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MOVING TO A RESPONSIBILITY-CENTERED BUDGET MODEL

CONSIDERATIONS FOR IMPLEMENTING RESPONSIBILITY-CENTER MANAGEMENT ON CAMPUS


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POLL

What's the level of alignment between planning, resource allocation, and assessment on your campus?

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LEARNING OUTCOME

After participating...

...you will be able to analyze and respond to challenges in RCM implementation.

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SESSION AGENDA

- Review of common issues associated with RCM models
- Implementation issues / considerations
- Case study examples / lessons learned

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REVIEW OF COMMON ISSUES ASSOCIATED WITH RCM MODELS

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GAINING BUY-IN FOR THE NEW MODEL

- Top-down / bottom-up approach
- Identification of champion(s)
- Broadly representative task force charged with developing the model
 - Co-chairs
 - Mid-level administrator
 - Iconic faculty member
- Ongoing educational campaign
- Transparent effort
- Opportunities for input by community

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- Start early as key decisions are made
- Conduct periodic information sessions for key personnel
 - Senior leaders
 - Budget Office
 - Provost’s finance staff
 - Deans and their finance staff
 - Academic chairs and their finance staff
 - Other revenue center managers and their finance staff
- Once model is developed
 - Conduct comprehensive training

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■ OWNERS OF THE MODEL

- President or chancellor
- Chief academic officer
- Chief financial officer
- Chief of staff
- Other
 - Avoid shared ownership

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Who owns the current budget process?

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PROCESS ISSUES

- Institutional Effectiveness Committee
- Linkage to plans / assessment processes
- Calendar
- Guiding principles (e.g., transparency, openness, inclusivity)
- Hearings / reviews / forums

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PROCESS ISSUES

- Participants
 - Cabinet
 - Classified staff council
 - Deans
 - Department heads
 - Directors
 - Faculty senate
 - Student association
 - Other

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QUESTIONS

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IMPLEMENTATION CONSIDERATIONS

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KEY DECISIONS

- Identification and classification of units
 - Revenue centers
 - Cost centers
 - Blended units
 - Other

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KEY DECISIONS

- Inclusion / exclusion of revenues
 - All funds?
 - Treatment of specific revenue categories
 - Tuition
 - Appropriation
 - Gifts / endowment income
 - F&A recoveries
 - Other

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KEY DECISIONS

- Identification of cost pools
- Aggregation versus disaggregation
- Sample aggregated cost pools
 - Academic
 - Student
 - Executive
 - Administrative
 - Facilities
 - Research

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KEY DECISIONS

- Determining allocation methods for revenues and expenses
 - Potential drivers for the distribution of revenues and administrative / support costs
 - Student credit hours
 - Student headcount
 - Total headcount
 - Square feet
 - Direct expenses (e.g., research, instruction)

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KEY DECISIONS

- Application of sample drivers to sample aggregated expense pools
 - Academic—student credit hours
 - Student—student headcount
 - Executive—total direct expenses
 - Administrative—total headcount or direct expenditures
 - Facilities—net assignable square feet
 - Research—direct research expenses

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KEY DECISIONS

- Identification of cost centers using disaggregated approach
 - Executive and Administrative
 - Executive management
 - Fiscal operations
 - Business services
 - Sponsored programs administration
 - Community relations
 - Alumni relations
 - Facilities
 - Information technology

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KEY DECISIONS

- Academic support programs
 - Library
 - Academic affairs
 - Academic administration
 - Learning resources
 - Research and graduate development
 - Instructional technology

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KEY DECISIONS

- Student services
 - Student services administration
 - Admissions, registrar
 - Counseling and guidance
 - Financial aid administration
 - Campus life, intramurals, clubs, etc.

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KEY DECISIONS

- Step-down
 - Established cost pools *may be* distributed after loading for other costs
 - Step-down approaches take various costs (e.g., facilities, IT) and distribute the costs to the pools before the pools are allocated
 - Hides the true cost of the pool because it includes the other costs

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KEY DECISIONS

- Failure to utilize step-down approaches burdens units with costs that actually relate to other activities—for example, administration
- Key consideration in step-down is the order in which costs are distributed
 - Indiana University famously utilizes a simultaneous equation as part of its step-down approach

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KEY DECISIONS

- Distribution of tuition involves two key considerations for all institutions
 - “Cost of instruction” weighting
 - Proportionally distributes tuition in favor of higher-cost disciplines
 - Home versus course delivery unit
 - Differentially distributes tuition to unit in which student is registered and to unit teaching the courses

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KEY DECISIONS

- Other complexities related to tuition
 - Surcharges imposed on out-of-state students
 - Specific identification or blended distribution
 - Variable tuition rates
 - Graduate tuition versus undergraduate tuition
 - Dual-degree enrollments

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KEY DECISIONS

- State appropriations
 - Must consider how appropriations are determined and what they cover
 - Enrollment-based appropriation clearly should be distributed
 - But at what rate and using what driver?
 - Appropriations not based on enrollments might be distributed based on combined tuition / research revenues / expenses

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KEY DECISIONS

- Financial aid
 - Undergraduate
 - Centrally awarded aid usually treated as a revenue reduction and allocated in proportion to tuition
 - Exception applies for aid awarded by the units
 - Graduate
 - Almost always treated as a unit direct expense

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KEY DECISIONS

- Facilities and administrative cost recoveries
 - Generally credited to principal investigator's unit
 - Special arrangements needed for interdisciplinary research projects with co-PIs
 - Not uncommon to be adjusted by formula to support research services or to support PI generating the recoveries

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KEY DECISIONS

- Taxing protocol
 - Base—which revenues / expenses are subject to taxation?
 - Taxing revenues can discourage revenue generation
 - Taxing expenses can lead to game playing with cost recovery
 - Rate—what rate(s) will be applied?
 - Should the rates vary by type of revenue / expense?

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TYPICAL TIMETABLE

- Most effective implementation processes require two years of preparation
 - First year focused on design of system
 - Second year employs either phased or parallel approach
 - Third year represents full implementation of RCM principles

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TYPICAL TIMETABLE

- Development phase can easily take one year, but can be done more quickly
 - Some time needed to study RCM options / possibly visit other campuses
 - Significant time needed to deliberate and communicate the key decisions mentioned earlier
 - Time needed to model the impact of the decisions using historical data
 - Recognize inherent flaws in modeling based on historical data

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TYPICAL TIMETABLE

- Experimentation phase utilizing one of two approaches
 - Phased implementation
 - Select a small number of diverse revenue centers to operate under RCM with some protection during the first year
 - Requires a highly visible approach with extensive sharing of experience throughout the institution

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TYPICAL TIMETABLE

- Parallel system implementation
 - Operate using the existing system but model the impact as if RCM had been implemented
 - Safest approach to ensure minimal surprises when fully implemented
 - Requires duplicate systems and can be burdensome for both units and central office staff

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Based on what you know today, which implementation approach would work best at your institution?

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**CASE STUDY EXAMPLES
AND LESSONS LEARNED**

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CASE STUDY 1

- Land-grant university with approximately 15,000 students
- Identified 19 revenue and cost centers
- Relied on a formula-based revenue distribution
- Full-cost model, units charged for space-related costs
- Guiding principles
 - Equity and simplicity
 - “Hold harmless” through a permanent balancing adjustment—not subject to inflationary increases

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CASE STUDY 1

- Revenues
 - Units own all direct revenues they generate
 - Relies on a weighted two-year cycle to measure credit-hour production in support of undergraduate tuition distribution
 - Actual enrollment for graduate tuition
 - 30 percent of state appropriation distributed to units based on faculty salaries paid

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CASE STUDY 1

- Expenses
 - All direct expenses are attributed to responsibility centers
 - Allocations
 - Facilities based on net assignable square feet
 - General administration & academic administration based on prior year revenues and personal service expenses

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CASE STUDY 1

- Results
 - Deemed an unqualified success
 - Reserves have grown substantially
 - Achieving enhanced outcomes by academic programs
 - Improved performance by service centers

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CASE STUDY 2

- Land-grant university with approximately 25,000 students
- Process
 - Began with a day-long session facilitated by a consultant
 - Invited three other universities to share their experience with RCM
 - The remainder of the day was spent analyzing what they heard and determining which of it made sense for this university

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CASE STUDY 2

- Established a broadly representative task force to develop a model
- Extensive study of how other universities approached RCM, including campus visits
- The model they developed employed an advisory committee for each administrative / support cost area
- Intentionally committed to keeping the model static for the first five years

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CASE STUDY 2

- Recently engaged a consultant to conduct a review of the model’s effectiveness
 - Overall assessment is very favorable, although some issues are being revisited
 - Formulas may be revised slightly
 - The advisory committees are deemed to be overly cumbersome and will be abandoned
 - Generally, they remain satisfied

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CASE STUDY 3

- Comprehensive public university with 25,000 students
 - Unqualified failure
 - After-the-fact analysis determined that the president and chief academic officer were not visibly supportive of the effort (proving CFO alone cannot lead this effort)
 - Lacked broad-based participation
 - A small group of central office personnel designed the model

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CASE STUDY 3

- Attempted to adopt another university’s model with only limited changes
- It operated for two years before it imploded

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LESSONS LEARNED

- Take time to gain buy-in
 - Every RCM system is complex
 - Provide appropriate time for communication and deliberation
- Plan on periodic reviews
 - Indiana University first implemented in 1991
 - Comprehensive reviews every five years since then
 - Various tweaks to the system

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LESSONS LEARNED

- Establishment of provost fund; subsequently increased amount
- Introduced one-year lag for data used for tuition distribution
- 5 percent of F&A recoveries allocated directly to research VP
- Allow service units to retain 40 percent of year-end balances
 - » Academic units continue to retain 100 percent
- Improved transparency over time

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LESSONS LEARNED

- Someone must own the system to ensure leadership changes don't result in dramatic shifts or even abandonment of the model
- Monitor the model's operation
- Periodically test against principles
- Don't assume that circumstances will remain the same over time
- In particular, subventions must be examined periodically to ensure that they remain appropriate

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LESSONS LEARNED

- Know when to “fold ‘em”
 - One institution seemingly did everything right
 - Collaborative process
 - Highly transparent
 - Extensive investigation of others’ RCM models
 - Carefully developed model
 - Comprehensive training program
 - Got cold feet and pulled the plug just before full implementation

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KEYS TO SUCCESSFUL IMPLEMENTATION

- Provost and chief financial officer oversee implementation—highly visible co-champions
- Transparent, inclusive development process
- Gain early agreement on key principles
- Rapid (one-year) development process with extensive communication and training
 - Pilot / phase the model for one year
 - Consider “hold harmless” to protect existing budgets for a period of time

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RESOURCE

List of institutions that currently use an RCM budget model

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RESOURCE

Responsibility Center Budgeting by Edward L. Whalen

This book is an in-depth description of Indiana University's development of RCM. It cover the key approaches and includes an appendix covering their complex approach to allocating overhead using a simultaneous equation.

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RESOURCE

Responsibility Center Management by John R. Curry, Andrew L. Laws, and Jon C. Strauss and

This 2013 NACUBO book details the key elements of RCM and reviews the experience of nine large public and private institutions. It's particularly helpful because it discusses the benefits and challenges related to RCM.

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QUESTIONS

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