MEMO TO: University Community  
FROM: Francine G. McNairy, President  
DATE: November 2, 2009  
SUBJECT: Budget Direction and Outlook Update

In January and May 2009 I wrote to the University community regarding challenges occurring with respect to the State’s 2008-09 budget, the implications of those challenges to PASSHE and to the University, and the budget planning process that would be necessary to prepare the 2009-10 budget – the current academic year. In these previous messages I mentioned that 4.25% of the 2008-09 University state appropriation, or $1.67 million, was returned to the Commonwealth. To accommodate this shortfall in State support, the University rescinded a planned 2.5% inflationary increase to departmental budgets, reduced all operations budgets by 3% (some specific budgets were reduced by 10%), reduced student employment wage allocations, deleted the University furniture budget, and reduced the equipment budget by 50%. The University put a hold on many facility projects and did not fill many vacant positions. Priority for filling vacancies focused on positions related to revenue generation (including faculty), health, safety and security, and compliance. In the planning for the 2009-10 budget we calculated a $4.1 million shortfall; based on best-case estimates of no increase in State appropriations (or worse yet, a decrease), steady enrollment numbers, and a projected 4% tuition increase.

I delayed updating you on this year’s budget due to an unprecedented 100-day delay by the State Legislature and the Governor to reach agreement on the Commonwealth’s 2009-10 budget. We now know the following:

- The State’s support of PASSHE is a 4.3% decrease from the previous year. The situation would have been much worse without Federal government stimulus dollars. Unfortunately, this is just a temporary mitigation of a larger budget problem. We are still learning the “rules” of how the Federal stimulus dollars may be spent but, essentially, this will focus on one-time expenses for just this year and perhaps next.

- The State System Board of Governors increased tuition in July by only 3.7%, in spite of demonstrated need for an increase of between 7% - 8%.

- Funds received annually for deferred maintenance ($819,000 for MU) have been completely eliminated by the State legislature for all 14 universities.
Taking all of the above into account, we have a balanced budget for 2009-10. Barring similar “give back” requests from the State in this fiscal year, there should be no further cuts of this year’s budget. As a precautionary measure, I have directed our budget office to allocate only 80% of budgeted dollars to each department. When we are confident the situation will stabilize, the budget office will be instructed to release the remaining 20% for use. I should point out that a 1.4% increase in enrollment improved the institutional outlook. This additional revenue, coupled with operating expense cuts, helped balance the budget for this year.

Unfortunately, the budget situation remains a continuing issue of concern and, as we look to the future, we must realize that:

- Federal stimulus dollars are temporary funds and will end in the 2011-2012 budget.
- Indicators for next year are that the State’s appropriation would, most likely, be flat. This is a best-case scenario!
- Anticipated 2010-11 salary increases for all University employees will add approximately $3.9 million dollars to the University’s budget.
- It is difficult to know what the tuition increase may be, but we have been advised that it will not exceed 4%.
- Starting in January 2010, our electric bill will be subject to a 30-35% annual increase, and
- Due to the decline in the stock market and the increasing number of eligible retirees, the State Employees Retirement System has a serious deficit. As a result, the University will be expected to fund an increase in annual employer contributions from 3.15% in 2009-10 to 33.5% in 2013-14. This is a significant cost increase for the coming years.

In my fall convocation remarks I characterized the budget situation as the “perfect storm.” I pointed out that this combination of complex circumstances will not allow us to weather these difficult economic and political factors with “business as usual” thinking. At that time, I shared with you five specific strategies that I stressed as essential for the University to move with deliberate speed and intentionality to: continue to develop programs of national distinction; tap into a rich market for degree completion programs; consider new media technologies to assist student learning; increase out-of-state enrollment; and foster an entrepreneurial spirit to solicit ideas on how best to meet these fiscal challenges. To this end, I have directed that:

- Cabinet members will meet with faculty, staff and students to explain our situation in more detail and to solicit ideas. Open sessions on the budget are
scheduled for the coming weeks. Please take the time to attend them and become more knowledgeable about the budget situation.

- Senior leadership will meet with respective staff to solicit revenue generation suggestions and cost-cutting ideas.

- Senior administration will establish a University Budget “hot link” on our website to enable direct input by the University community of suggestions that positively impact the bottom line.

- Senior administration will write articles in the Snapper and the Exchange to keep students, faculty, and staff informed.

- Senior administration and our trustees will take the lead in increasing outreach and advocacy contacts with policy makers and opinion shapers. This is an area in which each member of the University community can participate.

The challenges to delivering a quality education to our students are significant, but not insurmountable. As others have done before in the history of this University, we will come together with new strategies to serve our students and to ensure continued educational excellence. I sincerely appreciate your commitment to the University’s mission and vision as, together, we keep alive the promise we make to our students that they will have the opportunity for an educational experience that is second to none.