Responsibility Center Management

BACKGROUND BRIEFING
Responsibility Center Management (RCM)

Management & Financial Reporting at PENN

- Internal: RCM is the managerial framework for our internal budgeting and financial reporting on Schools and Centers
- External: University-level GAAP (Generally Accepted Accounting Principles) is the basis for external financial statements used by rating agencies, resource providers, and others

History of RCM at PENN

- Implemented at Penn in the early 70s when University was in financial distress
- Initially focused on controlling expense
- Evolved to encourage revenue growth as well

Principles of RCM

- Majority of direct revenue and expense are at school/center level
- Alignment of authority and accountability at school/center level
- Transparency regarding sources and uses of institutional resources
- Academic leaders have responsibility to advance the mission of the University within RCM framework
RCM at PENN

Promotes the broadest possible stewardship of financial resources

- Tuition revenue is distributed in large measure based on course units taught
- Space charges are directly tied to occupancy and costs
- Administrative units are funded via transparent algorithms
- Schools recognize the full costs of their programs

Encourages and rewards innovation and efficiency

- Schools and resource centers retain the majority of revenue they generate and reinvest in their highest priorities
Key Peers: RCM & OTHER

RCM/Decentralized
- PENN
- DUKE
- CORNELL
- HARVARD
- COLUMBIA
- CHICAGO
- JOHNS HOPKINS
- STANFORD
- MIT

Other/Centralized
- PRINCETON
- YALE
- BROWN
- DARTMOUTH
### Responsibility Centers at PENN

<table>
<thead>
<tr>
<th>Revenue Generating</th>
<th>Non-Revenue Generating</th>
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<tbody>
<tr>
<td><strong>Schools, Resource Centers, &amp; Business Services</strong></td>
<td><strong>Administrative Service Centers</strong></td>
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<tr>
<td><strong>Expectations</strong></td>
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<tr>
<td>- Fund the direct cost of their own operations</td>
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<td>- Cover their share of services provided by the administrative service centers (via allocated costs)</td>
<td>- Maintain internal budget balance and build appropriate levels of reserve</td>
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Schools/Centers Incentives within RCM

- Keep the majority of their revenue and all net income
- Expected to build reserves to handle fluctuations in their market
- Cut programs that are not critical to mission
- Make decisions relative to their individual markets
- Hold central units accountable
RCM Funding Dynamics
SCHOOLS + RESOURCE CENTERS

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Tuition</th>
<th>RETAIN 80%</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>ICR</td>
<td>RETAIN 88.5%</td>
</tr>
<tr>
<td></td>
<td>All Other Revenue</td>
<td>RETAIN 100%</td>
</tr>
</tbody>
</table>

- Contribution to Subvention Pool
  - Tuition 20%
  - ICR 10.5%

- Other Academic Initiatives

- RFDF (Research Facilities Development Fund)
  - ICR 1.0%

- Reinvest in Academic Enterprise

- Funding Allocations

- Allocated Cost & Space Charges

- University Administrative Centers

Note: PhD tuition is not subject to Subvention Pool share.
Who Determines Tuition, Fees, Student Aid, and Admissions?

**University determines**
- UG Tuition, Total Charges and Cost of Attendance
- UG Aid Policy
- UG Admissions
- General Fee, both UG and Graduate/PHD
- PHD Tuition

**Schools determine**
- Grad/Professional Tuition, Aid, Admissions
- Non-Traditional UG Tuition, Aid, Admissions
Tuition

Undergraduate Tuition

• **Tuition Block**
  – 4 undergraduate schools +2 schools that administer UG majors (Annenberg & Design)
  – Established base tuition level FY19 (based on FY18)
  – Growth each year by parameter
  – Recalibrated every 4 years

• **Non-Block**
  – Law, GSE, SSPP, DENT, VET, PSOM
  – Based on teaching only

PhD, Grad & Professional Tuition

• **PhD**

• **Grad & Professional**

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Penn Budget Planning & Analysis
## Student Aid

### Undergraduate Tuition

- **Traditional UG**
  - Grant-based aid to meet 100% of demonstrated need
  - Financial Aid Factor
    - 38% of Net UG Tuition
    - Assessment goes to Financial Aid Pool which is administered centrally through SFS
    - Tuition is distributed to schools net of financial aid

- **Non-Traditional UG**
  - Primarily merit based
  - Aid is distributed to home and teaching school

### PhD, Grad & Professional Tuition

- **PhD**
  - Primarily Full Funding
  - Stipends that are market competitive

- **Grad & Professional**
  - Home school determines aid
  - Home school funds aid
  - Primarily merit based
  - Gross Tuition (after subvention) flows to teaching school
Indirect Cost Recovery-- Research

For each $1 of direct expenditures under federal grants, Penn currently receives an additional 62¢ to cover its research overhead, including space, administrative, and compliance costs.

Many non-federal grants do not provide full indirect cost recovery (ICR).

Research ICR income is allocated at Penn as follows:

- 88.5% Dean’s office of the school receiving the grant
- 10.5% Subvention Pool
- 1.0% Research Facilities Development Fund (RFDF)
Other Revenue

• All Revenue other than Tuition and Indirect Cost Recovery remains in the school or center which generated the revenue

• Sales and Service Revenue and Other Income (e.g., clinical revenue) cover the costs of the good or service provided, with any net income used to support school/center operating expenses

• Spendable Income from restricted endowment and Operating Gifts are typically subject to an indirect cost recovery policy
  – No more than 20% of gift or spendable endowment revenue is used by school or center to support indirect expenses of program while 80% is used to fund direct expenses
  – While we strongly encourage full deployment of this policy, a school dean or resource center director has discretion to exempt an endowment or gift from overhead
Subvention Pool

• Funded primarily through 20% of tuition income and 10.5% of grant overhead
  – Subvention revenues represent only 6% of University total

• Allocated back to schools, resource centers, and cross-school academic initiatives as directed by President’s Office and Provost’s Office
  – 88% of the subvention pool is committed as subvention to schools and resource centers and graduate student support to schools, with remainder supporting other key university-wide academic initiatives

• Gives Provost and President ability to influence development and implementation of academic priorities at Penn
Administrative Centers
(includes President’s Office, Provost Office, EVP Office, Finance, ISC, HR...)

• In order to maximize efficiency and lower administrative costs, Penn provides a number of services centrally to benefit schools and resource centers

• Those services are paid for through direct internal charges or via Allocated Cost and Space Charges
  – Internal Charges: direct charge for services when the costs are measurable and purchasing unit can decide how much of it they want (example: building security guards)
  – Allocated Cost and Space Charges: When measuring discrete delivery of services by administrative centers is conceptually difficult or prohibitively costly, services are funded through formulas that allocate total cost pools among service recipients
Allocated Costs & Space Charges

- Estimated Replacement Value of Occupied Buildings
- Facilities Renewal 8%
- O&M 29%
- Research 4%
- Library 13%
- Development 8%
- Faculty; Grad/Prof Students; UG Course Units Taught
- Fundraising Receipts; Living Alumni
- Average Direct Expenditures
- Utilization or Cost Basis

Allocation basis in shaded boxes
END