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State System problems get worse

Summary: Problems at Pennsylvania's State System of Higher Education (PASSHE) continue to get worse. In May 2018, *Policy Brief Vol. 18, No. 20*, detailed enrollment losses through school year 2016-17 and discussed studies of the system's problems and suggested solutions. Recently, several legislative proposals aimed at helping PASSHE deal with its severe problems have been presented.

Enrollment

There is little doubt that for several of the universities in the 14-university system dramatic changes are needed. Since peaking in 2010 at 119,513, system enrollment has declined continuously to reach 95,494 in the fall of 2019. This loss of 24,019 students amounts to a 20 percent drop. But that figure does not capture the whole story. There are very large differences in the enrollment losses among the universities. Note that West Chester, which now has the biggest student count at 17,691, has added 3,210 since 2010. Slippery Rock has seen enrollment remain essentially flat over the period.

All other schools have lost at least 10 percent. Three schools—Millersville (10), Bloomsburg (14), and East Stroudsburg (16)—had the smallest percentage losses. Three schools had losses in the 20 to 30 percent range (California and Shippensburg at 27; Kutztown at 23). Two schools suffered losses of 30 to 40 percent—Indiana, 32 percent (the system's biggest student number drop at 4,778) and Clarion, 36 percent. Meanwhile, enrollment at two universities fell 40 to 50 percent—Edinboro, 46 percent (3,996 students) and Lock Haven, 42 percent. Finally, two universities lost over 50 percent of their enrollment—Mansfield, 51 percent and Cheyney, 61 percent.

Taken together, the schools with over 20 percent enrollment losses account for 23,687 or 87 percent of the actual decline in enrollment of 27,200 at the schools with declining enrollment. West Chester's gain holds the system's net loss to 24,019.

Obviously, schools with 20 percent or more in student count losses face enormous difficulties. Schools with declines of 35 percent or more face extraordinary difficulties. How do they maintain economically justifiable class sizes or degree programs? How do they cope with all the surplus infrastructure—classrooms, dorm rooms, etc.? How do they handle layoffs of redundant faculty? How many doctoral or masters programs are at risk? Indeed, how can university status be maintained for schools that have lost 40 percent or more of students and are still shrinking?

Beyond the enormous problems many of the schools have with massive losses of students, PASSHE as a whole has developed major financial difficulties resulting not only from the enrollment issue but also from overly generous compensation packages for employees. Then, too, a tightening of Governmental Accounting Standards Board (GASB) reporting requirements now shows the true level of financial difficulties PASSHE faces.

Assets and liabilities

The most definitive and succinct indicator of what has happened financially is the statement of net position—the difference between total assets and total liabilities. Note that all PASSHE financial data in this report are taken from audited financial statements for fiscal years ending on June 30 of each year cited (available online). Between 2010 and 2019, the aggregated system's net position dropped precipitously from around zero to a negative $1.6 billion. In 2010 the reported net position was positive. But it did not include the pension liability of around $700 million as required by GASB beginning in 2015. When the pension liability was not accounted for in 2010 there was a positive net position of $687 million.

Liabilities climbed from $2.072 billion in 2010 (in which pension liability was not counted) to $5.460 billion in 2019. Every category of liabilities rose over the period including workers' compensation and compensated absences. The massive $3.3 billion jump was due in large part to the required inclusion of pension liabilities that had risen from about $700 million (based on reported net assets) in 2010 to $1.108 billion in 2019, a jump of nearly 60 percent.

Meanwhile, other post-retirement benefits (OPEB) liabilities rocketed from $723 million to $1.977 billion, a spectacular near tripling of that liability. Bond debt increased 40 percent from $825 million to $1.155 billion during the nine-year period. The "other" liabilities more than doubled from $404 million to $1.070 billion.

Obviously, given the decline in enrollment, on a per-student basis, the increases in liabilities are even worse than the percentages shown above. Note, too, that assets grew substantially from $2.760 billion to $3.850 billion from 2010 to 2019, a $1.09 billion (or 39 percent) gain, leaving a negative gap of $1.6 billion compared to liabilities. The nine-year period reflects an increase in assets, other than capital assets, of $600 million to reach $1.308 billion and an increase in capital assets, net of depreciation, of $655 million to stand at $2.016 billion in 2019.

The depreciated value of buildings and improvements jumped from $1.051 billion to $1.654 billion (a 60 percent rise) to account for most of the rise in capital assets. The large rise in the value of buildings helps the balance sheet. But with enrollment down 20 percent overall and much more at half the schools, all the new building is a financial disaster.

Revenue and spending

System revenue was fairly flat from 2010 to 2019, rising from $1.903 billion to $2.104 billion, an increase of 10 percent in nine years. Operating revenue over the nine years rose from $1.301 to $1.386 billion, a rise of just 6.5 percent. The largest component of operating revenue in 2019 was student tuition and fees (61 percent) with grants and auxiliary enterprises making up most of the rest. The bulk of non-operating revenue is derived from state appropriations (68 percent) with gifts and other sources making up 25 percent.

Total expenses grew from $1.859 billion in 2010 to $2.125 billion in 2019, a rise of 14.3 percent. Employee expenses (salaries and benefit payments) climbed from $1.248 billion to $1.388 billion during the nine years, an increase of 11 percent. This, while enrollment was falling 20 percent. Non-personnel outlays climbed from $611 million to $737 million, reflecting increases in interest payment and losses, depreciation and auxiliary enterprises. On a mildly positive note, expenses hit their high point in 2017 at $2.196 billion and fell slightly in 2018 and 2019.

In short, PASSHE as a whole has severe financial issues related to declining enrollment that affects the ability to grow revenue through student charges and state appropriations for operations because student counts have fallen, substantially and dramatically, at some schools. Raising tuition becomes self-defeating when demand is falling. The university system's overall financial picture has worsened substantially because of accounting requirements and growth in employee benefits especially retirement benefits and continued pay increases.

Employment

Aggregate employment—full time and part time—at the 14 schools has fallen 12.0 percent from 2010 through the 2018-19 school year. Faculty—full and part time—fell 12.6 percent over the nine years with full time down only 9.5 percent. Bear in mind that enrollment is down 20 percent while salaries and benefit payments are up 11 percent and liabilities for pensions and OPEB are up 53 percent and 174 percent, respectively. Note that layoffs are strictly based on seniority. Newer faculty members with lower salaries are let go first regardless of ability to teach, part-time faculty has been reduced by 20 percent and annual pay increases continue based on union contracts. All this combines to push costs higher despite the payroll count reductions.

What to do?

Legislation has been proposed to deal with the system's severe problems while it endeavors to come up with ways under existing legislation to deal with shrinking enrollment. The most promising proposal, if passed, would give the PASSHE board the ability to close or combine schools. Most of the other actions being developed or approved will do little to deal with the problems created by faculty unions whose powers cripple management prerogatives and, with the threat of strikes, push contractual compensation costs upward continuously in the face of the system enrollment declines and very large declines at half the schools.

The Legislature must recognize the surplus of state-supported university capacity. With Penn State's enrollment of over 74,000—not including professional schools or online students—Temple at nearly 40,000 and Pitt and its affiliated campuses at 34,000 students, these three state-related schools have more enrollment than all the PASSHE schools combined. And all push hard to sustain enrollment in an environment that is increasingly competitive because of falling high school graduate counts.

Moreover, there are many private schools, large and small, competing for many of the same students, not to mention schools in other states. The Legislature also must recognize the importance of union-free faculties. Unions are inimical to containing costs, education excellence and management prerogatives such as hiring decisions and layoffs.

Pennsylvania's State System of Higher Education should be moving to combine the smaller failing schools, including Cheyney, with other schools. It should also contemplate letting West Chester go its own way and any other school that feels it can make it as a free-standing university. As of now, the high acceptance rates and dropout rates and low graduation rates after six years at several schools are simply not what taxpayers should be supporting.

It is time for the Legislature and the governor to address these problems head-on.

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