An Overview: Responsibility Center Management (RCM)

Treasurer’s Town Hall Meeting – Busch Campus
6/9/2014
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 system to advance the missions of the University
Common University Budget Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
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<tbody>
<tr>
<td>EVERY TUB ON ITS OWN BOTTOM</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>INCREMENTAL</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>FORMULA-BASED</td>
<td>Budget model in which budget allocations are based on predetermined formulas</td>
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<tr>
<td>RESPONSIBILITY CENTER MANAGEMENT</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 campus/division as a whole</td>
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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 campus/division 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
What Is Responsibility Center Management?

- Tuition and research revenues are allocated to the colleges and schools (Responsibility Centers) that generate them;

- Facilities and central administration costs are allocated in proportion to the space occupied and central services consumed;

- A central pool of resources (often called the subvention pool) assembled through either direct central ownership of specific revenues or taxes applied to school revenues or direct expenses, is allocated to compensate for disciplinary unit-cost/price imbalances and to support university priorities.
What Are The Benefits Of RCM?

RCM is an academically focused, decentralized budget model that:

• Increases transparency of the budget process
• Makes clearer the direct and indirect (university-wide and campus) costs of operating the schools and the university as a whole
• Better aligns resources with the units that generate and control them
• Creates financial incentives for schools to increase revenues and reduce costs while supporting the university’s mission
• Encourages schools to develop multi-year budget plans
• Provides academic leadership with better data and funds to balance needs of units, set academic priorities and advance strategic initiatives
What RCM Is Not

RCM is not:

- A strictly formula-based model that automatically allocates funds to units without any consideration to strategic choices that need to be made
- ETOB – The “Harvard model” started in the early 19th century
- A magic solution to the fiscal challenges, including the decline of State support, facing Rutgers and other public colleges and universities
University-wide Support For Successful RCM

University-wide coordination and funding are needed to fulfill public missions of a university.

- Academic leaders (President, Chancellors, and Deans) shape allocations to advance the overall strategic vision and to ensure the academic health and integrity of the whole.
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
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
- Campus/Division Support Units
Allocation of Costs

University-wide

Costs that are incurred by university-wide support units providing services to all Rutgers campuses

Campus/Division

Costs that are incurred by support units providing services at the campus or chancellor level
Allocation of Costs

Campus/Division Cost Pool

- Covers the cost of campus/division specific activities including the Chancellor’s Office, campus/division based HR & Enrollment Management functions, CBI’s, etc.
- Uses same pool types as university-wide cost pools but only includes costs either incurred by the campus/division directly or costs charged directly to campus/division by university-wide units
Allocation of Costs
University-wide Cost Pools

General Administration

Academic and Student Support

Libraries

Research Support

Information Technology

Facilities
Once the cost pools have been developed, they need to be allocated to the schools using a metric that best measures the activity.

The metrics used should be based on “best practices”, verifiable, easy to understand, and uniform.

For our model, we are using the following metrics: Unit Expenditures; Net Assignable Square Footage; Enrollment & Tuition data; F&A Return data; and Faculty & Staff FTE.
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 Concerns and Realities

- RCM encourages the creation of unmanageable barriers to the enrollment of students across schools

- The literature on RCM states that only 10% of schools reported that RCM resulted in “course hoarding or stealing” and that a proper curriculum approval process reduces the ability to do so
RCM Concerns and Realities

**Concern**
- RCM creates unmanageable barriers to interdisciplinary program development

**Reality**
- The literature on RCM indicates that RCM has had no measurable negative impact on interdisciplinary programs, collaboration is a leadership issue, and subvention $ help create these programs
The major output from RCM is data that can be used for many types of analysis:

- Comparisons across units
- Administrative cost and effectiveness benchmarks
- Space utilization
An effective RCM governance structure is crucial to the success of the implementation and ongoing operation of the model. Committees are set up to focus on:

- Overall functioning of RCM – Resolve macro-issues and conduct assessments of model performance
- Control of university-wide costs – look at efficiencies, external benchmarks, evaluate opportunities for “shared services” or outsourcing
**DESIGN (FY13)**
- Read available RCM literature and researched RCM models at other universities
- Determined indirect cost pools and developed methodologies to allocate these costs to the revenue generating responsibility centers

**PREPARATION (FY14)**
- Advisory committees formed to discuss preliminary RCM budget model
- Develop preliminary budget model
- RCM budget model is continually refined and fine tuned based on committee feedback

**TRAINING & TRIAL RUN (FY15)**
- Training will be provided through information sessions, small focus groups, hands on computer labs, and documentation
- A trial run of RCM will be implemented on paper and run parallel to AFB
- Assumptions will be tested and “tweaks” made

**FULL IMPLEMENTATION (FY16)**
- RCM will be fully integrated into the general ledger
Questions?