

POLICY 2019-01-A: University Financial Sustainability Policy

See Also:
Resolution 2023-02

Adopted: October 16, 2019
Amended: July 20, 2023

I. Purpose

The Board of Governors (Board) has established annual reporting mechanisms that allow all stakeholders to have greater awareness of each university's academic, financial, and operational conditions. These tools (e.g., financial risk assessment, university financial statements) provide data for each university at the local and System levels.

As reflected in the everchanging national landscape of higher education, universities may face financial pressure from shifting and declining student populations, stagnant or declining appropriations, unfunded mandates, economic downturns, employee compensation costs, and other challenging events. Additionally, as new opportunities or innovations occur in this environment, universities may seek seed funding to spur growth.

Pursuant to the Board's and thus the chancellor's responsibility, as set forth in 24 P.S. §2005-A and 24 P.S. §2006-A(a)(4) to establish broad fiscal policies under which System universities shall operate, this policy provides a proactive framework by which university and System leaders can collaborate to enhance an institution's financial success. It is also pursuant to Resolution 2023-02, exercising the fiduciary responsibilities of the Board for efficient, effective, and financially sustainable universities.

II. Definitions

- A. Liquidity Loan—Loans, temporary cash for operations for universities that have declining cash balances and are to be repaid according to loan agreements, which include loans from within university accounts (intra-university) and loans from within the System.
- B. Investment Initiative—Start-up funding for strategic or innovative investments to enhance a university's success which must comply with established reinvestment agreements.
- C. Executive Leadership Group (ELG)—The State System Executive Leadership Group (ELG) comprised of university presidents and the chancellor of the State System for the purpose of effective leadership and management oversight of the State System strategies and initiatives for the advancement of System students and the Commonwealth.

III. Guiding Principles

- A. University financial goals must be realistic, mission-driven, explicit, and transparent.
- B. In a healthy system, a university's resource base should be stable and secure enough to perform its mission in a sustainable and predictable shared environment.
- C. The university should have sufficient organizational capacity and autonomy for the president to oversee the successful operation of the university and fulfill his/her responsibilities to the Board as prescribed in Act 188 of 1982.
- D. Each university also has a net impact on the long-term wellbeing of the System; as such, decisions of the university must align to the mission of the university and the System.
- E. Loans and/or investments to a university must not jeopardize the overall financial health and stability of the System or place undue burden on any other individual university.

IV. Processes for Enhancing University Financial Sustainability

- A. For each university, a collaborative review process inclusive of the chief academic officers, chief financial officers, presidents, and Council of Trustees will occur on a periodic basis. (Refer to administrative procedures and standards.)
- B. In consultation with the Executive Leadership Group, the chancellor/designee shall receive the review of the specific conditions and financial indicators based on the administrative procedures and standards in order to determine the financial status of each university. This review may lead to ameliorative actions.
- C. In consultation with the Executive Leadership Group, the chancellor/designee shall review requests for investment initiatives and render a decision.
- D. In consultation with the Executive Leadership Group, the chancellor/designee shall review requests for liquidity loans as part of the financial sustainability plan (refer to administrative procedures and standards). The financial sustainability plan shall be developed through a collaborative process.
 - i. For intra-university loans, the financial sustainability plan will be presented to the university and the Council of Trustees for consideration and acceptance.
 - ii. For loans from within the System for universities at risk of insolvency, the Board may authorize and approve any loan recommendation coming forward from the Executive Leadership Group and the chancellor/designee.

V. Criteria for Determining University Financial Status

- A. Universities will be considered across a spectrum of indicators as described in the administrative procedures and standards, where performance is evaluated against minimum thresholds established within the associated procedure/standard. Those indicators and any associated minimum thresholds will include but not be limited to:
 - 1. Enrollment trends.
 - 2. Revenue.
 - 3. Operating margin.
 - 4. Assets/liabilities.
 - 5. University reserves.
 - 6. Projected cash balances.
 - 7. Additional Board-affirmed metrics.

- B. Based on the review of the university-specific conditions and financial indicators as described in the administrative procedures and standards, universities will be placed across a spectrum which will require varying levels of financial sustainability plans.
- C. Ameliorative actions may be required depending on the university's status at the time of evaluation. Actions will be enumerated within the administrative procedures and standards.
- D. If, as part of the foregoing actions, financial or operational circumstances dictate the need for immediate action, the chancellor/designee, in consultation with the Executive Leadership Group, and as directed by the Board of Governors, may require additional external assistance and actions, and/or may temporarily or indefinitely suspend or with guidance from the ELG, take over responsibility for some or all operations of a university. Actions will be enumerated within the administrative procedures and standards.

VI. Policy Implementation

- A. The chancellor, in consultation with the Executive Leadership Group and Board of Governors as appropriate, shall promulgate procedures, standards, related policies and guidelines as necessary to ensure proper implementation of this policy.
- B. Any changes to procedures, standards, and guidelines shall be promulgated through the chancellor, after consultation with the Executive Leadership Group and Board of Governors.
- C. Effective Date - Immediately.