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This is a time for choices.

The end of the first semester of this academic year provides a valuable opportunity for us to take a step back and gauge how our campuses are managing during these challenging times. With the help of many, our university presidents and their teams have made critical choices to ensure that our students continue to receive a quality education that they and their families can afford.

As we know, the 18 percent reduction in our state appropriation for this year translated into an \$800 per student loss. Our Board of Governors made the choice to raise tuition by \$436, keeping our commitment to students and their families not to fully recover the lost revenue through tuition. Hopefully, the fact that our enrollments are close to our historic high level of 120,000 students means it was the right choice.

However, that decision, and the reality that state revenues are not recovering, means that we are facing several more years of difficult financial pressures. In response to these realities, our university leaders have made a number of tough choices to manage with limited resources, not only in the current year, but also possibly for several more years of difficult budgets ahead.

In some cases, fewer adjunct faculty have been hired. In others, class sizes have increased. Vacancies have not been filled and many lower-enrolled programs have been put in moratorium or discontinued. We are doing more with less.

Through a combination of retirements, voluntary separations, and furloughs, PASSHE has 339 fewer full-time equivalent (FTE) positions funded in today's budget than were funded in 2008/09. Throughout the System, over 900 funded positions (full-time and part-time)—approximately seven percent (7%) of the total PASSHE workforce—have either been held vacant or eliminated in 2011/12. Many of the vacated positions will remain unfilled.

These decisions have been made in the context of the goal of ensuring that our students will continue to get the programs and courses they need to graduate and be prepared for their lives and careers after college.

Colleges and universities across the country are responding to similar challenges by changing the way they do things, including how they teach, to better reflect current research-based understanding of how students learn and access information. The choices that lie ahead for us include taking the innovations that many of our faculty have developed and spreading them across our System. They also involve adopting national best practices in using peer tutors in certain courses, an approach that has been shown to increase student learning, even (and sometimes especially) in large section courses. These and other options must be considered in order for us to respond to changes in the ways that students learn and acquire information, and retain our position as a System of universities that deliberately incorporates the best and most effective ways to provide a top quality education to our students.

But there is good news as well. The choice was made to offer new programs, especially those provided online, which are growing at a robust pace. New Professional Science Masters programs have been introduced at Bloomsburg, East Stroudsburg, Indiana, Kutztown, and Millersville Universities, with others planned. New 2+2+2 partnerships with high schools, community colleges, and PASSHE universities provide innovative and effective ways for students to obtain degrees in a variety of technical fields. And, several of our universities are creating collaborative courses and programs. Through the creative efforts of many of our faculty, Web-enhanced opportunities have been created, including eye-popping virtual labs that result in better education for our students.

We are advocating for legislation which will, among other things, permit all PASSHE universities to offer applied doctorates and give our faculty and staff new opportunities to be entrepreneurial. We have enjoyed broad support in both chambers of the Legislature and hope to have a final bill or package of bills approved early next year.

Regardless of how successful we are and will continue to be in balancing all of the current pressures on the System, there are several major issues on the horizon that, if not addressed quickly, could make future choices even more challenging, or eliminate the opportunity for choices entirely.

PASSHE active employees and annuitants, excluding those enrolled in the PEBTF, are covered under a group health plan. Our workforce demographics reflect an aging population; 50 percent of our current employees are over the age of 50. One outcome is a steady growth in our annuitant healthcare costs. By 2020, is it likely that the number of annuitants will exceed the number of active employees in the health plan. In other words, more retirees will be using benefits and services than active employees. Together, we have to determine menu options and cost sharing responsibilities that will create a fair healthcare package that doesn't unduly burden our new and existing employees and students. Additionally, you have heard a great deal in the media about benefits' costs in general, largely because the cost of

healthcare continues to rise very rapidly. PASSHE is not excluded from these problems.

At the same time, PASSHE's employer funding obligations to the two state pension funds, SERS and PSERS, are increasing significantly. Based on recent changes to Commonwealth law regarding these retirement programs, it is projected that the employer contribution rate for SERS will grow from its current average of 6.99 percent of payroll to a peak of 25.9 percent of payroll in 2016/17 and result in an estimated increase in the System's annual retirement costs that exceeds \$80 million.

Benefits' costs are a large part of our budget. Here's an example of what these healthcare and retirement cost increases mean. Today, benefit expenditures equal approximately 38 percent of all tuition revenue. If costs continue to increase at current rates and tuition increases remain modest—which has been our history—that percentage will increase to well over half of all tuition dollars by 2020/21.

How to address these future trends is a choice we have to make today.

PASSHE leaders must continuously review our policies and procedures to ensure that they not only are totally compliant with state and federal statutes, but also are relevant to issues which directly impact our campuses. Most recently, I have asked for a full review of our policies and procedures with respect to the reporting of sexual harassment and misconduct. Those are underway, and have been completed on most campuses. I also remind all of us that each of our campuses has a designated area for free speech. We strongly value the right to voice opinions, even those with which we personally disagree. We also place the highest value on our students' safety. So, we regularly work with our campus police as well as local and regional law enforcement to ensure that we are doing all we can to provide that safe environment.

In closing, I want to take this opportunity to thank each of you for all that you have done in 2011 to make PASSHE a great university System. You make a difference in the lives of our students. I know the reason you come to work every day is that you want to make sure that our students have the best possible places to live and learn. Others before us made choices that gave us those opportunities. Now it's our turn to pass it on to this generation of students.

I wish you a wonderful holiday season, and all the best for 2012.

John