The President's Report was given in Room 302 of the University Fitness and Conference Center, The Milton S. Hershey Medical Center, Hershey, Pennsylvania, at 8:30 a.m. on March 20, 2009.

The following Trustees were present: Broadhurst (chairman), Garban (vice chairman), Alexander, Arnelle, Chaiken, Clemens, DiBerardinis, Eckel, Hayes, Henning, Hetherington, Huber, Hughes, Jones, Joyner, Junker, Masser, Metzgar, Poprik, Riley, Shaffer, Spanier, Strumpf, Suhey, Surma, and Wolff; Trustee Emeriti Huck, Robinson, Rowell, Wise, and Wolff; and Governor's Representative Lewis.

Present by invitation were faculty representatives Boehmer, Blood, and Coraor; student representatives Keirans, Khoury, and Mendoza; staff members Ammerman, Bechtel-Wherry, Bowen, Courtney, DiEugenio, Dolbin, Erickson, Horvath, Kirsch, Mahon, Pangborn, Paz, Pelle, Poole, Romano, Schultz, Sims, and Weidemann; and Mr. Courtney of McQuaid Blasko.

Chairman Broadhurst called on Dr. Hal Paz for remarks.

Dr. Hal Paz welcomed everyone to the The Milton S. Hershey Medical Center and Hershey, Pennsylvania.

Chairman Broadhurst welcomed a new member of the Board of Trustees Office staff, Ann Zirkle. Chairman Broadhurst also welcomed University Faculty Senate Officers Ingrid Blood, Lee Coraor, and John Boehmer; student representatives Gavin Keirans, George Khoury, and Alfonso Mendoza; and Academic Leadership Council Chair Lori Bechtel-Wherry.

Chairman Broadhurst thanked Michael DiBerardinis who will resign from the position of Secretary of the Department of Conservation and Natural Resources on April 3, 2009, for his dedicated service and leadership as a trustee.

President's Report

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

"I would like to begin by thanking our hosts at Hershey. I thought about inviting all of my doctors to our meeting today, but then realized we might need stadium seating to accommodate everyone.

"Hal will give you an update on our progress here, and it will soon be readily apparent why The Scientist magazine's readers ranked the Penn State College of Medicine among the 'Top 40 Best Places to Work in U.S. Academia.' The sixth annual worldwide survey results also included our University Park campus.

"Let me begin this morning by giving you an update on how Penn State is managing during our nation's economic crisis.

"Hugh Downs once said 'to claim that our fate is not tied to the fate of others is like saying, your end of the boat is sinking.' Such is the case with Penn State. Pennsylvania's financial difficulties have touched all of Penn State's campuses and have been a serious concern for parents, students, faculty and staff.

"So it was with great anticipation that we received Governor Rendell's budget recommendation, which was released on February 4. The Governor proposed an appropriation of $318 million for Penn State. This amount was a six percent reduction in our base budget from the past year. It would have made permanent the rescission that we experienced for the 2008-09 fiscal year. Medical assistance funding for the Hershey Medical Center and our other line items--for Agricultural Research, Cooperative Extension, and the Pennsylvania College of Technology--were also to be reduced accordingly.
"However, the passage of the Federal Stimulus package has changed things. On March 3, the Governor announced plans to use $42 million of the State Fiscal Stabilization Funds available to Pennsylvania to benefit the Commonwealth's four state-related universities. This was a requirement associated with the federal legislation. Penn State's share of these funds is $20.3 million, which would offset the proposed reductions in the University's appropriation.

"While helpful in meeting the University's 2009-10 operating needs, it is important to note that this does not represent a budget increase. The State Fiscal Stabilization Funds are a one-time, short-term measure that will only bring us back to Penn State's 2008-09 initial appropriation level.

"However, other benefits of the stimulus legislation will be financial aid for our students and research-related funds that will be awarded on a peer-reviewed competitive basis.

"Penn State has always taken a conservative approach to budget planning, and this year is no exception. We are concerned that the proposed state budget may still be overly ambitious given current Commonwealth revenue collections, the continuing deterioration of the state and national economies, and the reliance on temporary federal stimulus funds to balance the state budget. We are thus aware of the possibility that a structural deficit could be created for the state's 2010-11 budget.

"While we will not know our final appropriation until after the state budget is passed by the Pennsylvania General Assembly and signed by the Governor, we feel it is advisable to continue our 2009-10 University budget planning in a very austere manner. Faculty and staff salaries will be frozen, and there will be cuts of about $20 million in University E&G budgets. We believe a conservative approach is the right one at this time of great uncertainty in the economy and state appropriations.

"Given the difficult circumstances many of our students and their families are facing, if we could, we would propose no tuition increase whatsoever. But if we were to take this measure, we would add an additional shortfall of millions of dollars. It would be impossible to do this without serious disruption to the quality of education at the university or without significant impacts on our faculty and staff.

"We remain concerned that Governor Rendell's proposed plan to provide financial assistance to in-state students has excluded those from Penn State and the other state-related institutions. We believe this is unfair to our students and will seek to convince members of the legislature to include our students in any financial aid plan. Penn State's student leaders are also working hard to make this case and should be commended for their efforts.

"Like you, we wish that tuition increases could be smaller, our faculty and staff could get raises, and our internal recycling numbers were less severe, but we absolutely must be diligent in preserving the long-term fiscal stability of the University.

"On a very relevant note, we just received a report on the economic and community benefits provided by Penn State in the Commonwealth of Pennsylvania and in each of the state's 67 counties. The results of this independent assessment are noteworthy, and I'd like to share a few of the highlights.

"The key finding is that Penn State is the single largest contributor to the state's economy.

"Let me repeat that: Penn State is the single largest contributor to the state's economy. The total impact of the University goes beyond the operation of 24 campuses located throughout the Commonwealth and education of more than 92,000 students.
"The operation of Penn State generates nearly $8 billion annually in net economic impact to Pennsylvania and supports nearly 65,000 jobs. Every dollar invested in 2008 by the Commonwealth to support the operations of Penn State returned $22.78 in total economic impact to the Commonwealth.

"Penn State also generated more than $620 million in tax revenue for Pennsylvania in 2008. In other words, the University returned $1.88 in tax revenue alone for every $1 it received in appropriation.

"The $8 billion in net economic impact is just part of the story. Induced and indirect economic impacts, as calculated by the independent consulting firm Tripp Umbach, generated an additional $8.68 billion in 2008. Penn State's total direct, indirect, and induced economic impacts equals nearly $17 billion. No other single entity in the Commonwealth does more to drive the state's economy. Stated another way, Penn State generated more than two percent of the state's business volume, or more than $1 out of every $50 in the state's total economy.

"Penn State is the largest generator of total employment among non-governmental entities. We write paychecks for nearly 44,000 employees per month. Our students and employees provide more than $230 million annually in charitable donations and volunteer services within the Commonwealth.

"Research conducted by Penn State supports more than 18,000 additional jobs and generates more than $1.9 billion in additional economic impact. During 2008, Penn State engaged in research projects with over 750 companies, more than any other public university in the nation.

"These numbers clearly make a strong argument for state support for Penn State, and we will continue to make that case.

"Another measure of the value of a Penn State education can be found in the high demand to attend our 24 campuses. Applications continue to come in at a record setting pace. We again anticipate receiving well over 100,000 applications this year. Total applications for all campuses are ahead by 5.5 percent compared to 2008. It's notable that more out-of-state students are applying to Penn State. First-choice out-of-state freshman baccalaureate applications are up nine percent for University Park and 10 percent for the Commonwealth Campuses. Overall, applications are up four percent for the Commonwealth Campuses and five percent for University Park. International undergraduate applications are also up dramatically--37 percent over 2008.

"Graduate applications are up five percent compared to last year and applications to the Penn State Dickinson School of Law are up about 40 percent.

"In recent months, we have spent a good deal of time talking about the budget, the financial crisis, endowments and legislative funding. But as I've said before, the fact remains that the greatest challenges we face in higher education are issues of character, conscience, citizenship and social responsibility among our students.

"Ed and Helen Hintz share this belief, and last month they made a generous $5 million gift to establish the Presidential Leadership Academy, one of the 'big ideas' developed for our capital campaign. This leadership development program will take a preeminent role in helping students develop the critical thinking skills necessary to lead in a changing, challenging world.

"We need to prepare our students to live in a world that doesn't operate like a cable news show, where people sit on opposite sides of a table and yell at each other with extreme positions. The truth of the matter is that in this world few things are black and white. It is in the gray areas where people must come to terms with the decisions in the workplace, in their family life, in their community, and across borders.
"The Presidential Leadership Academy will help us train our future leaders to reach out and understand diverse viewpoints. I will have the great pleasure and privilege of teaching the lead seminar to each new class of 30 students. One of the things I'll teach them is the importance of reaching out not only to the captains of industry or the leaders of the nation--but to the mail carrier, food service workers, the night shift custodian, and especially the Blackberry support person! Every encounter has the potential to influence your life.

"I am very grateful to Ed and Helen for their extraordinary generosity because I believe this initiative is at the core of the most important work we do at Penn State.

"We are fortunate that at Penn State we already have exemplars of civility, integrity and intelligence among our students and faculty.

"One example is Ryan Emerson, a senior in the landscape architecture program with a minor in civic and community engagement. A Schreyer scholar, he is interested in improving the lives of individuals and communities through sustainable landscape architecture design. He participated in the National Solar Decathlon and has worked on community beautification projects through Keep Pennsylvania Beautiful, such as the one shown here. (Slide shown.) He's in the green shirt, standing with volunteers after a work day in York. In recognition of his exceptional work and community involvement, Ryan was awarded the coveted Morris K. Udall Foundation scholarship, which recognizes students in fields with an environmental and cultural focus.

"Another example is Leah Liu, a senior majoring in biochemistry and molecular biology, who is interested in the public aspects of her discipline. Leah has worked in Dr. Wendy Hanna-Rose’s lab since she was a freshman, and there she developed an interest in the ethical and political aspects of scientific breakthroughs. Leah has completed internships at the Oak Ridge National Laboratory and the National Institutes of Health, and in 2007 she was named a Barry M. Goldwater Scholar. This year, she was one of only 37 scholars selected to receive the Gates Cambridge Scholarship, which is awarded to future leaders committed to improving the lives of others.

"Several of our faculty members have also recently received some notable recognition.

"Stephen Benkovic, Evan Pugh Professor and Eberly Family Chair in Chemistry, was selected to receive the prestigious Franklin Institute Award for his trailblazing research with enzymes. Established in 1824, this award is reserved for the people who have changed the world. As a recipient of this award, Dr. Benkovic joins the likes of Albert Einstein, Thomas Edison, Orville Wright, Jane Goodall, and Marie and Pierre Curie. Dr. Benkovic’s groundbreaking contributions to science have been some of the most important discoveries of our time.

"A professor who is changing the way we see disease is electrical engineering professor Bill Higgins. Dr. Higgins and his research group, including Hershey Medical Center pulmonologist Rebecca Bascom, have developed an interactive software program for 3D image processing and visualization called Virtual Navigator. This virtual endoscopy permits a higher level of precision and safety when doctors perform lung biopsies, and is a major advancement for diagnosis and treatment of lung cancer.

"While the researchers just mentioned are providing a better picture of our inner workings, Richard Alley, Evan Pugh Professor of Geosciences, is showing how the world works...through song. (Video shown.)

"While Dr. Alley and his 'rock songs' are entertaining, the concepts taught underscore the research that has brought him international acclaim. In April, Dr. Alley will be awarded the Tyler Prize, which is considered the premiere international award honoring achievements in environmental science, energy, and medical discoveries. No word yet as to whether Dr. Alley will be up for a Grammy award for his rendition of Ring of Fire.
"You may remember President Obama mentioning the lack of ‘flinty Chicago
toughness’ in Washington after his girls’ school closed for a snow day during his second
week in office. As with all parents, even he has to deal with the challenges of balancing
family and work. This subject is currently being studied by Health and Human Development
faculty David Almeida, Susan McHale, Laura Klein, and Nan Crouter. Penn State’s team is
one of six centers of the Work Family and Health Network. This five-year, $30+ million
project on managing work and family responsibilities is being funded primarily by the National
Institute of Child Health and Human Development.

"I would also like to briefly recognize three faculty members who recently received
fellowships.

"Penn State professor Julia Kasdorf is one of 42 poets across the country to receive
a National Endowment for the Arts fellowship. This is for work on her book, Poetry in
America.

"Anthony Kaye, assistant professor of history, has been awarded a 2009 fellowship
from the National Endowment for the Humanities to write a book on Nat Turner’s rebellion of
1831.

"And Anna Stasto, assistant professor of physics, was awarded a Sloan Research
Fellowship. Anna was one of the early-career scientists and scholars of outstanding promise
to be selected for a 2-year fellowship, which is in recognition of distinguished performance
and a unique potential to make substantial contributions to her field.

"Now, I want to recognize the men’s basketball team for giving us a truly exciting
season.

"Penn State posted the second-most wins in school history and the team’s best
winning percentage since 1991-92.

"In addition, sophomore Talor Battle was named first-team All-Big Ten after leading
the conference in scoring. Senior Jamelle Cornley was selected all-conference for the
second consecutive season.

"And Coach Ed DeChellis was selected by the media as the Big Ten Coach of the
Year.

"This weekend Penn State is hosting the NCAA Fencing championships. Penn
State’s men’s and women’s fencing teams are ranked second in the nation.

"The Penn State fencing teams are under the direction of 27th-year head coach
Emmanuil Kaidanov. Since he started at Penn State in 1983, Kaidanov has guided the men’s
team to an astounding 368-27 overall record and the women’s squad to an equally amazing
356-33 mark. Penn State has won ten NCAA Combined Championships beginning in 1990,
and they’ll be fighting for another one this weekend.

"Moving on to Development news…

"Despite the current economic climate, Penn State’s alumni and friends are
continuing to support the University through philanthropy. Overall figures are in line with last
year’s pace. Between July 1, 2008 and February 28, 2009, Penn State received over $119
million in private gifts - just one percent less than the $121 million for the same period last
year. The number of alumni donors has remained nearly identical and new commitments to
the campaign since July 1, 2008 total $194 million, a figure that is 4.7 percent ahead of last
February’s total. To date, For the Future has raised nearly $690 million. This is a testimony
to the loyalty and generosity of Penn Staters.

"There is philanthropy, and then there is THON."
"This year, despite a national recession, THON set another fundraising record -- $7.5 million. That's $875,000 more than last year. Since 1977, the dance marathon has raised more than $52 million 'For the Kids.' I think we can all learn something from THON - even Jim, who is shown here, learning the 2009 line dance. (Slide shown.) I'm sure you're all admiring his moves!

"This concludes my report. At this time, I would be happy to take questions."

Immediately following President Spanier's report, John Surma, chair of the Board's Subcommittee on Finance, reported that an effort will be made to moderate earlier projected 2009-10 tuition increases.

Much has changed in the economic condition of the Commonwealth since last September, when the Board of Trustees approved the University's appropriation request for 2009-10. That earlier proposal included a projected tuition increase of 4.9 percent for students at the Commonwealth Campuses, and 5.5 percent at the University Park campus for 2009-10.

A reduction of at least one percent will be considered, depending on the University's appropriation and other economic twists and turns that occur between now and when tuition is set at the July Board meeting.

President Spanier noted that, given the difficult circumstances many of our students and their families are facing, having a more moderate increase is an appropriate goal for Penn State. Certainly, all of us would prefer to have no tuition increase whatsoever. But that would create an additional shortfall that could seriously disrupt the quality of education at the University.

Dr. Spanier also noted that it would be our wish that tuition increases could be smaller, our faculty and staff could get raises, and our internal cuts were less severe, but we must be diligent in preserving the long-term fiscal stability of the University.

Faculty and staff salaries will be frozen, and there will be cuts of about $20 million in University budgets. Dozens of faculty and staff vacancies have gone unfilled as a way to cut costs.

Two appropriation rescissions from the state have reduced the operating budget by $21.2 million in the current fiscal year. The governor's original proposal for 2009-10 to cut 6 percent from the University's base budget has been amended due to the passage of the federal stimulus package.

The exact amount of a tuition increase will not be known until this summer when the state budget is passed by the Pennsylvania General Assembly and signed by the governor. The board will consider the final budget at the July meeting.

In addition to comments regarding The State Fiscal Stabilization Funds' impact on Penn State's budget, President Spanier received comments concerning:

1. Percentage of incoming freshman who are first-generation college students;
2. Number of participants in the Presidential Leadership Academy;
3. Interview process for the Presidential Leadership Academy;
4. Faculty salary freeze; and
5. Increase in the number of foreign graduate students.

The President's Report concluded at 9:33 a.m.

**Update on The Milton S. Hershey Medical Center**

From 9:34 to 10:05 a.m., the Board received an update on The Milton S. Hershey Medical Center from Harold L. Paz, M.D., Senior Vice President for Health Affairs, Dean of the College of Medicine, and Chief Executive Officer of The Milton S. Hershey Medical Center. The organization of The Milton S. Hershey Medical Center in support of the four part mission: education, research, patient care, and community service was outlined. (A visual presentation was made.)