

**Written Statement by Dr. Eric J. Barron, President  
The Pennsylvania State University  
March 2, 2016**

Dear Chairman Adolph, Chairman Markosek, and honorable members of the House Appropriations Committee:

Governor Wolf has proposed a 5 percent increase in the appropriation to Penn State, but I cannot even begin to consider how those additional funds may help the University, in the service of its public mission, until the current budget impasse is resolved. We are at a crossroads, and how this body ultimately resolves that impasse will determine if Penn State's mission remains the same, or becomes something quite different.

For more than 150 years, through economic booms and recessions, political constancy and change, the General Assembly has provided financial support for Penn State's long-standing mission to benefit the citizens of the Commonwealth.

The act of Congress establishing the land-grant colleges is regarded as one of the most important programs ever created by the federal government, and states throughout the nation seized that opportunity to establish a new kind of institution of higher learning dedicated to the public benefit. Penn State exists today, as it has from the beginning, to create new knowledge, disseminate that knowledge for the public good, and to educate students of all walks of life – many of whom would not have access to smaller and far more expensive private institutions. Our pricing structure and multi-campus model are designed to maximize our service to students and communities. Penn State is unique in higher education, and it is highly successful in providing access to life-altering educational opportunities at a top-notch research university. Many here in this building would attest to that supposition.

By every measure, Penn State has fulfilled its mission and more. Each year, Penn State educates nearly 100,000 students, conducts more than \$800 million in research, and serves humanity through countless volunteer hours and outreach efforts that address challenges related to energy, agriculture, science, technology, leadership, health and business. Penn State is a world-class university, and it brings all the stature and investment associated with that leadership position to the Commonwealth. We are justifiably proud to hold a place as a top-100 university in the world, and we recognize the Commonwealth's very significant role in helping us achieve that rank.

Yet, inconceivably, we are faced with the elimination of state support for our mission, and perhaps facing the elimination of the mission itself.

As we look ahead to 2016-17, Penn State is in an unprecedented position, having received no appropriation whatsoever, and we face the very real prospect that we won't receive any financial support for the 2015-16 fiscal year. The situation is made more challenging given that for the last six months, we were led to believe that our appropriation was delayed due to timing. Now it appears that our state appropriation is simply a tool to be leveraged in the full budget/taxation debate.

With only four months left to balance Penn State's budget, our choices are very limited and the consequences grave.

Penn State has worked hard to contain costs and to use our resources wisely. For the past two-and-a-half decades, Penn State has used systematic budget reallocations as a source to fund operating costs and strategic academic initiatives rather than relying solely on new revenue from tuition or appropriations. During the past decade, we have further stepped up our efforts to curtail expenses and to find savings in our operations. Specifically, we have focused on three areas: 1) cost reductions; 2) cost containment and 3) efficiency initiatives. We recently provided a breakdown of the specific savings, but in summary:

- The cost reductions from 2006-07 through 2015-16 resulted in extracted recurring savings of \$224.9 million and have been used to balance operating budget increases.
- Cost containment initiatives have saved Penn State \$52.9 million during the same period.
- We have also implemented efficiency initiatives that we expect will save more than \$300 million during the next 20 years.

Nevertheless, we now need to plan for the unthinkable elimination of state support. In addition to the impact on this year, there would be significant budget reductions from all Penn State units; substantially reduced support for the College of Medicine and Penn College; halted capital plan projects; liquidation of non-endowed funds; the loss of 1,100 faculty and part-time extension positions in agricultural sciences; and the elimination of 4-H and Master Gardener programs statewide, impacting more than 92,000 members and more than 9,500 volunteers in communities across Pennsylvania. I cannot overstate the magnitude of the impact on the entire university, in addition to agricultural education and production, food security and critical environmental issues in the Commonwealth, such as our roles in protecting against the outbreak of avian flu in the poultry industry and participating in critical water quality initiatives. But as you know, these programs are not and cannot be funded by tuition dollars. Investment by the Commonwealth is the key to their continued existence.

At the same time, Penn State will need to consider permanently changing the commitment to Pennsylvania resident students, so we can add more international and out-of-state students to mitigate the catastrophic financial situation.

There is no public research university or flagship campus in the United States that doesn't receive financial support from its state. Private universities do not share our mission, nor should we expect them to run multiple campuses, or favor a Pennsylvania student population over others, or have substantially lower tuition rates for in-state students. They don't receive appropriations to provide affordable access, or to do agricultural research and run extension offices to protect and promote Pennsylvania's food and forestry industries. Penn State does receive state funding for those purposes. Or, at least it did up to this year.

I'm afraid that many people believe that Penn State will simply carry on, and somehow minimize the disruption to our students, staff, faculty and researchers, despite eight months of no financial support from the Commonwealth. We have managed to do so since last July, so you may believe that we will continue with business as usual.

What you must appreciate, however, is that Penn State cannot continue on the current path without the financial support our institution has depended on for 150 years. It is difficult to foresee a resolution to the budget impasse before the end of the fiscal year given the current stalemate. And it would be fiscally irresponsible to wait until July 1<sup>st</sup>, hoping that we won't have to make the hard decisions of deconstructing an institution built to perform a public mission, and replacing it with one that is very different and functions as a private research university without state funding. The idea is inconceivable, but imminent. I hope that, like every prior governor and General Assembly, you will find a way to financially support our mission and continue as Penn State's valued and trusted partner in teaching, research and service to the Commonwealth. Thank you.

PENNSTATE



Eric J. Barron  
President

The Pennsylvania State University  
201 Old Main  
University Park, PA 16802-1589  
814-865-7611  
Fax: 814-863-8583  
Email: [president@psu.edu](mailto:president@psu.edu)

February 22, 2016

The Honorable William Adolph  
Chairman  
House Republican Appropriations Committee  
245 Main Capitol  
Harrisburg, PA 17120

Dear Chairman Adolph,

Enclosed please find a summary of the requested cost-savings initiatives that Penn State has undertaken. I look forward to the opportunity to discuss our cost control efforts at the hearing on March 2<sup>nd</sup>.

Sincerely,

A handwritten signature in dark ink, appearing to read "Eric J. Barron". The signature is written in a cursive style with some loops and a horizontal line at the end.

Eric J. Barron  
President

cc: Honorable Joseph Markosek, Democratic Chair

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**Penn State University**  
**Details on Cost Reduction, Cost Containment and Efficiency Initiatives**

**Information prepared for**  
**The Appropriations Committee of the House of Representatives**  
**Commonwealth of Pennsylvania**

**February 2016**

For the past two and half decades, Penn State has used systematic budget reallocations as a source to fund operating costs increases and strategic academic initiatives rather than relying solely on new revenue from tuition or appropriations. In support of access and affordability, it is an imperative for us to contain costs while ensuring the quality of our academic and support programs and to use technology and other strategies to adapt our business processes to achieve operational efficiencies.

Annual requirements for every unit to identify recurring savings and efficiencies has created an environment in which leaders must continuously evaluate opportunities to reduce costs. These opportunities have led to the discontinuation of academic programs and majors, the merger of academic departments, and shared administrative positions by campuses.

Targeted expense reduction initiatives have been implemented within specific units that needed to make swift budget adjustments in response to enrollment challenges or direct appropriation reductions. A voluntary retirement incentive program was offered to employees in the College of Agricultural Sciences and University Outreach in 2011-12 when state support for agricultural research and cooperative extension was cut by \$10.5 million. Eight commonwealth campuses in western Pennsylvania and the Dickinson School of Law also recently offered a voluntary retirement program as part of a plan to bring expenses in line with lower tuition revenue.

While cost reduction, cost containment and efficiency initiatives have been an integral part of Penn State's budget process for more than two decades, the **summary** below focuses on reallocations in the most recent ten years and more recent cost containment and efficiency initiatives.

**Cost Reductions (Extracted Recurring Savings Used to Balance Operating Budget Increases – 2006-07 through 2015-16)**

- \$81 million in recurring expenses across all general funds units by replacing faculty and staff who retired or resigned with individuals at lower salaries, eliminating positions by consolidating responsibilities and eliminating lower priority functions, saving administrative costs by merging departments, and other efficiencies required by annual across-the-board budget reduction targets

- Restructured post-retirement health care financing to free up \$51 million in the operating budget
- \$30 million in funding that had been set aside over a period of years in anticipation of the spike in the employer contribution rate for the State Employees' Retirement System and funds that could have been used for new initiatives but were used instead to reduce tuition increases
- \$27.2 million of reductions in employee benefits budgets made possible by more strategic management of worker's compensation, dependent verification for health care and the employee dependent grant-in-aid, elimination of a graduate grant-in-aid program for employees not located at University Park, changes in health care plan design, including deductibles, copays and the introduction of a qualified high deductible healthcare plan
- \$16.8 million from budget cuts in finance and business units, the funds released by the retirement of debt, and increasing the required amount that auxiliary enterprises pay to reimburse the general funds budget for overhead and support services
- \$13.8 million in budget reductions for Penn State's online programs as part of a plan for the World Campus to become self-supporting
- \$3.8 million in captured energy savings from various energy savings programs
- \$850,000 captured from eliminating the Science, Technology, and Society program, the Women in Science and Engineering program (it duplicated another program) and the Media Technology Support Services unit
- \$466,000 from space consolidation by moving from leased space to university-owned space

#### **Cost Containment (Initiatives that Slow the Rate of Costs Increases)**

- For employees hired after January 1, 2010 increased vesting age and years of service for post-retirement health care and changed from a defined benefit to a defined contribution program – savings to accrue in the future with current reductions in the balance sheet liability for post-retirement health care
- Commodity purchasing savings generated through competitive bidding, negotiations, strategic purchasing (including reverse auctions), utilization of consortium purchasing contracts, and electronic procurement processes - \$22.2 million
- Energy Conservation Program – initiatives such as Continuous Commissioning, Energy Utility Management, and the Energy Savings Program that includes, for example, building weatherization and motion-sensor lighting – \$8.7 million

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- Competitive bidding for energy procurement resulted in price paid vs market price annual savings of more than \$9 million on coal, electricity, and natural gas
  - Savings on information technology equipment, software, and implementation services realized through standardizing and aggregating purchases, competitive bidding and vendor negotiations - \$13 million

### **Efficiency Initiatives (Initiatives That Use Current Resources More Efficiently)**

- A new classroom building was removed from the Capital Plan after a study revealed that better centralized management of classroom scheduling would solve a perceived shortage of classroom space at the University Park campus avoiding the need to build and maintain a \$55 million building
- Investments in technology-enabled shared services to reduce the cost of processing routine human resources transactions coupled with the current multi-year initiative to transform the delivery of human resource services – The HR Business Processes Transformation is anticipated to result in an HR cost savings of \$259 million by July 2024 through cost avoidance, redeployment of resources, productivity gains and cost savings
- Consolidation of Information Technology services for non-academic units and an initiative to share expertise across the university through an Information Technology Infrastructure Library
- Evaluation of supply-side strategies for health care, e.g., in the final stages of planning for a single contract for lab services across the state that is projected to save as much as \$8 million annually for employees and the university's self-funded health care program. A Health Care Advisory Committee, which includes faculty experts on health care delivery and the marketplace, benefits professionals, representatives of the University Faculty Senate, and budget and finance advisors, brings forward recommendations for redesign of both supply-side and demand-side strategies to lower employee and employer costs of health care offerings while maintaining the ability for Penn State to compete for talented faculty and staff.



**PennState**

**THE PENNSYLVANIA STATE UNIVERSITY**

**2016-17 BUDGET PRESENTATION**

**PREPARED FOR THE GENERAL ASSEMBLY OF  
THE COMMONWEALTH OF PENNSYLVANIA**



**PENN STATE’S 2016-17  
APPROPRIATION REQUEST**

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## **PENN STATE'S 2016-17 APPROPRIATION REQUEST**

The partnership between the Commonwealth of Pennsylvania and The Pennsylvania State University is among the most powerful economic forces in the lives of every citizen of our great state. Supported by this partnership, Penn State educates graduates who are highly sought after by employers across Pennsylvania and the country. Each year, the cutting edge research conducted by Penn State's faculty brings more than \$800 million of federal and industry dollars to Pennsylvania, the expenditure of which spurs economic activity, creates employment opportunities, and generates significant revenue back to the Commonwealth. As the Commonwealth's land-grant university and through our tripartite mission of teaching, research, and service, Penn State is poised to lead the way in the development of solutions to pressing economic and societal issues.

Penn State's budget plan and appropriation request echoes Governor Wolf's stated goal for the Commonwealth to restore the 2011-12 cut in higher education support, and it reflects optimism that full restoration will be included in the 2016-17 budget year. Penn State froze base tuition for Pennsylvania undergraduate students for the current academic year of 2015-16. The Commonwealth's role in providing affordable access to an education at Pennsylvania's land-grant university has never been more important.

When Pennsylvania enacts the 2016-17 Commonwealth Budget, Penn State will be two years into strategic initiatives to transform Pennsylvania's economy, to promote student career success, and to focus specific attention on the cost barriers to a Penn State education – an education that develops interdisciplinary critical thinking and communications skills that provide the foundation for our graduates to be the leaders, entrepreneurs, and problem solvers of the future.

Penn State is at an exciting moment in its history. We are about to launch the University-wide Strategic Plan for 2016-2020, tentatively titled "A Commitment to Impact," which represents our blueprint for the future – articulating not only our institution's mission, vision and values, but also foundations, imperatives, and strategic priorities that will enable Penn State to continue to energetically serve its mission as the Commonwealth's land-grant university. It reveals how Penn State will continue to have positive impacts not only in the local community and throughout the Commonwealth of Pennsylvania, but also across the United States and worldwide. Embedded throughout the plan are references to Penn State's roles and responsibilities beyond our campuses, and how we can and must evolve them to engender new, positive social impacts.

Our vision, "Penn State will be a global leader in learning, discovery, and engagement that fosters innovation, embraces diversity in all its forms, and inspires achievement that will change

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the world in positive and enduring ways,” is supported by six foundational principles: Enabling Access to Education, Engaging Our Students, Embracing a Diverse World, Enhancing Global Engagement, Driving Economic Development, and Endowing a Sustainable Future. Five strategic themes: - Transforming Education, Elevating the Arts and Humanities, Enhancing Health, Managing Resources, and Leveraging Digital Innovation each represent an area of substantial opportunity, as well as a breadth and depth of expertise and interest across multiple Penn State units where the University is well positioned, with strategic investment of resources, to make profound and measurable impacts. The themes intersect unit plans and draw from the human capital, infrastructure, and programs they represent. They also leverage collective energy and resources to enable previously unimaginable outcomes.

We highlight below several examples of where the strategic plan is guiding our future focus, and where partnership with the Commonwealth is vital to success.

### **JOB CREATION, ECONOMIC DEVELOPMENT, STUDENT CAREER SUCCESS**

In January 2015, Penn State launched “*Invent Penn State*,” a new \$30 million initiative focused on leveraging Penn State’s research, knowledge, and entrepreneurial spirit to be a driver for job creation, economic development, and student career success. Our aim is to accelerate the transfer of new ideas into useful products and processes that encompass a broad range of fields. In addition, Penn State is developing a culture that encourages, nurtures, and rewards entrepreneurship — not just in STEM, but in the arts, health and human development, education and more. By doing that, we not only advance the success of our students and faculty, we help our business and community partners to grow along with the economy of the Commonwealth.

Central to the success of this initiative is collaboration with students, faculty, and staff working with businesses, communities, and governmental partners across the Commonwealth. This will benefit the communities we serve and the innovators working among us. Working together to develop new initiatives and programs will create a powerful path to economic development, with strong local and state impact. It will also allow us to train students at the cutting edge, and place students in those emerging fields and job opportunities.

Already, Penn State’s entrepreneurial ecosystem is beginning to crystalize. Penn State is putting in place the organization and people to guide and support its partners along their entrepreneurial pathways: working with students to encourage ideation, then helping them to kick-start those ideas into promising new companies; collaborating with communities and corporations; using intellectual resources; partnering with alumni to mentor students; shepherd fledgling businesses; and investing in promising, innovative startups.

*Invent Penn State* is an ambitious undertaking. Courses, and minor and major degree tracks focused on entrepreneurship are being created; new faculty members are bringing with them a heightened awareness of what is possible. It is a cultural shift — one in which discovery has a clear path to drive the economy and benefit humankind.

We believe that this is what it means to be a public university that combines excellence in teaching, research and service. It also embodies our mission of ensuring access to a top-notch education and improving the quality of life for everyone in the state, and society in general.

### **ADDRESSING THE COST BARRIERS TO A PENN STATE EDUCATION**

Student debt and the cost of attendance are increasing at troubling rates as a result of a variety of factors, including the substantial decline of funding for public universities in nearly every U.S. state. Two-thirds of Penn State students receive need-based financial aid and average debt has grown from \$20,000 a decade ago to \$35,429. In too many cases, students give up in frustration and leave school without a degree — still saddled with loan debt. This is not only a tragedy for the student, it's a burden for society as well.

Generating philanthropic support for scholarships was the primary goal of our last fundraising campaign, and it remains a core institutional priority. In addition, Penn State continues to strive for efficiencies in our operations in ways that support and advance the quality of a Penn State education. Due to large numbers of need-based students and socioeconomic challenges in communities throughout the Commonwealth, Penn State's ability to educate *all* students for a life of learning and productive careers is crucial.

For the current academic year, 2015-16, Penn State held base tuition flat for Pennsylvania resident undergraduate students for the first time in nearly 40 years. This action affected the cost for all Pennsylvania undergraduates regardless of their financial resources. Penn State has implemented other initiatives to address affordability for need-based students who graduate at a rate 22 percent lower than students who come from the highest income brackets, and on average, take longer to graduate often due to financial pressures.

To address these realities, Penn State is investing \$6 million annually in new initiatives to improve student success across the Commonwealth. This year, we're piloting five ways to ensure our students make academic progress to graduate on time: 1) increased institutional scholarship support; 2) summer school and on-campus employment for first- and second-year students - summer school gives students a jump start in a less hectic setting and on-campus employment means less commuter time and a better understanding of student employee needs; 3) math, English and foreign language preparation for incoming students who may be struggling - left unaddressed, those struggles could add time to their academic programs; 4) expansion of a

program to help students from other campuses transition to a new environment - with timely degree completion as the goal; and 5) increased emphasis on financial literacy and well-being. These five areas, when implemented effectively, can make major differences for our students. It can mean thousands of dollars in savings and a shorter time to degree. We're calling this new focus Plan4 Penn State. Plan for college; plan for less debt; plan for four years. We hope that our efforts will open the door for more students to earn a Penn State education, and Penn State looks forward to working with the General Assembly to help all of the families of Pennsylvania do so, regardless of socioeconomic status.

## **THE ENERGY UNIVERSITY**

Pennsylvania is the nation's second largest natural gas producer; the fourth-largest coal-producing state; the only state producing anthracite coal; it is ranked second in the nation in electricity generation from nuclear power; and renewable energy accounted for four percent of Pennsylvania's net electricity generation. Clearly Pennsylvania plays a critical role in our nation's energy future.

Likewise, Penn State has established itself among the very top tier of America's energy research universities. Penn State is ranked in the top five for scholarly work in five categories: Energy Policy, Economics and Law; Fossil Fuels, Combustion, Turbo, Carbon Capture; Renewable Energy; Distribution, Efficiency, Grid, Storage, Smart Build; and Energy and the Environment. With this recognition comes responsibility - to assess and address societal needs and industry demands; to accelerate the trajectory of fundamental discovery and applied innovation; and to transform the energy sector to meet the challenges of the 21<sup>st</sup> century. With more than 320 individual investigators across 11 colleges working in energy related disciplines, Penn State is well positioned to achieve these outcomes. We will continue to invest in groundbreaking research and analysis, novel technologies, exceptional graduates, and effective partnerships that collectively turn data and knowledge into impact.

## **AGRICULTURAL RESEARCH AND COOPERATIVE EXTENSION**

The 2016-17 budget plan proposes a \$9.0 million increase in the state's investment in Agricultural Research and Cooperative Extension and restores the amount to that provided by the Commonwealth in 2010-11. At least \$2.9 million is needed to support inflationary operating increases for these activities for 2015-16 and 2016-17.

The remaining funds would allow the College to rebuild capacity around several critical, immediate threats facing Pennsylvania agriculture including:

- Increase research and expertise in support of the poultry industry, specifically focused on the continuing threat of highly pathogenic avian influenza.
- Assist farmers and food processors affected by the new, complex Food Safety Modernization Act (FSMA), which is the most far-reaching reform of food safety laws in more than 70 years and threatens the viability of agricultural businesses. FSMA will produce significant compliance pressures on Pennsylvania growers, packers, distributors, and food and feed manufacturers and will require extensive research and training to allow businesses to stay competitive and solvent.
- Provide for both research and education to assist agriculture in meeting EPA water quality metrics for nutrient management, as well as to help address stormwater management in Pennsylvania communities.
- Increase technology transfer and education focusing on precision agriculture, which is necessary to remain nationally and internationally competitive.

## **COST CONTAINMENT AND INTERNAL REALLOCATIONS**

For several decades, Penn State has reallocated funds within the budget rather than pass along all of the cost increases to our students or to the citizens of the Commonwealth. Our budget plan includes funds made available in the operating budget from restructuring our post-retirement health care liability, funds set aside in anticipation of the abrupt increase in the State Employees' Retirement System employer contribution rate, and other targeted administrative budget reallocations.

## **CONCLUDING REMARKS**

Since 1855, Penn State and the General Assembly have partnered to benefit families and communities across the Commonwealth. The plans outlined in this document represent a starting point for how, together, we can have an even larger impact. We look forward to ongoing conversations with the Commonwealth about the enormous potential of increased investment in Penn State as a vehicle to advance the economic development agenda for Pennsylvania. The initiatives already underway are off to a strong start and offer a foundation upon which to leverage the Penn State-Commonwealth partnership to fuel Pennsylvania's economy. Together, Penn State and the Commonwealth can create jobs for our students and for citizens in every corner of Pennsylvania. Working with legislators, business leaders, communities, and other partners, we are prepared to make short- and long-term investments that will benefit generations of Pennsylvanians.

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Many factors contribute to an individual's ability to earn a Penn State degree, and we must address all of these factors if we are to increase access, especially for populations that have historically had barriers to access. Our goal is to make the pursuit and completion of a Penn State education within reasonable reach for students with the ability and desire to attend.

Finally, Penn State's educational programs, research, and outreach will continue to make measurable and meaningful differences in the economic development of our communities, from local to global levels. Strengthened by our partnership with the Commonwealth, Penn State can drive job creation, economic development, and student career success. We will accelerate the transfer of new ideas into useful products and processes in areas such as energy, food and nutrition, environmental protection, health care, manufacturing, educational technologies, medical devices, and pharmaceuticals, among many others.

Together, we can implement a bold vision for a bright future. Thank you for your support and consideration.

## HIGHLIGHTS OF PENN STATE'S 2016-17 BUDGET PLAN AND APPROPRIATION REQUEST

### APPROPRIATION REQUEST

- ◆ The University is requesting a total appropriation of \$353.3 million.
  - A \$39.5 million increase in the Educational and General (E&G) or General Support line item. The requested increase assumes that the finalized 2015-16 appropriation will be \$224.8 million, a 5.0 percent increase over 2014-15. The additional \$39.5 million would fully restore the General Support appropriation to the 2010-11 level of \$264.3 million (E&G).
  - An increase in the amount of \$9.0 million is requested for our programs in Agricultural Research and Cooperative Extension which will also fully restore state support to the 2010-11 level of \$55.2 million.
  - Increased support of \$3.0 million is included for the Pennsylvania College of Technology to build on recent increased investments from the Commonwealth to expand instructional capacity in the technical fields most in demand by students and Pennsylvania employers.
  - Additional State and Federal Medical Assistance funding of \$1.7 million also is included for the Penn State Milton S. Hershey Medical Center.

### TUITION

- ◆ If the Commonwealth is able to provide the requested appropriation, Penn State will not increase base tuition for Pennsylvania resident undergraduate students for the second consecutive year.

### BASIC OPERATING COSTS

- ◆ **Faculty and Staff Compensation** – Provide a modest pool of funds for merit-based inflationary increases with a smaller pool to address targeted market and equity concerns as well as the funds necessary to fulfill contractual obligations.
- ◆ **Benefits** – Respond to the increasing employer contribution rate for the State Employees' Retirement System (SERS) and an estimated increase in health care.
- ◆ **Facilities** – Provide for facilities cost increases, including the maintenance and operation of new facilities, the necessary additional funding to address asset preservation of an aging physical plant, and to support the capital needs related to major renewals and replacements of facilities across our multiple locations.



## **DETAILS OF PENN STATE'S 2016-17 BUDGET PLAN AND APPROPRIATION REQUEST**

The University's proposed budget plan for 2016-17 reflects Governor Wolf's stated goal to restore funding to Pennsylvania institutions of higher education to the level appropriated prior to the major cuts in 2011-12. If the Commonwealth is able to provide this level of support, Penn State will freeze base tuition for Pennsylvania resident undergraduate students for the second consecutive year.

**Table 1** summarizes the proposed budget changes for the Educational and General budget (General Support), Agricultural Research and Cooperative Extension, the College of Medicine at the Milton S. Hershey Medical Center, and the Pennsylvania College of Technology.

Penn State's request for an appropriation increase of \$53.2 million for 2016-17 is summarized on **Table 2**. Details of the University's proposed budget plan and appropriation request are discussed below.

### **EXPENSE CHANGES**

**Faculty and Staff Salary Compensation:** Penn State operates in an extremely competitive environment for faculty and staff. As keepers, creators, and transmitters of knowledge, the best way for us to continue to help Pennsylvania's communities is to maintain excellence across those activities that are core to our missions. We compete with other great institutions to bring in the best talent. Dozens of our faculty are recruited by other universities every year. We strive to recruit and retain the very best faculty and staff in a fiscally responsible manner. The budget plan for 2016-17 includes \$39.2 million for salary adjustments and related employee benefits.

**Benefits and Insurances:** The University's budget plan includes projected increases of \$16.7 million for benefits cost increases. This includes increases for health care and retirement. During the previous five-year period of 2011-12 through 2015-16, increases in the total annual ongoing amount required for health care and retirement have exceeded \$105.7 million. These increases had to be absorbed at the same time that the General Support appropriation, which included both E&G and Agricultural Research and Cooperative Extension in 2010-11, was cut by \$60.7 million - cuts of \$50.2 million to E&G and \$10.5 million to Agricultural Research and Cooperative Extension.

The University is also projecting an increase in property and liability insurances and the cost of external audits for 2016-17.

**Facilities:** A total of \$22.0 million is projected for facilities cost increases. Included are funds for the maintenance and operation of new or newly renovated facilities, utilities increases, deferred maintenance projects, and the continuation of the University's capital improvement program.

**Strategic Priorities:** The 2016-17 budget plan includes funding for the most important strategic priorities of the university. Investments will be targeted in areas described in the President's Statement: 1) Economic Development, Job Creation, Student Career Success; 2) Addressing the Cost Barriers to a Penn State Education; and 3) The Energy University.

**Internal Budget Reductions and Other Cost Savings Initiatives:** The budget plan is targeting at least \$20 million in expense reductions. This includes funds available from restructuring our post-retirement health care liability, funds set aside in prior years in anticipation of the rapid rise in the employer contribution rate for the State Employees' Retirement System, and targeted administrative budget reductions. These reductions will be made from the recurring expense base and will lower budgeted expenses in every year going forward.

**Student Aid:** As just one among multiple strategies to address access and affordability, our plan proposes adding \$2.0 million for need-based student aid, bringing the total of permanently budgeted funds to \$52.0 million. These funds will be used to leverage additional private donations for student support.

## **AGRICULTURAL RESEARCH AND COOPERATIVE EXTENSION**

The College of Agricultural Sciences relies on the 150-year old land-grant partnership of federal, state, and county governments as the foundation for agricultural research and statewide extension programs. The federal, state, and county funds that support Agricultural Research and Cooperative Extension are not supplemented with student tuition. The state appropriation provides the required matching funds that allow Penn State to access Federal Agricultural Research appropriations and support from Pennsylvania's counties for Cooperative Extension. Now more than ever, funding for the agricultural research and support for the state's cooperative extension network is an investment that ensures that the agriculture industry will be able to continue to advance this important sector of the economy and to safeguard Pennsylvania's natural resources.

The 2016-17 budget plan proposes an additional \$9.0 million in the state's investment in Agricultural Research and Cooperative Extension. At least \$2.9 million is needed to support inflationary operating increases for these activities for 2015-16 and 2016-17.

The remaining funds would allow the College to rebuild capacity around several critical, immediate threats facing Pennsylvania agriculture.

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## INCOME CHANGES

The University's budget plan includes projected income increases of \$79.0 million. This amount includes \$23.7 million from projected tuition and fee changes. Penn State students who are Pennsylvania resident undergraduates would not see an increase in base tuition rates for the second consecutive year.

The University is requesting an appropriation increase of \$51.5 million (see Table 2). Of this amount, \$39.5 million for Penn State's General Support line, in combination with the expected increase yet to be approved for 2015-16, would restore the Commonwealth's investment to the amount received in 2010-11 of \$264.3 million. Also, as part of the direct appropriation, an additional \$3.0 million is requested for the Pennsylvania College of Technology. An increase in the amount of \$9.0 million is included for our programs in Agricultural Research and Cooperative Extension funded through the Agricultural College Land Scrip Fund, also to restore the amount to the level received in 2010-11.

An additional \$1.7 million is requested in the State and Federal Medical Assistance funding provided to the Milton S. Hershey Medical Center through the Pennsylvania Department of Human Services.

The University is projecting an additional \$2.8 million in other income primarily from increases in the facilities and administration cost recovery from grants and contracts and additional investment income.

**Table 1**  
**Summary of Proposed Changes**  
**2016-17 Budget Plan and State Appropriation Request**  
**(\$ in thousands)**

<b>EXPENSE CHANGES:</b>	<b>Educational and General</b>	<b>Ag. Research &amp; Coop. Ext.</b>	<b>College of Medicine</b>	<b>PA College of Technology</b>	<b>Total</b>
<b>Basic Operating Costs:</b>					
Salary Adjustments	\$35,294	\$794	\$1,310	\$1,753	\$39,151
Benefits	12,884	611	529	2,639	16,663
Insurances & Audit	750				750
Facilities	21,101		300	629	22,030
Strategic Priorities and Other Program Needs	8,000	7,589		629	16,218
Libraries, Computing and Telecommunications	665		410		1,075
Internal Budget Reductions	(20,072)				(20,072)
Student Aid	2,000				2,000
Student Activities	585				585
Student Facilities	580				580
<b>TOTAL EXPENSE CHANGES</b>	<b>\$61,787</b>	<b>\$8,994</b>	<b>\$2,549</b>	<b>\$5,650</b>	<b>\$78,980</b>
<b>INCOME CHANGES:</b>					
Tuition & Fees	\$20,270		\$750	\$2,671	\$23,691
Other Income	1,000		1,799		2,799
College of Medicine Transfer	1,000				1,000
Requested Appropriation Increase	39,517	8,994		2,979	51,490
<b>TOTAL INCOME CHANGES</b>	<b>\$61,787</b>	<b>\$8,994</b>	<b>\$2,549</b>	<b>\$5,650</b>	<b>\$78,980</b>

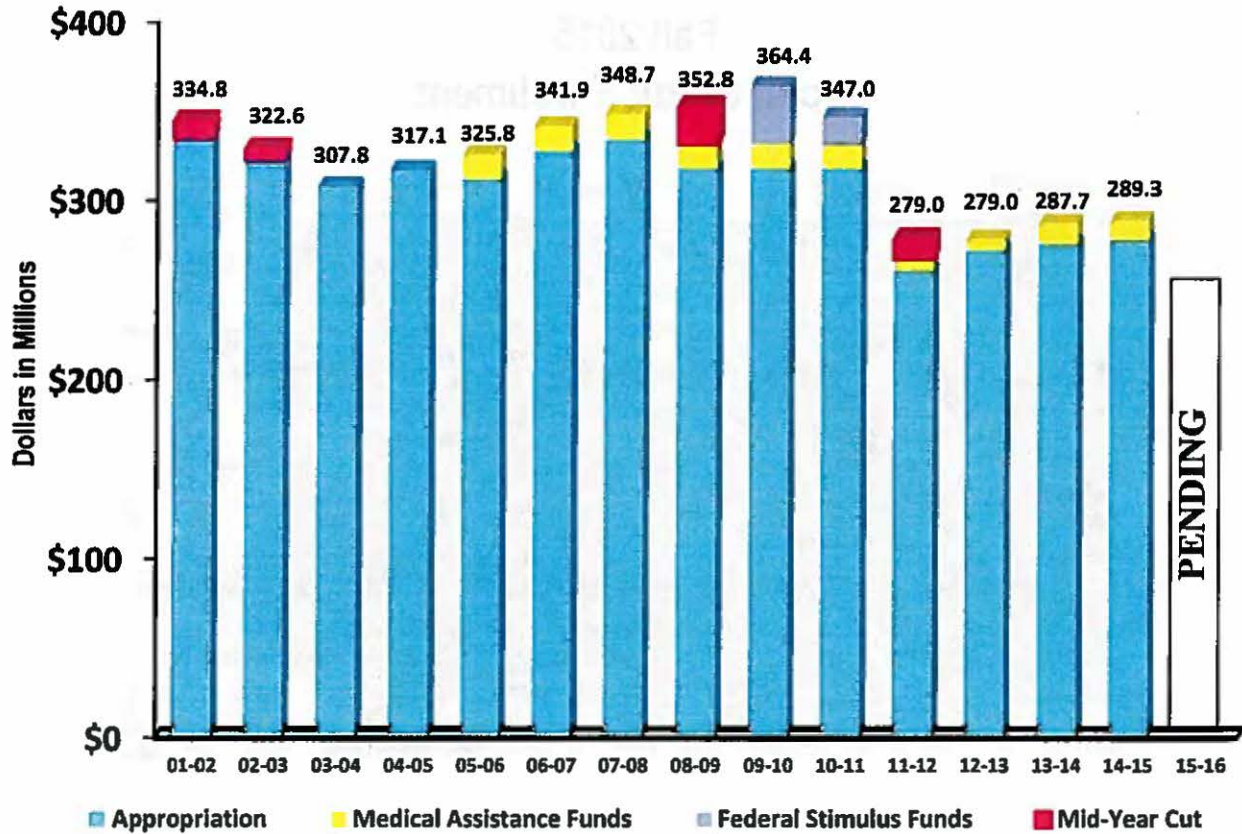
\* The University is also requesting an additional increase of \$1,737,000 in the State and Federal Medical Assistance funding provided to the Milton S. Hershey Medical Center through the Pennsylvania Department of Human Services. Penn State's overall request for additional Commonwealth support for 2016-17 totals \$53,227,000.

**Table 2**  
**2016-17 Appropriation Request**  
**(\$ in thousands)**

<u>Direct State Appropriation:</u>	<u>2015-16 Anticipated Appropriation</u>	<u>Projected Increases</u>	<u>2016-17 Requested Appropriation</u>
General Support*	\$224,816	\$39,517	\$264,333
Pennsylvania College of Technology	17,584	2,979	20,563
Total Direct State Appropriation	<u>242,400</u>	<u>42,496</u>	<u>284,896</u>
<u>Agricultural College Land Scrip Funds:</u>	46,237	8,994	55,231
<u>Department of Human Services:</u>			
M.S. Hershey Medical Center Medical Assistance Funding (estimate)	<u>11,399</u>	<u>1,737</u>	<u>13,136</u>
<b>TOTAL APPROPRIATION</b>	<b><u>\$300,036</u></b>	<b><u>\$53,227</u></b>	<b><u>\$353,263</u></b>

\*The 2015-16 anticipated appropriation assumes 5.0 percent increase over 2014-15.

## Summary of Appropriations 2001-02 through 2015-16



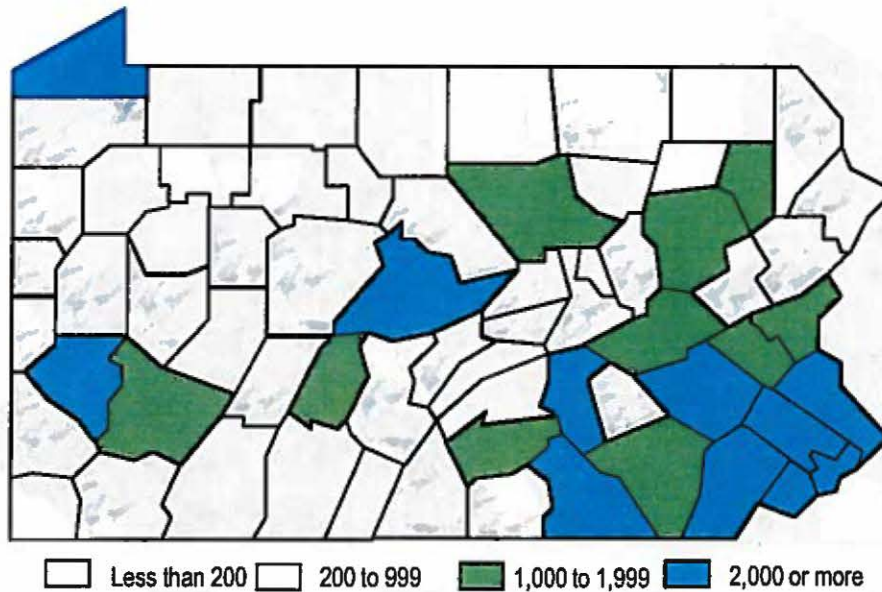
	Initial	Appropriation Rescission	Final
2001-02	\$334,813,000	\$(10,043,000)	\$324,770,000
2002-03	322,592,000	(6,452,000)	316,140,000
2003-04	307,844,000		307,844,000
2004-05	317,179,000		317,179,000
2005-06	325,771,000		325,771,000
2006-07	341,872,000		341,872,000
2007-08	348,725,000		348,725,000
2008-09	352,782,000	(21,169,000)	331,613,000
2009-10	364,379,000		364,379,000
2010-11	346,999,000		346,999,000
2011-12	278,967,000	(11,385,000)	267,582,000
2012-13	278,967,000		278,967,000
2013-14	287,747,000		287,747,000
2014-15	289,330,000		289,330,000
2015-16	Pending		Pending

## Fall 2015 Total Credit Enrollment



University Park	46,848	New Kensington	656
Abington	3,966	Schuylkill	783
Altoona	3,839	Shenango	508
Beaver	705	Wilkes-Barre	501
Berks	2,906	Worthington Scranton	1,034
Brandywine	1,457	York	1,105
DuBois	602		
Erie	4,327	College of Medicine	878
Fayette	704	Dickinson School of Law - Unified	373
Great Valley	429	Dickinson Law	68
Greater Allegheny	577	Penn State Law	177
Harrisburg	4,678	PA College of Technology	5,514
Hazleton	831	World Campus	<u>12,242</u>
Lehigh Valley	893		
Mont Alto	893	Total	97,494

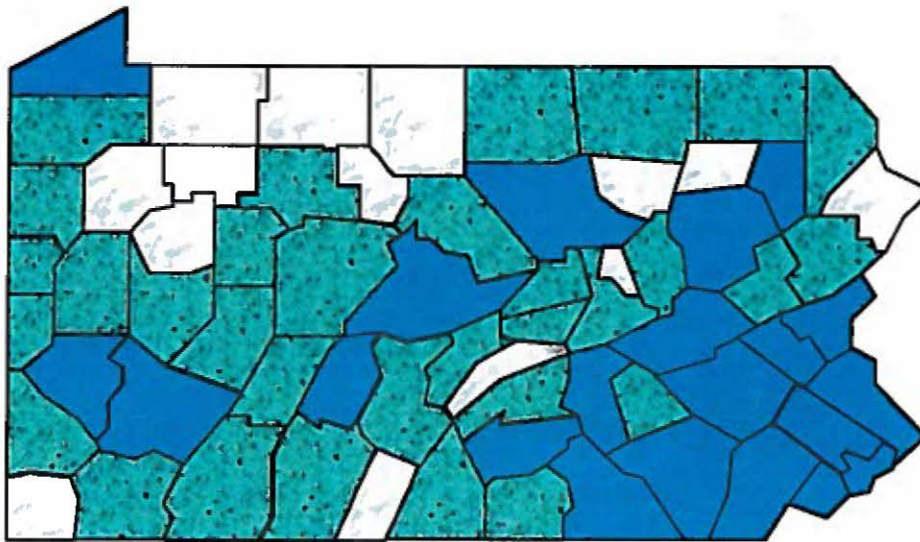
## Enrollment By Pennsylvania County of Residence Fall 2015 Total – 64,014



Adams	423	Delaware	2,780	Montgomery	4,575
Allegheny	4,048	Elk	243	Montour	129
Armstrong	257	Erie	2,059	Northampton	1,225
Beaver	730	Fayette	674	Northumberland	457
Bedford	149	Forest	13	Perry	172
Berks	2,348	Franklin	730	Philadelphia	3,634
Blair	1,334	Fulton	67	Pike	224
Bradford	279	Greene	53	Potter	38
Bucks	3,895	Huntington	292	Schuylkill	1,068
Butler	820	Indiana	192	Snyder	241
Cambria	361	Jefferson	238	Somerset	132
Cameron	30	Juniata	106	Sullivan	46
Carbon	209	Lackawanna	1,346	Susquehanna	144
Centre	5,313	Lancaster	1,890	Tioga	156
Chester	3,046	Lawrence	216	Union	235
Clarion	99	Lebanon	746	Venango	123
Clearfield	643	Lehigh	1,441	Warren	157
Clinton	276	Luzerne	1,547	Washington	653
Columbia	268	Lycoming	1,507	Wayne	286
Crawford	246	McKean	149	Westmoreland	1,480
Cumberland	1,523	Mercer	550	Wyoming	112
Dauphin	2,240	Mifflin	316	York	2,403
		Monroe	598	Unknown County	34



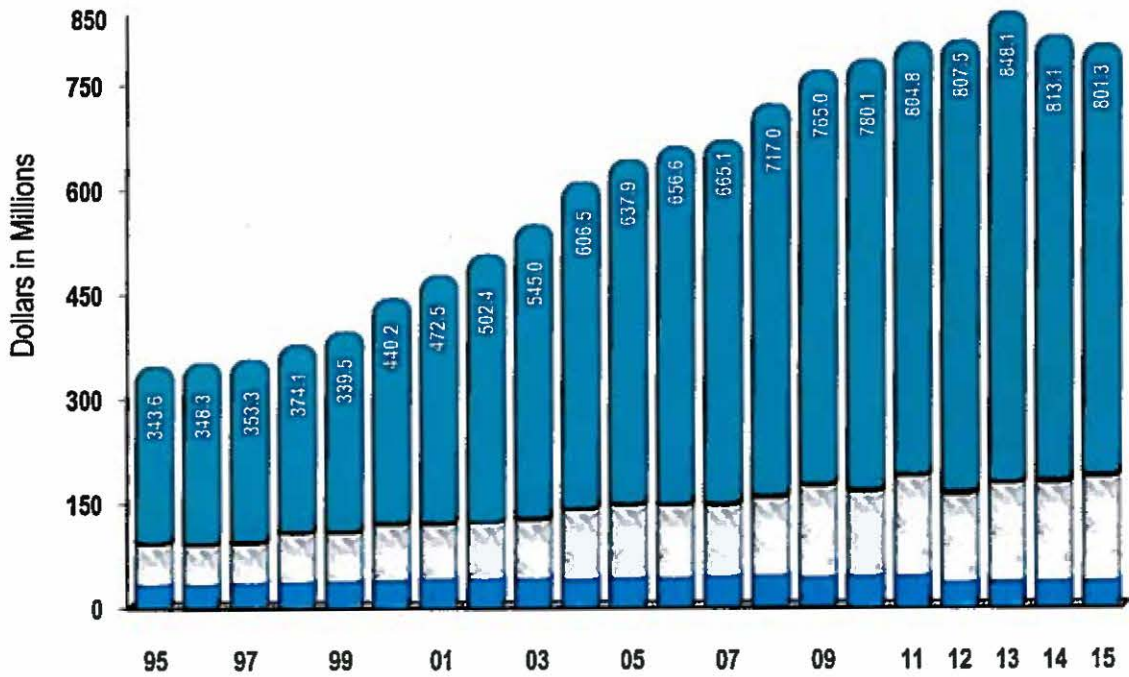
## Alumni Residing in Pennsylvania As of December 31, 2015



Less than 200  
  200 to 999  
  1,000 to 4,999  
  5,000 or more

Adams	2,491	Delaware	13,376	Montgomery	26,790
Allegheny	28,836	Elk	2,130	Montour	995
Armstrong	1,284	Erie	9,376	Northampton	5,902
Beaver	4,306	Fayette	4,702	Northumberland	3,681
Bedford	1,409	Forest	108	Perry	1,517
Berks	11,895	Franklin	3,985	Philadelphia	15,263
Blair	9,395	Fulton	391	Pike	602
Bradford	1,942	Greene	486	Potter	528
Bucks	18,362	Huntington	2,034	Schuylkill	6,481
Butler	4,971	Indiana	1,613	Snyder	1,437
Cambria	3,626	Jefferson	1,682	Somerset	1,229
Cameron	222	Juniata	731	Sullivan	369
Carbon	1,395	Lackawanna	7,252	Susquehanna	1,036
Centre	20,553	Lancaster	13,184	Tioga	1,743
Chester	17,791	Lawrence	1,653	Union	2,161
Clarion	678	Lebanon	4,358	Venango	789
Clearfield	4,317	Lehigh	8,759	Warren	999
Clinton	2,302	Luzerne	9,303	Washington	4,216
Columbia	2,314	Lycoming	10,954	Wayne	1,504
Crawford	1,886	McKean	889	Westmoreland	10,086
Cumberland	12,679	Mercer	3,786	Wyoming	799
Dauphin	13,779	Mifflin	1,976	York	13,648
		Monroe	2,018	Unknown County	11,468

## Organized Research by Fund Source



	2015 Amount	Percent of Total
Sponsored Grants and Contracts	\$606,833,000	75.7%
Federal Appropriation - Agricultural Research	8,480,000	1.1%
University Funds	148,323,000	18.5%
State Appropriation		
Agricultural Research	21,140,000	2.6%
Organized Research*	16,572,000	2.1%
<b>Total</b>	<b>\$801,348,000</b>	<b>100.0%</b>

\*Prior to 1990-91, the appropriation for Research was a separate line item. Beginning in 1990-91, it was combined into the Educational and General (E&G) Appropriation. The Research Appropriation for 1990-91 through the current year has been estimated using the percentage increase or decrease in the E&G Appropriation.