibility*

These external pressures are certainly critical factors in the financial sustainability crisis the State System faces. But the institutions’ difficulty in holding expenditures in check while the revenue picture weakens is equally a problem that the State System can no longer ignore. Figure 14 illustrates the relationship between revenues and expenditures since just prior to the recession. By 2012-13, the State System’s institutions collectively were operating in the red.

**Figure 14. Revenue and Expenditures for State System Institutions, 2007-08 through 2014-15**

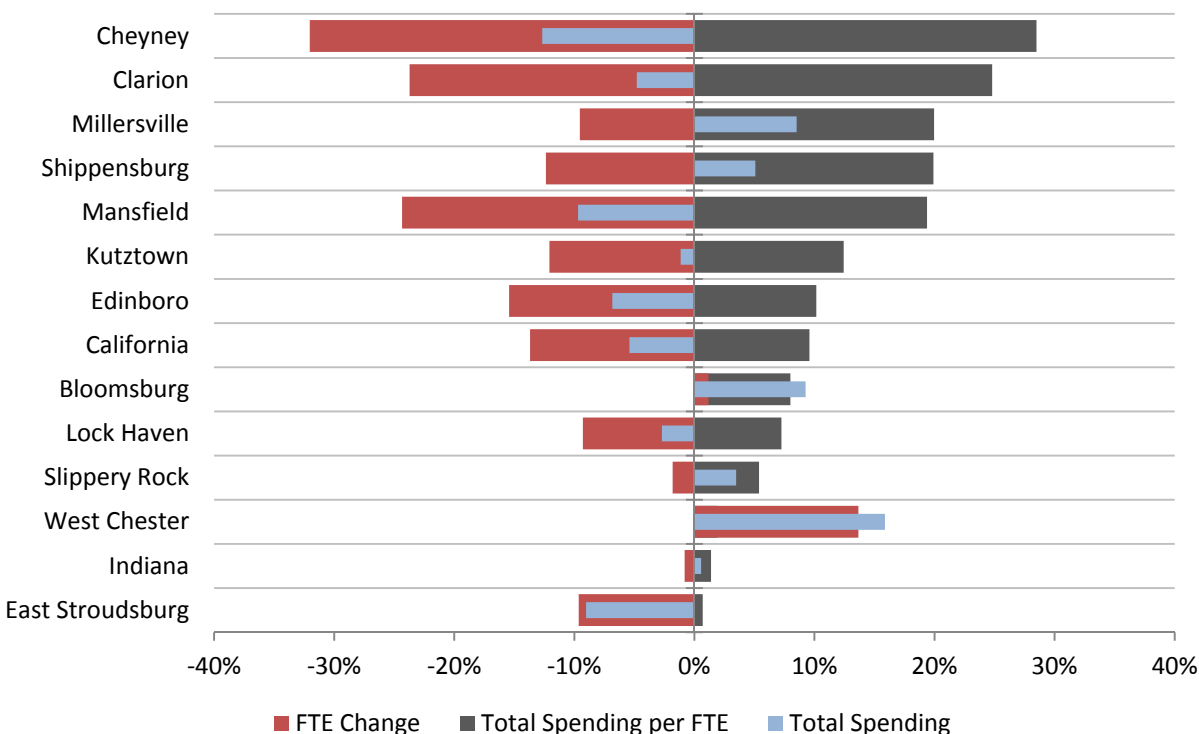


Source: NCES IPEDS.

Between 2009-10 and 2014-15, overall spending at the State System’s institutions climbed 1.3 percent faster than inflation. Unfortunately, over that same period, enrollment was on a steep decline, falling by 6.8 percent in terms of full-time equivalent students. As a result, the State System’s total expenditures per FTE rose by 8.7 percent above inflation. By showing the relationship between the changes in total spending, FTE enrollment, and total spending per FTE for

each of the State System’s institutions, Figure 15 demonstrates how changes in spending did not keep pace with enrollment declines between 2009-10 and 2014-15, leaving most institutions with substantially greater expenses per student.

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



Source: NCES IPEDS. Data are adjusted for inflation using CPI.

In response to these conditions, the Office of the Chancellor has appropriately undertaken initiatives to find efficiencies through shared services for back-office operations like payroll and benefits management, procurement, and the Keystone Library Network. Such efforts are certainly necessary and may be improved on and expanded either through additional state-wide or regional efforts. But improvements in back-office efficiencies are unlikely to be sufficient to narrow the gap between revenue and costs because the vast majority of expenses the State System’s institutions have is in their human resources. To be sustainable under these conditions, some cost savings must come from reorganizing the delivery of educational programs. This will require a better alignment of personnel numbers and their utilization as reflected in enrollment numbers, demand for courses, and regional programmatic needs. For example, State System institutions collectively offer more lower-division course sections with fewer than four students enrolled than they do sections with 5-9 enrolled, and about 14 percent of lower-division courses have fewer than 10 students enrolled. About 30 percent of upper-division courses have fewer than five students enrolled and 41.5 percent had fewer than 10. Even if these courses are for independent studies or internship supervision, the magnitude of these proportions deserves further examination. Experience elsewhere suggests that they are the result of more faculty positions in place than current enrollments suggest are needed.

Just as the overall number of faculty positions deserves scrutiny, so does the size of administration. Comparisons of administrative staffing with peer institutions suggest that, system-wide, State System institutions are not overstaffed in the aggregate. Nevertheless, there are concerns among some stakeholders that growth in management has been wasteful and has led to cuts in services. Such concerns also reflect a need for more transparency.

The above considerations lead logically to an examination of the collective bargaining agreements that determine how the State System's employees are compensated and under what conditions they work. Any solutions to the State System's sustainability problem must address ways in which those agreements are not functioning effectively in the current climate, either due to their overall costs or to the extent to which they limit the State System's ability to respond nimbly to the changing postsecondary education marketplace.

The fact that the system's faculty went on strike for the first time last year shows the strain all are under to find common ground. But the resulting agreement with the faculty union for the period July 1, 2015 through June 30, 2018, which has a three-year cumulative cost increase projected to be \$52 million, is not matched by a realistic expectation of revenue growth.

These converging factors—demographics, eroding public support, and unsustainable costs and inflexibility—have placed the State System on an unsustainable trajectory. Several institutions are facing immediate crises, but all are threatened in the long run. As additional institutions within the System require assistance, stress on the others will grow. Even if institutions requiring subsidies from the others were closed, the fiscal forecast is such that, over time, all institutions in the system will be in peril. Pressure to set the least vulnerable among the institutions free of the System will only serve to accelerate the downfall of those that remain, while also sacrificing part of the public mission of the System in the newly independent institution's region. Moreover, such a course of action is no guarantee of success for the newly-independent institution either, given the heavy debt load it would have to assume in order to acquire its land and property from the state.

### Standardization and Over-Regulation

Although the State System's institutions have a shared history in their beginnings as teacher's colleges, they have evolved into very different institutions serving very different, highly localized needs. Most students in the State System attend campuses within a short distance of their homes and the counties served by each campus are varied in demography and economy. These regional differences ensure that the competitive pressures each university faces are distinctly local. State System institutions are also quite different in size and offer varying arrays of academic programs. These realities suggest that there ought to be a balance between statewide academic policymaking and flexible local or regional practices. In recent years, there has been an effort to provide greater local decisionmaking. Unfortunately, however, there are many instances in which overly standardized statewide approaches have been applied uniformly to all campuses.

Collective bargaining agreements have also enshrined requirements that handicap the ability of institutions to address local issues and to swiftly respond to local opportunities. A salary schedule that is the same for all disciplines and ignores differences across Pennsylvania in prevailing wage

and costs of living constrains the development of some programs because their faculty can frequently find substantially better compensation elsewhere. The rigid salary schedule is a relic of the days prior to the enactment of Act 188 when the State System was a part of the Pennsylvania Department of Education, which made few distinctions between the State System institutions and K-12 schools in the manner in which faculty compensation policies were constructed. It is also very unlike those found elsewhere in higher education today, especially in its failure to recognize disciplinary differences. The statewide salary schedule has uneven impacts on the State System's institutions; typically it harms those that can least afford it the most, given variations in local living costs. Constraints embedded in the contracts also make it difficult to adjust the deployment of faculty to deliver programs and services in response to varying student and community demands, to identify opportunities to contain costs at the local level, or to provide superior services to students.

The State System's status as an entity of state government compounds these matters. Regulatory burdens such as oversight on capital expenditures by the state's Department of General Services and procurement rules that are often poor fits for postsecondary education add costs and slow down institutional responses. Restrictions on the use of state appropriations and tuition revenue similarly limit institutional flexibility.

Certain system-wide policies also overlook important regional variation. One is the system's approach to tuition pricing. While the Board has permitted recent experiments with tuition surcharges at some campuses, the State System has basically had a uniform tuition price for Pennsylvania residents attending its institutions, only allowing institutional Councils of Trustees to adjust the very modest fees under their control. While attention to students' ability to pay is critical in tuition price-setting, this tuition-setting policy fails to account for significant differences in the student populations attending each university from regions and counties. Nor does it reflect important differences in the institutions' competitive positions relative to other public and private institutions that draw from the same pool of students. This rigid pricing structure combines with a funding allocation mechanism within the State System that promotes competition among campuses—rather than collaboration—and fails to account for key differences in institutional contexts.

Academic policy is another area where excessive standardization restricts innovation in the development of responsive solutions to local needs. In recent years, progress has been made to reduce the time necessary for the approval of new degree programs. However, the State System relies on a time-consuming and multi-layered academic program review process that puts its constituent institutions at a disadvantage compared to other postsecondary providers that can offer a new program in a much more streamlined manner. If those institutions rush to market a program that is similar to one proposed by an institution in the State System, approval by the State System of that program could be jeopardized if it is deemed duplicative. The review process also presumes more student mobility than actually exists, so programs might be deemed to be duplicative because another State System institution on the other side of the state already offers a substantially similar program.



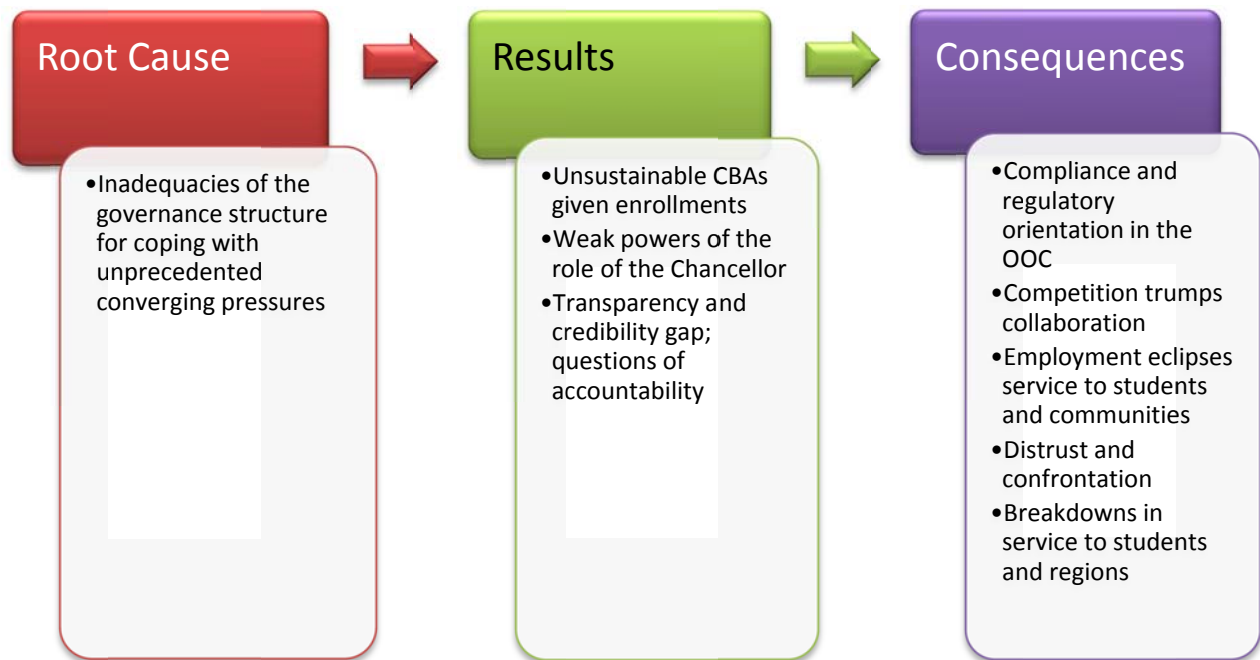
On the bright side, there are a few instances in which State System institutions are developing regional solutions to common problems. Examples include the cooperation in back-office support provided by Bloomsburg to Mansfield that helps foster efficiencies and reduce costs, as well as a limited number of joint academic programs that are offered by several institutions in partnership.

#### Governance Structure Not Up to Coping with Current Challenges

The State System is now nearly 35 years old and for most of that history its mixture of centralized and delegated authorities may have been adequate to serve the state's needs. More recently, however, the dilemmas facing the State System have exposed cracks in the governance model as expressed in Act 188, revealing structural weaknesses and hindering the ability to make hard decisions. In particular, the model's confused lines of authority, as well as ambiguous and overlapping areas of responsibility, has promoted maintenance of the status quo, has avoided accountability, and has provided insufficient transparency for many stakeholder groups. Experience in other systems has shown that boards composed of representatives of various identifiable interests are not well suited to making difficult decisions that put the postsecondary education needs of citizens and their communities first. The current board's membership includes the sitting governor (or his/her designee) and several legislators. This feature alone instantly politicizes deliberations and seriously undermines the board's ability to make difficult decisions. Having the state's political leadership on the board also tends to stifle debate. Moreover, the presence of institutional Councils of Trustees as voting members on the system-wide board further weakens its capacity for decision-making because its members have dual roles. These roles conflict whenever the public interest statewide is not perfectly aligned with the interests of a specific institution or geographic region, or the interests of themselves and their colleagues who serve as Trustees.

In sum, the root cause of the system's current sustainability problems is that the existing governance model is inadequate to cope with the unprecedented pressures that are converging on the system. The effects of this failure have rippled through the system at different intensities across the different campuses. These are outlined in Figure 16 and described in greater detail below.

**Figure 16. Implications of Governance Issues**



At the system-wide level, these issues have resulted in:

- Drift and ambiguity in the allocation of decision authority. Act 188 provides the Board with more authority to assign decision-making authority to the role of the Chancellor than is currently reflected in Board policy. Its failure to do so has limited the Board’s chief executive’s capacity to tackle the challenges confronting the system, while clouding the question of where accountability actually lies.
- Inadequate exercise of fiduciary responsibility, namely:
  - Approval of collective bargaining agreements with no realistic plan for how to pay for them; this effectively passes on to the institutions the necessity for closing budgetary gaps without giving them adequate tools to do so like tuition-setting authority or freedom to manage their costs in human resources effectively.
  - Failure to recognize and address problems before they reach a crisis. While it may have been evident that fiscal conditions at several State System institutions were rapidly deteriorating, too little urgency could be found within the Board for steps to be taken in a timely manner to head off the crises.
  - Failure to consistently exercise management responsibilities when presented with evidence of deficiencies in presidential leadership. The prime example of this is the Board’s oversight of Cheyney University, given this institution’s multiple episodes of mismanagement of federal student financial aid funds.<sup>9</sup>

<sup>9</sup> While Cheyney’s fiscal issues are a significant source of discontent and a contributing factor in accelerating the fiscal challenges facing the State System as a whole, this report has not dealt specifically with making recommendations to address those. After the State System executed its contract with NCHEMS, the Board of

- A mentality that views the universities as employers rather than as institutions with missions to serve and that put students and local communities first.
- Gaps in transparency and credibility around who should be accountable for what decisions, and even whether decisions are made with appropriate deliberation.<sup>10</sup>

At the Office of the Chancellor, we identified a number of issues contributing to the problems facing the system, some of which are byproducts of a lack of clarity about or even misplaced authority as provided in Act 188.

- A culture of compliance and a regulatory mindset that governs relationships between the Office of the Chancellor and individual institutions, rather than a mentality that leverages the capabilities of the system for collaborative problem-solving, joint programming that amplifies opportunities for students, and compelling messaging to stakeholders about the value of the system. Instead, there appear to be:
  - Multiple overlapping reporting requirements, including some that fail to serve a strategic purpose.
  - Disconnects between system data and information and the usefulness of system tools at the institutional level. While the situation is likely to improve, it was revealed as a sore point on many campus visits.<sup>11</sup>

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Governors convened a task force and produced recommendations for a new “conceptual framework” of a business model for Cheyney (a press release concerning the task force’s recommendations can be found at <http://www.passhe.edu/inside/ne/press/Lists/Press%20Releases/pressup.aspx?ID=820&Source=http%3A%2F%2Fwww%2Epasshe%2Eedu%2Finside%2Fne%2Fpress%2Fpages%2Fdefault%2Easpx%23mainContent&ContentTypeId=0x01006B3D98C5084ABB47927D422E92C00C3300058DFAF00E84824A8F87467AD4FF8E26&IsDlg=1>).

<sup>10</sup> An illustration of this is widespread disagreement over decisions to construct a bevy of new residence halls at the State System institutions over the past 17 years, and a pervasive sense that these decisions and housing-related policies are harmful to affordability. Faculty, staff, and some students repeatedly brought up the residence halls as being a financial albatross on both students and institutions. Many questioned whether there was any analysis to justify the construction of the buildings, their number, and the public/private partnerships that were used. Secure in their convictions and with the benefit of hindsight, they believed that those responsible for making such ill-fated decisions had escaped accountability. It is evident that there is some truth to the view that the residence halls on some campuses are overbuilt for the housing needs of the current (and projected) student populations. The State System’s need to address problems with its aging and crumbling housing stock in the late 1990s left it with few good options, plus its decision to use public/private partnerships makes some sense in light of the added costs and delayed progress it faces when using the state’s Department of General Services for state-supported construction efforts. Even though institutions addressed housing issues in its facilities master plan, and each phase of construction was vetted through a third party market research firm, the needs for transparency were not well served by the complicated network of institutional, state, and private actors involved in decisions about what to build, how much to build, what sources of funds to use, what policies to adopt in order to cover the debt, and so on. This issue remains a major source of discontent more than a decade after such decisions were made, even though, with the debt already incurred, there is little to be done about it.

<sup>11</sup> These tensions seem to be at least partially due to a recent push by the system office to make data more actionable and to introduce new data products, especially products relating to workforce outcomes. NCHEMS generally takes the view that system offices can contribute value by promoting effective and (where appropriate) consistent data use and application, but that shifting to a new model for doing so can be challenging for all parties involved. Substantial attention to stakeholder engagement and training are necessary in such cases.

- Questions about whether efforts undertaken by the Office of the Chancellor are adding value to what the institutions are doing on their own.
- Perceptions that there is too much “distance” between the Office of the Chancellor and the institutions, as reflected in a desire expressed by some stakeholders that the Chancellor and other system staff spend more time on their campuses in order to better understand their issues and seek their input on ways the system office can help address them.
- Limited tools available for the Chancellor to strategically manage the system, especially with respect to the modest role the person who serves in that position plays in the selection and evaluation of Presidents.
- A culture of competition driven by the scarcity of prospective traditional-age students and lack of incentives in finance policy for collaboration.
- A longstanding climate of confrontation and distrust between the Office of the Chancellor and collective bargaining units (especially APSCUF) that confounds attempts to work collaboratively on the actions needed to address the State System’s challenges. One particularly unfortunate byproduct of this is the routine use of the grievance procedure to resolve disputes, which have often become precedent-setting for the system as a whole; this accelerates the spread of distrust across the campuses and further constrains the abilities of institutions to respond to and manage their own human resources.
- A tendency to address any and all problems that have implications for sustainability – and often for student success – at the system level, rather than at the regional or institutional levels where specific solutions can be crafted to address specific conditions.
- A distortion in how academic policymaking takes place so that the real policy document under which the State System is led and managed is the APSCUF collective bargaining agreement. Academic decisions are not being guided by the State System’s purposes as expressed in Act 188 and further detailed in strategic plans mediated through a robust faculty shared governance structure. Instead, the APSCUF agreement has assumed the principal role in influencing *what* programs are delivered and *how* they are delivered, which it does through the specification of employment rights rather than a consideration of what will be the most effective provision of educational services.

Many – if not all – of these dynamics are symptoms of a board oriented toward managing the system rather than leading it.

At the institutional level, problems in governance have contributed to:

- Councils of Trustees whose ability to guide their institutions and exercise fiduciary oversight is more symbolic than real. Many members of these bodies described their roles as “impotent.” They were particularly resentful of processes like the budget process, in which they felt they were little more than a rubber stamp. They reported that they were unable to address either the revenue or the expenditure side of their institutional budgets because decisions about tuition-pricing (and state appropriations) and human resources are made centrally.
- High presidential turnover rates mean that there is little continuity of leadership, resulting in a lack of trust and cooperation between institutional leaders and faculty. The presidential

churn also means that Presidents are constantly getting settled into their roles and lack an institutional memory that would be helpful in devising solutions collaboratively with faculty and staff. At the same time, it limits the capacity for Presidents to be effective resources to one another in addressing problems common to all of them. In parallel, the manner in which presidential appointments are framed (fixed term contracts, no opportunity to return to the faculty in a tenured position) weaken the ability of Presidents to take bold steps and make strong candidates hard to recruit and retain.

- Reporting to satisfy demands from the Office of the Chancellor that are perceived as generally not strategic. For example, the action plans that institutions are required to submit tend to be a lengthy cataloging of institutional distinctiveness and sources of pride rather than a more focused, succinct document that can provide a foundation for a strategic dialogue about specific institutional roles and functions.
- A state of high tension and distrust at most campuses between institutional leaders and faculty and staff. The lack of a culture of trust and transparency limits the ability of the institution to gain support—or at least a shared understanding of—its need to change. Such relationships are not uniformly poor, however, and institutions like Slippery Rock and Indiana stand out because Presidents and cabinet leaders have developed robust, data- and evidence-driven dialogues with faculty and staff and have therefore built a commendable level of mutual respect and trust. Such conditions are fragile in the current climate, however, because they depend on the particular set of leaders now in place, some of whom have already announced their plans to retire.
- Breakdowns in student support services, in which the needs of students frequently fall into the cracks between categories of employees and bargaining units, are common. This results in problems in academic advising and in student-facing technology like course registration, academic catalogs, etc.

### Statewide Policy Coordination

Finally, Pennsylvania's lack of statewide coordination for its postsecondary education policy contributes substantially to the problems facing its only state-supported system of postsecondary education. The absence of an entity responsible for policy leadership for all of higher education will continue to disadvantage the State System and short change the citizens of the state as long as it continues to be unaddressed. It has the following impacts:

- Excess capacity and unnecessary program duplication, especially between Penn State's Commonwealth campuses and State System institutions.
- Little to no ability to collaborate across sectors as well as unproductive and even destructive competition among institutions.
- Limited ability to develop a statewide approach to strategic finance for higher education. Here, the absence of a rational, evidence-informed statewide dialogue about how Pennsylvania invests in postsecondary education threatens the viability of the State System's institutions and students' ability to pay for them.

- Absence of a strong, public commitment by the Commonwealth to a set of statewide goals for educational attainment means there is no way to evaluate postsecondary outcomes needed by the state, and no accountability for contributing to those outcomes.
- Gaps in access and program delivery in different parts of the state that result in underdeveloped capacity to serve adult learners, limited availability of certificate programs, and a lack of access across the state's northern tier to programs at public two-year institutions.
- No mechanism to encourage the development of solutions or to ensure that educational capacity is aligned with state and regional needs.
- Priority in postsecondary policymaking given to the needs of institutions rather than those of the state, its regions, or students.
- No way to strategically examine how all the state's assets – the physical campuses of public institutions plus PHEAA – can be harnessed to meet the state's needs.

### **What Not To Do**

Before we outline our recommendations, we should be clear about what we are **not** recommending. Some possible action, although relevant, do not have good prospects for improving educational service to Pennsylvania's students and communities.

- The system and the Office of the Chancellor should not be eliminated.
- No State System institution should be closed.<sup>12</sup>
- There should be no mergers of any State System institution with another that results in the loss of an individual institution's name, colors, symbols, or separate institutional accreditation. That is, mergers that force two (or more) institutions with unique histories, values, cultures – which are located at considerable distance from one another and in the current climate of distrust – into a single institution is a recipe for escalating strife and added short-term costs. Such a course of action would have low prospects for success. Other actions can achieve better results without the turmoil that inevitably comes with mergers. Moreover, not merging institutions does not mean that recommendations will not touch on major efforts to support widespread institutional collaboration to consolidate administrative and support functions and to change key elements of what an institution is and how it operates. Yet it should be possible for a student to take an entire program of study within each institution in the system, even if only a minority of students will do so at some State System institutions.
- There should be no separation of any university in the State System into its own free-standing institution as called for in SB 1275, the legislation proposed in 2014 that would have made West Chester University an independent entity. Such a strategy may have short-term benefits for the institution, but at a massive cost to the system as a whole in ways that run directly counter to the goal of providing better service to more students in all parts of

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<sup>12</sup> This assumes that each institution maintains its own regional accreditation.

Pennsylvania. Furthermore, even a relatively healthy institution like West Chester almost certainly will lose over the long-term, especially as it would surrender its ties to the system in its advocacy for state funding.

- There should be no attempt to undermine the collective bargaining agreements or processes between the State System and the various unions whose employees are essential to the State System's success. As previously discussed, those agreements contribute to the fiscal challenges that are facing the system, but they are not the root cause of those problems. These problems are instead a symptom of the failure of the governance structure to negotiate contracts that can be both sustainable and appropriately flexible in light of current fiscal and demographic conditions.

We heard these options consistently throughout our visits to Pennsylvania by those who felt that the solution (often just one of these solutions was put forward as sufficient) needed to be substantial and dramatic. Ultimately, we rejected these as options that would not solve the system's challenges and just put them off until a later date, or actively make the problems more intractable. Instead, the recommendations we are advancing – an overhaul of the system governance structure coupled with a reorientation of the activities of the system office, a major redesign of institutional collaboration, and updated missions for the institutions most at risk as multi-institutional delivery sites – represent no less substantial changes, but ones designed to address the nature of the problems at the core of the system's sustainability dilemma. We were constantly urged to provide bold recommendations. The recommendations that follow are bold; they point the way toward a new kind of state system that could serve as an example for systems throughout the country.

### **Recommendations**

The current trajectory of costs and revenues is leaving several State System universities at imminent risk. Unless Pennsylvania makes fundamental changes, many more will join them and the system itself will collapse. Effectively addressing the challenge is a big job. It will require all actors – including internal entities like the Board, the Chancellor, institutional Presidents and Council of Trustees members, faculty and staff, and unions, as well as external entities like the Governor and the state legislature – to assume shared responsibility for the current situation. All involved must commit to working collaboratively and transparently over many years to correct the current situation. Trying to pin blame on one party or another will not be helpful. Over time, the situation has deteriorated to a point where returning the State System to a sustainable future will require hard work and a willingness to compromise on everyone's part.

The State System's historic mission of providing high-quality, affordable postsecondary education opportunities to Pennsylvania families from every region of the state remains an essential one. But that ambitious mission requires an updated vision that shifts mindsets and structures from characteristics noted on the left side of the table below, to those on the right.

FROM	TO
<ul style="list-style-type: none"> <li>• An emphasis on institutions as employers first and providers of services to students and communities second</li> </ul>	<ul style="list-style-type: none"> <li>• A dynamic system and constituent institutions that are focused on the needs of students and regions</li> </ul>
<ul style="list-style-type: none"> <li>• A longstanding climate of distrust, non-transparency, confrontation and competition</li> </ul>	<ul style="list-style-type: none"> <li>• A climate of trust, transparency, and collaboration at and between every level of the system</li> </ul>
<ul style="list-style-type: none"> <li>• Weakened leadership capacity at every level (a result in part of an excessively complicated authority structure)</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined and unambiguous layers of authority that allow issues to be addressed at the most appropriate level (statewide or local), supported by robust consultative and advisory roles</li> </ul>
<ul style="list-style-type: none"> <li>• Decision-making that is heavily influenced by politics and special interests</li> </ul>	<ul style="list-style-type: none"> <li>• Decision-making that acts strategically in the best interests of students and regions</li> </ul>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>	<ul style="list-style-type: none"> <li>• Respect for the historic and appropriate role of unions and collective bargaining agreements to defend employee rights and privileges, while balancing this role 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</li> </ul>
<ul style="list-style-type: none"> <li>• Implementation of uniform solutions across highly diverse institutions and regions.</li> </ul>	<ul style="list-style-type: none"> <li>• Balancing system-wide solutions with the ability to address local challenges and opportunities</li> </ul>
<ul style="list-style-type: none"> <li>• A system office oriented toward compliance and regulatory functions</li> </ul>	<ul style="list-style-type: none"> <li>• A system office with a service orientation that amplifies institutional successes, differentiates appropriately among institutions, identifies and addresses problems proactively, consults frequently, and actively promotes collaboration.</li> </ul>

To realize this updated vision, Pennsylvania must act—through legislative changes to Act 188 and major changes to Board of Governors’ policies—to achieve the following ends:

- Preserve the State System’s core mission, while taking a broader view of the audiences to which it applies in order to better serve a wider array of learners (especially adults) with relevant programs in more accessible delivery modes.
- Replace the current Board of Governors with a board composed of members whose responsibilities are better aligned with the needs of all Pennsylvanians. NCHEMS comes reluctantly to the conclusion that a full-scale reform of the governance structure is needed.<sup>13</sup>

<sup>13</sup> There exists a body of work authored by NCHEMS staff arguing this point. As one example, see McGuinness, A. (2015). *Guidelines for States Considering Reorganization of Postsecondary Governance*. Education Commission of the States. <https://www.ecs.org/clearinghouse/01/18/58/11858.pdf>.



Our experience suggests that such changes can be extraordinarily disruptive without adequately addressing the core issues. But we have reluctantly concluded that it is unlikely that the State System will be able to make the necessary changes without reforming its current governance structure.

- Improve the capacity to exercise strategic leadership at every level of the system: Board, Chancellor, Presidents, Councils of Trustees.
- Develop, cultivate, and promote a vision of the system as a portal to opportunities for students of all kinds to access postsecondary programs seamlessly and in all locations in the state using the collective assets of the entire enterprise.
- Take immediate action to:
  - Restructure those institutions most at risk financially, retaining their institutional identity and core capacities while increasing the academic programs offered in collaboration with other State System institutions, community colleges, and other postsecondary providers.
  - Continue to seek opportunities to increase regional and statewide consolidation of administrative and support operations to achieve greater economies and cost savings.
- Establish a differentiated approach to delivering services by
  - More clearly distinguishing institutional missions.
  - Designing and implementing guidelines that allow some institutions to exercise greater autonomy governed by objective parameters of performance aligned with system-wide goals.
  - Creating a new system-wide capacity for developing and delivering online programs.
  - Accelerating the establishment and promoting the success of regional and statewide collaborations in non-academic areas.
- Develop and implement new financial models for allocating state appropriations to campuses and in setting tuition policy.
- Streamline state-level regulatory and compliance mandates to what is minimally essential for efficient operation and effective accountability.
- Respect the role of unions by negotiating with transparency and good faith, while seeking provisions that increase the capacity of the system to make needed reforms, enhancing flexibility to address unique local institutional conditions, and making clearer distinctions between academic policy and employment matters.
- Support a robust model of faculty shared governance at both the system and the institutional levels that allows faculty to be more effectively and collegially consulted about academic policy than is typical in the “meet and discuss” procedures required by collective bargaining agreements.

These proposed changes will only achieve partial success if the Commonwealth of Pennsylvania continues to operate without an entity responsible for overall statewide policy leadership and coordination in postsecondary education. Competition and deficient complementarity among the separate publicly supported higher education institutions—especially Pennsylvania’s state-related institutions and its community colleges, but also the large and diverse body of independent institutions that are eligible to receive substantial state funding through PHEAA—means that state investments in postsecondary education are neither efficient nor attuned to the state’s needs.

To achieve these ends, NCHEMS makes the detailed recommendations that follow.

- 1. Retain and ensure sustainability of the State System’s capacity to carry out its historic mission to serve students and region with high-quality, affordable postsecondary opportunities for Pennsylvania families from every region of the state.** Despite the challenges facing the State System, its statewide mission is fundamentally the right one. Its institutions fill an essential role in Pennsylvania’s crowded postsecondary education market. Greater specificity of the roles and scope of each institution is clearly needed but all must contribute to this overarching system-wide mission.
  
- 2. Amend Act 188 to replace the current Board of Governors with a Board of Regents made up of lay members and to clarify the distribution of authority among the Board, the Chancellor, the institutional Presidents, and the Councils of Trustees.**
  - a. Replace the Board of Governors with a Board of Regents to signify the need for a clean break with the current governance model (see Figure 17).
  - b. Change the composition of the Board so that its members are more capable of representing the interests of Pennsylvania and its regions. This Board should be composed of all lay members with a specific prohibition against current members of the state legislature, the sitting governor (or his/her designee), current members of institutional Councils of Trustees, system employees or their representatives, or registered lobbyists. Terms of appointment should be longer and staggered.<sup>14</sup> Making these changes will better ensure that the Board is capable of bold decision-making that is non-partisan and apolitical.
  - c. Confer authority upon the Board to:
    - i. Approve system-wide and institutional missions and the role and scope of each institution.
    - ii. Review and approve system-wide, comprehensive strategic plans.
    - iii. Select and evaluate a Chancellor, who shall serve as the chief executive and academic officer for the State System.

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<sup>14</sup> NCHEMS suggests the following composition:

- 13 at-large members, of which nine would be appointed by the governor and confirmed by the Senate; one each appointed by the Senate President pro tempore, Senate majority leader, Speaker of the House, and House minority leader. All of these would serve up to two consecutive staggered six-year terms and, once appointed, there would be no provision for their removal during the course of their term except for cause.
- The Pennsylvania Secretary of Education would serve as an ex officio voting member.
- One student member serving a single two-year term, who may be selected by the other members of the Board
- Criteria for evaluating possible appointees should include geographic and demographic representation, as well as matching a set of competencies identified as necessary to complement the current Board membership such as legal expertise, educational leadership, financial expertise, etc.

- iv. Hire and fire institutional Presidents on the recommendation of the Chancellor.
  - v. Set policies governing the creation of new academic program offerings.
  - vi. Allocate state funds to institutions.
  - vii. Set appropriate ranges for tuition at constituent campuses, rather than specific amounts; appropriate ranges should reflect mission differentiation and the unique circumstances each institution faces.
  - viii. Approve the system-wide budget.
  - ix. Appoint members of each institution's Council of Trustees
  - x. Delegate (and rescind) authority to Councils of Trustees while requiring:
    - 1. That institutional missions and goals be consistent with statewide goals.
    - 2. Satisfactory performance by each institution on financial risk assessment metrics.
    - 3. A positive fund balance in the State System's reserves and a positive outlook as assessed by an external party such as Moody's or Standard & Poor's.
    - 4. Evidence of substantial collaborative activity with other State System institutions and/or other institutions that meets a specific need consistent with statewide goals.
- Duties and powers to be delegated at the Board's discretion include:
- a. Tuition-setting.
  - b. Enhanced authority to assume responsibility for elements of labor relations and collective bargaining. Institutions granted this authority will be permitted to deviate from statewide compensation schedules in order to attract faculty for specific programs for which the statewide compensation schedule can be shown to be non-competitive, or as an alternative to layoffs, furloughs, or the like. Institutions that opt to do so will not have their decisions be binding on other institutions for the same or similar programs or disciplines. Such compensation adjustments should be offered on a temporary, but renewable basis. Additionally, institutions granted enhanced authority for collective bargaining will be permitted to negotiate local agreements to address local conditions in work assignments. Any local agreements must be consistent with statewide parameters established by the Board, and such agreements are not binding on other institutions in the State System.
  - c. Budget approval. But the Board should require that the budget be balanced annually and failure to do so would trigger a re-assumption of delegated authorities by the Board.
  - d. Additional freedom from state agency rules and regulations, e.g., an elevated threshold for procurement and contracting.

- e. Such delegation should be reviewed and renewed every five years (and sooner if conditions warrant).
- d. Confer authority upon the Chancellor to:
  - i. Make recommendations to the Board concerning the selection and retention of institutional Presidents.
  - ii. Evaluate the performance of institutional Presidents through a broadly inclusive process for gathering input from stakeholder groups including the institution's Council of Trustees, faculty members, and students. Performance evaluation should cover both success in achieving institutional goals and contributions to state goals. It should also cover the extent to which the President exhibits collaborative leadership, both within the institution and as part of the System leadership team.
  - iii. Lead the collaborative development of institutional strategic plans, as well as the statewide strategic plans, and submit them to the Board for its approval. Such strategic plans will address academic and programmatic offerings, enrollment management, capacity enhancement (which should address facilities and capital investments, as well as the development and financial support of delivery models and innovative support services and the provision of incentive funding to achieve related goals), and human resources/staffing. These plans should also address how designated institutions will serve as multi-institutional delivery sites.
  - iv. Make recommendations to the Board concerning institutional budgets and tuition caps/ranges.
  - v. Receive and approve institutional staffing plans, working with each President until an acceptable plan is put forward.
  - vi. Require institutions to share services and to participate in academic collaborations where appropriate. Shared services and academic collaborations may be centralized and managed by the Chancellor's Office, or they may be coordinated among multiple campuses, with the Chancellor's Office providing assistance, depending on what arrangement will be most effective and efficient.
- e. Reorganize all institutional Councils of Trustees to ensure that their members will serve the needs of the state, work in close cooperation with the State System, be an effective advisor to the Board concerning the needs of the region that each institution primarily serves, and capably discharge duties and powers as delegated to it by the Board.<sup>15</sup>

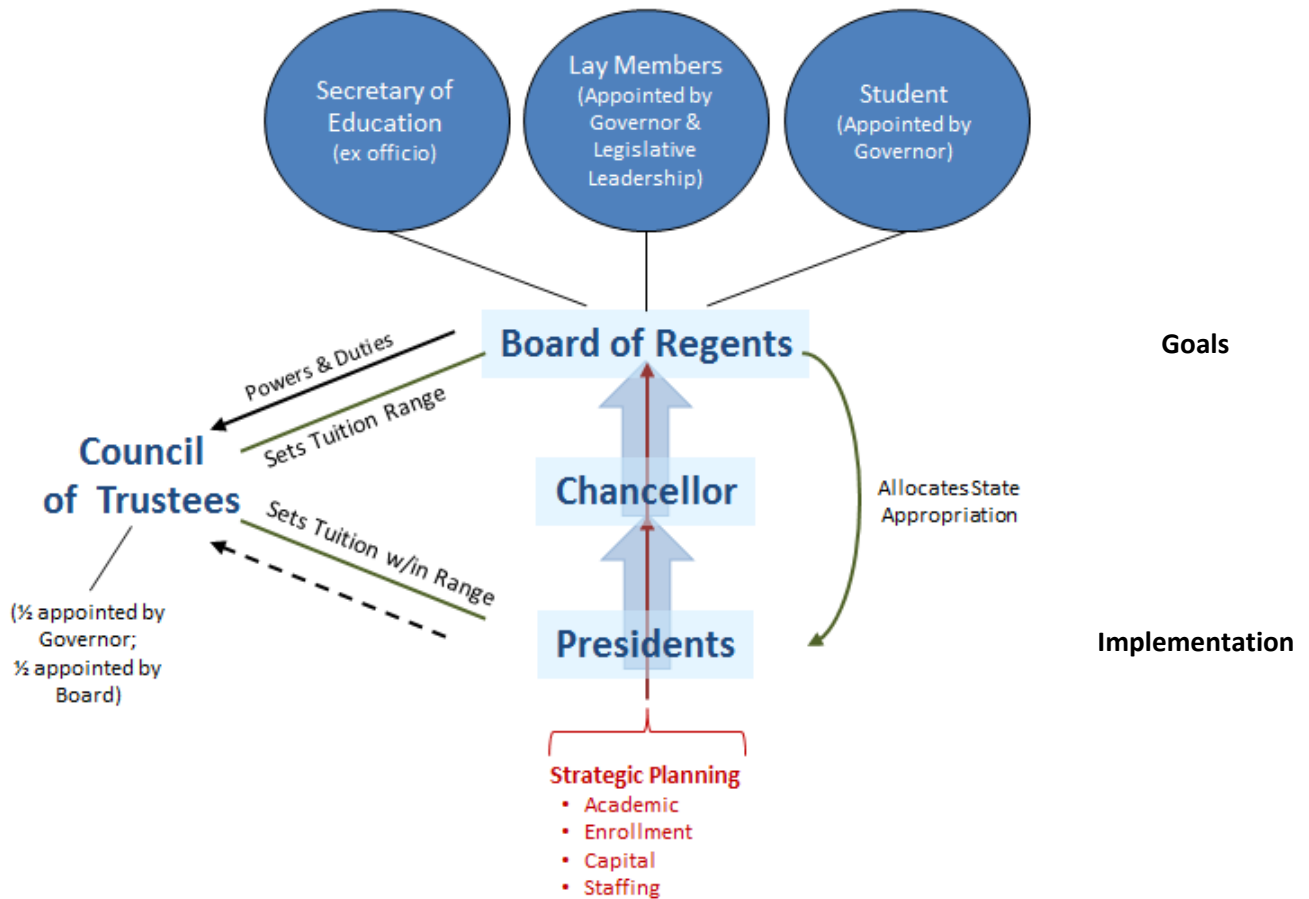
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<sup>15</sup> NCHEMS suggests that Councils have 11 members, all of whom (except the student member) would be eligible to serve up to two consecutive four-year terms. No member may also serve on the State System's Board or be an elected member of the state legislature. Each Council should be composed of:

- Five appointees made by the Governor and confirmed by the Senate,
- Five appointees made by the State System's Board, and
- One current student serving a maximum two-year term selected by the other members of the institution's Council.

- f. Confer authority (and expectations) upon each Council of Trustees to:
  - i. Provide input into the selection and evaluation of its President.
  - ii. Conduct regional needs assessments and foster ties to community leaders and employers.
  - iii. Review and submit any proposed changes to its institutional mission to the Board for approval.
  - iv. Set tuition levels within the caps/ranges specified by the Board.
  - v. Review the institutional budget and staffing plan.
  - vi. Exercise any additional authorities delegated to it by the Board.
- g. Specify that institutional Presidents shall report to the Chancellor and confer authority (and expectations) upon them to:
  - i. Lead the institution and manage its resources
  - ii. Prepare institutional budgets for review and approval by the Council of Trustees and the Chancellor/Board.
  - iii. Prepare an annual staffing plan for approval by the Council of Trustees and the Chancellor. This plan should specify staffing levels that can be accommodated within expected revenues and strategies for reaching these levels. This plan should be developed through a collaborative process that begins at the campus level and involves all appropriate campus constituencies.
- h. Adjust rules and regulations relating to the State System's status as a state agency in order to:
  - i. Specify that the Board serves as a governing board for all institutions but, based on the Board's discretion, may choose to delegate specific authorities to institutional Councils of Trustees.
  - ii. Reduce the regulatory burden on the State System of rules and regulations occasioned by its status as a state agency that are barriers to efficient operation or program development and delivery, either by eliminating the need for the State System to adhere to those that are especially ill-suited for postsecondary education or by easing the impact of such regulations. Change the regulatory environment so that it resembles that which applies to state-related institutions.

**Figure 17. Recommended Governance Structure**



**3. Reorient the State System’s Board and the Office of the Chancellor toward greater responsibility for policy leadership, with a reduced emphasis on operational management and compliance activities.**

- a. Set priorities that clearly articulate the State System’s role within postsecondary education in Pennsylvania, especially relating to:
  - i. Affordability, especially for low- and middle-income students.
  - ii. Role and mission differentiation among constituent campuses in order to be responsive to statewide and regional needs.
  - iii. Better harnessing the collective assets of the system by promoting collaboration among institutions.
- b. Facilitate a process by which each institution establishes a clear mission statement that is formally approved, fills a particular role and scope within the system, and includes attention to:
  - i. Characteristics of the students it seeks to serve, such as age and geographic location.
  - ii. Core professional programs.
  - iii. Unique and distinctive features that match the needs of its region.

- iv. Capability to serve students with programming that is delivered by other institutions, while providing student support services.
- c. Conduct comprehensive strategic planning addressing:
  - i. Academic and other programmatic offerings.
  - ii. Enrollment management.
  - iii. Facilities and capital investments.
  - iv. Human resources/staffing.
- d. Ensure that institutions are effectively led by:
  - i. Selecting and evaluating Presidents.
  - ii. Appointing members of the institutional Councils of Trustees.
  - iii. Improving the State System's ability to attract and retain Presidents, including by positioning the State System presidencies as an attractive destination for candidates seeking to lead student- and teaching-focused institutions. This would require ensuring that the State System's presidencies compare favorably with their AASCU peers on compensation, opportunities to be granted tenure, and other dimensions.
  - iv. Limiting the use of interim and acting presidencies, and the length of service in such roles when they cannot be avoided.
  - v. Greatly expanding its role in providing system-wide professional development and facilitating cross-institutional learning and problem solving. Such efforts should include a deep orientation to incoming Presidents that explicitly addresses important features of and lessons drawn from working within the State System's collective bargaining environment.
  - vi. Ensuring that the evaluation process for Presidents is broadly inclusive of multiple stakeholder views.
  - vii. Developing metrics appropriate for each institution's specific mission and using them to evaluate its performance.
- e. Leverage the combined resources of the system to deliver better service to students and communities through the following areas.
  - i. Promoting professional development by maintaining a regular (but not necessarily constant) presence on institutional campuses and providing strong orientation programming for incoming Presidents, cabinet officials, and trustees as well as sustained consultation with faculty and staff.
  - ii. Fostering innovation by expanding the use of underutilized capacity and non-credit programming. Possibilities here include:
    - 1. Leveraging existing branch/subsidiary locations (e.g., Clarion's Venango campus, Edinboro's Porreco Center) to offer focused, sub-baccalaureate programming tied to labor market needs in a region where no public alternative currently exists.
    - 2. Seeking opportunities to partner with other postsecondary providers and employers with customized training needs to make use of underutilized assets on main campuses.

3. Fostering more experimentation by permitting greater discretion in spending funds, by sunseting some human resource appointments tied to experimental programs, and by giving start-up programs enough time to show results.
  4. Evaluating new and existing programs on a cost/benefit basis, rather than primarily on the basis of costs per enrollment in a major.
- iii. Stimulating collaborative delivery by coordinating the development of a readily accessible system-wide program/course and by providing leadership and support for multi-campus delivery sites.
  - iv. Providing data and research support to campuses.
  - v. Engaging in ongoing advocacy of the State System's mission and its collective, system-wide impact.

**4. Reconfigure institutions facing the most severe sustainability challenges as universities that retain their unique character and core programs while leveraging system-wide and regional resources to deliver programming and share administrative functions more efficiently.** This model would have the following characteristics (see Figure 18).

- a. Preserve each institution's own mission and values; geographic service area; and colors, symbols, mascots, and trademarks that give it its identity. Each institution would also keep its independent accreditation.
- b. Preserve local institutional leadership, including a Council of Trustees and a president and cabinet-level leadership.
- c. Maintain core or distinctive academic programs such that it would be possible for a student to complete all of his or her courses at that institution in some majors.
- d. Provide students from the institution's service area with a wider array of programmatic options by accessing offerings available at other State System institutions, or by partnering with institutions external to the State System where appropriate.
- e. Enable other educational providers that have specific programs that fall outside the mission of the State System or the specific institution the option of operating as a "tenant" on the institution's campus, so that individuals who are not otherwise students of the State System can receive instruction or training from those providers.
- f. Require greater collaboration and sharing of administrative services across all campuses. Administrative services may vary by university and combination of universities. Not all need to be centralized at the system level. But in many cases it may make sense to establish regional consortia. It may also make sense for other criteria to determine the nature of the collaboration. For instance, the registration function might evolve into a shared model based on the use of a common student information system among several campuses comprising a consortium without

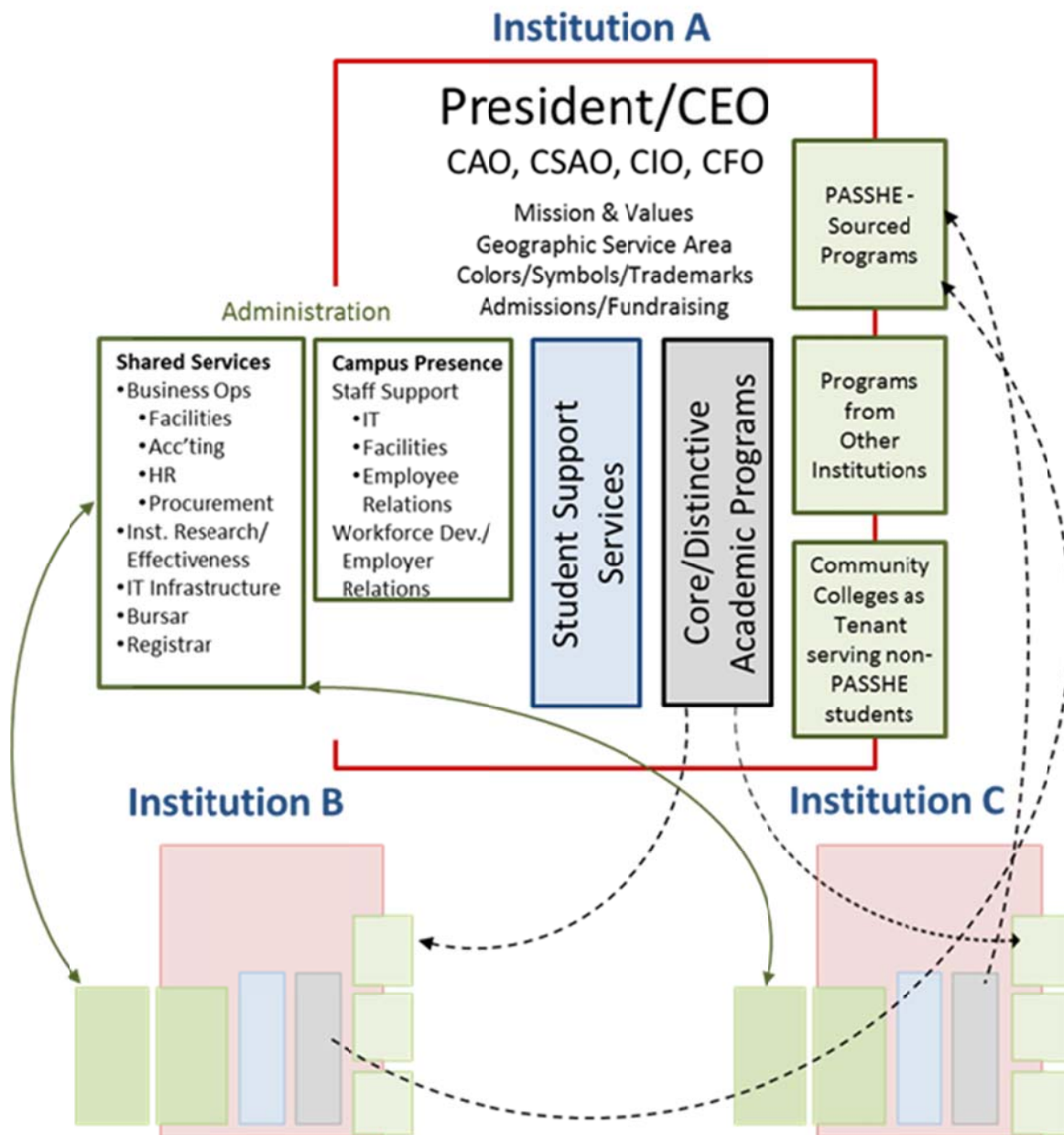


- creating the disruption that would result from forcing all campuses to adopt the same registration system.
- g. Ensure that those services with the most direct impact on people are given priority for delivery at the local level.
    - i. Provide high-quality student support services to all local students. Given the centrality of these operations to student success, student support services should be led and managed locally. Together with the core/distinctive academic programs, such services become the “spine” of each institution.
    - ii. Provide shared administrative services that are delivered directly to students and employees, such as employee relations, information technology support, and facilities maintenance.
    - iii. Explicitly identify, as exceptions, the aspects of any service that must be available locally. Taking financial aid as an example, it is essential that students be able to access a financial aid counselor in person. It is equally essential that institutional leaders manage their own financial aid resources and chart their own enrollment management and recruitment activities (under approved plans already described elsewhere in these recommendations). Thus, each campus needs to have robust leadership in financial aid and the staff capacity to meet with students individually and provide programming. However, the regulations concerning the distribution and auditing of federal and state financial aid funds are not unique to any individual institution, which suggests that effort related to financial aid compliance could become a shared service among multiple institutions. Similarly, there is no question that leaders will require access to high-quality data analysis in a timely way on each campus, so there must be some means of ensuring that this capacity remains available at each campus. But to the extent to which greater efficiencies and higher quality can be achieved by combining resources to meet federal and data collection requirements and constructing common data analyses or self-service tools for use by all campuses to achieve higher levels of institutional effectiveness, the State System should explore creating such tools.<sup>16</sup>
  - h. Ensure that each institution has a capacity to work directly with local employers and support workforce development efforts to assess and respond to local needs.

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<sup>16</sup> The State System has adopted a strategy to provide greater analytical self-service to campuses. It is an initiative that is aligned with recommendations of national organizations to promote more widespread use of data and evidence in institutional operations and planning.

Figure 18. A Consortium Model



5. **Adopt a strategic financing model that is a better fit for the varied circumstances facing the State System institutions and that provides incentives for incentivize collaboration over competition.**
  - a. Rather than setting specific tuition amounts, the Board should set ranges for each institution within which the Council of Trustees will have authority to set specific amounts.

- b. Establish a revenue-sharing policy that promotes collaboration across campuses and the development of multi-campus delivery sites. Principles governing such a model should include the following:
  - i. Tuition funds generated through collaborative activity should be kept by the institution providing the content. The providing institution should also count the FTE for purposes of state allocation
  - ii. A fixed fee (on the order of about \$2,000 per FTE student) should be provided to the host institution site to cover student support services and other overhead costs. This fee should be paid out of state appropriations held by the State System.
  - iii. Both institutions should receive credit in the performance funding calculation when a student completes a program in order to continue to promote collaboration.
  - iv. A new “System Collaboration” fee may be assessed of all students at all institutions in the State System to provide revenue to support the costs necessary to promote collaboration. The fee should be assessed on a temporary basis until the structures and culture necessary to support collaboration have evolved.
- c. The Board should prepare a regular report on affordability at each of the State System institutions. This report should:
  - i. Use a common methodology but also take regional variation into account.
  - ii. Show trends.
  - iii. Address affordability for low-income and median income students, at a minimum.
  - iv. Focus on Pennsylvania residents enrolled as undergraduates.
  - v. Account separately for all sources of student financial support (federal, state, and institutional grants; loans; tax credits; self-support).
- d. Redesign the formula for allocating state-appropriated dollars by:
  - i. Treating all state appropriated funds, including the capital budget, as system funds to be distributed to institutions at the system’s discretion.
  - ii. Allocating funds to institutions in order to maintain capacity and invest in system priorities. It is suggested that this pool be allocated as follows:
    - 1. A fixed amount to each institution to pay for fixed institutional costs.
    - 2. A pool for creating additional capacity to fulfill missions.<sup>17</sup>
    - 3. A pool for rewarding achievement of desired results.
      - a. Graduating Pell Grant recipients and students from underrepresented groups.
      - b. Hosting programs from other institutions and encouraging enrollment in these programs on campus.
    - 4. The balance allocated on the basis of completed credit hours recognizing variations in discipline and level.

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<sup>17</sup> The capital budget might supply some of the funds necessary for capacity building, as Tennessee does.

- 6. Ensure that future agreements with collective bargaining units are designed to promote nimbleness in response to institutional and system-wide challenges and opportunities, and that are financially feasible for all institutions and the system.**
  - a. Review all agreements to ensure that they do not impinge on the capacity of the Board of Governors, the Chancellor, and Presidents to carry out their management responsibilities. In particular, the current APSCUF agreement seems to be at odds with Act 195, Section 702, that declares that matters of inherent managerial policy are reserved exclusively to the State System and its universities, including “such areas of discretion or policy as the functions and programs of the public employer (STATE SYSTEM/UNIVERSITIES), standards of services, its overall budget, utilization of technology, the organizational structure and selection and direction of personnel.” In contrast, the current contract and/or its legal interpretations includes provisions that explicitly limit the Board’s authority by defining personnel qualifications and how people are to be selected and deployed to provide services to students.
  - b. Focus the statewide collective bargaining agreement on issues that clearly affect the system as a whole (e.g., compensation, benefits, etc.), while authorizing local bargaining on issues that relate to a specific institution.
  - c. Ensure that a plan is in place to pay the anticipated costs of future collective bargaining agreements. Such a plan should reflect a realistic assessment of how much the system will receive from state appropriations over the course of the contract and also be mindful of variation across the system in institutions’ ability to close budget gaps by raising revenue or cutting expenses.
  
- 7. Recommit to a robust shared governance process that respects the appropriate role of faculty in advising and consulting on matters of academic policy, in contrast to the role of collective bargaining, which seeks to advocate for employee rights and privileges.**
  - a. Formally establish a statewide faculty advisory council to consult with the Office of the Chancellor on matters concerning system-wide academic policy and collaborative academic efforts, like multi-campus or regional delivery sites and online programming. Such a body should consist of elected members of individual institutions’ faculty senates (or equivalent) and should not include elected members of local or statewide collective bargaining units, nor should they have served as leaders of such units within the previous five years.
  - b. The Office of the Chancellor should periodically assess the health and engagement of the faculty shared governance processes at each of the member campuses.

- 8. Offer early or phased retirement incentives, established through legislative action, in a way that allows the Chancellor and institutional Presidents to align staffing levels strategically with enrollment changes.** Right-sizing the State System’s institutions that have seen precipitous declines in enrollment will be difficult under any circumstances. The legislature can help by allowing faculty and staff to see it in their own best interest to retire. But in order for such a program to be effective, it must be fiscally responsible and it must allow institutional leaders some discretion in how the incentive is made available in order to ensure that resulting reductions in staffing are strategic.
  
- 9. Establish a statewide entity with authority and responsibility for statewide policy coordination and leadership across all of Pennsylvania’s postsecondary institutions, with authority to recommend the allocation of state funds among the State System, state-related institutions, community colleges, and PHEAA.** Such an entity could be created by giving the Division of Postsecondary Education at the Pennsylvania Department of Education status as an independent entity and by assigning it prescribed responsibilities to promote a deliberate statewide plan and related policies. This body would:

  - a. Set statewide goals for postsecondary attainment and affordability.
  - b. Coordinate standards for college readiness with the Pennsylvania’s Department of Education.
  - c. Identify gaps in postsecondary service to students in different regions of the state and for students drawn from different demographic backgrounds like age, race/ethnicity, and income.
  - d. Review and make recommendations about the alignment of postsecondary supply and workforce development needs statewide and regionally.
  - e. Recommend priorities and strategies for allocating state funds to support postsecondary education in Pennsylvania, including the State System, the state-related institutions (and their branch campuses), community colleges, and PHEAA. Such recommendations may include funding mechanisms designed to achieve state goals, promote student access and success, preserve affordability for low- and middle-income Pennsylvanians, and promote collaboration among institutions.

### Appendix. Peers and Additional Analyses

The table below provides the institutional peers used for analyzing institutional data. Selecting appropriate peer institutions is an inherently subjective process, but there are some important characteristics to use, like enrollment size and characteristics, scope/mission as revealed by the mix of programs and levels of degrees, and research intensity. NCHEMS used these characteristics to generate these peers while also including some institutions that operate in a collective bargaining environment and in places that are experiencing demographic and funding challenges similar to those confronting the State System.

<p>Bloomsburg University</p>	<p>California State University-Dominguez Hills (CA)                  College of Staten Island CUNY (NY)                  Eastern Washington University (WA)                  Radford University (VA)                  Salisbury University (MD)                  Slippery Rock University of Pennsylvania (PA)                  Sonoma State University (CA)                  Stephen F Austin State University (TX)                  University of Northern Iowa (IA)                  University of Wisconsin-La Crosse (WI)                  Western Illinois University (IL)                  Western Washington University (WA)                  William Paterson University of New Jersey (NJ)</p>
<p>California University</p>	<p>Austin Peay State University (TN)                  California State University-Bakersfield (CA)                  Eastern Illinois University (IL)                  Edinboro University of Pennsylvania (PA)                  Fitchburg State University (MA)                  Murray State University (KY)                  Northwest Missouri State University (MO)                  Pittsburg State University (KS)                  SUNY Buffalo State (NY)                  Saginaw Valley State University (MI)                  Southern Connecticut State University (CT)                  State University of New York at New Paltz (NY)                  The College of New Jersey (NJ)                  University of Central Missouri (MO)</p>

<p>Cheyney University</p>	<p>Lincoln University (MO)                  Massachusetts College of Liberal Arts (MA)                  New College of Florida (FL)                  Pennsylvania State University-Penn State Beaver (PA)                  Pennsylvania State University-Penn State Greater Allegheny (PA)                  The University of Virginia's College at Wise (VA)                  University of Maine at Machias (ME)                  University of Minnesota-Morris (MN)                  University of New Hampshire at Manchester (NH)                  University of Pittsburgh-Greensburg (PA)                  University of Science and Arts of Oklahoma (OK)                  West Virginia State University (WV)</p>
<p>Clarion University</p>	<p>Angelo State University (TX)                  Armstrong State University (GA)                  Auburn University at Montgomery (AL)                  Austin Peay State University (TN)                  California State University-Dominguez Hills (CA)                  Columbus State University (GA)                  New Jersey City University (NJ)                  SUNY College at Brockport (NY)                  SUNY College at Plattsburgh (NY)                  Saginaw Valley State University (MI)                  Salem State University (MA)                  University of Nebraska at Kearney (NE)                  Worcester State University (MA)</p>
<p>East Stroudsburg University</p>	<p>California State University-San Marcos (CA)                  Lock Haven University (PA)                  Longwood University (VA)                  Minnesota State University Moorhead (MN)                  Nicholls State University (LA)                  Northern Michigan University (MI)                  Ramapo College of New Jersey (NJ)                  SUNY at Fredonia (NY)                  The University of Tennessee-Martin (TN)                  Truman State University (MO)                  University of Wisconsin-Eau Claire (WI)                  Western Connecticut State University (CT)                  Winona State University (MN)</p>

Edinboro University	Angelo State University (TX) California University of Pennsylvania (PA) Eastern Illinois University (IL) Georgia College and State University (GA) Northwest Missouri State University (MO) Pittsburg State University (KS) SUNY Buffalo State (NY) SUNY College at Brockport (NY) Salem State University (MA) Southern Utah University (UT) University of Nebraska at Kearney (NE) University of North Alabama (AL) University of North Carolina at Pembroke (NC)
Indiana University	Arizona State University-Downtown Phoenix (AZ) California State University-Fresno (CA) Eastern Michigan University (MI) Georgia Southern University (GA) Indiana State University (IN) Middle Tennessee State University (TN) Montclair State University (NJ) Sam Houston State University (TX) The University of Texas-Pan American (TX) The University of West Florida (FL) University of West Georgia (GA)
Kutztown University	Bridgewater State University (MA) Central Washington University (WA) Coastal Carolina University (SC) College of Charleston (SC) SUNY Buffalo State (NY) SUNY College at Oswego (NY) Salisbury University (MD) Shippensburg University of Pennsylvania (PA) Sonoma State University (CA) The College of New Jersey (NJ) University of Wisconsin-Whitewater (WI) Western Illinois University (IL) Winthrop University (SC)
Lock Haven University	Colorado State University-Pueblo (CO) East Stroudsburg University of Pennsylvania (PA) Longwood University (VA) Midwestern State University (TX) Minnesota State University Moorhead (MN) Nicholls State University (LA) Northern Michigan University (MI) Ramapo College of New Jersey (NJ) SUNY at Fredonia (NY) Truman State University (MO) University of Wisconsin-River Falls (WI) Western Connecticut State University (CT)

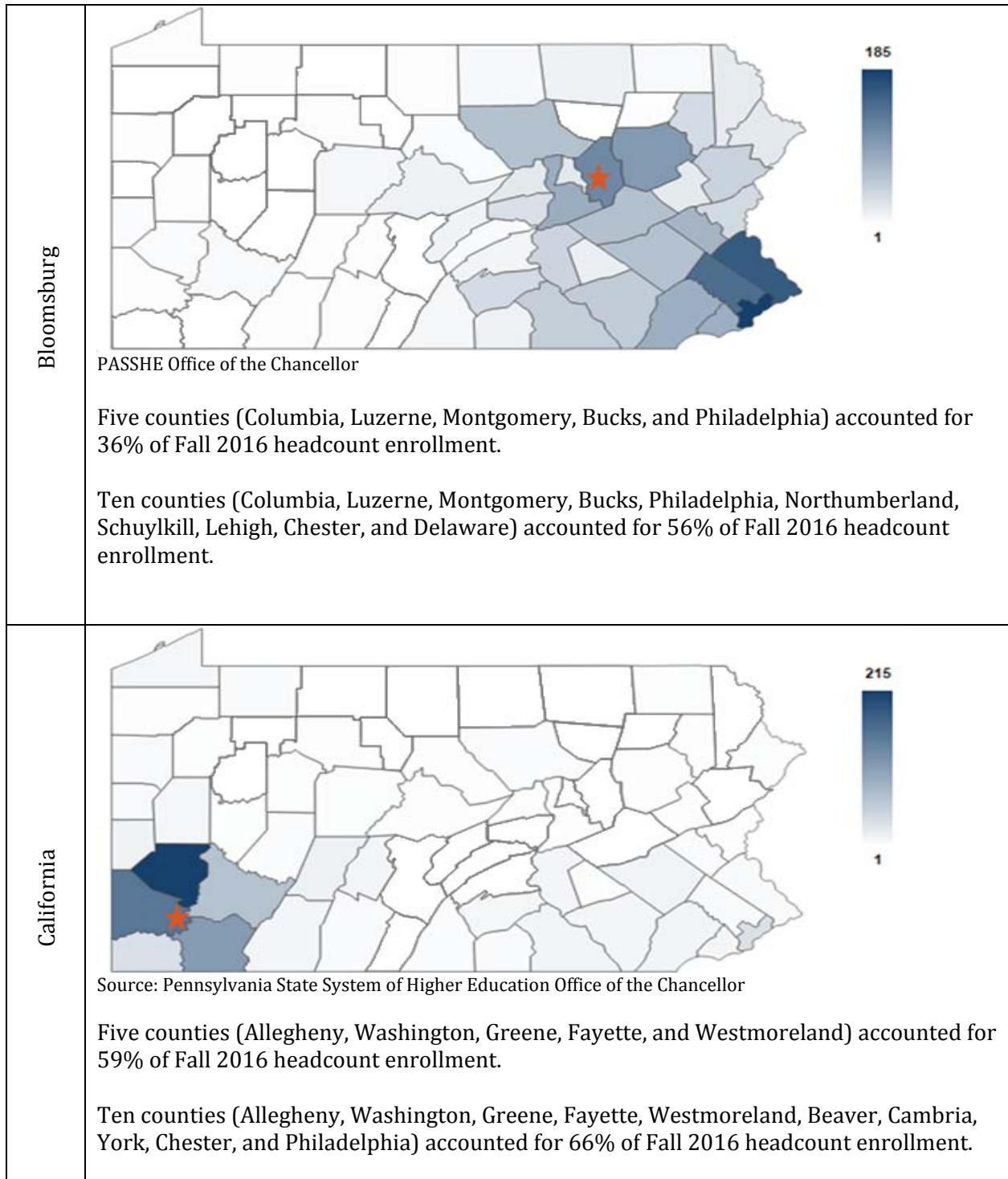



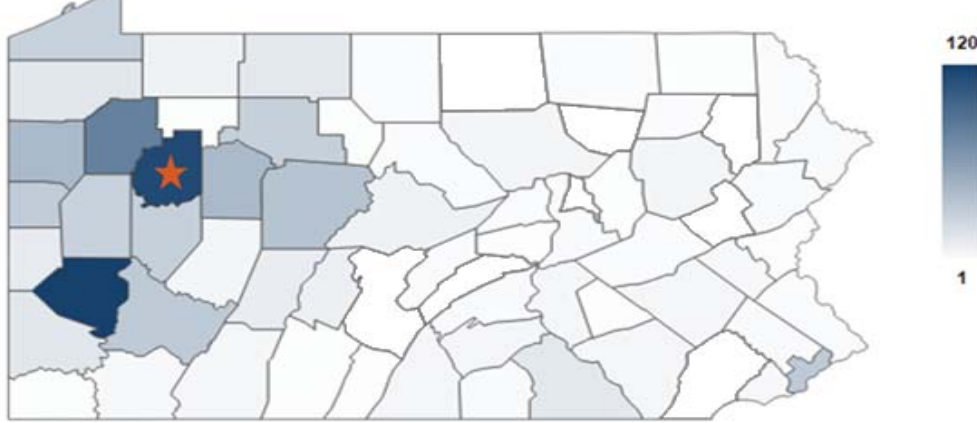
Mansfield University	<p>Bemidji State University (MN)                  Black Hills State University (SD)                  California State University-Channel Islands (CA)                  Concord University (WV)                  Eastern Connecticut State University (CT)                  Fairmont State University (WV)                  Francis Marion University (SC)                  Keene State College (NH)                  Northwestern Oklahoma State University (OK)                  SUNY Oneonta (NY)                  University of Hawaii at Hilo (HI)                  University of Wisconsin-Green Bay (WI)                  Western State Colorado University (CO)</p>
Millersville University	<p>Arkansas Tech University (AR)                  California State University-Bakersfield (CA)                  California State University-Stanislaus (CA)                  Coastal Carolina University (SC)                  Eastern Illinois University (IL)                  Radford University (VA)                  SUNY Buffalo State (NY)                  Salisbury University (MD)                  Sonoma State University (CA)                  State University of New York at New Paltz (NY)                  William Paterson University of New Jersey (NJ)</p>
Shippensburg University	<p>Bridgewater State University (MA)                  California State University-Bakersfield (CA)                  California State University-Stanislaus (CA)                  Eastern Illinois University (IL)                  Kutztown University of Pennsylvania (PA)                  Northwest Missouri State University (MO)                  SUNY College at Oswego (NY)                  Salisbury University (MD)                  State University of New York at New Paltz (NY)                  Western Illinois University (IL)                  Winthrop University (SC)</p>
Slippery Rock University	<p>Bloomsburg University of Pennsylvania (PA)                  California State University-East Bay (CA)                  Eastern Washington University (WA)                  Radford University (VA)                  SUNY College at Brockport (NY)                  Stockton University (NJ)                  The University of Tennessee-Chattanooga (TN)                  University of Southern Indiana (IN)                  University of Wisconsin-Stout (WI)                  West Texas A &amp; M University (TX)                  Western Carolina University (NC)                  William Paterson University of New Jersey (NJ)</p>

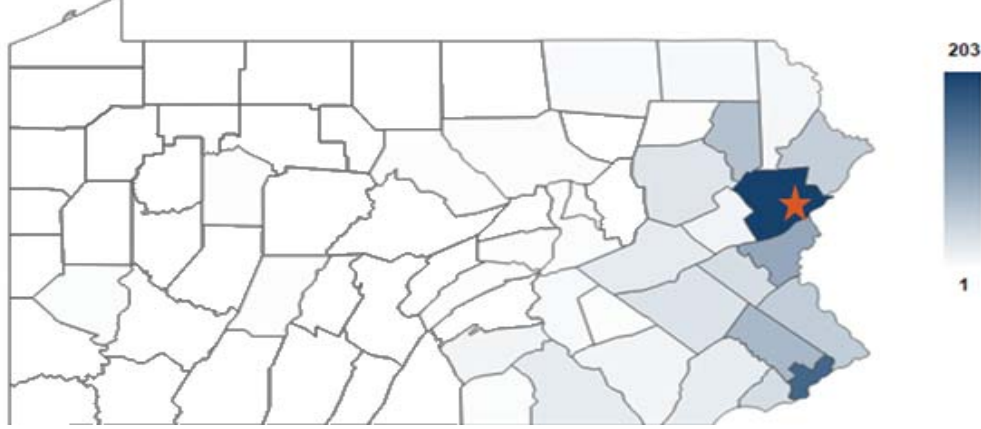

West Chester University	Appalachian State University (NC) California State University-Chico (CA) California State University-Dominguez Hills (CA) California State University-Los Angeles (CA) Eastern Kentucky University (KY) Grand Valley State University (MI) James Madison University (VA) Kean University (NJ) Minnesota State University-Mankato (MN) Missouri State University-Springfield (MO) Southeastern Louisiana University (LA) Stephen F Austin State University (TX) Towson University (MD) University of Central Oklahoma (OK) University of North Carolina Wilmington (NC) Western Washington University (WA)
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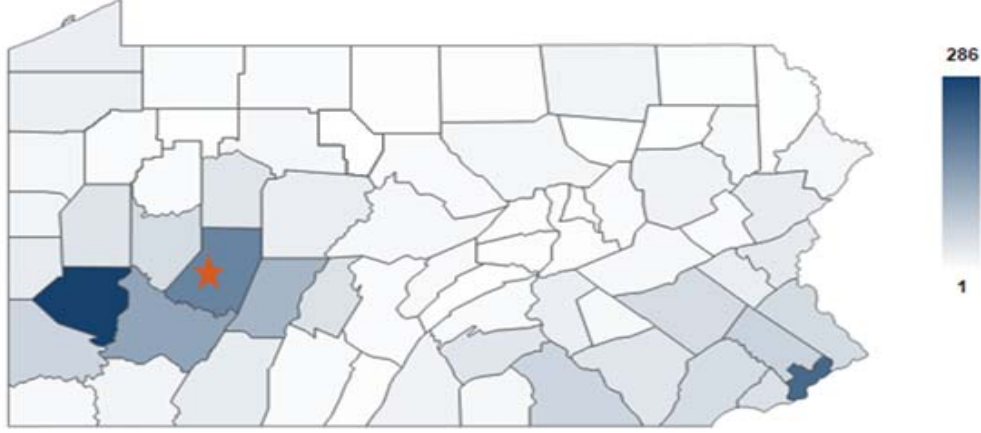

On separate maps in Figure A1, the location of each State System institution is depicted as a red star with the number of first-time enrollees from each Pennsylvania county shown as a gradient in which the darker colors represent larger numbers of students. Below each map is the share of each institution’s overall undergraduate headcount enrollment that is accounted for by the top five counties that send students, as well as the top ten counties. Non-resident students are included in the denominator. These data and depictions illustrate how truly local the State System institutions generally are. They overwhelmingly draw their students from a relatively compact geographic area in close proximity to their locations.


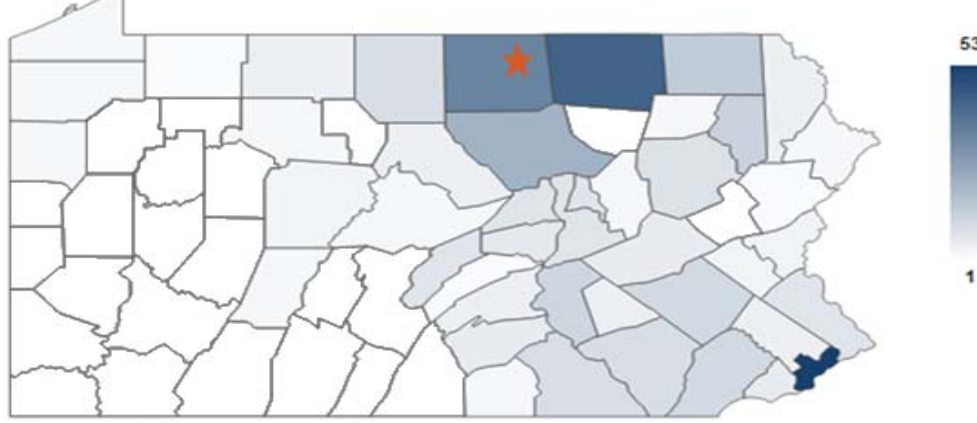
**Figure A1. Counties of Origin.**


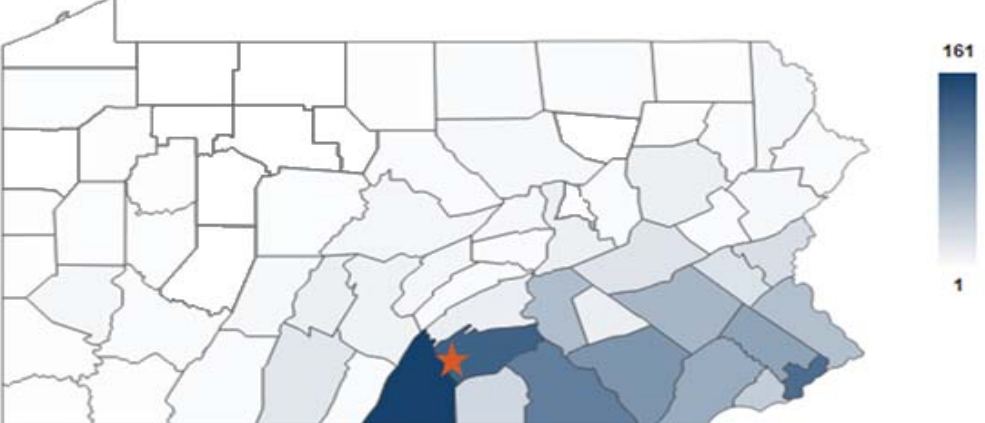


<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Cheyney</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Allegheny, Montgomery, Chester, Delaware, and Philadelphia) accounted for 61% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Allegheny, Montgomery, Chester, Delaware, Philadelphia, Lawrence, Dauphin, Berks, Lehigh, and Monroe) accounted for 66% of Fall 2016 headcount enrollment.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Clarion</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Venango, Clarion, Jefferson, Butler, and Allegheny) accounted for 41% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Venango, Clarion, Jefferson, Butler, Allegheny, Erie, Mercer, Armstrong, Westmoreland, and Clearfield) accounted for 58% of Fall 2016 headcount enrollment.</p>

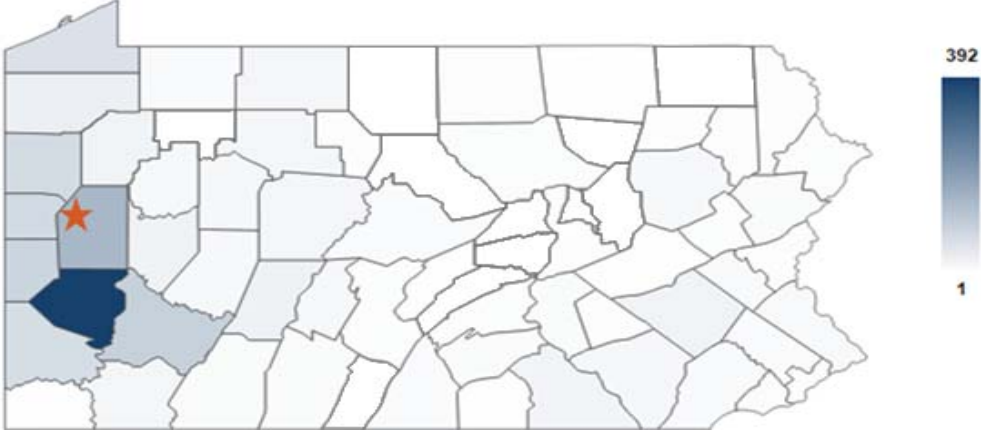

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">East Stroudsburg</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Monroe, Northampton, Bucks, Montgomery, and Philadelphia) accounted for 51% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Monroe, Northampton, Bucks, Montgomery, Philadelphia, Luzerne, Lackawanna, Pike, Lehigh, and Delaware) accounted for 66% of Fall 2016 headcount enrollment.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Edinboro</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Erie, Crawford, Mercer, Butler, and Allegheny) accounted for 60% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Erie, Crawford, Mercer, Butler, Allegheny, Warren, McKean, Venango, Beaver, and Westmoreland) accounted for 68% of Fall 2016 headcount enrollment.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Indiana</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Allegheny, Westmoreland, Indiana, Cambria, and Philadelphia) accounted for 41% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Allegheny, Westmoreland, Indiana, Cambria, Philadelphia, Butler, Armstrong, Washington, York, and Montgomery) accounted for 52% of Fall 2016 headcount enrollment.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Kutztown</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Berks, Lehigh, Northampton, Montgomery, and Bucks) accounted for 51% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Berks, Lehigh, Northampton, Montgomery, Bucks, Schuylkill, Lancaster, Chester, Delaware, and Philadelphia) accounted for 72% of Fall 2016 headcount enrollment.</p>

<p>Lock Haven</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Clearfield, Centre, Clinton, Lycoming, and Philadelphia) accounted for 41% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Clearfield, Centre, Clinton, Lycoming, Philadelphia, Dauphin, York, Lancaster, Berks, and Montgomery) accounted for 55% of Fall 2016 headcount enrollment.</p>
<p>Mansfield</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Tioga, Bradford, Lycoming, York, and Philadelphia) accounted for 44% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Tioga, Bradford, Lycoming, York, Philadelphia, Susquehanna, Lackawanna, Luzerne, Dauphin, and Bucks) accounted for 54% of Fall 2016 headcount enrollment.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Millersville</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (York, Lancaster, Berks, Chester, and Montgomery) accounted for 63% of Fall 2016 headcount enrollment.</p> <p>Ten counties (York, Lancaster, Berks, Chester, Montgomery, Cumberland, Dauphin, Delaware, Philadelphia, and Bucks) accounted for 82% of Fall 2016 headcount enrollment.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Shippensburg</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Franklin, Cumberland, Dauphin, York, and Montgomery) accounted for 46% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Franklin, Cumberland, Dauphin, York, Montgomery, Adams, Lancaster, Berks, Chester, and Philadelphia) accounted for 66% of Fall 2016 headcount enrollment.</p>

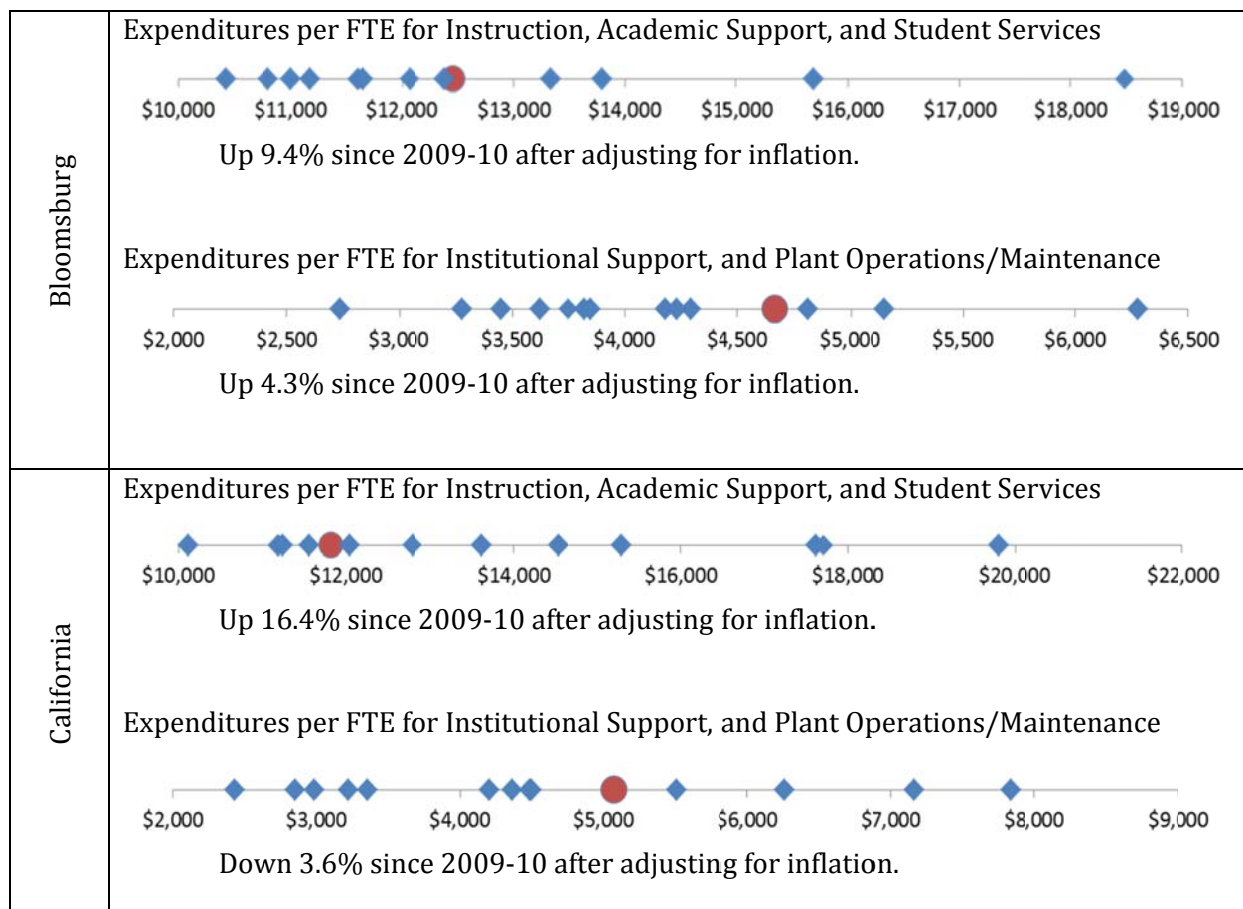


<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Slippery Rock</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Mercer, Lawrence, Beaver, Butler, and Allegheny) accounted for 52% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Mercer, Lawrence, Beaver, Butler, Allegheny, Erie, Crawford, Armstrong, Washington, and Westmoreland) accounted for 66% of Fall 2016 headcount enrollment.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">West Chester</p>	 <p>Source: Pennsylvania State System of Higher Education Office of the Chancellor</p> <p>Five counties (Chester, Montgomery, Bucks, Delaware, and Philadelphia) accounted for 70% of Fall 2016 headcount enrollment.</p> <p>Ten counties (Chester, Montgomery, Bucks, Delaware, Philadelphia, York, Lancaster, Berks, Lehigh, and Northampton) accounted for 80% of Fall 2016 headcount enrollment.</p>

In Figure A2 below, each State System institution is compared to its peers on two measures of spending, the first of which is for the core academic expenses of instruction, academic support, and student services. The second is spending on management expenses, facilities, and other overhead

costs. These charts show that State System institutions are fairly typical of their peers in each spending category, falling generally in the middle of their groups. (Each institution is indicated by a large red dot, while peers are indicated by blue diamonds). There are exceptions such as Cheyney. But by and large, academic costs at State System institutions in 2014-15 hovered in the area of \$12,000-\$14,000 per student and most institutions' overhead costs were roughly between \$4,000-\$5,000. More troubling was the rapid increase in spending in both categories in the preceding five years, which reflected (as described in the main body of the report) enrollment declines not matched by reductions in expenditures.

**Figure A2. Expenditures per FTE, 2014-15**



<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Cheyney</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 40% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 17.1% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Clarion</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 19.4% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 41.4% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">East Stroudsburg</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Down 2.6% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 9.8% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Edinboro</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 9.7% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 11.7% since 2009-10 after adjusting for inflation.</p>

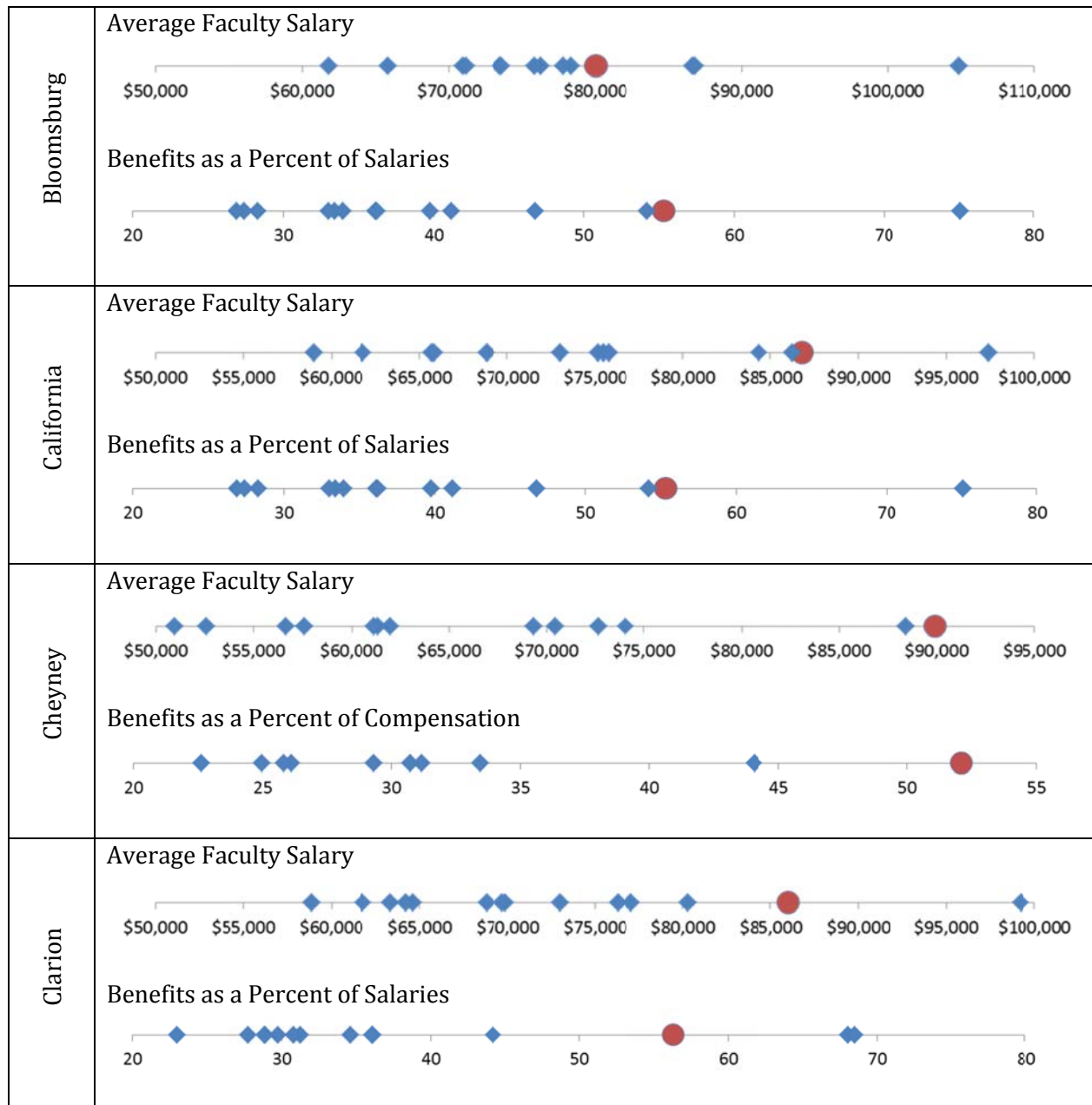
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Indiana</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 2.8% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Down 2.9% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Kutztown</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 12.4% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 12.5% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Lock Haven</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 6.6% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 9.4% since 2009-10 after adjusting for inflation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Mansfield</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 13.6% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 33.6% since 2009-10 after adjusting for inflation.</p>

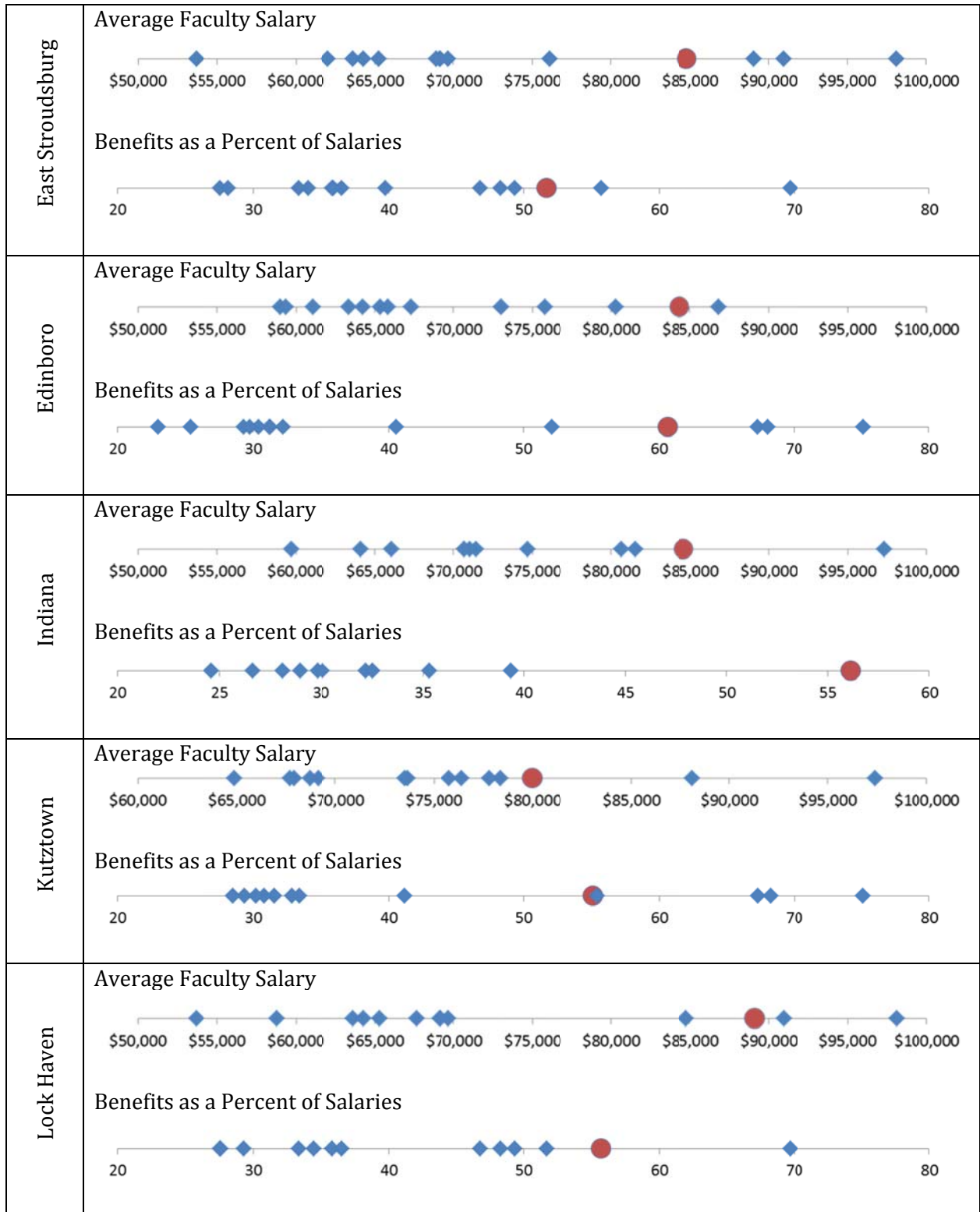
<p>Millersville</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 26.9% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 2.8% since 2009-10 after adjusting for inflation.</p>
<p>Shippensburg</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 18.5% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Up 24.7% since 2009-10 after adjusting for inflation.</p>
<p>Slippery Rock</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 9.8% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Down 3.9% since 2009-10 after adjusting for inflation.</p>
<p>West Chester</p>	<p>Expenditures per FTE for Instruction, Academic Support, and Student Services</p> <p>Up 5.1% since 2009-10 after adjusting for inflation.</p> <p>Expenditures per FTE for Institutional Support, and Plant Operations/Maintenance</p> <p>Down 7.3% since 2009-10 after adjusting for inflation.</p>

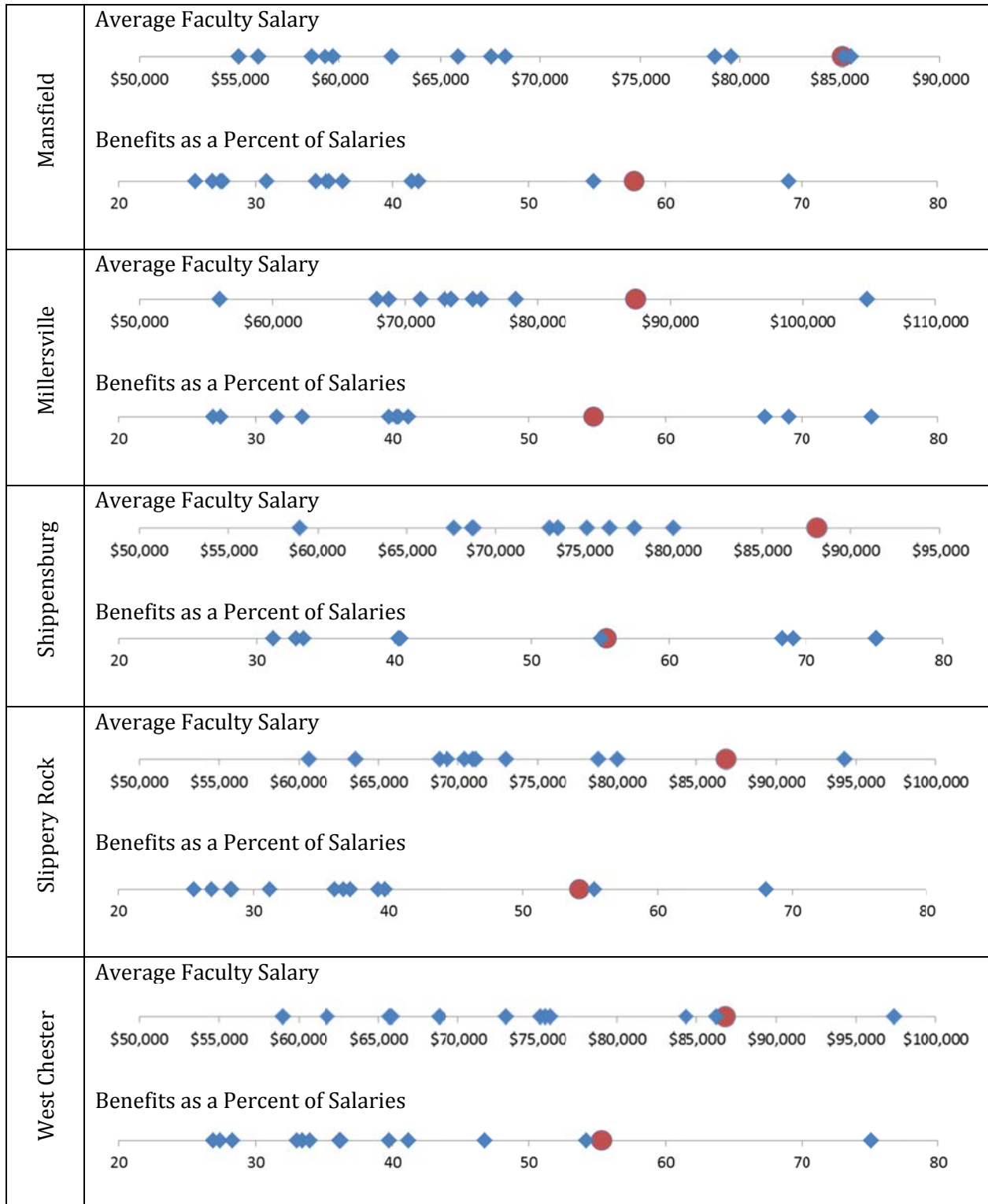
Source: NCES IPEDS Surveys: Institutional Char, 2014; Enrollment, Fall 2015, efa2015; Employees by Assigned Position, 2014, eap2014; Fall Staff, Fall 2014, s2014\_oc;

Figure A3 shows the average faculty salary and total benefits paid as a proportion of compensation paid at each State System institution, in comparison to its peers. State System institutions consistently pay faculty salaries that are at or near the top end of the scale, with most showing an average salary of roughly \$85,000. State System institutions also offer comparatively rich benefits, with packages falling between 50-60 percent of total salaries.

**Figure A3. Salaries and Benefits.**







Source: NCES IPEDS Surveys: Institutional Char, 2014; Enrollment, Fall 2015, efa2015; Employees by Assigned Position, 2014, eap2014; Fall Staff, Fall 2014, s2014\_oc