

### State University System Requires Major Legislative Remedial Actions

**Summary:** The 14 state-owned universities that make up the Pennsylvania State System of Higher Education (PASSHE) face enormous difficulties. The problems have been well documented by two previous Allegheny Institute *Policy Briefs* from 2017 and two major studies, the first by National Center for Higher Education Management Systems (NCHEMS) and the second by the Rand Corporation. This *Brief* goes into more depth regarding the financial situation, costs and performance than the Rand and NCHEMS studies and offers suggestions for addressing the problems. Legislative actions regarding faculty unions and degree offerings among the schools should be at the top of the list.

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At the top of the list of its woes, PASSHE schools have seen a near steady decline in total enrollment (undergraduate and graduate) since the 2010-11 academic year, with only Slippery Rock and West Chester seeing an enrollment increase. All data cited in this *Brief* are published by the Joint State Government Commission in its 2017 and 2018 reports on PASSHE schools and state-related universities. Enrollment figures show the system lost 14,814 (13.2 percent) full-time equivalent students (FTE) from 2010-2011 to the 2016-17 academic year to stand at 97,512. The 12 schools with declining FTE since the 2010-11 academic year saw their count slide 17,033 or 18.9 percent. Cheyney's 40 percent and Mansfield's 34.6 percent plunge along with Clarion's 29 percent dive led the percentage declines. Declines in five of the other schools were in the 20 percent range.

Note that the western PA universities in California, Clarion, Edinboro and Indiana had a combined six-year drop of 8,200 FTE students —almost half of the combined losses at the 12 schools with declining enrollment. These four western schools, along with Slippery Rock, have student drawing areas that overlap substantially.

The numbers for undergraduate students are even worse than the total enrollment figures. Only West Chester had a gain over the period while Bloomsburg and Slippery Rock had minimal declines. But FTE count at the other 11 schools fell a total of 21.8 percent led by Cheyney's 40 percent drop, followed by Clarion, Edinboro, Lock Haven and Mansfield at 25 percent or more.

And for the future the situation gets worse because projections of high school graduates from most areas of the state—the overwhelming sources of enrollees at PASSHE schools—show a long term declining trend from current levels. In short, the enrollment problem for the schools already suffering major declines is going to get worse. And the truly excruciating dilemma: as enrollment falls, it gets ever harder to maintain degree programs and course offerings and the best faculty begin to seek alternative employment, making the schools increasingly less attractive to potential students. In sum, several PASSHE schools are facing a self-reinforcing downward spiral.

Note too that several schools are facing the additional problem of having major drops in the number of students from the lower division compared to the upper division. Bloomsburg's ratio of upper division count to lower division is lowest at 42 percent. Several others are well under 50 percent. By contrast, Slippery Rock and West Chester ratios are 64 and 65 percent, respectively. The inability to retain students points to even greater problems in the future as potential freshman enrollees from Pennsylvania continue to decline.

And adding to the crisis—and embarrassment—for the PASSHE schools, enrollment at Penn State has continued to grow climbing by 11,160 or 14 percent over the last five years. Temple FTE is up 2,692 or 7.8 percent. Enrollments at Pittsburgh and Lincoln are essentially flat. In sum, the state-related schools (Penn State, Pittsburgh, Temple and Lincoln) have added almost as many students as the combined 14 state-owned schools lost.

Faced with their severe enrollment problems, several PASSHE universities have adopted very lax entrance requirements, accepting virtually everyone who applies. This clearly aggravates the dropout problem as well as imposing needless costs on students and taxpayers.

Meanwhile, during the same period in which the FTE student count fell 18.9 percent at the 12 universities that lost students, total instructional staff, including full time faculty, adjuncts and graduate assistants at these schools, fell just 6.3 percent from 4,429 to 4,152. This does not bode well for cost per student.

Compounding the unfavorable comparisons with state-related schools, class sizes are smaller and faculty cost per student higher at the state-owned universities than at the state-related schools (Penn State, Pittsburgh, Temple and Lincoln). For purposes of the class size and faculty cost comparisons, Lincoln and Cheyney are excluded because of their very small size relative to the other schools in their group and their being far outside the norm for their groups' class size and cost statistics.

For lower division students, as classified by the Joint State Government Commission report (presumably mostly freshman and sophomore), average class size at state-owned schools was 29 students. At the state-related schools the average was 31. For upper division students the PASSHE schools' classes averaged 19 students while state-related universities averaged 25.

At the same time, faculty costs per student at the PASSHE schools are on average slightly higher for lower division students compared to state-related schools (\$3,076 to \$2,850). There is a wide variation in costs in the state-owned schools, ranging from \$2,500 to \$4,000. Most of the schools (excluding Cheyney) are close to \$3,000 or a little higher. For upper division students the average faculty costs per student were much higher at the PASSHE schools than at the state-related schools, \$5,409 compared to \$3,932.

Employee costs other than wages and salaries are also quite high for the combined State System schools. In the year ended June 30, 2016, non-salary costs were \$523 million, equal to 59 percent of the \$880 million paid in salaries and wages. For 2014, the percentage was 52 percent. The two-year increase was due to a \$72.6 million or 80 percent jump in pension payments by the universities. This was necessary to cover the leap in the employer match requirement for SERS and PSERS. Then too, combined employee and retiree health expenditures were \$253 million, equal to 29 percent of salary cost in the year ended June 2016.

Plainly stated, faculty cost efficiency in terms of class size and cost per student in the PASSHE schools are on average no bargain compared to the state-related schools with their many satellite campuses. This is opposite of the situation one would have expected.

And as far as the funding argument is concerned, bear in mind that state instructional appropriations per student in the 2016-17 academic year were much higher for PASSHE schools than for the state-related schools (\$4,504 compared to \$3,292). Per student state appropriations ranged from a high of \$16,839 at Cheyney to a low of \$3,400 at West Chester. Meanwhile for the state-related schools, Lincoln got the largest per-FTE appropriation with \$7,581 and Penn State the lowest at \$2,540.

Clearly, in light of these data most PASSHE schools face severe financial and enrollment problems. Two recent studies looked at the schools to determine the problems and how to fix them. The NCHEMS report from July 2017 presented a description of the problems at the schools but failed to offer any real solutions. Indeed, the report amazingly identified the root cause as “inadequacies of the governance structure for coping with converging pressures.”

Moreover, NCHEMS made two astoundingly counterproductive recommendations. One; “No institution should be closed and there should be no mergers of any institutions. Second; (make) “no attempt to undermine collective bargaining agreements or processes.” This after noting that the just-signed faculty union contract calls for \$52 million more compensation than the old contract for the already cash strapped university system. In short, the NCHEMS report was essentially useless from a solutions standpoint.

Recently, a Rand Corporation report commissioned by the Legislative Budget and Finance Committee was released. The report reviewed the enrollment decline as well as the governance issues explored by NCHEMS. However, Rand offers some pointed

criticism of the recently approved faculty union contract and provides five options for reorganizing the PASSHE schools.

According to Rand, “Interviewees noted that factors contributing to this strained (*union – management*) relationship include the contract provisions and their enactment, as well as the collective bargaining agreement negotiation process.”

Faculty salary scale and assignment restraints were of particular concern, first, “The current scale is uniform, does not take disciplines into account, and does not allow for market-based adjustment” and second, “faculty cannot be required to teach online classes unless it is in their letter of appointment.”

And there are more provisions that are beyond understanding; two stand out. “Institutions cannot hire new faculty without the approval of all faculty in the department. And “Institutions cannot retain highly rated faculty over more-senior faculty.” Little wonder university officials view these restrictions as both costly and an obstacle to efforts to do needed restructuring of academic programs.

In general, the contract’s provisions make it hard or impossible to use managerial discretion to undertake cost savings, to hire the best people in some fields, change course delivery methodologies and to move personnel to the institution’s greatest advantage.

Rand proposed five options for dealing with the management structure issues as well as the underlying enrollment issues. These include the following from the report:

- *Option 1: Keep Broad State System Structure, Including Current Individual Universities, but with Improvements*
- *Option 2: Keep Broad State System Structure with Improvements Accompanied by Regional Mergers of Universities*
- *Option 3: Merge State System Universities and Convert to State-Related Status*
- *Option 4: Place the State System Under the Management of a State-Related University*
- *Option 5: Merge State System Universities into State-Related Universities.*

Obviously, each of these options would require a lot of legislative changes in terms of the governance structure. Those involving mergers of schools would also require legislation to specify which schools would be merged, what the new names would be and the process for handling personnel and programs changes necessary to accomplish the mergers.

There is little chance of folding PASSHE schools into the state-related schools. That would almost certainly require closures of several schools in order to reduce overlapping student feeder regions. Then, too, the absence of labor bargaining agreements at Penn State and the University of Pittsburgh—despite ongoing union organizing efforts—would make integration extraordinarily difficult. Pay scale differences and faculty limitations on management would create insurmountable obstacles.

Notwithstanding the difficulties of closing or merging one or more of the PASSHE schools, it is clear that major actions need to be taken.

Even though it will be politically difficult, the Legislature must do what is best for the state's taxpayers and the education of its students.

First, it should take away the right to strike of employees at state-funded institutions and outlaw provisions in contracts that require using seniority over excellence in layoff decisions. Second, recognize that Cheney and perhaps Mansfield with their enormous declines in enrollment are far too small to offer adequate programs to be assigned university status. Close them or merge them with other schools.

A more promising approach to addressing the problems of most PASSHE schools would involve arranging program degree offerings among the universities in a way that would have each school achieve a level of faculty excellence and reputation in a few specific fields that would generate student interest. This would eliminate having cookie cutter duplication of degree offerings across the system. It would also limit the need for closings or mergers and would allow each school to reach an optimal size. This will present difficulties because the number of instructional staff will continue to decline with falling enrollment and some faculty might have to be reassigned to other schools.

One thing is certain; letting the system continue on its current path will waste huge amounts of money, lead to sub-optimal educational opportunities and outcomes and be a source of terrible anxiety for everyone involved. Corrective actions by the Legislature and governor are extremely overdue.

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