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
Responsibility Centers at PENN

### Revenue Generating

**Schools, Resource Centers, & Business Services**

- **Expectations**
  - Fund the direct cost of their own operations
  - Cover their share of services provided by the administrative service centers (via allocated costs)
  - Maintain internal budget balance and build appropriate levels of reserve

### Non-Revenue Generating

**Administrative Service Centers**

- **Expectations**
  - Fund the direct cost of their own operations
  - Maintain internal budget balance and build appropriate levels of reserve
### 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**
  - 25%

- **Grad & Professional**
  - 75%
  - 20%
  - 20%
  - 60%

**Legend:**
- Blue: Home School
- Red: Teaching School
- Green: Subvention Pool
Student Aid

Undergraduate Tuition

• **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**
  – For non-traditional undergraduates, centrally incurred aid is distributed to home and teaching school

PhD, Grad & Professional Tuition

• **Grad & Professional**
  – Home school determines aid
  – Home school funds aid
  – 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 61¢ 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)
Research Funding Dynamics

Sponsored Program Funding $161

ICR $61 “CAPPED”

Direct Revenue $100

REVENUE

Uncovered Expenses

F&A Costs

Direct Research Costs $100

EXPENSE

Allocation of ICR

Subvention 10.5%
RFDF 1.0%
School 88.5%
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

• Allocated back to schools, resource centers, and cross-school academic initiatives as directed by President’s Office and Provost’s Office
  – 86% of the subvention pool is committed as subvention to schools and resource centers and graduate student support to schools, with another 9% supporting 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

- **Library**: 14%
- **University Services**: 35%
- **Facilities Renewal**: 8%
- **Research**: 5%
- **O&M**: 30%
- **Development**: 8%

*Actual Expenditures; Pro-rata Share of Public Space & FRES Overhead*

*Estimated Replacement Value of Occupied Buildings*

*Faculty; Grad/Prof Students; UG Course Units Taught*

*Fundraising Receipts; Living Alumni*

*Utilization or Cost Basis*

*Average Direct Expenditures*

*allocation basis in shaded boxes*
RCM Funding Dynamics
SCHOOLS + RESOURCE CENTERS

REVENUE

TUITION
RETAIN 80%

ICR
RETAIN 88.5%

ALL OTHER REVENUE
RETAIN 100%

EXPENSE

DIRECT EXPENSE

INDIRECT EXPENSE
ALLOCATED COST & SPACE CHARGES

SUBVENTION POOL
TUITION 20% + ICR 10.5%

OTHER ACADEMIC INITIATIVES

REINVEST IN ACADEMIC ENTERPRISE

RFDF
Research Facilities Development Fund
ICR 1.0%

UNIVERSITY ADMINISTRATIVE CENTERS

Note: PhD tuition is not subject to Subvention Pool share.