



**PennState**

**Meetings of the Board of Trustees | September 15, 2017**

# **Minutes**

**MINUTES OF MEETINGS OF  
BOARD OF TRUSTEES  
VOLUME 302  
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MINUTES OF MEETING  
**BOARD OF TRUSTEES**

VOLUME 302  
September 15, 2017

A meeting of the Board of Trustees was held in Dean's Hall of the Penn Stater Conference Center Hotel, University Park, PA, at 1:00 p.m. on February 24, 2017.

The following Trustees were present: Dambly (chairman), Schuyler (vice chairman), Barron, Brown, Capretto, Casey, Cotner, Dandrea, Detwiler, Dietrich, Doran, Fenza, Han, Harpster, Hartzler, Hoeschele, Hoffman, Jubelirer, Kleppinger, Lubert, Lubrano, McCombie, Oldsey, Paterno, Pope, Potts, Rakowich, Redding, Rivera, Schneider, Steele, Tribeck, and Weinstein.

Present by invitation were Faculty Senate officers Taylor and Woessner; student representatives DeBellis, Jordan, Krott, Pragg, Shockley, and Taylor; representatives Egolf, Ilie, Jacob, Pauley, Strauss, and Wagman; and staff members Andrews, Barbour, Beahm, Bieschke, Bundy, Dunham, Gray, Guadagnino, Hanes, Hillemeier, Huston, Jones, Kubit, Lokman, Moore, Mulroy-Degenhart, Poole, Sharkey, Sims, and Whitehurst.

Chairman Dambly called the meeting to order, and noted that the Board met in Executive Session earlier in the day to discuss various privileged matters. He welcomed the incoming student cohort, and University colleagues Marie Hardin, Chair of the Academic Leadership Council; Mary Beahm, Interim Vice President of Human Resources; Vice Provost for Faculty Affairs Kathy Bieschke; Board Office staff member Shelly Zeigler-Byers; and Administrative Fellows Michelle Schafer and Laura Miller. Next, Chair Dambly welcomed members of Penn State's interdisciplinary team who recently placed second, among 77 teams, in NASA's 3-D Printed Habitat Challenge. Drs. Shadi Nazarian, Jorge Duarte, and Sven Bilen reflected on the project, and acknowledged the collaboration of students and faculty from many specialized fields, and the support provided by the University for this undertaking.

Recorded remarks are available at <https://youtu.be/5DUNGRbslp0>

The roll was called by Janine Andrews, Associate Secretary of the Board. Following the roll call, the Board voted to approve the *Minutes* of the meetings of the Board held on July 21, 2017.

**President's Report**

Dr. Barron's President's Report was an overview of Penn State's Strategies for Addressing Budget Challenges. He provided some background on the fiscal environment, the history of state appropriations, and college tuition changes at colleges and universities nationwide and Penn State. He noted the ongoing budget reductions and reallocations that have saved \$403.8 million since 1992-96. Then he described a number of Penn State's recent budget reductions and reallocation measures that have been completed (Voluntary Retirement Program, New Health Care and Rx Program, Intercollegiate Athletics Big Ten Contract, and Vice President for Research Initiatives). He also described some measures that are still underway, specifically the Human Resources Transformation, and the Information Technology Transformation. In addition, he added that they continue to explore new strategies for increasing revenue, as we remain committed to maintaining our standards of excellence while we carry out our land-grant mission.

Recorded remarks are available at <https://youtu.be/5DUNGRbslp0>. For companion slides, reference Appendix I.

[Appendix I]

## **Reports from Standing Committees**

Chairman Dambly advised that Standing Committees met in public session on Thursday, September 14, 2017, to consider any information or action items to come before the Board at the September 15, 2017 public meeting. Any action item considered and voted on in the Committee was included in reports by the respective Committee chairs. The full Board was asked to consider Committee recommendations at the conclusion of each report.

### **A. Committee on Academic Affairs and Student Life**

Chair Oldsey reported that the Committee on Academic Affairs and Student Life met on Thursday, September 14, with a quorum of the Committee present.

Vice President for Student Affairs, Damon Sims, provided information on University initiatives, including Greek Life reform efforts and membership fees. Provost Nick Jones provided updates on administrative searches, enterprise system transformations, and on behalf of Vice President and Dean for Undergraduate Education, Rob Pangborn, an admissions update. Brianne Pragg, Vice President of the Graduate and Professional Student Association shared information on the continued efforts of the student government organizations.

The Committee received a presentation from Kathleen Bieschke, Vice Provost for Faculty Affairs, who shared plans for the oversight and growth of her office. Matthew Woessner and Michael Berube, Chair and Chair-elect of the University Faculty Senate, led an information and discussion session focused on the priorities of the Senate for the year. Finally, the Committee received information from Chair Oldsey which focused on results of the recent Committee Self-Assessment, Committee priorities, and a restructured meeting model that will be utilized this year.

There were no action items presented to the Board.

### **B. Committee on Audit and Risk**

Chair Rakowich reported that the Committee on Audit and Risk met on Thursday, September 14, with a quorum of the Committee present.

The Committee reviewed the Committee roles and responsibilities matrix, and the results of the Committee's Annual Self-Assessment. University Risk Officer, Gary Langsdale, and Trustee Brown updated the Committee on the recent activities of the Subcommittee on Risk. Joe Doncsecz, University Controller, provided an update on the status the University's external financial audit, and the engagement of a firm to perform the audit of Nittany Insurance Company.

Later in the day, the Committee met publicly in joint session with the Committee on Legal and Compliance. General Counsel Steve Dunham reported on guidelines and criteria for legal and risk reporting to the Board. Gary Langsdale reported on the process, outcome and response to the Peer Review undertaken for the University's enterprise risk management program. Finally, Don Welch, the University's Chief Information Security Officer, provided an update on the threat to higher education, assessment results, and the University's information security strategy.

There were no action items presented to the Board at either meeting.

### **C. Committee on Compensation**

Chair Schuyler reported that the Committee on Compensation met on Thursday, September 14, in executive session. At a meeting held on September 1, the Committee reviewed the performance and salary recommendations for Tier II and Tier IIA executives. Action on salary increases for the President and other executives was not recommended or taken, and will be deferred until the Commonwealth approves the 2018 fiscal year budget.

There were no action items presented to the Board.

**D. Committee on Finance, Business and Capital Planning**

Chair Fenza reported that the Committee on Finance, Business, and Capital Planning met on Thursday, September 14, with a quorum of the Committee present. The Committee received informational reports on operational risk. He also noted that in advance of Thursday's meeting, the Committee was provided with opportunities for briefings and inquiry on agenda items, to ensure each Trustee had a comfortable level of information and to address any outstanding inquiries. Two separate webinar offerings, along with accompanying detailed information on the Board portal was supplemented with the University's administration making itself available to answer questions.

Chair Fenza continued with his introductions of Agenda Items for consideration and approval.

Agenda Item 1 proposed the naming of a new East Halls residence hall, "Martin Hall." Agenda Item 2 proposed the naming of a classroom building at Shaver's Creek Environmental Center the "Donald W. Hamer Classroom Building. The Committee approved the recommendation of resolutions for Agenda Items 1 and 2 by unanimous vote.

Agenda Item 3 proposed the renaming of the Gary Schultz Child Care Center at Hort Woods "The Child Care Center at Hort Woods." The Committee approved the recommendation of the resolution for Agenda Item 3 by unanimous vote. Agenda Item 4 proposed the appointment of non-University employees to the Penn State Investment Council. The Committee approved the recommendation of resolutions for Agenda Item 4 by unanimous vote.

Agenda Item 5 proposed the approval of the Fiscal Year 2018-19 to Fiscal Year 2022-23 Capital Plan. Agenda Item 6 confirmed the Borrowing Authority for the Pennsylvania State University. Agenda Item 7 proposed the appointment of an architect for the Willard Building renovation at University Park. Agenda Item 8 proposed the appointment of an architect for the Innovation Pavilion at the Penn State College of Medicine. Agenda Item 9 proposed the appointment of a Design Build Team for the West Campus Parking Garage at Penn State Health Milton S. Hershey Medical Center. The Committee approved the recommendation of resolutions for Agenda Items 5-9 by unanimous vote.

Agenda Item 10 included the proposed final plan approval and authorization to expend funds for the Emergency Department Expansion at Penn State Health Milton S. Hershey Medical Center. This item was presented in detail by Sr. Vice President for Finance and Business/Treasurer, David Gray. The Committee approved the recommendation of Agenda Item 10 by unanimous vote.

Agenda Item 11 provided for a review of the Long-Term Investment Pool as of June 30, 2017. David Branigan, Executive Officer of the Office on Investment Planning, shared a detailed report.

Agenda Item 12 addressed a conflict of Interest issue related to the proposed Approval of Lease and Lease Renewals with PSRP Developers, Inc.; Trustee Lubert recused himself from all discussion on this item.

The Committee on Finance, Business and Capital Planning recommended that the Board of Trustees approve the following resolutions:

1. RESOLVED, That a new residence hall in East Halls on the University Park campus is named "Martin Hall."
2. RESOLVED, That a classroom building at Shaver's Creek Environmental Center is named "Donald W. Hamer Classroom Building."
3. RESOLVED, That the Gary Schultz Child Care Center at Hort Woods be renamed "The Child Care Center at Hort Woods."

4. RESOLVED, That Gary A. Glynn and J. David Rogers, non-University employees, are appointed to the Penn State Investment Council for terms ending in 2020.

FURTHER BE IT RESOLVED, That Ira M. Lubert, non-University employee and voting member of the Board of Trustees, is appointed to the Penn State Investment Council for a term ending in 2020.

5. WHEREAS, Both the University and its controlled affiliate, Penn State Health, have studied their capital needs and plan to make capital expenditures for projects consisting of, among other things, land and interests in land, land improvements, buildings, infrastructure, building improvements, renovations, fixtures, equipment, furnishings, information technology assets, and other capital assets and projects serving both the University and Penn State Health's purposes at various locations (collectively, the "Uses"); and

WHEREAS, Both the University and Penn State Health have developed a Capital Plan for the five year period between July 1, 2018 and June 30, 2023; and

WHEREAS, Individual project approvals will continue to be subject to Board of Trustee approvals to the extent required by the Bylaws; and

WHEREAS, The Capital Plan shall consist of the sources and uses of funds described in Appendix I (Schedules 1 and 2);

THEREFORE BE IT RESOLVED, Total Education and General capital commitments between July 1, 2018 and June 30, 2023 are approved up to \$2.131 Billion; and

FURTHER BE IT RESOLVED, Total Self-Supporting Units capital commitments between July 1, 2018 and June 30, 2023 are approved up to \$1.159 Billion; and

FURTHER BE IT RESOLVED, Total Penn State Health and College of Medicine capital commitments between July 1, 2018 and June 30, 2023 are approved up to \$1.447 Billion; and

FURTHER BE IT RESOLVED, That the Officers of the University and Penn State Health may exceed any of the aforementioned capital spending limits by an amount not to exceed five percent (5%) of such limit; and, with the prior approval of the Committee on Finance, Business and Capital Planning may exceed any of the aforementioned capital spending limits by an amount greater than five percent (5%) but not to exceed ten percent (10%) of such limit; and

FURTHER BE IT RESOLVED, That the Officers of the University may reallocate an amount not to exceed five percent (5%) of any such capital spending limit from one of the three categories of spending (Education and General, Self-Supporting Units and Penn State Health and College of Medicine) to another and, with the prior approval of the Committee on Finance, Business and Capital Planning, may reallocate an

amount greater than five percent (5%) but not to exceed ten percent (10%) of any of the aforementioned capital spending limits from one of the three such categories to another, in each case as such Officers determine to be in the best interests of the University.

[Appendix II]

6. WHEREAS, The University and its wholly owned subsidiary, Penn State Health (“Penn State Health”), have studied their capital needs and plan to make capital expenditures for projects of the University, Penn State Health and their affiliated organizations included or to be included as part of the capital improvement programs of the University and Penn State Health and consisting of, among other things, land and interests in land, land improvements, buildings, infrastructure, building improvements, renovations, fixtures, equipment, furnishings, information technology assets, and other capital assets and projects serving University or Penn State Health purposes at various locations (collectively, the “Projects”), or to reimburse their other funds for capital expenditures previously made in respect of the Projects, in an amount approximately equal to Two Billion Two Hundred Million (\$2,200,000,000) Dollars during the period until June 30, 2023; and

WHEREAS, The University may be required to provide its guaranty of obligations issued by Penn State Health for the payment of costs of capital projects of Penn State Health; and

WHEREAS, It is in the financial interests of the University and Penn State Health to pay for depreciable assets over a period which does not exceed the useful lives of such depreciable assets or such longer period as is permitted by Federal tax law; and

WHEREAS, Depending on the stage of development of the Projects, it may be in the financial interests of the University and Penn State Health to incur obligations for the payment of the cost of the Projects at one time or in part from time to time; and

WHEREAS, The specific timing of University borrowing or guarantees by the University of indebtedness of Penn State Health in light of trends in the financial markets can make a significant difference to the University, Penn State Health and their constituents in the cost of borrowing for capital projects; and

WHEREAS, The decisions as to price, timing, interest rates, terms, serialization and tax exempt or taxable status of such borrowing of the University and the form of any guarantees by the University of indebtedness of Penn State Health may be most effectively made by the officers of the University; and

WHEREAS, It may be advantageous to refund or otherwise refinance certain outstanding obligations of the University from time to time or, prior to, concurrently with or subsequent to the issuance of obligations of the University, to enter into agreements relating to bond insurance, letters of credit or other credit or liquidity facilities (collectively, “Credit Enhancement”) or agreements relating to interest rate swaps or other forms of interest rate hedge or similar agreements associated with such obligations (collectively, “Hedge Agreements”) and such decisions may be more effectively made by the officers of the University; and

WHEREAS, The University may from time to time issue its obligations directly or indirectly through other qualified governmental entities, and rate subsidies or other benefits may be available if the University's obligations are issued through certain Commonwealth of Pennsylvania public authorities and the proceeds of such obligations are loaned by the issuing public authorities to the University or to Penn State Health (with such loans to Penn State Health guaranteed by the University, if appropriate), and decisions regarding the form of such obligations and borrowing may be more effectively made by the officers of the University; and

NOW THEREFORE, BE IT RESOLVED, That the Board of Trustees of the University acknowledges that decisions regarding the form of University obligations and borrowing of the University and as to the other aspects of such obligations and borrowing described in the recitals to these resolutions may be made from time to time by officers of the University as hereafter described and that, for purposes of these resolutions, the term "officers of the University" shall mean the persons holding the positions of the President, the Senior Vice President for Finance and Business/Treasurer, the Associate Vice President for Finance and Corporate Controller, or any two of them, acting from time to time pursuant to the authority granted by these resolutions; and

FURTHER BE IT RESOLVED, That officers of the University are authorized to cause the University (1) to borrow, through the issuance of bonds, notes, leases, installment sale agreements or other forms of debt obligations, including as part of a line of credit or other credit facility, in one or more series or sub-series, fixed rate or variable rate, taxable or tax-exempt, secured or unsecured, senior or subordinate, in a single issuance or from time to time, and (2) to guaranty or become surety for indebtedness of Penn State Health, in an aggregate principal amount not to exceed Two Billion Two Hundred Million Dollars (\$2,200,000,000) (collectively, the "Obligations"), with such Obligations to be issued and sold at such price in a competitive, negotiated or invited sale and to be of such tenor and otherwise to contain or have the benefit of such terms and provisions, including, without limitation, provisions for redemption or mandatory or optional tender for purchase, maturity, collateral security, covenants, representations and warranties and events of default, as the officers of the University shall deem to be necessary or appropriate to the University; and

FURTHER BE IT RESOLVED, That the officers of the University are authorized to execute, in the name and on behalf of the University, agreements, contracts and instruments of every nature and description which are necessary or appropriate to accomplish the foregoing or in connection with the issuance of the Obligations, including without limitation securities disclosure documents, trust indentures, mortgages, deeds of trust, security and pledge agreements, guarantees, loan agreements, bond purchase agreements, letter of credit reimbursement agreements, issuing and paying agency agreements, dealer agreements, refunding escrow agreements, leases, installment sale agreements, interest rate management agreements, investment contracts, tax compliance agreements and other agreements and documents of every nature and description that are necessary or appropriate to accomplish the foregoing or in connection with the issuance and delivery of the Obligations; and

FURTHER BE IT RESOLVED, That the officers of the University are authorized to cause the Obligations to be issued directly by the University and also by and through any appropriate public authorities of the Commonwealth of Pennsylvania having jurisdiction, including, without



limitation, The Pennsylvania Higher Educational Facilities Authority and the Centre County Higher Education Authority, with the proceeds of such indebtedness of such public authorities being loaned to the University, or to Penn State Health, as the case may be; and

FURTHER BE IT RESOLVED, That the officers of the University are authorized to refund or otherwise refinance the Obligations and other outstanding indebtedness of the University from time to time and, prior to, concurrently with or subsequent to the issuance of indebtedness of the University, to execute any agreements (including any amendments or supplements thereto or thereof) which are required in connection with Credit Enhancement or Hedge Agreements, all on such terms and conditions as the officers of the University shall deem necessary or appropriate; and

FURTHER BE IT RESOLVED, That it is hereby declared to be the official intent of the University, as referred to in Section 1.150-2 of the Treasury Regulations promulgated under the Internal Revenue Code of 1986, as amended ("Code"), that the University be reimbursed from the proceeds of the Obligations authorized hereby in a maximum principal amount of \$2,200,000,000 for expenditures for or in respect of the Projects initially paid from other available funds of the University on or after the date which is sixty days prior to the effective date of these resolutions (except for certain expenditures which are not subject to such time limitation), provided that the issuance of the Obligations providing such reimbursement in any particular case occurs not later than eighteen months after the latest of (i) the date on which the earliest expenditure subject to U.S. Treasury Regulation §1.150-2 is paid, (ii) the date on which the particular Project is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or U.S. Treasury Regulations promulgated thereunder and, in implementation hereof, the officers of the University may approve specific capital expenditures to be reimbursed from the proceeds of Obligations later to be issued, and the funds from which such capital expenditures shall be paid, as required by the said Treasury Regulations; and

FURTHER BE IT RESOLVED, That the borrowing of the University or guarantees of indebtedness of Penn State Health under these resolutions, shall be limited to capital projects approved by the University's Board of Trustees prior to June 30, 2023; and

FURTHER BE IT RESOLVED, That the authority to borrow of the University or Penn State Health for refunding or refinancing existing indebtedness of the University or Penn State Health shall not be limited in principal amount by this resolution and shall not be taken into account when calculating the \$2,200,000,000 amount of indebtedness authorized by this resolution; and

FURTHER BE IT RESOLVED, That the officers of the University are hereby authorized and directed to execute and deliver such other agreements and documents and to take such other action as may be necessary or appropriate in order to effectuate the foregoing resolutions.

7. RESOLVED, That the officers of the University are authorized to employ Studios Architecture of Washington, D.C., to design the Willard Building Renovation at University Park.

FURTHER BE IT RESOLVED, Final plans for the project will be brought to the Board of Trustees for approval when design and costs have been established.

8. RESOLVED, That the officers of the University are authorized to employ HDR of Lawrenceville, New Jersey, to design the Innovation Pavilion for the Penn State College of Medicine.

FURTHER BE IT RESOLVED, Final plans for the project will be brought to the Board of Trustees for approval when design and costs have been established.

9. WHEREAS, The interview process has been conducted by the University's Office of Physical Plant.

RESOLVED, That the Officers of the University are authorized to employ Clayco, Inc., of St. Louis, Missouri, to design and build the West Campus Parking Garage at Penn State Health Milton S. Hershey Medical Center.

FURTHER BE IT RESOLVED, Final plans for the project will be brought to the Board of Trustees for approval when designed and costs have been established.

10. RESOLVED, That the final plans for the Emergency Department Expansion at Penn State Health Milton S. Hershey Medical Center, as designed by Pyramid Construction, are approved.

FURTHER BE IT RESOLVED, That authorization to expend funds to accomplish the project is approved in the amount of \$29,200,000.

11. WHEREAS, Kurt A. Kissinger, associate vice president for finance and business, serves as the responsible official for exercising due diligence in exploring alternatives in real estate matters in accordance with Article VIII, Section 8.05 (a) of the Bylaws of the University; and

WHEREAS, The responsible official has evaluated both on and off-campus office space alternatives for each of the above described leases in consideration of price, quality, amenities, accessibility and timing of availability, among others; and

WHEREAS, The responsible official has concluded that 101 Innovation Boulevard, Suite 114 presents the best alternative to meet the University's contractual obligations to provide sufficient office space to Learfield and that it is in the best interests of the University to enter into the lease on the terms proposed; and

WHEREAS, The responsible official has concluded that 103 Innovation Boulevard, Suite 205 presents the best alternative to meet the Donald P. Bellisario College of Communications' ongoing office space needs and that it is in the best interests of the University to enter into the lease renewal on the terms proposed; and

WHEREAS, The responsible official has concluded that 103 Innovation Boulevard, Suite 212 presents the best alternative to meet the Office of Gift Planning's ongoing office space needs and that it is in the best interests of the University to enter into the lease renewal on the terms proposed; and

WHEREAS, The responsible official has concluded that 103 Innovation Boulevard, Suite 214 presents the best alternative to meet the Finance and Business Information Technology Office's ongoing office space needs and that it is in the best interests of the University to enter into the lease renewal on the terms proposed; and

THEREFORE BE IT RESOLVED, That the proposal to enter into a five-year lease with 2 one-year options at 101 Innovation Boulevard, Suite 114 with PSRP Developers, Inc., totaling 2,616 square feet at the initial annual base rent of \$43,164 is hereby approved; and

THEREFORE BE IT FURTHER RESOLVED, That the proposal to extend the current lease for an additional 24 months, plus two six-month renewal options, at 103 Innovation Boulevard, Suite 205 with PSRP Developers, Inc., totaling 6,977 square feet at the annual base rent of \$140,410 plus annual CPI escalation, until December 31, 2020 is hereby approved; and

THEREFORE BE IT FURTHER RESOLVED, That the proposal to exercise the final five-year option to extend the lease at 103 Innovation Boulevard, Suite 212 with PSRP Developers, Inc., totaling 4,123 square feet at the annual base rent of \$81,429 plus annual CPI escalation until November 30, 2022, is hereby approved; and

THEREFORE BE IT FURTHER RESOLVED, That the proposal to extend the lease for up to two years at 103 Innovation Boulevard, Suite 214 with PSRP Developers, Inc., totaling 3,978 square feet at the annual base rent of \$78,804 plus annual CPI escalation until November 30, 2019 is hereby approved.

A motion to approve foregoing resolutions 1 through 3, as recommended by the Committee on Finance, Business and Capital Planning, was made and seconded and approved by the Board.

A motion to approve foregoing resolution 4, as recommended by the Committee on Finance, Business and Capital Planning, was made and seconded and approved by the Board, with one abstention.

A motion to approve foregoing resolution 5, as recommended by the Committee on Finance, Business and Capital Planning was made and seconded. Following discussion, the resolution was approved by the Board.

A motion to approve the foregoing resolutions 6 through 11, as recommended by the Committee on Finance, Business and Capital Planning was made and seconded.

Trustee Lubert abstained from voting on Agenda Item 4, and recused himself for Agenda Item 11.

**E. Committee on Governance and Long-Range Planning**

Chair Han reported that the Committee on Governance and Long-Range Planning met Thursday, September 14, with a quorum of the Committee present.

Following a report from a committee subgroup, the full Committee considered and unanimously recommended Betsy Huber and Paul Silvis for Trustee Emerita/us status. The Committee also unanimously recommended the appointment of Barbara Doran and Julie Anna Potts as At-large Members of the Executive Committee. The Committee considered, and recommended by a vote of 6 to 1, amendments to the *Charter* and *Bylaws* related to reimbursement of travel expenses and indemnification of Trustees. The amendments will be presented to the full Board for consideration in November.

The Committee received an update from Trustee Potts on plans for the January 2018 board Retreat. The Committee reviewed its oversight role for all Committee Operating Guidelines. Associate General Counsel, Frank Guadagnino, led the Committee in a review and discussion of recommendations made by the Pennsylvania Auditor General with respect to Board governance. Finally, the Committee held a generative discussion on the Strategic Plan area of Transforming Education, led by Craig Weidemann, Special Assistant to the Provost for Innovation and Education Technology Initiatives.

The Committee on Governance and Long-Range Planning recommended that the Board confer Emeriti Trustee status upon Betsy E. Huber and Paul H. Silvis. A motion to approve the recommendation was made, seconded and approved by the Board following a roll call vote (26-4-1). Trustees Brown, Lubrano, Paterno, and Tribeck cast dissenting votes. Trustee Pope abstained from voting.

The Committee on Governance and Long-Range Planning recommended that the Board of Trustees approve the following resolution:

1. RESOLVED, That Barbara L. Doran and Julie Anna Potts be elected as at-large members to the Executive Committee of the Board of Trustees.

A motion to approve the foregoing resolution as recommended by the Committee on Governance and Long-Range Planning was made and seconded and approved by the Board.

**F. Committee on Legal and Compliance**

Trustee Dandrea, Chair of the Committee on Legal and Compliance, reported that on Thursday, September 14, following its joint meeting with the Committee on Audit and Risk, the Committee received a privileged legal update in Executive Session.

There were no action items presented to the Board.

**G. Committee on Outreach, Development and Community Relations**

Trustee Harpster, Chair of the Committee on Outreach, Development and Community Relations, reported that the Committee met Thursday, September 14, with a quorum of the Committee present.

The Committee received several administrative presentations. Neil Sharkey, Vice President for Research, shared an overview of actions being taken to address the disparity between our Top 20 research ranking and our Top 70 IP commercialization ranking. He also introduced Linsey Covert, founder of *Teamology*; she spoke about her startup company and the support she has received from Penn State to commercialize her IP and launch her business. Zack Moore, Vice President for Government and Community Relations, provided a state budget update and introduced Charima Young, Director of Local Government and Community Relations. Charima provided an overview of her outreach efforts and her first-year goals.

Chair Harpster shared that in August, he and Vice Chair Kleppinger discussed goals and objectives for the coming year with members of the Committee. As a carryover from the July meeting, the Committee discussed the Public Comment component of the Board meeting cycle and voted unanimously to share their recommendations with the Committee on Governance and Long-Range Planning (GLRP); it was requested that the recommendations be included for consideration at the GLRP meeting in November.

There were no action items presented to the Board.

**Election of Directors of The Corporation for Penn State**

A motion to approve the following resolution was made and seconded and approved by the Board:

RESOLVED, That the following persons be elected to the Board of Directors of The Corporation for Penn State:

Eric J. Barron	Ira M. Lubert
Kathleen L. Casey	Keith E. Masser
Mark H. Dambly	William F. Oldsey
David J. Gray	Matthew W. Schuyler
A. Craig Hillemeier	Robert J. Tribeck
Nicholas P. Jones	

**Informational Report on the Penn State Alumni Association by the Chief Executive Officer/Secretary-Treasurer of the Alumni Association**

A report on the Penn State Alumni Association was presented by Paul J. Clifford, Chief Executive Officer/Secretary-Treasurer of the Penn State Alumni Association.

**Announcements by the Chairman of the Board of Trustees**

Chair Dambly called for other matters to come before the Board.

Trustee Jubelirer provided remarks.

There being no other business, the public meeting was adjourned at 2:55 p.m. The meeting is available in its entirety at <https://youtu.be/5DUNGRbslp0>.

Respectfully submitted,

Janine S. Andrews  
Associate Secretary,  
Board of Trustees

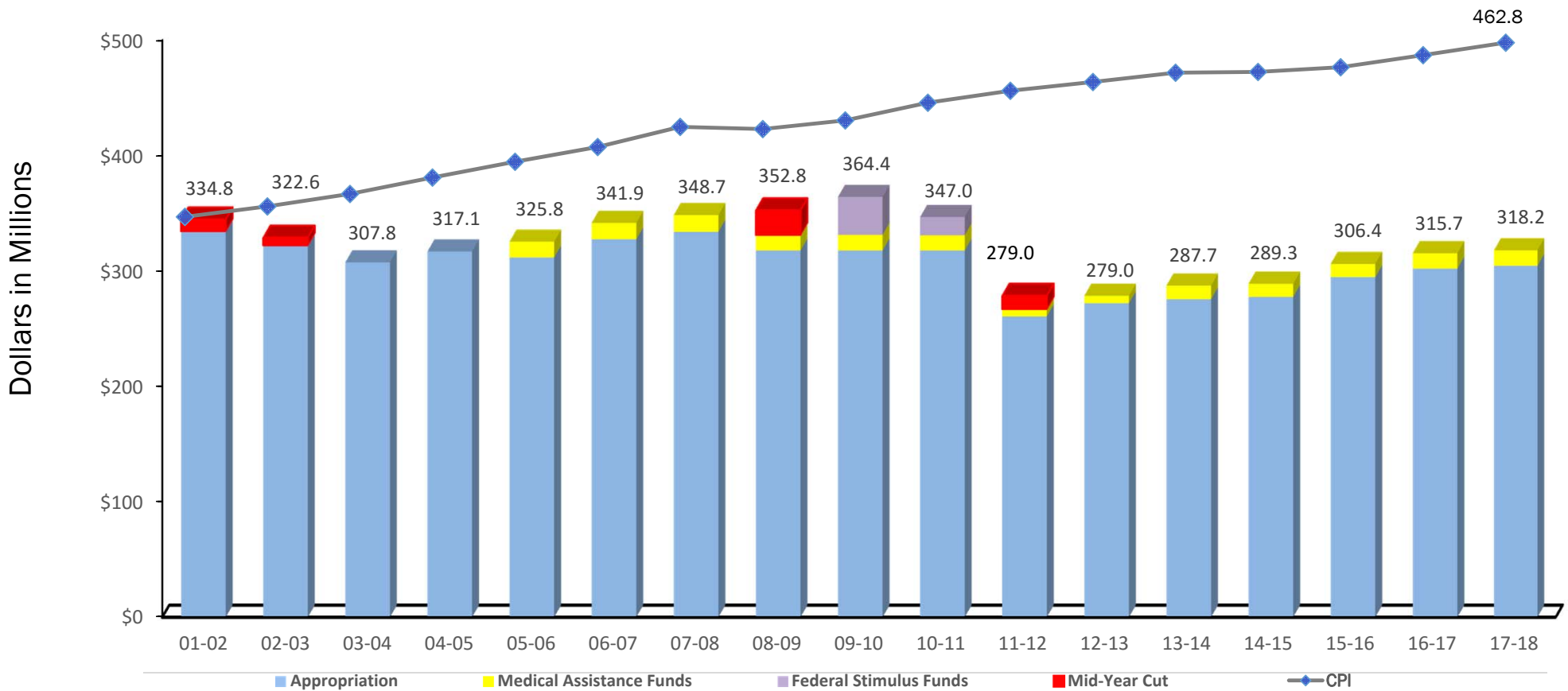
**Strategies for Addressing Budget Challenges  
President's Report  
to the Board of Trustees  
September 15, 2017**

## **The New Normal: A Challenging Fiscal Environment**

- **Two decades of steady declines in the state appropriation and increasing costs/needs to fulfill our land-grant mission have led to a two-pronged approach to fill the gap:**
  - **Budget Reductions and Reallocations (cost saving measures)**
  - **Budget Relief (external funding to cover activities that otherwise would require General Fund \$\$)**

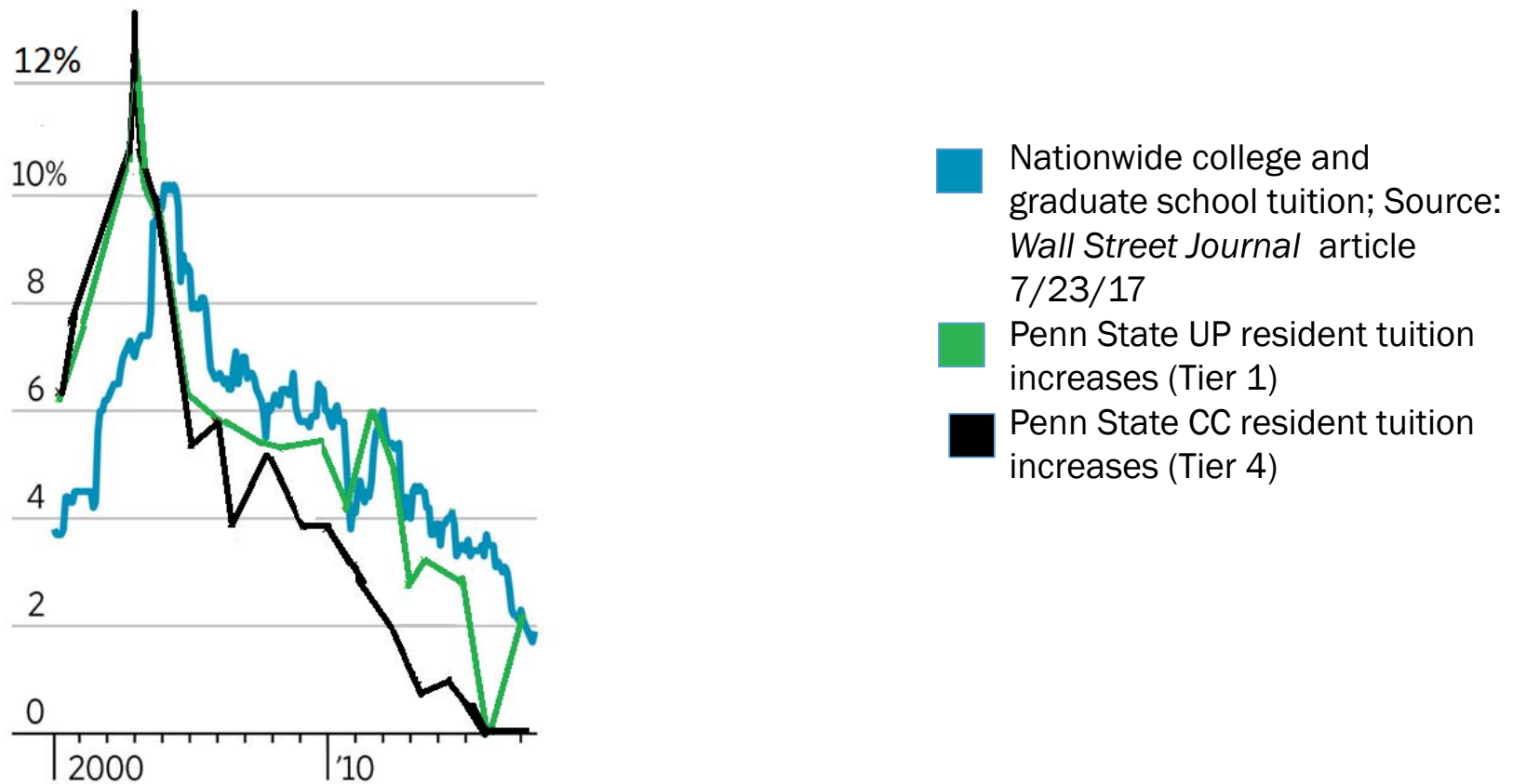


# Summary of State Appropriations 2001-02 through 2017-18 Adjusted for CPI





# College Tuition Changes (Nationwide and Penn State)



# Education and General\*

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
<b>Expense/Trends and Priorities</b>					
Salary Incr./Related Benefits (2.5%)	\$ 29,842	\$ 29,406	\$ 30,141	\$ 30,894	\$ 31,667
Healthcare - 5% Trend	8,628	11,312	11,878	12,472	13,095
Retirement	4,103	4,000	4,000	4,000	4,000
Debt Service and Reserves	19,220	14,667	14,667	14,667	14,667
Major Maintenance	3,000	3,000	3,000	3,000	3,000
O&M and Utilities	4,549	3,220	3,220	3,220	3,220
Innovation, Student Aid, and Insurance	12,250	11,500	11,500	11,500	11,500
Unanticipated Needs	3,000	3,000	3,000	3,000	3,000
<b>Total Expense Increases</b>	<b>\$ 84,592</b>	<b>\$ 80,105</b>	<b>\$81,406</b>	<b>\$82,753</b>	<b>\$84,149</b>
Healthcare ASO/Rx Change	(10,000)	(13,000)	(7,000)		
Voluntary Retirement Program	(14,400)				
Other	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
<b>Total Cost Savings Estimates/Targets</b>	<b>(34,400)</b>	<b>(23,000)</b>	<b>(17,000)</b>	<b>(10,000)</b>	<b>(10,000)</b>
<b>Net Expense Increase</b>	<b>50,192</b>	<b>57,105</b>	<b>64,406</b>	<b>72,753</b>	<b>74,149</b>
<b>New Revenue before Tuition Rate Increase</b>	<b>(9,500)</b>	<b>(11,209)</b>	<b>(11,599)</b>	<b>(12,017)</b>	<b>(11,465)</b>
<b>Total Amount to Balance</b>	<b>40,692</b>	<b>45,896</b>	<b>52,807</b>	<b>60,736</b>	<b>62,684</b>
<b>Amount to Balance with Tuition/ Other Revenue/Additional Savings</b>					
University Capital Plan	\$ 26,769 (2.00%)	\$ 20,887 (1.53%)	\$ 20,887 (1.51%)	\$ 20,887 (1.49%)	\$ 20,887 (1.46%)
Other	\$ 13,923 (1.04%)	\$ 25,009 (1.85%)	\$ 31,920 (2.32%)	\$ 39,849 (2.89%)	\$ 41,797 (2.94%)



\* Excludes the College of Medicine, Penn State Law, and the Pennsylvania College of Technology  
All dollars are expressed in thousands

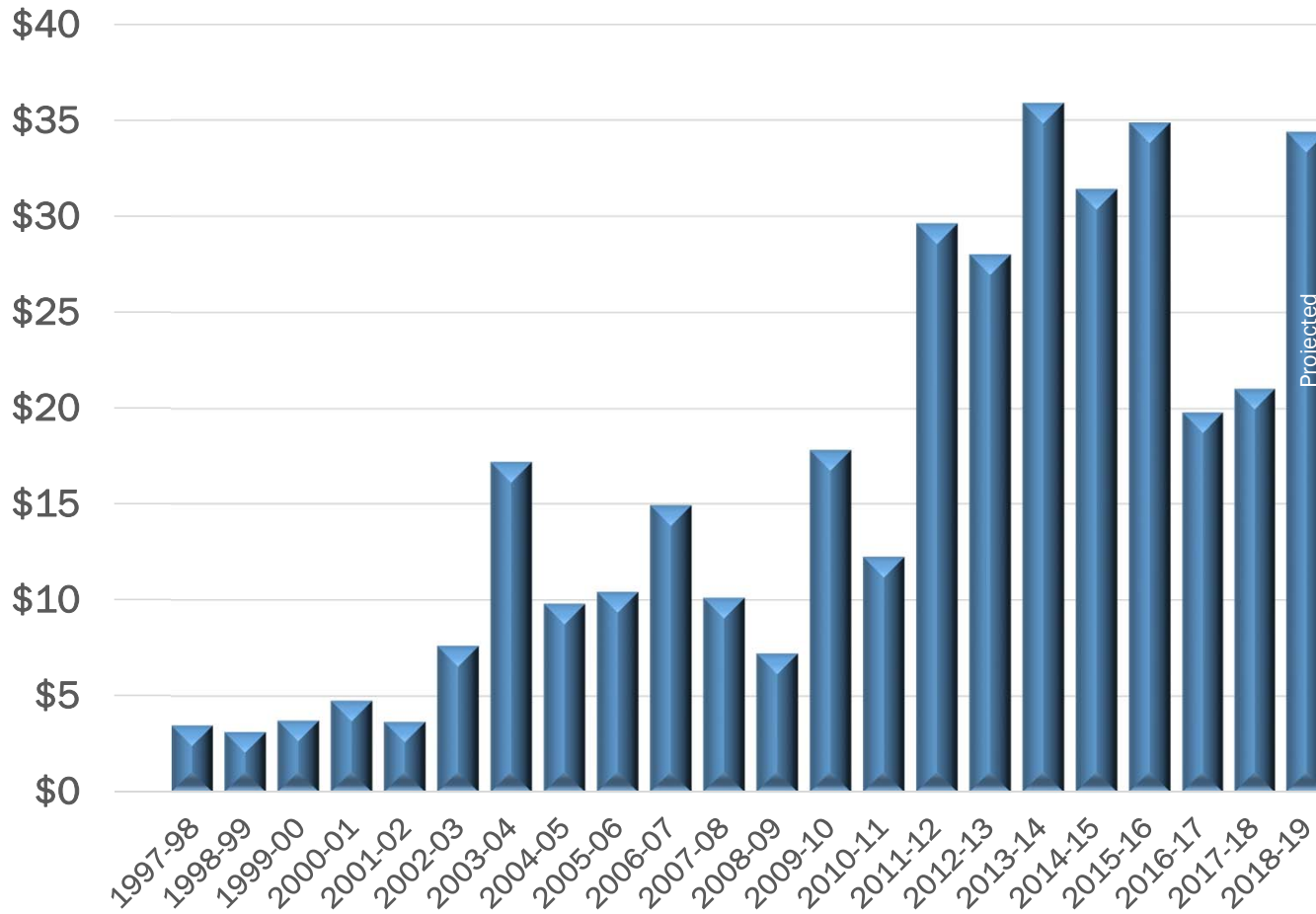
# Budget Reductions and Reallocations

- Ongoing, annual effort since 1992-93
- \$21M savings in 2017-18; Cumulative equals \$403.8M\*
- \$380.8M from University Park and other campuses, excluding Hershey
- \$23M from Hershey Medical Center
- 1993-2003: Focus on University Future Process, Commonwealth Campus Budget Reductions, and University Planning Council Process
- 2004-present: Focus on Cost Savings Initiatives

\*Included savings from Hershey Medical Center (1992-93 through 1996-97) and Ag Research/Extension (1992-93 through 2008-09)



# Budget Reductions and Reallocations (\$ in millions)



# How we saved \$403.8M

- 23 years of budget recycling from departments at 1-2% a year
- Academic Programs and Departments Assessment/Cuts
- Targeted cost savings, including OPP and Purchasing Strategic Savings. For example:
  - Ongoing energy savings project programs have saved or avoided energy costs in excess of \$62M since 2003.
  - Aggressive energy procurement strategies: \$11.8M annual savings
  - IT initiatives, reliability centered maintenance practices, custodial program changes, furniture reuse program: \$4M annual savings



# Academic Program Assessment Measures

- Ongoing review of academic programs, majors and academic departments since 1992.
- **244** program eliminations and mergers

Programs and Majors Discontinued	
Graduate Programs	100
Baccalaureate Majors	103
Baccalaureate Majors at Selected Campuses	10
Associate Degree Programs	2
Associate Degree Programs at Selected Campuses (incl. Penn College)	<u>29</u>
<b>Total Programs/Majors Discontinued</b>	<b>244</b>
Academic Departments Closed	14



# Long-Term Strategic Approach to Budget Challenges

- **Effort to lower the University's cost structure while continuing to focus on academic excellence.**
- **Focus on areas with significant financial impact, especially people, which comprise nearly 70% of operating budget.**



# **Long-Term Strategic Approach to Budget Challenges**

## **Completed**

- **Voluntary Retirement Program**
- **New Health Care and Rx Program**
- **Intercollegiate Athletics Big Ten Contract**
- **Vice President for Research Initiatives**

## **Underway**

- **Human Resources Transformation**
- **Information Technology Transformation**





# Voluntary Retirement Program

- Significant effort to reset the University budget.
- 587 faculty and staff retirements (499 Education and General positions; 88 other funding sources).
- Savings from E&G positions: \$14.4M



# Voluntary Retirement Program

Educational & General Position Summary--499 VRP Participants; 88 Other Funding Sources

	<u>Academic</u>	<u>Staff</u>	<u>Total</u>
<b><u>VRP Participants</u></b>			
University Park	121 (121)	206 (172)	327 (293)
Commonwealth Campuses	81 (75)	91 (75)	172 (150)
<b>Total University</b>	<b>202 (196)</b>	<b>297 (247)</b>	<b>499 (443)</b>
<b><u>Amount Returned to Central</u></b>			
University Park	20,288,387	19,586,645	39,875,032
Commonwealth Campuses	10,309,688	8,100,232	18,409,920
<b>Total University</b>	<b>\$30,598,075</b>	<b>\$27,686,877</b>	<b>\$58,284,952</b>
<b><u>Savings after Strategic Backfill</u></b>			
University Park	3,021,664	4,823,711	7,845,374
Commonwealth Campuses	3,051,133	3,458,978	6,510,111
<b>Total University</b>	<b>\$6,072,797</b>	<b>\$8,282,689</b>	<b>\$14,355,485</b>

# New Health Care and Prescription Plan

- On 1/1/18, Aetna will become third-party administrator for medical benefits; CVS Caremark for Rx coverage.
- Highmark was administrator for 10 years; end of contract promoted review of other providers.
- Committee comprised of faculty, staff and administrators with expertise in health care, health insurance, finance, procurement, and HR reviewed proposals/made the recommendation to switch.



## Total Savings to Employees & University (shown over one and three years)

	Employees	University
Medical	\$1.7 million	\$11.7 million
Drug		\$9.6 million
Spending Accounts	\$21,500	\$32,300
Life/Disability		\$1.1 million
Medicare Health Plan		\$1.2 million
<b>Total Year One (2018)</b>	<b>\$1,721,500</b>	<b>\$23,632,300</b>
<b>Total Over 3 Years</b>	<b>\$5,164,500</b>	<b>\$70,896,900</b>



# New Intercollegiate Athletics Contributions to Penn State Success

- **New Big Ten Media Rights Contracts went into effect 7/1/17.**
- **Funds from increased media rights will contribute:**
  - **\$450,000 to CAPS for mental health services (with the addition of revenue from corporate contributions - next year \$700,000+ as an annual contribution to support mental health services).**
  - **\$250,000, increasing to \$500,000 to the Blue Band to defray costs**
  - **\$2.8M annual contribution to incentivize philanthropy (i.e. matching gifts).**
- **Funding begins near \$1M, with contribution increasing annually to \$4M.**



## **Office of the VP for Research Initiatives**

- **Revamped IP/commercialization enterprise and tapped Penn State Research Foundation (PSRF) income to replace/augment general fund dollars.**
- **The PSRF Board is fully on-board with greater re-investment of income to drive economic development (i.e. Invent Penn State).**

## Expenses/Commitments from PSRF Funds to Support IP/Commercialization

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017*</u>
Office of Technology Management (OTM) Support						
Unreimbursed Patent Expenses	\$500,000	\$345,000	\$581,192	\$592,613	\$605,922	\$890,476
Consultant		\$30,000	\$118,808	\$107,387	\$114,078	\$125,000
Invention Incentive Awards	\$32,000	\$70,000	\$26,800	\$33,198	\$36,000	\$39,000
Fund for Innovation			\$178,571	\$485,061	\$598,000	\$673,913
Two positions in OTM (Technology Licensing Officer, Marketing**, and Commercialization Specialist)					\$180,000	\$212,748
Two positions supporting Happy Valley LaunchBox				\$118,500	\$237,000	\$237,000
Four positions in Ofc of Entrepreneurship & Commercialization as of April 2017					\$375,000	\$500,000
Five unfilled positions supporting OTM/OEC approved by PSRF BoD June 2014 and April 2017						\$500,000
Renovations for Tech Ctr (committed up to \$750k)					\$500,000	\$250,000
	<b>\$532,000</b>	<b>\$445,000</b>	<b>\$905,371</b>	<b>\$1,336,759</b>	<b>\$2,646,000</b>	<b>\$3,428,137</b>

## Leveraging Industry Partnerships

- Industry sponsored research award dollars have grown two years in a row, with a 4% increase in 2017.
- Academic Research Service Orders (ARSO) have grown steadily over the last 4 years.
- 50% of 2017 ARSO dollars from outside companies are attributed to Materials Characterization Lab in the Materials Research Institute.
- Industry partners include: Corning, PPG, Morgan Advance Materials and RJ Lee.

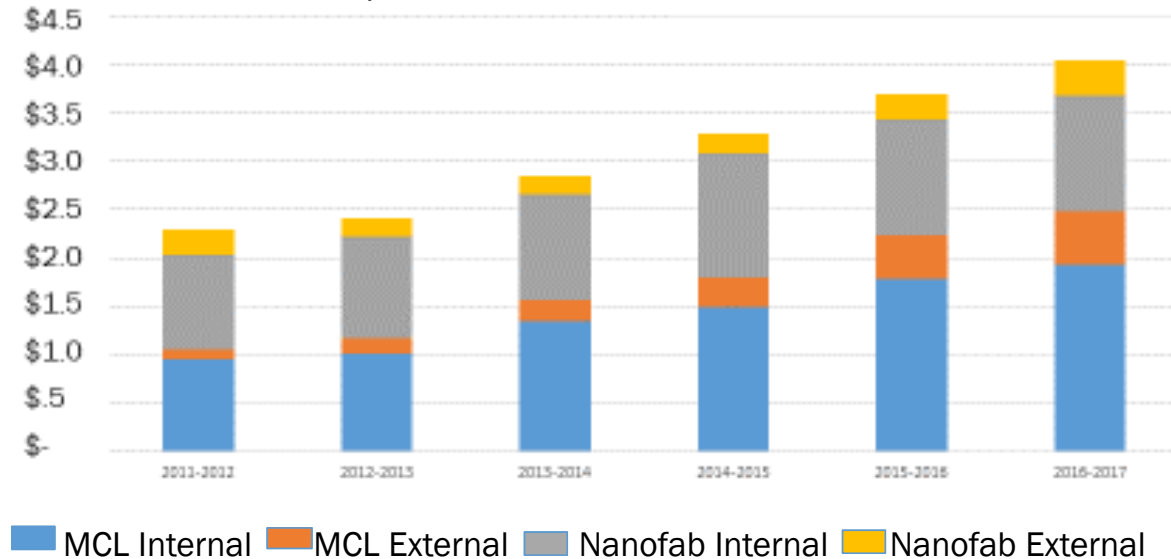




## Example: Materials Research Institute

- Core facilities provide faculty with the equipment and resources necessary for their research; nearly \$150M in total research expenditures.
- Facilities are open to other academic institutions and industry for a fee; use/funding allows for more efficient equipment use and paydown.

MRI User Facility Growth Breakdown  
\$ in millions



# Initiatives Underway

- **Human Resources Transformation**
- **Information Technology Transformation**

# Human Resources Transformation

- **Multi-year effort to drive efficiency and transition to more strategic delivery of human resource services.**
  - **Reduce the number of FTEs engaged in HR transactional work.**
  - **Implement WorkDay HCM/Payroll (launch date: Dec. 10).**
  - **Consolidate work in more focused roles in Centers of Excellence and HR Service Center.**
  - **Lessen risk, limit exceptions, improve compliance.**



# Information Technology Transformation

- **Establish a cross-University, shared vision for IT.**
- **Empower and enable a culture of service.**
- **Optimize investments by improving the effectiveness and efficiency of technology delivery.**
- **Position technology to be a differentiator for Penn State.**
- **Provide long-term strategic vision, resources, and leadership to secure Penn State's technology and information assets.**



## Total Projected Cost Savings

Initiative	Savings
Compute and Storage	\$2,850,000
Email and Calendaring	\$425,439
Firewall	\$987,020
F&B Transformation	\$800,000*
Office of the President IT	\$647,786**
<b>Total</b>	<b>\$5,710,245</b>

*\*Over a five-year period; \*\*Known two-year cost savings*

## **Exploring New Strategies for Increasing Revenue**

- **Continued growth of World Campus enrollments.**
- **Driving campus enrollments through aggressive marketing, incentive programs, and campus enhancements.**
- **Expanded professional masters degree opportunities.**
- **Continued alignment of program costs with upper-division tuition.**



## **Exploring New Strategies (continued)**

- **Comprehensive strategic reassessment of tuition rate and fee structure for resident, nonresident, and international students.**
- **Focus on retention (with programs like Open Doors), which will provide additional revenue.**
- **If state appropriation changes, rethink student mix.**
- **Deliberate strategy to make Penn State your “university for life.”**



## Summary: Going Beyond Cost Cutting

- **23 years of across the board cuts have necessitated finding new ways to relieve the E&G budget.**
- **We continue to look at cost cutting measures.**
- **We are focused on finding ways to increase income.**
- **And we are committed to maintaining our standards of excellence while we carry out our land-grant mission.**





# Discussion Questions?



# Five-Year Capital Uses (Commitments), Schedule 1

University Capital Use	E&G	PSH & COM	Self-Supporting Units*	Total
'Keep Up'**	\$ 550.0	\$ 104.2	\$ 203.9	\$ 858.1
'Catch Up'***	473.0	131.9	550.6	1,155.5
New Buildings and Additions	473.0	702.0	318.6	1,493.6
Capital Leases and Contingencies	166.3	133.3	49.8	349.4
Infrastructure	245.0	12.7	5.9	263.6
Information Technology	100.0	150.0	-	250.0
Equipment	25.0	200.0	-	225.0
Energy Savings Program	79.0	12.6	-	91.6
Student Initiated Fees Projects (Facilities)	20.0	-	30.0	50.0
<b>Total</b>	<b>\$ 2,131.3</b>	<b>\$ 1,446.7</b>	<b>\$ 1,158.8</b>	<b>\$ 4,736.8</b>



**PennState**

\* Includes Auxiliary and Business Services, Intercollegiate Athletics, and the Applied Research Laboratory

\*\* The required funding to keep the backlog at a steady state.

\*\*\* The funding needed to buy down the total backlog to a reasonable target.

All dollars are expressed in millions

# Five-Year Capital Sources, Schedule 2

Funding Source	E&G	PSH & COM	Self-Supporting Units*	Total
Education and General Borrowing	\$ 750.0	-	-	\$ 750.0
Self-Supported Borrowing	-	455.0	645.6	1,100.6
Capital Leases and Contingencies	166.3	133.3	49.8	349.4
Debt Proceeds from prior Capital Plan	70.0	-	-	70.0
Unit Reserves, Energy Savings Program, and Other	180.0	858.4	313.4	1,351.8
Reserves (from Central)	320.0	-	-	320.0
Reserves (from Capital Assessment)	70.0	-	-	70.0
Philanthropy	80.0	-	120.0	200.0
Commonwealth Capital	200.0	-	-	200.0
Major Maintenance (E&G Only)	200.0	-	-	200.0
Utilities Renewal Program	75.0	-	-	75.0
Student Initiated Fees Projects (Facilities)	20.0	-	30.0	50.0
<b>Total</b>	<b>\$ 2,131.3</b>	<b>\$ 1,446.7</b>	<b>\$ 1,158.8</b>	<b>\$ 4,736.8</b>



\* Includes Auxiliary and Business Services, Intercollegiate Athletics, and the Applied Research Laboratory

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