An Overview:
Responsibility Center Management (RCM)

May 12, 2015
## Common University Budget Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>EVERY TUB ON ITS OWN BOTTOM</strong></td>
<td>• Budget model in which each school acts as an independent entity responsible for its own management and funding with minimal concern about the university as a whole</td>
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<tr>
<td><strong>INCREMENTAL</strong></td>
<td>• Budget model in which budget allocations are based upon the funding levels of the previous year and possibly increased by a set percentage</td>
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<tr>
<td><strong>FORMULA-BASED</strong></td>
<td>• Budget model in which budget allocations are based on predetermined formulas</td>
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<tr>
<td><strong>RESPONSIBILITY CENTER MANAGEMENT</strong></td>
<td>• Budget model in which each unit is financially responsible for activities and held accountable for direct and indirect expenditures with strategic investments by academic leadership to advance the university or local/regional as a whole</td>
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Similar Budget Issues At Other Universities

Source: University of Virginia – University Financial Model Presentation (6/24/2014)
Responsibility Center Management

• A budget model promoting financial responsibility at a unit level

• Works most effectively in an environment of transparency and accountability

• RCM is a tool – academic leaders have responsibility for using the model in their financial planning to advance the missions of the University
Current Budget Model

• All Funds Budgeting (AFB) was instituted at Rutgers in 2005
• AFB is a modified version of RCM where flat overhead on tuition and F&A is used to support the local/regional administration and University-wide administration costs not directly budgeted to the schools
• Legacy UMD units are on an RCM type model but different from AFB
How Does RCM Work?

Revenues are credited to the Responsibility Center that generates them.

Schools must then pay for their direct expenses as well as a share of the expenses to fund the Support Units.

**Revenue**
- Tuition and Fees
- F&A Return
- Other Income

**Responsibility Centers**
- Schools
- Research Centers
- Auxiliaries

**Direct & Indirect Costs**
- Direct Expenses
- University-wide Support Units
- Local/Regional Support Units
Do Other Schools Use RCM?

- RCM was created at University of Pennsylvania in the early 1970’s as a response to a financial crisis
- In the 1980’s schools such as U of Southern California and the U of Toronto also developed RCM budget models
- Now many public and private universities have converted to RCM – Indiana U, Michigan, Iowa State, U of Minnesota, Syracuse, U of Florida, etc.
Why Switch to RCM?

- Academically Centered - “Academics over Economics”
- Provides schools with better data, more control, and greater flexibility over resource decisions
- Increased accountability and transparency
- Greater focus on long-range strategic planning
- RCM enables understanding of “ROI” and priority decisions given limited resources
Allocation of Costs

University-wide

Costs that are incurred by University-wide support units providing services to all

Local/Regional

Costs that are incurred by support units providing services at the local/ regional or chancellor level
Allocation of Costs
University-wide Cost Pools

- General Administration
- Academic and Student Support
- Debt Service
- Utilities
- Operations and Maintenance
- Information Technology
- Libraries
- Research Support
The cost pools are allocated to the Chancellor units, schools, centers, institutes, and auxiliary units using a metric that best measures the activity.

- The metrics are based on “best practices”, verifiable, easy to understand, and uniform.

- Our model includes the following metrics: Unit Expenditures; Net Assignable Square Footage; Enrollment & Tuition data; F&A Return data; and Faculty & Staff FTE.
All Funds Budgeting Revenue & Expense Distribution

Earned Revenues and State Appropriation

- **School Requests**
- **Space/O&M/Utilities**
- **Central Units (Univ & Campus)**

- **Central** (45% tuition, 50% F&A, historical approp)
- **Schools** (55% tuition, 50% F&A, historical approp)

- **School Operations**
- **School Reserves**
RCM Revenue & Expense Distribution

Earned Revenues and State Appropriation

- School Subvention
- Strategic Initiatives
- Chancellor (100% approp, 1.5% ER*)
- Schools (97% tuition and F&A)
- School Operations
- Central Alloc Costs (Univ & Campus)
- School Reserves

*ER = earned revenues; another 1.5% goes to the President for strategic initiatives
RCM Concerns and Realities

• Those academic units that do not have enough revenues to cover their direct and indirect costs will be eliminated

Concern

• One of the benefits of RCM is that it highlights the full costs to operate schools and allows for informed discussions as to the level of subvention given above and beyond earned revenues

Reality
RCM Project Committee Structure

**RCM Steering Committee**
- Chancellors
- SVP for Finance
- SVP for Administration

**RCM Advisory Committee**
- Faculty
- Deans
- Vice Presidents
- University Senate representatives

**RCM Technical Committee**
- Key unit administrators from across the university