

Five Options for Long-Term Sustainability and Viability of Pennsylvania's State System Universities

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Testimony presented before the Pennsylvania Legislative Budget and Finance Committee on April 25, 2018, and the Pennsylvania House and Senate Education Committees on April 30, 2018.



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*Five Options for Long-Term Sustainability and Viability of Pennsylvania's State System
Universities*

Testimony of Charles A. Goldman¹
The RAND Corporation²

Before the Legislative Budget and Finance Committee
Pennsylvania General Assembly

April 25, 2018

and

Before the House Education Committee and the Senate Education Committee
Pennsylvania General Assembly

April 30, 2018

Good morning. Senate Resolution 34 of 2017 directed the Legislative Budget and Finance Committee to conduct a study and issue a report relating to the long-term sustainability and viability of universities in the Pennsylvania State System of Higher Education (State System). This work included the development and assessment of possible courses of action that would help sustain the universities. The committee contracted with the RAND Corporation to conduct this study and issue the report. I am Charles Goldman and I co-led the RAND team that worked on this project.

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

² The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

We conducted the project by reviewing other reports, interviewing stakeholders inside and outside the system, examining practices in other states, and analyzing statistical data. Our team found several external and internal factors that currently and likely will continue to challenge the sustainability of the State System in its current configuration. To help the state address these challenges, we developed and assessed five options for change.

In this testimony, I will provide an overview of the most critical factors challenging the State System's universities and then discuss the options we developed to improve the universities' long-term sustainability.

External and Internal Challenges and Effects on State System Universities and Students

The challenges that State System universities face are of a dual nature that, together, represent a severe threat to the sustainability of the State System's universities. External factors—such as declining college enrollment and state support—are challenges faced by many university systems across the United States. However, the State System and its universities also face several specific internal challenges, such as the system's governance structure.

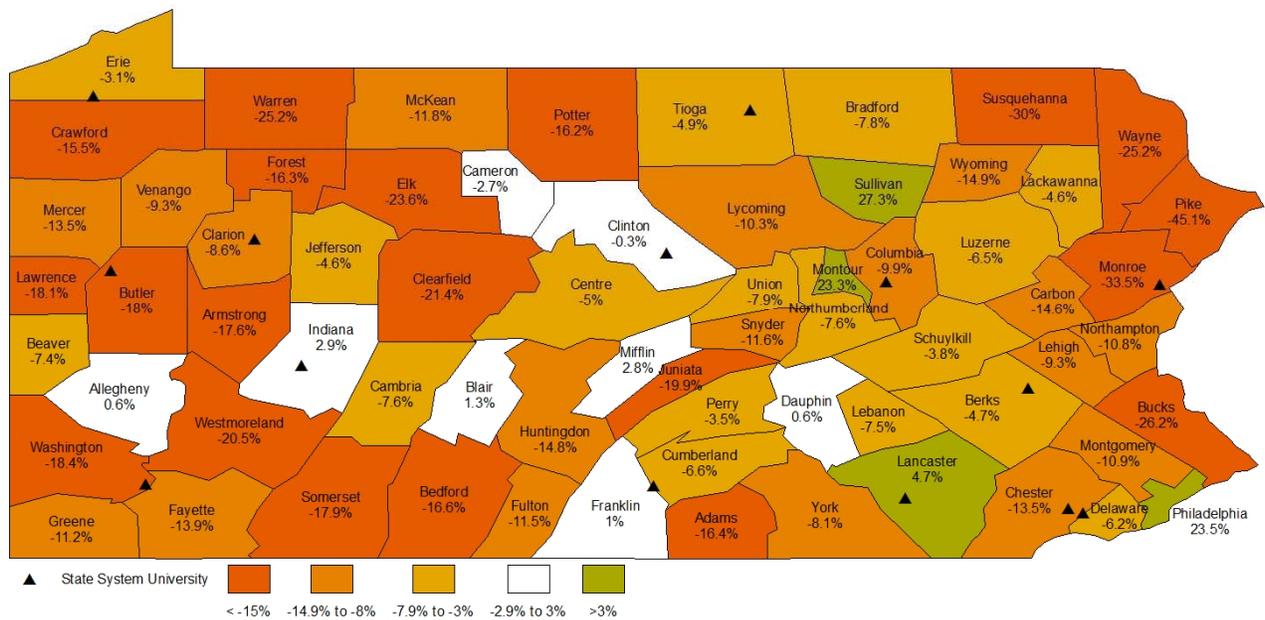
External Factors: Demographic Trends and Funding Pose Significant Challenges

The first key external challenge is that Pennsylvania has a declining traditional college-age population. Most of the State System universities draw students from surrounding counties, as well as from the Philadelphia and Pittsburgh regions. The vast majority of Pennsylvania counties are anticipated to experience a decline in the traditional college-age population, which will likely present significant challenges to most of the State System universities. Figure 1 shows youth population projections between 2015 and 2030, along with the locations of the State System

universities. The green shades indicate growing counties, the white shades indicate fairly stable counties, and the orange shades indicate declines, with darker shades indicating larger declines.

A second key external factor that universities in the State System are dealing with is limited public financial support. Pennsylvania provides a low level of public financial support for public higher education compared with other states, and state appropriations for higher education declined sharply in 2011. Consequently, as shown in Figure 2, state appropriations are accounting for a smaller proportion of State System university revenues, while tuition and mandatory fees are accounting for a larger proportion.

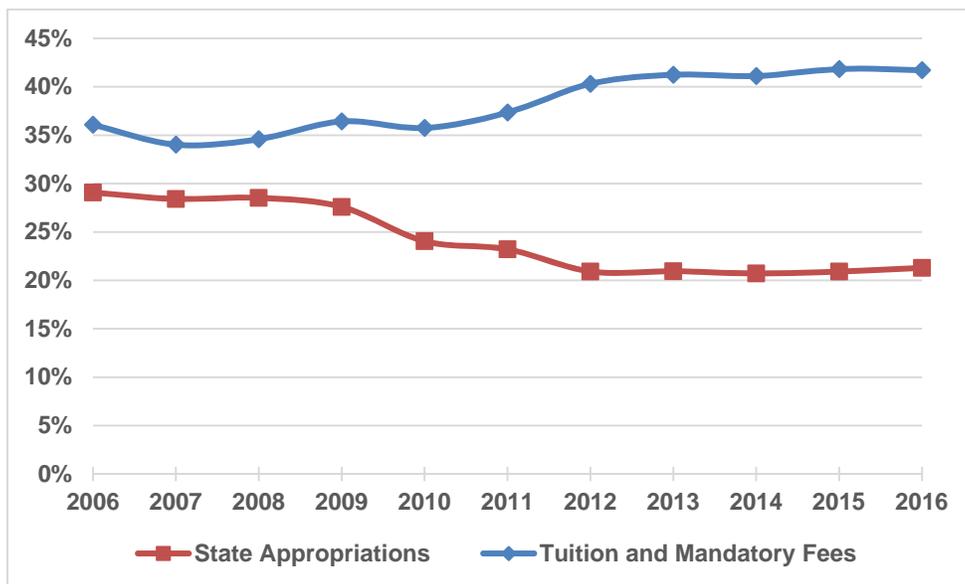
Figure 1. Forecast Change in Youth Population by County, 2015–2030



SOURCE: Pennsylvania State Data Center, *State and County Population Projections by Age and Gender, Pennsylvania: 2010 to 2040*, Middletown, Pa., 2012.

NOTE: This map reflects population projections of 15- to 19-year-olds.

Figure 2. Major Sources of State System University Revenues as a Share of Total, 2006–2016



SOURCE: RAND calculations from National Center for Education Statistics, *Integrated Postsecondary Data System*, undated. As of March 14, 2018: <https://nces.ed.gov/ipeds/>
 NOTE: Not all sources of revenue shown.

Several Internal Factors Reduce the State System’s Ability to Respond to Challenges

Several internal factors also challenge the viability of the State System’s universities.

Governance in the system is reportedly bureaucratic and sometimes places political goals above the needs of the system’s universities.

A second internal challenge is inflexible labor relations with faculty: Interviewees from all sides of State System universities reported a stressed relationship with the statewide faculty union. Terms in the faculty collective bargaining agreement are seen as limiting universities’ abilities to respond to challenges, such as by restructuring academic programs.

A third internal challenge arises from the state rules pertaining to procurement and construction, which are much more stringent than those applied to state-related universities.³

³ State-related universities receive support from the state and offer lower tuition rates to state residents, but are not owned by the state.

Several regulations add costs and slow down university efforts to purchase services and improve facilities.

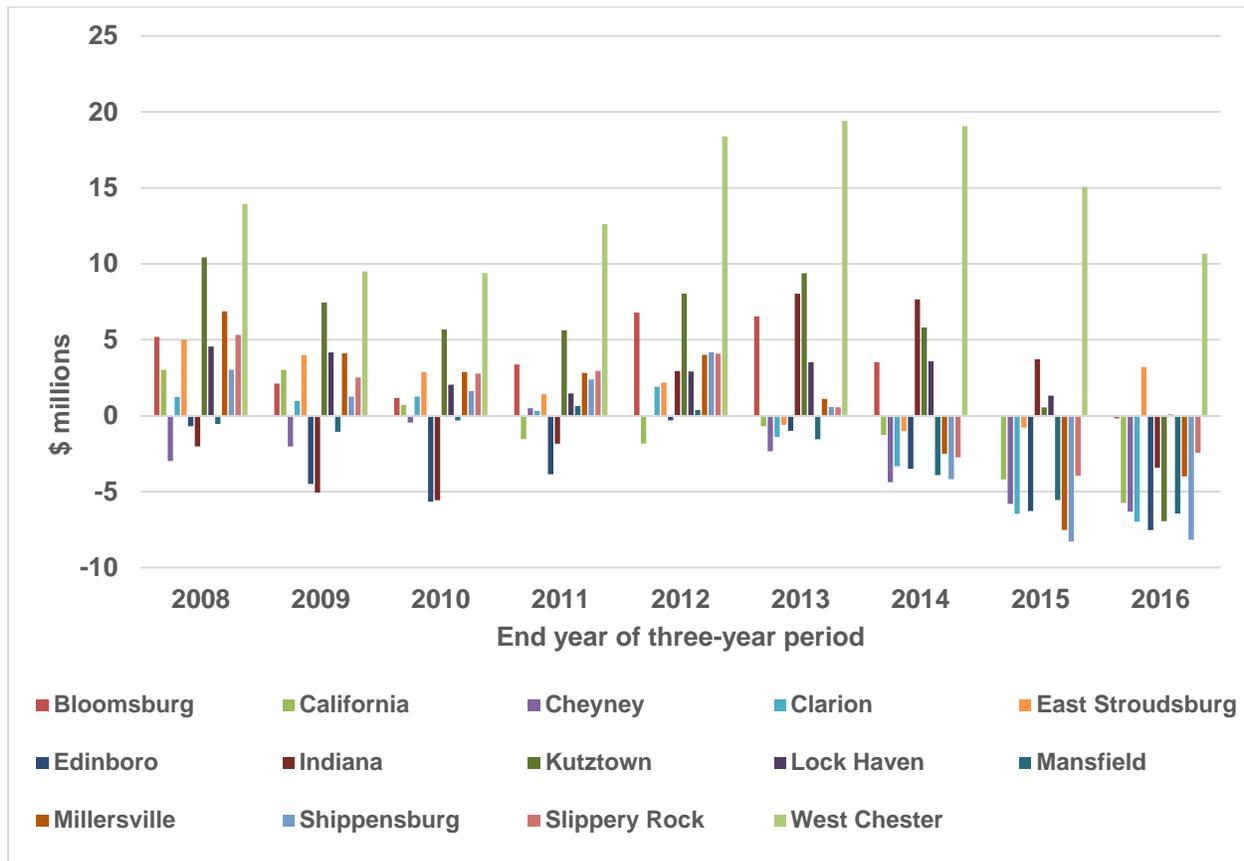
A fourth internal challenge, raised by several interviewees from State System universities, is that system office support and services do not always meet the needs of individual universities. For instance, some universities would prefer more strategic advice and guidance from the system office.

Consequences of Internal and External Challenges for State System

Universities and Students

These internal and external challenges are already affecting State System universities in negative ways and will continue to do so. Several universities are experiencing financial stress, and others are headed in that direction. Figure 3 shows the three-year average of surpluses or deficits. Each cluster of bars represents the 14 State System universities for one three-year period. In the early years, most universities show surpluses. During the Great Recession, a few universities show deficits each period. In the most recent three years, the pattern changes significantly: More universities are experiencing deficits over time, although some of the later values may reflect accounting changes from 2015 that require recognition of long-run pension costs.

Figure 3. Change in Net Position (Surplus or Deficit), Three-Year Average at State System Universities, 2006–2008 to 2014–2016



SOURCE: National Center for Education Statistics, undated.
 NOTE: Each bar represents one of the 14 State System universities, shown in alphabetical order. All adjustments to net position, such as one-time changes in liabilities, are excluded.

These challenges likely affect students. Room and board charges are increasing faster than at competing institutions and could continue to rise, and services such as counseling have been curtailed or downsized.

Five Options to Address Challenges

Generally speaking, the strongest strategies for change include giving autonomy to universities that have demonstrated capacity to manage while providing support and pathways to

struggling institutions that allow them to become healthier. In addition, universities need greater flexibility in managing their workforces to adapt to changes.

Closing universities entirely is extremely difficult politically and practically. Rather than closing institutions, a more promising approach is to maintain some academic programs at all or almost all of the current State System universities through some type of consolidation among institutions inside or outside the current system. We recognize that such consolidation could result in reduced affordability and access for students, as well as changes to the current mission of certain universities, but it should give the universities the flexibility that is needed to respond to their challenges.

We have identified five options that have the potential to address the challenges that the State System and its universities are facing. It is also possible that the state could adopt a combination of these options, as it is not necessary to apply the same option to all of the universities.

Option 1 is to keep the broad State System structure, including the current individual universities, but with some improvements. This option upgrades the existing system by modifying the governance structure to reallocate authority across the various system levels and freeing universities from some state requirements, such as those regarding procurement and construction.

Option 2 makes the changes in Option 1 and also consolidates the current 14 universities into a smaller number—perhaps five to eight—by merging State System universities in each region of the state and including at least one fiscally viable university in each merger.

Option 3 would eliminate the State System structure and convert the universities to state-related status. We do not recommend independence for universities that are struggling or facing

significant market challenges. This option would be applied to the stronger universities or to weaker universities that could be merged with stronger ones prior to independence.

Option 4 would place the State System and all its universities under the management of a large state-related university, building on its strong performance, possibly for a defined period of time, such as ten years.

Option 5 is to merge State System universities as branch campuses into one or more of the state-related universities.

Major Structural Changes Are Needed to Address the System's Challenges

The State System and its universities face significant external and internal challenges, including long-term shifts in the population, limited state funding, and poor internal structures within the system. Our research indicates that a continuation of the current system, even as modified in Option 1, is unlikely to address these challenges fully. Instead, we recommend major structural changes, such as those found in Options 2–5.

These options are likely to be more difficult to implement than Option 1 and could entail other risks. In particular, options where the current State System universities become independent state-related universities or merge with state-related institutions could result in the loss of the State System's valuable sovereign immunity from lawsuits and might lead to increases in student costs. But if Options 2–5 are implemented well, they are likely to meet key objectives of strengthening financially stressed universities and better matching staffing size to enrollment trends.

The mergers described in Options 2, 3, and 5 could generate cost savings by matching financially stressed universities with stronger ones and allowing institutions more flexibility.

However, universities are likely to lose aspects of their current missions, and anchor institutions could lose their academic standing and incur more debt if the state does not provide support.

Allowing a large state-related institution to manage the State System, as in Option 4, balances structural changes, feasibility of implementation, and associated risks, and it does not entail the complexities of mergers.

Because of these factors, Options 4 (state-related management) and 5 (merger as branch campuses) have the best long-term prospects, if the state and one or more large state-related institutions can reach an agreement for implementation. If such an agreement is not possible, the state should consider other mergers, such as the ones described in Options 2 or 3. If none of Options 2–5 appear feasible, the state should pursue Option 1 as a final choice. As already noted, Option 1 would improve prospects for the current State System universities, though quite possibly not sufficiently to address their long-term challenges.

Finally, the state could theoretically benefit from a coordinating body to align the activities of its diverse set of higher education providers. But concerns of added bureaucracy and the difficulty in getting political support from the major higher education sectors argue that the state should not establish such a body unless it is necessary for a specific purpose under one of the options selected.

Thank you for the opportunity to present today, and I look forward to your questions.