

# Responsibility Center Management (RCM) at Kent State University

July 2015

# Overview of Presentation

*Goal: Provide an overview of RCM and KSU's use of RCM as a budget allocation method.*

## *Topics:*

- What is RCM?
- Why RCM at KSU?
  - Timeline of RCM at KSU
- How RCM Works at KSU
  - Roles of personnel

# Overview of Presentation - (continued)

## *Topics (continued):*

- RCM Revenue
    - Categories
    - Allocation
  - Responsibility Centers' Operating Budget
  - Non Centers' Budgets
  - Expenses
  - Investment/Subvention pool
  - Reserves
- Indirect Cost Recovery
- Sources

# What is RCM?

## Responsibility Center Management (RCM)

- a very flexible budget approach
- compatible with shared governance values
- aligns with college and campus planning

# What is RCM?

*A decentralized approach to budget allocation*

- Academic colleges are “responsibility centers” (more control over resource decisions).
- Methods are developed for allocating revenues and expenses to responsibility centers.
- A central budget pool (subvention) usually exists to help fund priority academic programs that are not financially independent.

# What is RCM?

*RCM is intended to produce improved outcomes by:*

- Reducing barriers to generate new revenues
- Encouraging innovation and efficiency
- Promoting broad stewardship of financial resources
- Aligning financial resources with academic needs
- Improving outcomes for students
- Decentralizing budget decisions
- Increasing transparency in the budget process

# What is RCM?

*Concerns expressed regarding an RCM approach:*

- Overhead payments are too much
- Too much focus on financial performance
- Internal competition can weaken the whole
- Too much emphasis on teaching/enrollment and less incentives for research
- Central funds available for strategic priorities may be limited
- Central services may be duplicated in Responsibility Centers

# Why RCM at KSU?

In 2006, the executive team at KSU determined it was time for a review of the budget allocation method. State funding was declining, enrollment was decreasing.

A broad-based university committee (Budget Review Committee) was formed and guiding questions were developed:

Are there budget approaches that would be better suited to Kent State rather than the current model?

Is RCM an appropriate budget approach to respond to today's academic and financial challenges?

If it is determined that RCM is the most feasible approach, how should it be implemented?



# Why RCM at KSU?

*The Budget Review Committee recommended an RCM model because this budget allocation approach:*

## Combines academic and financial decision making

- Responsibility centers are able to control the revenues they generate and decision makers are better able to understand both the academic and financial impacts of their decisions.

## Increases transparency of decision making

- With RCM, academic planning and resource decisions are more transparent within the unit and throughout the institution. Armed with improved information and the potential to retain increased financial resources, decision makers at the college/campus level may leverage even limited resources more effectively, improving university accomplishments and outcomes.

## Promotes improved outcomes

- RCM's underlying premise is that the decentralized nature of the model entrusts academic leaders with more control of financial resources which leads to more informed decision-making and better results or outcomes for the University as a whole.

# Timeline of RCM at KSU

- The Budget Review Committee formed in 2006 recommended an RCM approach.
- Broad consultation with the university community occurred.
- Faculty Senate Budget Advisory Committee (FaSBAC) was formed.
- Allocations of revenues and expenses were recommended by the Budget Review Committee.
- RCM was implemented on July 1, 2009 for Fiscal Year 2010.
- Review of RCM implementation by FaSBAC – changes made in allocation methods beginning in FY12.
- Allocation method for State Share of Instruction changed in FY15 (FaSBAC committee)
- FaSBAC review of RCM approach occurred in FY15

# How RCM works at KSU

Fundamental to RCM are the Responsibility Centers. The following units are Responsibility Centers at Kent State:

- Applied Engineering, Sustainability & Technology
- Architecture & Environmental Design
- Arts & Sciences
- Arts
- Business Administration
- Communication & Information
- Digital Sciences
- Education Health and Human Services
- Nursing
- Public Health
- Regional Campuses \*
- College of Podiatric Medicine \*
- Auxiliary Operations \*

*\* Allocation methods discussed in this presentation do not apply.*

# How RCM works at KSU

## *Roles*

### Responsibility Center Roles

- Responsible for developing strategic and financial plans that fit within the overall academic and university plans.
- Responsible for their overall fiscal performance.
- Held accountable for the effective and efficient management of their resources and are required to report periodically on the status of their Center.

# How RCM works at KSU

## *Roles*

### Central Administration Roles

- The KSU president and the board of trustees ultimately determine the university strategy and budget priorities.
- The office of each vice president provides oversight to the units reporting to it and ensures the unit budgets reflect priorities as described in the unit's and the University's strategic plans.
- Each vice president is a member of the President's Cabinet whose responsibilities include overall stewardship for the university's budget.
- The Provost and Senior Vice President for Academic Affairs is responsible for leading the academic planning process and ensuring academic quality in all colleges.
- The Senior Vice President for Finance and Administration is responsible for ensuring all units are using resources efficiently and effectively and within designated authority.

# How RCM works at KSU

## *Roles*

### Faculty Senate Budget Advisory Committee (FaSBAC)

- Established to provide university-wide consultation and advice on budgetary issues at the university and division levels
- Co-chaired by the Provost and Senior Vice President for Academic Affairs and the Senior Vice President for Finance and Administration
- Comprised of representatives from faculty, deans, chairs and directors and students
- Faculty representatives are nominated by College Advisory Committees, the Regional Campus Faculty Advisory Council and the Faculty Senate

# Kent Campus Responsibility Centers

## Revenue allocation - Overview of Steps

1. Separate revenue into RCM revenue and non-RCM revenue categories
2. RCM revenue is allocated based on agreed upon methods
3. Adjustments are made to RCM revenue to arrive at Net RCM revenue
  - Institutional Scholarships
  - Collection costs, bad debt expense, bank service charges
  - Foundations of Excellence Debt Service
  - Office of Global Education
  - Partnership and revenue sharing agreements
4. Net RCM is divided based on agreed upon methods
  - RCM central pools
  - Investment/Subvention pool
  - University services, facilities, strategic resources
  - Centers



*Details of each step*

***Step 1: Separate revenue into RCM revenue & non-RCM revenue categories***

## **RCM Revenue**

Instructional Fees

Out-of-State Surcharge

State Share of Instruction  
(SSI)

*Note: Only RCM Revenue net of adjustments is subject to the 42.3% “tax” to support University services, facilities and strategic resources and the 0.5% “tax” for the Investment/Subvention pool.*

## **Non RCM Revenue**

General Fees

Tuition above the plateau

Investment Income

Indirect Cost Recovery

Program Fees

Course Fees

Other Fees & Departmental Income



*Step 2: RCM revenue is allocated based on agreed upon methods*

- Instructional fee & Out-of-state surcharge

*Allocated based on current year enrollment*

- *Undergraduate:* Revenues are shared between  
the college offering the course [*“Teaching”*] college (80%) and  
the college of the student’s major [*“Home”*] college (20%).

*An example of this is provided in the next two slides*

- *Graduate:* Revenues are allocated to the Teaching college.

**EXAMPLE:** Distribution of tuition revenue in the RCM model and the sharing of undergraduate revenue between the college offering the course [“Teaching”] college (80%) and the college of the student’s major [“Home”] college (20%).

***The per credit hour amount of RCM fee revenue is estimated first.***

**AY15-16 Tuition per semester for an undergraduate full-time Ohio resident**

Description	Per semester	Revenue category
Instructional Fee	\$4,196.30	RCM revenue
General Fee	<u>809.70</u>	Non RCM revenue
Total tuition	<u>\$5,006.00</u>	

***Allocation through RCM model - Gross Revenue (prior to deductions)***

Instructional Fee	\$4,196.30
Overall credit hour load assumption*	13.0
Estimated RCM revenue per credit hour	\$ 322.79

\* In the RCM model, total instructional fee revenue is divided by total credit hours to obtain the per credit hour rate.

*Following shows revenue allocation by college for two students enrolled in same courses but with different majors.*

*Based on courses enrolled, determine revenue for courses taught by teaching college.*

	Student A Major: BSCI - A&S		Student B Major: ECED - EHHS	
	Credit hours	Instructional fee Revenue	Credit hours	Instructional fee Revenue
Hours in A&S	5	1,614	5	1,614
Hours in EHHS	5	1,614	5	1,614
Hours in Arts	3	968	3	968
<b>Total</b>	<b>13</b>	<b>4,196</b>	<b>13</b>	<b>4,196</b>

*Allocate 80% of revenue to teaching college and 20% to home college*

	Student A Major: BSCI - A&S					Student B Major: ECED - EHHS				
	Teaching College -80%			Home College -20%		Teaching College -80%			Home College -20%	
	A&S	Arts	EHHS	A&S	Total	A&S	Arts	EHHS	EHHS	Total
Hours in A&S	1,291	-	-	323	1,614	1,291	-	-	323	1,614
Hours in EHHS	-	-	1,291	323	1,614	-	-	1,291	323	1,614
Hours in Arts	-	775	-	193	968	-	775	-	193	968
<b>Total</b>	<b>1,291</b>	<b>775</b>	<b>1,291</b>	<b>839</b>	<b>4,196</b>	<b>1,291</b>	<b>775</b>	<b>1,291</b>	<b>839</b>	<b>4,196</b>

<b>Summary by College</b>	<b>Student A</b>	<b>Student B</b>
A&S	2,130	1,291
EHHS	1,291	2,130
Arts	775	775
<b>Total</b>	<b>4,196</b>	<b>4,196</b>

*Step 2 (continued) RCM revenue is allocated based on agreed upon methods*

- State Share of Instruction (SSI)

Divided into three categories:

- course completion for undergraduate and masters students
- degree completion for undergraduate and masters students
- doctoral allocation

*Note: The internal allocation of SSI used in the RCM model differs from the formula used by the State of Ohio.*

## *Step 2 - continued*

### SSI - Course completion

- 80% of the total amount of SSI for undergraduate and masters' students
- Allocated using a 2 year average of course completion FTE using statewide average costs
- Undergraduate allocation provides 80% to teaching college and 20% to home college.
- Masters allocation provides 100% to teaching college.

### SSI – Degree completion

- 20% of the total amount of SSI for undergraduate and masters' students
- Allocated using a 2 year average of degrees completed using statewide average costs
- 100% to the home college

## *Step 2 - continued*

# SSI - Doctoral Allocation

*Allocation is similar to the State of Ohio formula which has three components*

- Historical: Uses a five year average of enrollments and uses statewide average costs. Provides 100% to the teaching college.
- Degree completion: Uses a three year average of degree completions and uses statewide average costs. Provides 100% to the home college.
- Research activity: Allocated using R&D expenditures reported in the NSF survey. R&D expenditures funded from state/local and institutional categories are excluded. The college's share of the SSI component is based on its share of the total "included" R&D expenditures.

### *Step 3: Adjustments are made to RCM revenue to arrive at Net RCM revenue*

## Why adjust gross RCM revenue?

*The allocation between Centers' and central administration services and facilities is based on net revenue. This means that both areas share the cost of reductions to gross revenue.*

## Adjustments

- Scholarships – institutionally funded

*Separated into in-state and out-of-state categories and allocated to undergraduate fee revenue*

- Collection costs, bad debt expense, bank services charges

*Allocated based on total fee revenue to undergraduate and graduate students*

### *Step 3 - continued*

## Adjustments to gross revenue (continued)

- **Foundations of Excellence debt service** *(following assists in partially funding the annual installment for \$170 million in bonds issued for university-wide improvements)*

*Two components allocated based on total RCM revenue*

- \$3.0 million annually
- \$1.98 million annually (equal to 1% of the FY13 increase in instructional fee)

- **Investment in Global Education**

*Allocated based on total RCM revenue*

- **Reductions in standard tuition rates for partnership agreements and payments for revenue sharing agreements**

*Amounts allocated to the specific college with the agreement*

*(e.g., EHHS partnerships; BMS program with NEOMED; PhD Sociology program with UA; Clinical Placement; Partnership with Lorain County Community College)*



***Step 4: Net RCM is divided based on agreed upon methods***

- University services, facilities and strategic resources (42.3% of Net RCM revenues \*)
- Investment/Subvention pool (0.5% of Net RCM revenues \*\*)
- RCM central pools \*\*\*

***Remaining amount after above calculations is provided to the Centers***

*\* The percentage assessed on RCM revenues is 42.3% except for a 30% rate assessed on revenue from Public Health courses offered at the Twinsburg Regional Academic Center. Payments to third party providers for fully online programs are deducted from the revenue base before applying the percentage.*

*\*\* Payments to third party providers for fully online programs are deducted from the revenue base before applying the percentage.*

*\*\*\* Central pools consist of employee/dependent tuition benefits, telecommunications pool, and ADA contingency pool. RCM Centers receive allocations from these pools during the fiscal year based on actual expenses.*

## Kent Campus Responsibility Centers Operating Budget - Overview

*Net RCM revenue is the major source of Centers' operating budget, but not the sole source.*

*The Centers' operating budgets have three components:*

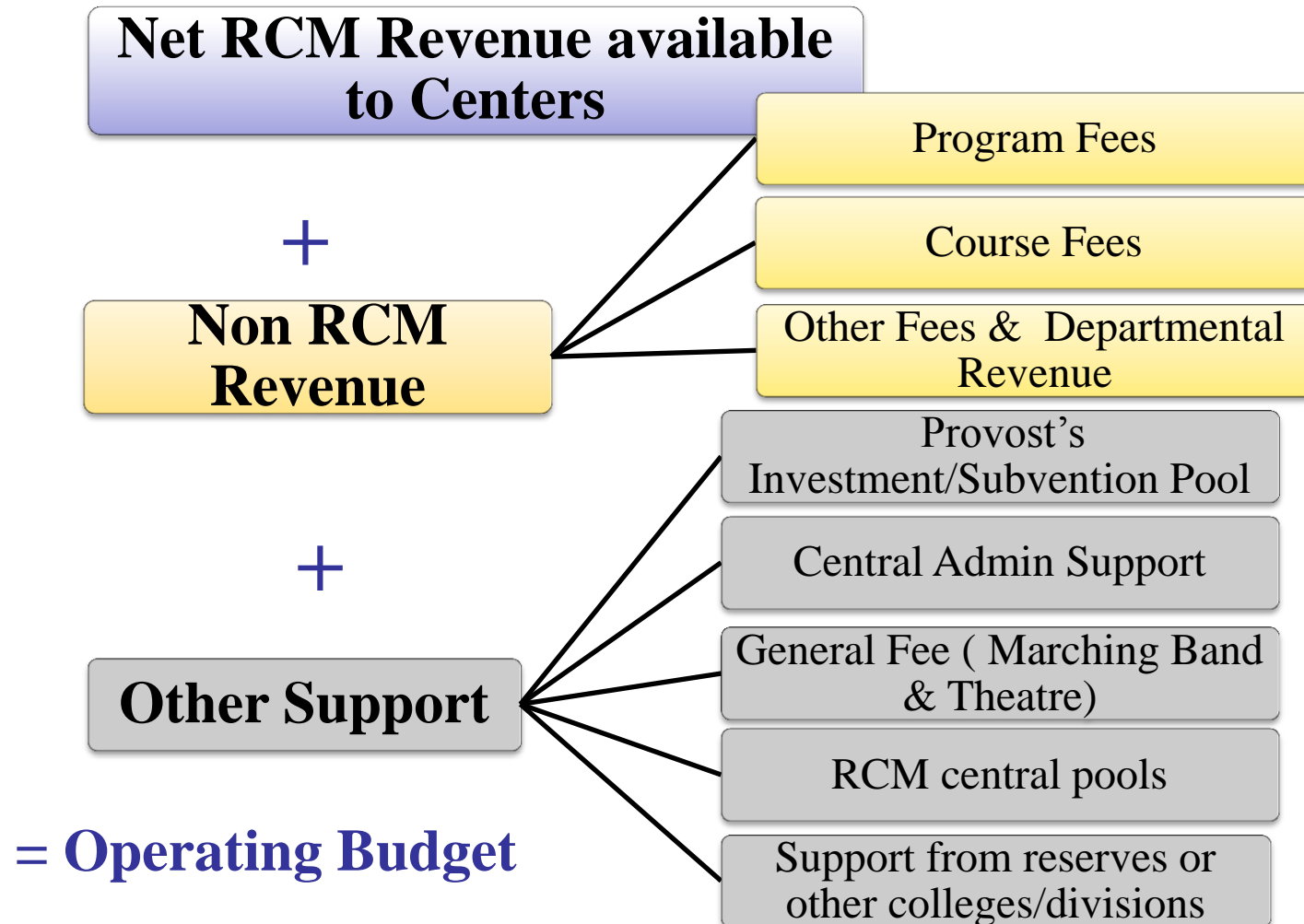
- Net RCM Revenue available to Centers ( described previously)
- Non RCM Revenue
- Other Support



*Details of each  
component*

# Kent Campus Responsibility Centers

## Operating Budget - Detail



## Kent Campus Non-Centers' Budgets

The budget available for Non-Centers is derived from two components.

- 42.3% of Net RCM revenues
- Investment Income

The amount available is used to cover all costs associated with academic support, administrative support, facilities and to provide some funds available for strategic priorities.

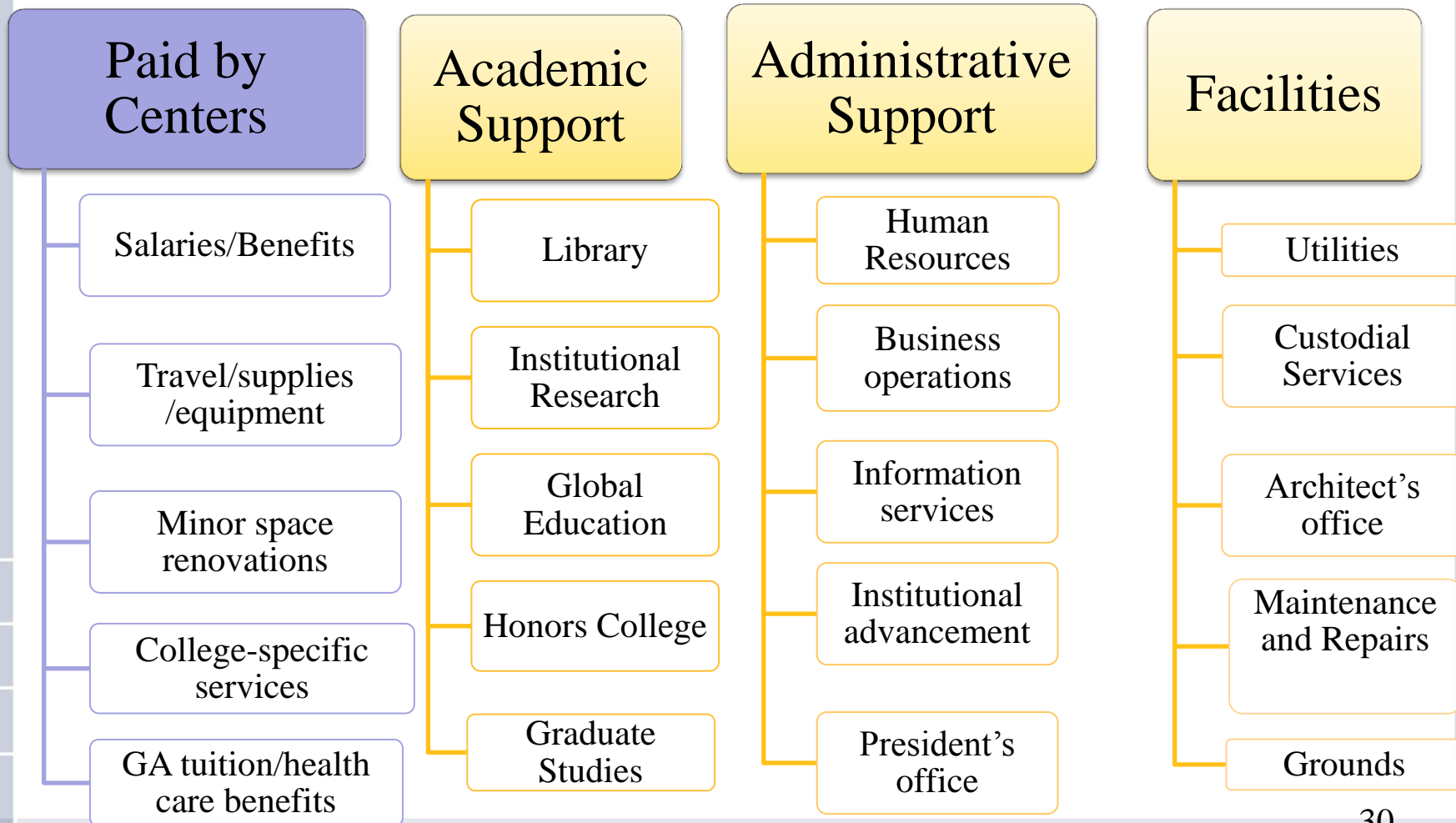
## Kent Campus: Expense Categories

### Major Categories of Expenses:

- Expenses paid by Centers
- **Non-Centers' expenses** (funded by a portion of net RCM revenues plus investment income)
  - Academic Support
  - Administrative Support
  - Facilities
- **Scholarships** (funded by gross RCM revenues)

Example of expenses: 

## Kent Campus Expense allocation - Examples



## Kent Campus - RCM Investment/Subvention pool

- Purpose: To cover deferred maintenance facility issues, central administrative initiatives, president's initiatives and academic affairs' initiatives
- Sources:
  - Permanent allocation from FY10 increase in Regional Campuses Service charge (remains constant)
    - 33% to President
    - 67% to Provost
  - 0.5 % of net RCM revenue
    - 25% to Facilities
    - 25% to President
    - 50% to Provost

# Kent Campus - RCM

## Investment/Subvention pool

- FY15 Amount

Investment/Subvention pool	Base	RCM amount	Total Pool
President	477,315	386,573	863,888
Provost	954,631	773,146	1,727,777
Facilities	-	<u>386,573</u>	<u>386,573</u>
	1,431,946	1,546,292	2,978,238

- FY15 Examples of Uses

President: marketing/advertising

Provost: College of the Arts subvention; faculty start up funds,  
coordinated faculty hires; Math Emporium

Facilities: Nixon chilled water, Library Data Center, vehicle for facility  
operations

- Remaining balances carried forward to next budget year



## Reserves – Overview

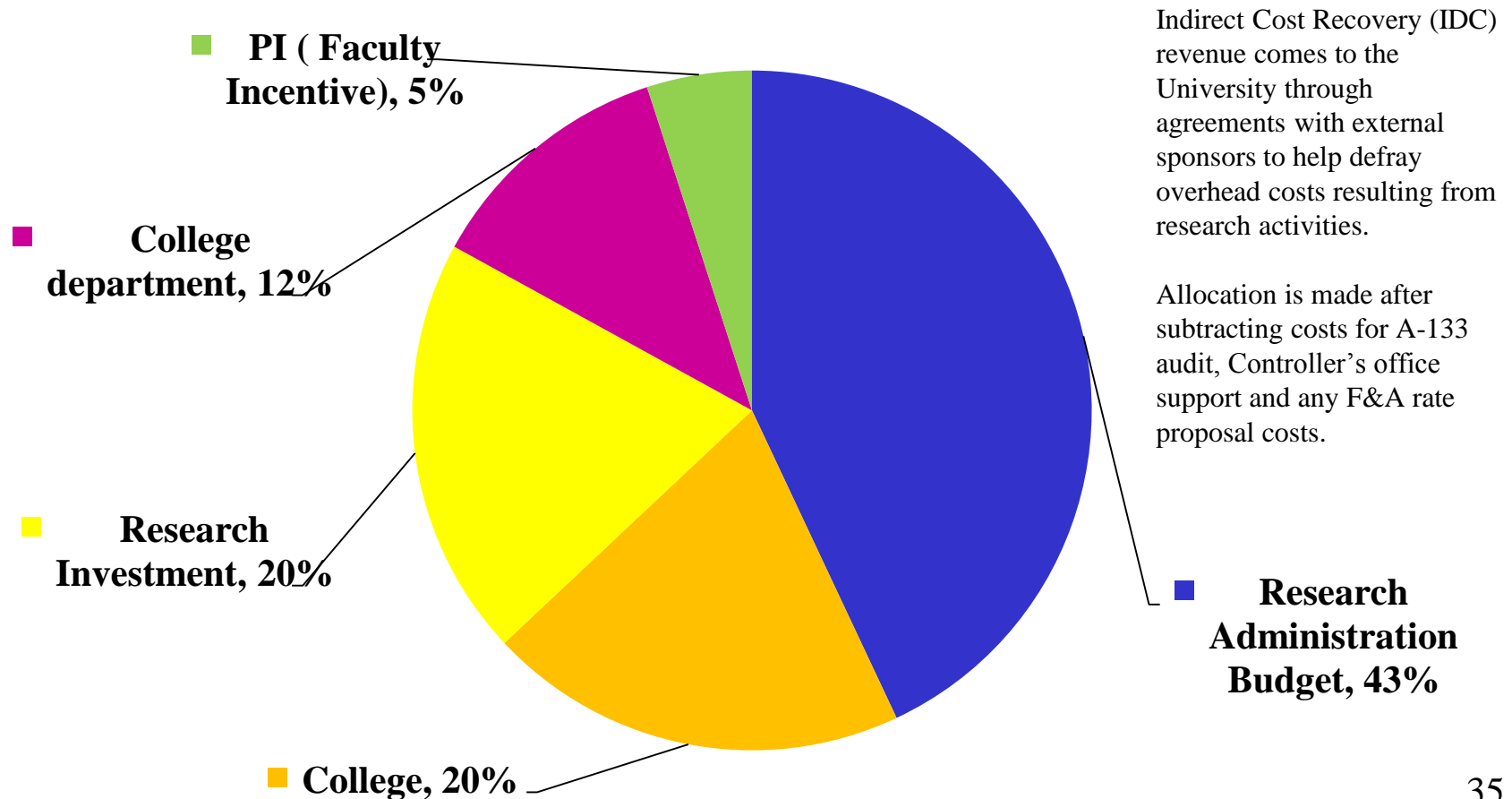
- Current Fund Reserves
  - Unspent funds from current operating sources
  - Decentralized in responsibility centers and non-Centers (by vice president).
  - Typical uses
    - *One-time investments/strategic initiatives*
    - *Protect against future downturns in revenues*
    - *Fund general activities/unanticipated expenses*
- Gift/Grant Fund Reserves (KSU Foundation)
  - Subject to donor restriction or grant/contract
  - Could be included in Center's financial plan to help reduce financial pressures on general funds

# Non RCM Revenue: Indirect Cost Recovery

## Indirect cost recovery (IDC)

- Not part of RCM revenue - *original expectation was that IDC would be sufficient to fund operating budget of Research & Sponsored Programs (RASP).*
- Not considered in Centers' annual operating budget
- IDC entries made at fiscal year end and added to Centers' reserve funds for future use

## Non RCM Revenue: Indirect Cost Recovery – Allocation



## Sources

RCM Manual

<http://www.kent.edu/budget/rcm-manual>

Budget Review Committee

<http://www.kent.edu/budget/budget-review-committee>

University Operating Budget

<http://www.kent.edu/budget/budget-books>

Foundations of Excellence

<http://www.kent.edu/facilitiesplanning/news/kent-state-gets-green-light-historic-campus-transformation>

Please feel free to contact us if you have questions or would like additional information. Thank you.

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