The President's Report was given in the Chinese Room of Renaissance Mayflower Hotel, Washington, D.C., at 2:40 p.m. on March 20, 2008.

The following Trustees were present: Broadhurst (chairman), Alexander, Arnelle, Baldwin, Chaiken, DiBerardinis, Foulke, Henning, Hetherington, Hintz, Huber, Jones, Junker, Metzgar, Myers, Peechatka, Poprik, Riley, Shaffer, Spanier, Strumpf, Suhey, Surma, and Wolff; and Trustees Emeriti Huck, Robinson, Springer, and Wolff; and Governor's Representative Lewis.

Present by invitation were faculty representatives Blasko, Blood, and Hufnagel; student representatives Casiano, Gyekis, and Lewis; staff members Ammerman, DiEugenio, Dolbin, Erickson, Hanes, Hurley, Kirsch, Mahon, Pangborn, Paz, Pell, Poole, Romano, Schultz, and Weidemann; and Mr. Courtney of McQuaide Blasko.

Chairman Broadhurst welcomed Robert Lewis, the Governor's non-voting representative. He welcomed University Faculty Senate Officers Dawn Blasko, Ingrid Blood, and Pamela Hufnagel; student representatives Bobby Casiano, Joseph Gyekis, and Hillary Lewis; and Academic Leadership Chair Madlyn Hanes.

**President's Report**

Dr. Spanier's report is included in its entirety:

"I have a lot of good news to report today, but before I do, I want to discuss the sub-prime-mortgage crisis and its impact on Penn State. As you are well aware, there has been a sharp increase in the number of home foreclosures as a result of imprudent lending practices. This has resulted in an overall tightening of credit that is beginning to squeeze higher education on two fronts: student loan availability and the variable rate debt load carried by many institutions.

"First, let's look at student loans. About 74 percent of Penn State undergraduate students receive some form of financial assistance, consisting of grants, scholarships, loans, and work study. About 60 percent of our students have loans that come from a variety of sources including private lending, Stafford federal loans, and Federal PLUS loans, which have previously been secured through lenders like PHEAA--the Pennsylvania Higher Education Assistance Agency.

"Over the past decade, Penn State and PHEAA have partnered to provide efficient, affordable loans to almost 41,000 students annually. Unfortunately, with PHEAA's recent announcement that they are suspending participation as a federal Stafford Loan lender, this model is no longer viable. In fact, even if PHEAA remained as a lender, new rules that prohibit universities from using a single lender would have added complexity to the loan process at Penn State. The only option to retain the efficiency we had in place and to maintain stability for our students was to join the Direct Loan Program. And that is what we have done.

"The U.S. Department of Education has assigned their top Direct Loan operations person to work exclusively with Penn State to ensure a smooth transition to the program. We are confident that this transition can move quickly and effectively.

"Indeed, the Direct Loan Program stands to benefit Penn State students in a number of ways. First, since Direct Loans come straight from the U.S. Department of Education using funds obtained from the U.S. Treasury, this program provides a secure, guaranteed source of funding for student loans. Also, it offers students one single source of contact for all federal loans.
"What's more, the application process is similar to what students have used in the past, and students will only need to sign a promissory note once. As a student requests loans for subsequent years, the loans are added to their Master Promissory Note and the Department of Education will place the funds for each semester in the student's account.

"In addition, the Direct Loan Program offers very competitive rates. For the Stafford loans, Direct Loans match the Federal Family Education Loan Program (also known as FFELP) in interest and fees. For Parent and Graduate PLUS loans, interest and fees on the Direct Loans are lower than FFELP by about half a percentage point.

"Finally, students in the Direct Loan program have more flexibility in terms of repayment and loan consolidation after graduation. There are incentives for public service work as well as repayment benefits.

"As you can see, we are making every conceivable effort to help our students secure the financing they need. We also have met with PHEAA concerning our decision and will keep them abreast of any changes as it relates to their business.

"Next I want to address the variable rate debt issue. The Chronicle of Higher Education recently reported that institutions carrying high variable rate debt loads have been struggling with higher interest payments on these types of bond issues. This is a very serious situation, and one that our Corporate Controller's staff has been analyzing along with our financial advisor, Public Financial Management, and one of our lead underwriters, Lehman Brothers. Based on this analysis, I want to assure you that we have confidence that Penn State will be largely unaffected by this issue.

"First, 76 percent of Penn State's outstanding debt is fixed rate; the remainder is Variable Rate Demand Bonds, not the auction rate bonds that have been the source of the well publicized problems. None of Penn State's debt is affected by the current crisis, and according to Lehman Brothers, the market for Variable Rate Demand Bonds 'has continued to receive record amounts of investment cash and is functioning well.'

"Although there is clearly some uncommon volatility even in the Variable Rate Demand Bonds markets, we continue to have attractive interest rates compared to the auction rate bonds that recently have been selling at interest rates in the mid-teens or higher.

"Further, there has been publicity about the downgrades, or anticipated downgrades of bond insurers; Penn State will not be impacted by this concern because our Variable Rate Demand Bonds are not insured.

"In short, Penn State is well positioned to withstand much of the turmoil in the municipal market. We will continue to keep a close eye on this issue and keep you informed of any new developments.

"I do have some good news to report on the admissions front. Penn State is experiencing another record-setting year in the number of admissions applications. We are ahead of this time last year by nearly 2,000 total applications. We've also seen a dramatic increase in international undergraduate applications, which are up by 42 percent. Applications to Dickinson are ahead by 9.3 percent and applications to Hershey are up almost four percent compared to last year. We are looking at one of the most competitive applicant pools in the history of Penn State, and we look forward to another exceptional incoming class.

"I also have some very positive news to share from development. Peter and Ann Tombros have just announced that they will be making a $10 million gift to For the Future: The Campaign for Penn State Students. As volunteer chair of the campaign, Peter has been setting a brisk pace for our development effort. He and Ann said they hope their gift inspires others to consider their own participation in the campaign. We are very grateful for this wonderful gift that brings the total Campaign commitments to more than $364 million dollars in the first year, surpassing in nominal terms the entire sum raised during Penn State's first campaign in the 1980s and more than doubling what was raised during the first year of Grand Destiny."
"One week from today, I'll be going to Penn State Wilkes-Barre to dedicate the new Abram Nesbitt, III Academic Commons Building. Located in the heart of the campus, this magnificent building will provide technologically smart classrooms, a state-of-the-art library, art gallery and performing arts hall. This project was made possible through the generosity of Geraldine Nesbitt, the Nesbitt estate, Richard Barry and many other donors. It's a wonderful example of the enduring partnership between Penn State and supporters of the Wilkes-Barre campus.

"Since we'll be enjoying the hospitality of Washington, D.C. over the next couple of days, I'd like to take a moment to provide a brief snapshot of Penn State's connection to this region.

"While Penn State has a presence around the world, many alumni choose to live and work in or near Pennsylvania. Along with Philadelphia, New York, and Pittsburgh, the Washington-Baltimore area ranks as a top destination for our graduates.

"Currently, Penn State has nearly 20,000 alumni in the D.C. metro area; approximately one third of those are Alumni Association members.

"Penn State alumni can be found in government, education, major media outlets, biotech companies, technology giants, national defense contractors and a wide array of other businesses. In fact, most government agencies and Washington-based employers actively recruit our students.

"When it comes to research, the federal government is extraordinarily important to Penn State. Of our total research portfolio of nearly $700 million, the majority of funds come from federal agencies including the Department of Defense, Department of Health and Human Services, National Science Foundation, U.S. Department of Agriculture and Department of Energy.

"In defense funded research, Penn State ranks second in the nation. Much of this work impacts national security and is conducted in Penn State's Applied Research Lab and the Electro-Optics Center.

"Penn State is also deeply involved in the formulation of federal legislation. We are actively engaged in discussions regarding federal financial aid, the Higher Education Act, the Farm Bill, information technology and other policy issues. To this end, we work closely with our colleagues at the Association of American Universities, National Association of State Universities and Land-Grant Colleges, National Association of College and University Business Officers, American Council on Education, Association of Research Libraries, Association of Academic Health Centers, Association of American Medical Colleges and many other organizations.

"One thing I'm often asked is, 'What is the overall climate for higher education in Washington, D.C. at this time?'

"I can assure you it is a very tight fiscal environment, as is also the case at the state level. Congress and the executive branch are concerned generally with the four "A's" - accessibility, affordability, accountability and accreditation, as well as specific issues such as piracy of intellectual property, cyber security and a host of other topics that you will hear about during our meeting.

"I spend a fair amount of time in Washington, and have found my time here to be productive in addressing some of the challenges faced by institutions of higher education. Through my service over time as chair of AAU, NASULGC, NCAA Division I, the National Security Higher Education Advisory Board, and as a member of the National Counterintelligence Working Group, the Board of Advisors of the Naval Postgraduate School, and other organizations, I have been able to help build Penn State's national reputation as a leader in higher education. Other members of Penn State's administration are similarly involved.
"I believe it is essential for Penn State to continue to have a strong presence in Washington, D.C. and to be at the forefront of policy discussions that could benefit Penn State, Pennsylvania and higher education.

"Finally, I want to note two significant appointments.

"First, Penn State's Kappe Professor of Environmental Engineering, Dr. Bruce Logan, has earned international acclaim with his selection as one of the twelve founding King Abdullah University of Science and Technology (KAUST) Investigators. As a KAUST Investigator, Dr. Logan will receive a five-year $10 million grant to support his project titled 'Energy for a Sustainable Water Infrastructure and Agriculture.' Dr. Logan's research will be based at University Park, and he will spend approximately three weeks a year on the KAUST campus participating in the research and academic life of the institution.

"Next, I want to add my congratulations to Keith Eckel on his recent appointment to serve on the Board for International Food and Agricultural Development. In this capacity, he will advise the U.S. agency for International Development on agricultural priorities and issues as they work to address urgent global issues, such as hunger and development. This is wonderful news for Penn State, other universities, and our global partners. Keith's expertise as a grower/businessman, coupled with his knowledge of the powerful resources within a university, will bring a depth of understanding to the position that can facilitate partnerships and further relationships across borders.

"Keith knows that in Washington, you never use a few words, when you can use many. For example, the Lord's prayer is only 66 words; The Penn State Alma Mater is 100 words; Lincoln used only 286 words for the Gettysburg Address; and The Declaration of Independence is just 1,300 words. Meanwhile, the U.S. government's regulations on the sale of cabbage total 26,911 words.

"On that note about brevity, I will end my remarks. I'll be happy to take questions at this time."

President Spanier received comments concerning:

- University's policies regarding guns on campus;
- University's emergency management planning and procedures;
- the changing landscape on student aid;
- informing and ensuring students understand how student aid is changing and what information is being made available via the University's communications;
- status of the Commonwealth appropriations request; and
- University's protection against computer hackers and theft of intellectual property.

Various educational opportunities were planned in conjunction with the Board's visit to Washington, D.C., in order for the Board to gain a better sense of Penn State's myriad of national connections. A few of those opportunities were:

Motional Picture Association of America (MPAA) - MPAA is a key participant in the Committee on Higher Education and the Entertainment Communities, which deals with matters or piracy of intellectual property.

Ron Suskind, Pulitzer Prize-winning author and journalist, presented information and observations of the changing political landscape.

National Security and Higher Education Briefing at the Federal Bureau of Investigation headquarters.

Dr. John Vaugh, Vice President of the Association of American Universities, discussed current legislative issues affecting research universities.

Steven A. Wartman, MD, Ph.D, President and CEO of the Association of Academic Health Centers, presented information on the organizational and management challenges facing academic health centers in light of current trends and emerging concerns.