

2010-2011 BAC Report on RCM

For the past two years (2009-2011) the Budgetary Affairs committee has been charged with understanding and evaluating the faculty response to the implementation of the RCM budgeting method at IU East. The IU East budget is complex, with several income streams and multiple units that require annual budgets—all with different priorities. The difficulties of having a faculty committee evaluate the efficacy of a complex multi-million dollar budgeting method should be self-evident. There were no accounting or economics professors on the committee. Several of the members labored to grasp the fundamental nature of the system, let alone its nuances. By and large, 2nd year members were those best able to understand the budget documents. After two years of implementation of the system in the Schools, the committee solicited feedback regarding RCM from School Deans and other Unit heads, as well as faculty members as primary data for this report.

RCM: Responsibility Center Management—a university budgeting method that organizes the university into “budgeting units know as Responsibility Centers” and delegates operational authority and budgetary decisions into academic units that provide tuition income.

IU East academic responsibility centers are funded primarily through three sources:

- 1) All student tuition and fees earned by the academic RC or school stay in the school. The funding from tuition and fees is provided by enrollment in classes taught by the school.
- 2) Academic RC’s also receive an allocation of the State Operating Appropriation approved by the State Legislature for IU East.
- 3) Other funding sources such as gifts, endowments, contracts and grants complete the income streams.

Essentially, the RCM method sets up the various units of IU East into two classes: income generating, and non-income generating. The units that generate income are the 5 schools that bring in tuition and fees corresponding to their semester hours of student enrollments. The non-income units include Physical Plant, Enrollment Services, the Library, etc. These units are primarily funded through a “tax” assessed to the income producing units in proportions as determined by allocation parameters such as occupied square feet and faculty and student FTE.

Two situations exist that provide either opportunity or concern.

- 1) An income producing unit could have a revenue surplus after expenses are budgeted due to high student enrollment, high student-to-teacher ratios, or lower expenditures than expected.
- 2) An income producing unit could experience a budget deficit, requiring a plan over a specified time, typically 3 years, to bring expenditures in line with revenues. The deficit would be funded from non-academic campus reserves during the plan period.

From a structural perspective, one can view the RCM budget method as the application of a capitalistic economic paradigm onto a non-profit organization. The change will require employees of IU to shift their thinking about how the university is funded.

The RCM budgeting method requires that each unit operate within its budget to avoid deficit situations.

In 2010, four units managed a surplus ranging from approximately 200K to 900K each. Those units encumbered the surplus funds with competitive proposals to purchase much-needed equipment upgrades and fund other opportunities that would enhance the educational experience of students. Some surplus monies were used to hire temporary faculty.

In the Spring of 2011, the School of Education addressed a deficit that required difficult decisions to bring their expenditures in line with their revenues. Their decisions occasioned much concern and discussion. The larger question became “Could an academic unit unable to bring expenditures in line with revenues eventually be eliminated under this budgeting method?” Ostensibly, a cycle may manifest as a negative spiral of decreased services, leading to decreased student interest, causing a further declining budget. RCM shifts the responsibility for addressing such challenges onto the affected school.

The future, like our budget, may prove to be complex. Many factors come to bear on budgets, including a reduced enrollment caused by economic or political constraints beyond the management of that academic unit. RCM ostensibly addresses such a situation “capitalistically,” constraining all units within the organization to maintain a balanced budget. Within RCM’s framework, a unit could be extensively reorganized to meet the budget requirements. The elimination of a unit is theoretically possible. RCM budgeting may be shifting the burden of responsibility of a potentially challenging budget situation in the future away from IU administrators and laying it upon the Deans of academic units.

In summary, at this point in time, a majority of faculty members favor the new budget system, having determined that its problem areas are tolerable and provide a higher degree of faculty input as compared to the old budget method. Likewise, with consideration given to pros and cons, Deans of the five academic schools also unanimously favor the system, according to their school representatives. RCM budgeting provides a fabulous opportunity for growth and innovation in viable academic programs.

RCM provides an efficient framework for evaluating the profitability of programs and departments. However, if a particular school is facing budget problems while IUE is enjoying its current strong fiscal environment, what might happen if that fiscal environment deteriorates? RCM provides a model that will spotlight declining revenues in particular programs and direct attention to them for changes.