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I. Budget Formulation Process Overview

How budgets are established and managed is crucial to furthering any organization’s mission and strategy. Effective budget formulation leads to better administration of an organization’s resources and can also promote transparency, trust, and effective performance.

Historically, the University of Pittsburgh has taken a largely incremental approach to budgeting. With the exception of the Tuition Incentive Program (TIP), Responsibility Centers (RCs) have received a consistent amount of funding plus or minus incremental changes in compensation and certain key initiatives. Although this budgeting practice is common in higher education, it fails to accurately align budget with strategic priorities. Hence, RCs often lack the controls needed to fully own, operate, and transform their RC.

In an effort to better align budget decisions with strategic objectives, Pitt is undertaking a multi-year initiative to enhance the budget formulation process. The ultimate goal of the effort is to provide RCs with increased transparency, accountability, and control over their local budgets. To accomplish this, Pitt will incorporate the use of an all-funds budget, formalize a resource request process, utilize standard pillars to prioritize resource allocations, and introduce annual Strategic Resource Reviews.

The enhanced budget formulation process is intended to reinforce the principles outlined in the existing Planning and Budgeting System.

This guidance document outlines the first steps in transforming Pitt’s Budget Formulation Process, beginning with FY 2021. The budget formulation process will continue to evolve over the next few years as the Plan for Pitt 2025 is developed and the Office of the SVC/CFO incorporates RC input and feedback.

The following is an overview of the budget formulation timeline for FY 2021:
II. FY 2021 Responsibility Center Resource Proposals (RCRPs)

RCRPs are the first step in the budget formulation process to better understand RC resource needs. To inform each RC’s resource proposal, a new module within the Planning and Budgeting Cloud Solution (PBCS) has been configured to report all operating resources (Entities 02 unrestricted educational and general, 03 auxiliary and cost centers, 04 discretionary, 05 sponsored projects, and 06 plant) recorded in each RC’s general ledger accounts for the FY 2019 Actual, FY 2020 Budget/Forecast, and FY 2021 Forecast. This is intended to provide more transparency into holistic RC operations. Each RC should consider how all funding sources will be utilized in FY 2021.

The RCRP process is an opportunity for RCs to realign and request resources that further their strategic priorities (for academic units, these are the strategic priorities in the annual plan update) and advance the Plan for Pitt. RCRPs will include three components:

1) Operating Budget Reallocation based on FY 2021 Fiscal Guidance

As the University continues to more closely tie resource allocation decisions with the Plan for Pitt, we are asking RCs to take a holistic and strategic look at their operating budgets for FY 2021. In part, this means that each RC will propose a two percent reallocation of their 02 unrestricted Educational and General funds based on their FY 2020 approved budget level in their FY 2021 RCRP. Through this exercise each RC should conduct an in-depth review of their current sources of funding and identify areas where resources can be reassigned from lower priority activities to programs that are more strategically important for the RC and the University.

Within the justification narrative for this section, RCs should explain what expenses are being proposed for reallocation and justify any higher priority activities that the RC is proposing to fund with the reallocation. Questions that should be considered through this exercise include:

- Are there areas of your operation that no longer need the same level of historical funding they have received? Are there cost savings that could be achieved by maximizing operational efficiencies?
• Are there other existing areas or new areas that can use an influx of new funds? Could identified funds for reallocation be utilized to support these areas?
• What are the risks and possible effects of shifting funding priorities within your RC? Are there operations that might be adversely affected should historical budgets be adjusted?
• What is the long-term outlook to realign resources within your RC? How will any potential funding reallocations affect future operations?

_It is important to note that this should not be considered a budget reduction, rather an exercise for units to realign funding with strategic priorities. Should a budget reduction need to take place based on operational outcomes, the Office of the SVC/CFO will provide further communication and guidance._

2) Operating Budget Requests
Each RC has the opportunity to submit additional one-time and/or permanent operating budget requests that advance their strategic priorities and further progress the Plan for Pitt. Within the **justification narrative** for this section, RCs should explain:
• What are the proposed activities?
• How were the new budget requests prioritized?
• What is the source of funding for the proposed activity (including RC reallocations)?
• How, if approved, will the new funding advance the budget funding pillars outlined below?
• What is the impact if this funding is not approved?

Before submitting a request for new funding, RCs should ensure they have exhausted all internal sources of funding. If the request is for permanent funding, the RC should explain why internal RC budget reallocations are not feasible for the investment.

3) Capital Budget Requests
Each RC will also have the opportunity to submit capital funding requests above $50,000 that advance RC and University priorities consistent with the Campus Master Plan. Requests below the specified threshold should be managed within each RC. Within the **justification narrative** for this section, RCs should explain:
• What are the proposed capital projects?
• How were the new capital projects prioritized?
• What is the source of funding for the proposed projects?
• How was the estimated cost determined?
• How, if approved, will the new funding advance the budget funding pillars outlined below?
• What is the impact if this funding is not approved?
The introduction of this new one-time and permanent request process is intended to capture all needs simultaneously to reduce the need for ad-hoc funding requests (for both operating and capital). Consequently, RCs will need to internally fund any requests or needs that arise during the fiscal year.

RCRPs should be submitted in PBCS according to the detailed timeline in section IV.

III. Budget Funding Pillars

The following budget funding pillars will be used to assist University leadership in evaluating operating and capital funding requests from each RC. Within the RCRP justification narratives, RCs should explain how their resource proposals align with these strategic pillars. In addition, RCs will need to order-rank all requests within PBCS to further illustrate relative alignment with the budget funding pillars.

Each pillar is further outlined below with corresponding questions each RC should consider within their operating and capital request justifications:

**University Strategic Alignment:** Requests should benefit the holistic profile of the University.
- How does the request demonstrate positive, transformational impact toward the Plan for Pitt goals? (Advancing Educational Excellence; Engaging in Research of Impact; Strengthening Communities; Embracing the World; Promoting Diversity and Inclusion; and Building Foundational Strength)
- How does this request leverage collaborative partnerships internal to the University (i.e. across disciplines and RCs) and external to the University (e.g. corporate partnerships, philanthropy, community engagement)?
- How will the RC measure success and sustainability of this additional funding?
- What is the impact if this funding is not approved?

**RC-priorities that further Quality:** Requests should support an RC’s priorities as defined in their respective strategic plan.
• How will the University’s or RC’s reputation, competitive position, and brand be enhanced if this proposal is funded?
• How will the RC measure success and sustainability of this additional funding?
• What is the impact if this funding is not approved?

**Operational Excellence:** Requests should directly benefit the operations of the University. Proposals should be focused with a clear outcome or benefit that will be achieved as a result of the increased funding.
• What new revenue will be generated, or cost efficiencies will be realized as a result of this additional funding? What will be the University’s return on investment if this request is funded?
• Does the request address a safety, compliance, or risk factor concern? How might the University be harmed if this request is not funded?

**IV. FY 2021 Budget Formulation Timeline**

<table>
<thead>
<tr>
<th>Key Task</th>
<th>Date</th>
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<tbody>
<tr>
<td>1. FY 2021 Budget Formulation Guidance is distributed to RCs</td>
<td>12/05/2019</td>
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<tr>
<td>2. Responsibility Center Resource Proposal (RCRP) module in the Planning and Budgeting Cloud Solution (PBCS) is accessible to begin RC FY 2021 budget formulation</td>
<td>12/10/2019</td>
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<td>3. Non-Academic RCRPs are due within PBCS for review by SVC/CFO</td>
<td>02/03/2020</td>
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<tr>
<td>4. Academic RCRPs are due within PBCS for review by Provost or SVC for Health Sciences</td>
<td>02/28/2020</td>
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<tr>
<td>5. Strategic Resource Reviews with each RC and the SVC/CFO, SVC/Provost, SVC for Health Sciences, and/or SVC for Business and Operations (as applicable)</td>
<td>February – March 2020</td>
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<tr>
<td>6. Parameters subcommittee of University Planning and Budgeting Committee meetings and recommendations submitted to the Chancellor</td>
<td>March/April 2020</td>
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<tr>
<td>7. RCs informed of initial results of RCRP for FY 2021</td>
<td>June 2020</td>
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<tr>
<td>8. Chancellor and CFO obtain approval of FY 2021 Budget from Board of Trustees</td>
<td>July 2020</td>
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V. Strategic Resource Reviews

In an effort to gain a holistic understanding of each RC’s resource needs, each RC will be invited to a Strategic Resource Review meeting in February or March. These meetings will inform University leadership resource decision making.

Non-academic RC Heads / Senior Officers and their Directors of Administration or Financial Administrators will meet with the SVC/CFO and SVC for Business & Operations (as relevant for capital project requests) in February. In March, the SVC/CFO and the SVC/Provost, SVC for Health Sciences, and/or SVC for Business & Operations (as relevant) will meet with academic Deans and their Directors of Administration or Financial Administrators.

RCs should plan to discuss their RCRP in tandem with their strategic objectives (for academic units, these are the strategic priorities in the annual plan update). More information regarding the timing and composition of these conversations will be released early in the Spring semester.

VI. Review and Approval Process

While we are formalizing the budget formulation process starting this year, much of the governance structure for resource decision-making remains the same as prior years. Prior to submission, RCRPs should be approved by RC leadership and reflect strategic priorities set by RC Planning and Budgeting Committees. Once submitted, each RCRP will be reviewed by the SVC/CFO as well as the Provost, SVC for Health Sciences, and/or SVC for Business and Operations as relevant. Each RC will have the opportunity to discuss and justify their RCRP during the Strategic Resource Review meetings as outlined above.

RCRPs will be evaluated by University leadership using the budget funding pillars noted in section III. Consistent with prior years, in April and May, final resource recommendations will be presented to the Chancellor through the University’s Planning and Budgeting Committee, the SVC/CFO, and the SVC for Business and Operations. Initial results will be communicated prior to the final presentation to the Board of Trustees’ Budget Committee.

Final resource decisions will be affirmed after the Board of Trustees approves the budget, which generally occurs after the Commonwealth budget is approved in early Summer.

VII. Additional Resources

Additional Information and Guidance can be found on the CFO sharepoint site, which has been developed as a one-stop location for all of the communication and guidance on the FY 2021 Budget Formulation Process: https://pitt.sharepoint.com/sites/cfo.
Planning and Budgeting Cloud Solution (PBCS): An instruction manual for using PBCS to submit RCRPs will be available on the PBCS website at https://prism.pitt.edu/applications/planning-and-budgeting-cloud-service-pbcs/ the morning of December 10th.

Training: PBCS demonstrations will be offered on December 10th and 17th on the Pittsburgh campus and will also be available remotely. The details for registering for the sessions are included in the email that came with this attachment. Note that these sessions will be recorded and available on demand for future viewing throughout the RCRP process.

Other Questions? Please email: rcrphelp@pitt.edu