College of Science and Technology
Board of Visitors Meeting

Financial Review &
the New Budget Model

April 17, 2015
Discussion Topics

• Temple by the numbers
• Trends & Realities – The Macro Environment...
• Temple’s response
• The new decentralized budget model – RCM
• Future Outlook
• Summary
Temple University
A Large Complex Organization

- 25th – 30th largest nationally w/ enrollment over 37,000 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
- $340+ 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
- 17 schools and colleges offering over 400 degree programs
- 178+ buildings and 13 million square feet of campus space
Moody’s Investors Service
Long Term Debt Ratings

<table>
<thead>
<tr>
<th>Strongest</th>
<th>Aaa</th>
<th>U of Michigan; Indiana U; U of Virginia</th>
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<tbody>
<tr>
<td>Strong</td>
<td>Aa1</td>
<td>Pitt; Maryland; Delaware</td>
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<tr>
<td></td>
<td>Aa2</td>
<td>PSU; Penn; UConn</td>
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<tr>
<td></td>
<td>Aa3</td>
<td><strong>Temple University;</strong> PA/SSHE; Rutgers</td>
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<tr>
<td>Above Average</td>
<td>A1</td>
<td>Villanova; Boston U.</td>
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<tr>
<td>Above Average</td>
<td>A2</td>
<td>Lincoln</td>
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<tr>
<td>Above Average</td>
<td>A3</td>
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<tr>
<td>Average</td>
<td>Baa1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Baa2</td>
<td>Phila U</td>
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<tr>
<td></td>
<td>Baa3</td>
<td></td>
</tr>
<tr>
<td>Non-Investment/Speculative Grade</td>
<td>Ba1</td>
<td><strong>Temple University Health System</strong></td>
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<tr>
<td></td>
<td>Ba2</td>
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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*)
• Implemented a decentralized budget model (RCM)
• Reduced operating budget $113M since 2010
• Invested in capital infrastructure (Temple 20/20 and Visualize Temple) with continued Commonwealth support
• Increase demand for a Temple education (non-resident and international)
• Position tuition for our market
• Grow internal financial aid resources (Fly in 4)
• Focus on net tuition revenue (residency mix, international, differentials and financial aid)
• Investment in institutional advancement and research
• Assure consistent and strong operating margins
• American Athletic Conference affiliation
What is the idea behind RCM?

Decentralized budgeting aligns authority with responsibility:

• Transferring revenue ownership to the schools and colleges → you keep the revenue you generate

• Covering the direct and indirect costs of operations

• Promoting efficiency and a focus on quality service

• Shifting the focus from expenditure increments to revenue growth
What does RCM accomplish?

• Realigns resources with academic priorities
• Focuses on mission both at the university and college level
• Engages entrepreneurial spirit
• Rewards strong management and performance
• Facilitates strategic and long-term planning
• Drives a market focus
• Promotes administrative efficiency, reduces service duplication and enhances space utilization
• Fosters a climate of transparency and accountability
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.
Temple Budget Model Income Flow

Student Tuition Income

Other Revenue

Generated Revenue

Available Resources

Direct Expenses

Allocated Costs

Assessments (based upon Tuition Income Only)

TU Strategic Fund

Student Tuition Income:
Other Income:
TU Strategic Fund:
Direct Expenses:
Allocated Costs:
Assessment Charge:

This includes UG/Grad/Prof through both direct and transfer
This includes PA Public Welfare, Other Student Fees, ICR & Clinical Revenue
To fund strategic initiatives within the Schools and Colleges
Compensation, benefits, travel, faculty startup, tuition remission, etc.
Support Unit funding
Plant Fund, Financial Aid & Strategic Fund
Cost Drivers

The amount of allocated costs will be 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
Support Centers with Allocated Cost Drivers

- **Academic Support**
  - 80% UG CHG
  - 10% Graduate CHG
  - 10% Prof CHG

- **Advancement**
  - 80% Solicitable Alumni
  - 20% Major Donors

- **Auxiliary Subsidy**
  - 80% UG CHG
  - 10% Graduate CHG
  - 10% Prof CHG

- **Campus Safety**
  - 40% UG CHG
  - 5% Graduate CHG
  - 5% Prof CHG

- **Computer Services**
  - 40% UG CHG
  - 5% Graduate CHG
  - 5% Prof CHG

- **25% Faculty FTE**
- **25% Staff FTE**
Support Centers with Allocated Cost Drivers

- Facilities Management
  - Space is first allocated to support units, then to Revenue Centers at $24.35 per sq. ft. (FY2014 Rate)
- Faculty Affairs
  - 100% Faculty FTE
- Financial Services
  - 100% Direct Expenditures
- General Administration
  - 100% Direct Expenditures
- Human Resources
  - 50% Faculty FTE
  - 50% Staff FTE
Support Centers with Allocated Cost Drivers

- **Library**: 60% UG CHG, 7.5% Graduate CHG, 7.5% Prof CHG, 25% Faculty FTE
- **Research**: 50% Faculty FTE
- **Student Services**: 80% UG CHG, 10% Graduate CHG, 10% Prof CHG
- **Uncollectibles**: 80% UG CHG, 10% Graduate CHG, 10% Prof CHG
- **University College**: 85% UG CHG, 10% Graduate CHG, 5% Prof CHG
The Outlook

• Stagnate revenue
  – Annual tuition rate increase effectively capped
  – Enrollment growth and mix is limited (Capacity/Demographics)
  – Appropriation uncertain

• Increasing costs
  – Non-discretionary items account for a larger portion of the budget (benefits, ACA, utilities, comp, insurance and regulation)

• Consequences/Remedies
  – Selectively reduce expenditures
  – Grow non-tuition revenue
  – Grow non-traditional enrollment (off-campus and online)
  – Prioritize investments
In Summary

• Temple is a large complex organization
• Macro forces are reshaping Temple
• State funding is waning and Temple is being privatized
• Temple exists in a competitive market and the cohort is a challenge
• Current economic issues are impacting Temple
• Preserving enrollment and diversifying revenue are key
• Must create that value proposition