

Office of Academic Affairs Closing the Gap Progress Report FY 2021-22

Version: May 23, 2022

In the spring of 2021, as part of the University's overall efforts to support institutional priorities and achieve a sustainable budget, the Provost shared with the campus the approach that the Office of Academic Affairs (OAA) is taking toward this goal—[Closing the Gap](#). Closing the Gap includes a number of actions we can take to strengthen the financial health of the University while maintaining our ability to meet the needs of students and sustain our academic mission.

Closing the Gap Toolkit:

- stabilizing and, where possible, increasing enrollments;
- implementing the Strategic Hiring Freeze;
- realizing savings, where possible, through attrition and vacancies;
- participating in the Support Services Review;
- offering a Retirement Transition Program;
- launching a program review/reduction process.

The gap between our budgeted revenue and expenses will continue to change, as this is dependent on our ability to meet our enrollment and retention goals and our ability to continue to contain costs. Each year, the gap is represented by the amount of management reserves bridge funding needed to balance our operational budget. PSU's FY22 budget had just over \$15 million in bridge funds, of which \$11.1 million was OAA's share. For FY23,¹ PSU's budget has \$9.6 million in bridge funds, of which \$7.1 million is OAA's share.

Summarized below are the FY22 financial impacts and FY23 budget savings as a result of these Closing the Gap strategies. While these strategies can remove costs from the budget, there are often new costs each year due to increases in salary/OPE (Other Personnel Expenses) and inflation. Therefore, while the budget savings below have been removed from the OAA budget, the FY23 OAA budget is more than the FY22 budget.

Stabilize and, where possible, increase enrollments

FY22 Estimated Financial Impact: \$2,932,000

A key component of Closing the Gap is to stabilize and, where possible, increase enrollments. As we continue to face a university-wide decline in enrollment, there are areas where student and workforce demand suggest that we can increase revenues through increased enrollments. During FY2022, investments were made in Honors, Business and SSW that resulted in new student enrollments during FY2022. These

¹ Updated financial information is reported to the Board of Trustees Finance and Administration Committee. Information can be found on the [Finance and Administration Committee](#) webpage.

Office of Academic Affairs Closing the Gap Progress Report FY 2021-22

Version: May 23, 2022

units were identified because they could enroll immediate pools of *new* students who would otherwise not come to PSU if they could not be admitted to these programs. The financial impact, or return on this investment, can be calculated by subtracting the investment from the estimated net tuition. As illustrated below, the estimated financial impact² to the University for these three investments was about \$2,932,000.

Unit	FY22 Investment	Increase in Students - Fall 2021	Estimated Net Tuition Revenue	Estimated Financial Impact
Honors	\$ 100,000	113	\$ 996,000	\$ 896,000
Business	\$ 217,000	193	\$ 1,702,000	\$ 1,485,000
SSW	\$ 172,000	82	\$ 723,000	\$ 551,000
				<u>\$ 2,932,000</u>

This revenue may offset a reduction in tuition revenue in other areas that are experiencing a decline. Thus, it remains important to identify areas that have the potential to bring new students to PSU. The President's Strategic Investment Plan (SIP) is one mechanism to support these efforts. To increase new enrollments, the SIP has funded one-year bridge funding for positions for Social Work, Computer Science, Speech and Hearing, Business Technology and Analytics, and Interior Design. The outcomes of these investments will be reported as part of the ongoing outcomes of the Strategic Investment Plan.

Retirement Transition Program

FY23 Budget Savings: \$2,040,000

In May 2021, PSU worked in partnership with AAUP to put forward a [Retirement Transition Program](#) for tenured faculty. This program provides for a one-year transition of teaching and University service work during the retirement transition period, after which time the faculty retires and relinquishes tenure rights. Twenty faculty members participated in this program. Nine of these positions were refilled, funding from three positions was reallocated to fund a different position, and eight positions were not refilled. Even though funds were expended on the nine refilled positions, savings of \$460,000 were realized in budgeted personnel savings due to lower salaries and OPE with the replacement positions. With the reallocated and non-refilled positions, there is an additional personnel savings of \$1,580,000, for a total savings of \$2,040,000.

² Estimated financial impact calculation is based on estimated undergraduate tuition of \$8,818 per student from the 2022 Adopted Budget RCAT (Revenue and Cost Attribution Tool). Amounts are included in the revenue forecasts presented at Board of Trustees Finance and Administration Committee meetings and allocated annually to divisions through the annual planning process. OAA's allocation is about 67% of the overall general fund budget.

Office of Academic Affairs Closing the Gap Progress Report FY 2021-22

Version: May 23, 2022

In March 2022, the [Retirement Transition Program for Tenured Faculty](#) was extended for two years. A [Retirement Transition Program for NTTF-I on Continuous Appointment](#) and a [Phased Retirement Transition Program for Academic Professionals](#) was also agreed to in March 2022. Financial savings from these programs will be reported following the FY24 and FY25 budget process. Other retirements are included in the following section.

Attrition and Vacancies

FY23 Budget Savings: \$656,000

While turnover is very disruptive, it does provide an opportunity to determine if the position should be refilled as it currently exists, or if the resources would be better used elsewhere to support enrollment and student success goals. Additionally, there are often salary and OPE savings due to some positions being refilled at a lower salary rate and retirement benefits being at a lower rate for new individuals joining PERS. Between the FY22 and FY23 general funds budget for the OAA units, about \$456,000 or 69% of the \$656,000 budget savings is due to savings in replacement positions. The remaining amount is due to positions that aren't refilled. The hiring freeze exception process ensures an intentional review of each open and new position.

In addition to budget adjustments at a position level, Academics Affairs as a whole has over \$4 million budgeted as salary savings in FY23. This is a new process in FY23 and the amount reflects the historical salary savings. With this budgeting practice, the unit budget will more closely reflect the actual expenditure and addresses the concern of removing costs unnecessarily. This amount may change in future years, and therefore is not reported as a budget savings due to the Closing the Gap strategies.

Program Review and Reduction Process

The [Program Review and Reduction process](#) is ongoing; we are currently completing Phase 2 and entering into Phase 3 of the process. Approximately \$2.1 million of budget savings captured in the above strategies relate to Phase II units. Any budget savings would be captured following the conclusion of Phase 3 and would impact the FY24 budget and beyond.

Reimagine PSU Initiative

[Reimagine PSU](#) was launched in Summer 2021 with the intention of providing space to collaborate and design mechanisms to address the challenges and opportunities we face. Ten projects were awarded for Summer 2021 and 23 for Academic Year 2021-2022. Details on these projects can be found on the [Reimagine PSU Project Information](#) page. A number of units have begun to incorporate work from their

Office of Academic Affairs Closing the Gap Progress Report FY 2021-22

Version: May 23, 2022

Reimagine projects into their planning. As these projects move forward, this may have implications for budget planning.

Support Services Review

Huron Consulting Group completed the support services review during Spring 2022. Report findings are available at: [Support Services and Operational Review](#). Budget savings will be determined as implementation of recommendations is undertaken.

Other Budget Savings

The Article 22 process with the Intensive English Language Program resulted in budget savings of about \$748,000.

Understanding the Impact on the OAA's Budget

The Closing the Gap strategies impacts the OAA budget in the following ways:

- The Operating Budget Allocation. Annually, each division is provided an operating budget allocation built upon the budget parameters for tuition increases and deficit spending set forth by the Board of Trustees Finance and Administration Committee. Within the allocation, there is a budget line for bridge funds, which represents the difference between PSU's estimated revenue and PSU's estimated expenses, and this is funded by a division's management reserves. Strategies that increase revenue, such as new revenue due to faculty investments, are included in the annual allocation. Increases to tuition and state allocations are also in the annual allocations, and support closing the budget gap. The below table illustrates OAA's share of the overall operational budget allocation and bridge funds share³. For FY22, 5% of the operational budget is covered through bridge funds, and it is 3% in FY23. This is due to a slight increase in revenue compared to FY22. The overall budget allocation increase from FY22 to FY23 is just over 2%

	FY22			FY23		
	PSU	OAA	OAA % of PSU	PSU	OAA	OAA % of PSU
Operational Budget Allocation	308,783,282	205,638,333	67%	316,374,008	210,480,633	67%
Bridge Funds	15,053,000	11,100,000	74%	9,595,000	7,075,000	74%
General Funds	293,730,282	194,538,333	66%	306,779,008	203,405,633	66%
Bridge Funding as a % of Operational Budget	5%	5%		3%	3%	

For FY23, OAA's budget allocation also includes an increase in State Targeted Funds and Other Adjustments. Changes between FY22 and FY23 are noted in the following table.

³ OAA's bridge funds is greater than 67% as not all divisions hold management reserves.

Office of Academic Affairs Closing the Gap Progress Report FY 2021-22

Version: May 23, 2022

FY2022 Operational Budget	\$ 205,638,333	% increase/ decrease from FY22
Change in Targeted Funds	649,672	0.3%
Other Adjustments	112,044	0.1%
Allocation Increase	4,080,585	2.0%
FY23 Operational Budget	\$ 210,480,633	2.4%

- FY23 Expenditure Budget. The expenditure budget will reflect estimated cost increases as well as the cost savings strategies outlined above. Cost increases to maintain the current service level are estimated to be 4% for FY23⁴, which is more than the allocation increase. As illustrated below, the cost savings strategies referenced above remove 1.7% of OAA's FY22 budget from OAA's FY23 budget. The net increase to OAA's budget is \$4,842,300.

FY2022 Operational Budget	\$ 205,638,333	% increase/ decrease from FY22
Change in Targeted Funds	649,672	0.3%
Retirement Transition Program	(2,040,000)	-1.0%
Attrition and Vacancies	(656,000)	-0.3%
IELP Savings	(748,000)	-0.4%
Service Level Increases	7,636,628	3.7%
FY23 Operational Budget	\$ 210,480,633	2.4%

⁴ Per the [Tuition and Mandatory Fee Proposal](#).