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Greetings:

As promised this is the first in a series of at least three first-of-the-month letters updating all of you as to our ongoing budget challenges in Pennsylvania and within the PASSHE System and at Ship. Much of what you see below was provided by the Chancellor's Office, and as we receive new information we will pass it on to you. The biggest change over the past few days has been an updating of the current number as to end-of-month tax receipts. Earlier in May, that number stood at about $504 million ahead of predicted. That number is now right around $550 million ahead of what was predicted. Although this does appear to be positive news, we must be cautious as to what programs the legislature may wish to pursue.

On or about July 1, 2011, I will provide another letter updating you on the developments at the June Board of Governors meeting which will include tuition setting for 2011-12 and maybe beyond. Until then, I wish all of you the best.

The State House passed House Bill 1485, a revised budget proposal developed primarily by the House Republican majority in response to Governor Corbett's original plan. Of major interest to PASSHE, this legislation restores $195 million of the $232.6 million cut suggested by the Governor in March, and reduces our funding cut from more than 54 percent to approximately 15 percent from the current fiscal year. For purposes of comparison, the four State-related universities are poised in the House Bill to receive a 25 percent cut from the current year, a combined restoration of $185 million.

All indications are that this is the first step in the development of a final plan for the 2011-12 fiscal year. Several legislative leaders have publicly indicated that the overall budget expenditure figures could go higher before the final deal is struck, based on the fact that tax receipts are more than $550 million over the Governor's estimate for the year.

House Speaker Sam Smith acknowledged in comments before the Pennsylvania Press Club that if state revenues continue to grow and the surplus holds, there could be room to add to the budget before its final passage.

During floor debate, House Democratic leaders cited the revenue surplus and commented, "This revenue is available to Pennsylvanians today without increasing taxes and without imposing any new fees."

State Senate President Pro Tem Joe Scarnati characterized proposed spending levels for pre-K-12 and higher education in the House-passed budget "a floor not a ceiling."

Referencing issues which remain unresolved, including the amount of restorations to be made for pre-K-12 and higher education, Senate Majority Leader Dominic Pileggi also commented that "…the House proposal was a floor not a ceiling."

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Much work remains before next year's budget is final, not the least of which is that the House Bill will have to be considered by the full Senate, and negotiated with the new Administration.

Several other issues which could impact PASSHE and our universities are also in various stages of legislative action:

The Higher Education Modernization Act, our primary legislative focus this session, has been introduced as a free-standing Act in both the House and the Senate. Representatives Matt Baker and Mike Hanna are the prime co-sponsors of House Bill 1343 and Senator Don White is the prime sponsor of Senate Bill 1008. We also have been meeting with the Majority and Minority Chairs of the Senate Education Committee, Senators Piccola and Dinniman, on a different approach to our issues which would entail separate bills amending the Public Education Code for each of the issues in the Modernization Act. We have revised several sections of the bill to address issues raised by the Foundations at some of the universities. We hope to be able to get some activity on this priority legislation before the summer break.

Two bills create new revenue streams for PASSHE based on the execution of contracts or leases for the extraction of mineral resources. Senator Don White is the prime sponsor of SB 367 which includes the extraction of all mining or removal of valuable mineral resources which may be found on state-owned land. Representative Matt Baker is the prime sponsor of House Bill 1238 focuses on oil and gas leases. Both bills reference the State System of Higher Education as a beneficiary of a portion of the proceeds, but through different methods. The Senate Bill has moved through the Senate Environmental Resources and Energy Committee and currently is on the Senate Calendar. The House Bill is in the House Appropriations Committee. We have been working with all parties, including the Governor's Office, on this issue and believe elements of both bills will be reflected in the final version.

There are a number of issues identified by the new Administration which could impact our operations, including legislation to place a two-year moratorium on teacher pay increases for obtaining graduate education degrees and professional development programs. Some of the proposed revisions to the PIMS data collection program administered by the Department of Education could also impact our desire to track students through their program completion and employment history.

Please let me know if you have any questions and continue to have a great summer 2011!!

Bill