



**THE PENNSYLVANIA STATE UNIVERSITY
2024-25 STATE APPROPRIATION REQUEST**

BOARD OF TRUSTEES

COMMITTEE ON FINANCE, BUSINESS, AND CAPITAL PLANNING

SEPTEMBER 2023

PENN STATE'S 2024-25 APPROPRIATION REQUEST

Thank you for the opportunity to present our 2024-25 appropriation request. Funding from the Commonwealth is a critical factor that influences Penn State's resident tuition rates. It helps defray the cost of in-state tuition for Pennsylvania resident undergraduates across all our campuses, which serve some of the most economically challenged regions of Pennsylvania. It also provides crucial funding that helps support economic development and entrepreneurship; Agricultural Research and Extension; Medical Assistance, CURE, the Cancer Institute, ASERT, and other critical health-related needs served by Penn State Health and the College of Medicine; and the Pennsylvania College of Technology.

Penn State and the Commonwealth of Pennsylvania have been partners since our founding in 1855, and together we have contributed immeasurably to the quality of life, economic development, agricultural productivity, medical care, and leadership in every sector of society. An investment in Penn State is an investment in the communities, families, and individuals who comprise our great state. What's good for Penn State is good for Pennsylvania, and what's good for Pennsylvania is good for Penn State.

Penn State's focus over the past decade has been to reduce the total cost of a degree, decrease the rate of student borrowing, promote the success of need-based students, and decrease attrition due to finances. Despite this success, state appropriations remain below the 2007-08 high watermark funding level - regardless tuition increases across Penn State's campuses have been below national averages for over a decade. Calculated in 2022 dollars, Pennsylvania resident students are now paying less tuition for their Penn State education than they were in 2011-12. In order to keep tuition increases in check without additional investment from the Commonwealth, the University has been in a decade long budget-cutting mode, which if continued may lead to lower quality education for our students and a loss of employee talent that is critical to deliver quality education. Penn State's appropriation includes two line items under the Department of Education: General Support and the Pennsylvania College of Technology. In addition, the appropriation for the Agricultural College Land Scrip Fund that supports Agricultural Research and Extension is appropriated through the Department of Agriculture, while support for Penn State Health and the College of Medicine is provided through the Department of Health and the Department of Human Services. In addition, in the 2022-23 fiscal year, the University received \$2.35 million through the Department of Community and Economic Development to support economic development activities across Pennsylvania. The University believes that the Invent Penn State initiative can be an important component of the Commonwealth's economic development strategy and is hopeful that this line-item will be restored in 2024-25. The purpose, use, and benefits to the citizenry of the Commonwealth are summarized in the following sections of this statement.

The University is requesting a total appropriation of \$483.373 million, representing a 33% increase over anticipated 2023-24 levels.

General Support

The General Support appropriation both offsets the cost of tuition for Pennsylvania residents and supplements the University's efforts to address access and affordability. Commonwealth support enables the university to provide in-state tuition savings for Pennsylvania resident students that is far greater than the per-student appropriation.

The state appropriation is critical to helping Penn State attract and retain the type of students that will stay in the state to complete their studies and will then choose to remain here and help Pennsylvania prosper. With 51,300 Pennsylvania resident students (inclusive of undergraduate, graduate, and professional students) across 23 campuses and a World Campus, Penn State has a capacity that no other university in the state can match. Penn State is a valuable asset to the Commonwealth that provides a great return on investment.

It is also noteworthy that nearly 20% of Penn State's out-of-state and international students choose to stay in Pennsylvania after completing their degrees. These students start companies, enrich established businesses, and contribute to their communities as taxpayers, volunteers, and citizens. Pennsylvania ranks fifth in the nation for the percentage of senior citizens. Attracting and retaining young professionals is vitally important for the economic security of the Commonwealth.

For our education mission, received \$242.096 million in Fiscal Year 2022-23. Divided evenly among our 42,000 Pennsylvania resident undergraduate students (as of Fall 2022), the university received approximately \$5,757 per student. This funding level ranks the lowest in Pennsylvania and is far below the national average. Yet at Penn State, the average Pennsylvania student pays approximately \$15,021 less than their out-of-state counterparts. We are significantly amplifying the state's investment to make Penn State more affordable and accessible for the working families of Pennsylvania. In comparison, Temple University receives approximately \$9,233 per student¹, PASSHE receives \$8,754 per student², and the University of Pittsburgh receives \$9,436 per student³.

We are deeply committed to ensuring that Penn State students receive equitable per-student funding comparable to that of other public universities in Pennsylvania. It is our belief that offering our students less funding than their peers at other institutions is fundamentally unfair to our students and undermines their educational experience at Pennsylvania's only land-grant

¹ Temple University (TU) 2022-23 State appropriation divided by TU Fall 22 (approx.) PA undergraduate enrollment.

² PASSHE 2022-23 State appropriation divided by PASSHE Fall 22 (approx.) PA undergraduate enrollment.

³ Pitt 2022-23 State appropriation divided by Pitt Fall 22 (approx.) PA undergraduate enrollment.

university. The current funding framework places Penn State students at an unjustifiable financial disadvantage, and it is imperative that this disparity is promptly corrected.

To bridge the funding gap among public universities, we implore the Governor and the General Assembly to collaborate with the universities on designing performance-based funding metrics that harmonize funding incentives with the Commonwealth's needs. Essential principles for the success of any performance-based funding model in Pennsylvania include simplicity, transparency, and a comprehensive acknowledgment of each institution's distinctive mission and structure to ensure a fair evaluation. The reward system should acknowledge institutions for their contributions in educating Pennsylvania resident students, supporting low-income and first-generation students, fostering studies in high-need career fields, and serving to traditionally underserved students.

We look forward to productive collaboration with our state elected officials to advance legislation on performance-based funding. Over the past 50 years, Penn State's enrollment has increased substantially; however, there has been no corresponding increase in state funding to keep pace. The lack of consistent incremental increases Penn State's appropriation has compounded the financial strain on Penn State's tuition rates and overall budget.

The 2024-25 appropriation request for General Support for Penn State proposes a 42% increase of \$108.833 million. This requested increase would raise Penn State's annual appropriation to the same per-student level as the PASSHE system, the next lowest public university on a per-student basis.

Cost Containment Efforts

Penn State has made important progress in reducing the deficit within the approximately \$3 billion Education and General budget. After originally projecting a \$140 million deficit (excluding Penn College) for the 2022-23 fiscal year, the current projected deficit is \$63 million, a \$77 million improvement.

The projected improvement is due to steps the University has taken to control spending and increase revenues, highlighted by:

- \$27 million in collective savings on salaries and benefits from the University-wide hiring freeze. As the University works toward a balanced budget, Bendapudi said that the strategic hiring freeze will remain in effect for at least the next year.
- \$17 million in health care savings compared to budget.
- A \$22 million increase in investment income.
- A one-time \$12.1 million COVID-19 relief grant from the commonwealth of Pennsylvania.

Other cost reductions were realized from deferred spending and capital projects, additional salary and benefit savings during employee transitions, and contract savings on a variety of equipment and services.

Over the next two fiscal years, the University is projecting that the E&G deficit will be reduced to \$44.5 million in 2023-24 and \$34.1 million in 2024-25.

Penn State has created a new data-driven budget model that aligns metrics with unit allocations; progressively reduced the dependency on reserves to reach a balanced budget; and prioritized fiscal responsibility through continued efficiencies, expense savings and new income generation to arrive at a balanced budget by 2025-26.

Pennsylvania College of Technology

Pennsylvania College of Technology is a national leader in applied technology education with roots tracing back to adult education and workforce training in Williamsport more than a century ago. Created as a special mission affiliate of Penn State by an Act of the General Assembly in 1989, Penn College enjoys a mutually beneficial association with the University.

Penn College's state appropriation is issued as a line item within the Penn State budget; however, the College is not reliant upon Penn State for funding of its operations, and it receives no capital funding from the University. Rather, this institution establishes its own rates for tuition and fees, which constitute the bulk of its revenues. (Note: tuition for 2023-24 was held flat by a unanimous vote of the College's board of directors at their June 8, 2023, public meeting.)

Some other important distinctions afforded by this relationship are that the College:

- Grants its own Pennsylvania College of Technology degrees.
- Maintains its own Middle States accreditation.
- Receives its own Standard & Poor's rating (A/Stable).
- Has its own Board of Directors and President.
- Has a faculty collective bargaining unit (the only unionized employees).
- Operates its own police force.

The College and the University do collaborate where appropriate.

Enrollment has increased for Fall 2023, and Penn College will enroll more than 4,400 students in nearly 100 diverse academic majors focusing on hands-on experiential learning in high-demand career fields. Full-time enrollment is 82 percent, and nearly 60 percent of the College's students are in baccalaureate degree programs. Penn College also grants master's degrees in Physician

Assistant Studies and Nursing (Education), and a new five-year B.Arch in architecture begins in Fall 2023. Currently, more than 300 Penn College students are military veterans or family members.

With a 96 percent overall placement rate, and 100 percent in many majors, Penn College academic programs are supported by many of the same industry partners who hire its graduates – which also provides students with an incredible alumni network throughout their future careers. The College has more than 3,000 unique corporate relationships in Pennsylvania alone, representing an array of business sectors. These companies recruit its students, advise its curriculum to ensure currency, and support instructional needs with equipment, materials, and other resources.

In addition to the 132-acre main campus in the City of Williamsport, academic instruction is offered at the Lumley Aviation Center near the Williamsport Regional Airport in Montoursville and at the 409-acre Schneckeli Earth Science Center near Allenwood. At the Aviation Center, Aviation Maintenance students work with a wide variety of aircraft, including a Boeing 727 and Bombardier Challenger business jet. The Earth Science Center features a woodland laboratory and sawmill for Forestry students, a heavy equipment training site for Diesel and Heavy Construction Equipment students, a lab for On-site Power Generation students, and a greenhouse for Landscape/Plant Production students.

Pennsylvania residents account for 90 percent of the student population. Typically, the College's largest programs are Nursing and Welding, with Building Automation, HVAC, Electrical, IT-Cybersecurity, Mechatronics and a number of transportation programs currently experiencing rapid growth. In all, 45 programs were at maximum capacity and were put on a waitlist for Fall 2023, as applicant interest has ballooned.

Penn College's appropriation per Pennsylvania student, however, is \$7,075, while Pennsylvania resident undergraduates at the next lowest public university are funded at \$8,754 per student, based on Fall 2022 enrollment and 2022-23 appropriations. Providing a hands-on education – delivered by expert instructors, in industry-standard labs, and with real-world consumables like lumber, fuel, copper and steel – is an expensive endeavor. But because of the low per-student funding, low- and middle-income families have significant challenges accessing the life-changing educational programs Penn College offers.

The 2024-25 appropriation request for Penn College proposes an increase of \$4.44 million (15.5 percent) over expected 2023-24 appropriations levels. This requested increase would raise Penn College's annual appropriation to the same level as the College's next lowest public university on a per-student basis. With this funding, the College can create broader access to in-demand programs so desperately needed by employers in every sector across the Commonwealth.

Agricultural Research and Penn State Extension

To address Pennsylvania's needs for research, technology transfer, and job creation, 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 and rural research and our statewide Penn State Extension programs. The federal, state, and county funds that support Agricultural Research and Cooperative Extension are not supplemented with student tuition, nor can we use the federal, state, and county funds to support degree programs.

Pennsylvania's appropriation provides the required matching funds that allow Penn State to access Federal Agricultural Research appropriations and support from Pennsylvania's counties for Penn State Extension. Funding for agricultural research and extension, located in the Land Scrip Fund in the Pennsylvania Department of Agriculture budget, represents the Commonwealth's investment in support of rural communities and Pennsylvania agriculture and ensures the college will have the capacity to advance this important sector of the economy and safeguard Pennsylvania's human and natural resources.

According to the publication "The Economic Impact of Agriculture in Pennsylvania: 2021 Update," produced by Econsult Solutions Inc., Pennsylvania agriculture supports 301,900 direct jobs and a total of 593,600 jobs when including induced spending. Pennsylvania agriculture had an \$81.5 billion direct output and a total economic impact in the Commonwealth of \$132.5 billion in 2019. More importantly, it supports Pennsylvania's and the nation's food supply chain, critical to the wellbeing of every citizen.

The appropriation for these programs remained flat in the 2023-24 Pennsylvania budget. The Penn State 2024-25 budget plan proposes a 7% increase of \$4 million in the Land Scrip Fund. The College is also seeking an additional \$2 million for an Emerging and Advanced Technology Initiative to enhance the efficiency, competitiveness, and profitability of Pennsylvania agriculture through agricultural specific applications and integrations.

College agricultural research and extension programs have a long history of partnering with agriculture sectors and rural communities. Several impacts include:

Increasing Financial Resources for Pennsylvania: In 2022-23, the college leveraged the state appropriation of \$28.5 million for research via faculty competitive grant funding, primarily from federal sources, resulting in the college expending more than \$74 million in external, mostly federal grant funding on research that benefits Pennsylvania.

Increasing Access to Science-Based Education: In 2022, Penn State Extension had 41.5 million website pageviews from 11.5 million users, 439,083 program registrants, and distributed 596,508 publications. Extension expanded options for populations that do not have access to broadband and to Spanish speaking audiences.

Engaging External Stakeholders: As part of the Program Development Process (PDP), Penn State Extension teams have received to date 10,435 needs assessment survey responses from diverse, external stakeholder groups resulting in 1,623 new educational products launched.

Expanding Broadband for Underserved Populations: Penn State Extension developed broadband spatial analysis and mapping tools and evaluated the accuracy of industry-provided data to inform the state's process of challenging discrepancies in Federal Communications Commission maps of broadband service availability. This assisted the Pennsylvania Broadband Development Authority to contest 28,000 service-availability challenges resulting in \$117 million in Pennsylvania's share of the federal funding during 2023. This was in addition to \$369 million in funding in 2021.

The challenges and opportunities facing Pennsylvania agriculture are more complex than ever, as is the need for research and science-based solutions and innovations. Current agriculture and college priorities include:

Highly Pathogenic Avian Influenza (HPAI) and other invasives: An ongoing priority remains addressing invasive threats, deploying emergency responders when confronted with challenges such as the spotted lanternfly and HPAI. Responding to HPAI in Pennsylvania in 2022-23, the college participated on the HPAI Task Force and provided expertise related to biosecurity, surveillance, diagnosis, depopulation, disposal, and issues relevant to small/backyard flocks. As of 3/17/2023, 4.6 million birds were affected in Pennsylvania.

Advancing Climate Smart Agriculture and Commodities in Pennsylvania: The college received a \$25M USDA grant to assist the dairy industry in implementing and profiting from climate smart practices. Research and Extension focus on reducing emissions while increasing agricultural resilience/adaptability, improving environmental performance of operations, and establishing a credible market value for practices that reduce emissions. The college is also researching remote sensor data collection on climate patterns, yields, and inputs to build models that can help producers make informed decisions to improve profitability.

Improving Water Quality: The college conducts extensive research and Extension in watershed protection, including our Master Watershed Stewards program. Recently, Penn State Extension was awarded \$1.3 million per year for four years to create the Center for Agricultural Conservation Assistance Training, as part of the state Ag Conservation Assistance Program. The Center provides technical assistance, project design, and farmer outreach to facilitate the implementation of BMPs, as well BMP training for Conservation Districts and other professionals who directly assist farmers in the Chesapeake Bay Watershed. The college also has faculty doing public education and research on urban and residential stormwater, wastewater treatment, pond management, drinking water, as well as PFAS levels and potential treatment solutions.

Workforce Development and Stackable Credentials: Personalized education paths present unique alternatives for educational institutions, industry sectors, and learners. There is enormous potential for online/hybrid courses, micro-credentials, and apprenticeship training programs. Extension is working with industry sectors on personalized employee education for ongoing training and advancement.

Special Request: Emerging Technologies and Ag Applications

Emerging technologies - such as virtual and augmented reality, and business blockchain - create enormous opportunities for agriculture, rural development, and job creation in Pennsylvania. The College is seeking \$2 million to launch an Emerging and Advanced Technology Initiative to focus on agricultural applications and empower individuals, businesses, and communities with tools that can support data-driven decisions for efficiency, growth, sustainability, competitiveness, and profitability. Projects will focus on applications of artificial intelligence (AI) - including machine learning, simulation modeling, and precision automation through sensors and robotics; advances in bio-based technologies that enhance plant and animal performance and health; and scalable and customizable solutions for small- and medium-sized farms of the northeast region.

Invent Penn State: Economic Development Extension

The Invent Penn State LaunchBox & Innovation Network began modestly in 2015 and has grown to 21 locations embedded within Penn State campus communities, many in rural areas with traditionally underserved populations. Modeled after the Penn State agricultural cooperative extension, the network provides access to no-cost business startup support—coworking space, makerspace, accelerator programs, pitch competitions, speaker series, access to experts and mentors, and legal and IP advice through Penn State Law clinics.

These services complement existing community resources and are offered in partnership with regional economic development authorities tailored to meet the unique needs of each community. Since 2015, the demand for innovation across the Commonwealth has surged and in turn, the initiative has grown to support over 7,000 community entrepreneurs, launched 976 new Pennsylvania companies, graduated 819 startups from accelerator programs, created 381 new products, and created over 530 jobs. Today, 96% of Pennsylvanians live or work within 30 miles of a LaunchBox or innovation hub.

The \$2.35 million appropriated for Invent Penn State for 2022-23 is providing essential funding for programming and represents a co-investment with the University to drive economic development. Building upon this shared commitment, Penn State once again is requesting \$2.35 million to strengthen and grow the LaunchBox & Innovation Network across Pennsylvania, consistent with the University's commitment to extension services as a central element of our

land-grant mission. In addition, this funding will further expand access to the Pennsylvania Technical Assistance Program (PennTAP) for Small to Medium Enterprises, with an emphasis on the manufacturing sector.

This collective investment in Pennsylvania communities will not only positively impact new business creation and job growth for rural and underrepresented constituents, but also will help decrease the impact of brain drain across the state. This focus on fundamental economic development is what it means to be a public university in the 21st century—leveraging excellence in teaching, research, and service to improve the quality of life for humankind.

Penn State Health and the College of Medicine

Penn State Health Milton S. Hershey Medical Center and College of Medicine receive annual Medical Assistance payments for clinical and educational services rendered to the Medical Assistance (MA) population, enabling citizens of the Commonwealth without the ability to pay to receive medical care at one of the nation's premier academic medical centers. The funds directed to certain academic medical centers include state funds appropriated to the Pennsylvania Department of Human Services which are then matched with nearly equal federal Medical Assistance funds. Since 2013-2014, part of this funding has been designated for the ongoing development and support of the Regional Medical Campus at University Park. With a focus on the preparation of medical students for careers in primary care and rural medicine, this program addresses the health care needs of both the Centre County region and the entire northern tier of Pennsylvania. It also supports innovative programs that will enhance the overall health and wellness of Pennsylvanians, particularly those in rural areas who have historically had to drive long distances to access providers for some or all their health care needs. Penn State Health Milton S. Hershey Center and the College of Medicine request a 5%, or \$765,600 increase in funding to continue to educate students and deliver innovation programs.

Concluding Remarks

Since 1855, Penn State and the Commonwealth have partnered to benefit families and communities across Pennsylvania. 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 all while ensuring that a Penn State education is within reach financially for Pennsylvania students with the ability and desire to attend. Our partnership has been mutually beneficial, and Pennsylvania would not be the same without it.

As a public university, we are at a pivotal moment. With the appropriate support from the Commonwealth, together we can ensure not only the continued success of our great land grant university but the prosperity of Pennsylvania.

I look forward to ongoing conversations about the enormous potential of increased investment in Penn State as a vehicle to advance economic development for Pennsylvania families. Thank you for your support and consideration.

Neeli Bendapudi, PhD
President
The Pennsylvania State University

HIGHLIGHTS OF PENN STATE'S 2024-25 BUDGET PLAN AND APPROPRIATION REQUEST

Appropriation Request

The University is requesting a total appropriation of \$483.373 million, representing a 33% increase overall.

- A \$108.833 million increase in the Educational and General (E&G) or General Support line item.
- An increase in the amount of \$4.039 million is requested for our programs in Agricultural Research and Cooperative Extension.
- A special request for \$2 million to implement a new Emerging and Advanced Technology Initiative within the College of Agricultural Sciences.
- Increased support of \$4.446 million is included for the Pennsylvania College of Technology.
- A \$2.35 million request to support economic development activities across Pennsylvania.
- Additional Medical Assistance funding of \$765,600 is also included for Penn State Health and the College of Medicine.

Basic Operating Costs

- **Benefits** – Respond to the increasing employer contribution rate for the State Employees' Retirement System (SERS) and an estimated increase in insurance costs.
- **Facilities** – Provide for facilities cost increases, including increasing fuel and utilities costs, property insurance, 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.
- **Faculty and Staff Compensation** – Provide a modest pool of funds for cost of living and merit-based inflationary increases and to address targeted market and equity concerns to retain critical talent, as well as the funds necessary to fulfill contractual obligations.

DETAILS OF PENN STATE'S 2024-25 BUDGET PLAN AND APPROPRIATION REQUEST

The University's proposed budget plan for 2024-25 reflects a progressive step towards Penn State's desire to be funded at the same level on a per-student basis as the other state-related institutions in Pennsylvania.

Penn State's request for an appropriation increase of \$120.083 million for 2024-25 is summarized on **Table 1**. Details of how the University would use the increase in appropriations are discussed below.

Asset Preservation: Deferred maintenance on essential education and general funded buildings now exceeds \$2 billion. A total of \$14.9 million is requested for facility cost increases, maintenance and operation of new or newly renovated facilities, fuel and utilities increases, and deferred maintenance.

Strategic Priorities: The 2024-25 budget plan includes investments of \$29.7 million for the most important strategic priorities of the university and Commonwealth, including engineering, computer science, information sciences and technology, education, healthcare. Investments will be targeted in areas described in the President's Statement that will focus on access and affordability and economic development, job creation, and student career success.

Student Aid/Student Success: As just one among multiple strategies to address access and affordability, our plan proposes adding \$14.9 million for need-based student aid and grants-in-aid along with other vital student success services.

Talent Retention: 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 2024-25 includes \$49.3 million for salary adjustments and related employee benefits. This projected amount includes a 3% merit pool to retain essential talent.

Table 1
Summary of State Appropriation
(\$ in thousands)

	<u>2023-24 Expected Appropriation</u>	<u>Requested Increases</u>	<u>2024-25 Requested Appropriation</u>
General Support	\$259,284	\$108,833	\$368,117
Agricultural Research & Extension	57,710	4,039	61,749
Special Request: Ag. Emerging Technology	-	2,000	2,000
Economic Development	2,350	-	2,350
Total Penn State (excl PSH/CoM & Penn College)	\$319,344	\$114,872	\$434,216
Penn State Health and the College of Medicine	15,312	765	\$16,077
Pennsylvania College of Technology	28,634	4,446	\$33,080
TOTAL APPROPRIATION	<u>\$363,290</u>	<u>\$120,083</u>	<u>\$483,373</u>