RCM at Indiana University

What is RCM?

RCM is a decentralized budget model that consists of policies and procedures that underlie financial planning and management. Decentralization allows RCM to allocate institutional resources by moving power away from the chancellor's office or a central unit to the academic deans of each school. Since RCM gives schools ownership of their individual revenues and costs, it also allows them to be accountable for their own academic and financial planning and therefore encourages entrepreneurship, efficiency, and educationally sound choices.

This definition of RCM is reflected in Whalen's (1991) nine basic concepts of RCM. The first concept helps to describe the decision to put financial planning at the school level. This concept is defined as proximity, and states that the "closer the point of an operating decision is to the point of implementation, the better the decision is likely to be" (p. 11). The second concept, proportionality, discusses the importance of maximizing the balance between centralization and decentralization. Too much centralization can increase communication burdens and remove the focus from issues outside of the central office. Too much decentralization can result in a duplication of functions, and a loss of control. This is a balance that institutions need to try to achieve.

Strauss and Curry describe a fundamental premise of RCM as "giving the faculty of schools or departments specific, measurable incentives to exercise their considerable authority responsibly for the benefit of themselves, their students, their organizational units, and the institution as a whole" (Strauss & Curry, 2002, p. 1). RCM focuses on giving individual schools ownership of their financial planning, but as described in the seventh concept of community, "the fate of individual units is bound up in the success of the entire institution" (p. 12). The mission of Indiana University as a whole must continuously be thought of in all levels of financial planning.

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RCM Implementation at Institutions of Higher Education

The University of Pennsylvania was the first higher education institution to implement RCM in 1974. Over the course of the 1980s, other institutions worked to implement RCM into their budget model. This included the University of Michigan, University of Toronto, University of Southern California and Indiana University. Since then many other public and private institutions have implemented various scales of RCM, and the list continues to grow. Some of these institutions include Duke University, Harvard, Ohio State, Washington University of St Louis, UCLA, University of Iowa, and the University of Oregon.

RCM and Indiana University

History of RCM at IU

Prior to 1990, Indiana University Bloomington used a traditional centralized fiscal management system that attributed all state appropriations, student fees, and other income to campus-level accounts. Unit expenditure budgets were created and administered under guidelines that permitted relatively little unit autonomy in allocating or reallocating resources.

In the fall of 1987, President Ehrlich initiated discussions that led to the development of a system known then as Responsibility Center Budgeting, or what is now known as Responsibility Centered Management. President Ehrlich's goal was to develop a system guided by three basic principles:

- all costs and income attributable to each school and other academic units should be assigned to that unit;
- appropriate incentives should exist for each academic unit to increase income and reduce costs to further a clear set of academic priorities;
- all costs of other units should be allocated to the academic units.

RCM was implemented on the Bloomington campus in 1990. Since then three reviews of RCM have occurred. These reviews aimed to gain individuals' perceptions and opinions on RCM and also intended to understand the impact of RCM at

IU. Along with this, separate discussions with deans and other individuals also played a role in the evaluation of RCM. As a result, these efforts have allowed RCM to evolve at IU and in turn have supported the institution's efforts to balance both campus responsibility and school autonomy.

How RCM Works at Indiana University

The academic units at IU currently have three major sources of income under RCM: student fee income, state appropriations, and grant income. Graduate fee income flows directly to the academic school and undergraduate fee income is distributed on the basis of the market share of the previous year's net credit hours. During the 1990s there were small changes in the distribution of state appropriations to achieve campus goals. More recently this percentage has remained fixed in an effort to improve transparency and accountability for changes in tuition revenue.

Once the academic schools have received their income, each pays a tax or assessment fee that goes back to a central unit at the university. This tax money covers expenses for operations such as utilities, building maintenance, the library, physical plant, and enrollment management. The amount of tax assigned to each school is based on a formula that considers inputs such as total credit hours, tenure-track faculty FTE, other academics, staff FTE, assignable square feet, and net direct expenses. This assessment formula is revised yearly.

RCM Review Reports

When RCM was introduced in 1990, it was anticipated that the system would evolve through modification. Three previous RCM Review Committees have analyzed the system and made a number of recommendations that were implemented in 1996-97, 2000-01, and 2005-06. In 2011, the Bloomington Campus entered its 20th year under RCM. A current review is underway with an expected report towards the end of the year.

Review reports:

- 2011
- 2005
- 2000
- 1996

State Cuts and RCM

If there is a reduction in state funding to IU, an algorithm is used to calculate the appropriate cuts across all units on the Bloomington campus. President McRobbie has directed that this is based on each unit's share of general fund expenditures, and that it excludes at least the following five items from the cut:

- Utilities;
- Insurance;
- Debt Service;
- Financial Aid; and
- Student Technology Funds.

While University Administration (UA) does not receive state funding, each campus' University Tax is also cut so that UA budgets decrease by the same percentage that campus budgets fall.

To calculate the required spending cut for each unit on Bloomington's campus, the five exclusions are first removed from each unit's base budget expense. Once this is done, the units' new base budget expense less exclusions is totaled to get the new campus base budget expense.

To generate the percentage to cut each unit's budget, the original state budget cut is divided by the new base budget expense. This becomes the percentage by which each unit's budget (less exclusions) is cut. All cuts then total the state budget cut.

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References

Strauss, J. C., & Curry, J. R. (2002). Responsibility center management: Lessons from 25 years of decentralized management. Washington, D.C.: NACUBO.

Whalen, E. L. (1991). Responsibility Center Budgeting: An Approach to Decentralized Management for Institutions of Higher Education. Bloomington & Indianapolis: Indiana University Press.