

“PASSHE Hoards Money That Should Be Benefitting Students”

This open letter to Guido Pichini, Chair of the PASSHE Board of Governors, contains information that every person who cares about the fourteen (14) PASSHE universities must see and judge for themselves.

Recall that, by law (Act 188), the purpose of the PASSHE universities is to provide “high quality education at the lowest possible cost to the students.” I will reiterate this theme in what follows.

The funding for the Board of Governors (BOG) *and* the Office of the Chancellor (OOC), according to Act 188, shall come from all available operating funds, but shall not exceed one-half of one-percent of such funds. The law defines ‘operating funds’ as ‘any federal appropriation, any state appropriation, any student tuition fees and any student fees for room and board.’ PASSHE’s annual operating funds total about \$1.5 billion, and one-half of one percent equals approximately \$7.5 million in annual revenue.

This open letter has two (2) parts. It begins with my Right to Know (RTK) request, and ends with an analysis of PASSHE data, some of which was provided recently in response to my RTK request.

The official PASSHE Data listed below reveals that the current *political* leadership of the PASSHE Board of Governors—representing the *minority* (30%) stakeholders—cares more about the political and financial perks they “grab” from PASSHE, than they do about the students, parents and alumni—the *majority* stakeholders, who now pay more than 70% of PASSHE’s bills.

A ‘Right to Know’ Request

Mr. Pichini,

By copy of this Right to Know request to Kenn Marshall, I am hereby requesting electronic copies of the annual spreadsheets listing the unrestricted net assets of each of the fourteen universities and the Office of the Chancellor, together with the PASSHE totals, for each year between FY 1992-93 and FY 2011-12. And if you tell me PASSHE doesn’t make those reports any more, I will prove that’s a lie by posting copies of the reports I still have in my possession on the internet for the world to see.

Thank you.

Angelo Armenti, Jr.

An Analysis of Official PASSHE “Fund Balance” Data

The response to my RTK request came in the form of two large spreadsheets listing the “unrestricted net assets,” also known as the “fund balances,” of each PASSHE University, plus that of the Board of Governors (BOG) and the Office of the Chancellor (OOC), over a period of years. In the first column of Table 1 is a listing of the fund balances for “PASSHE,” which includes fund balances of the fourteen (14) individual universities, plus the fund balance of the financial entity cited in Act 188, that is, the *combination* of the Board of Governors *and* the Office of the Chancellor, labeled (BOG & OOC). The second column lists the fund balance of the (BOG & OOC). For comparison purposes, the third column lists the maximum annual revenue—\$7.5 million—permitted by law for the use of the (BOG & OOC).

Question: Since revenue to the (BOG & OOC) is limited by law to \$7.5 million/year, how have they been able to hoard \$39 million into their combined FY 2011 fund balance?

Last year, PASSHE received \$421.4 million in appropriation funding from the State. For this year, presumably because they knew the State budget was tight, the PASSHE Board of Governors requested a

modest 2.1% increase of just \$8.6 million. At the time of that request, however, PASSHE—as a system—was sitting on a \$511 million fund balance!

Table 1

Unrestricted Net Assets (a.k.a., Fund Balances)			
FY	PASSHE	(BOG + OOC)	1/2 of 1%
2011	\$ 511,028,132	\$ 39,487,059	\$ 7,500,000
2010	\$ 420,831,406	\$ 36,706,671	\$ 7,500,000
2009	\$ 390,853,855	\$ 33,139,680	\$ 7,500,000
2008	\$ 397,822,764	\$ 26,672,147	\$ 7,500,000
2007	\$ 381,241,837	\$ 32,467,472	\$ 7,500,000
2006	\$ 372,708,134	\$ 32,774,043	\$ 7,500,000
2005	\$ 345,327,683	\$ 67,928,197	\$ 7,500,000
2004	\$ 304,123,918	\$ 57,004,454	\$ 7,500,000
2003	\$ 307,444,195	\$ 46,206,090	\$ 7,500,000
2002	\$ 267,333,161	\$ 18,457,416	\$ 7,500,000
2001	\$ 217,017,397	\$ 22,408,093	\$ 7,500,000
2000	\$ 172,970,034	\$ 18,909,404	\$ 7,500,000
1999	\$ 179,332,479	\$ 14,413,178	\$ 7,500,000
1998	\$ 171,299,057	\$ 12,779,767	\$ 7,500,000
1997	\$ 141,693,575	\$ 7,356,713	\$ 7,500,000

The data show that PASSHE’s total net assets as a system have been increasing at 9.6%/year for the past 14 years. In fact, between 2010 and 2011—definitely a difficult time financially for most families, PASSHE increased its fund balance by a whopping \$90 million in just one year! It seems clear that, rather than hoarding all that money in an account earning virtually no interest, the bulk of those funds should have been supporting *high quality education to PASSHE students*—as called for in Act 188.

The data also show that in just the first three years since Chancellor Cavanaugh’s arrival in 2008, and despite the *Great Recession*, the Board of Governors and Office of the Chancellor have managed to grow their fund balance by 14%/year—from \$26.7 million to \$39.5 million—a jump of \$12.8 million in just three years. They socked away an amazing \$2.8 million in just one year between 2010 and 2011, and now have a fund balance five (5) times larger than their maximum annual revenue. Not only that, their fund balance is also larger than the fund balances of eight (8) of the fourteen (14) PASSHE universities. Recall that the fourteen universities have the honor, as well as the financial burden, of teaching PASSHE’s 120,000 students. Yet the Board of Governors and the Office of the Chancellor, limited by law to \$7.5 million/year in revenue, have a larger fund balance than eight (8) PASSHE universities, and those universities are responsible for educating more than 53,000 of PASSHE’s 120,000 students!

The obscene fund balance of the (Board of Governors & Office of the Chancellor) makes a mockery of the carefully-crafted language of Act 188 (one-half of 1%), which was designed specifically to prevent those very same people from drawing significant financial resources away from PASSHE’s core mission—high quality education at the lowest possible cost to the students. The fund balance travesty depicted in the above table has been occurring over many years, for at least three reasons: 1) Chancellors and OOC staff members have abdicated their responsibility to the students, 2) BOG members have been both

negligent and clearly complicit in the scam, and 3) PASSHE legal review has been totally inattentive and too pathetically weak to stand up to chancellors and Board of Governors' members over the years.

Lest you think my judgment too harsh, consider this. Several different PASSHE chief counsels over the years have stated that the Board of Governors had (and still has) *no legal authority* under Act 188 to limit the ability of Councils of Trustees to set academic fees on the campuses. Yet BOG Policy 1989-05-A was passed 23 years ago, was amended 18 months ago, does limit Councils, and is still in effect today.

Now since Governor Corbett is a member of the Board of Governors, PASSHE's hoarding of a half-billion dollars of public money—while teachers in the state are being laid off, and a budget ax has been taken to social service agencies that help the poor and disadvantaged—raises two compelling questions:

1. **Is Gov. Corbett aware of PASSHE's hoarding of all this public money? Or,**
2. **Is Gov. Corbett in the dark about this PASSHE hoarding of public money, while his friends on the Board of Governors play him, the students, parents, alumni, and the taxpayers for suckers?**

Either way, Gov. Corbett has some explaining to do to the people of Pennsylvania.

Especially since his friends/contributors on the PASSHE Board of Governors—some of whom managed to get multi-million dollar State contracts—even as the highest bidder—have suddenly taken vows of silence when it comes to answering sticky questions. Recently, two of Governor Corbett's special friends on the BOG—a 'bundler' and a 'bungler' according to one wag—have been hiding behind statements like "It's a personnel matter and I can't talk about why President Armenti was fired."

Question: Is the hoarding of a half-billion dollars in unrestricted net assets a personnel matter, meaning that the Board of Governors will never have to answer questions about it?

We'll see. But if it is not a personnel matter, it should be in the following sense: Certain PASSHE board members should be forced to resign their seats because of it, and certain staff members in the Chancellor's Office should be fired for their role in this multi-year, multi-million dollar swindle.

Table 2 lists the individual "unrestricted net assets," or "fund balances" for the fourteen PASSHE universities and the (Board of Governors & Office of the Chancellor) for FY 2011. For those new to the terms, a fund balance is basically an account into which any "surplus funds" from a given fiscal year get deposited. So if a university takes in more money than it spends in a year, those funds go into its fund balance. If they do that year after year, the size of the fund balance continues to grow, as was clearly the case for the (Board of Governors & Office of the Chancellor) and certain PASSHE universities.

A fund balance is intended to provide a prudent level of reserves as a hedge against a future "rainy day" but, judging by the size of some of the fund balances in Table 2, the Board of Governors, Chancellor Cavanaugh, and some PASSHE presidents went well beyond prudent rainy-day planning and seem to have contemplated building not just Noah's Ark, but something more like Noah's Ark on steroids.

When I began as president in 1992, Cal U had revenue of \$50 million and a fund balance of \$2.5 million, or 5% of revenue. I noticed at the time that many of the other PASSHE universities had much larger fund balances. For example, one school had a fund balance of \$19 million, and all 14 schools

together had a combined fund balance of \$90 million! When Governor Bob Casey learned about it, he demanded the return of some appropriation funds, because PASSHE was hoarding so much money.

I asked the finance people in the Office of the Chancellor for a copy of PASSHE’s policy on fund balances and was told two things: 1) PASSHE had no official policy, and 2) PASSHE had a draft policy that stated: “Fund balances should be kept between 4% and 8% of the previous year’s revenue.”

Table 2

PASSHE's Total Unrestricted Net Assets for FY 2011		
Includes 14 Universities + (BOG & OOC)		
Bloomsburg	\$	39,329,278
California	\$	9,006,887
Cheyney	\$	(808,584)
Clarion	\$	16,737,487
East Stroudsburg	\$	15,359,266
Edinboro	\$	30,896,556
Indiana	\$	52,147,463
Kutztown	\$	55,140,712
Lock Haven	\$	29,155,598
Mansfield	\$	17,640,379
Millersville	\$	40,507,575
Shippensburg	\$	43,644,072
Slippery Rock	\$	44,645,546
West Chester	\$	78,138,838
BOG & OOC	\$	39,487,059
PASSHE - Total	\$	511,028,132

I asked why some schools had such large fund balances, and all I got in return was a shrug. Despite the non-answer—a typical response from the Office of the Chancellor—I decided to play it straight and stick with the *draft* policy which, while not as good as an *official* policy, was better than *no* policy at all. I followed that draft policy for 19 years and, in April of 2011, the Board of Governors finally passed an *official* policy on fund balances that was very similar (5% to 10%) to the one I had followed since 1992.

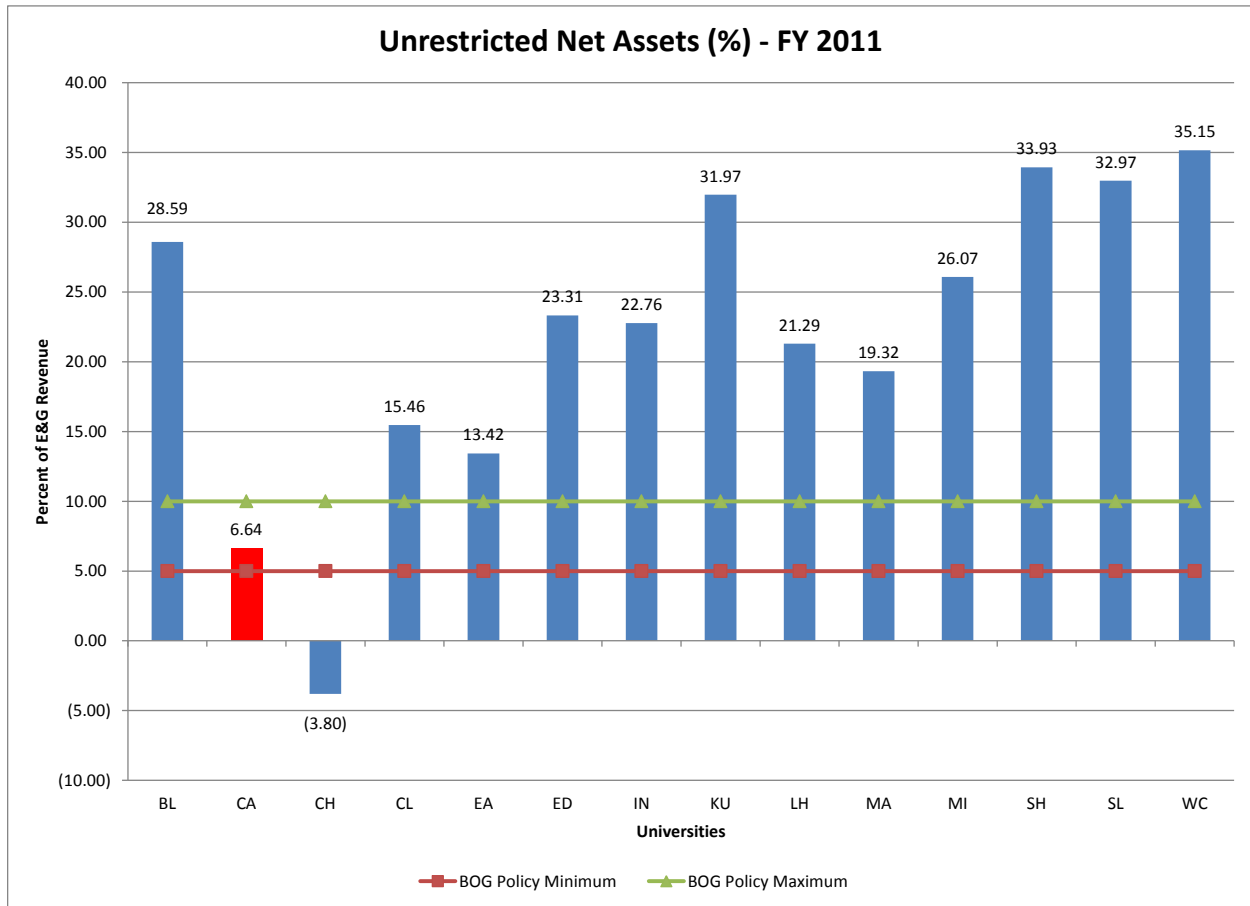
But instead of an ‘attaboy’ for being ahead of the group, or for maintaining a prudent fund balance, or for not hoarding money that should have gone (and in fact in Cal U’s case, did go) to support the high quality end of PASSHE’s official purpose, I got fired instead, thank you very much.

PASSHE presidents have historically been strongly encouraged to build huge fund balances. Subtle encouragement would come when the annual “fund balance” report would be given out to presidents and not one word of disapproval would be spoken by the Chancellor or anyone about universities with fund balances above 30% of the previous year’s revenue. Such percentages always involved millions of dollars being held back from benefitting students with the ‘high quality’ called for, by law, in Act 188.

The not-so-subtle way of encouraging huge fund balances (and discouraging prudent ones) was

demonstrated in recent years by Vice Chancellor Jim Dillon, when he would criticize Cal U in front of personnel from all the PASSHE universities because, in his opinion, Cal U's fund balance was too small.

Chart 1 – PASSHE Data



As shown above in Chart 1, only Cal U had a fund balance (6.64%) that fell in the mandated range (5% to 10%), while 12 of the other 13 universities carried fund balances that ranged from 13.42% to 35.15%, well above the 10% policy cap. Those percentages, converted to dollars and added to the whopping fund balance of the (BOG & OOC), yield the shocking \$511 million figure cited earlier in Tables 1 & 2.

Some PASSHE students—although not those at Cal U—were cheated by PASSHE's perverse practice of hoarding millions, while denying those millions for the benefit of students who—along with parents, alumni donors and friends, currently pay some 70% of the cost of education at PASSHE universities.

This disgraceful hoarding amounts to *theft* from the majority stakeholders, and must be stopped.

For that reason Mr. Pichini, I now call on all PASSHE students, parents, alumni, donors and friends to join me in demanding your immediate resignation from the PASSHE Board of Governors, before you and your crooked cronies on the Board and in the Chancellor's office succeed in destroying the reputation of PASSHE and its many honorable stakeholders by being associated, in the mind of the public, with you.

Angelo Armenti, Jr.