

BUDGET MODELS in HIGHER EDUCATION:

An Overview of Responsibility  
Centered Management (RCM)

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# What is RCM?

- Responsibility Centered Management (RCM) refers to the coupling of academic authority and financial responsibility and generally refers to a decentralized budgeting and management model
- In higher education, Responsibility Centers i.e. Academic Units and Auxiliaries, etc., are responsible for generating revenue and managing costs
- RCM leverages incentives to control costs, improve productivity, and pursue entrepreneurial activities
- Public universities began experimenting with RCM in the late 1980s, adopting the process from private universities like Harvard
- RCM is often referred to as “Every Tub on Its Own Bottom” (Fuller, Morton, & Korschgen, 2005)

# Overview

- There are a number of different terms used to describe Responsibility Centered Management (RCM) including:
  - Incentive Based Budgeting Systems (IBBS)
  - Value Centered Management (VCM)
  - Responsibility Center Budgeting (RCB)
- Irrespective of the terminology used to describe the approach, they all share the same basic principles of decentralization and the movement of budgeting and management decision making to the individual units (Hearn et al., 2006)
- The tradition of decentralization in higher education is at the very nature of its institutions and as such, makes this management system both beneficial and challenging to implement

# History

- First used in private colleges and universities in the 1970s and 1980s
  - Harvard president coined the term “Every tub on its own bottom”
  - Harvard, University of Southern California, University of Pennsylvania
- Publics began experimenting in the late 1980s
  - University of Indiana – 1989
  - University of Michigan, University of Minnesota, University of New Hampshire
- Cornell, Florida, Arizona, Oregon and Michigan have recently followed suit

# Traditional Funding Model

- The traditional financial model of a public university includes allocating State provided revenue to the individual academic and support units through a central fund
- The central fund is typically made up of student fees (tuition and student fee charges), indirect cost recovery from research, restricted and unrestricted gifts, and state appropriations
- Central administrators typically determine unit funding allocations by applying an increment of the previous year's budget
- State appropriations make up the majority of the centrally managed fund (Goldstein & Meisinger, 2005; Weisbrod et al., 2008)

# The Basics of RCM Funding

- In an RCM managed system, State appropriations are distributed to the units based upon an agreed upon formula or through an incentive structure managed by central administrators but agreed upon by the various unit heads (Fuller et al., 2005; Goldstein & Meisinger, 2005; Whalen, 1991)
- Responsibility centers that make up the institution include academic units, research units, and central units (e.g., housing, student services, libraries, athletics, and campus police) (Whalen, 1991)
- RCM moves most if not all of the revenue away from the center and out to the units generating it

# The Basics of RCM Funding

- Identifying a unit as a responsibility center is most often determined by its revenue source (i.e. State, tuition & fees, sales & service, etc.)
- Not all units have access to revenue streams adequate to support themselves (e.g., the library system)
- In some cases, units require partial or total funding from central sources or through assessments or taxes on other responsibility centers (Courant & Knepp, 2008)
- Units may be self-sufficient, partially subsidized (hybrid), or fully subsidized. This is determined by evaluating each unit's ability to generate revenue and at what level

# The Flow of Funds within Academic Units

## Revenue Sources

- Tuition and Fees
- State Appropriations
- Financial Aid
- Indirect Cost Recovery
- Gifts and Endowments
- Other Revenue

## Cost Allocations

- Salaries and Benefits
- Facilities (Utilities, Custodial, Maintenance)
- Information Technology
- Support Services



# The Flow of Funds within Service Units

## Revenue Sources

- Rental Income
- Service Charges/Fees
- Sales and Other General Income
- State Appropriations

## Cost Allocations

- Salaries and Benefits
- Facilities (Utilities, Custodial, Maintenance)
- Information Technology
- Support Services

# The Flow of Funds within Auxiliaries

## Revenue Sources

- Ticket Sales
- Gifts and Endowments
- Sales and Other General Income

## Cost Allocations

- Salaries and Benefits
- Facilities (Utilities, Custodial, Maintenance)
- Information Technology
- Support Services

# Basic Principles

- Not every unit can fully support itself through the revenues it generates
- Responsibility centers, which include academic units, some service units, and auxiliaries pay some share of center expenses for support services such as:
  - Libraries
  - Development/Alumni Affairs
  - The University Brand
  - Campus Police
- Some responsibility centers (hybrids) generate enough revenue to partially fund their operations. In these cases, maximizing revenue opportunities, operating efficiently, and using a center subsidy to balance the books is the appropriate operating model

# Basic Principles

- Non-revenue generating units are fully supported centrally by either:
  - Taxes imposed on the responsibility centers
  - Some portion of state appropriations
- When determining an appropriate level of taxation, center expenses and service levels need to be examined to ensure fairness and operating efficiency
- Hybrid and non-revenue generating units should not be allowed to build staff and operations, that will result in an increased tax rate, without following a systematic and transparent process that justifies the expense and measures service delivery

# Subvention

- By definition, resources provided from central administration are referred to as subvention funds
- Subvention funds are typically administered by the Provost and may be used as a tool to influence the activities of responsibility centers i.e. ensuring they follow institutional goals
- “The argument for subvention requires that the individual school makes its case in the context of university-wide goals and priorities. We imagined a decentralized system integrated by the common need for subvention” – John Curry, USC
- “Subventions are not welfare.” It is critical that units receiving subvention follow a systematic process of justification and service level review, (Strauss & Curry, NACUBO, 2007)

# Benefits

- RCM has had a successful track record in private institutions
- Rewards entrepreneurial efforts
  - Revenues flow directly to the activity generating the income
  - Deans and faculty have the flexibility, authority, and incentives to respond to market forces
- Improve internal transparency and accountability
  - Reduces layers of institutional management
  - Clear linkages between budget and strategic initiatives of the institution
- Units have the benefits of predictable cash flow
- Central administration and units can focus on strategy, not budget

# Challenges

- Units might try to maximize unit benefits at the expense of the rest of the university
  - Offer programs to attract students that might not meet the academic standards of the institution
  - Focus on instructor productivity could lead to increased class sizes or the hiring of adjuncts
- Increased internal competition
  - Advising students to take courses within the units
  - Profitable units may resent tax rates and subvention payments to support less prosperous units
- Service providers must pass the marketplace tests of quality and price
- Making decisions based on academic and not financial merits

# Challenges

- Duplication of services
  - Units have a tendency to duplicate efforts that generate revenue
- Problems funding institutional wide efforts
  - Transparency needed for center revenue sources
  - Central administrators rely heavily on funding from taxes
  - Cost allocations can be formulaic further complicating the implementation and acceptance of RCM models
- Lack of fiscal management expertise at the unit level
  - Many deans are academics and not CEOs
- “Entrepreneurial systems do not necessarily create entrepreneurs”  
(Strauss & Curry, 2002)



# Challenges

- Tuition pressures
  - RCM places an increasing emphasis on tuition and fees
  - Historically tuition prices are well below the cost of providing the education
  - Many publics do not have the autonomy or political will to set in-state tuition rates at market or the cost of providing the education
- Significant Costs
  - Adequate information systems that provide reliable data for all units
  - Further increases in professionalized staff
- “Entrepreneurial systems do not necessarily create entrepreneurs”  
(Strauss & Curry, 2002)

## Some Keys to Success

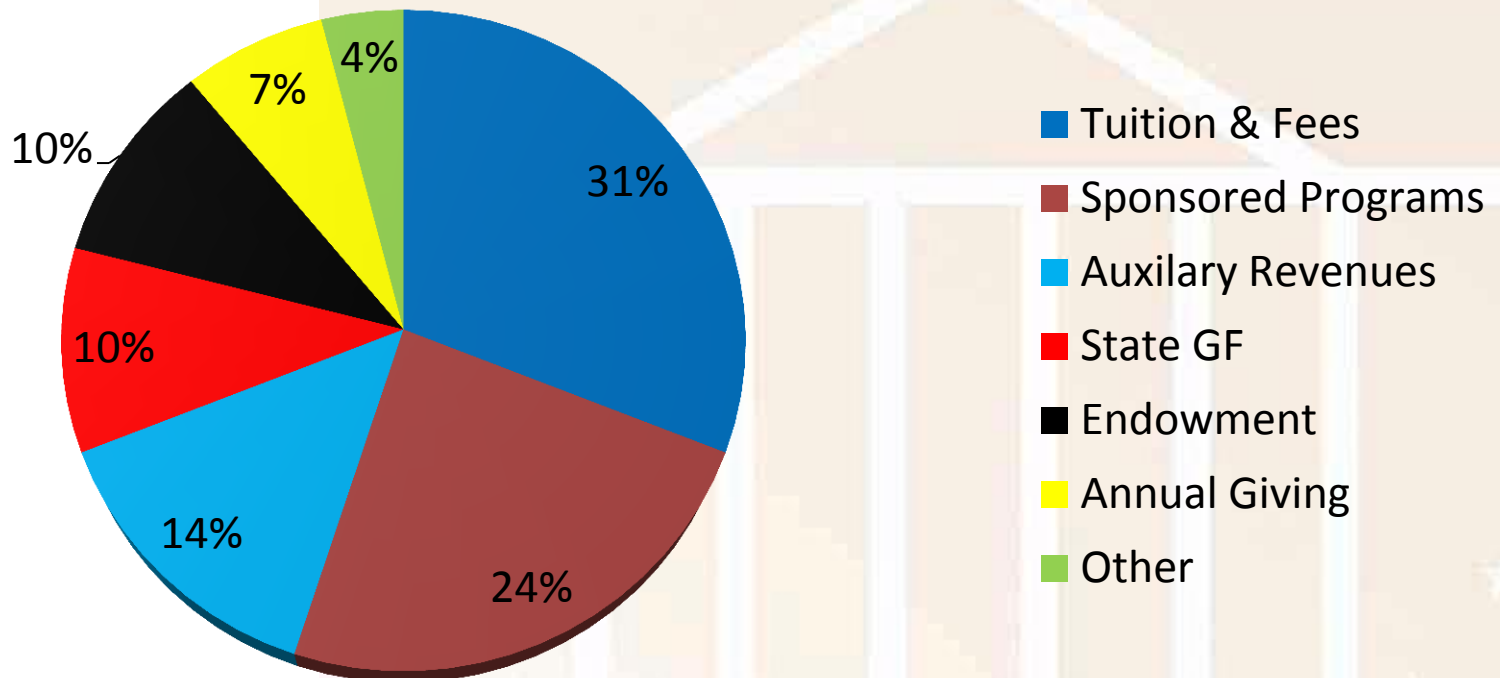
- Strong and consistent support from top leadership
  - BOV, President, EVP, and Provost
- Communication and transparency
  - Common set of data to be accessed by the units for reporting
  - Clear, simple formulas for revenue and cost allocations
- Tuition setting authority or flexibility
  - With decline in state appropriations, tuition and fees are the most important revenue source for most units
  - Examine multiple methodologies for increasing the size of the pie across all units
- Efficient and competitive administrative services

## References

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## Current Budget

2010-11



From: The University of Virginia Budget Summary for 2010-2011

## State General Funds per In-state Student

2009-10

