Responsibility Centered Management
RCM @ Temple

A Review of Where We've Been
and Where We Are Going
FY2014 – FY2017

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Temple's RCM Model & Preparing for our 3 Year Review

- Context: Temple by the Numbers
- Temple's Response to a Changing Environment
- Overview of the Process: The making of a Temple Model
- Decisions Made: Communication, infrastructure, hold harmless, strategic fund
- Model Development: Funds flow, cost drivers, allocated costs
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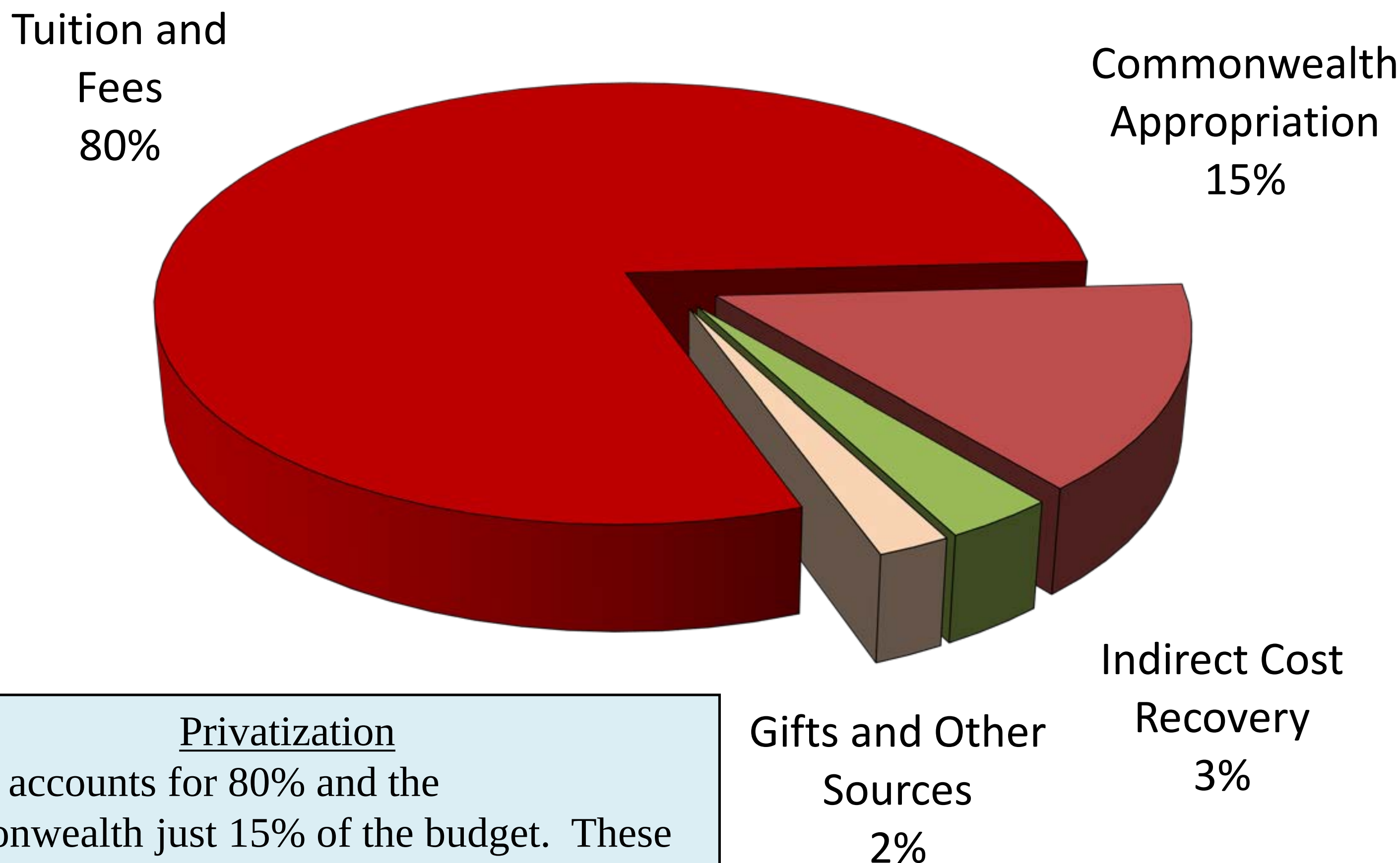
Context: Temple by the Numbers

A Large Complex Organization

- 25th – 30th largest nationally w/ enrollment over 39,000 students and 5th largest in professional enrollment
- 7 domestic and 2 international campuses with main campus in Philadelphia
- $4+ billion in assets
- $2.6+ billion annual operating budgets
- $1.2+ billion in outstanding debt
- $450 million endowment
- 12,000 full-time employees
- 12,000-14,000 students living on or near campus
- Major health care provider w/ 1,000 beds and 4 hospitals
- 18 schools and colleges offering over 400 degree programs
- 178+ buildings and 13 million square feet of campus space

Context: Temple by the Numbers

FY2017 General Operating Budget
$1.076B Revenue



Privatization

Tuition accounts for 80% and the Commonwealth just 15% of the budget. These percentages have completely reversed since 1972.

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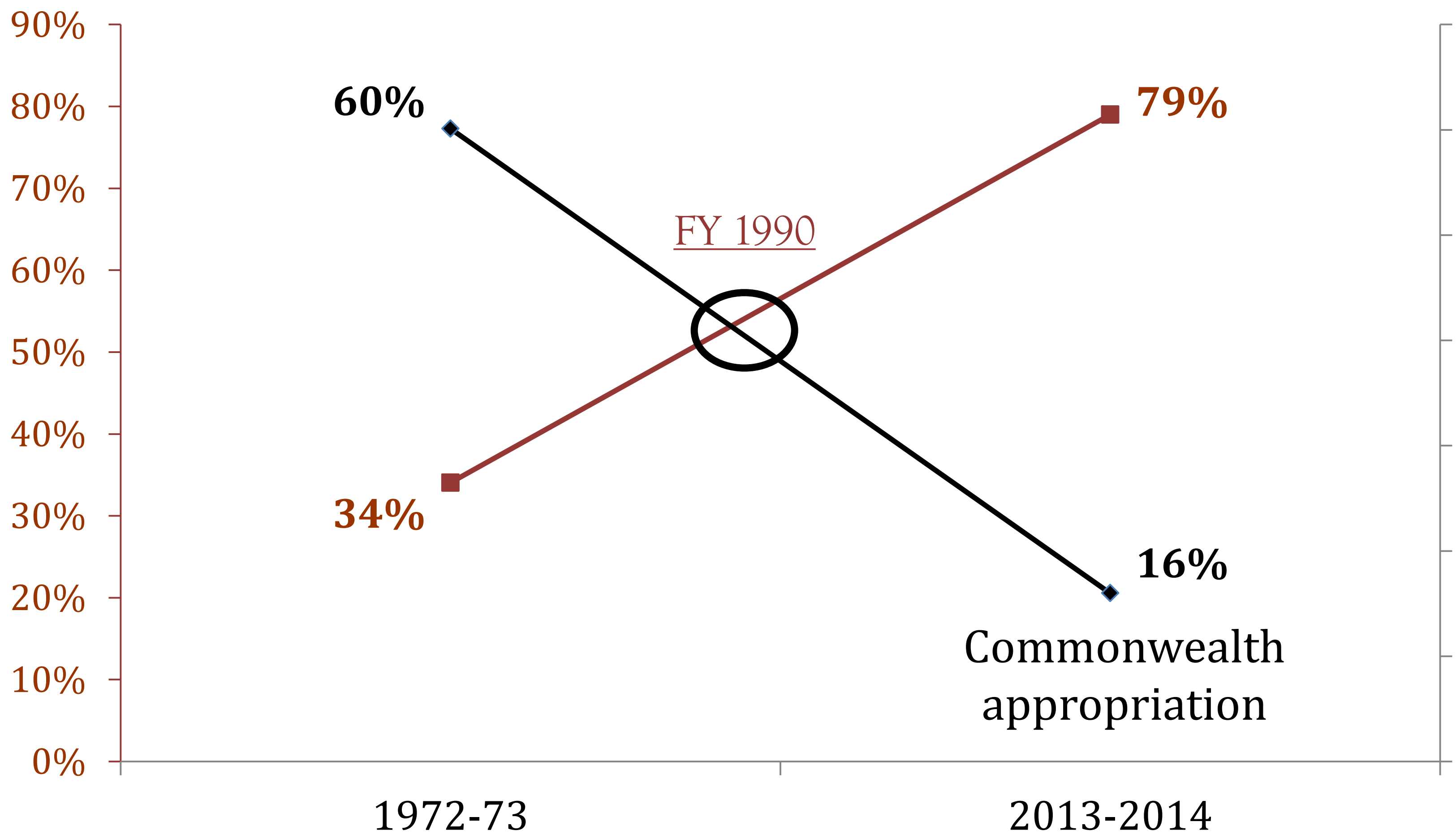
Context: Temple by the Numbers

A Changing Relationship



Context: Temple by the Numbers

Moody's Investors Service: Long Term Debt Ratings

Strongest	Aaa	U of Michigan; Indiana U; U of Virginia
Strong	Aa1	Pitt; Maryland; Delaware
	Aa2	PSU; Penn; UConn
	Aa3	**Temple University;** PA/SSHE; Rutgers
Above Average	A1	Villanova; Boston U.
	A2	Lincoln
	A3	Drexel; Seton Hall
Average	Baa1	
	Baa2	Phila U
	Baa3	
Non-Investment/ Speculative Grade	Ba1	
	Ba2	**Temple University Health System**
	Ba3	

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The Macro Environment

"The New Normal"

- Stability of Commonwealth support for higher education
- Student debt crisis, pressure to keep tuition increases low and grow financial aid
- Changing demographics of recruitment pool and intensified competition
- Disruptive innovation *(online, for-profits, value in question)*
- Pressure for socially responsible investment
- Increased regulatory environment
- Challenging Medical Enterprise *(Medical School, Practice Plan and Health System)*

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Temple's Response

- Reduced operating budget $113M since 2010
- Invested in capital infrastructure (Temple 20/20 and Visualize Temple) with continued Commonwealth support
- Increased demand for a Temple education (non-resident and international)
- Positioned tuition for our market
- Grew internal financial aid resources (Fly in 4)
- Focused on net tuition revenue (residency mix, international, differentials and financial aid)
- Invested in institutional advancement and research
- Assured consistent and strong operating margins
- Moved into the American Athletic Conference began feasibility study of an on campus stadium
- **Implemented a decentralized budget model (RCM)**

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What did we hope to accomplish?

- Realign resources with academic priorities
- Focus on revenue growth rather than just cutting costs
- Engage entrepreneurial spirit
- Reward strong management and performance
- Facilitate strategic and long-term planning
- Drive a market focus
- Promote administrative efficiency, reduce service duplication and enhance space utilization
- Foster a climate of transparency and accountability

Overview of the Process:

Key Decisions Made

A significant amount of time and effort was spent determining whether Temple University was **ready and capable** of moving forward with a decentralized budget model.

- **Communication:** Over 1,900 faculty and staff have participated in meetings, listening lunches, collegial assemblies and open forums. Over 80 enrolled in Blackboard community and more than 10,000 unique website hits in year one.
- **Infrastructure:** Leveraged our existing systems (Banner) to ensure the transparency and simplicity required in the new model. This includes better and formal coordination of academic, enrollment and budget planning.
- **Guiding Principles:** Discerned over several months to design a clear path for decision making…

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Overview of the Process:
Guiding Principles

Mission-driven: The goals and success of the university's teaching and research enterprise supersede that of the individual units and colleges.

Align Authority with Responsibility and Accountability: Authority to make decisions is pushed closer to the action, along with the responsibility and accountability for such decisions.

Fairness: Be consistent, predictable and transparent. Considers a student-focused approach to the delivery and funding of services to ensure equitable access.

Encourage Innovation, Entrepreneurship and Efficiency: Incentivize appropriate risk taking and efforts to enhance revenue or reduce expenses. Support interdisciplinary collaboration and discourage unnecessary internal competition.

Simplicity: Simple to understand, explain and maintain.

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Overview of the Process:
Key Decisions Made in Developing the Model

- **Hold Harmless Principle:** No school or college will be adversely affected on day one (July 1, 2014).
- **Benefits** restored to all RC and SU budgets
- **Revenue Centers & Cost Groupings**
- **Revenue Funds Flow** direct to RC without pre-tax
- **Cost Drivers:** Identified and "programmed" to allocate overhead
- **Tuition income and assessments** (financial aid and plant fund)
- **Strategic fund** program reduces budgets across the university and reinvest those funds strategically back into the university

Model Development

The following slides illustrate how the revenue, expenses, assessments, and allocated overhead flow through the budget model:

- Model Funds Flow
- Allocated Cost Drivers
- Tuition Revenue & Assessments

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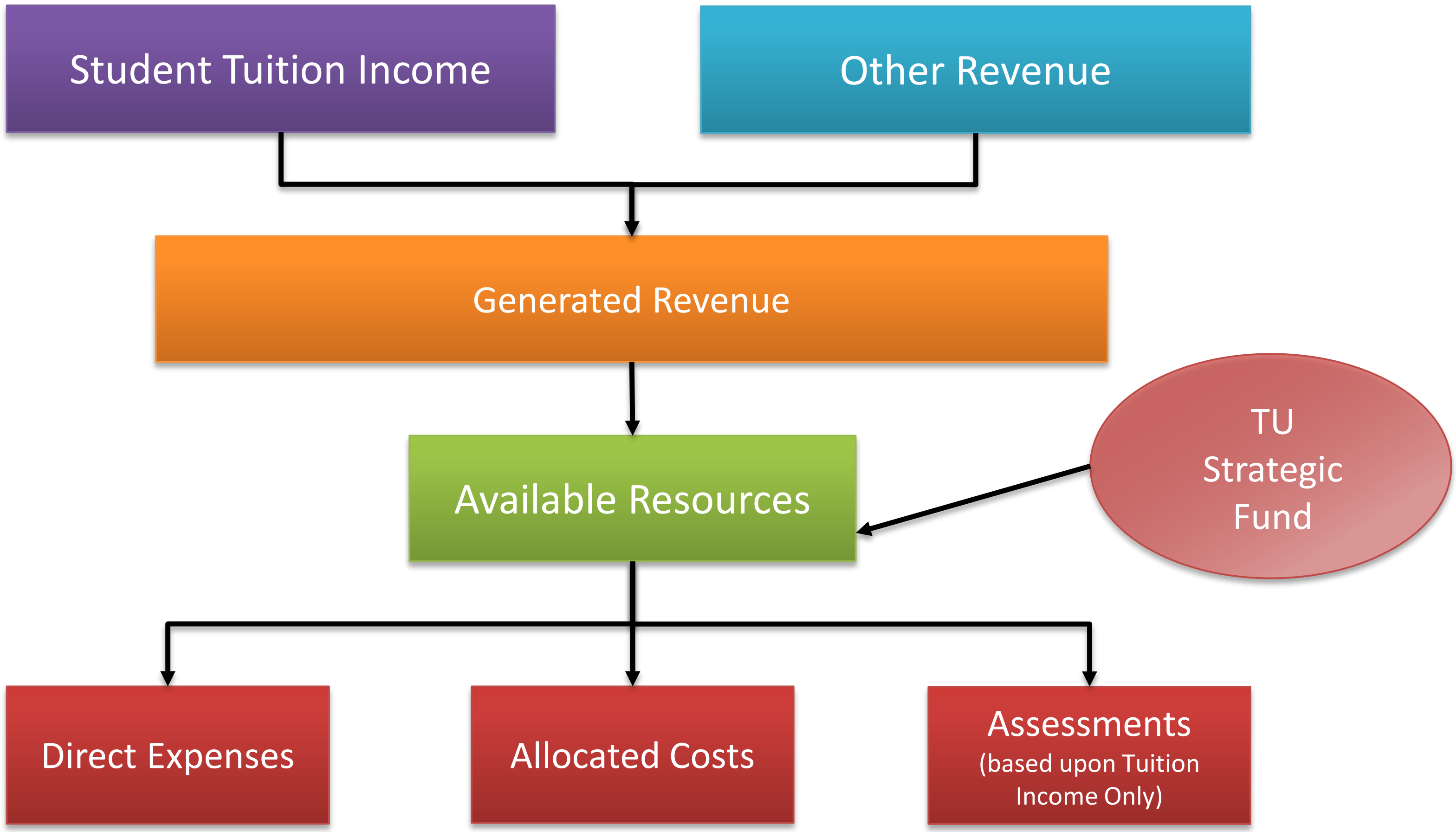
Model Development: Income Flow



Student Tuition Income:	This includes UG/Grad/Prof through both direct and transfer
Other Income:	This includes PA Public Welfare, Other Student Fees, ICR & Clinical Revenue
TU Strategic Fund:	To fund strategic initiatives within the Schools and Colleges
Direct Expenses:	Compensation, benefits, travel, faculty startup, tuition remission, etc.
Allocated Costs:	Support Unit funding
Assessment Charge:	Plant Fund, Financial Aid & Strategic Fund

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Model Development

Cost Drivers

The amount of allocated costs is based on a formula that considers ‘cost drivers’ such as:

- CHG Students (undergraduate, graduate & professional)
- FTE Faculty (tenured/tenure track, non-tenure track)
- FTE Staff
- Total direct expenditures from all sources
- Square footage
- Solicitable alumni
- Major donors ($5,000 and above)
- Research expenditures

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Model Development

Support Centers with Allocated Cost Drivers

Academic Support	Advancement	Auxiliary Subsidy	Campus Safety	Computer Services
80% UG CHG	80% Solicitable Living Alumni	80% UG CHG	40% UG CHG	40% UG CHG
10% Graduate CHG	20% Major Donors	10% Graduate CHG	5% Graduate CHG	5% Graduate CHG
10% Prof CHG		10% Prof CHG	5% Prof CHG	5% Prof CHG
			25% Faculty FTE	25% Faculty FTE
			25% Staff FTE	25% Staff FTE

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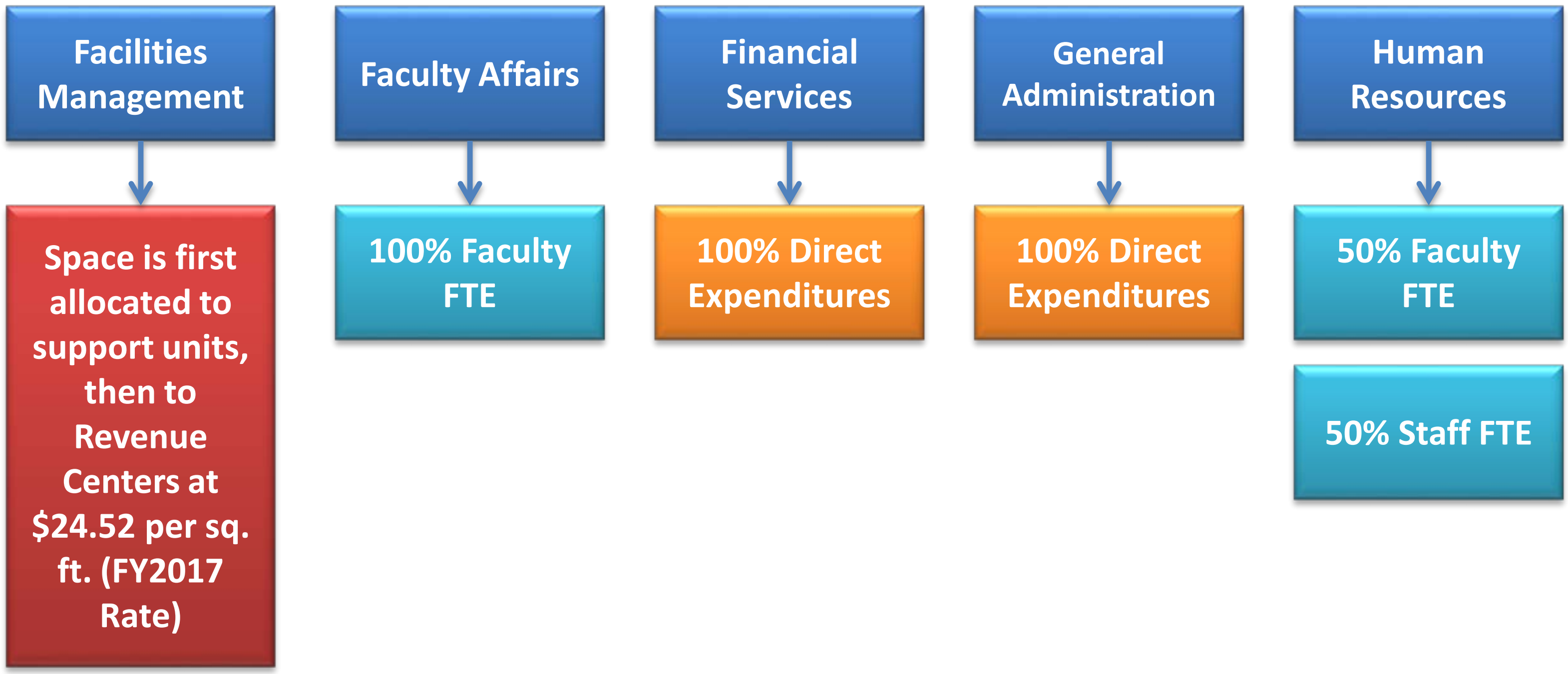
Model Development

Support Centers with Allocated Cost Drivers



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Support Centers with Allocated Cost Drivers

Library	Research	Student Services	Uncollectibles	University College
60% UG CHG	50% Faculty FTE	80% UG CHG	80% UG CHG	85% UG CHG
7.5% Graduate CHG	50% Research Expenditures	10% Graduate CHG	10% Graduate CHG	10% Graduate CHG
7.5% Prof CHG		10% Prof CHG	10% Prof CHG	5% Prof CHG
25% Faculty FTE				

Temple Budget Model & 3 Year Review

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Allocation of Tuition Revenue

Undergraduate Tuition

Summer Revenue

100% of Gross Revenue to Home College

+/ - Tuition Transfer (difference between what is taken by your students across the University and what you teach)

Fall and Spring Revenue

100% of School Specific Tuition Differential to Home College

100% of Base Tuition into Central UG Tuition Pool

Allocated to Instructional College based upon prior fall and spring instructional credit hours

Total Tuition Revenue

Less: Financial Aid Assessment (18.4% of UG Tuition*)

Less: Plant Fund Assessment (5.0% of Total Tuition)

= Net Tuition Revenue

*17.5% in FY2015

Allocation of Tuition Revenue

Graduate Tuition

100% of Gross Revenue to Home College

+/ - Tuition Transfer
(difference between what is taken by your students across the University and what you teach)

= Total Tuition Revenue

Less: Financial Aid Assessment (1.9% of Graduate Tuition) *

Less: Plant Fund Assessment (5.0% of Total Tuition)

= Net Tuition Revenue

** Assessed on Graduate Tuition generated by non-professional schools only (2.5% in FY2015). Medicine, Dentistry, Pharmacy, Podiatric Medicine and Law are excluded from this assessment.*

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Allocation of Tuition Revenue

Professional Tuition

100% of Gross Revenue to Home College

+/ - Tuition Transfer
(difference between what is taken by your students across the University and what you teach)

= Total Tuition Revenue

Less: Plant Fund Assessment (5.0% of Total Tuition)

= Net Tuition Revenue

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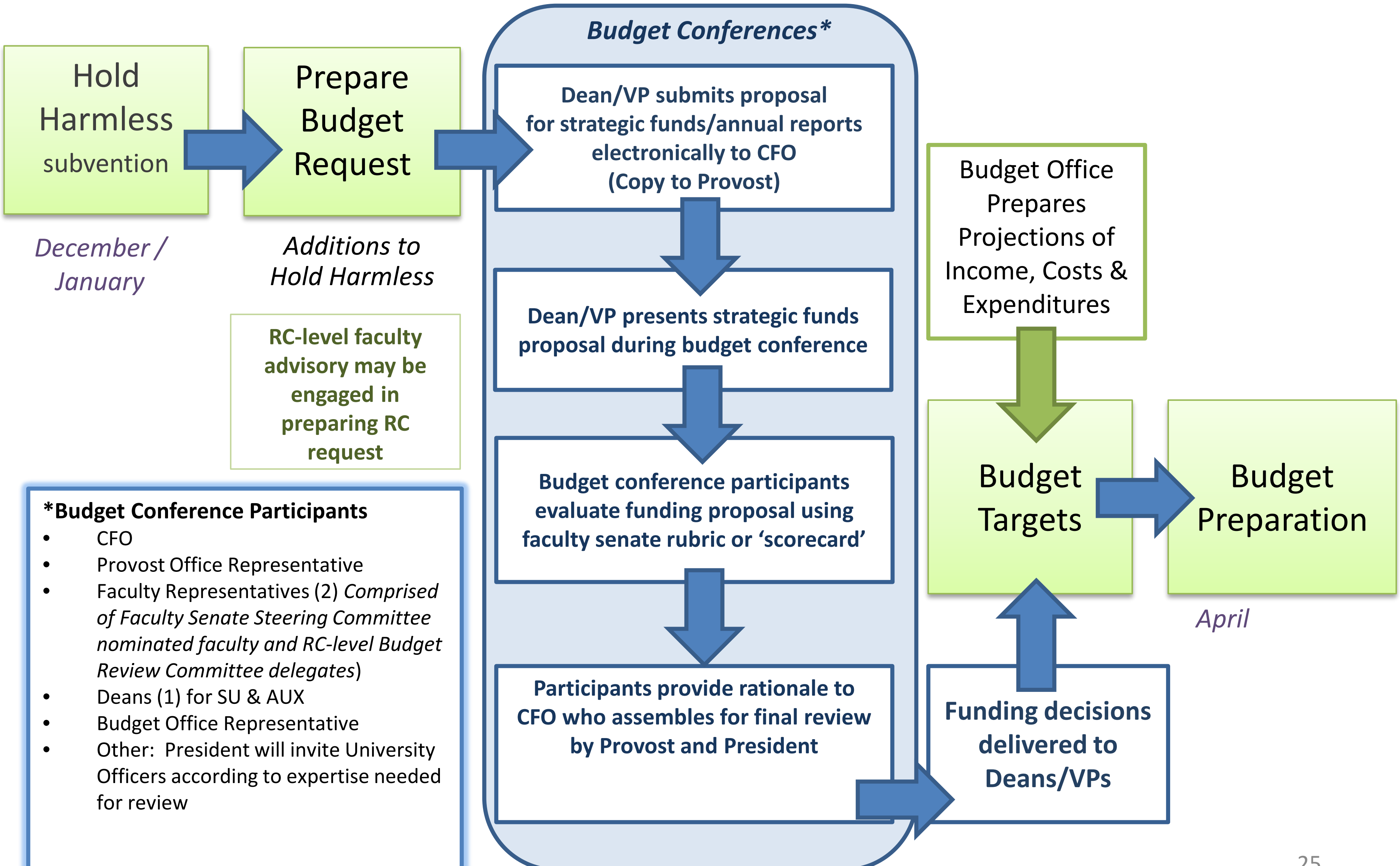
Aligning Policy and the Model

Policy Developments in Year 1

- Freeze on **administrative carry-over** and use of reserves will require a plan and approval.
- Budget model will **not be deployed at the department level** (RC proposals may be considered in FY2017).
- **Deans will negotiate** space sharing, faculty sharing and other terms among revenue centers.
- Support units attempting to increase their internal fees or create new fees will be **reviewed annually to keep costs both low and fair.**
- Increased transparency with the online TRAC system, implemented to facilitate the **open review of course and academic program proposals**.
- All RCs and SUs participate in an **annual budget conference** to note major accomplishments over the past year, outline plans for the upcoming year, address issues and metrics, and present proposals for strategic funds.

Annual Budget Conferences & Funding Proposal Process



***Budget Conference Participants**

- CFO
- Provost Office Representative
- Faculty Representatives (2) *Comprised of Faculty Senate Steering Committee nominated faculty and RC-level Budget Review Committee delegates*)
- Deans (1) for SU & AUX
- Budget Office Representative
- Other: President will invite University Officers according to expertise needed for review

Review After Year 1:
External Reviewer Findings

Primary focus of review: 1) identify surprises/unintended consequences or concerns in budget model implementation; 2) ascertain current carry over/reserve balances and plans; 3) plan income/expenditure projections over next 3-5 yrs; and 4) assess ability to integrate academic and financial planning.

Main Findings:

- Positive feedback for CFO/Budget Office across the board for planning, communication, training & development, and inclusion of all constituencies particularly faculty.
- Deans concerned that Support Unit allocated costs are too high and believe they are dis-incentivized to launch new programs because it is too costly.
- Useful to have projections of assessment earlier (before March/April).
- List of standard reports should be easily accessible.
- Solidify the "Capital Priorities Committee" that has been appointed and outline a philosophy for funding capital projects.
- Central administration of marketing is slow bureaucratic and costly.
- Need rules for interdisciplinary projects (grants, courses).
- If there is a reduction in state appropriation what happens?
- Issues with blended rate – schools with high non-resident population want it (FY17 review)
- GenEd raised as a course/program review issue.
- Transparency in Strategic Funding proposals that are awarded.

Findings and recommendations were shared with the Middle States Commission on Higher Education, Temple's accrediting body, during the 2015 Periodic Review

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Review After Year 1:
Allocation of Appropriation

Using prior year net direct expenditures (operating funds only) as base for allocation, the following formula will be applied:

Reduction scenario:

Revenue Centers and Support Units will receive a reduction based upon their proportional share of net direct expenditures. *If your unit is 5% of the net direct expenditures, then you will receive 5% of the appropriation reduction.*

Increase scenario:

An increase in appropriation will either increase the strategic fund for that year, reduce the overall strategic fund assessment to RCs or be allocated to the RCs based on net direct expenditures.

Review After Year 1:

Making Standard Reports Available

Banner

- GL215 – Operating Budget Summary
- GL211 – Cost Center Summary (Expenses)
- GL210 – Cost Center Summary (Revenue)
- Credit Hours Generated – Course College
- Credit Hours Generated – Student College
- Tuition Revenue Summary (work in process)
- More reports available via Cognos and Self-Service Banner

Blackboard: Catalog of Institutional Reports

- Undergraduate & Graduate Admissions Reports
- Enrollment Summary
- Academic Quality Indicators
- Campus Reports
- Admissions –Student Profiles

Review After Year 1:

Evolution of the Strategic Fund

- Fund can be allocated as one-time or recurring
- Strategic funds **may only** be allocated to the schools and colleges
- Strategic fund recipients and initiatives will be shared with the Council of Deans
- Using prior year net direct expenditures (operating funds only) as base for allocation:
  - Collect $7.0 million each year to fund the new year allocation
  - Adjustment occurs through the subvention line and is adjusted annually for the strategic fund allocation. *If your unit is 5% of the net direct expenditures, then you will be assessed 5% of the $7.0 million*

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3 Year Review

Main Areas for Review Structure

I. Governance
II. Fiscal Controls
III. Financial Planning & Reporting
IV. Enrollment Planning
V. Mechanics of the Model

The slides that follow provide examples of feedback received from deans, business managers, faculty and administrators to be considered during the course of the review.

3 Year Review

I. Governance

1) Convene a Budget Advisory Committee of the Deans to review budget-related matters and decisions in order to:
   - Increase accountability of allocated costs to the schools/colleges, through an annual reporting process.
   - Expand deans' participation in the review of central units during the annual budget hearings to ensure the deans are well versed in the costs of the institution.

2) Continue transparency in new course/program proposals. IR&A reported less than 10 course issues between 2 schools. We have not seen 'out of bounds' proposals in non-interdisciplinary.

3) Desire for greater faculty inclusion at the RC-level where financial and budget decisions are made.

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3 Year Review

II. Fiscal Controls

1) Policies (research incentive, invention and patents, school/college bylaws) have not caught up.
2) Revisit the proposed policy concerning funding of doctoral (PhD) education to include the appropriate input and buy-in from the schools/colleges.
3) Financial decisions that may impact schools and colleges must go through a more serious vetting process with accurate cost projections (e.g., merit aid). RCM is only going to work if there are checks and balances in the system and right now that is not the case.

3 Year Review

III. Financial Planning & Reporting

1) Are people getting the right data at the right time? Need to develop/deliver more modeling tools so deans have a better understanding of the decisions that need to be made.
2) Develop a data governance team to tie in academic quality indicators, financial metrics and a dashboard to elevate high level data and trends.
3) Seeing that the real need was for tools in academic planning and enrollment mgt, IR has gotten engaged with that group. The issue is not with the inventory of what we have, it is how to use them. Data Standards shifted from Computer Services to IR.
4) How have we as SUs adjusted to being viewed as a tax. Fees and internal charges – how units are approaching that – who is in that game that wasn't before?

IV. Enrollment Planning (UG)

1) Reconsider the current undergraduate admissions process and assure the success of incoming students as well as appropriate distributions of new undergraduates across the schools/colleges.

2) Create greater transparency within the merit award decision process so it is clear who is funded, how and why. Allow for the schools and colleges to accept more merit scholars and if the dean decides to go over the cap limit, it would be carried solely by that school.

3) Centrally admitted students awarded higher level scholarships should be more in proportion to the assessment that is allocated to the schools and colleges.

4) Ensure that the university is able to maintain its undergraduate revenue levels by developing overall enrollment management targets as well as a net tuition target so that the university generates the necessary annual revenue it needs to operate and to create a balanced budget.

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3 Year Review

V. Mechanics of the Model (RC feedback)

1) Consideration for Professional Schools within RCM framework: clinical practice, financial aid, appropriation, assessment (e.g., IU excluded Med School)
2) Cost drivers/metrics used for allocating Advancement costs needs to be addressed: colleges have no say in driving the metrics out to development, central office controls the donor info so they get to cultivate the relationships. Consider taxing the actual on the way in rather than a projection.
3) Reduce cost drivers from 8 (CHGs, FTE faculty, FTE staff, Total direct expenditures from all sources, Square footage, Solicitable alumni, Donors (>$5K) & Research expenditures)
4) Hold harmless was for the first year only. If a school/program is chronically in deficit we have to look at that.
5) Subvention was determined at a single point in time but held in perpetuity which hurts us (i.e., Tyler)
6) Allocation of the appropriation – CPH and other schools were shut out of the appropriation and yet CPH would have been expected to take a cut if we did not get the appropriation this year.
7) GenEd – SUs teaching courses where does revenue go, if not the bottom line?
8) Tech fee was re-calculated last year based on headcount. CPCA has decreased every year for last 4 years

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3 Year Review

Data & Reports to Consider

- Academic Quality Indicators: FY2014 (baseline), FY2015, FY2016 & FY2017
- Budget Conference Report submissions FY2016 e.g., carryover reserves, capital project plans, strategic funding award(s)
- Campus Enrollment Report
- Space Management & Allocation Report
- TRAC: New academic program and course offerings and Provost oversight mechanism
- Internal Charge Review Committee
- Temple Student Questionnaire data findings: 2012, 2015, 2017
- Service Excellence data findings: 2013 and 2016
- Dean subcommittees on financial aid and appropriation - recommendations for budget model review: spring 2016

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Timeline to 3 Year Review

- Pre-Budget Model baseline: July 1, 2013 - June 30, 2014
- Budget Model Year 1: July 1, 2014 – June 30, 2015
- Planning meeting with consultants: August 15, 2016

- February - April 2017: on campus visits to conduct interviews with deans, officers, faculty & staff
- June 2017: on campus visit with consultants to share preliminary data analysis
- September 2017: presentation of findings to President, CFO & Provost
- Fall 2017: Identify changes and communicate implementation plan
- July 2018: FY2019 Budget approved by the Board

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Goals for Year 3 Review

1. Facilitate an open and transparent process, providing multiple opportunities for broad input

2. Gather both qualitative and quantitative evidence for potential model changes in time for the FY 2019 budget

3. Improve, as necessary, the processes and methods to support the guiding principles of the model