



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

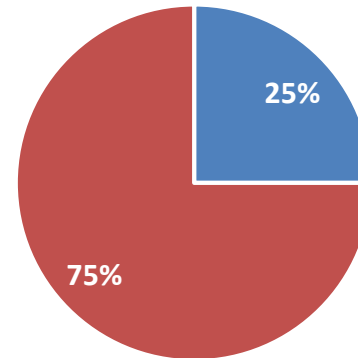
Tuition

Undergraduate Tuition

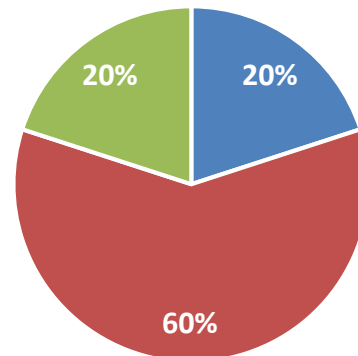
- **Tuition Block**
 - 4 undergraduate schools +2 schools that administer UG majors (Annenberg & Design)
 - Established base tuition level FY19 (based on FY18)
 - Growth each year by parameter
 - Recalibrated every 4 years
- **Non-Block**
 - Law, GSE, SSPP, DENT, VET, PSOM
 - Based on teaching only

PhD, Grad & Professional Tuition

- **PhD**



- **Grad & Professional**



■ Home School ■ Teaching School ■ 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

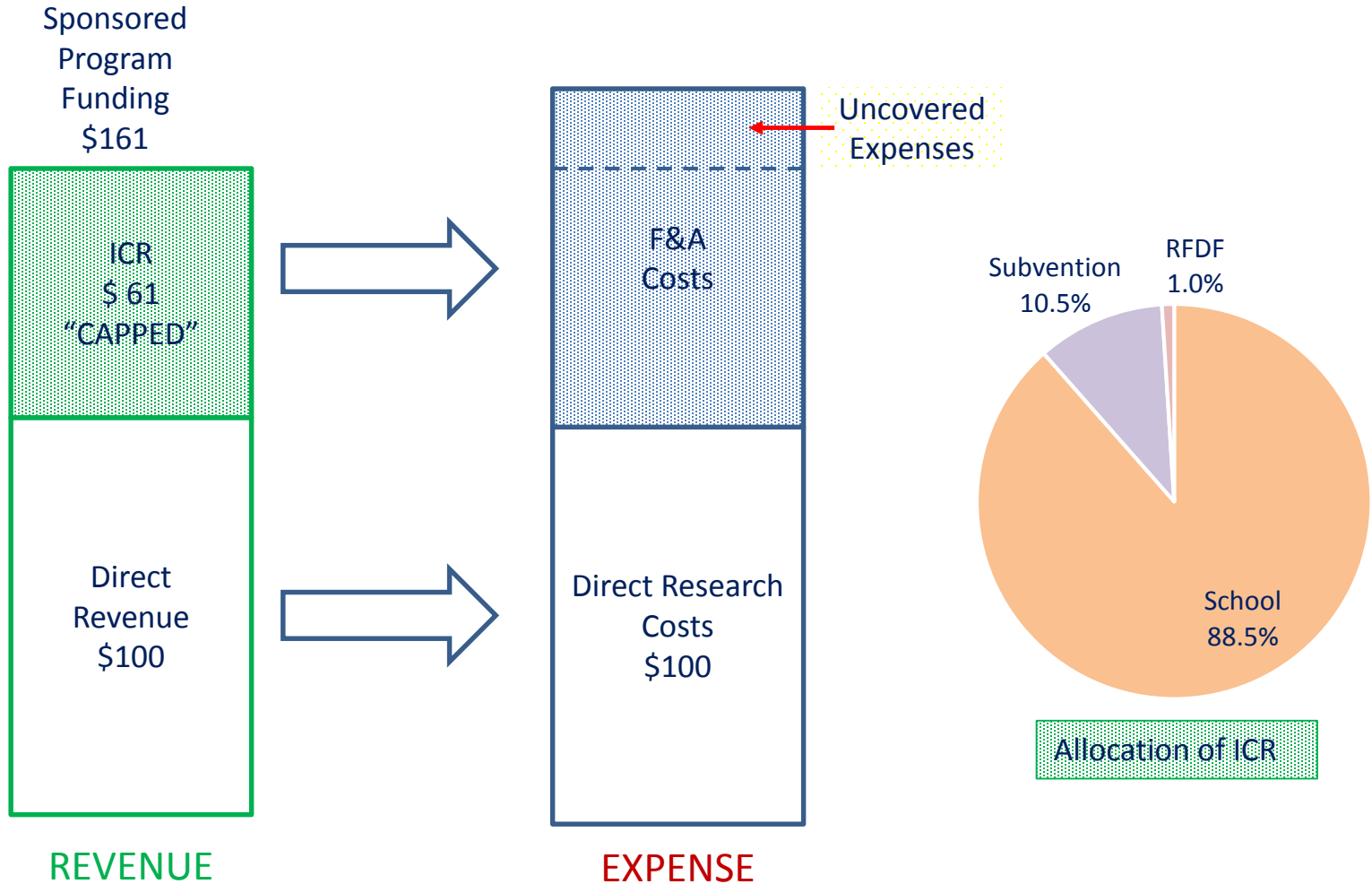
PhD, Grad & Professional Tuition

- **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



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

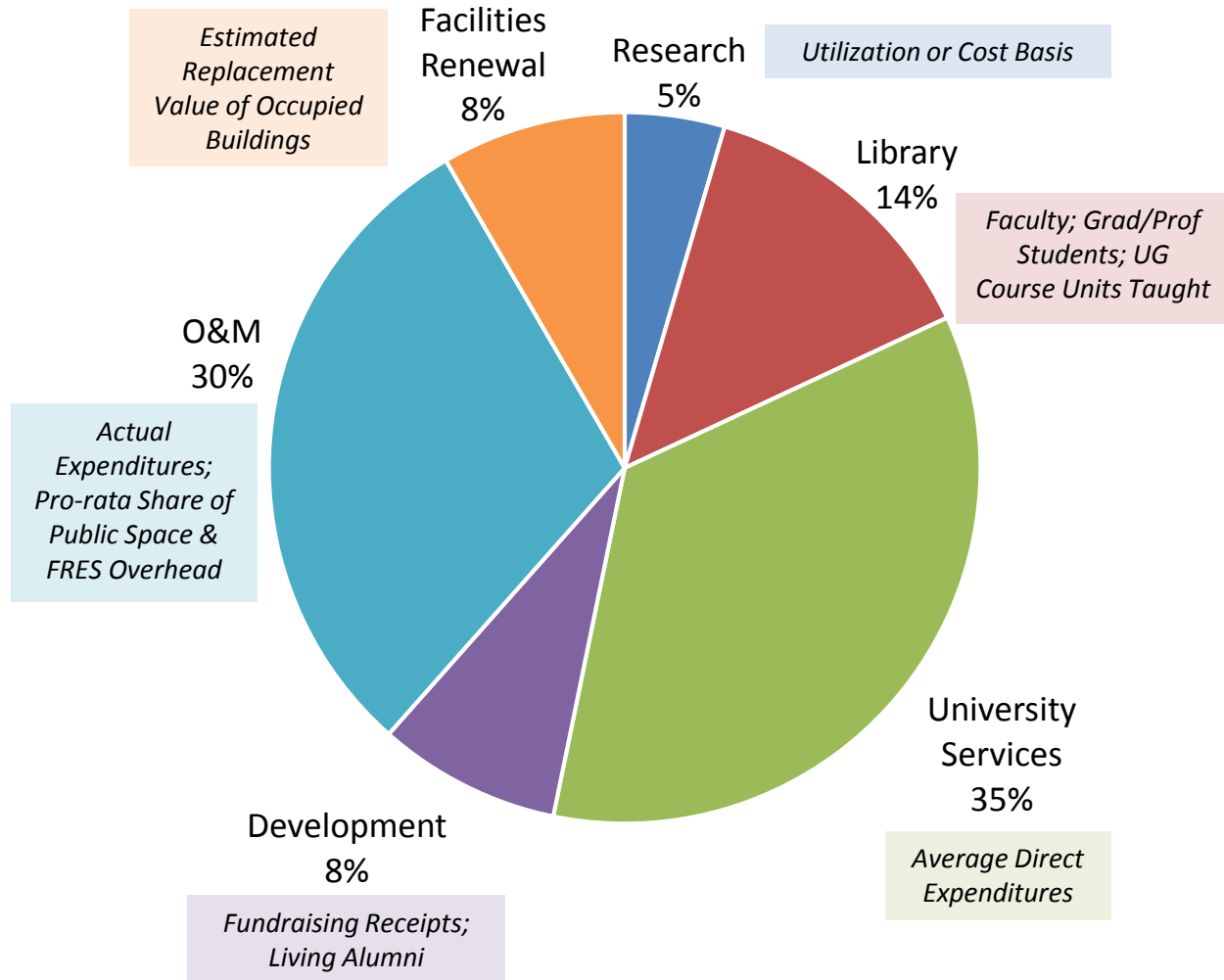
- Funded primarily through 20% of tuition income and 10.5% of grant overhead
- Allocated back to schools, resource centers, and cross-school academic initiatives as directed by President's Office and Provost's Office
 - 86% of the subvention pool is committed as subvention to schools and resource centers 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

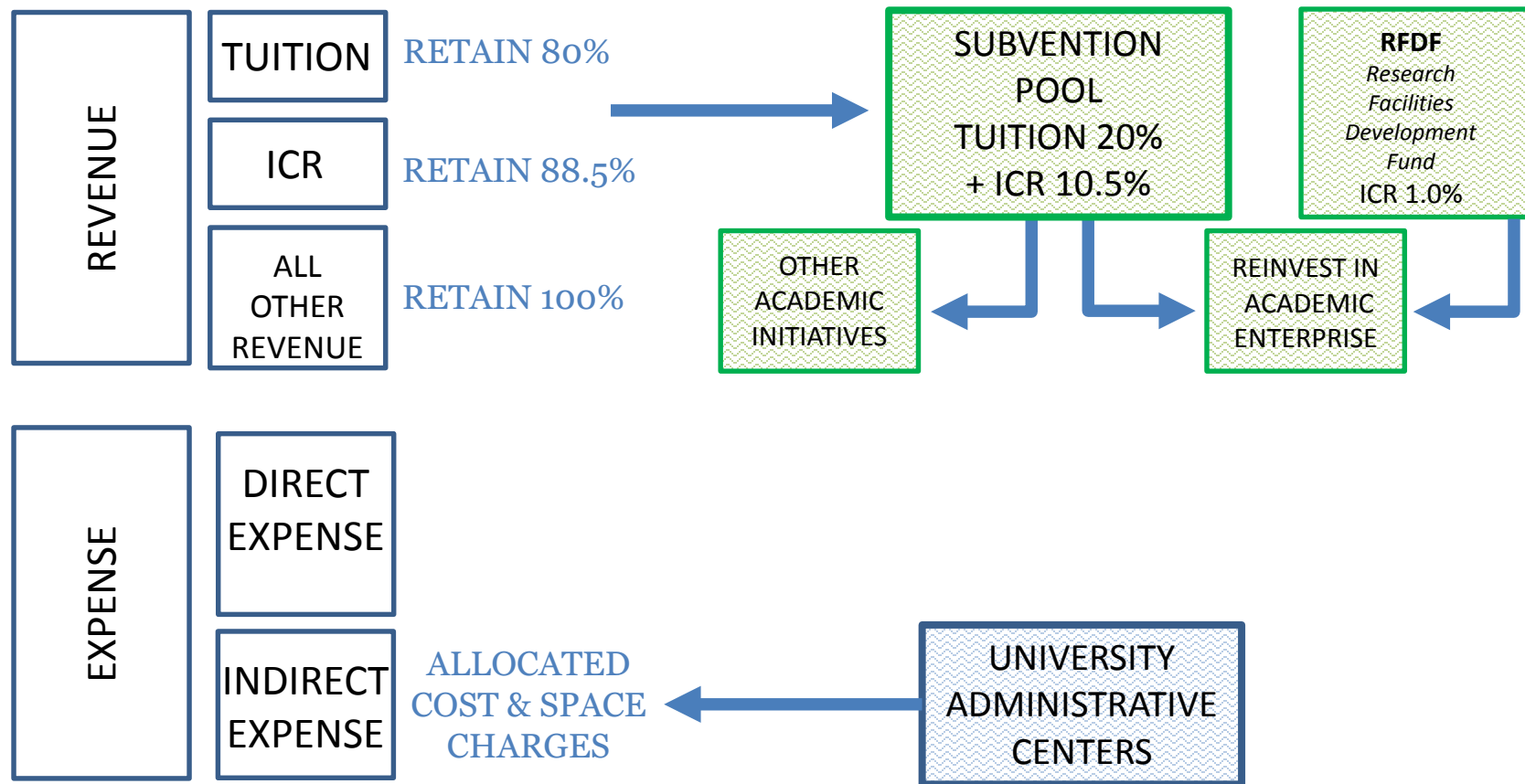
Allocated Costs & Space Charges



allocation basis in shaded boxes

RCM Funding Dynamics

SCHOOLS + RESOURCE CENTERS



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

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