

THE PENNSYLVANIA STATE UNIVERSITY

**BOARD OF TRUSTEES
SEPTEMBER 23, 2022**

PROPOSED 2022-23 OPERATING BUDGET

THE PENNSYLVANIA STATE UNIVERSITY
2022-23 OPERATING BUDGET

The Board of Trustees will be asked to consider and approve Penn State's operating budget on September 23, 2022.

2022-23 TOTAL OPERATING BUDGET

The University is proposing expense changes totaling \$416.6 million in general funds, restricted funds, and auxiliary enterprises, plus \$477.3 million at Penn State Health, bringing the total 2022-23 operating expense budget to \$8.6 billion. Total budgeted revenues are \$8.4 billion with the deficit funded from reserve balances. A summary of the budget is shown in Table 1.

TABLE 1
TOTAL UNIVERSITY BUDGET
SUMMARY OF 2022-23 CHANGES
(dollars in thousands)

	<u>2021-22 Initial Budget</u>	<u>2021-22 Projected Year End</u>	<u>2022-23 Budget</u>	<u>Budget Changes</u>
General Funds:				
Revenue	\$ 2,775,096	\$ 2,793,611	\$ 2,950,345	\$ 175,249
Expenditures	2,941,480	2,921,042	3,099,316	157,836
Surplus (Deficit)	(166,384)	(127,431)	(148,971)	17,413
Federal Funds - Agriculture:				
Revenue	22,876	23,353	22,999	123
Expenditures	22,876	23,353	22,999	123
Surplus (Deficit)	0	0	0	0
Restricted Funds:				
Revenue:				
Penn State	840,118	1,047,904	1,086,160	246,042
Pennsylvania College of Technology	19,519	19,515	22,613	3,094
Total – Revenue	859,637	1,067,419	1,108,773	249,136
Expenditures:				
Penn State	832,918	1,039,304	1,084,160	251,242
Pennsylvania College of Technology	19,519	19,515	22,613	3,094
Total – Expenditures	852,437	1,058,819	1,106,773	254,336
Surplus (Deficit)	7,200	8,600	2,000	(5,200)
Auxiliary Enterprises:				
Revenue:				
Penn State	478,244	440,575	462,910	(15,334)
Pennsylvania College of Technology	26,374	25,373	25,516	(858)
Total - Revenue	504,618	465,948	488,426	(16,192)
Expenditures:				
Penn State	455,990	417,793	461,104	5,114
Pennsylvania College of Technology	26,374	25,373	25,516	(858)
Total - Expenditures	482,364	443,166	486,620	4,256
Surplus (Deficit)	22,254	22,782	1,806	(20,448)
TOTAL REVENUE	4,162,227	4,350,331	4,570,543	408,316
TOTAL EXPENDITURES	4,299,157	4,446,380	4,715,708	416,551
SURPLUS (DEFICIT)	(136,930)	(96,049)	(145,165)	(8,235)
Penn State Health System				
Revenue	3,434,918	3,565,082	3,863,425	428,507
Expenditures	3,367,935	3,527,041	3,845,233	477,298
Surplus (Deficit)	66,983	38,041	18,192	(48,791)
TOTAL UNIVERSITY REVENUE	7,597,145	7,915,413	8,433,968	836,823
EXPENDITURES	7,667,092	7,973,421	8,560,941	893,849
SURPLUS (DEFICIT)	\$ (69,947)	\$ (58,008)	\$ (126,973)	\$ (57,026)

THE GENERAL FUNDS BUDGET

The components of the General Funds budget include: the Educational and General budget (including the College of Medicine at the Milton S. Hershey Medical Center), which supports most of the University's basic teaching, research, and public service programs; and the budgets for Agricultural Research and Cooperative Extension and the Pennsylvania College of Technology.

Excluding the Pennsylvania College of Technology, proposed revenue increases of \$181.1 million will result in a revenue budget of \$2.8 billion, and expense increases of \$154.9 million will yield an expense budget of \$3.0 billion with the deficit to be covered from fund balances. A summary of General Funds revenues is shown in Table 2 and of expenditures in Table 3.

The sections that follow focus on the changes in the General Funds budget.

TABLE 2
2022-23 TOTAL OPERATING BUDGET
SUMMARY OF GENERAL FUNDS REVENUE
(dollars in thousands)

	<u>Initial Budget 2021-22</u>	<u>2021-22 Projected Year End</u>	<u>2022-23 Budget</u>	<u>Budget Changes</u>
GENERAL FUNDS:				
EDUCATIONAL & GENERAL:				
State Appropriation:				
Educational & General	\$ 242,096	\$ 242,096	\$ 242,096	\$ 0
Economic Development	0	0	2,350	2,350
Transfers	(3,516)	(3,516)	(3,000)	516
Sub-Total - State Appropriation	<u>238,580</u>	<u>238,580</u>	<u>241,446</u>	<u>2,866</u>
Tuition and Fees	1,988,719	2,008,311	2,138,832	150,113
Facilities & Administration	113,810	118,318	127,000	13,190
Investment Income	22,445	23,598	22,445	0
Academic Support from PSH	53,200	56,800	61,400	8,200
Other Income	<u>188,387</u>	<u>186,430</u>	<u>195,252</u>	<u>6,865</u>
Total Educational & General	<u>2,605,141</u>	<u>2,632,037</u>	<u>2,786,375</u>	<u>181,234</u>
AGRICULTURAL RESEARCH & COOPERATIVE EXTENSION:				
State Appropriation & E&G Transfers	57,025	57,025	59,259	2,234
Sales and Services Income	<u>1,515</u>	<u>1,363</u>	<u>1,515</u>	<u>0</u>
Total Agricultural Research & Cooperative Extension	<u>58,540</u>	<u>58,388</u>	<u>60,774</u>	<u>2,234</u>
Sub-Total University	2,663,681	2,690,425	2,847,149	183,468
PA COLLEGE OF TECHNOLOGY:				
State Appropriation:				
PA College of Technology & Transfers	27,132	27,132	27,132	0
Tuition and Fees	73,571	72,275	73,159	(412)
Other Income	<u>10,712</u>	<u>3,779</u>	<u>2,905</u>	<u>(7,807)</u>
Total PA College of Technology	<u>111,415</u>	<u>103,186</u>	<u>103,196</u>	<u>(8,219)</u>
TOTAL GENERAL FUNDS	<u>\$ 2,775,096</u>	<u>\$ 2,793,611</u>	<u>\$ 2,950,345</u>	<u>\$ 175,249</u>

TABLE 3
2022-23 TOTAL OPERATING BUDGET
SUMMARY OF GENERAL FUNDS EXPENDITURES
(dollars in thousands)

	<u>Initial Budget 2021-22</u>	<u>2021-22 Projected Year End</u>	<u>2022-23 Budget</u>	<u>Budget Changes</u>
GENERAL FUNDS:				
EDUCATIONAL & GENERAL:				
Instruction	\$ 842,183	\$ 667,937	\$ 686,609	\$ (155,574)
Research	160,916	168,649	161,649	733
Public Service	40,762	54,914	60,822	20,060
Academic Support	436,893	568,204	609,409	172,516
Institutional Support	566,089	571,393	641,639	75,550
Student Services	192,452	176,119	184,989	(7,463)
Student Aid	173,185	179,816	236,118	62,933
Physical Plant Operations	359,045	364,081	345,299	(13,746)
Total Educational & General	<u>2,771,525</u>	<u>2,751,113</u>	<u>2,926,534</u>	<u>155,009</u>
AGRICULTURAL RESEARCH & COOPERATIVE EXTENSION:				
Program Changes	<u>58,540</u>	<u>58,388</u>	<u>60,774</u>	<u>2,234</u>
Total Agricultural Research & Cooperative Extension	<u>58,540</u>	<u>58,388</u>	<u>60,774</u>	<u>2,234</u>
Sub-Total	2,830,065	2,809,501	2,987,308	157,243
PA COLLEGE OF TECHNOLOGY	<u>111,415</u>	<u>111,541</u>	<u>112,008</u>	<u>593</u>
TOTAL GENERAL FUNDS	<u>\$ 2,941,480</u>	<u>\$ 2,921,042</u>	<u>\$ 3,099,316</u>	<u>\$ 157,836</u>

STATE APPROPRIATIONS

Penn State's 2022-23 appropriations total \$344.0 million and includes a 0% increase for General Support, Penn College, and Penn State Health, a 5% increase for Agricultural College Land Scrip, and a new line item for Economic Development of \$2.4 million. A summary of the appropriation is shown in Table 4 below.

TABLE 4
SUMMARY OF STATE APPROPRIATION
(dollars in thousands)

	<u>2021-22 Appropriation</u>	<u>2022-2023 Total</u>	<u>Appropriation Changes</u>
<u>Direct State Appropriation:</u>			
General Support	\$ 242,096	\$ 242,096	\$ 0
Economic Development	0	2,350	2,350
Pennsylvania College of Technology	26,736	26,736	0
Sub-Total	<u>268,832</u>	<u>271,182</u>	<u>2,350</u>
<u>Agricultural College Land Scrip Fund:</u>			
Agricultural Research and Cooperative Extension	54,960	57,710	2,750
<u>PA Department of Human Services:</u>			
Penn State Health	<u>15,112</u>	<u>15,112</u>	<u>0</u>
Total	<u>\$ 338,904</u>	<u>\$ 344,004</u>	<u>\$ 5,100</u>

CENTRALLY MANAGED EDUCATIONAL AND GENERAL REVENUE CHANGES

Penn State's Education and General budget includes a combination of centrally managed and unit managed revenues. The centrally managed portion of revenues includes the state appropriation, undergraduate and graduate residential tuition, facilities and administration cost recovery and investment income, and a portion of other income. Unit managed revenues include all sources managed by the College of Medicine (tuition, fee, F&A, academic support, and other revenues) as well as miscellaneous revenues generated by individual college, campus, or administrative units for various programmatic activities.

Recurring revenue increases of \$130.0 million are included in the 2022-23 Educational and General (E&G) centrally managed and unit managed budget. These changes are described below and summarized in Table 5.

STATE APPROPRIATION

The 2022-23 proposed budget includes a 0% increase for the Educational and General portion of the budget with state appropriation support of \$242.1 million.

TUITION

Tuition increases for 2022-23 have been set to prioritize access and affordability. These rates will be charged regardless of delivery method; remote, or in person.

STUDENT INITIATED FEE

An additional \$1.06 million is included in the proposed 2022-23 budget from increases in the Student Initiated Fee as recommended by students and the Student Fee Board. The fee was approved and increased \$8 at sixteen Commonwealth Campuses and \$5 at three Commonwealth Campuses. The University Park Student Initiated Fee was increased by \$9.74.

FACILITIES AND ADMINISTRATION COST RECOVERY

As sponsored research activities income from facilities and administration cost recovery from grants and contracts is projected to increase by \$13.2 million for 2022-23.

TABLE 5
EDUCATIONAL AND GENERAL OPERATING BUDGET
2022-23 REVENUE CHANGES
(dollars in thousands)

Revenues - Central and Unit	\$ Change
Appropriation (Ag 5% increase)	2,748
Academic Support from PSH	8,200
Tuition	
University Park: PA Residents - Undergraduate	5.0% 28,313
University Park: Non-PA residents - Undergraduate	6.0% 37,522
Commonwealth Campuses: PA Residents - Undergraduate	2.0% 7,207
Commonwealth Campuses: Non-PA residents - Undergraduate	3.0% 5,190
Graduate Tuition	6.0% 8,038
World Campus and Outreach	5.0% 8,748
Facilities & Administration (F&A)	13,190
All Other Income	9,812
Student Initiated Fee	1,061
Total Revenues	130,029

CENTRALLY MANAGED EDUCATIONAL AND GENERAL EXPENDITURES

Penn State's Education and General budget expenditures includes salaries, benefits, property and liability insurances, facilities and maintenance costs (including debt related to the capital program), investments in strategic priorities, activities funded by the student-initiated fee, student aid and grant-in-aid, and budget recissions to offset increases.

Significant changes in centrally managed budget expenditures are described below and summarized in Table 6.

SALARIES

The 2022-23 centrally managed budget includes salary increases totaling \$46.5 million and \$2.2 million for faculty promotions and related benefits.

BENEFITS

For 2022-23, the cost of the University's benefits program is projected to increase \$15.2 million; \$12.6 of this increase is for health care and \$2.6 million for retirement.

PROPERTY AND LIABILITY INSURANCE

A \$1.0 million increase is needed for property and liability insurance in 2022-23.

FACILITIES AND MAINTENANCE

A total of \$5.2 million is budgeted for maintenance and operation of new or remodeled facilities and \$3.6 million in fuel and utility costs for 2022-23.

The 2022-23 proposed budget includes a decrease in debt service of \$12.5 million, which includes \$19.0 million in debt service savings from retired debt and \$6.5 million in new debt service.

STRATEGIC PRIORITIES

The proposed 2022-23 budget includes \$14.3 million for Enterprise System, \$6.6 million for Research Program, \$3.9 million for Administrative Programs and Libraries, and \$3.2 million for Academic Programs. Development will be funded through the endowment, resulting in education and general fund cost savings of \$21.2 million.

RESCISSION

For 2022-23, the budget includes cost savings totaling \$46.2 million from a 3% rescission.

STUDENT INITIATED FEE

The 2022-23 budget includes a student fee increase of \$1.06 million requested by the Student Fee Board to support student activities, programs, and facilities.

STUDENT AID AND GRANTS-IN-AID

A total of \$2.7 million is included in the 2022-23 budget for increased grants-in-aid, primarily for graduate assistants, fellowships, employees, and dependents. An increase of \$39.0 million for student aid is included to prioritize access and affordability.

TABLE 6
EDUCATIONAL AND GENERAL OPERATING BUDGET
2022-23 CENTRALLY MANAGED EXPENSE CHANGES
(dollars in thousands)

Significant Central Changes	\$ Change
Salary & Related Benefits	46,544
Student Aid	39,000
Benefits	15,191
Enterprise Systems	14,323
Research Programs	6,556
Fuel & Utilities	3,647
Administrative Programs	3,213
Academic Programs	3,203
Maintenance	3,000
Graduate Grant-In-Aid	2,700
New Facilities Operations	2,207
Faculty Promotions	2,200
Student Initiated Fee	1,061
Insurance	1,000
Libraries	700
Change in Debt Service	(12,454)
Development	(21,212)
Cost Savings - 3% Rescission	(46,156)
Total Expenses	64,723

AGRICULTURAL RESEARCH AND COOPERATIVE EXTENSION

Funding for Agricultural Research and Cooperative Extension are made available to Penn State through the Agricultural College Land Scrip Fund. The 2022-23 budget includes a 5% increase for Agricultural Research and Cooperative Extension of \$2.2 million, for a total revenue budget of \$60.8 million. Program expenses increased by \$2.2 million. These budgets are funded primarily through state appropriations and support salaries, benefits, and operating costs.

The College of Agricultural Sciences relies on a 150-year-old land grant partnership of federal, state, and county governments as the foundation for agricultural research and statewide extension programs. The state provides the required matching funds that allow Penn State to access Federal Agricultural Research appropriations and support from Pennsylvania's counties for Cooperative Extension.

THE PENN STATE HEALTH SYSTEM

The Penn State Health System, a subsidiary corporation of Penn State, was formed to operate clinical activities, both hospital and physician.

Budgeted expenses of \$3.8 billion and income of \$3.9 billion for 2022-23, as shown in Table 1, were approved by the Board of Directors of the Health System.

Appropriation support from the Commonwealth to Penn State Health through the Pennsylvania Department Human Services is projected to total \$15.1 million.

THE PENNSYLVANIA COLLEGE OF TECHNOLOGY

Expense and revenue changes included in the 2022-23 budget for the Pennsylvania College of Technology (Penn College) are described below and shown in Tables 8 and 8A.

Penn College's 2022-23 appropriations total \$26.7 million includes a 0% increase. A decrease of \$412 thousand in projected tuition and fee revenues, and a decrease of \$7.8 million in other revenues. General Funds expenses increased by \$593 thousand.

The total 2022-23 operating budget for Penn College is \$151.3 million, as shown in Table 8A. This includes the general funds budget of \$103.2 million, restricted funds of \$22.6 million, and \$25.5 million for auxiliary enterprises.

TABLE 8
THE PENNSYLVANIA COLLEGE OF TECHNOLOGY
2022-23 GENERAL FUNDS BUDGET CHANGES
(dollars in thousands)

Revenue:

State Appropriation	\$	0
Tuition and Fees		(412)
Other		<u>(7,807)</u>

TOTAL REVENUE CHANGES	\$	<u>(8,219)</u>
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Expense:

Compensation Adjustments	\$	490
Employee Benefits		564
Other Expense		<u>(461)</u>

TOTAL EXPENSE CHANGES	\$	<u>593</u>
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TABLE 8A
THE PENNSYLVANIA COLLEGE OF TECHNOLOGY
2022-23 TOTAL OPERATING BUDGET
(dollars in thousands)

	<u>2021-22 Initial Budget</u>	<u>2021-22 Projected Year End</u>	<u>2022-23 Budget</u>	<u>Budget Changes</u>
General Funds	\$ 111,415	\$ 103,186	\$ 103,196	\$ (8,219)
Restricted Funds	19,519	19,515	22,613	3,094
Auxiliary Enterprises	<u>26,374</u>	<u>25,373</u>	<u>25,516</u>	<u>(858)</u>
TOTAL	<u>\$ 157,308</u>	<u>\$ 148,074</u>	<u>\$ 151,325</u>	<u>\$ (5,983)</u>