STRATEGIC BUDGET TASK FORCE REPORT
August 7, 2019
Task Force Membership

Executive Sponsors: Nicholas P. Jones, Executive Vice President and Provost, and David J. Gray, Senior Vice President for Finance and Business/Treasurer

Task Force Chair: Mary Lou Ortiz, University Budget Officer

Task Force Members:

<table>
<thead>
<tr>
<th>Area Represented</th>
<th>Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Research &amp; Extension</td>
<td>Susan Sampsell</td>
</tr>
<tr>
<td>Commonwealth Campus Chancellors</td>
<td>Ralph Ford, Penn State Behrend</td>
</tr>
<tr>
<td>Corporate Controller</td>
<td>Kim Fisher</td>
</tr>
<tr>
<td>Development</td>
<td>Jean Songer</td>
</tr>
<tr>
<td>Faculty Senate</td>
<td>Laura Pauley</td>
</tr>
<tr>
<td>Finance &amp; Business</td>
<td>Kurt Kissinger</td>
</tr>
<tr>
<td>Physical Plant</td>
<td>Bill Sitzabee</td>
</tr>
<tr>
<td>Research</td>
<td>Ruth Weber</td>
</tr>
<tr>
<td>SIMBA Project Management Office</td>
<td>Jody Heckman</td>
</tr>
<tr>
<td>University Budget Office</td>
<td>Andy Reisinger</td>
</tr>
<tr>
<td>University Park College Deans</td>
<td>Justin Schwartz, Engineering</td>
</tr>
<tr>
<td>VP Commonwealth Campuses</td>
<td>Kelly Austin</td>
</tr>
<tr>
<td>VP Commonwealth Campuses</td>
<td>Patti Cochrane</td>
</tr>
<tr>
<td>World Campus/One Penn State 2025</td>
<td>Renata Engel</td>
</tr>
<tr>
<td>Change Management Support</td>
<td>Jeremy Bean, F&amp;B OCM</td>
</tr>
<tr>
<td>Project Management Support</td>
<td>Wayne Leone, UBO</td>
</tr>
<tr>
<td>Administrative Support/Recorder</td>
<td>Mark Mingle, UBO</td>
</tr>
</tbody>
</table>

Task Force Charge

On December 18, 2018, Nicholas P. Jones, Executive Vice President and Provost, and David J. Gray, Senior Vice President for Finance and Business/Treasurer, wrote to key university stakeholders (see Appendix A, page 19), asking them to serve on a new Strategic Budget Task Force. The group (members listed above) would examine key issues related to the university’s budget processes and make recommendations about a new budgeting model for Penn State.
Through Penn State’s strategic planning process and discussions with university and Board leadership, Dr. Jones and Mr. Gray identified several needs, including greater budget transparency to optimize financial decision-making. However, limitations intrinsic to existing systems, data, and budget processes hinder the consideration and assessment of opportunities for improvement.

Dr. Jones and Mr. Gray asked the Strategic Budget Task Force to develop budget-related recommendations and provide them in a comprehensive report by June 28, 2019.

**Unifying and Guiding Principles**

The Strategic Budget Task Force crafted one Unifying Principle and eight Guiding Principles for conducting its work.

**Unifying Principle:** As Pennsylvania’s sole land-grant institution, Penn State University delivers positive impacts across the Commonwealth and beyond through its tripartite mission of teaching, research, and service. To engender and sustain these meaningful endeavors, the university must be an ardent steward of financial resources, including funds it receives from its students, their families, university alumni, donors, and the Commonwealth of Pennsylvania, among others. In turn, the university must have a comprehensive and evolved approach to budgeting that aligns with current best practices; meets its needs; and supports its mission, vision, and values.

**Guiding Principles:**

1. **Consistency** – Penn State’s budget processes, terminology, and work product will be consistent across all university units.

2. **Flexible Responsiveness** – Penn State’s approach to budgeting will allow for adjustments based on changing external forces, such as global market fluctuations, political climate and governmental decisions, competition, and demographic realities.

3. **Motivation** – The university’s budget will incentivize beneficial behaviors, such as fiscal responsibility and calculated risk-taking in an entrepreneurial spirit.

4. **Opportunity** – Budget development will support the university’s commitment to access and affordability for current and future students.
5. **Simplicity** – Though the details of university expenses and revenues can be complex, the approach to budgeting will be simple, rational, and fair.

6. **Strategic Plan Alignment** – Budgeting and strategic planning will work synergistically to create and support sound processes based on accurate fiscal data, leading to positive outcomes that maximize impact per resource spent.

7. **Planning Time Frames** – Penn State’s approach to budgeting will reflect the need to respond to short-term challenges and plan for long-term needs through a multi-year planning process.

8. **Transparency** – The university’s budget will be comprehensive and clear, providing a transparent view of how Penn State manages its financial resources.

---

**Executive Summary**

The Pennsylvania State University (“Penn State”) is a multi-campus, land-grant, public research institution that educates students from around the world, supporting individuals and communities through integrated programs of teaching, research, and service. However, Penn State faces more internal and external challenges in a period of disruptive change across U.S. higher education. Students, their families, and state and federal entities are focused increasingly on the cost of a college education, demanding better financial controls to minimize tuition increases, create more budgetary transparency and maximize the return on every dollar spent.

To address these demands and challenges, Penn State must enter a new era in budget management, engaging in critical discussions about financial tools and processes that will help the university continue to achieve key institutional goals. **Penn State’s current budget processes focus on short-term incremental changes, inhibiting long-term strategic decision-making and transparent, accurate financial reporting at all levels. These processes must evolve university-wide to meet current and emerging needs and expectations in conjunction with the implementation of a new enterprise financial management system that will enable better financial tracking, reporting, and forecasting.**

After six months of investigation, analysis, benchmarking efforts, and deliberation, Penn State’s Strategic Budget Task Force recommends changes in three key areas – **Overall Budgeting Approach, Operating Budget, and Capital Planning** – to ensure the university follows budgeting best practices that drive institutional success.
In summary, the recommendations of the three key areas are as follows.

- **Overall Budgeting Approach**
  - Multi-year Budgeting: Create a five-year operating and capital budget planning process that uses integrated data to forecast at the individual unit and total institution levels.
  - Budgeting All Funds: Incorporate total university sources and uses (all funds) into the five-year budget planning process.

- **Operating Budget**
  - **General Funds**
    - Permanent and Temporary Budgets: Develop a comprehensive General Funds budget that shows how sources and uses are deployed annually and eliminates the separation of funding into “Permanent” and “Temporary” budget categories. Provide budget allocations that allow individual units to manage sources and uses holistically.
    - Carry-forward Funds: Consistent with developing budgets based on total sources and uses, include carry-forward balances as one component of General Funds sources in a holistic budget approach. Establish clear principles and categories that allow carry-forward funds to roll into subsequent years.
    - Salaries: In conjunction with establishing holistic General Funds budget allocations, update policies and processes related to salary identification and reporting.
    - Fringe Benefits: Include fringe benefit funds in the total E&G allocation, so that units manage those costs as part of the overall budget.
  - **Non-General Funds** (Auxiliary, Gifts, Endowment Income, and Sponsored Research): Include non-General Funds sources and uses (auxiliary, gifts, endowment income, and sponsored research) in the overall five-year budget forecast for each unit.

- **Capital Planning**
  - Capital Plan Development: In conjunction with taking a more holistic approach that budgets all funds on a multi-year basis, the process for developing and authorizing the University Capital Plan should be examined to better align university priorities, the capital plan, and the annual operating budget.
  - Intersection of Operating and Capital Costs: Incorporate the cost of ongoing operations – facilities operations, utilities, and maintenance, as well as programming (such as staff, equipment, and recurring costs) – as part of the capital planning process, so that the total impact on the operating and capital budgets is transparent.
Background / Introduction

During the 2012-2013 fiscal year, a budget planning task force was convened to develop recommendations for improving Penn State’s budget practices and processes. While the university implemented many of those recommendations, they did not fundamentally alter the university’s overarching approach to budgeting.

In recent years, Penn State has been updating its core administrative functions by implementing new enterprise management systems university-wide. These include the implementation in 2020 of a modern System for Integrated Management, Budgeting, and Accounting (SIMBA). That project, the hiring of a new University Budget Officer, and the Board of Trustees’ call for more financial transparency and reporting prompted Penn State to re-examine its budget and the processes and practices employed to develop and manage it.

In turn, a new Strategic Budget Task Force was charged with reviewing Penn State’s budget processes, the budgeting and financial reporting tools that support them, and how revenues and expenses are managed and understood across the university. It would examine key issues and subsequently make recommendations to the Executive Sponsors regarding a new, improved Penn State budget model.

The task force identified several measures of success in accordance with its charge, asserting that its recommendations must:
- Meet the criteria and needs of senior leadership and the Board of Trustees,
- Support the university’s strategic plan,
- Engage important stakeholders across the university,
- Establish a suitable support network,
- Present a sound business case for change,
- Integrate with SIMBA,
- Accelerate the pace of decision-making, and
- Benchmark with processes utilized at successful peer universities.

Based on its work since being charged in December 2018, the Strategic Budget Task Force offers the following nine (9) recommendations in three (3) categories: Overall Budgeting Approach, Operating Budget, and Capital Planning.
Task Force Recommendations

I. Overall Budgeting Approach

A. Multi-year Budgeting

**Recommendation:** Create a five-year operating and capital budget planning process that uses integrated data to forecast at the individual unit and total institution levels.

Overview/Current Process

Penn State has a single-year budgeting process that focuses on incremental changes, mainly involving Education and General (E&G) Funds, rather than the total budget. The University Budget Office (UBO) prepares high-level, aggregated budgets for senior leadership and the Board of Trustees. Before the 2019-2020 budget preparation cycle, individual administrative areas did not prepare budget submissions for UBO review. Financial management is decentralized to the academic and administrative areas, which receive E&G budget allocations annually, leading to inconsistent and siloed budget practices. It is difficult to consistently report budget activities across multiple areas, which must be done manually when needed. Also, Board and university attention is focused on one-year changes rather than on how resources are allocated or on how to make longer-term strategic choices.

Stakeholder Feedback

A consistent process that takes a bottoms-up approach to budget development and reflects the impact of current decisions over five years will enable university leaders and the Board of Trustees to take a longer-term view and better understand how strategic choices could affect future operating cycles.

Areas of focus and decision-making should include the impact of tuition rates and institutional aid on student affordability; the appropriate allocation of resources to support the university’s academic, research, and service missions; the provision of operating support to meet capital requirements; the evaluation of opportunities for efficiencies; and the capacity to fund strategic priorities.
Considerations for Successful Implementation

- A common theme in discussions with colleagues at peer institutions was the desire to move toward multi-year budget planning, but most have not yet implemented this approach.
- Accurate integrated data from across the institution’s multiple enterprise systems (including but not limited to financial, human resources, research, and student information) must be available to effectively budget and forecast. This is even more critical when forecasting over longer time frames.
- It should be recognized that budget submissions for the out years of a five-year planning cycle will be pro-forma forecasts that show the impact of current-year decisions and growth assumptions (e.g., tuition rate and appropriation growth, salary increases, and demographic changes).

B. Budgeting All Funds

**Recommendation:** Incorporate total university sources and uses (all funds)\(^1\) into the five-year budget planning process.

**Overview/Current Process**

While incorporating all sources of income, the initial operating budget approved by the Board of Trustees at the beginning of each fiscal year emphasizes incremental changes to the E&G budget. Board decision-making typically has not included discussions about the entire budget.

The UBO manages the Board budget process, developing the E&G budget based on projected changes to the major institutional revenue and expense drivers. Revenues include tuition, mandatory fees, state appropriation, facilities and administrative cost recoveries for sponsored projects (F&A), and unrestricted investment income. Expenses include general salary increases, benefits, insurance, debt services, utilities, student aid, facilities and major maintenance, strategic investments, and cost reductions.

---

\(^1\) Income sources include tuition, fees, F&A, state appropriation, current-use gifts, endowment income, and auxiliary income, as well as available funds within a unit that support costs such as budget allocations and fund balances carried over from prior years. Uses include direct expenses (salary, benefits, non-personnel) and fund transfers to other units.
Other General Funds sources, such as department-generated income, and uses are included in the total with flat growth from the prior year. Auxiliary, restricted funds (philanthropy or research), Penn State Health (including the College of Medicine), Agricultural Research and Extension, and the Pennsylvania College of Technology are budgeted and monitored through separate processes, although summarized income information is provided to the UBO for inclusion in the budget submission to the Board of Trustees.

Because each of the categories – Education and General (E&G), auxiliary, endowments/gifts, research funding – is budgeted separately and often at different times in a fiscal year, it is difficult to get a comprehensive view of what funds are available and where gaps exist.

Stakeholder Feedback

Using guidelines established early in this process and the benchmark studies, we made the following observations.

- Some peer institutions budget all funds for multiple years.
- Thoughtfully implemented, an all-funds budget process aligns well with the guidelines established by this task force. Such a move would make budgeting more transparent; support flexibility and responsiveness to changing external forces; motivate by incentivizing fiscal responsibility, innovation, and risk-taking; enhance strategic planning; enable timely responses to short- and long-term needs; and ensure consistency in approaches, language, and processes across all budget units.

Considerations for Successful Implementation

- We will need an effective university-wide communication plan to ensure key stakeholders understand changes to our budget structure and categorization.
- We must communicate that all-funds budgeting enables a holistic view for planning and pursuing unit goals, with examples of how the approach can help to identify strategic and philanthropic goals, coordinate support functions, and more.
- We should consider specific approaches to incorporate units’ support for their capital planning projects.
- The UBO should provide clear guidelines and planning assumptions to be used for five-year budget forecasts to ensure consistency in planning across units.
As part of the budgeting process, units should participate in a regular, centralized process to review the budget. This process should include meeting with the Executive Vice President and Provost and the University Budget Officer to present the original budget submission before the start of the fiscal year and providing regular updates during the fiscal year to compare year-end budget projections.

Each fund source area has different timing and ways of showing available resources. Implementation will require visibility into each fund source area and financial officer access to tools to retrieve and organize key information for decision-makers.

Efforts to change and grow, including appropriate risk-taking, should be encouraged and incentivized.

We must be transparent to the Board of Trustees and other internal and external stakeholders regarding University budgets and where financial information is located. In turn, we will have a budget that shows a complete, clear, and comprehensible picture of the university’s financials.

II. Operating Budget

A. General Funds

1. Permanent and Temporary Budgets

**Recommendation:** Develop a comprehensive General Funds budget that shows how sources and uses are deployed annually and eliminates the separation of funding into “Permanent” and “Temporary” budget categories. Provide budget allocations that allow individual units to manage sources and uses holistically.

**Overview/Current Process**

Penn State’s separation of General Funds into permanent and temporary budgets – a practice uncommon among universities today – has been in use for several decades. In theory, the permanent budget is developed using ongoing sources and uses of funds, while one-time or short-term sources and uses are included in the temporary budget. Over time, the notion that the permanent budget represents ongoing activities and the temporary budget incorporates those that are one-time has morphed into
certain sources and uses being categorically assigned into one budget or the other. Departmental income that goes directly to the generating unit is often considered temporary income, even if it is generated annually. Many fixed-term multi-year salaries are considered temporary, as well, even if there is a recurring need for those positions.

In the current budget structure, permanent sources include tuition, mandatory fees, state appropriation, F&A, and investment income. These sources, with limited exceptions, are centralized; most units receive an annual permanent budget allocation categorized into salary, fringe, and department allotment.

Penn State has taken a conservative approach by allocating a portion of tuition income to the temporary budget to mitigate impacts if that income falls short of projections. Units can use temporary funds, which cover only one year, to support various needs, but not ongoing costs, such as standing positions. Year-end surpluses are approved separately through the carry-forward process for application to future budget expenses at the administrative area level.

Stakeholder Feedback

University stakeholders say the categorization of funds into permanent and temporary budgets is confusing and difficult to manage, citing the following concerns:

- Some units have shifted activities into the temporary budget in case some permanent funds are “recycled” to central administration.
- Penn State’s current approach – with separate budgeting of permanent, temporary, and carry-forward funds – is inconsistent with those of several peer institutions.

Considerations for Successful Implementation

- Units still will need to identify recurring and one-time expenses. SIMBA will have three different categories (base, one-time, and carry-forward) to develop the General Funds budget.
We must elucidate that the “base” and “one-time” categories in SIMBA do not simply replace the terms “permanent” and “temporary” used in the current approach to university budgeting. Instead, we are focused on a new holistic approach to budgeting General Funds.

Integrating carry-forward funds into a comprehensive General Funds budget may be unsettling. Therefore, during implementation, we must focus on the benefits to pursue long-term goals and respond to potential shortfalls.

2. Carry-forward Funds

**Recommendation:** Consistent with developing budgets based on total sources and uses, include carry-forward balances as one component of General Funds sources in a holistic budget approach. Establish clear principles and categories that allow carry-forward funds to roll into subsequent years.

**Overview/Current Process**

Carry-forward funds currently accrue with no fixed spend date, and no process exists to track specific amounts. Carry-forward funds typically cannot be used to support standing positions, but it is permissible to use them for fixed-term and wage positions.

**Stakeholder Feedback**

- Units should be allowed to transfer funds set aside for renovations and building projects from operating to plant funds, with a time frame (e.g., three years) set for their use. After a unit commits to a renovation or capital project, the funds to should be categorized as “committed.”
- The UBO should have the authority to escrow funds if carry-forward funds exceed a certain percentage of “recurring” budgets. Units still will have access to those balances (e.g., in future budget cycles) as they spend down other carry-forward funds, encouraging good stewardship and discouraging a “use-it-or-lose-it” mindset.
- Carry-forward fund distributions into a new fiscal year should be at the discretion of the Dean or Budget Executive, subject to approval by the Executive Vice President and Provost and the Senior Vice President for Finance and Business.
Considerations for Successful Implementation

- As with the recommendations regarding permanent and temporary budgets, we should change our nomenclature to eliminate “carry-forward” and instead use, for example, “fund balances.” (Note: In SIMBA, “carry-forward” is called “carry-over.”)
- SIMBA’s account structure will enable reporting of carry-forward funds, including amounts and how the funds will be used.
- Review current funds classified as carry-forward and determine which should be removed from a discretionary carry-forward process because they are designated for a specified use. For example, student-initiated fee funds should automatically roll into future years.
- Some units intentionally accumulate carry-forward for future faculty start-up funds. As we evolve how carry-forward funds are “created” (via uncommitted permanent funds) and managed, we must be cognizant of the need to generate faculty start-up funds with clear spending plans and established end dates.

3. Salaries

**Recommendation:** In conjunction with establishing holistic General Funds budget allocations, update policies and processes related to salary identification and reporting.

Overview/Current Process

E&G permanent budget salary allocations include funding for standing positions. The allocations are tied to incumbents’ salaries, and the budget is adjusted when personnel changes are made. With its long-time use of permanent and temporary budgets, Penn State’s budgeting model has cascading operating procedures, some of which do not align with best practices for efficient university operations and reporting.

Two examples:
Standing vs. Fixed-Term Positions: Positions funded in the permanent budget can be considered either a standing position or fixed-term position, while any position funded under the temporary budget is considered a fixed-term position that may be renewed annually. Some employees may serve for many years in fixed-term positions.

True Budget Reporting: Salaries for executive-level positions are reported in a central administrative budget and not in their respective unit budgets. This approach hinders accurate unit budgeting and can make the administration budget appear “bloated.”

Stakeholder Feedback

Research, including benchmarking with other universities and conversations with key stakeholders, revealed:

Penn State’s approach to position classification and salary reporting is not consistent with those of peer institutions.

The wording of fixed-term position descriptions hinders faculty and staff recruitment.

There is a need for positions with specified end dates, such as those supported by grants or those for specified, time-limited projects.

Developing a comprehensive salary budget and eliminating position budgeting will help administrators better manage their units’ needs.

Considerations for Successful Implementation

Fixed-term positions require specific policies and descriptions.

We must accurately determine salary allotments when units have salary support coming from E&G funds and restricted funds.

Proper mechanisms must exist to allow for equitable general salary increases (GSIs) and merit increases. For example, if a dean’s salary was reported in his or her college’s budget, the Provost (the university’s chief budget executive) would still make merit increase decisions. Similarly, deans would make merit increase decisions for department heads even though the salary would be charged to the departmental budget.

Tenure-line and non-tenure-line promotions must be budgeted and managed consistently throughout the university.
• Key question: Should salary increases still be allowed for those funded through sponsored funds in years when there is no GSI? Similarly, should Agricultural Research and Extension be required to have a GSI in a year when there is no increase in the agriculture appropriation but the E&G budget funds the GSI?
• We must assess the potential impacts of how fixed-term, multi-year contracts are funded.

4. Fringe Benefits

Recommendation: Include fringe benefit funds in the total E&G allocation, so that units manage those costs as part of the overall budget.

Overview/Current Process

Fringe benefit charges include group insurances (medical, dental, vision, and life), Social Security, employer’s share of retirement costs, workers’ compensation, and employee and dependent grants-in-aid. These rates do not include unemployment compensation, which is billed on an actual basis. During the ensuing fiscal year, the Office of the Corporate Controller charges department budgets monthly for fringe benefits calculated using actual salary and wage expenses. The current rate is approximately 38 percent for General Funds.

While funds for employee fringe benefits are included in departmental permanent budget allocations, it is not fungible for other expenses within units. Underspending of fringe funds is recouped centrally, and units must cover overspending.

Stakeholder Feedback

• Unit control of these resources should result in higher accountability and stewardship of funds.
• Unit strategic plans must incorporate total compensation (salaries and fringe) to determine their viability.
Considerations for Successful Implementation

- Units should be responsible for managing the cost of fringe benefits as part of the overall General Funds expense budget.
- Changes to how the University provides benefits to employees should be evaluated so necessary changes in fringe benefit methodology and the related charges can be adopted promptly (e.g., within the budget planning cycle).
- The base methodology should be easily understood, rational, and fair. How fringe benefits are charged throughout the year should be consistent and predictable based upon assumptions communicated during the budgeting process.
- We will need a new allocation method for initial distributions of fringe benefit resources to units. It should be clear and concise, so each unit can see how the amount was calculated, articulate the approach to stakeholders, and assess the impact on available resources.
- Small units may require support to ensure consistency with larger units’ approaches.

B. Non-General Funds (Auxiliary, Gifts, Endowment Income, and Sponsored Research)

**Recommendation**: Include non-General Funds sources and uses (auxiliary, gifts, endowment income, and sponsored research) in the overall five-year budget forecast for each unit.

**Overview/Current Process**

While most units manage multiple fund types as part of their overall financial portfolios, they are not expected to prepare an annual budget that includes non-General Funds sources. There is no centralized process through which different areas can obtain a consistent, comprehensive view of their overall budgets for management or planning purposes, thus reducing opportunities for maximizing resources or incentivizing research or fundraising activities.

**Stakeholder Feedback**

- Principal investigators must utilize sponsored research dollars as outlined in award documents.
• Gift funding also must be spent according to donor intent.

Considerations for Successful Implementation

• It will be a change in practice for units to estimate expected non-General Funds sources and uses. Financial officers and budget executives will need to become comfortable with and be trained on how to project gift receipts and sponsored research funding over and above what is “in hand” at the beginning of a fiscal year.
• Fundraising projections at the unit level should be done in consultation with the appropriate Development officer to ensure they align with the university’s overall fundraising goals, including endowment income and “annual fund” projections for the year.
• Maintaining current controls to prevent restricted funds from being used for unapproved or unintended purposes will be critical. We must work with faculty to understand their projects and ensure all related costs are being charged appropriately.
• While incorporating processes that encourage the use of restricted funds, we must avoid inadvertently creating disincentives to seeking restricted funding sources.

III. Capital Planning

A. Capital Plan Development

Recommendation: In conjunction with taking a more holistic approach that budgets all funds on a multi-year basis, the process for developing and authorizing the University Capital Plan should be examined to better align university priorities, the capital plan, and the annual operating budget.

Overview/Current Process

In developing the University Capital Plan for the fiscal years 2018-2019 through 2022-2023, funding sources were considered first. During the initial planning stages, significantly more funds were sourced via the operating budget. However, as the capital plan was further developed, it was determined that the operating budget could not support a significantly higher line item for capital. Four primary funding models were created – differentiated by higher amounts of external borrowing – for the five-year plan. The Board of Trustees in
September 2017 approved a “middle-of-the-road” funding model. With the overall funding sources identified, specific projects (the capital “uses”) were categorized into funding “buckets” established for the plan.

Stakeholder Feedback

- Decisions regarding investments in Penn State’s capital assets (including operations and maintenance) have implications for the operating and capital budgets. Generally, the lower the investment in capital improvements (a capital expense), the higher the increase in the maintenance backlog (an operating cost) will be.
- Sources available to fund the 2019-2023 University Capital Plan have constraints that can be difficult to manage. The plan’s overall funding sources have stipulations regarding projects to which they can be applied. For example, external borrowing cannot be allocated to capital projects at the University Park campus that will cost $10 million or less to complete. Smaller projects have more challenges due to borrowing and the Commonwealth’s Department of General Services’ fund usage requirements.
- Because the current capital plan contains a greater proportion of external borrowing versus internal capital reserves, fewer resources are available for systems upgrades (e.g., a piping replacement project), which have the most dollar-for-dollar positive impact on the university’s maintenance backlog.
- While the 2019-2023 University Capital Plan included sources and uses at a high level (e.g., $101 million from unit funds), it did not identify specific projects and their funding sources.
- Funds from the operating budget are arrayed across the five-year capital plan and become available only in the years in which they are budgeted, which reduces flexibility in implementing the plan.

Considerations for Successful Implementation

- A holistic approach to capital planning must balance financial considerations, such as E&G funding availability and debt capacity/credit rating, with capital needs that support the university’s mission and reduce ongoing maintenance costs in the operating budget.
- Expectations regarding units' financial contributions toward their projects must be communicated clearly, and providing general guidelines, such as minimum expectations for different project types, should be considered.
Projects that would significantly minimize the University's maintenance backlog should be prioritized because of their impact on operations and maintenance costs funded through the E&G operating budget.

Strategic budget guidelines will be needed for establishing project priorities (e.g., a minimum of ##% backlog).

We should consider a ten-year capital needs plan that allows for overlap on the five-year plans. For example, start the next plan in year four with a one-year overlap for programming and design. This could be a hybrid version of a rolling plan.

B. The Intersection of Operating and Capital Costs

**Recommendation**: Incorporate the cost of ongoing operations – facilities operations, utilities, and maintenance, as well as programming (such as staff, equipment, and recurring costs) – as part of the capital planning process, so that the total impact on the operating and capital budgets is transparent.

**Overview/Current Process**

The costs of capital and facilities operations and maintenance are considered in the capital planning process. However, the ongoing costs of operations, such as building support staffing and programming, are not consistently factored into decisions about whether proposed capital projects should move forward. This has led to situations in which units have had to absorb incremental costs or request incremental budget adjustments after the fact.

**Stakeholder Feedback**

- The colleges and Commonwealth Campuses typically factor in ongoing programming costs related to new space or capital improvements. However, there is no formal process to develop a business plan that articulates total ongoing operations costs or how those expenses will be funded.
- It is unclear whether units raising funds for capital projects that are not in the approved capital plan must absorb the ongoing facilities operations and maintenance costs for those projects.
Considerations for Successful Implementation

- A valid business case should be developed for major capital investments to include the cost of operations and the investments’ anticipated impacts. The business cases for these projects should include costs of facilities operations and maintenance, as well as increased staff, equipment, or materials needed for operations.
- The process must require formal documentation and structure to account for all facets of planning capital improvements.
- Many stakeholders may be involved with donor-funded capital projects, leading to extremely iterative processes. Appropriate checks and balances can ensure total lifecycle costs are incorporated throughout the process, leading to better and more holistic outcomes.

Next Steps

Pending approval of its recommendations, the Strategic Budget Task Force suggests taking the following steps to operationalize them.

1. Create an Executive Budget Committee to oversee how the task force’s recommended changes are implemented and operationalized across the university.

2. Appropriately resource the Executive Budget Committee to ensure it functions efficiently and employs best practices in change management while following university policies.

3. Empower the Executive Budget Committee to create and charge subcommittees to oversee and evaluate the operationalization of each recommended change.

4. Establish a realistic implementation timeline that aligns with SIMBA launch plans and mitigates potential resistance to the changes due to perceived time constraints.
Appendices A-F

Appendix A
Strategic Budget Task Force Charge Letter

On December 18, 2018, Nicholas P. Jones, Executive Vice President and Provost, and David J. Gray, Senior Vice President for Finance and Business/Treasurer, sent the following letter to key university stakeholders, asking them to serve on a new Strategic Budget Task Force.

DATE: December 18, 2018

FROM: Nicholas P. Jones, Executive Vice President and Provost
       David J. Gray, Senior Vice President for Finance and Business/Treasurer

SUBJECT: Strategic Budget Task Force

We are writing to request that you serve on the newly created Strategic Budget Task Force. Discussions with university and Board leadership, as well as our strategic planning process, identified the need for greater transparency to optimize financial decision making. Limitations of systems, data, and budget processes constrain the ability to evaluate opportunities.

The Strategic Budget Task Force will examine the key issues related to Penn State’s budget processes and make recommendations on a new budgeting model and approach to be adopted by Penn State. We are asking that this be completed by June 28, 2019. While this is an ambitious timeline, we are confident in the task force’s ability to make a robust set of recommendations during that timeframe.

Please inform Patty Tarbay (pam13@psu.edu) of your willingness to serve on the Strategic Budget Task Force. An inaugural meeting will be scheduled in January.

Thank you for your willingness to be involved in this important undertaking.
Appendix B
Strategic Budget Task Force Charter

The Strategic Budget Task Force Charter was developed and published on December 17, 2018, as follows (two pages).

Strategic Budget Task Force Charter
12/17/2018

Overview: In FY 2012-13, a budget planning task force was convened to develop recommendations focused on improving Penn State’s existing budget practices and processes. While many of those recommendations were implemented, ultimately, they did not fundamentally re-examine or alter the university’s approach to budgeting. Penn State is now in the middle of updating its core administrative functions through the implementation of new enterprise management systems. The implementation of a new financial system (SIMBA) provides an opportunity to review how revenues and expenses are understood and managed in this very large, multi-campus, research-intensive institution and update or replace the budgeting and financial reporting tools in support of it. The hiring of a new University Budget Officer, a Board of Trustees call for better financial transparency and reporting, and the kick-off of the SIMBA project make this the appropriate time to embark on these changes.

Goal: The Strategic Budget Task Force will examine the key issues related to Penn State’s budget processes as outlined below and make recommendations to the Executive Sponsors on a new budgeting model and approach to be adopted by Penn State:

- General Funds budget processes and policies
  - Permanent vs temporary funding as currently administered
  - Restricted funds interaction with General Funds, including salary relief on grants
  - Budgeting all revenues including temporary tuition and department income
  - Carry-forward policy
- Multi-year planning
- Salary budgeting
  - Position control
  - Standing vs fixed-term appointments
  - Centralized fringe
- Non-General Fund budgets
- Capital Planning

Executive Sponsors:
Nicholas Jones, Executive Vice President and Provost
David Gray, Senior Vice President for Finance and Business/Treasurer

Team Lead: Chaired by Mary Lou Ortiz, University Budget Officer

Administrative Support: Provided by the University Budget Office with facilitation support from F&B Office of Change Management

Team members: Membership will be made up of appropriate representatives from around the University with knowledge, expertise, and history on higher education budgeting.

<table>
<thead>
<tr>
<th>Area Represented</th>
<th>Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Research &amp; Extension</td>
<td>Susan Sampsell</td>
</tr>
<tr>
<td>Commonwealth Campuses</td>
<td>Ralph Ford, PS Behrend</td>
</tr>
<tr>
<td>Corporate Controller</td>
<td>Kim Fisher</td>
</tr>
<tr>
<td>Development</td>
<td>Joan Songer</td>
</tr>
<tr>
<td>Faculty Senate</td>
<td>Laura Pauley</td>
</tr>
</tbody>
</table>
Appendix B
Strategic Budget Task Force Charter, continued

Strategic Budget Task Force Charter
12/17/2018

<table>
<thead>
<tr>
<th>Area Represented</th>
<th>Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance &amp; Business</td>
<td>Kurt Kissingar</td>
</tr>
<tr>
<td>Physical Plant</td>
<td>Bill Sitkabie</td>
</tr>
<tr>
<td>Research</td>
<td>Ruth Weber</td>
</tr>
<tr>
<td>SIMBA PMO</td>
<td>Jody Heckman</td>
</tr>
<tr>
<td>University Budget Office</td>
<td>Andy Reisinger</td>
</tr>
<tr>
<td>University Budget Office</td>
<td>Director of Academic Budgeting</td>
</tr>
<tr>
<td>UP College Deans</td>
<td>Justin Schwartz, Engineering</td>
</tr>
<tr>
<td>VP Commonwealth Campuses</td>
<td>Kelly Austin</td>
</tr>
<tr>
<td>VP Commonwealth Campuses</td>
<td>Patti Cochrane</td>
</tr>
<tr>
<td>World Campus/One Penn State 2025</td>
<td>Renata Engel</td>
</tr>
<tr>
<td>Change Management Support</td>
<td>Jeremy Bean, F&amp;B OCM</td>
</tr>
<tr>
<td>Project Management Support</td>
<td>Wayne Leone, UBO</td>
</tr>
<tr>
<td>Administrative Support/Recorder</td>
<td>Mark Mingle, UBO</td>
</tr>
</tbody>
</table>

Resources: A budget will be developed by the Chair and Executive Sponsors to support the needs of the task force (Project Manager, Change Manager, Meeting Business Analyst, etc.), travel, meeting expenses, etc.

Critical Success Factors:
- Meets the criteria and needs of senior leadership and the Board of Trustees
- Supports the university’s strategic plan, including One Penn State 2025 efforts
- Benchmarks with other successful universities that are similar in size, complexity, and scope
- Engages important University stakeholders who will be majorly impacted by final recommendation
- Establishes a suitable support network to assist the task force in scheduling, note taking, facilitation, and communication to allow members to focus on the task at hand
- Presents a sound business case that analyzes both the gains and losses of the recommended model change
- Integrates successfully with the SIMBA project and build out
- Accelerates pace of deliberation as timing is of the essence with many parts already moving (SIMBA, data governance and analytics, etc.)

Deliverables:
A final report with recommendation/s to the Executive Sponsors by close of FY 2018-19 that includes all business scenarios and a pilot/s implementation plan with recommended units for FY 2019-20.

Timeline:
- Official appointment of Task Force – By December 31, 2018
- Task Force Kick-off Meeting – By end of January 2019
- Benchmarking – Complete by end of February 2019
- Business Analysis – Completed by end of March 2019
- First draft of recommendations report – Completed by end of April 2019
- Second draft of recommendations report – Completed by end of May 2019
- Final draft completed and submitted – End of June 2019
Appendix C  
Peer Institution Benchmarking Outreach and Responses

The Strategic Budget Task Force contacted budget officers at several peer institutions to obtain information that would enable Penn State to compare its budgeting processes and procedures with theirs. This list shows the institutions that were contacted and if they responded to the inquiry.

<table>
<thead>
<tr>
<th>Institutions Contacted</th>
<th>Replied (via email or phone)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Big Ten Academic Alliance Institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Indiana University</td>
<td>Yes</td>
</tr>
<tr>
<td>Michigan State University</td>
<td>Yes</td>
</tr>
<tr>
<td>Northwestern University</td>
<td>Yes</td>
</tr>
<tr>
<td>Ohio State University</td>
<td>Yes</td>
</tr>
<tr>
<td>Purdue University</td>
<td>Yes</td>
</tr>
<tr>
<td>Rutgers University</td>
<td>Yes</td>
</tr>
<tr>
<td>University of Illinois at Urbana-Champaign</td>
<td>No</td>
</tr>
<tr>
<td>University of Iowa</td>
<td>No</td>
</tr>
<tr>
<td>University of Maryland</td>
<td>Yes</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>No</td>
</tr>
<tr>
<td>University of Minnesota</td>
<td>Yes</td>
</tr>
<tr>
<td>University of Nebraska-Lincoln</td>
<td>No</td>
</tr>
<tr>
<td>University of Wisconsin-Madison</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Other Institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Arizona State University</td>
<td>No</td>
</tr>
<tr>
<td>Cornell University</td>
<td>No</td>
</tr>
<tr>
<td>Florida State University</td>
<td>No</td>
</tr>
<tr>
<td>McGill University</td>
<td>No</td>
</tr>
<tr>
<td>North Carolina State University</td>
<td>No</td>
</tr>
<tr>
<td>Texas A&amp;M University</td>
<td>Yes</td>
</tr>
<tr>
<td>University of California System</td>
<td>No</td>
</tr>
<tr>
<td>University of Kentucky</td>
<td>No</td>
</tr>
<tr>
<td>University of North Carolina-Chapel Hill</td>
<td>No</td>
</tr>
<tr>
<td>University of Pittsburgh</td>
<td>Yes</td>
</tr>
<tr>
<td>University of Texas-Austin</td>
<td>No</td>
</tr>
</tbody>
</table>
Appendix D
Peer Institution Benchmarking Questions

To guide its work, the Strategic Budget Task Force asked the following questions of peer institutions’ budget officers who responded to Penn State’s inquiry (two pages).

General

1. What type of budget model do you use and what are its strengths and weaknesses?
2. What is the role of leadership to ensure that budget targets are met?
3. What type of reporting/monitoring system does your institution have in place? Describe its effectiveness.
4. What is the most innovative planning/budgeting method being practiced at your institution? Do different functions (such as auxiliary services, instruction, research, online campus, etc.) use different budget models? If so, what are the merits of doing so?
5. Are there different revenue goals for UG vs GR?

Multi-year Planning

1. Do you use a multi-year budget model in your budgeting process? If yes, how is multi-year budget planning managed?
2. How does your institution manage new faculty start-up funding? (i.e. labs, etc.)
3. Is there a time limit on faculty start-up funding?
4. How does your institution manage new academic program/strategic funding requests?

General Funds

1. Does your institution budget all revenues, including department income?
2. What type of carry-forward/surplus balance process is used?
3. Does your institution have incentives for allocating additional tuition revenue? If yes, what metrics are used?
4. How are General Funds research costs integrated within the General Funds budget process.
Appendix D
Peer Institution Benchmarking Questions, continued

Salary Budgeting

1. What types of appointments are commonly used? (standing vs. fixed term)
2. Does your institution have position control?
3. If yes, are salary savings or vacant position funds returned to Central?
4. What is the role of Human Resources from a budgeting perspective related to appointments?
5. How are fringe benefits handled within your system?
6. What strategies does your institution use to address resource management?
7. How do you handle GSI?

Non-General Funds

1. How are non-general funds incorporated into the budget process?
2. Does your institution review all funds as part of the budget planning process? If yes, what guidelines are used?

Capital Planning

1. Can you describe your institution’s capital planning process?
Appendix E
Information Received in Peer Institution Benchmarking Process

Benchmarking Process

In its June 2019 report, the Strategic Budget Task Force made nine recommendations to improve Penn State’s budget practices and processes. As part of the process to develop the recommendations, the task force’s Benchmarking Subcommittee contacted budget officers at 21 peer institutions to obtain information that would enable Penn State to compare its budgeting practices and processes with theirs.

Representatives of 11 of the 21 institutions responded to Penn State’s inquiries by email or telephone, including nine of the 10 Big Ten Academic Alliance (BTAA) universities that were contacted.

Responding Institutions (11)
Indiana University *
Michigan State University *
Northwestern University *
Ohio State University *
Purdue University *
Rutgers University *
Texas A&M University
University of Maryland *
University of Minnesota *
University of Pittsburgh
University of Wisconsin-Madison *

Non-Responding Institutions (13)
Arizona State University
Cornell University
Florida State University
McGill University
North Carolina State University
University of California System
University of Illinois at Urbana-Champaign*
University of Iowa *
University of Michigan *
University of Kentucky
University of Nebraska-Lincoln *
University of North Carolina-Chapel Hill
University of Texas-Austin

* Big Ten Academic Alliance Institutions
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

The subcommittee used key issues outlined in the task force’s charter to develop the questions presented to the 21 peer institutions. The questions focused on topics such as budget models, multi-year budget planning, start-up funds, all-funds budgeting, non-general funds, capital planning, and reporting.

In turn, the questions posed to peer institutions included:

- What type of budget model does your institution employ?
- Does your institution utilize multi-year budgeting?
- Does your institution budget all revenues, including departmental income?
- What type of carry-forward/surplus balance process is used at your institution?
- How does your institution manage new faculty start-up funding?
- What type of reporting/monitoring system does your institution have in place?
- Would you describe your institution’s capital planning process?

The benchmarking process informed the Penn State task force’s development and presentation of nine budget-related recommendations in its report.

Responses from Peer Institutions

The Benchmarking Subcommittee took the information it received, summarized it, and categorized it by topical area.

**Topic: Budget Models**

**Question: What type of budget model does your institution employ?**

Among the 11 responding institutions, most use incremental budget models, with Responsibility Center Management (RCM) budget models the second most common. Six have incremental models, three have RCM models, and two have hybrid models – one of them hybrid RCM and the other hybrid decentralized.

Among the six universities with incremental models, two use a metrics-based approach, with one of them having adopted and implemented the model only three to four years ago. Two universities incorporate incentives, with one mentioning its incentives were revamped to ensure all schools are included. That institution’s incentives are dollar-based, with the key driver being changes in net tuition. The other universities said its incremental model is not tied to enrollment, which it acknowledged is a weakness.
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

If college enrollments decline, funds are not reallocated to growth colleges. At one university, two-thirds of its budget is base, with the other third based on activity revenue. One university follows base plus inflation, with merit salary increases based on how positions are being charged and funds set aside for strategic investment.

**Among the three universities with RCM models**, one has its state appropriation allocated from central to academic units each year on an incremental base. One has multiple campuses and chancellors, which makes using the model complex, and Central provides services. The other has been decentralized for more than 25 years.

**Among the two universities with hybrid models**, the institution using hybrid RCM reviews “academic scorecards” annually and includes among its metrics student credit hours, square footage, and cost of instruction. The university with a hybrid decentralized model has most Central allocations (state funding, tuition revenue, advancement fee revenue, and a portion of investment earnings) allocated to colleges/divisions. The process is managed by the university’s Office of Budget and Planning.

**Topic: Multi-year Budget Planning**
**Question: Does your institution utilize multi-year budgeting?**

Three of the 11 responding institutions said they use some form of multi-year budget planning. One university conducts a five-year exercise to demonstrate use of funds and successes, tied to enrollment targets and metrics. Another employs a multi-year model to estimate centrally generated revenue and to forecast and track large expenditures. The third respondent said it has a two-year budgeting process, but the second year is conducted at a higher macro level, with no individual salaries set.

Eight of the 11 responding institutions said they did not conduct multi-year budget planning, but five of the eight indicated that they planned or hoped to do so. One university is already working to formalize a five-year operating budget outlook, and two are in the preliminary stages of developing a multi-year budgeting system. One of those institutions noted, however, that its capital budget includes five-, 10-, and 20-year projections. Two institutions shared that their units conduct multi-year planning, but that approach was not utilized at the university level. One said, however, that five-year budget trends can be obtained through its financial system, though the units’ multi-year budgets are not in that system. One university said it uses a 10-year enrollment growth model and that it wants to pilot a five-year model for a targeted area to see how it will work.
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

**Topic: Budgeting All Funds**
Question: *Does your institution budget all revenues, including departmental income?*

Nine of the 11 responding institutions answered this query, with eight of them indicating they employ all funds budgeting and one saying it does not. The latter does not include departmental income in its General Funds budget. Among the eight that budget all funds, one only recently started doing so and will not have reporting capabilities until later this fiscal year. One has a three-year history of budgeting all funds history, another is highly decentralized, and another budgets all funds only in the aggregate, not at the department level. At one university, unrestricted, cost center, and auxiliary activities are budgeted in detail in its financial system; some units budget their gifts/endowments in detail; and grants are administered in a separate module.

**Topic: Carry-Forward Funds**
Question: *What type of carry-forward/surplus balance process is used at your institution?*

All 11 responding institutions said carry-forward funds remain in their units, though several have nuances. Two universities said units with carry-forward funds are expected to provide for spending (which may be long term) and apply them to one-time needs, while another said that some unit carry-forward funds roll over automatically, but others require review and approval. At one university, such funds remain in units and are available for budget planning, but any carry-forward balances are monitored and discussed annually. One institution said carry-forward funds remain in units until fully expended and are not budgeted a second time. One university said units can keep their margin and transfer to plant funds for renovations and building. One university allows units to carry over on an exception basis at year-end, while another has a policy that when carry-forward amounts to the size of a unit budget, the institution’s Budget Office will pull back funds. At one university, carry-forward restricted funds go back to units, but for unrestricted funds, the dean decides whether to roll funds back to the department.

**Topic: Start-Up Funds**
Question: *How does your institution manage new faculty start-up funding?*

Five of the 11 responding institutions said they have no time limits on start-up funding for new faculty, while the other six indicated they have time limits. Two of the five universities without time limits employ an RCM budget model, while the other
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

three have incremental models. Regardless of budget model, all five institutions indicated that they recognize the importance of having a “shelf life” for start-up funding. One university with time limits has an RCM model, with the other five utilizing incremental or hybrid models. For non-RCM institutions, start-up funding is typically split three ways (1/3 Provost/Research, 1/3 College, 1/3 Department).

Related information from institutions with no time limits and an RCM model:

- One institution said some funds for “high-profile” faculty hires come from the Provost/President.
- One university has some funds set aside to address key priorities. Each unit plans for start-up expenditures as part of managing their overall budgets. However, the university President sets aside funds to invest in programs and services to address priorities, and units know what the President’s investment pool is and the guidelines regarding what can be requested.

Related information from institutions with no time limits and an incremental model:

- One university is looking to institute a five-year window for new faculty start-up funding.
- One university reported that 60 percent of start-up funding is part of colleges’ base budgets. Colleges understand start-up ratio from base funding and can use non-general funds for start-up commitments. They can request additional start-up funds, but they must send a hiring plan for the Provost’s approval. The Provost communicates the upper limit to units. After hiring is complete, they submit the amount needed up to the communicated limit.
- One university incorporates start-up funding into the annual faculty hiring and resource planning process.

Related information from the six institutions that have time limits:

- Two of the six universities have the typically three-way split for start-up funding. One institution has a three-year time limit, and the other has a five-year limit with the potential for a one-year extension with approval from the Provost.
- One university has a limit of seven to 10 years to spend start-up funds, with a combination of unit and central funding.
- One university has a five-year limit that was instituted in 2018.
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

- At one institution, the funds are managed centrally. Once approved by senior administration and worked into the budget process, the initiatives are managed by the Provost and the Senior Vice Chancellor for Health Sciences.
- One university has a metric-driven allocation model that it says is highly effective. Each faculty member gets start-up funds with an end date, and it’s always known where faculty research stands. Fund balances cannot be hidden. When an account ends, a fund balance may be moved to a different account and called something else or returned to central for reinvestment. Each college has a central bank account to manage its start-up funds. Colleges can move funds in but transfer only for faculty start-ups. Start-up funds carry forward automatically until the end date is reached;
- At the RCM-model institution with no time limits, campus schools manage faculty start-up. For “high-profile” faculty hires, funds may come from the Provost or President. The RCM model does not support start-up funds when hiring interdisciplinary faculty.

**Topic: Reporting and Monitoring**

Question: *What type of reporting/monitoring system does your institution have in place?*

Nine of the 11 responding institutions replied to this question. All of them utilize one or more reporting/monitoring systems, though one institution noted a need for more robust tools. Two universities use the Kauli Financial System (KFS), with both also using Tableau for data analysis. One university that uses KFS said it has developed reporting tools to enhance its functionality, mentioning Excel and Hyperion. Three of the nine respondents use Oracle tools, with one in the process of implementing Oracle Cloud PBCS, which give uses access to real-time data. One of the Oracle-using universities also uses Tableau, while another also uses Hyperion. Two of the responding universities use Cognos tools for reporting, with one of them also using Hyperion to develop multi-year models.

Related information from the nine institutions that respond to this area of inquiry:

- Three of the six universities shared information about access to data. One said data is available to everyone through a designated university “reporting center.” One said that everyone has access to monthly budget-to actual reports and that it has a data warehouse. At one university, a variety of monthly reports are automatically generated from a central data warehouse and distributed to appropriate stakeholders at all levels.
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

- One university that does not have a system to monitor budget vs. actual also suggested that public institutions do not work best with RCM, and that with RCM, there is an inability to incentivize some behaviors, such as creating online education. It said a revenue “next” might be better.
- One university discussed the process of implementing a new financial system, recommending that Penn State, which is implementing SIMBA, ensure it has a detailed plan for financial reporting and prioritizes training and documentation.

**Topic: Capital Planning**

**Question:** *Would you describe your institution’s capital planning process?*

Six of the 11 responding institutions replied to this question. Most institutions have a process like Penn State’s, which provides for multiple sources of funds to originate large projects and requires that funding sources be identified before such projects can begin. The degree of state government involvement varies for these universities, but some institutions work closely with their states to fund large projects. However, one university does not have a capital plan and its state does not put funds into its capital projects.

**Related information from the six institutions that respond to this area of inquiry:**

- Two universities issue internal loans for capital projects, with one saying it closely monitors the bond rating as part of the process.
- One university has a six-year capital plan and an annual capital budget, as well as a budget process with guidelines for capital requests. It also has a separate process for determining the most-needed repair and renovation (R&R) projects.
- At one university, any projects expected to cost $250,000 or more go through the state even if they are funded by other sources.
- At one university, capital projects budgeted to cost more than $4 million are required to submit project scope and justification and funding source information through a council to be included in its five-year capital plan; Academic projects requested funding, and they often are prioritized based on the institution’s academic mission. Smaller-scale capital projects may be handled through an annual deferred maintenance program, which sets aside $22.5 million annually, or a classroom renovation program, which allocates $3 million annually. Both programs have committees that determine the list of funded projects each year based on expert guidance.
Appendix E
Information Obtained in Peer Institution Benchmarking Process, continued

- One university has its master capital plan posted publicly online.
- One university separates its capital plan into four areas:
  o Repair and Renovation
  o Utility
  o Major Renovations
  o New Building

The university’s budget office controls the first two, while the university’s Board and the state approve major renovations and new construction.
Appendix F
Glossary of Report Terms

**Administrative Units** – Upper level budget distribution entity in the current financial system (IBIS). Examples include colleges and Commonwealth campuses.

**Base Expenses** – Expenses for ongoing activities or programs such as tenured and tenure-track faculty positions, student aid, operations and maintenance of facilities, administrative support, etc.

**Capital Budget** – Used to identify and monitor resources and investments related to large-dollar projects undertaken either to acquire, construct, or improve capital assets, such as buildings. (Goldstein 1950:209)

**Capital Funds** – Non-operating funds used to reflect accounting activities in the capital budget.

**Capital Investments** – Related to the physical plant of the institution. May consist of new buildings/structures or maintaining existing buildings/structures.

**Capital Planning** – see Capital Budget

**Carry-Forward Funds** – Unexpended General Funds balances at the end of each fiscal year. In the current budget approach these funds cannot be used to support standing positions but are permitted for use in fixed-term and wage positions as well as one-time or short-term non-salary costs.

**Central** – Refers to the administrative units at Penn State that have oversight over university-wide functions (such as the Office of the President and Provost, the University Budget Office, Finance & Business, General Counsel, etc.).

**Department** – Describes the base unit for which budgets are created.

**Debt Capacity** – An organization’s ability to borrow, based on outstanding debt load and the ability to raise funds/income to support new borrowing.

**Deferred Maintenance** – The cumulative value of scheduled or routine maintenance and repairs for the built environment that an organization chooses not to undertake when originally scheduled (frequently due to financial constraints). (Goldstein 1950:210)

**Education and General (E&G) Funds** – These funds are comprised of tuition, mandatory fees, state appropriation, and unrestricted investment income for Penn State excluding
Appendix F
Glossary of Report Terms

Agricultural Research and Extension, Pennsylvania College of Technology, and Penn State Health.

Endowment – A gift carrying a stipulation that the principle be invested in perpetuity, with the investment income generated by the gift being available for program support or other purposes. (Goldstein 1950:210)

Endowment Income – Revenue earned by investing endowment principal, typically in stocks, bonds, and other investments. Revenue consists of various sources including dividends, interest, royalties, etc. Typically, only a portion of the earned income is made available for spending in a given fiscal year. (Goldstein 1950:210)

Faculty Start-Up Funds – Funding designated for start-up packages for newly hired faculty to ensure they have the resources necessary to establish successful research portfolios.

F&A Costs – The portion of a sponsored program award that reimburses the institution for support costs incurred for the project. Also called indirect costs or overhead. (Goldstein 1950:211)

Fiscal Year – A 12-month period representing one operating cycle. (Goldstein 1950:211) Penn State’s fiscal year is July 1 – June 30.

Fixed-Term Position – Contractual relationship between an employee and employer, lasting for specific period of time. Internally, this term is associated with a position typically funded with temporary funds, although it is possible to fund fixed-term positions with permanent funds.

Fringe Benefit Funds – In the current budget approach, the centrally managed allocation for fringe benefits for approved standing positions. Units cannot currently use any underspent fringe balances for other purposes and must cover any overspent fringe funds.

Fringe Benefits – Allocated based on the pro-rata schedule of salaries for each department and include non-salary compensation such as medical, life insurance, retirement, employer social security, and leave benefits.

General Funds – Represents approximately 40% of Penn State's total operating budget and covers the core of the University's teaching, research, and service efforts. General
Appendix F
Glossary of Report Terms

Funds also encompass academic and administrative support and maintenance of the physical plant. Income to support the general funds budget comes from tuition and student fees; state appropriations; and other income including F&A, unrestricted investment income, and department income.

**General Salary Increases (GSIs)** – Internal nomenclature for annual merit increases.

**Gifts** – Donation or bequest provided to the university.

**Non-General Funds** – Non-General Funds include the following sources: hospital/clinic income, restricted funds, auxiliary enterprises, and agricultural federal funds. The current process of budgeting these components is unique to each type.

**Organizational Change Management (OCM)** – Framework for managing the effect of new business processes, changes in organizational structure, or cultural changes within an enterprise.

**One-Time Expenses** – Expenses that do not recur annually.

**Operating Budget** – The quantitative expression of a units planned revenues and expenses during a fiscal period. (Goldstein 1950:212)

**Permanent Funds** – The portion of Penn State’s E&G budget that is funded by tuition and mandatory fees at base enrollment levels, the state appropriation provided for general support to Penn State, F&A, and investment income.

**Recycling** – Under the current budget approach, a percentage of the permanent budget returned centrally, on a yearly basis, from a unit.

**Responsibility Center Management (RCM)** – A budget strategy that treats individual units and programs as revenue centers or cost centers. Revenue centers are allowed to control the revenues they generate and are responsible for financing both their direct and indirect expenses. Cost centers are supported by resources generated through charge-backs to benefiting units, assessments on the revenues generated by revenue centers, or by centrally administered allocations. (Goldstein 1950:213)

**Restricted Funds** – Resources provided by external sources that must be retained and invested or expended in accordance with stipulations established by the providers. Under existing accounting rules, only donors can establish restrictions for independent
Appendix F
Glossary of Report Terms

institutions, while any external party (such as a donor, or creditor, or another government) can create restrictions for public institutions. (Goldstein 1950:213)

**Sponsored Program/Research** – An agreement between an institution and an external entity (such as a federal agency, corporation, or foundation) under which the former undertakes an activity with financial support from the latter. The agreement specifies what will be accomplished and identifies the amounts and types of costs that will be reimbursed. (Goldstein 1950:214)

**Standing Position** – Positions with no specified end date. Standing positions are terminable in accordance with applicable University policy and applicable terms and conditions of employment. Unless otherwise indicated in applicable University policy, standing appointments are considered to be at will. In the current budget approach, standing positions have been funded by permanent funds.

**Temporary Funds** – Temporary sources include carry-forward balances from prior years, World Campus revenue sharing received by the colleges for their teaching efforts, a significant amount of sales and services income in the departments, and tuition and student fee income above base enrollment levels.

**Total Compensation** – Salaries and fringe benefits.

**Unrestricted Funds** – Institutional resources that can be used for any purpose consistent with and supportive of the overall purpose of the organization. (Goldstein 1950:214)