

# **OPERATING BUDGET PRESIDENTIAL POLICIES 2009-2010**

## **INTRODUCTION**

This document sets forth the Presidential policies governing the development and management of the university's Operating Budget. The Budget, as approved by the Board of Trustees, authorizes spending in the university's Unrestricted Educational and General Fund Budget.

The Operating Budget does not include restricted funds or capital project funds which therefore are not subject to these procedures. These funds are typically governed by separate university policies, requirements of law or external funding sources.

The Presidential policies for 2009-2010 have been revised to reflect a shift from enrollment based budgeting to an incentive based model. Enrollment based budgeting, in effect since 2000-2001, was an effective budgeting model as enrollment grew rapidly and consistently from year to year. Now with changing demographics, overall enrollment is no longer expected to grow. Therefore, a budgeting model that incentivizes the schools and colleges to identify and grow new sources of revenue is needed.

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## **STRUCTURE AND PRESENTATION**

Budget Lines – Budget lines define the responsibility and function to which budgeted funds have been allocated. Each senior officer's total budget may be comprised of multiple budget lines. Budget lines fall into one of the following four categories:

1. School and College Budget Lines contain funding for the primary teaching, research and service mission of each school or college.
2. Administrative Unit Budget Lines contain funding for the administrative departments of the university.
3. Institutional Expense Budget Lines contain funding for university-wide expenses that are managed centrally.
4. Auxiliary Budget Lines generally operate as self-supporting units that generate revenue from services provided to the university community.

Expenses within the budget lines fall into two categories or buckets:

1. Compensation - instructional and administrative salary expenses. This includes full-time and part-time faculty teaching credit-bearing courses and non-instructional personnel. Compensation generally excludes fringe benefits.
2. Non-compensation - all other non-compensation expenses.

## **RESOURCE ALLOCATION**

Enrollment based budgeting based on the Delaware Study was an appropriate resource allocation model while enrollment was growing consistently from year to year. However, with overall enrollment now projected to remain flat for the foreseeable future, a new resource allocation model is needed.

The underlying principles of the new allocation model, incentive based budgeting, are that funding should be tied to available resources and allocated based on changes or shifts in enrollment, the cost of instruction; and that there should be a mechanism for incentivizing and encouraging activity that supports the university's priorities.

### **Incentive Based Budgeting**

Each year the undergraduate schools and colleges are eligible for a base budget adjustment as well as a one-time budget supplement. The professional schools are eligible for a one-time budget supplement only. The level of funding available for the base adjustment and one-time supplement is determined by the change in revenue over the preceding two fiscal years.

**Base Budget Adjustment:**

The change in net tuition revenue is used to determine the level of funding available for the one-time base budget adjustment. The change in net tuition revenue is divided into two parts; the change due to enrollment and the change due to tuition rates. The level of funding available is then determined by taking 32% of the increase due to enrollment plus 5% of the increase due to tuition rates.

This calculation is done separately for the undergraduate and professional schools and is based on the net tuition revenue each generates. Although the professional schools are not eligible for a base budget adjustment the amount they would have earned based on this calculation is added to their one-time supplement pool and allocated as described in the one-time budget supplement section below.

**Undergraduate Schools and Colleges**

Once the level of funding is determined as outlined above it is allocated among the undergraduate schools and colleges based on three factors. The importance or weight assigned to each factor is reviewed annually.

1. Undergraduate Credit Hours
2. Graduate Credit Hours
3. Number of Majors

The base budget allocation for each school or college is determined by comparing their individual change in each of these factors over the preceding two fiscal years to the total change for all undergraduate schools and colleges for each factor. The allocation for each of the factors is then increased or decreased by the school or college's individual cost index which is determined by their average non-tenure track faculty salary and non-compensation costs. The base budgets of the schools or colleges experiencing decreases in these factors may be reduced.

**Professional Schools**

Although a base adjustment is calculated for the professional schools it is allocated as a part of the one-time supplement. The method for determining and allocating the one-time supplement is described in the following section.

**One-time Budget Supplement:**

The budget supplement is a one-time non-recurring adjustment; as such, it is added a special carryover account and not the base budget. Funding for the one-time supplement pool will be increased or decreased annually by the percentage change in total revenue over the preceding two fiscal years. Unlike the base adjustment, funds earned through the one-time supplement can not be taken back in subsequent years.

### Undergraduate Schools and Colleges

The one-time supplement pool is allocated based on a series of incentive metrics selected by the President and Provost. These metrics will be reviewed annually and may change based on evolving university priorities. Each school or college's relative performance, with regard to the incentive metrics, will determine their share of the one-time supplement pool.

### Professional Schools

Like the undergraduate schools and colleges, the one-time supplement pool for the professional schools is also allocated based on a set of incentive metrics selected by the President and Provost. The incentive metrics used for the professional schools may be different than those used for the undergraduate schools and colleges.

The base budget funding earned by the Professional schools, but not allocated, is added to their one-time supplement pool and distributed as a non-recurring adjustment.

## **CARRYOVER OF UNEXPENDED BALANCES**

Certain budget lines may carryover a percentage of their uncommitted year-end funds. The percentage of year-end funds eligible for carryover is different for academic and administrative budget lines. Generally, academic budget lines are permitted to carryover 100% of their uncommitted balances and administrative budget lines 65%.

Uncommitted year-end funds that are not carried over are transferred to the undesignated Educational and General Net Assets of the university.

### 1. Percentage of Carryover

- a. Budget units eligible for 100% carryover includes:
  - i. All schools and colleges
  - ii. Other selected academic and institutional budget units
    1. Academic auxiliaries<sup>1</sup>
    2. Libraries
    3. Graduate School
    4. T.U. Harrisburg
    5. T.U.C.C.
    6. Health Services
    7. General Education (Gen. Ed.)
    8. Technology Transfer
  - iii. Self-supporting auxiliaries<sup>2</sup>
  - iv. Other select budget lines<sup>3</sup>

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<sup>1</sup> Law (LLM, Graduate Tax, Summer Abroad, China and Trial Advocacy), Fox (EMBA and IMBA), SCT (London), CLA (Spain), Education (Jamaica) and Rome (Operations and Housing).

<sup>2</sup> University Housing, Parking Operations, The Liacouras Center, Duplicating and Copy Centers, Diamond Dollars and Vending Operations.

<sup>3</sup> Temple TV, Temple News, Student Cultural Activity, Student Life Enhancement, Strategic Initiatives

- v. Funds that have been properly committed but remain unspent prior to the end of the fiscal year are carried over 100% to cover the commitment.
  - vi. Other budget lines as approved by the Senior Vice President of Finance and Administration
  - b. All other administrative unit budget lines are eligible for 65% carryover.
    - i. The total amount an administrative unit budget line may carryover is limited to 5% of its operating budget.
  - c. Unspent balances in institutional budget lines are transferred to the undesignated Educational and General Net Assets of the university.
2. Accumulated Carryover Balances and Required Spending Plans
- a. For both school and college and administrative unit budget lines, carryover funds may accumulate from year to year; i.e., any year-end carryover is added to the unspent balance of any prior year carryover.
  - b. Once a budget line's accumulated carryover balance reaches 5% of its current operating budget, a spending plan, outlining plans for using the accumulated carryover balance, must be submitted to the responsible officer. A copy of the spending plan must also be submitted to the University Budget Office.
  - c. Accumulated carryover balances may not exceed 10% of a budget line's operating budget.
    - i. Special authorization from the responsible officer *and* the Senior Vice President of Finance and Administration is required to accumulate carryover beyond the 10% limit.
  - d. All budget lines, whether granted 65% or 100% carryover, are subject to these accumulated balance and spending plan requirements.
3. Operating Deficits
- a. In the event a budget line ends a fiscal year with a budget deficit, that shortfall will be repaid from either accumulated carryover balances, other non-operating balances, and if necessary subsequent years budget allocations.

## **AUXILIARY BUDGET LINES**

As a general rule, each auxiliary is budgeted to generate revenues sufficient to cover all expenses, approved renewal and replacement and a university overhead charge.

**Overhead Charge:** Auxiliaries are assessed an overhead rate which is intended to reimburse the university for central support and services provided. The overhead charge is calculated on a sliding scale which is based on annual gross revenue. As gross revenue increases, the overhead charge decreases. The sliding scale is outlined below.

### Sliding Scale

- A 13.0% overhead charge is applied to the first \$200,000 of gross revenue

- An 11.0% overhead charge is applied to the next \$300,000 of gross revenue
- An 8.50% overhead charge is applied to all gross revenue beyond \$500,000

The overhead charge is assessed on each auxiliary individually. As such, a budget line may not group or combine their auxiliaries for purposes of calculating the overhead charge.

Workshops and seminars are assessed an overhead charge based on this sliding scale.

**Forgiveness and Deferment:** In order to encourage and incentivize budget lines to create new auxiliaries, budget units are eligible to participate in an overhead charge forgiveness and deferment program. With an approved business plan, new auxiliaries may be eligible for two years of overhead charge forgiveness and three years of deferment based on the following table.

Year	Percentage		Repaid in
	Forgiveness	Deferment	
1	100%	0%	-
2	50%	100%	Year 4
3	0%	100%	Year 5
4	0%	100%	Year 6
5	0%	0%	-
6	0%	0%	-

- Year 1 - 100% overhead charge forgiveness - No overhead is charged or required to be repaid.
- Year 2 - 50% overhead charge forgiveness and 100% overhead charge deferment - Overhead rates equal to one half of the regular schedule will apply: 6.5% on gross revenues up to \$200,000, 5.5% on the next \$300,000 and 4.25% on all additional gross revenue beyond \$500,000. If payment of the overhead charge causes the auxiliary to run a deficit in year two, payment of the overhead is deferred until there is a surplus or until the fourth year of the auxiliaries' inception (or in two years) which ever comes first.
- Year 3 - 0% overhead charge forgiveness and 100% overhead charge deferment - The regular sliding scale schedule will apply. If payment of the overhead charge causes the auxiliary to run a deficit in year three, payment of the overhead is deferred until there is a surplus or until the fifth year of the auxiliaries' inception (or in two years) which ever comes first.
- Year 4 - 0% overhead charge forgiveness and 100% overhead charge deferment - The regular sliding scale schedule will apply. If payment of the tax causes the auxiliary to run a deficit in year four, payment of the overhead is deferred until the sixth year of the auxiliaries' inception (or in two years).

- The budget line in which the auxiliary resides is responsible for paying any deferred overhead that can not be paid from the auxiliary's net revenues in the year in which it is due.
- Workshops and seminars are not eligible to participate in the overhead charge forgiveness and deferment program.

**Replacement and Renewal:** For those auxiliaries requiring significant capital investment and on-going maintenance, a minimum of 5% of gross revenue must be allocated to fund a renewal and reinvestment (R&R) account. The renewal and reinvestment account will be used to ensure funding is available to replace and properly maintain capital.

**Operating Loss or Deficit:** The budget unit in which the auxiliary resides is responsible for offsetting any annual operating loss from accumulated carryover or other eligible funding source.

**Auxiliary Units with Subsidies from the Operating Budget:** Two auxiliaries – Temple Press and Intercollegiate Athletics do not generate sufficient revenues to cover expenses and therefore receive a subsidy from the Operating Budget. Any surplus at the end of the fiscal year is carried over using the 65% carryover rule. Because these units receive a subsidy they do not pay an overhead charge.

University Housing does not pay an overhead charge. Surplus balances at the end of the fiscal year are retained at 100%. Temporary off-campus housing arrangements are budgeted within the University Housing budget line and are subsidized by the university.

**Units that Provide Support to the Operating Fund** – Two units provide operating support to the Budget on an annual basis.

University Bookstores provides \$995,000 to the Operating Budget. Surpluses in excess of this amount – up to a maximum of \$150,000 – are transferred to a reserve fund. Any additional surpluses are then added to a presidential discretionary fund for academic initiatives.

Other Auxiliaries<sup>4</sup> provides support to the Operating Budget which is projected to be \$1,017,385 in 2009-2010. After this commitment is met, an amount equal to the lesser of (a) annual surpluses beyond \$1,017,385 or (b) 10% of revenues is transferred to a reserve fund. All budget surpluses in excess of the initial contribution and reserve transfer are recaptured by the university.

## **INCENTIVE PROGRAMS**

Several budget lines have the ability to increase their resources through incentive programs which are described below:

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<sup>4</sup> For purposes of this calculation Other Auxiliaries includes Diamond Dollars, Vending and Foodservice.

- The **Dental Clinic** expense budget is increased annually by two-thirds of the revenues generated in excess of its 2001-2002 base year. The university retains the remaining one-third.
- The **Podiatry Clinic** budget is increased annually by two-thirds of the revenues generated in excess of its 2002-2003 base year. The university retains the remaining one-third.
- The **College of Pharmacy** off-campus QA/RA program is increased annually by 65% of the revenue generated in excess of its 2005-2006 base year. The university retains the remaining 35%.

Incentive programs are required to cover all annual increases in their expenses.

### **RESEARCH INCENTIVE - INDIRECT COST RECOVERY (ICR)**

The university receives reimbursement for facilities and administrative costs, or indirect costs, associated with external research. This reimbursement, or indirect cost recovery, is shared with the schools and colleges and acts as an incentive to further stimulate and increase external research. Indirect costs recovered will be allocated as follows:

#### **ICR Allocation:**

- University – 53%
  - The university's share will be used to support the operating budget.
- Deans – 36.5%
  - Each dean may allocate their share of ICR to their principal investigators (PI) and departments at their discretion.
  - Principal investigators and departments must renegotiate their ICR percentage allocation with their dean at least once every three years or once per grant cycle.
- Office for Research and Strategic Initiatives – 10.5%
  - No less than 2.0% of the office's allocation must be used to support or enhance the investment in start-ups and facilities.

#### **Spending Plan:**

- The amount of ICR that may be accumulated by a PI is capped at \$100,000 after which PI's must submit a spending plan to their dean before any additional ICR may be accumulated.

All current PIs are grandfathered and not immediately subject to the new allocation rules and will continue collecting 10% ICR for all grants active on June 30, 2009. The new ICR allocation policy applies to competing and non-competing renewals.

## **SUMMER SCHOOL**

Summer School is managed as a separate self-supporting operation by each participating school or college. As such, the schools and colleges are responsible for paying the expenses necessary to properly operate or support their summer school offerings. This includes, but is not limited to, the cost of:

- instruction including fringe benefits
- instructional supplies and equipment
- trips and excursions
- supplemental or enhanced marketing

Each participating school or college pays the university 68% of the net revenue generated by their summer school programs as an overhead charge and receives the remaining 32% as a one-time supplement. Net revenue is calculated as gross revenue less the financial aid transfer, plant development fund transfer and; if applicable, differential tuition. The percentage allocation will be reviewed annually by the Provost and the University Budget Office. Approved course fees earned during the summer are not assessed an overhead charge and are awarded in full to the schools and colleges.

Each school or college is responsible for funding any annual deficit in their summer school operation from their operating budget, carryover or other eligible funding source.

The central summer school office is responsible for coordinating the overall summer school operations. They will provide general marketing and promotional support as well as ensure the individual school and college course offerings serve the best interests of the students. Each school or college is free to do additional marketing to further promote their programs.

## **DIFFERENTIAL TUITION**

Temple University currently has differential tuition rates for programs in the following schools and colleges:

- Boyer College of Music and Dance
- College of Health Professions
- Tyler School of Art
- Tyler School of Art – Architecture
- Fox School of Business
- School of Tourism and Hospitality
- College of Pharmacy
- College of Engineering

Differential Tuition will be considered under the following guidelines:

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1. An analysis indicating that the cost of instruction exceeds that of other programs at the university.
2. A favorable market that reflects somewhat inelastic demand, comparable pricing levels at peer or regional institutions and recognition of the quality of the program.
3. A plan for the use of the additional revenues that will favorably impact students and the quality of their academic experience.
4. Identification of performance measures that can be used to validate the achievement of potential outcomes for consideration of future adjustments.

The application of any approved tuition differential is subject to the following provisions:

1. A 4.75% reserve of tuition revenue for the Plant Development Fund will apply to all tuition differentials.
2. A 12.51% reserve of tuition revenue for need-based financial aid will apply to all tuition differentials through FY'12. Beginning in FY'13 the percentage reserved for need-based financial aid will increase to either 14.0% or 14.5%. The financial aid dollars allocated for tuition differentials will be set aside for the school or college earning the differential less an amount to the central pool allowing for students who transfer within the university. This amount will be based upon historical changes.
3. The application of any new or adjusted tuition differential will be over and above the rate of increase for the university.

Revenues from tuition differential will flow to the operating budgets of the schools and colleges in the following manner:

- The revenue is calculated on the basis of student enrollment by category at the applicable tuition rate. Earned revenues – less the provision for need-based financial aid and the Plant Development Fund – are added to a unit's base budget in a calculation independent of the base budget adjustment.
- New positions funded by tuition differential revenues are assessed the appropriate fringe benefit rate. Units are responsible for their own incremental increases in general expenses, scholarships and other non-compensation expenses funded from differential tuition revenue.

## **BUDGET TRANSFERS**

Funds may be transferred and used in budget categories or buckets other than those enacted in the Operating Budget subject to the following rules:

1. A dean or officer may reallocate funding among cost centers that are subsidiary to a budget line.
2. Intra-bucket budget transfers are permitted with dean or officer approval. For example, transfers within the compensation bucket and transfers within the non-compensation bucket.
3. Inter-bucket transfers, or transfers between the two buckets, may be considered and must be reviewed and approved by the University Budget Office.
4. No funds may be transferred from a school or college budget line to an academic auxiliary budget line; nor may faculty or staff charged to the regular academic budget line be used to support an auxiliary program except where the regular academic budget is fully reimbursed for those services by the auxiliary.
5. Excess funds earned by auxiliaries offering courses for degree credit may be transferred to the regular academic budget line of the school or college at the discretion of the Dean.

## **FINANCIAL SAFEGUARDS and CONTROLS**

A number of internal and external financial controls are in place to ensure that university funds are safeguarded and prudently managed. Outline below are the internal and external controls that are presently in place.

Internal Controls:

- Position Control – A formal position control system is used to ensure prior approval of all personnel actions.
- Transfer of funding between operating and one-time expense categories – Budget Office review and approval is required to transfer or otherwise use non-compensation dollars to fund on-going or recurring expenditures such as salaries, or graduate assistant tuition and stipends.
- Monthly budget review - Each month the Budget Office conducts a review of every department's budget and finances and produces a budget status report which is then submitted to senior administration. The report helps identify units that may require assistance meeting their financial objectives.
- Quarterly financial statements - The Controller's Office issues quarterly financial statements which are used to highlight items or areas that may require early intervention.

- Internal Audit and Risk Assessment - The Office of Internal Audits annually performs a risk assessment and regularly audits operational and financial controls of selected University activities based on an approved five year audit plan. Internal Audits is an integral part of developing control procedures, training and evaluating new system implementations throughout the University community.

#### External Controls:

The university is subject to no less than ten independent audits annually. These audits ensure that the university's finances are properly managed and adequate controls are in place. For the fiscal year 2008, in all cases, the independent auditor's issued unqualified opinions and no findings were identified. Key external audits include:

- Commonwealth Appropriation Audit - Audit of the university's Education and General expenditures in connection with the annual state appropriation.
- A-133 Audit – Audit of the federal funds expended by the university.
- Pennsylvania Department of Education (PDE) - The university is required to comply with the financial and budgeting guidelines of the PDE. Each fall the university reports its detailed revenue and expenditure budgets along with a host of other financial information to PDE.

The independent rating agencies, Moody's and Standard and Poor's, regularly review and report on the financial strength of the university. In their most recent reports, Temple received strong external validation of its financial health from each agency. Additionally, by virtue of the fact that Temple issues debt, bond covenants are in place imposing certain restrictions or controls on the university's finances.

### **PRESIDENT'S AUTHORITY**

The Board of Trustees grants the President authority to manage, modify or amend the Operating Budget as described below.

1. The President may amend the Operating Budget of any or all budget lines.
2. No transfer of funds may be made across budget lines unless the proposed transfer has been approved by the President or his/her designee.
3. The President is authorized to allocate any current, unrestricted revenues in excess of total budgeted revenue. Such expenses may be made for recurring purposes only to the extent that the President deems the increased revenue likely to be recurring.
4. The President is authorized to reallocate any budget savings which occur in central accounts or in any other budget lines; such reallocations and expenditures shall be for non-recurring purposes only.

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5. The President is authorized to allocate Undesignated Educational and General Funds created from prior years' uncommitted funds. These funds shall be available for unbudgeted expenses, or to provide for budgeted expenses in the event of a revenue shortfall. Such allocations and expenditures shall be for non-recurring purposes only.
6. At year-end, the President is authorized to allocate any budget surpluses not subject to carryover to such designated projects, purposes, or programs (including capital project accounts) as she may deem in the best interest of the university.