

BOARD OF TRUSTEES

Temple University – Of The Commonwealth System of Higher Education

PUBLIC SESSION

Tuesday, December 9, 2008, at 3:30 p.m.

Feinstone Lounge, Sullivan Hall

MINUTES

Presiding Officer: Daniel H. Polett, Chair of the Board

Note: The Trustees met for an information briefing on academic, development, labor relations, and real estate matters at 2:30 p.m.

PARTICIPANTS

Trustees: Joan H. Ballots, Leonard Barrack, Jon A. Boscia, Theodore Z. Davis, Nelson A. Diaz, Ronald R. Donatucci, Judith A. Felgoise, Lewis F. Gould, Jr., Lon R. Greenberg, Ann Weaver Hart, Lacy H. Hunt, Ulrick P. Joseph, Adrian R. King, Jr., Susanna E. Lachs, Patrick V. Larkin, Solomon C. Luo, Joseph W. Marshall, III, J. William Mills, III, Mitchell L. Morgan, Daniel H. Polett, Milton L. Rock, Robert A. Rovner, Jane Scaccetti, Anthony J. Scirica, Michael J. Stack, III, James S. White, Michael P. Williams

University Counsel: George E. Moore

Honorary Life Trustees: John Contoudis

Non-Voting Participant: Nadine Mompremier, Karen M. Turner

Administration and Staff: Frank Annunziato, James C. Bausman, Jr., William T. Bergman, Carl Bittenbender, Theresa Burt, Janet Carruth, Melissa Coopersmith, Richard M. Englert, Gloria Frager, Stephanie Gillin, Deborah Hartnett, Kenneth Kaiser, Thomas Kupp, Jaison Kurichi, Michele Lai, Tiffany Larson, Kenneth Lawrence, Larry Lemanski, Vicki McGarvey, Timothy C. O'Rourke, Theresa Powell, Richard Rumer, Lisa Staiano-Coico, Stuart P. Sullivan, Dale Venturini, Anthony E. Wagner, William Wilkinson, Gregory Zimmaro

Chairman Polett called the meeting to order.

INVOCATION: The invocation was given by Trustee Robert A. Rovner.

Introduction of Guests:

Faculty: Margaret K. Devinney, Indrajit (Jay) Sinha, Francesca A. Viola, David Waldstreicher

Approval of Minutes: The minutes of the meeting of October 14, 2008 were approved.

PRESIDENT'S REPORT

President Hart remarked that the world news is filled with reports on the global economic crises. Earlier today, Governor Rendell reported that there is a projected deficit \$1.6 billion in revenues and measures have been undertaken to preserve the state's budget. For Temple, these measures amount to a reduction in the State Appropriation. President Hart stated that the team at Temple, led by Anthony E. Wagner, Senior Vice President for Financial Affairs, has been working hard to make sure the university can respond to these financial-related issues.

Mr. Wagner addressed the Board.



Temple University's Financial Position

Report to the Board of Trustees
December 9, 2008

- Dramatic changes continue to strain the state, national and global economies.
- Impact on colleges and universities are unlike those we have seen in past economic downturns.
- Temple is feeling the effects and must address both long- and short-term issues.
- The entire financial and administrative structure of the university is confronting these challenges.
- Going forward, the Board of Trustees and the administration will continue working together within the "new financial reality" we are all facing.



Outline

- Current financial position
- Key factors
- Looking forward

- It is important that all begin with a clear, “full-picture” understanding of situation.
- We will look at the current financial position based on an independent assessment, and
- we will look at key factors underlying the current situation and shaping our options going forward.



Independent Third-Party Debt Rating

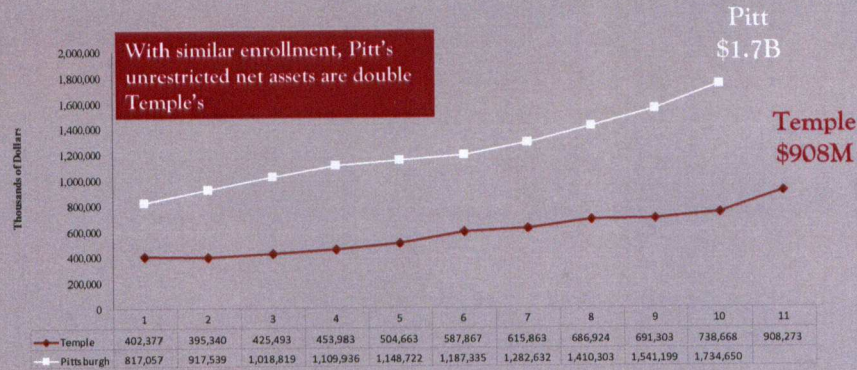
Investment Grade Bonds	}	Aaa	U of Michigan; U of Texas; U of Virginia
		Aa1	
		Aa2	PSU; Pitt; Penn; Maryland
		Aa3	Rutgers; PA/SSHE
		A1	Temple University
		A2	
		A3	
		Baa1	
		Baa2	
		Baa3	TUHS
Junk Bonds	}	Ba1	
		Ba2	Non-Investment/Speculative Grade
		Ba3	

Source: Moody's Investment Service Long-term Debt Rating

- Moody's Investment Services offers a key independently measured analysis for financial health.
- Indicates credit-worthiness of an institution
 - Sets the cost of credit, which is important to Temple's \$350 million in long-term debt
 - According to Moody's, Temple's balance sheet is solid but middle of the pack as compared to other universities, including those within our peer group.
 - University was upgraded a few years ago.
 - But, unfortunately, the Health System was recently down-graded to the lowest investor grade and is at risk of falling to junk bond status.
 - Improving the financials of the health system is imperative to maintaining the University's rating.



Unrestricted Net Assets: Temple vs. Pitt



Source: Temple University-only Financial Statements and University Pittsburgh-only Financial Statements

- Another indicator of fiscal health is unrestricted net assets.
- Here, we see that compared with Pitt, a peer institution with similar FTE enrollment as Temple, a significant disparity in this financial measure.
- Pitt has a total of \$1.7 billion in net assets, nearly twice that of Temple University.
- These figures are like comparisons, with health system assets of each institution omitted.
- Of Temple's \$908 million of unrestricted net assets:
 - \$527M is in equity of buildings and equipment (not liquid)
 - \$173M is in designated education accounts
 - \$119M is committed to capital improvements
 - \$79M is committed to debt retirement



Moody's on outlook for higher education

- According to Moody's, "as a sector Higher Education generally does not closely follow the national economic cycle."
 - Moody's definition of the sector includes a diverse mix of colleges and universities throughout the country including private, public and community colleges
- Moody's acknowledges performance will vary among the different regions and segments of this sector
 - public vs. private institutions
 - enrollment demographics
 - exposure to credit markets

- Generally, as Moody's statement here notes, "as a sector Higher Education generally does not closely follow the national economic cycle."
 - We know that, in some cases, economic downturns result in counter-cyclical impacts on universities
 - i.e., increases in graduate and professional enrollments when the economy is bad
- However, we caution against relying on generalization of the sector because it includes a mix of very different kinds of institutions.
- In addition, differences in regions in which institutions are located and types of institutions will influence the impact of economic cycles:
 - Public vs. private
 - Enrollment demographics
 - Exposure to credit markets
- In addition, the current economic climate is unprecedented.
- No one knows what the full effect will be, or how long it will last.



Moody's October 2008 report

- **Credit crisis and recession could lead to**
 - more difficulty for colleges and universities in borrowing funds for operations and growth
 - a shrinking pool of students who can afford college
 - less availability of student loans

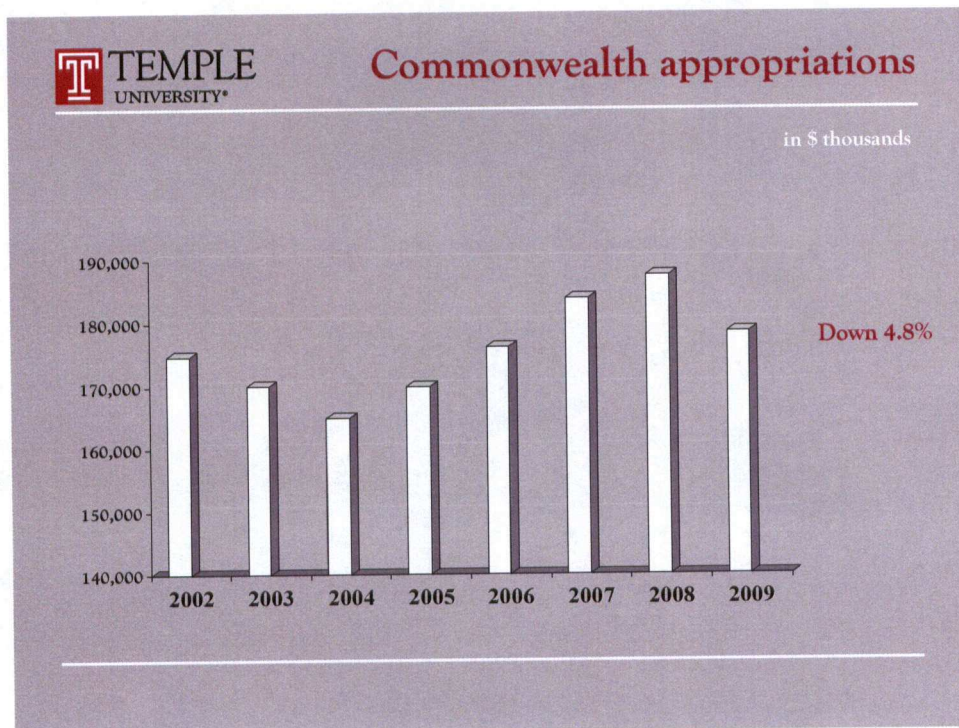
- Moody's has been reassessing how the current climate challenges these general assumptions since July 2008.
- In its most recent report – October 2008 – Moody's warned investors and colleges and universities:
 - Credit crisis and recession could lead to
 - more difficulty for colleges and universities in borrowing funds for operations and growth
 - a shrinking pool of students who can afford college
 - less availability of student loans
 - There is significant uncertainty as to the length of the recession and the overall impact it will have.



Key factors

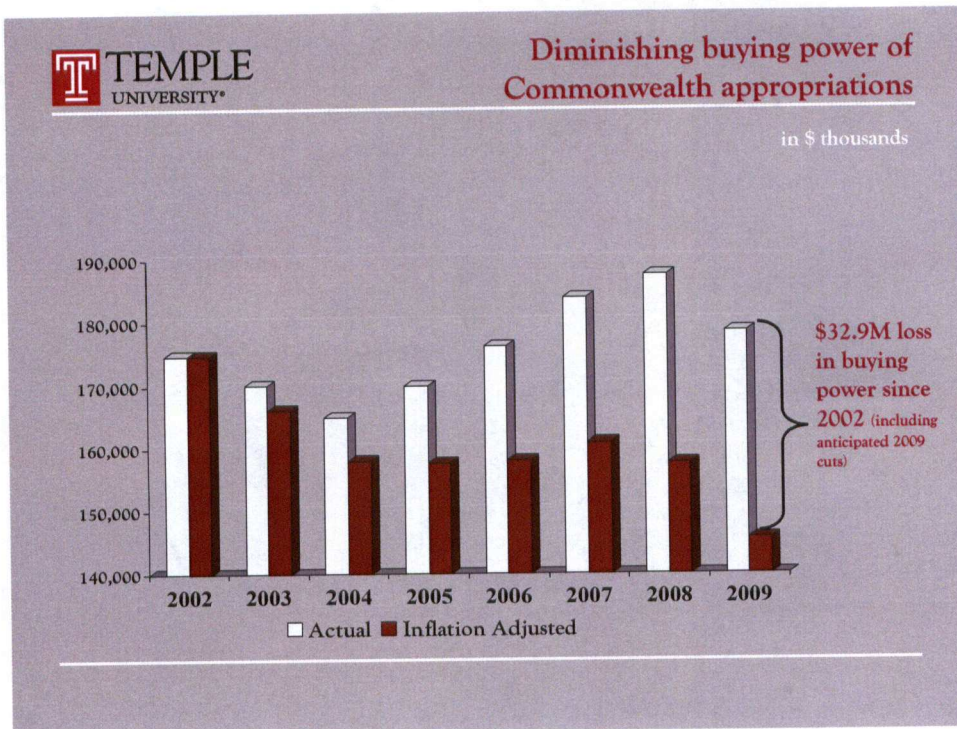
- **Declining trends in state appropriations**
 - Response to reduction in 2009 appropriation
- **Endowment**
- **Tuition**
 - Reliance as share of Education and General Budget
 - Commitment to affordability
- **Impact on students**
 - Applicant pool
 - Debt burden
 - Availability and affordability of credit

- Now, we will review the specific factors that impact Temple University:
 - Declining trends in state appropriations
 - Response to reduction in 2009 appropriation
 - Endowment
 - Tuition
 - Reliance as share of Education and General Budget
 - Commitment to affordability
 - Applicant pool – which is shifting due to decline in population of 18-year-olds
 - Impact on students
 - Debt burden – faced by our students and their parents
 - Availability and affordability of credit – for student loans



- In September, we received notification from the Commonwealth to prepare for a 4.25 percent reduction to appropriation
 - State revenues were then down \$200M
 - Reduction equivalent to \$7.46 million, or 1 percent of Temple's 2008-2009 general and education budget
- State revenues down almost \$658 million at the end of November
 - Governor projected on December 9 that the total could reach \$1.6 billion by the end of FY 2009 and announced additional cuts to overall state budget

- From these cuts, we anticipate another 1.75 percent reduction, for a total of \$11.4 million – or 1.47 percent of our 2008-2009 general and education budget.
- We can anticipate additional cuts next year as well.



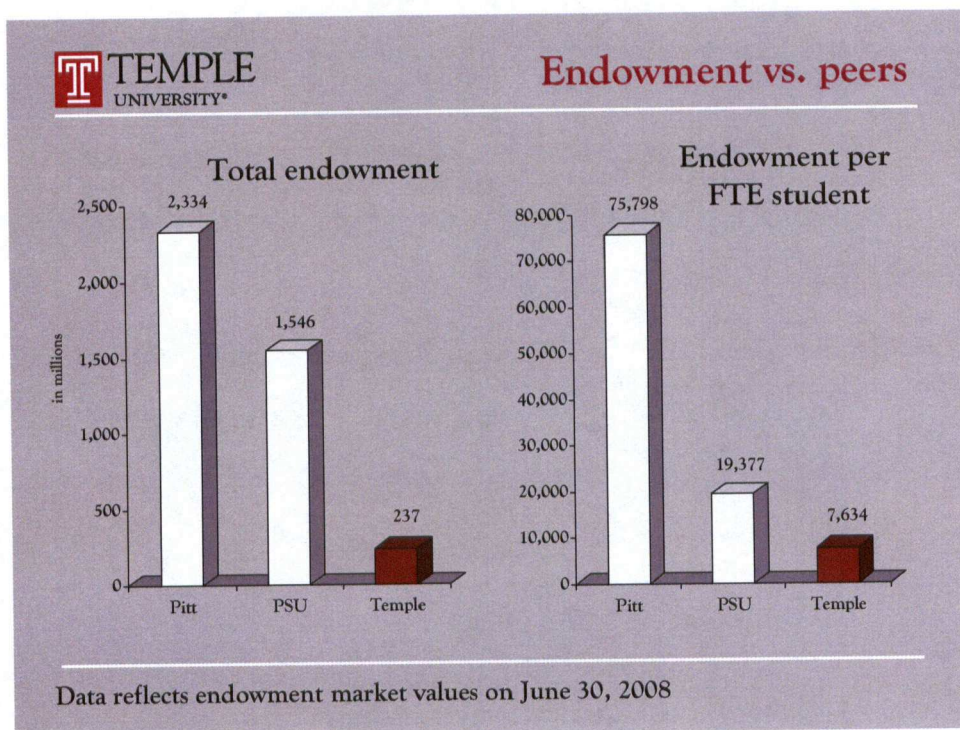
- With adjustments for inflation and current year cuts from the state, Temple has lost over \$32.9 million in buying power (adjusted for inflation) since 2002.

TEMPLE UNIVERSITY* **Spending reduction measures**

- In October, took immediate steps to adjust our spending plan
 - anticipating further drop in state revenues resulting in larger cuts, reduced spending plan by 1.5 percent, or \$12 million
- Hiring freeze
 - vice presidents to reserve a total of \$5.9 million from compensation budgets
- Suspended all university funded, non-essential, out-of-state travel
- Took back a 2 percent inflationary increase of \$1.6 million
- Each officer in the university given an additional targeted amount to reduce
- All reductions have been removed from the budget

- In October we took immediate steps to adjust our spending plan, and anticipating further drop in state revenues resulting in larger cuts, we reduced spending plan by 1.5 percent, or \$12 million.

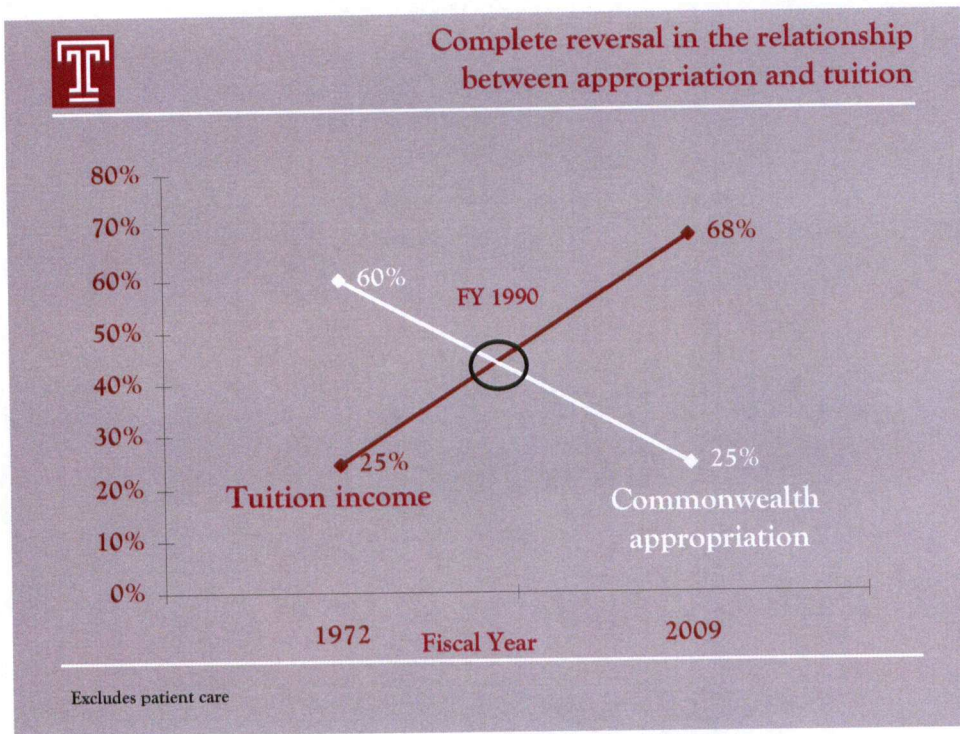
- Hiring freeze
 - vice presidents asked to reserve a total of \$5.9 million from compensation budgets
 - salary and benefits are 66% of Temple's budget
- Suspended all university funded, non-essential, out-of-state travel
- Limited exceptions to travel and hiring restrictions for mission-critical activities
- Took back a 2 percent inflationary increase of \$1.6 million originally given to all schools and colleges and some administrative units in the 2008-2009 budget for non-compensation related costs, such as supplies, books and equipment
- Each officer in the university given an additional targeted amount to reduce.
- All cuts have been removed from the budget.



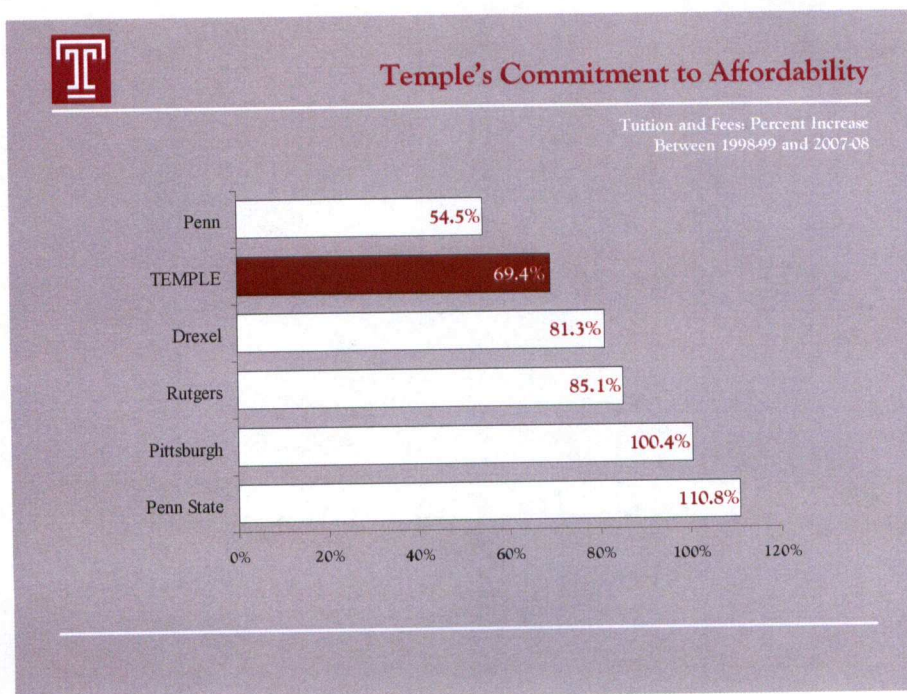
Note: charts based on June 30, 2008, market values for each institution

- Even among our public peers, Temple's endowment is very small.
- Again, we see Pitt – similar student body size – having a significant advantage, especially in weathering state cuts and other factors.
- Even Penn State, with its larger student body and operations, has more than twice the earning and spending power from its endowment as compared with Temple.
- Temple operates with a 4.5% endowment spending rule, which amounted to \$8.5 million in FY08, or less than 2 percent of the education and general budget

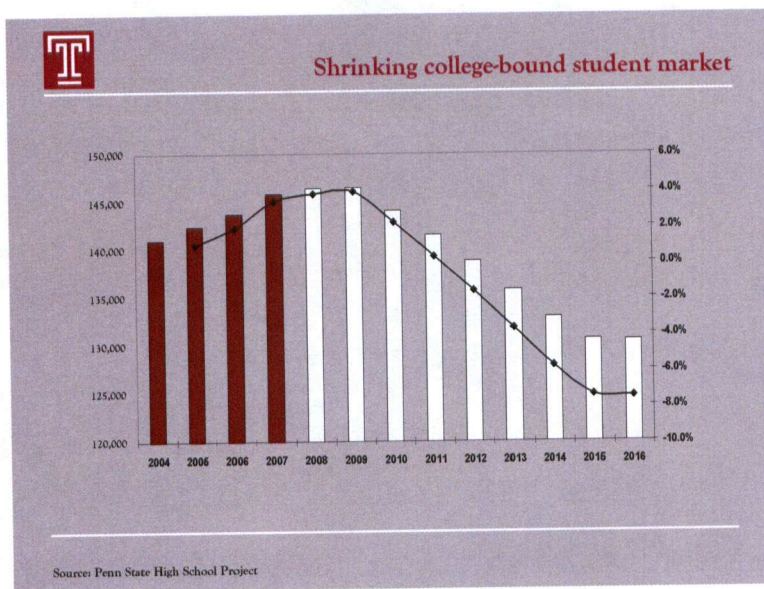
- Market value declining due to market conditions.
 - \$237 million at June 30th
 - \$195 million at November 30th for total decrease of 17.4 percent



- Tuition has been our primary revenue source for many years, surpassing state appropriations in FY90.
- Now, we have an inverse relationship of the funding breakdown of 35 years ago.



- Temple's cumulative tuition increases over the last decade have been well below key comparators.
- This is especially important given the heavy debt load of our students.
- But in considering our income streams, we must consider how increases in tuition will affect our ability to attract students. Will increases send students to less costly options, such as community colleges?
- In addition, we need to consider how increases in tuition reflect upon our commitment to affordability as a key element of access to education.
- While we could have some uptick in applications from students seeking more affordable options than out-of-state or private institutions, we believe tuition increases could hurt our core market.



- As we consider the impact on our ability to attract students, we need also to keep in mind the changing demographics of our student market.
- The number of 18-year-olds in the geographic areas that are traditionally the sources of our students is dropping, which affects the college-bound market size.
- This market-size estimate is based on a standardized formula that assumes a percentage of the 18-year-old market is likely to seek a college education
- But this formula does not reflect the very real possibility that the number of these students in the financial position to attend college will also decline as a result of the current economic climate.
- We are operating on the assumption that we will keep enrollment steady at current level, which will require that we increase our market share.
- This will result in a significant increase in competition for students, and pricing is a more important factor than ever in terms of our competitive position.



Shifting the Burden: Increasing Student Debt

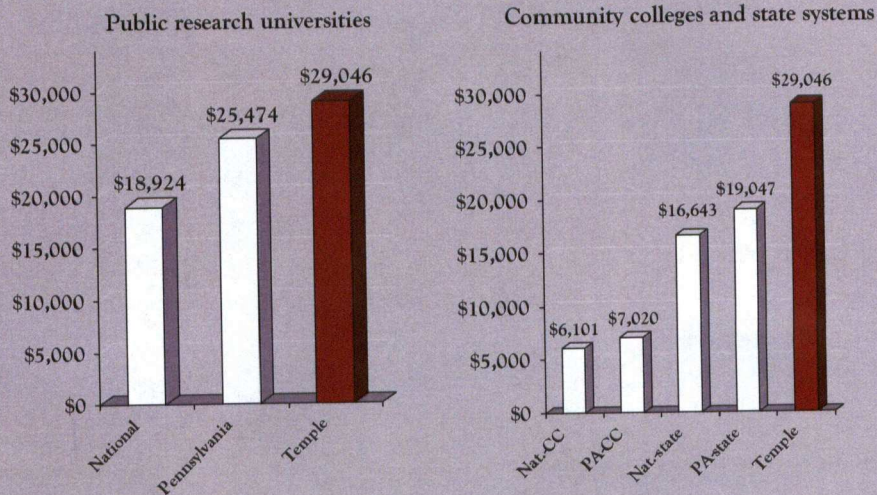


Temple ranks 5th among public universities in undergraduate debt

- Temple student debt has increased 39.6% since 2002-03.



Comparative student debt loads



Source: Pennsylvania State Board of Education, November 2008

Our student debt load already is higher than other educational options.

Continued interest in student debt loads may drive more students to less expensive options, affecting our competitive position going forward.



Availability and competition for loans

- **Need-based aid requests rising as family incomes decline**
- **16 percent increase in students applying for federal loans in 2008**
 - possible shortfall of available Pell funding of \$6 billion
- **PHEAA ceased operations as a loan grantor in 2008**
- **Private loans**
 - fewer available in face of rising demand
 - higher credit scores required as students and families face layoffs, job loss, etc.
 - higher interest rates on existing loans likely


- Need-based aid requests rising as family incomes decline
- We saw a 16 percent increase in students applying for federal loans in 2008, which creates a possible \$6 billion shortfall of available Pell funding.
- PHEAA ceased operations as a loan grantor in 2008.
- Fewer private loans are available as demand rises, lenders are requiring higher credit scores from their applicants, and higher interest rates on existing loans likely.



Impact in 2008 and beyond

- **National Association of Independent Colleges and Universities released study in October with results from 504 institutions**
 - 85 percent reported losing lenders in federal loan programs
 - 90 percent reported losing private loan providers
 - 17 percent reported budget cuts to divert savings to financial aid
 - 11 percent reported increasing endowment withdrawals and/or dipping into endowment principal.
- **Impact on students**
 - 57 percent reported having students who failed to qualify for private loans
 - 46 percent reported students suspending their educations or switching to a part-time status
 - 38 percent reported students relying on *credit cards* to pay tuition

- It is still difficult to gauge the impact because very little data available.
- The National Association of Independent Colleges and Universities released study in October with results from 504 institutions, reporting:
 - 85 percent reported losing lenders in federal loan programs
 - 90 percent reported losing private loan providers
 - 17 percent reported budget cuts and diverting savings to financial aid
 - 11 percent reported increasing endowment withdrawals and/or dipping into principal to balance their budgets
- The study found that the impact is already being felt among students in this current academic year:
 - 57 percent reported having students who failed to qualify for private loans
 - 46 percent reported students suspending their educations or switching to a part-time status
 - 38 percent reported students relying on credit cards to pay tuition
- These are not sustainable financial models for universities or for students.



Going forward

- **Rigorous spending management**
 - elimination of waste
 - cost controls
 - encouraging innovation and entrepreneurship
- **Additional revenue streams**
 - fund raising
 - new or expanded programming
- **Implementation of strategic planning objectives**

- We will continue rigorous spending management, including
 - elimination of waste
 - cost controls
 - encouraging innovation and entrepreneurship
- We will aggressively seek to grow additional revenue streams such as
 - fund raising
 - new or expanded programming
- Strategic planning is more important than ever. We must clearly define and prioritize our goals; focus our activities and make the right choices; and ensure that all of our actions going forward are strictly aligned with our mission and our financial capacity.

* * * * *

REPORTS AND RECOMMENDATIONS FOR ACTION - STANDING COMMITTEES

Committee on Trustee Affairs – Anthony J. Scirica

1. Report

The quarterly report of the Committee on Trustee Affairs was accepted as presented.

RECOMMENDATION FOR ACTION:

2. **Election of Commonwealth Trustee**

Upon motion duly made and seconded, the Board of Trustees, upon the recommendations of the Commonwealth appointing authorities and the Committee on Trustee Affairs (12/5/08), elected Scott Mazo for a term effective immediately and expiring October 2012, to the Board of Trustees of Temple University – Of The Commonwealth System of Higher Education, as set forth in Agenda Reference 2.

Secretary's Note: Pursuant to the Temple University Commonwealth Act, The Honorable Dennis M. O'Brien, Speaker of the House of Representatives of Pennsylvania, has appointed Mr. Mazo as a voting trustee.

2a. **Re-Election of Commonwealth Trustee**

Upon motion duly made and seconded, the Board of Trustees, upon the recommendations of the Commonwealth appointing authorities and the Committee on Trustee Affairs (12/9/08), re-elected Joseph W. Marshall, III, for a term effective immediately and expiring October 2012, to the Board of Trustees of Temple University – Of The Commonwealth System of Higher Education, as set forth in Agenda Reference 2a.

Secretary's Note: Pursuant to the Temple University Commonwealth Act, The Honorable Joseph B. Scarnati, III, President Pro Tempore of the Senate of Pennsylvania, has appointed Mr. Marshall as a voting trustee.

Executive Committee – Anthony J. Scirica, Chair

3. Report

The quarterly report of the Executive Committee was accepted as presented.

RECOMMENDATIONS FOR ACTION:

4. **Endorsement of Academic Strategic Plan**

Upon motion duly made and seconded, the Board of Trustees, having noted the unanimous endorsements of the Academic Affairs Committee on October 6, 2008, and the Budget & Finance Committee and the Executive Committee on November 24, 2008, endorsed the Academic Strategic Plan as presented by the Provost.

5. **Borrowing Authority – January 1, 2009, through March 31, 2009**

Upon motion duly made and seconded, the Board of Trustees authorized the officers to borrow, for operating purposes of the University, \$30 million on terms which the officers believe best for the University, such authority to cover the period from January 1, 2009, through March 31, 2009.

Academic Affairs Committee – Leonard Barrack, Chair

6. **Report**

The quarterly report of the Academic Affairs Committee was accepted as presented.

RECOMMENDATION FOR ACTION:

7. **Establishing, Restructuring, and Terminating Curricula and Programs in Various Schools and Colleges**

Upon motion duly made and seconded, the Board of Trustees approved the recommendation of the Academic Affairs Committee (12/3/08) that the officers be authorized to establish, restructure, and terminate curricula and programs in the various schools and colleges as listed and set forth in Agenda References 7:

- A) Establish, restructure and terminate curricula in the Tyler School of Art
 - Establish a Master of Architecture
 - Establish a Bachelor of Science in Facilities Management
 - Establish a Bachelor of Science in Architectural Preservation
 - Restructure the Bachelor of Science in Architecture
 - Terminate the Bachelor of Architecture

- B) Establish and Restructure curricula in the College of Engineering
 - Establish an Optional Concentration in Bioengineering for the Bachelor of Science in Mechanical Engineering
 - Establish an Optional Concentration in Energy Systems for the Bachelor of Science in Mechanical Engineering
 - Restructure Optional Cooperative Education Program in the College of Engineering
 - Establish an Optional Cooperative Education Program for the Bachelor of Science in Engineering Technology in Construction Management Technology.

Development Committee – Leonard Barrack, Vice Chair

8. **Report**

The quarterly report of the Development Committee was accepted as presented.

RECOMMENDATIONS FOR ACTION:

9. **Naming of Spaces - Alter Hall, New Medical School Building, and Tyler School of Art Building**

Upon motion duly made and seconded, the Board of Trustees ratified the recommendation of the Development Committee (12/9/08) and approves the naming of a variety of spaces within Alter Hall, the new Medical School building, and the new Tyler School of Art building as set forth in Agenda Reference 9.

10. **Naming Opportunity – College of Engineering**

Upon motion duly made and seconded, the Board of Trustees, upon the recommendation of the Development Committee (12/9/08), approved the naming of a computer lab in the College of Engineering in recognition of John and Lynn Ewell's generosity to the College.

11. **Naming Opportunity – School of Pharmacy**

Upon motion duly made and seconded, the Board of Trustees, upon the recommendation of the Development Committee (12/9/08), approved the naming of the Moulder Center for Drug Discovery Research at the School of Pharmacy in recognition of Lonnie and Sharon Moulder's generosity to the School.

Facilities Committee – Mitchell L. Morgan, Chair

12. **Report**

The quarterly report of the Facilities Committee was accepted as presented.

RECOMMENDATIONS FOR ACTION:

13. **Phase 7 of the Smart Classroom Plan**

Upon motion duly made and seconded, the Board of Trustees approved the recommendation of the Facilities Committee (12/4/08) that the officers be authorized to proceed with Phase 7 of the conversion of 20 classrooms to level 3 smart classrooms at a cost not-to-exceed \$903,540, with the funding and financing sources being Technology Fees as follows: Computer Services (10-7730-610; \$855,800), College of Liberal Arts (10-1801-610; \$19,800), College of Education (10-1901-610; \$9,900), and College of Music (10-2201-610; \$18,040).

14. **Orthodontics Clinic Renovations**

Upon motion duly made and seconded, the Board of Trustees approved the recommendation of the Facilities Committee (12/4/08) that the officers be authorized to proceed with renovations of the existing Orthodontics Clinic on the second floor of the New Dental School building, at a cost not-to-exceed \$2,650,000, with the funding and financing sources being the Orthodontic Renovation Fund (81-0723-000; \$1,445,000) and Dental Clinical Incentive Fund (10-0701-001; \$1,205,000).

15. Anderson Hall – Electrical Panel Replacement

Upon motion duly made and seconded, the Board of Trustees approved the recommendation of the Facilities Committee (12/4/08) that the officers be authorized to proceed with replacement of the electrical panel boards in Anderson Hall at a cost not-to-exceed \$500,000, with the funding and financing source being the Plant Development Fund.

16. Synthetic Turf Replacement – 15th and Norris Streets

Upon motion duly made and seconded, the Board of Trustees approved the recommendation of the Facilities Committee (12/4/08) that the officers be authorized to proceed with resurfacing of the synthetic turf field located at 15th and Norris Streets, at a cost not-to-exceed \$2,625,000, with the funding and financing sources being Campus Recreation Capital Renewal and Replacement Fund (80-4060-001; \$1,625,000) and Athletics Carryover Account (10-5101-335; \$1,000,000).

Athletics Committee – Patrick V. Larkin

17. Report

The quarterly report of the Athletics Committee was accepted as presented.

Audit Committee – J. William Mills, III, Chair

18. Report

The quarterly report of the Audit Committee was accepted as presented.

Budget & Finance Committee – Lewis F. Gould, Jr., Chair

19. Report

The quarterly report of the Budget & Finance Committee was accepted as presented.

Campus Life & Diversity Committee – James S. White, Chair

20. Report

The quarterly report of the Campus Life & Diversity Committee was accepted as presented.

Temple Educational Support Services, Ltd. – Nelson A. Diaz

21. Report

The quarterly report of the Academic Affairs Committee was accepted as presented.

Secretary's Note: The Healthcare Enterprise Committee and the Student Affairs Committee did not meet during the reporting period.

OFFICERS' REPORT

22. Secretary's Report – George E. Moore

Upon motion duly made and seconded, the Board of Trustees approved the presentation of degrees-in-course dated January 30, 2009, to candidates approved by the appropriate academic committees of the faculty.

23. Treasurer's Report – Anthony E. Wagner

Upon motion duly made and seconded, the Investment Reports for the Three Months Ended September 30, 2008, and grants and contracts awarded between July 1, 2008, and September 30, 2008, be received, said Report being included and identified as Agenda Reference 23.

**OLD BUSINESS
NEW BUSINESS**

ADJOURNMENT