

Rutgers University Senate
Budget and Finance Committee (BFC)
Report and Recommendations on
Implementation of Responsibility Center Management (RCM)
As Adopted, March 2014

1. The Charge

Charge S-1312 - Responsibility Center Management Models:

Evaluate proposals for the implementation of the responsibility center management (RCM) budget model. Respond to Senate Executive Committee by March 2014.

a. Process

The Senate's Budget and Finance Committee (BFC) formed a subcommittee on Responsibility Center Management (RCM) to address the charge shown above. RCM as a budget model was first adopted by The University of Pennsylvania in 1974, and later was widely adopted by many private universities. As state support has declined, more state schools have also adopted this budget model. It is estimated that today there are about 40 major schools with various forms of RCM.

Evidence was gathered primarily from Internet research of the implementation of RCM budget models at other institutions,¹ as well as interviews and discussions with finance and budget professionals from Rutgers' administration. In addition, the subcommittee considered the input of members of the BFC, the Senate's Faculty Caucus, and other special guests to the BFC meetings. On a more informal basis, the subcommittee also considered the opinions of many members of the Rutgers community, including faculty, staff, and students.

The information, help and support received from all colleagues is gratefully acknowledged. Unless explicitly quoted, we cannot separate the committee's opinions and suggestions from those brought to our attention by others, and we assume the responsibility as if they were originated by us.

b. Scope of the Charge

The scope of this charge is very broad because RCM is a budget model that directly affects all budgetary items, and therefore all units and all aspects of University operations. Under a pure RCM model, RCM units receive all revenue they generate,

¹Sources used in this report as well as other background Internet sources are listed in the references.

especially from teaching activities and from indirect cost recovery. (They may also receive a share of general funds such as state allocations.) In turn, they are responsible for their direct cost of operating the units, including costs of space and maintenance. They are responsible for the cost of services received from internal support units: libraries, admissions, advising, etc. In addition, RCM units are “taxed” to support the indivisible services produced by the central administration, as well as strategic initiatives and internal redistribution.

Implementation of the RCM budget model includes very important (and difficult) considerations of designing the correct algorithms for the unit prices on the revenue side, and the correct unit prices on the cost side. At this time only a few general technical issues are considered.

2. Background at Rutgers and elsewhere

The budget problem of an academic institution (the “begging culture”?)

In academic research institutions, academic units (schools/ departments) are responsible for achieving their goals in academic research, teaching and service. Basic academic freedom enables them to act independently and without strict central control. In many institutions, however, the allocation of funds is controlled by central administrators: units spend what they feel is needed and appeal to central authorities when they need more. To remedy the disjunction between goal-setting and budgeting, many universities have decided to decentralize some revenue-generating decisions as well as some cost decisions to the academic units.

Prior to 2005, Rutgers had a fairly centralized system in which academic units had little awareness of, or responsibility for, budgetary decisions. Under all-funds budgeting (AFB), introduced in 2005, units – primarily schools – have received a portion of the tuition and research overhead revenues they generate, usually on top of a “basic subsidy” which comes from general revenue sources, including state allocations. They have not had direct budget responsibility for their use of central services (IT, libraries, etc.), for building maintenance, or for general administrative support. The administration has paid for these from its portion of the tuition and overhead dollars.²

The “Responsibility Center Management” (RCM) system would further extend all-funds budgeting principles. President Barchi has indicated strong commitment to the basic concept, but detailed implementation plans and budget algorithms have yet to be worked out. A University-wide committee including several members of the University Senate is charged with advising the process over the next year. The intention is to implement a “shadow” RCM budget alongside the existing budget for the budget year starting in July 2014, and to move to full implementation of RCM a year later.

² For more information and discussion of AFB see the following BFC reports:
<http://senate.rutgers.edu/BFCReportOnAllFundsBudgetingJanuary08AsAdopted.pdf> and
<http://senate.rutgers.edu/BFCOnS0914AllFundsBudgetingIntegrationApril2011.pdf>

The initial outline of RCM, as presented by Senior VicePresident for Finance Michael Gower to the Budget and Finance Committee in February 2014, would make several major changes to the current system.

- The entire University, including schools, research centers, and auxiliary units such as housing, will be included.
- Units will receive the revenues they generate from tuition, fees, facility and administration (F&A) return, and other sources. They may also receive an allocation from general revenues, as at present.
- From these revenues they will pay:
 - Direct costs (salaries, non-salary, space, etc.)
 - Costs based on usage for facilities and central services (libraries, academic and student support, IT, etc.)
 - General overhead (“taxes”) for strategic initiatives at the University and chancellor levels.

Thus, RCM units will be expected to be highly aware of, and to manage, the dollar costs and revenues of their activities. This more-decentralized budget model demands more financial/budgetary responsibility from the RCM units in accomplishing their academic goals. The intention is to create greater budget transparency and accountability throughout the University.

As with all-funds budgeting, Mr. Gower stressed that the RCM is a budgeting mechanism intended to support effective strategic decision-making at all levels; not to replace it. It should provide transparency and full information for informed discussion of the University's priorities.

A frequently voiced concern is that units may compete with each other for resources rather than cooperating and collaborating. This has been observed in some institutions using RCM. It does not, however, appear to have been a widespread problem at Rutgers under all-funds budgeting, and it has not been reported by most other institutions using this approach. President Barchi has already indicated that he will strongly encourage interdisciplinary initiatives. We believe that, with proper governance, the risk of internal division will be minimal.

3. Major recommendations and Discussion

There remain many areas of concern in the implementation of RCM. Many of the concerns and issues that emerged from Rutgers' experience with AFB seem to apply to RCM, as seen in other universities' experiences with various versions of it.

Relation of budget to the mission:

The primary concern at Rutgers and elsewhere has been that budgeting pressures would overwhelm the true mission and purpose of the University – for example, that the incentives for increased class size and grant funding may distort priorities in both teaching and research. The problem is how to manage the inevitable tensions between academic and budgetary criteria.

The University's new strategic plans at the University level, and those being prepared at the campus and school levels, provide a solid basis for defining the University's mission and priorities. These should be integrated directly into the budgeting process at all levels.

The Senate therefore recommends that:

Recommendation 1: The core strategic mission of the University – especially the central criterion of academic excellence – should be explicitly included in the RCM mechanisms at all levels.

Recommendation 2: All Responsibility Center Management (RCM) units' plans should include detailed discussion of their contribution to the strategic plan and to the academic mission of the unit.

Recommendation 3: The administration should be explicit about the priorities that justify allocation of funds to any RCM units and to new initiatives.

Shared governance / stakeholder involvement:

Since RCM is more than a technical budgetary formula, it must be subject to a credible governance process for defining the balance of budget and mission. The implementation of RCM will succeed only if faculty and staff support this balance, and actively pursue it in all decisions. Thus, if the potential of RCM is to be realized – and conflicts minimized – it is essential that stakeholders be deeply involved in the implementation process through credible representatives.

It is common in other universities with RCM systems to have budget committees with elected representation from major stakeholders. For example, the Academic Planning and Budget Committee at the University of Pennsylvania consists of: the provost; nine faculty members, five selected by the Faculty Senate; two administrative members named by the provost; and four students. Similar committees can help greatly in strengthening understanding and engagement throughout the institutions.³

The Senate therefore further recommends that:

Recommendation 4: In the process of developing the RCM model, *elected* stakeholder representatives (especially faculty, students, staff, and alumni) be an integral part of planning bodies. These representatives could come from the University Senate, which is currently the only existing, elected, multi-stakeholder body at Rutgers.

Representatives should extensively communicate with their constituencies, and the University should run frequent forums for wide discussion and learning about key issues.

At the levels above the RCM unit, the campus level and the university at large, there is a clear need for an active and effective budget committee(s) with credible stakeholder involvement that will consider campus and university-wide issues.

The Senate further recommends that:

³For more details about this committee please see: <http://provost.upenn.edu/about/councils/apb>
Also see the first page of: <http://www.upenn.edu/almanac/v39pdf/n19/012693-supp.pdf>

Recommendation 5: A permanent budget committee with elected representation from major stakeholders should consider major budgeting issues:

- 1. Appropriate algorithms for the sharing of the state and federal appropriations among the RCM units as well as other (reoccurring or one-time) non-tuition revenues;**
- 2. Needs for, and the amounts of, overhead expenses, and the appropriate sharing algorithm of these costs between the RCM units;**
- 3. Needs and justifications for any unit subventions should be made public to the University community.**

At the RCM unit level (department or school), the major budgetary decisions regarding tuition revenues and cost recovery, as well major operational spending needs, should take place with active participation and consultation of the unit faculty and other key stakeholders.

Transparency:

The foundation of efficient operation of the RCM model and the successful decentralization of decision-making must be transparency of information. People cannot make good decisions without good data. While total openness is neither feasible nor desirable, the availability of budget information at Rutgers is considerably less than at peer universities.

The Senate therefore further recommends that:

Recommendation 6: In the planning and implementation phases of the new RCM model, all faculty and staff should be fully aware of the details of the process.

Recommendation 7: Department heads, like heads of RCM units, should have access to realtime information and short-term projections of their budgetary standing.

Recommendation 8: Accessibility to budget information for other internal users should generally be higher than at present. Heads of stakeholders groups and heads of the University Senate should have access to detailed budgetary information at the RCM unit level and administrative units level for prior years.

Recommendation 9: Budget transparency to public (outside users) should be increased in line with the policies of peer RCM universities.

Different universities release different amounts of budgetary information (voluntarily) to the public via Internet. As this is a costly activity and there are no mandatory requirements, one should consider the optimal structure and the level of detail of the budgetary information that should be made public.

Budget surplus and deficit

In order to encourage budgetary responsibility and effective planning at the unit levels, it is essential that the time horizon go beyond one budget year, in order to motivate the efficient behavior of the RCM unit, and to prevent unnecessary spending. Trust of the RCM unit is needed to avoid the situation of use or lose it with regard to currently unused funds.

The Senate further recommends that:

Recommendation 10: Under RCM, units are encouraged to accrue savings over budget years to apply to future investments in their strategic plans

Recommendation 11: Within the core mission of the University, we recognize that revenue-generation capabilities vary among schools and departments, and the RCM implementation should take this into consideration.

The budgetary responsibility of departments:

Under all-funds budgeting, funds are generally distributed to deans, who could then decide on their allocations to departments. Some believe that departments should retain control of their own revenues and expenses since many important budgetary decisions regarding revenues and costs are initiated and implemented at this level. Although this has not been the general practice in RCM elsewhere, there should be careful examination of what authority should be decentralized to the department level. (For further discussion on the structure of the RCM unit see “Responsibility Center Management at Major Public Universities” (link below) p. 4 and p. 11. See also President Barchi’s recommendation to bring RCM to the department level in <http://president.rutgers.edu/public-remarks/speeches-and-writings/president-barchis-report-university-senate>).

We do not believe there is sufficient clarity or agreement to make a recommendation at this time. Whatever the actual budget responsibility of departments, we believe that detailed information should be shared with them.

Appendix A

Some Technical Recommendations for implementation

Recommendation X1: The Senate recommends that, under RCM, all “internal prices” charged to RCM units for goods and services provided should be based on the opportunity cost of the goods and services provided.

Recommendation X2: The Senate recommends that, under RCM, all “internal prices” charged to RCM units for the use of long-lived (fixed) assets should be based on the replacement costs, and not just on historical average costs.

REFERENCES

Indiana University: <http://weathertop.bry.indiana.edu/mas/rcm/>

University of Michigan:

http://sitemaker.umich.edu/obpinfo/about_the_um_budget_model

University of Minnesota: http://www.budget.umn.edu/int_bud_model_overview.pdf

University of Pennsylvania (one of the best):

<http://www.finance.upenn.edu/comptroller/rcm/>

Outsourcing the Soul, David Kirp (useful and brief case studies of Michigan and USC)
<http://net.educause.edu/ir/library/pdf/ffp0212s.pdf>

The NEA: Beware Higher Ed's Newest Budget Twist, Leroy Dubeck
http://www.nea.org/assets/img/PubThoughtAndAction/TAA_97Spr_07.pdf

The AAUP: The Corporate University, Cary Nelson
<http://www.cary-nelson.org/nelson/corpuniv.html>

RCM at Major Public Universities, Hanover Research Council (longer and in-depth, non-pedagogical and non-ideological case studies of different public universities' ways of implementing RCM, with positive and negative results):
<http://www.usask.ca/tabbs/documents/RCM%20at%20major%20public%20universities>

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