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## Memorandum

**TO:** PASSHE University Presidents

**FROM:** John C. Cavanaugh, Ph.D.  
Chancellor

**DATE:** November 24, 2009

**RE:** 2009/10 Budget Expectations

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On October 9, 2009, the Commonwealth's fiscal year 2009/10 budget was enacted, providing a combination of state and federal appropriations for PASSHE that, in total, is greater than the state funding received in 2008/09. This budget relies on \$65.2 million in State Fiscal Stabilization Funds (SFSF) through the American Reinvestment and Recovery Act (ARRA) partially to offset a reduction in state appropriations. Slightly more than \$27.1 million in federal funds is available for this fiscal year only. The remaining \$38.2 million will be available for fiscal year 2009/10 and again in 2010/11, but will not recur in future years.

While the Board of Governors is requesting replenishment of PASSHE's state appropriations, it is possible that the decrease in state appropriations that occurred this year may not be replaced fully by 2011/12. Even if state funds are replenished fully, PASSHE's 2011/12 state funding will equal the level of funding received in 2007/08. Either way, it is prudent for PASSHE Universities to be prepared for a reduction in combined state/federal funding in 2011/12 of up to \$38.2 million System-wide.

Educational and General (E&G) budgets are supported by several fund sources. The vast majority of E&G revenue is derived from state appropriations and tuition, which are supplemented by other fees, interest earnings, various other miscellaneous sources, and—this year—federal appropriations. In totality, E&G revenue has increased for 2009/10, allowing the opportunity to address strategic and operational needs, regardless of the specific source of E&G revenue. Given the extensive and complex federal requirements and constraints on the use of SFSF funds for purchases of goods and services (including facilities construction and renovation), it is recommended that SFSF federal appropriations be used to support E&G compensation costs, freeing up more of the major E&G revenue sources to support strategic and non-recurring initiatives that are key to PASSHE's continued success. Nothing here should be viewed as contradictory to Vice Chancellor Dillon's memorandum of November 23, 2009.

As University E&G budgets are being finalized for 2009/10 and created for 2010/11 and 2011/12, all sources of revenue should be taken into consideration in addressing the following expectations.

1. The Commonwealth 2009/10 budget eliminated the Keystone Recreation, Park and Conservation Fund (Key '93) allocations for PASSHE, which had been received by PASSHE annually since 1993 specifically to address the deferred maintenance backlog in academic facilities and infrastructure. The loss of approximately \$14 million this year increases the burden on the E&G budget of funding deferred maintenance. To continue investment in campus facilities and infrastructure for 2009/10, Universities are encouraged to do so with non-ARRA E&G resources.
2. Universities have an opportunity in 2009/10 to use their non-ARRA E&G resources for other one-time and nonrecurring purposes, such as startup costs for new innovative academic programs and alternative delivery, information technology, capital projects, and student financial aid. Non-ARRA E&G resources are appropriate to use for these purposes.
3. To plan for the possibility of low or no growth in future state funding, Universities must transition to a more streamlined cost structure. This will be accomplished through the strategic alignment of academic programs, implementation of additional administrative efficiencies, workforce planning efforts, collaboration with other PASSHE Universities for academic and administrative services, and development of alternative revenue sources. As you are aware, there are several System-wide efforts underway to provide tools to make these strategic changes a reality.

I am confident your leadership through this difficult economic period will result in stronger, vibrant Universities well-poised to meet the educational needs of the Commonwealth. If you have any questions concerning this information, please do not hesitate to contact me.