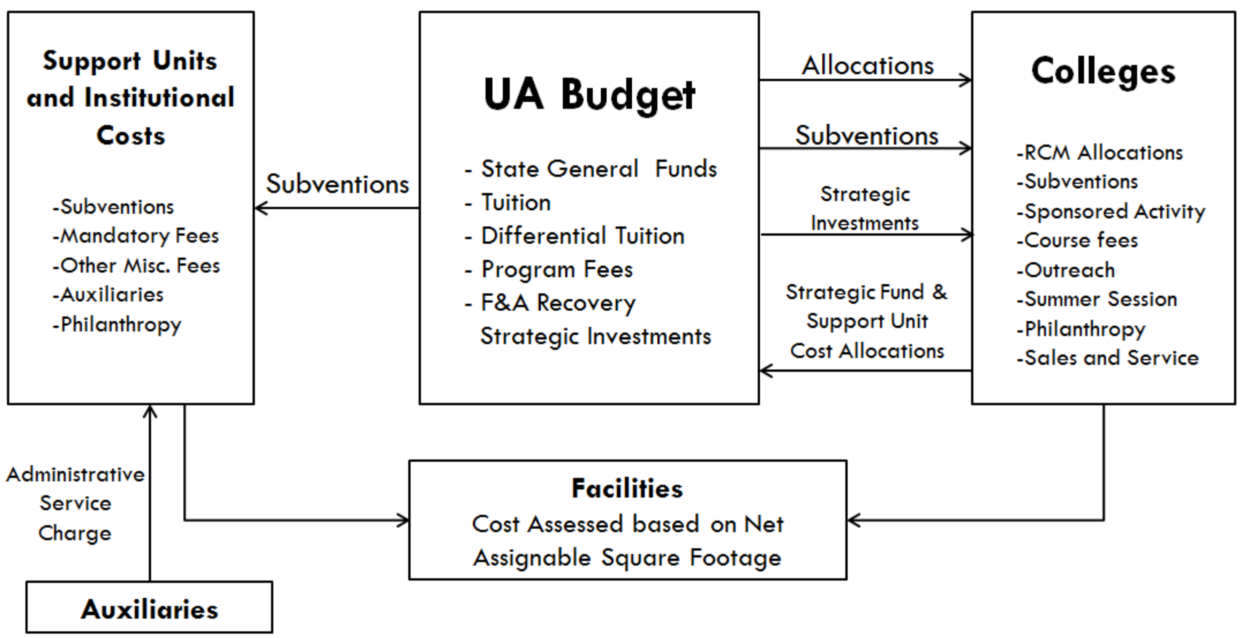
Overview of Responsibility Centered Management (RCM) Budget Model Aug 2017

The Responsibility Centered Management Budget Model was designed with the input of the University community to 1) encourage revenue generation and cost effectiveness, 2) align authority and accountability at the local level, 3) provide transparency and flexibility in financial operations, and 4) enhance the ability for units and the institution as a whole to plan.

RCM provides a methodology for allocating both University revenues and costs to Responsibility Center Units to provide a transparent budget process that is based on the level of activity within an RCU.

The following chart illustrates how funds flow in RCM.



There two types of Responsibility Center Units (RCUs) within RCM, Revenue RCUs and Support RCUs. Revenues RCUs include the colleges that are allocated funds based their levels of activity and large auxiliaries (Student Union, Residence Life, Athletics, etc.) which are mostly self-supported units. Support centers consist of the units that support the primary missions of the university including institutional administration, business services, student support, research support, public service and facilities.

At the outset of RCM, the overall level of funding did not change within any of the RCUs as historical budgets where maintained at previous levels. Revenues were attributed to each of the college RCUs along with a calculated share of the support and facility costs. State funds (subventions) were provided to each of the Revenue RCUs, that, when combined with the allocated revenue, was sufficient to cover the RCU's historical budget and their share of the allocated support and facility costs.

The FY16 budget was the first year that RCM affected the level of spending in the RCU's budgets based on changes in instructional and research activity. Based on the results of the RCM model, budget allocations were implemented as part of the FY16 Budget. As we move forward each year budget will be adjusted based on the activity that occurred in the prior year.

Elements in the RCM Budget Model

Undergraduate Tuition Allocation

Undergraduate tuition revenues are pooled together and reduced by the institutional aid that has been allocated to students. The undergraduate tuition pool is split into two amounts; 75% allocated based on the number of student credit hours (SCH) produced and 25% allocated based on where students majors reside.

> *Generally, if a college teaches more credit hours and they have more majors the college budget allocation will increase given that the overall size of the student population (and associated revenue) grows. If the college teaches fewer credit hours the college allocation would decrease. It is important to remember that the pie needs to grow for there to be more money overall to allocate or we would just be dividing up the same size pie into different size pieces among the colleges.*

Graduate Tuition Allocation

Graduate tuition will be allocated based on the funding each student brings in, with 75% being allocated to the college of enrollment and 25% to the college teaching the credit hours. Interdisciplinary and Non-degree Seeking students will be allocated 100% based on the college teaching the courses.

> *If a college teaches more graduate students where the tuition isn't waived the college allocation will increase. If a college waives more of the tuition the allocation would decrease. This differs from undergraduate since the funds are not pooled together so the amount a college receives is entirely based on the graduate activity within their college.*

Program Fees and Differential Tuition Allocation

Program Fees and Differential Tuition will be allocated 100% based on the college who owns the program fee or differential tuition.

If a college has a program fee the allocation of the program fee goes to the college less any attributed waivers.

Facilities and Administration (F&A) Cost Recovery from Grants

F&A will be allocated 100% to the college RCUs based of the F&A distribution associated with the grant award. 25% of the F&A allocation will continue to flow through the colleges and departments as it has historically, with the remaining 75% allocated during the RCM budget process. Support RCUs will no longer receive F&A allocations based on grant activity but instead have been provided a base budget based on historical grant activity.

A college will now receive the entire benefit of increases in F&A recovery but will also need to cover 100% of the decline in activity. Please note that this change did not create a windfall of funds for colleges as initial budgets where held constant during the setting of subvention.

What is Subvention?

Subvention is essentially the state funds and other institutional funds that cover the shortfall between the revenues distributed and all costs. If you earned $60 in revenues and all costs totaled $100, a subvention of $40 was provided to the college. A budget reallocation between colleges or a state budget cut would change the amount of subvention a college. The RCM model does not change subvention as the result of changes in revenue distribution.

Operational Base Budgets

The operational base budget as defined in RCM is the budget in all the departments, colleges and divisions that is funded from State, Tuition, Department F&A and other institutionally allocated funds such as institutional F&A, Administrative Service Charge, Program Fees and Differential Tuition. It historically has covered Personnel ERE and Operations within a Unit.

The operating base budget as defined above did not change at the outset of RCM. The FY16 Budget and future budget will include changes to the operating base budget related to RCM allocations and budget reallocations/reductions (referred to in the model as participation contributions).

Facilities Rate

Facilities cost which includes operations, maintenance, utilities, and debt payments associated with facilities and grounds are recovered by charging a flat rate charged per square foot on all space that is assigned to a unit. At the outset of RCM these costs have been initially funded through subvention funds provided to the Revenue RCUs. The cost of facilities is also a component of Support RCU total cost. These facilities costs do not include service which have previous been billed back to units. These billable services will continue to be billed to units separately.

Facilities are being charged based on the space that has been assigned to units. If a unit increases the amount of space they have they will be billed for the additional space, or if they decrease their space they will reduce their cost. If the total overall cost of facilities goes up the rate charged will increase. The rate is calculated by taking the total overall cost of facilities for the university and dividing it by the amount of square feet that are assigned to units. The rate for FY18 is $25.19 per Net Assignable Square Foot (NASF).

Support Center Expense Recovery

The recovery of Support RCUs expenses are funded through assessments to the revenue allocated to Revenue RCUs and the amount of subvention received by the Revenue RCUs. An assessment rate was initially determined using the FY15 base budget that is applied to Revenues and Subventions within the model that will recover the support RCU costs. The support unit expense recovery rate will stay stable for 3 years and is scheduled to be reviewed every 3 years.

University support functions are funded through a tax on revenues and subventions. Each type of revenue allocated to revenue RCUs is taxed at a separate rate.

If the tax rate for undergraduate tuition is determined to be 30.98% and the strategic investment rate is 2.75%, each dollar allocated for undergraduate activity will be assessed 33.73%. This would mean that for each $100 allocated of undergraduate revenue, $66.27 will be distributed to the College and $30.98 will be held to fund university support costs and $2.75 will be applied the Strategic Investment Fund.

Strategic Investment Assessment

An assessment is charged to RCM Allocations to fund a Strategic Investment Fund that will allow the institution to invest in Never Settle strategic initiatives and collaborative activities. The assessment is currently 2.75% for FY18 and will increase 3.5% in FY19 and to 5% in FY20. In addition, colleges will allocate a portion of their RCM allocation for strategic investments within the college.

RCM Budget Allocation

The model takes into the account the all revenue allocations, the facilities cost and the support costs to come up with a single funding change that will be applied to the overall College budget. The amount is a lump sum that is posted directly at the college level. The distribution of funds within the college will be the responsibility of the Dean's office at each college. Colleges have been directed to allocate funds within their college in a manner which is consistent with the principles of RCM. In addition to allocating funds based on levels of activity, it is important the college provide subventions between departments and maintain the flexibility to provide for strategic investments within the college.

> *RCM is not designed to provide direct departmental funding as the changes in funding from year to year can vary greatly and become unmanageable. The need to be able to provide subventions between departments is critical in maintaining stability within the university and the ability to strategically invest is critical to the growth of the institution.*

Other Funding Distributions that follow RCM Principles

Summer and Winter Sessions

Summer and Winter session distributions of revenue are similar to those found in the RCM model for Undergraduate, Graduate, Program Fees and Differential Tuition.

The main difference is that the distribution of Undergraduate and Graduate base tuition is based entirely on Student Credit Hours. Like other revenue distributions, these allocations will be assessed for Support Center Cost Recovery.

Academic Initiatives - Online and Distance Programs

More detail on Academic Initiative's programs can be found on their web site.

Programs within Academic Initiatives follow a similar distribution methodology in which the distribution of funds is based on activity. The main difference is that initially the majority of the assessment which is charged to these activities has been directed toward reinvesting in new programing for Online, Distance and the operations of Academic Initiatives.