Pennsylvania's
STATE SYSTEM
of Higher Education

OFFICE OF THE CHANCELLOR

MEMORANDUM

TO: Senator Pat Browne, Majority Chair, Senate Appropriations Committee
Representative Stan Saylor, Majority Chair, House Appropriations Committee
Senator Vincent Hughes, Minority Chair, Senate Appropriations Committee
Representative Matt Bradford, Minority Chair, House Appropriations Committee
Senator Scott Martin, Majority Chair, Senate Appropriations Committee
Representative Curt Sonney, Majority Chair, House Education Committee
Senator Lindsey Williams, Minority Chair, Senate Education Committee
Representative Mark Longietti, Minority Chair, House Education Committee

FROM: Chancellor Dan Greenstein

DATE: November 30, 2021

RE: Joint Hearing Follow-Up

Please accept this correspondence in response to the additional information requested regarding our Fiscal Year 2022-23 budget request.

The $550M request is built upon reliable and realistic budget information, reflective of the System's significant efforts to strengthen accountability, heighten transparency, and operate in a financially stable manner. The request more fully responds to repeated requests about PASSHE's real running cost and achieves several goals including

- ✓ Creating the ability to fully fund a FY 2022-23 tuition freeze and normal inflationary costs (estimated at $20M)
- ✓ Eliminating internal cross-subsidies, allowing one-time funds to be utilized for strategic investments that will improve student outcomes, operating efficiencies, and facilities (estimated at $15M)
- ✓ Assisting universities addressing affordability through increasing institutional aid (estimated at $30M)

These funds would enable PASSHE universities to contribute over 1,100 **more** credentials annually to help Pennsylvania close its talent gap.

The information provided within these materials outlines the following information regarding the details of the $550 million request:

- The distribution of $550 million in general appropriations according to our existing appropriation formula, as outlined on *BOG Policy 1984-06-A: Allocation Formula*. Please note that per the direction of the Board, an Appropriation Allocation Formula Team, comprised of university leaders, is evaluating the current formula and will recommend changes as appropriate for the Board's consideration by July 2022. If approved, any such changes would result in updates to these distributions provided.

- The corresponding budgetary adjustments associated with receiving $550M in general appropriations, including removing two budgetary assumptions associated with tuition rate increases and SERS supplements. These adjustments are outlined in detail in Appendix A and only reflect the updates associated with a $550 million appropriation and do not reflect further financial modeling.

- Further analysis of the impact of $550M in general appropriations on the West and the Northeast integrated projections. The details of the projection updates are highlighted in Appendix B, key highlights include the following:

    - ✓ The $550M state allocation increases the West and the Northeast's revenue for FY 2022-23 by $5.5M and $4.9M, respectively. These increases carry forward and improve all future years in the planning horizon.

    - ✓ In addition, the projection for the Northeast reflects additional improvements anticipated through the achievement of targeted student-to-faculty ratio goals. Considering these factors, the Northeast reaches positive net revenues by FY 2024-25 and maintains this through the planning horizon. These are dedicated to making necessary investments in their physical campus infrastructure.

    - ✓ Additionally for the West, the projections also model additional improvements anticipated through achievement of targeted student-to-faculty ratio goals, improving results substantially year-to-year. In addition, the non-faculty workforce adjustments identified with sustainability planning and under assessment currently provide further reductions in expenses. With consideration of these factors, the West reduces its FY2025-26 deficit by $16M and nears sustainable levels with a deficit anticipated of ($6.4M).

The enclosed Appendix documents provide the supplementary information, and we look forward to discussing this information with you and your staff in more detail.

Attachments

APPENDIX A
Draft Distribution of $550M to Universities

The distribution of $550 million in general appropriations for FY 2022-23 is shown below. This distribution is in accordance with our existing appropriation formula as outlined on *BOG Policy 1984-06-A: Allocation Formula*.

At the request of the Board, an Appropriation Allocation Formula Team, comprised of university leaders, is evaluating the current formula and will recommend changes as appropriate for the Board's consideration by July 2022. If approved, such changes would result in updates to these distributions.

If a general appropriation of $550 million is received, it will provide the capacity to freeze the standard in-state undergraduate tuition rate once again, as well as preserve our SERS funding for one-time strategic investments that will improve student outcomes and operating efficiencies and address critical deferred maintenance issues. Such investments were drastically curtailed during a decade or more of recession management and are vital to the future success of our universities and their students. This information only reflects the updates associated with a $550 million appropriation and does not reflect further financial modeling.

The chart below outlines the following:

- ✓ Each university's current FY 2022-23 anticipated E&G net revenues,
- ✓ Removal of the budgetary assumption of 1% tuition and fee increase
- ✓ Increase in general appropriations as compared to the September '21 planning assumption and according to the current formula
- ✓ Removal of the SERS supplement
- ✓ Each university's adjusted FY 2022-23 anticipated E&G net revenues

Pennsylvania's State System of Higher Education
Fiscal Year 2022-23 Educational and General Fund
Revenues and One-Time Sources Less Expenditures and Transfers
With Estimated Impact of $550M Appropriation Request

		Adjustments for $550M			
			$550M distributed through current formula		
University	Original Projection - Revenues Less Expenditures[1]	Remove 1% Tuition and Fee Increase	Add Estimated Impact of $550M Appropriation Request[2]	Remove SERS Supplement	Revised Projection - Revenues Less Expenditures
Cheyney	$2,335,079	($66,555)	$320,743	($86,407)	$2,502,860
East Stroudsburg	(1,710,982)	(625,505)	4,057,472	0	1,720,985
Indiana	(12,183,800)	(1,084,262)	5,053,712	(1,090,843)	(9,305,193)
Kutztown	0	(797,205)	4,966,611	(104,107)	4,065,299
Millersville	324,975	(810,216)	5,545,667	0	5,060,426
Northeast Integrating University	(11,630,435)	(1,414,764)	7,541,159	(1,177,510)	(6,681,550)
Shippensburg	0	(667,827)	3,815,623	(94,963)	3,052,833
Slippery Rock	0	(960,927)	8,186,807	0	7,225,880
West Chester	1,474,511	(1,965,384)	15,019,178	0	14,528,305
Western Integrating University	(22,678,953)	(1,611,590)	8,224,079	(1,098,671)	(17,165,135)
OOC/Systemwide Initiatives	924,173	0	249,949	0	1,174,122
Total	($43,145,432)	($10,004,235)	$62,981,000	($3,652,501)	$6,178,832

[1] *Revenues include any one-time funds being used to support one-time expenditures included in the budget.*

[2] *Difference between $550 million request and $487 million assumption used in September 2021 CPP projections. Allocated by running $550 million through 2021/22 allocation formula.*

APPENDIX B
Financial Modeling of $550M for Integrated Universities

The chart on the following page updates the projections for the West and the Northeast integrating universities for several key projection updates. Highlights include the following:

The $550M state allocation increases the West and the Northeast's revenue for FY 2022-23 by $5.5M and $4.9M, respectively. These increases carry forward and improve all future years in the planning horizon.

The projection for the Northeast reflects additional improvements anticipated through achievement of targeted student-to-faculty ratio goals. With consideration of these factors, the Northeast reaches positive net revenues by FY 2024-25 and maintains this through the planning horizon. These net revenues generated through these adjustments will be dedicated to making necessary investments in the physical campus infrastructure and for student supports.

Projections for the West also model achievement of targeted student-to-faculty ratio goals, improving results substantially year-to-year. In addition, the non-faculty workforce adjustments identified with sustainability planning and under assessment currently provide further reductions in expenses. With consideration of these factors, the West reduces its FY 2025-26 deficit by $16M and nears sustainable levels with deficit anticipated of ($6.4M).

These items are reflected in the following sequence in the following analysis:
1. Net revenue projections as submitted in September '21
2. Projections of revenues less expenses with $550M distribution and a 2% escalation thereafter
3. Estimates in points 1 and 2, also with student to faculty ratio improvements to achieve the associated targets
4. Estimates in points 1-3, also with additional non-faculty integration savings as identified in the integration plan for the West.

Items 3 and 4 are reflective of incorporating savings estimates that the universities had not yet determined at the timeframe associated with the September '21 submissions. Following the conclusion of the Enhanced Sick Leave Program (ESLP) incentive program, each university will evaluate and update these personnel projections in support of the goals outlined regarding student-to-faculty ratios and the integration administrative savings.

An Excel document is provided to facilitate review of this detailed information.