Pennsylvania Association of Councils of Trustees

Fall 2010 P.A.C.T. Conference

Kutztown University of Pennsylvania

The Future of Public Higher Education in PA

Angelo Armenti, Jr., President

California University of Pennsylvania

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Abstract

- My goal: to confront the question of the future of public higher education in Pennsylvania.
- Two kinds of information: 1) data, and 2) my interpretations of those data.
- Based on analysis of those data, I have concluded that, if the funding and policy trends of the past 27 years continue, public higher education in Pennsylvania will disappear and become a thing of the past in just one more generation.

Abstract

- By that, I do not mean the campus buildings will disappear, or that our intellectually hungry, but financially needy, students will no longer attend those institutions.
- Rather, I am saying that public higher education's historic mission will be rendered unattainable, as public higher education and its students become increasingly marginalized and abandoned by the Commonwealth of Pennsylvania.

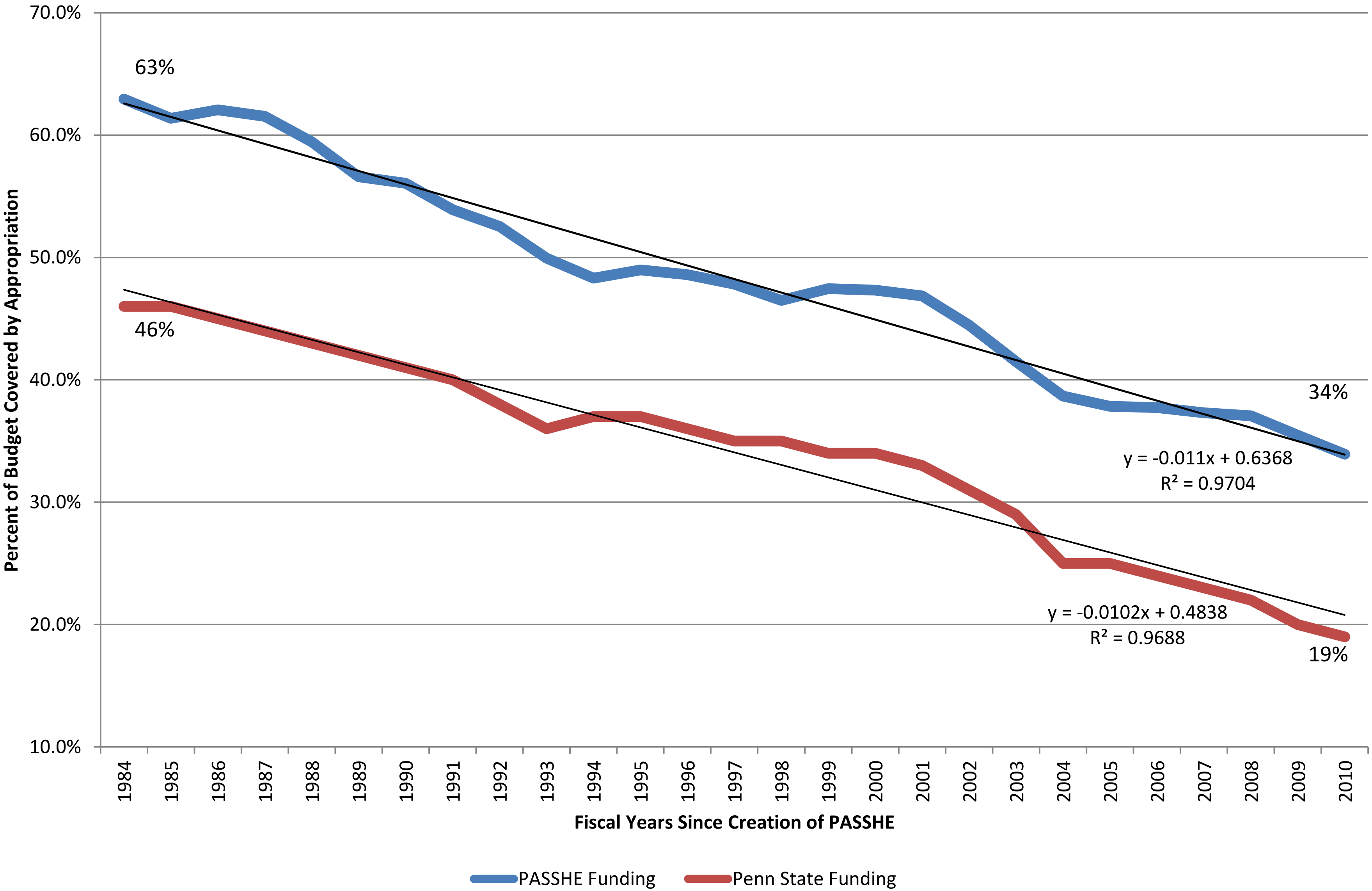
Three Assertions

1. **California University of Pennsylvania (Cal U) and all the "public" universities in PA are being privatized without a plan.**
2. **The "business model" under which PASSHE universities currently operate is financially unsustainable and, without changing key policies that drive that business model, PASSHE universities will face severe financial distress and bankruptcy in the near term.**

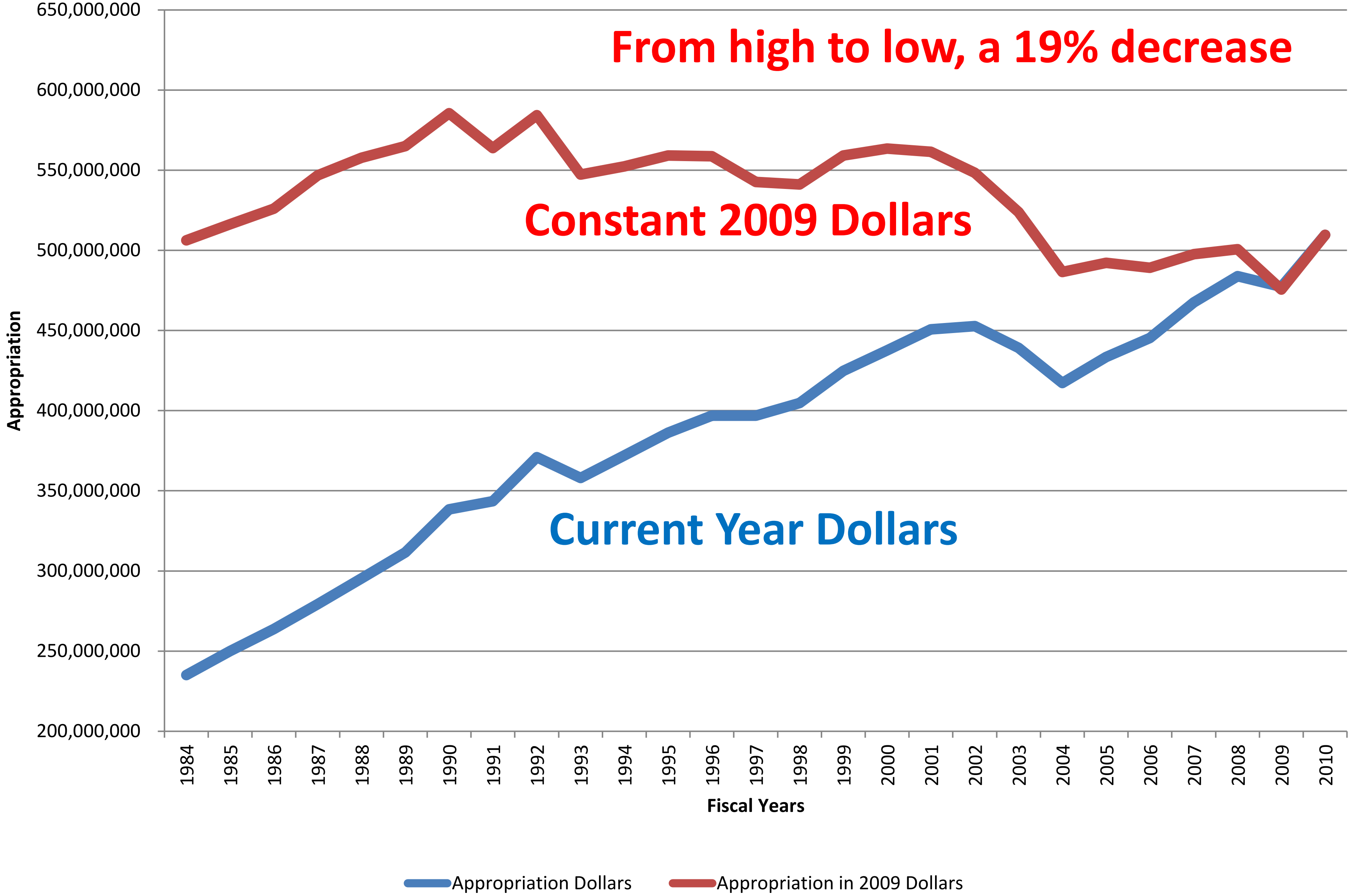
Assertion 3

3. **Although the PASSHE universities were intended to carry out the mission spelled out in Act 188 of 1982: "…to provide *high quality education* at the *lowest possible cost to the* *<u>students</u>*," the rapid decline in Commonwealth funding, compounded by *key operating policies*, <u>portend mission failure</u>, both with regard to providing high quality education, as well as with regard to providing the lowest possible cost to the students.**

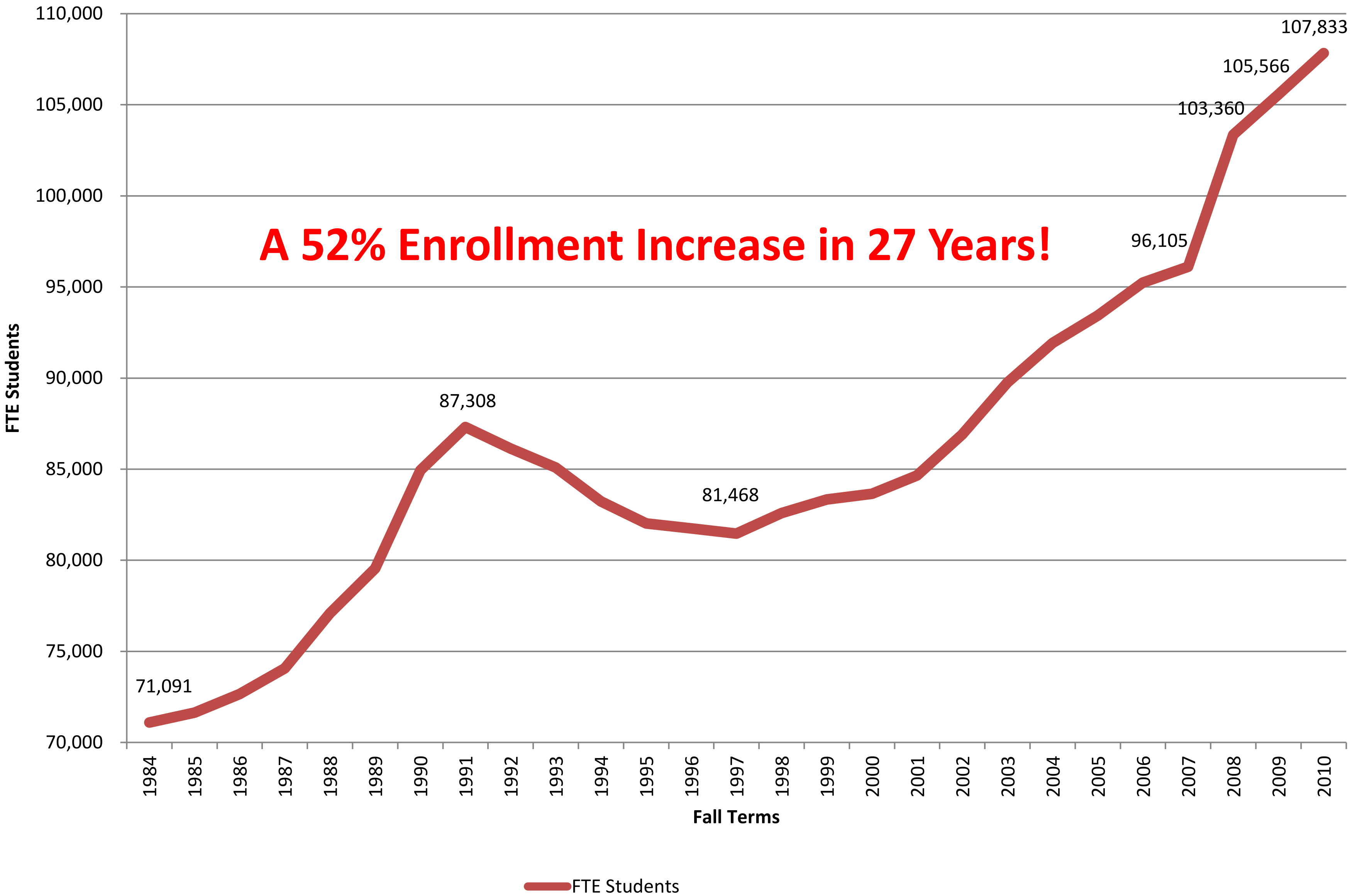
27 Years of Declining Public Support



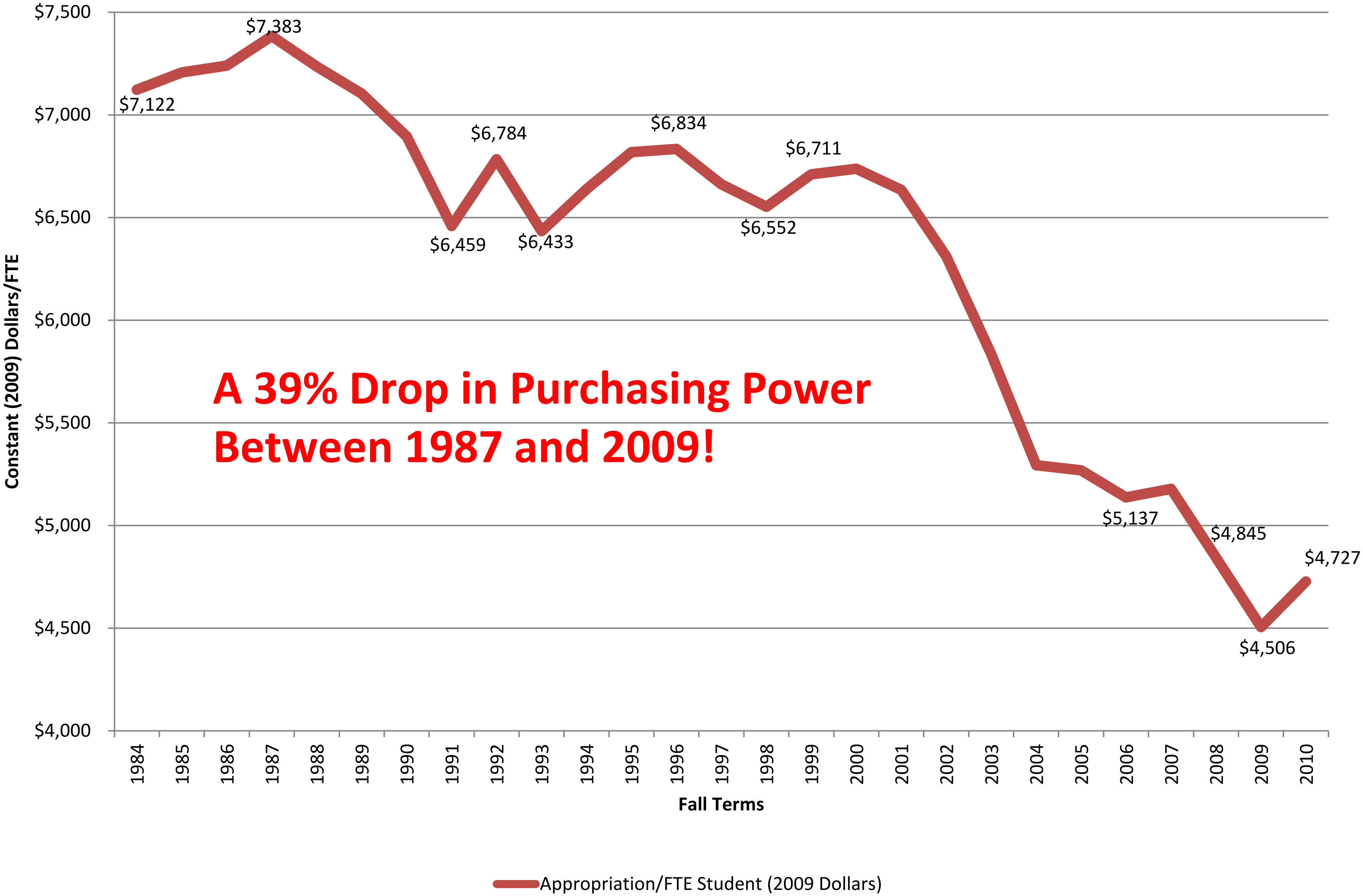
PASSHE Appropriation - 1984 to 2010



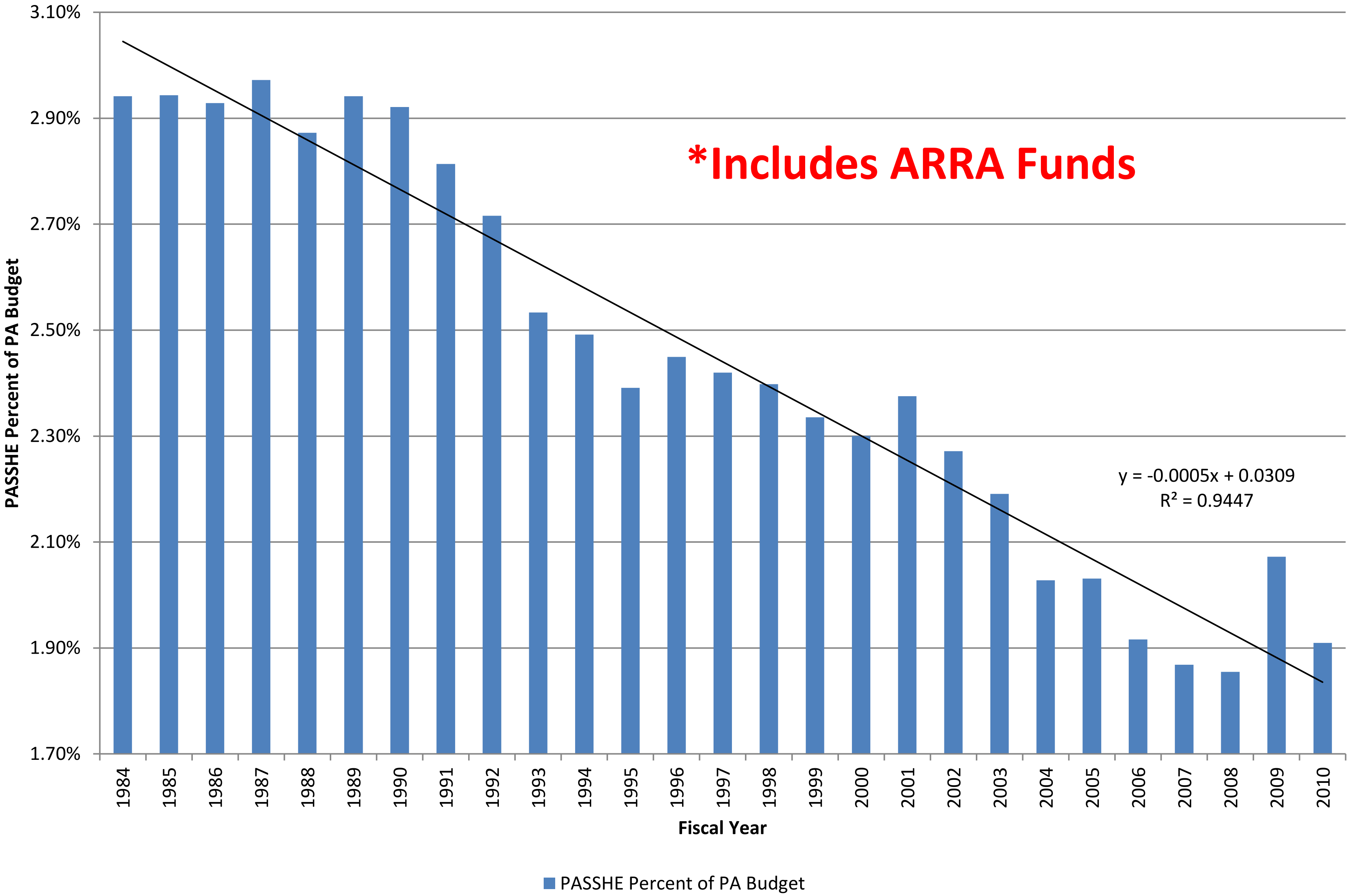
PASSHE Student FTE - 1984 to 2010



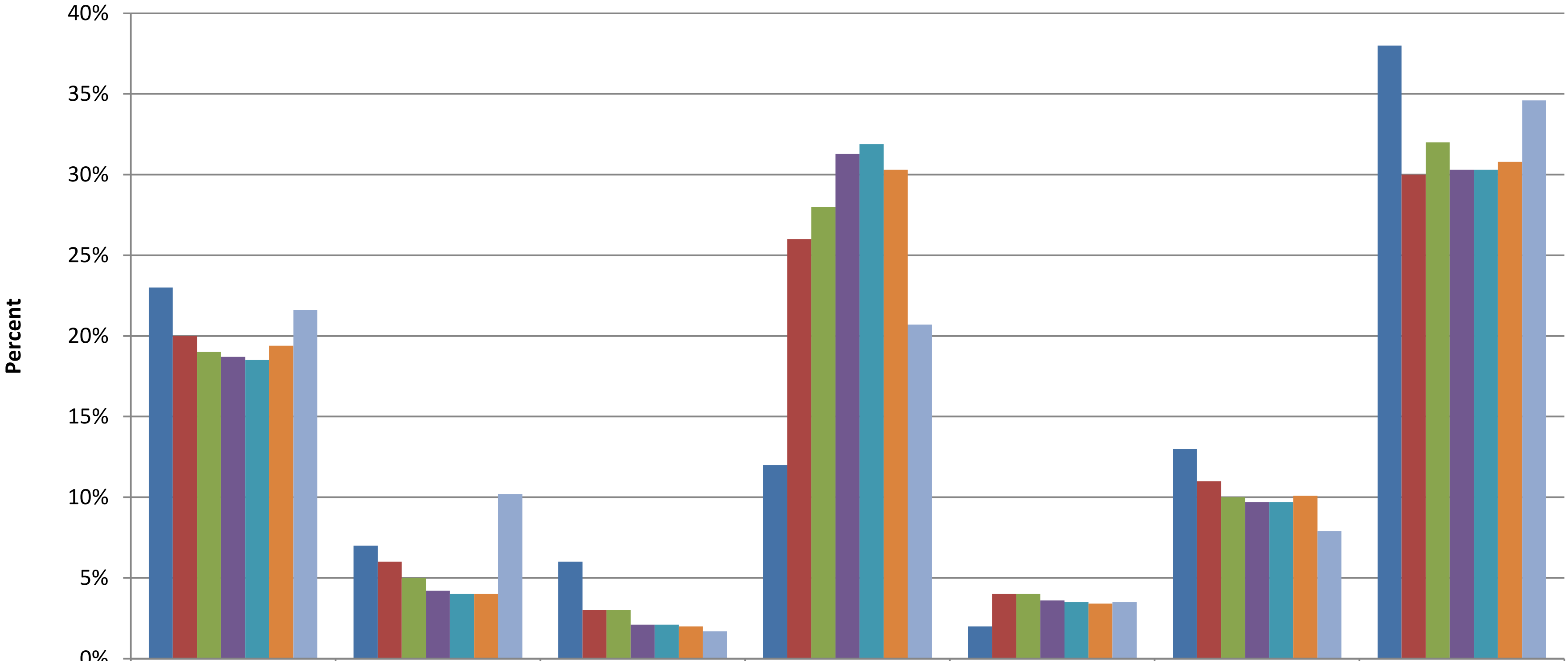
PASSHE Appropriation (in 2009 dollars)/FTE Student



PASSHE Percent of Commonwealth Budget*



Pennsylvania Budget vs. Average of 50 States



	K-12	Higher Education	Cash Assistance	Medicaid	Corrections	Transportation	All Other
1990	23%	7%	6%	12%	2%	13%	38%
1998	20%	6%	3%	26%	4%	11%	30%
2000	19%	5%	3%	28%	4%	10%	32%
2004	19%	4%	2%	31%	4%	10%	30%
2006	19%	4%	2%	32%	4%	10%	30%
2008	19%	4%	2%	30%	3%	10%	31%
50 States	22%	10%	2%	21%	4%	8%	35%

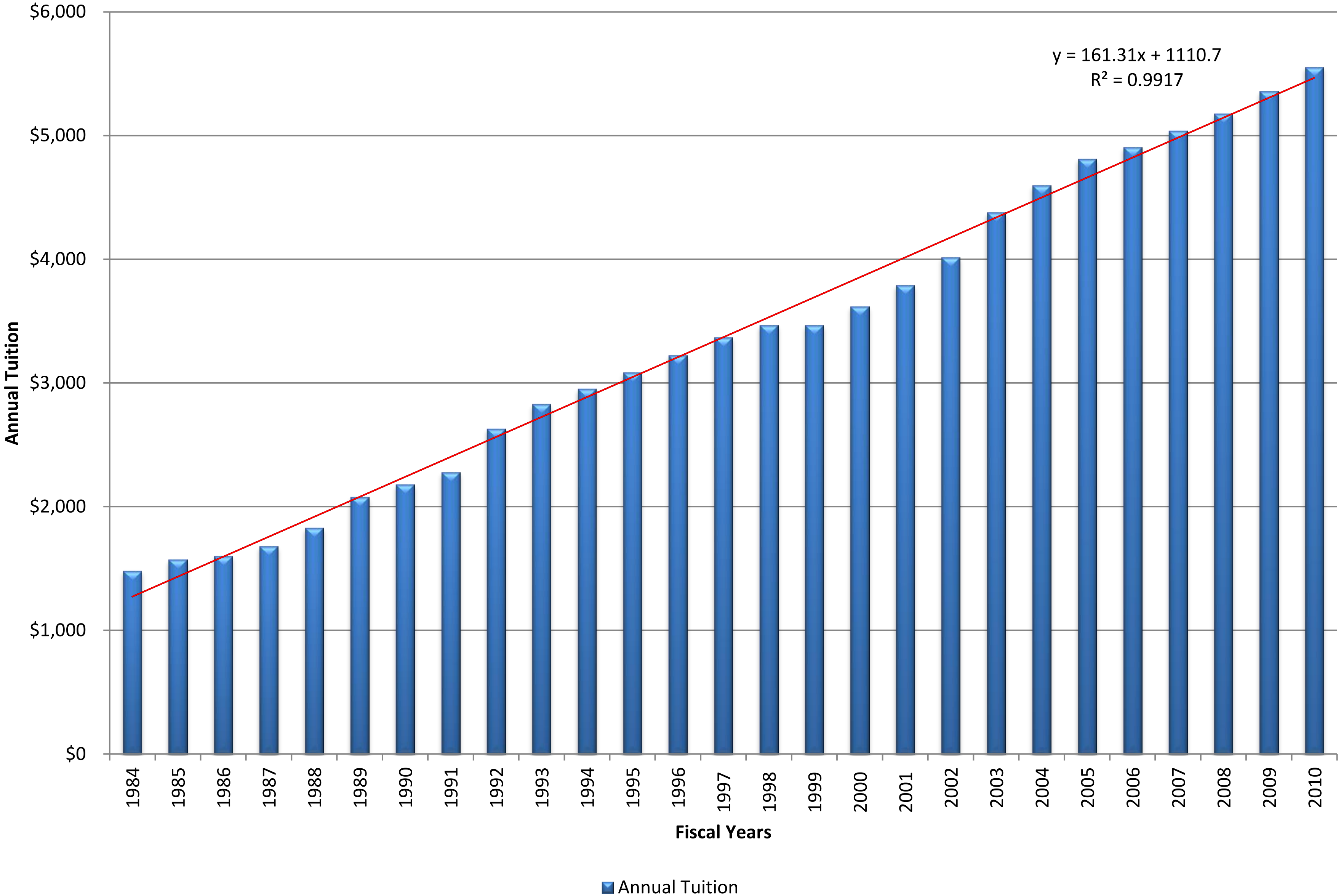
Budget Sectors

1990 1998 2000 2004 2006 2008 50 States

Is PA being bankrupted by Medicaid?

- I believe that it is, along with other “rustbelt” states with poor and aging populations.
- If you don’t believe my assertion regarding PA being bankrupted by Medicaid, consider this quote from a former head of the Congressional Budget Office:
- “Over recent decades, as state governments have devoted a larger share of resources to rising costs of Medicaid, the health care program for the poor, they have cut support for higher education.”
- Peter Orszag, *New York Times,* September 18, 2010.

27 Years of 5.2% (Average) Annual Tuition Increases



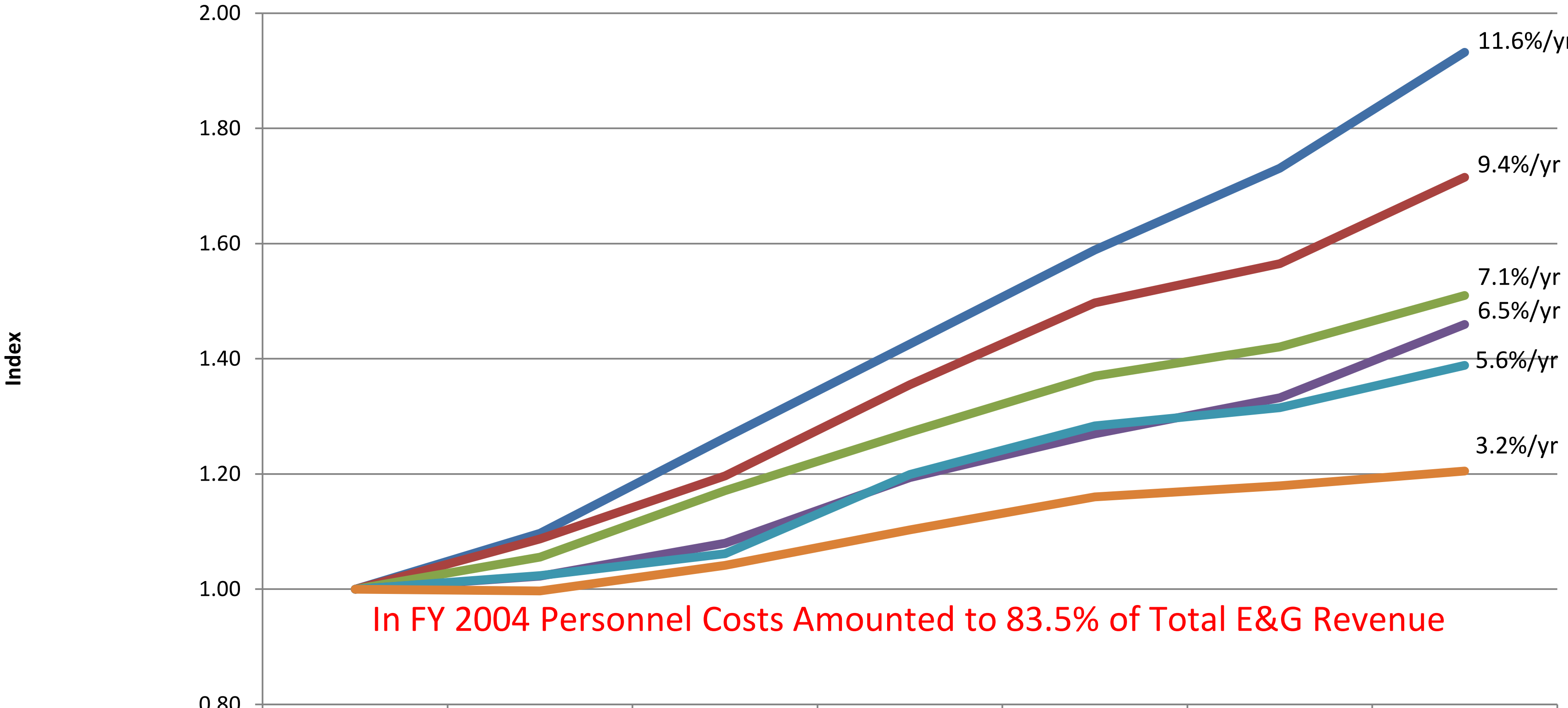
Democrats and Republicans Agree!

- The disinvestment in public higher education over the last 27 years has happened under every combination of D’s and R’s in the Governor’s Mansion, the Senate and House.
- The reason is demographic. It is fundamental.
- In a republic based on majority rule, the future of public higher education is clouded since 2 of 3 voting households don’t have anyone 18 or younger living there, that is someone who can benefit directly from public higher education.

Democrats and Republicans Agree!

- Since 2 out of three voting households cannot benefit directly from public higher education, it is logical that they would have other funding priorities such as, e.g., crime and health care. (Go to the PA funding chart.)
- It is likely that those two thirds of voting households may not want their taxes raised to send someone else's son or daughter to college.
- It would take extraordinary political leadership to gain a public policy that would overcome those percentages. Not impossible, but not likely.
- Up Next: Evidence for **Assertion 2**.

Six-Year Revenue & Expense Trends - Indexed to FY 2004



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Tuition & Fees	1.00	1.10	1.26	1.43	1.59	1.73	1.93
Total E&G Revenue	1.00	1.09	1.20	1.36	1.50	1.57	1.72
FTE Students	1.00	1.06	1.17	1.27	1.37	1.42	1.51
Personnel Cost	1.00	1.02	1.08	1.19	1.27	1.33	1.46
State Appropriation	1.00	1.02	1.06	1.20	1.28	1.32	1.39
FTE Employees	1.00	1.00	1.04	1.10	1.16	1.18	1.20

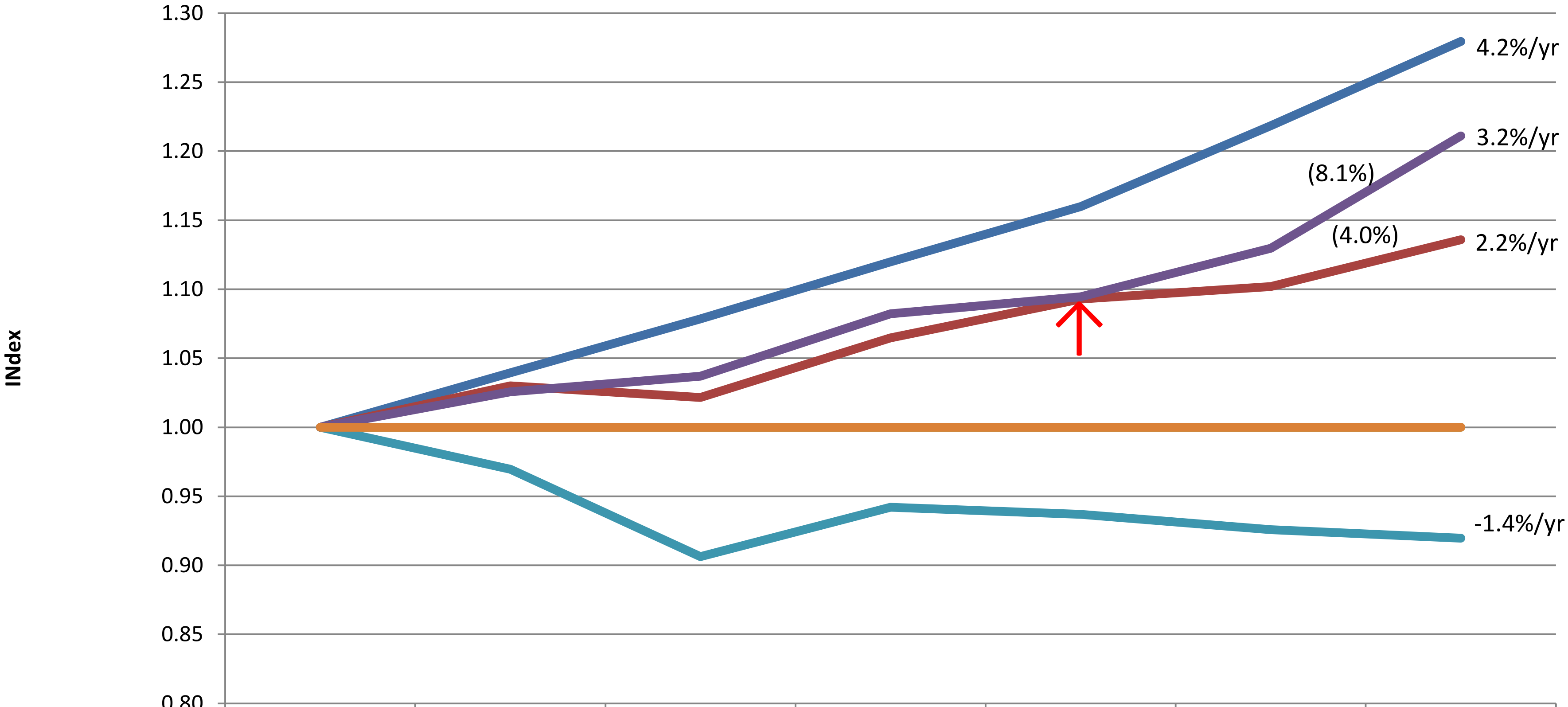
Fiscal Year

Tuition & Fees   Total E&G Revenue   FTE Students   Personnel Cost   State Appropriation   FTE Employees

Some Interesting Facts

- “Personnel Percentage,” i.e., the ratio of Personnel Costs to Total E&G Revenue, fell substantially.
- In fact, our Personnel Percentage, which was 83.5% in FY 2004, dropped to 71.1% by FY 2010.
- That freed up surplus funds which could be, and were, invested in the “high quality” end of the PASSHE mission statement as it applies to Cal U.

Six-Year Revenue and Expense Trends (Flat)*



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Tuition & Fees	1.00	1.04	1.08	1.12	1.16	1.22	1.28
Total E&G	1.00	1.03	1.02	1.06	1.09	1.10	1.14
FTE Enrollment	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Personnel Costs	1.00	1.03	1.04	1.08	1.09	1.13	1.21
Appropriation	1.00	0.97	0.91	0.94	0.94	0.93	0.92
FTE Employees	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Fiscal Year

Tuition & Fees　Total E&G　FTE Enrollment　Personnel Costs　Appropriation　FTE Employees

Some Interesting Trends

- Here is a scenario with neither enrollment growth to generate additional tuition revenue, nor economies of scale to generate marginal revenue.
- Basically, this Chart simulates what would have happened to Cal U if, instead of growing our FTE student enrollments at 7.1%/year (and our FTE Personnel numbers by 3.2%/year), we had kept both of those statistics constant at FY 2004 levels.

Some Interesting Trends

- Had FTE Enrollments and FTE Personnel numbers remained constant at FY 2004 levels, <u>Personnel Cost increases would have exceeded Total E&G Revenue increases at Cal U in FY 2006, just two years later!</u>
- Those costs would eat into and quickly erode the slim budgetary “cushion” reflected by our 83.5% personnel ratio in FY 2004.
- With just 16.5% of our budget available for mandatory transfers such as debt service, utilities and similar unavoidable costs, we would have quickly become insolvent had we not increased our enrollments and our productivity as rapidly as we did!

Some Interesting Trends

- Cal U's enrollment <u>growth</u> strategy would seem to be sustainable only in the short term.
- The <u>level</u> enrollment strategy leads quickly to extreme financial distress and bankruptcy.
- There's no need to simulate what happens when enrollments are <u>falling</u>. Such institutions cannot survive financially because of the following
- **<u>Structural Imbalance</u>: PASSHE tuition rate increases have been wholly insufficient to cover the costs of our mandated personnel increases in a sustainable way.**

Having mentioned personnel costs…

- It is important to note that faculty salaries are well known to be a proxy measure for academic quality!
- Faculty salaries are intimately connected to the PASSHE mission of providing the "high quality education" called for in Act 188 of 1982.
- The solution is not to lower salaries but to provide sufficient tuition to make up for the loss in State appropriation while, also , preserving PASSHE's mission indefinitely into the future with <u>stable</u>, as opposed to rapidly <u>growing</u>, enrollments.
- The only thing that grows without limit is cancer!

Recall the Personnel Percentage?

- When we were growing at 7.1%/year, our Personnel Percentage, which was 83.5% in FY 2004, dropped to 71.1% by FY 2010, and freed up surplus funds to bolster “high quality.”
- For “Flat” scenario, the Personnel Percentage, which was 83.5% in FY 2004, goes to 89.1% by FY 2010! That’s a difference of 18%.
- 18% of $111 million = $20 million difference!

Some Interesting Trends

- The 8.1% increase in Personnel Costs in FY 2010 would soon erode whatever budgetary cushion we had in FY 2004, because average annual Total E&G Revenue increased by only 2.2%, and the one-year increase was only 4%.
- <u>There can be no other conclusion but that severe financial distress and looming bankruptcy would have soon followed any decision to keep student enrollments flat after FY 2004</u>.
- <u>This conclusion validates **Assertion 2**</u>.

Some Interesting Trends

- **The unvarnished truth is that the PASSHE universities are being starved for funds.**
- They do have four financial means at their disposal to deliver their mission, while balancing their budgets: State Appropriation; Tuition, Fee and Other revenue; Productivity increases; and Privately Raised funds.
- Unfortunately, the formerly largest means—State Appropriation—has fallen from 63% to 34% of the PASSHE E&G budget while, in the last 27 years, Appropriation purchasing power has dropped by 39% as measured by constant dollars per FTE student.

Some Interesting Trends

- The amount of Tuition, Fee and Other revenue depends on two different factors: a) tuition and fee <u>rates</u>, and b) the <u>number</u> of students attending.
- Because tuition and fee <u>rates</u> have been constrained for many years, the only strategy available to increase the revenue is to increase the <u>numbers</u> of students attending—a strategy which is <u>not sustainable in the long term</u>.
- **The only sustainable tuition strategy capable of a) keeping the our universities out of bankruptcy, while b) preserving the PASSHE mission of high quality education at the lowest possible cost to the students, is one in which <u>tuition rates are high enough to offset personnel cost increases at constant, not growing, student enrollments</u>.**

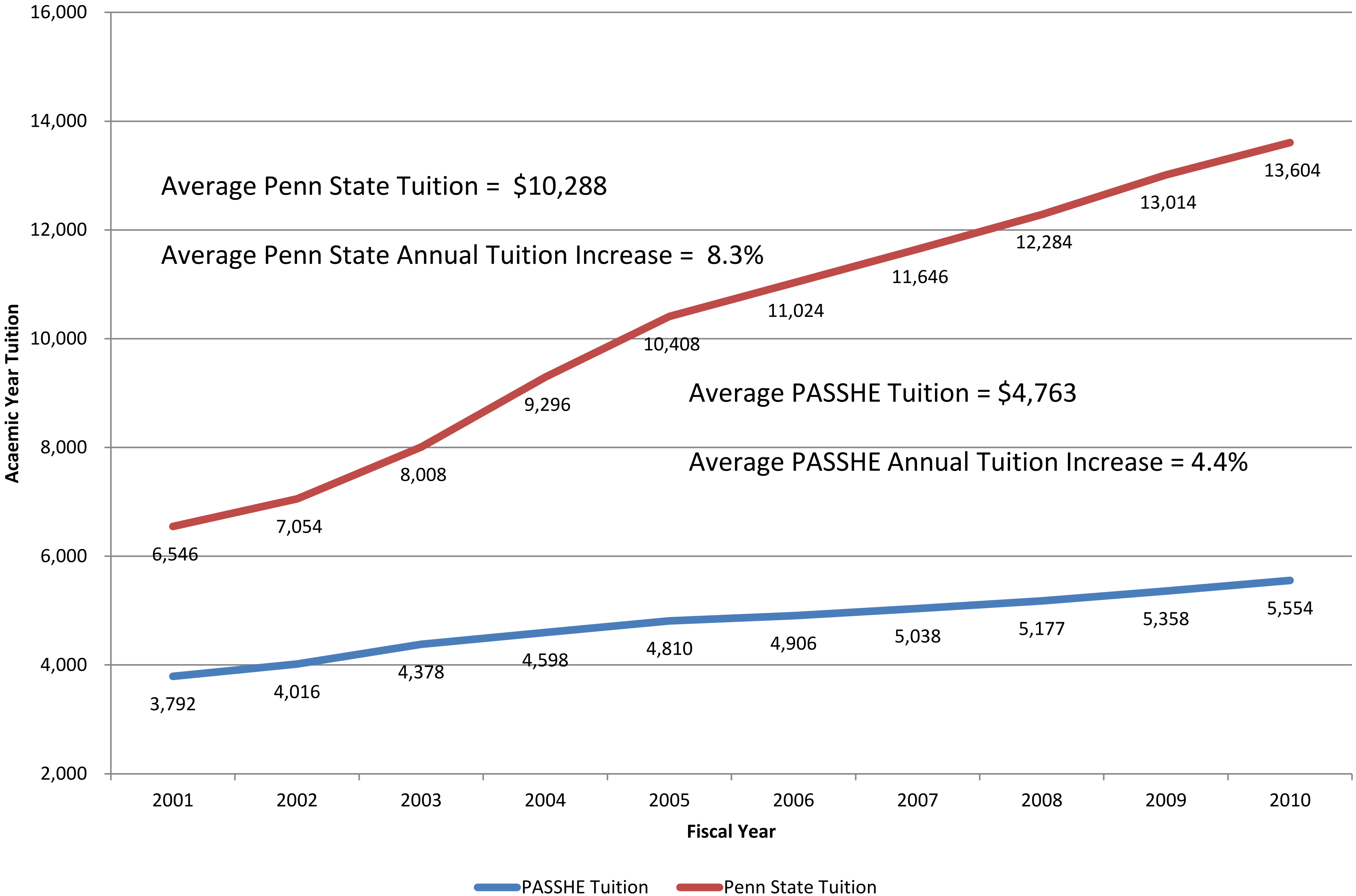
Some Interesting Trends

- Cal U's productivity figures are the highest in PASSHE. This productivity strategy was invoked years ago to save money, and it saves millions of dollars each year—but it will never be enough to make up for <u>lost appropriation</u> and <u>forgone tuition revenue</u>—the revenue lost by rates too-low.
- Fund raising has grown exponentially in recent years—it is the most rapidly growing (percentage wise) segment of our funding pie—from 1% to 5% in less than 15 years.
- And while private fund raising clearly represents the wave of the <u>future</u>, it will be many years before private funds could begin to make up for the lost State Appropriation, and the forgone Tuition Revenue.

Some Interesting Trends

- For political as opposed to financial viability reasons, tuition *and* tuition rate increases have been kept artificially low, compared to the tuitions *and* tuition rate increases at both the private university sector and the state-related sector.
- The next Chart clearly documents that PASSHE tuitions *and* tuition rate increases have not kept pace with the "market."
- In large part, this is why—as State appropriation continues to decline—the current PASSHE business model is totally financially unsustainable.
- That business model is forcing PASSHE universities into severe financial distress and looming bankruptcy in the short term, exactly as stated in **Assertion 2**.

PASSHE vs. Penn State Tuition Trends



Some Interesting Trends

- The previous Chart provides a comparison between PASSHE and Penn State tuition trends over the last ten years.
- Penn State’s average tuition over that time span is more than double (2.2) PASSHE’s average.
- Penn State’s average annual tuition increase is also almost double (1.9) that of PASSHE.
- If trends continue, Penn State tuition rates will be almost four (3.5) times higher than PASSHE tuition rates in just ten more years.

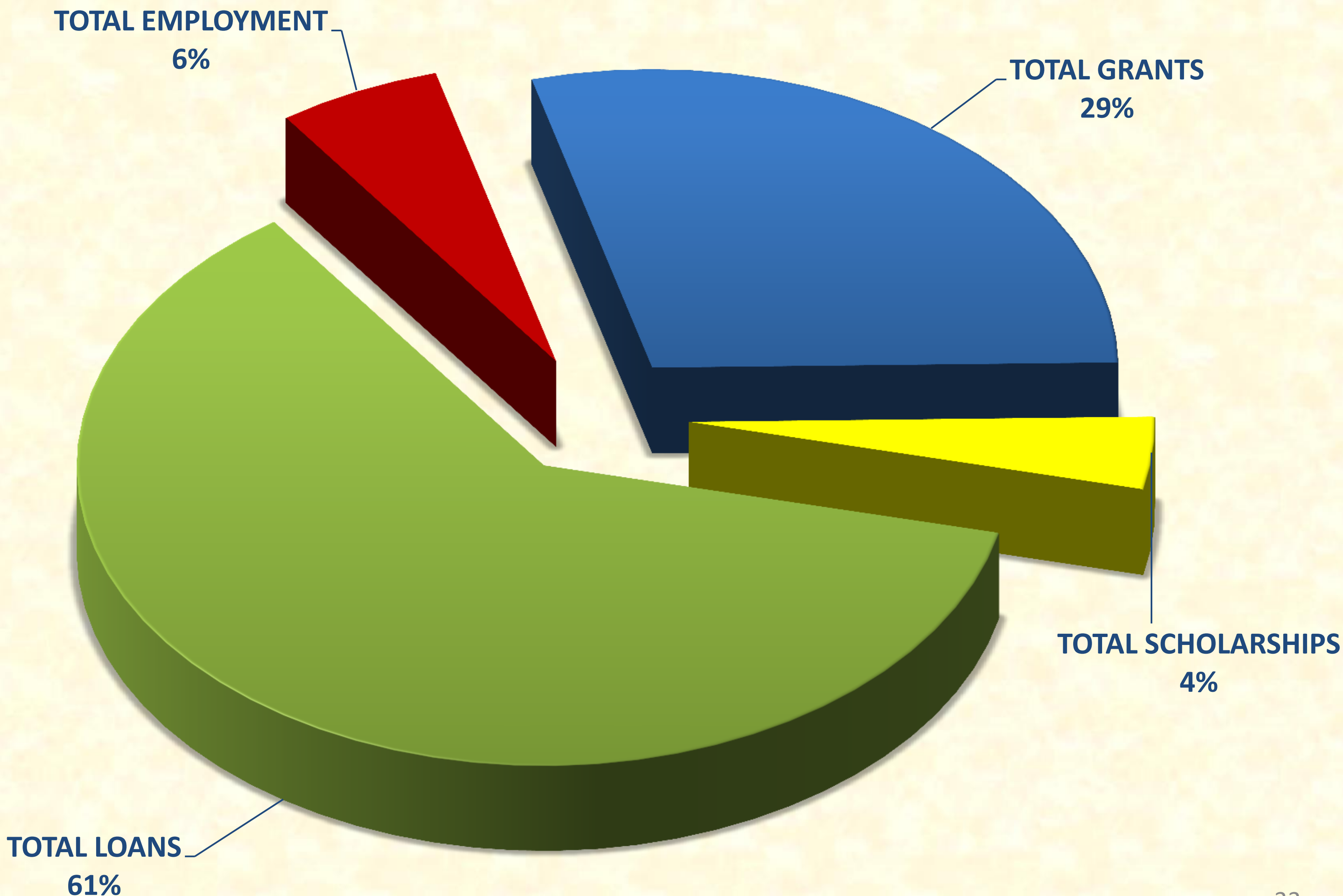
Some Interesting Trends

- PASSHE cannot afford to forgo the millions of dollars of tuition revenue “left on the table” from low tuition rates, at a time of rapidly declining State appropriation.
- The financial viability of the individual universities will be compromised, via financial distress & bankruptcy, &
- The noble PASSHE mission statement—to provide high quality education at the lowest possible cost to the students—will have been be reduced to empty words.
- That would be a tragedy that those of us who care about the PASSHE universities, the PASSHE mission, and the PASSHE students cannot allow to happen.

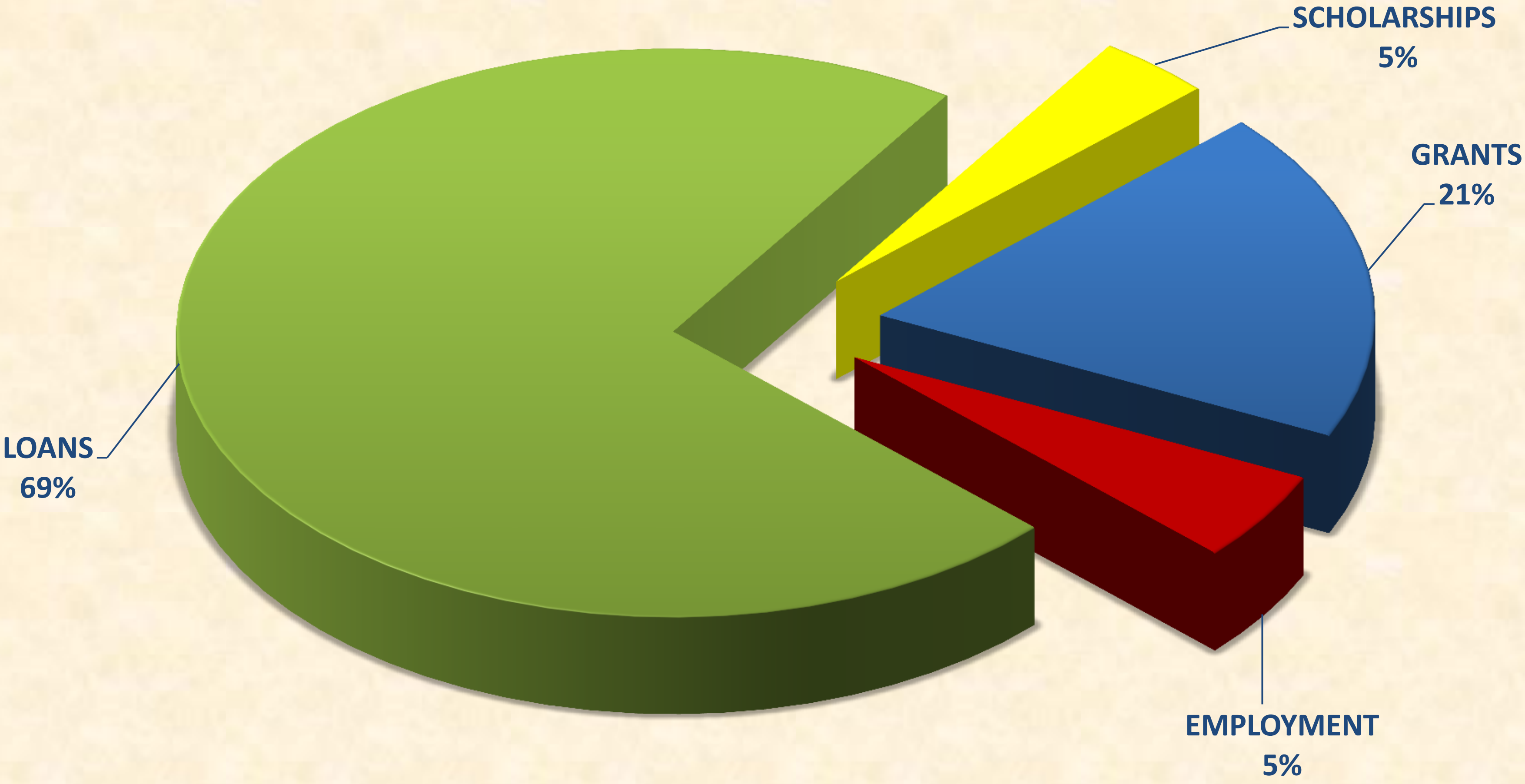
Evidence for Assertion 3

- The financial challenges of the universities were discussed earlier. We now focus on the financial challenges <u>students</u> face due to the ongoing funding decline.
- We refer to the PASSHE "student;" But we actually have many students—<u>from vastly different financial backgrounds</u>—on whom the current tuition rate, financial aid, and other policies have quite different consequences.

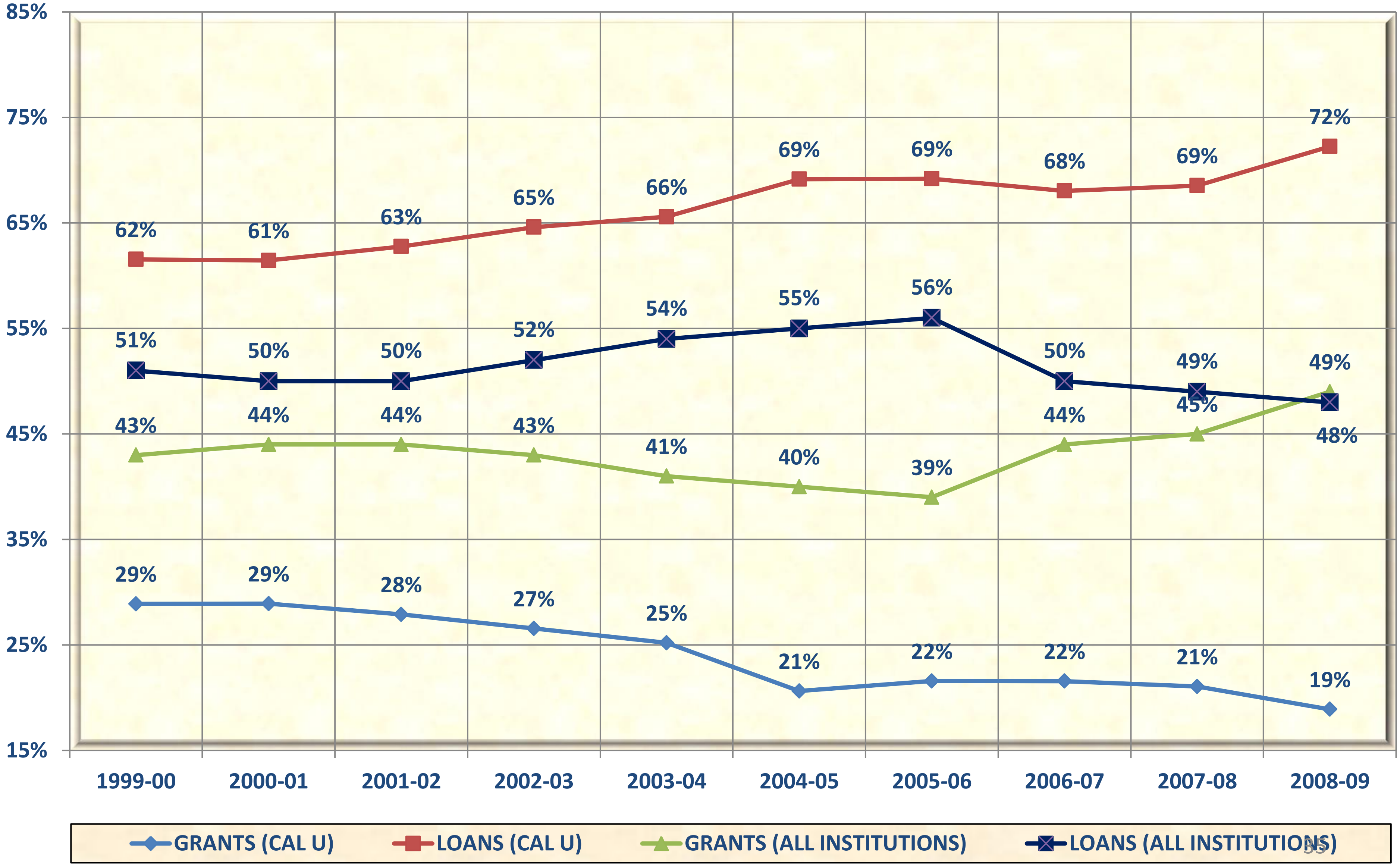
PERCENTAGE OF TOTAL AID AWARDED BY AID TYPE FOR AWARD YEAR 1999-2000



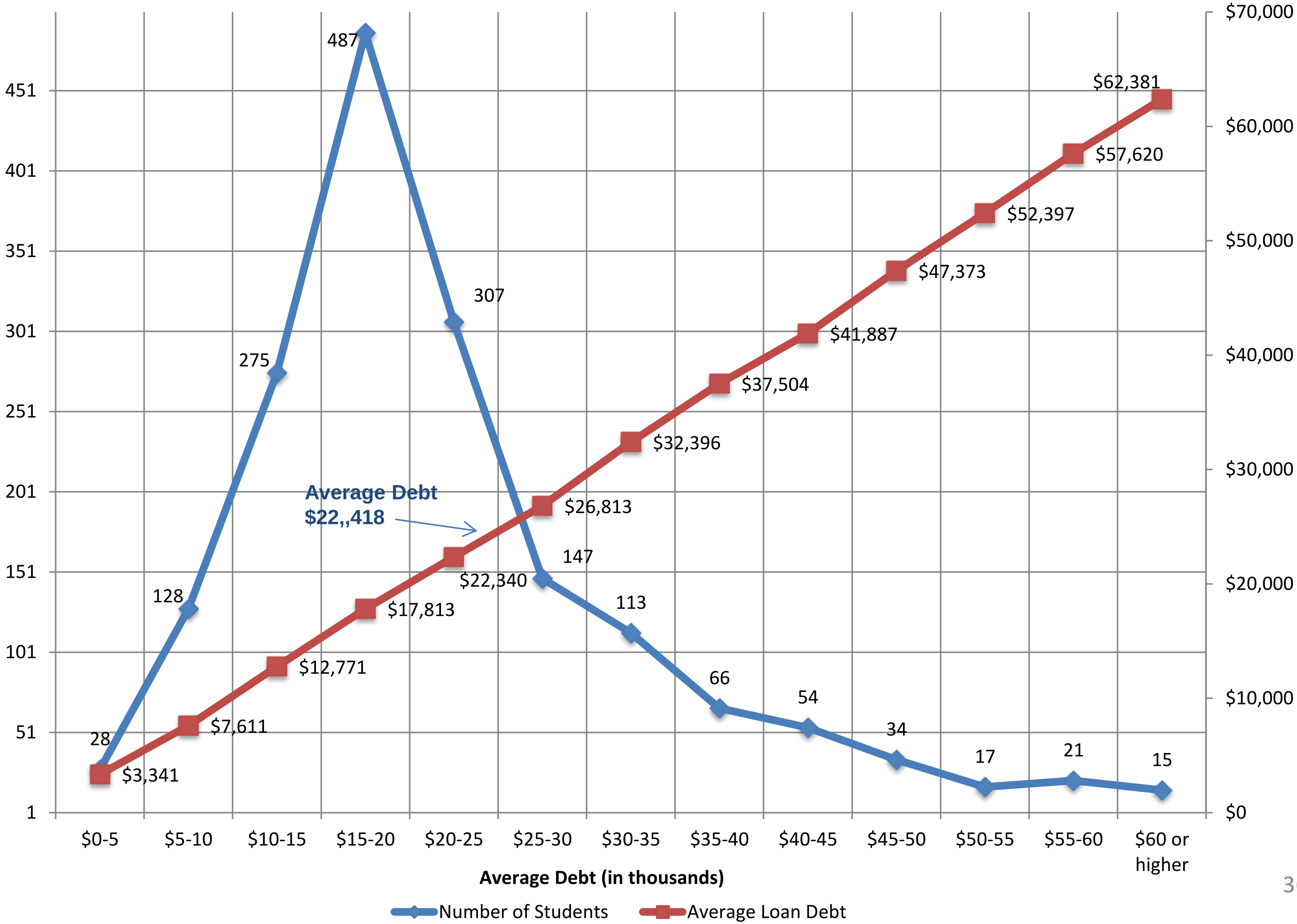
PERCENTAGE OF TOTAL AID AWARED BY AID TYPE FOR THE AWARD YEAR 2008-09

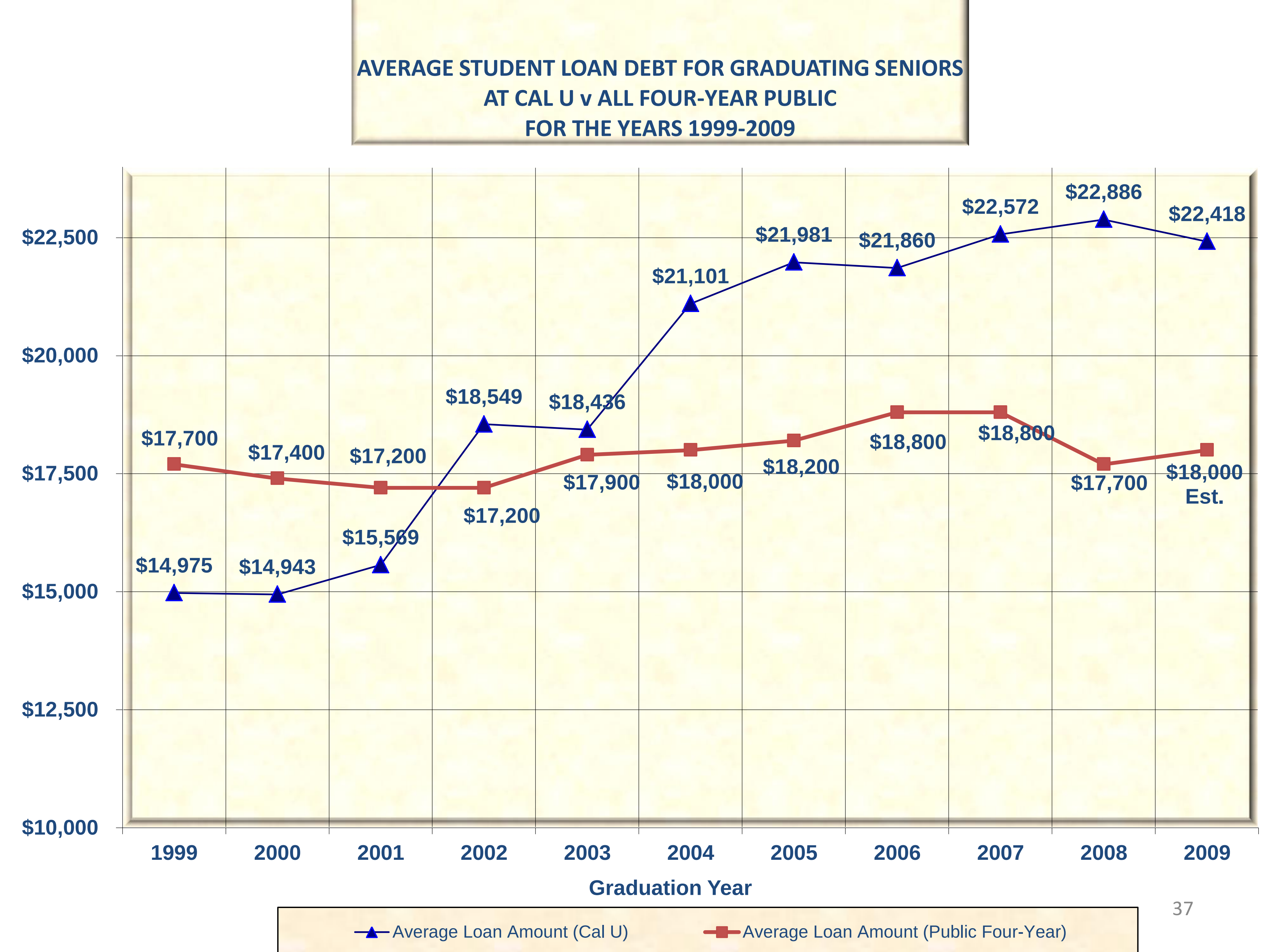


GRANTS v LOANS AS A PERCENT SHARE OF TOTAL AID AWARDED AT CALIFORNIA UNIVERSITY v ALL INSTITUTIONS FOR THE AWARD YEARS 1999 TO 2009

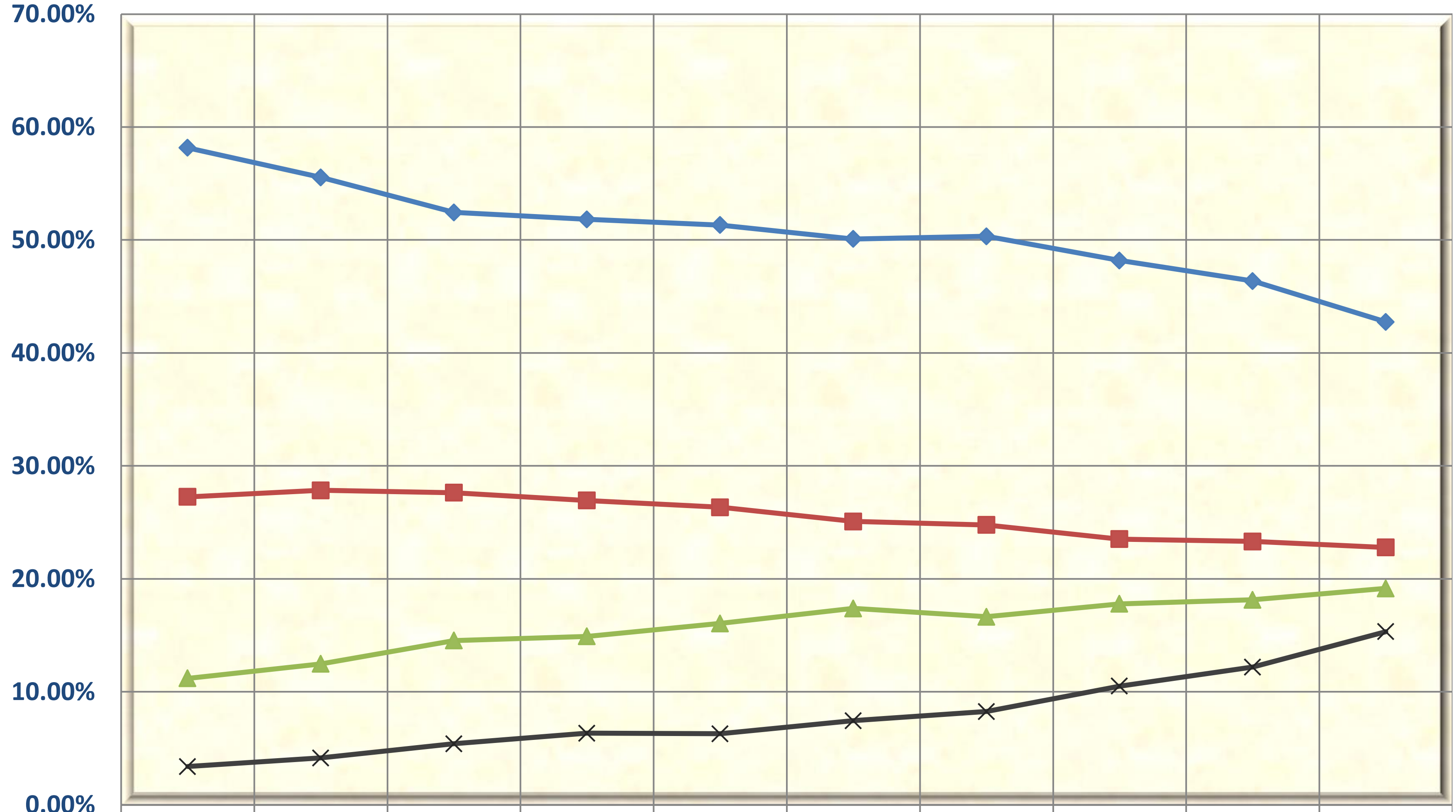


AVERAGE STUDENT LOAN DEBT OF GRADUATING SENIORS BY LEVEL OF LOAN DEBT FOR THE AWARD YEAR 2008-2009



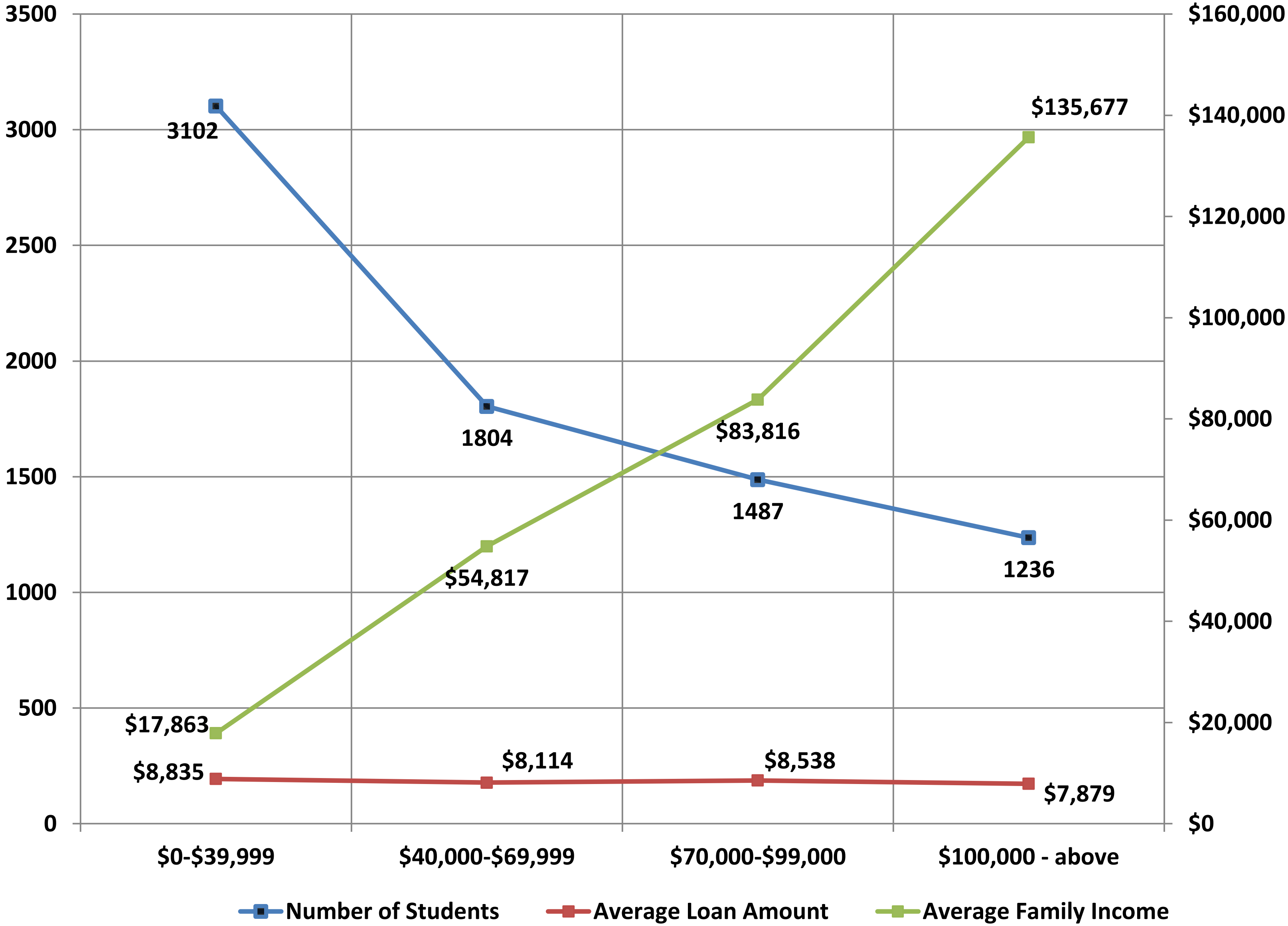

AVERAGE STUDENT LOAN DEBT FOR GRADUATING SENIORS
AT CAL U v ALL FOUR-YEAR PUBLIC
FOR THE YEARS 1999-2009
$22,500
$20,000
$17,500
$15,000
$12,500
$10,000
$14,975
$14,943
$15,569
$18,549
$18,436
$21,101
$21,981
$21,860
$22,572
$22,886
$22,418
$17,700
$17,400
$17,200
$17,200
$17,900
$18,000
$18,200
$18,800
$18,800
$17,700
$18,000
Est.
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Graduation Year
Average Loan Amount (Cal U)
Average Loan Amount (Public Four-Year)

INCOME DISTRIBUTIONS OF FINANCIAL AID RECIPIENTS FOR THE AWARD YEARS 1999-2009

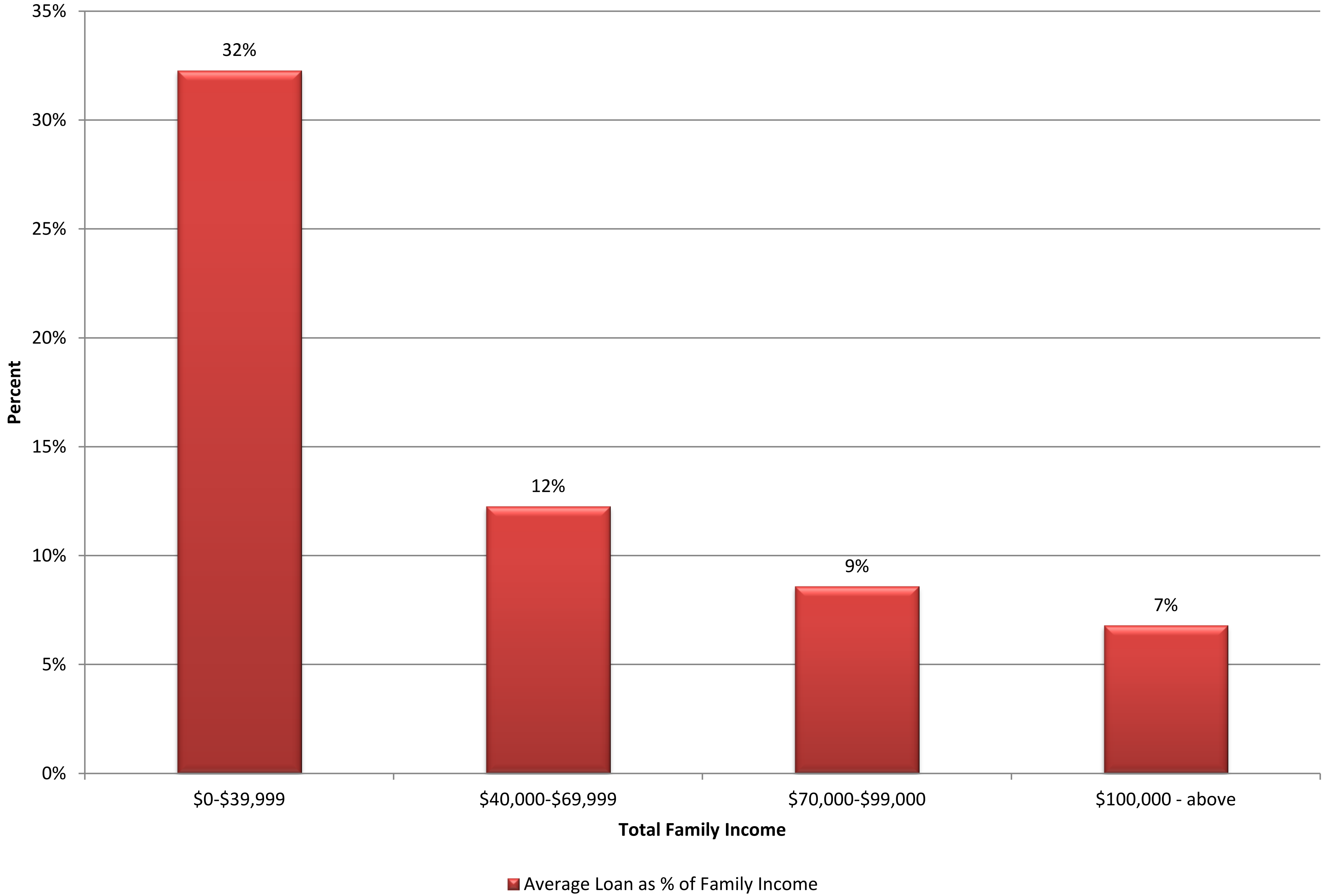


	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Less than $40,000	58.16%	55.54%	52.44%	51.83%	51.32%	50.10%	50.32%	48.19%	46.36%	42.74%
$40,000 - $69,999	27.26%	27.84%	27.62%	26.94%	26.34%	25.09%	24.78%	23.52%	23.31%	22.79%
$70,000 - $99,999	11.19%	12.47%	14.53%	14.90%	16.05%	17.38%	16.65%	17.78%	18.14%	19.15%
$100,000 or higher	3.38%	4.15%	5.40%	6.33%	6.29%	7.44%	8.25%	10.51%	12.19%	15.33%

Number of Loan Recipients, Average Loan Amount and Average Income by Various Income Categories for 2009-2010



Average Loan Amount as Percentage of Average Family Income



Some Interesting Trends

- Cal U students, compared to students public universities nationally, are placed in a financially unfair position.
- The PASSHE policy of low tuition rates low for all is already failing the neediest students who attend our universities.
- "…at the lowest possible cost to the students" has already become empty words for them; their education is not at the lowest possible cost to them—witness the 49% to 48% ratio for grants/loans for students nationally, while our students get 72% in loans and only 19% in grants!
- That fact alone <u>portends mission failure</u> and, as a result, directly validates **Assertion 3**.

Conclusion

- We began with three troubling assertions.
- They were validated by very compelling evidence.
- Obvious next question: What can, or should, we to do about it? For me, the answer is fairly obvious.
- The financial challenges of *universities* and *students* are different but connected—by tuition and by PASSHE mission.
- On the surface it seems that higher tuition rates *and* higher annual tuition rate increases, while helping to keep the universities financially viable and hence able to deliver the first part of the PASSHE mission—"to provide high quality education"—would disadvantage the students by imposing higher costs on them.

Conclusion

- In other words, on the surface, it seems that higher tuition will help the universities but hurt the students financially while defeating the "at the lowest possible cost to students" part of PASSHE's mission.
- However, there is a fallacy in that argument based on the false assumption that there is only <u>one</u> kind of student that we deal with.

Conclusion

- In fact, there is <u>wide</u> range of student family incomes.
- Students borrow <u>similar</u> amounts independent of family income. That is at first surprising. But…
- The ability to pay off loans, however, is not <u>similar</u>.
- The <u>disparity</u> in family incomes is the basis for the way private schools have always dealt with the income disparity of students—through <u>tuition discounting</u>, or what we might call <u>need-based scholarships</u>.
- Regardless of what it is called, this is clearly the fairest and most ethical way to handle income disparity.

Conclusion

- Look at the enormous debt that our graduating seniors incur (+25%), compared with the much lower debt levels for students nationally.
- We are failing the very PASSHE students <u>who are least able to pay</u>.
- The difference in the ratio of grants to loans for national students (49/48) as opposed to PASSHE students (72/19) cries out for a remedy.
- Give our neediest students a fair opportunity, rather than a lifetime of loan payments.

Conclusion

- Shift toward affluence in the financial demographics means some affluent families may be getting an unnecessary subsidy from the Commonwealth under PASSHE's current "Low-Tuition-for-All" policy.
- For such families, our tuition is clearly too *low*.
- Many Cal U students leave with *average* debt of $23,418; some leave with than $60,000 in debt!
- For such students, our tuition is clearly too high.
- Taken together, it is clear that the current policy is failing at both ends of the financial need spectrum.

Conclusion

- The political calculus currently speaks in favor of low tuition rates for all families—including affluent ones.
- The financial calculus speaks to the fact that we have only two sources of revenue : appropriation & tuition.
- One source—appropriation—is declining rapidly.
- The other—tuition revenue—can only be increased if enrollments grow fast enough to compensate for revenue dollars lost due to below-market tuition rates.

Conclusion

- “Market rates” are the norm in every successful enterprise and should be adopted by PASSHE.
- If rates too low, optimal revenue is missed.
- Such organizations shortchange stakeholders or fail for lack of operating funds.
- If rates too high, organization loses clients to others with similar quality but lower costs.
- An organization with rates too high suffers the same fate (bad) as one whose rates are too low.

Conclusion

- PASSHE tuition is artificially low with two results:
- 1) rapidly increasing enrollments—a market signal that tuitions are too low, and
- 2) wealthier students—a signal that our quality is high enough to warrant higher tuition rates.
- Efficient organizations set rates to <u>optimize revenues.</u>
- PASSHE's low-tuition policy has serious unintended consequences for our revenues, and our students—especially the neediest students who could benefit from a new policy linking <u>market rates of tuition</u> with <u>scholarships for those having the greatest need</u>.

Conclusion

- Replace the “Low-Tuition-for-All” policy with a “Market-Rate” tuition policy.
- Expand, and <u>fund</u> (by market tuition rates), the recently adopted policy of providing need-based scholarships for the neediest students.
- In this way, give larger grants, thereby living up to the second part of the PASSHE mission “…at the lowest possible cost to the students.”

Conclusion

- The higher revenue from market-rate tuitions will preserve the PASSHE universities, and
- Will also ensure that Pennsylvania's neediest students secure a high-quality PASSHE university education <u>at the lowest possible cost to them</u>.
- This would then honor and preserve PASSHE's noble mission for the indefinite future.

Conclusion

- We who believe in public higher education, its mission & its students must do everything we can to preserve these wonderful institutions
- These are great places of opportunity that many of us, myself included, benefitted from.
- As a first generation college student who received graduate degrees from Temple University, I am grateful for what public higher education did for me so long ago, at a time when it was well funded by the State.
- I owe my entire career to the education I received there, and it grieves me that young people today, due to lack of funding, are being denied the opportunity that I received.