

University of Wisconsin Oshkosh Budget Model: Past Practices and Future Possibilities

White Paper

Chancellor Study Group – Budget Structures

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Executive Summary

In summer 2014, then Chancellor Wells charged the Strategic Financing Budget Review Team with assessing UW-Oshkosh's current budget model and exploring activity-based alternatives. This committee met twice and was then disbanded in January 2015 by Chancellor Leavitt. A smaller version of the committee, in fact a subset of the original committee, was soon thereafter reconstituted as the Chancellor Study Group – Budget Structures (CSG-BS).¹ The new group received a three-part charge:

- Outline UW-Oshkosh's current budget model, including strengths and weaknesses.
- Outline other budget models used in higher education, including strengths, weaknesses, and specific examples.
- Outline attributes of a well-functioning budget model, with an implied focus on the university-to-college/units budget level.

Research into the budgetary status of public universities elsewhere in the state (e.g., UW-Madison), in many other states, and in Canada revealed a similar set of frustrations with traditional budget models. Research also revealed many recent budget model changeovers as well as numerous ongoing efforts to study the possibility of a changeover. Emerging from these many budget review committees and budgetary self-studies, among them our own CSG-BS, are five desiderata designed to guide the exploration of new budget models:

- 1) A budget model should incorporate simplicity, transparency, flexibility, and clear accountability.
- 2) A budget model should incentivize revenue generation, cost controls, and innovation.
- 3) A budget model should align with strategic planning, mission, values, and vision, and should honor shared governance.
- 4) Changing between budget models should be done efficiently and without service disruptions or excessive hardship for mission-centric operations.
- 5) A budget model should carefully balance the economic and academic aspects of higher education, recognizing that both are needed to successfully operate in the coeval financial landscape.

These five concepts serve as touchstones throughout the budget model analysis contained herein. Applying them to the various budget models used in higher education yields three main conclusions:

- UW-Oshkosh's current budget model is not well-suited to "doing more with less", being deficient in several key ways relating to procedural transparency, incentivizing revenue generation and cost controls, and inspiring innovation.
- UW-Oshkosh shares many of the frustrations experienced at other universities that use similar traditional budget models, which suggests that UW-Oshkosh should likewise explore a budget model changeover.
- Budget models such as Incentive-Based Budget Management, and specifically Responsibility Center Management, appear to offer the largest potential improvement over the current UW-

¹ Acronyms are defined upon first use and in the glossary.

Oshkosh budget model and are popular choices for universities seeking an improved budget model.

Introduction

Public universities operate as subsidized, nonprofit organizations, the explicit products of which are diverse, but typically take the form of a degree, certification, or the like. Successfully procuring these products for society requires universities to effectively balance two primary and often competing components: economics and academics.

Historically, public universities like UW-Oshkosh received significant support (subsidies) from state coffers in the form of General Program Revenue (GPR) transfers. Repeated declines in this type of financial support have been widely experienced within the UW System, and in most states and Canada. Given this exigency, universities must now be more deliberate about economics while continuing to safeguard academics.

The need to operate effectively - the need to do more with less - within the low-GPR era has spurred many universities to rethink their traditional budget models. What many hope to find is greater transparency, better incentives to generate revenue and reduce costs, better accountability, and an enhanced ability to develop innovative, high-demand programs that will allow them to better compete with other universities, nonprofit and for-profit alike.

UW System, and UW-Oshkosh specifically, face several significant fiscal challenges:

- UW System schools do not have the independent authority to set their general tuition levels.
- Tuition has been frozen for the last two years and will remain frozen for at least two more, and possibly longer. UW System tuition is below peer averages; i.e., tuition is frozen at below average levels.²
- UW-Oshkosh has among the very lowest tuition in the UW System.³
- When tuition increases are permissible, they are capped by state statute. In recent times this cap has ranged from 0% (tuition freeze) to 5.5% per year; i.e., UW System has been unable to charge market-based tuition rates because of tuition-price regulation.
- Under the proposed 2015-2017 biennial budget, UW System schools will no longer receive cost-to-continue funding. The proposed budget also disbands the Educational Approval Board, thereby deregulating geographically proximate for-profit universities with whom UW-Oshkosh must compete.⁴
- Biennial budgets are often unpredictable, which inhibits long range planning.

Taken together, these realities suggest that UW System, and UW-Oshkosh specifically, face formidable fiscal challenges. One potential improvement would be a new budget model that matches the desiderata and thereby better fits the times.

² https://wistax.org/docs/press_releases/1105_taxp.pdf

³ <http://uwhelp.wisconsin.edu/paying/systemcosts.aspx>

⁴ http://www.agriview.com/news/local/education/university/scott-walker-s-budget-cuts-for-profit-college-oversight-board/article_505e5050-658c-5161-a575-6b2e50562cce.html

Budget Models of Higher Education

Higher education uses a variety of budget models. Each has advantages and disadvantages, though some are fundamentally better suited to the low-GPR era than others. Before summarizing each, it is instructive to define the terms “centralized” and “decentralized”, both of which are ubiquitous in discussions pertaining to budgeting and management.

- *Centralized budget models:* In centralized budget models, the allocations to the colleges/units are determined at the university level. Under centralized budgeting, colleges/units have relatively little power to independently alter these allocations and any change requests are reviewed, judged, and implemented by university-level administrators.
- *Decentralized budget models:* In decentralized budget models colleges/units operate with significant autonomy, making their own choices regarding innovative programs, generating their own revenue and paying their own costs, while also paying a “tax” to finance central operations.

Historically, public higher education budget models have come from the centralized end of the spectrum; conversely, many recent budget model changeovers have found significant value in decentralization.

Incremental Budget Management (IBM) or Base-Plus Budget Management is a centralized approach that heavily relies on prior allocations to determine current allocations. Year-to-year changes are often minimal, even in the presence of obvious need or exceptional performance; likewise, underperforming colleges/units continue to receive their historical allocation. UW-Oshkosh currently uses IBM.

Advantages of IBM:

- Relatively easy to administer
- Traditionally popular in higher education
- Can work well when GPR funding is abundant
- Induces some stability in year-to-year funding

Disadvantages of IBM:

- Little incentive for colleges/units to innovate; e.g., new, high-demand programs may go undeveloped because rewards for success are unclear or absent
- Little incentive for colleges/units to control costs; e.g., why titrate utility or classroom usage if they do not impact the allocation?
- Little incentive to increase tuition revenue via enrollment growth because allocations are not tied to enrollment performance
- Can lead to imbalanced workloads; e.g., Student Credit Hours (SCH) per faculty member can become highly asymmetric across colleges/units
- Tends to falter when GPR funding is low and declining; i.e., it is better suited to allocating positive increments than decrements
- Logical reallocations across colleges/units are often avoided because one group gains only if another loses (zero-sum game); central administrators may lack the political will or performance metrics to make such adjustments

- Has a “passive” flavor in that the historical allocation to a college/unit is rarely questioned; because prior allocations have so much momentum, increments (and decrements) themselves often become foregone conclusions

Incentive-Based Budget Management (IBBM) is a collection of decentralized budget models, two prominent members of which are the Activity-Based Budget Management and Responsibility Center Management (RCM) families. (Note: Hereafter RCM will be used as a proxy for IBBM because the IBM and IBBM acronyms are too easily confused.) Defining features of the RCM family include a heavy emphasis on transparency and fostering incentives to generate revenue and control costs.

Advantages of RCM:

- Budgets are directly related to the activities of the college/unit and not on centrally determined allocations; i.e., a college/unit can meaningfully impact its own budget by working harder and smarter
- RCM is the most inherently transparent budget model used in higher education
- Responsibility Center (RC) leaders (e.g., deans)⁵ have actual accountability; i.e., if they plan poorly, they must bear the consequences
- Incentivizes growth in both tuition revenue (via enrollment) and program revenue (via innovative, high-demand programs) because colleges/units get to keep most of what they generate
- Incentivizes cost controls; e.g., if an RC pays for utility consumption and classroom usage, it has an incentive to be efficient
- Increasingly popular in higher education
- Easy to understand; intuitively akin to household or roommate budgeting
- Incentivizes curricular quality improvements

Disadvantages of RCM:

- Can cause curricular redundancies and competition for students; e.g., one college may engage in grade inflation to attract students from another college
- May induce too much focus on revenue generation
- Can inhibit interdisciplinary programs because revenue and cost sharing rules are unclear
- Can be slow to install
- Requires budgetary acumen by RC leaders

Performance-Based Budget Management (PBBM) is a somewhat popular budget model that is sometimes centralized and other times semi-centralized. In some cases, universities use the PBBM acronym even when their models are actually more similar to RCM (e.g., Portland State University and University of Cincinnati). PBBM uses formulae and performance targets, typically administered from the university level, to induce desired behaviors from the colleges/units. For example, central administration may construct performance targets for job placement rates, SCH generation, graduation rates, diversity ratios, faculty productivity, or assurance of learning. Given its “performance nature”, PBBM is often discussed at the state budget level.

Advantages of PBBM:

- Generally quite flexible
- Allows for reallocations across colleges/units based on performance and need
- Incentivizes performance and outputs

⁵ An RC is a standard unit within an RCM model; a college would be a typical example of an RC.

- Allows administrators to directly steer faculty actions

Disadvantages of PBBM:

- Defining accurate performance metrics is often difficult; simple, convenient metrics are often used instead, even when they are less correct
- Performance targets can create problematic incentives and “gaming” behavior; monitoring costs can be high
- Metrics must be equilibrated across colleges/units to avoid charges of bias
- Incentives to generate revenue and control costs depend heavily on the metric design and enforcement
- Can create a “dynamic benchmark problem” wherein colleges/units have no incentive to over perform lest their performance target be raised

Formula-Based Budget Management (FBBM) is a centralized budget structure that relies heavily on extensive mathematical formulae to estimate needs and allocate resources. For example, a college/unit with W amount of SCH might be allocated X advisors, Y support staff, and Z offices. Like PBBM, FBBM has some appeal as a state-level budget model. FBBM can be conceptualized as a more clinical version of PBBM; accordingly, it shares some of PBBM’s pros and cons.

Advantages of FBBM:

- Once established, offers a dispassionate approach to resource allocation
- Can help ease political complications of reallocating resources across colleges/units
- Instills a form of equity, insofar as the formulae are able

Disadvantages of FBBM:

- Formula creation can be contentious
- Requires numerous formulae, which can become a labyrinth
- Can result in an over-reliance on formulae
- Formulae must be well calibrated to avoid biased allocations
- Formulae can be gamed

Zero-Base Budget Management (ZBBM) is a centralized budget structure wherein each college/unit’s budget is zeroed out at the end of each year and colleges/units must submit a new budget proposal for the upcoming year with full justifications for the entire allocation. Most ZBBM applications in higher education are limited in scope and are typically paired with another type of budget model.⁶

Advantages of ZBBM:

- Forces colleges/units to fully justify all expenses each year, and not just incremental changes to their budgets
- Keeps colleges/units focused on producing outcomes to aid the justification process
- Allows for reallocation of funds based on need, performance, and aspirations

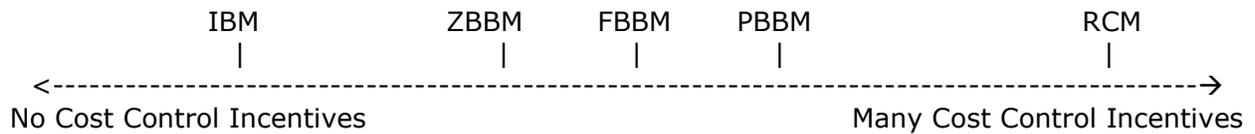
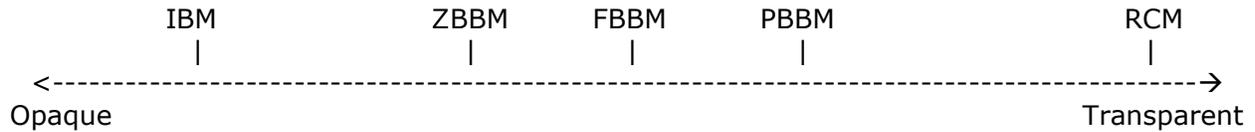
Disadvantages of ZBBM:

- Budget requesting process is onerous for both central planners and colleges/units
- Allocations can be unduly influenced by “selling ability” as opposed to actual value

⁶ https://www4.uwm.edu/secu/faculty/standing/apbc/agendas/11-12/upload/The_Use_of_Zero-Based_Budgeting_in_Higher_Education-1.pdf

- Large portions of college/unit-level budgets are ongoing (e.g., faculty salaries), which makes reapplying for them each budget cycle awkward
- Can devolve into IBM if central planners begin rubber stamping the ongoing budget core (e.g., faculty salaries) and focus instead only on incremental changes
- Can induce unstable year-to-year funding

Informal Comparative Budget Model Schematics:



While these are the five most common budget models used in higher education, there are additional, specialized choices that are not summarized here. Hybrid models, which involve two or more of the five primary options, appear with some regularity, and have a cafeteria-style appeal. However, intertwining models should be approached with caution, as the interplay may create uncharted challenges. Additionally, the impulse to change to a new model quickly might induce the belief that a hybridized partial budget changeover will garner partial benefit, which is not necessarily true.

While the five common models are distinct in some fundamental ways, implementations within the same model type often differ. A model selection process should therefore include the following steps:

- Understanding the defining features of each of the “big five”
- Selecting the best fit for university needs
- Creating the “right flavor” of the chosen model

For example, if central administration is keen to retain maximal authority, models like IBM, FBBM, and ZBBM would be logical choices whereas PBBM and especially RCM would be poor choices. If a university instead cares deeply about transparency and feels that transferring significant responsibility to the deans and unit leaders will help stimulate growth in needed ways (e.g., enrollment, program revenue), then PBBM and RCM would be the best choices.

Current UW-Oshkosh Budget Model

UW-Oshkosh is the third largest of the 13 four-year campuses within the UW System, all of which are governed by state statute and a single Board of Regents. Each biennium the governor proposes a state budget, typically in February, a component of which is a tuition proposal and an appropriation for UW System. Constituents and legislators react to the budget, modifications are made, and it is finalized by legislative vote, typically in early summer. The process concludes with a tuition rule and a GPR allocation to UW System, which is subsequently divided amongst the campuses.⁷ The post-legislative budget process for UW-Oshkosh has three main layers:

- Level-1) Board of Regents to UW-Oshkosh
- Level-2) UW-Oshkosh to colleges/units
- Level-3) Colleges/units to departments/sub-units (if applicable)

The CSG-BS purview is Level-2 and only Level-2.

UW-Oshkosh, like its sister schools, has used an IBM model (at Level-2) for many decades. Under IBM, each college/unit is allocated roughly what they were given in the prior year with minimal or no adjustments made for performance. Given recent and ongoing budget cuts, IBM at UW-Oshkosh has effectively become a decremental system whereby next year’s allocation will be nearly identical to this year’s allocation, only somewhat smaller. Typically, these decrements are likewise administered without adjustments made for performance. In many cases, processes for measuring performance do not exist.

Background research suggests that UW-Oshkosh’s use of IBM compares favorably to its use in the higher education industry. Like other universities struggling within the confines of IBM, UW-Oshkosh

⁷ Additional details about the state-to-system budget process can be found at: <http://www.mbo.wisc.edu/documents/Budget-Model-White-Paper.pdf>

central administration allows selected auxiliary programs to run on a “cost-recovery” basis outside of the main IBM model (e.g., the Cooperative Academic Partnership Program - CAPP). Within these programs, revenues are collected and costs paid through the program itself, with a share of net revenues (60%) returning to central administration (more details on this appear in a later section). Programs like this are essentially miniature versions of RCM. This fact offers two lessons:

- Hybrid budget models are possible at UW-Oshkosh
- UW-Oshkosh has successfully applied RCM principles

At UW-Oshkosh, the GPR-budget “request” process typically begins in the first week of February at which time the colleges/units receive a memo of instruction from the Chancellor that includes a centrally determined budget allocation and related documents for budget preparation. As an example, last year’s memo was dated 7 February 2014, and it also stipulated 24 February 2014 as the budget submission deadline. Colleges/units are also asked for a budget narrative, last year due by 3 March 2014. The narrative is often very speculative because it is due months before State and UW System budgets are finalized.

Due to the predictability of IBM, the College of Letters and Science (COLS), for example, usually begins its budget preparation in late December. A new checkbook is drafted, using the previous year’s checkbook as a template. Prior to receiving the February instructive memo, there are often Dean/VC meetings to discuss how to deal with anticipated cuts, shortfalls, initiative funding, growth agenda, and reserve funds. Usually deans have a good sense of how budgets will be adjusted by university-level administrators before the memo is received.

As per the instructive memo, colleges/units submit their budgets to the appropriate vice chancellor. COLS, for example, includes a table outlining their University Study Program (USP) and Gateway course expectations as well as a budget summary/history for the previous five years. The college budget is submitted knowing that it will be tweaked internally as needed. The College of Education and Human Services (COEHS) starts their process in mid-January and submits the requisite documents on the same mandated timeline. Internal work on the budget continues until mid-summer at an administrative retreat, when it is finalized and put into operation.

The GPR-budget process has shortcomings, among them:

- The allocation is determined at the university level and then sent to the college/unit heads.
- The quick three-week turnaround does not provide time for being strategic, which makes budget preparation more of a reaction than a strategy.
- Within UW-Oshkosh’s contemporary system, the ongoing practice in some colleges has been to budget solely for salaries with the hope that salary savings will fund travel, technology and equipment costs. Reserve accounts have been tapped in recent years to cover operating budget overages. Colleges/units have been expected to absorb most salary increases (e.g., promotions) with no additional GRP funding. This is especially taxing for colleges/units where salary savings is negative; i.e., where salary inversion is severe. This problem will likely worsen in the coming years.
- The budget exercise does not consider revenue, only expenditures. This is primarily because any GPR increase in revenue is not allocated or credited back to the colleges/units.
- Students start registering for the next fall session prior to budget finalization. With the demand for courses mostly in place, staffing resources are largely pre-determined. The result is that the bulk of class section reductions must occur almost entirely in spring of the following year, creating significant dislocation and problems for staff and faculty.

The overall UW-Oshkosh budget has several other components (in addition to GPR) that warrant explanation. Non-GPR sources of revenue that fund areas across campus include differential tuition, segregated fees, student technology fee, fee for service, auxiliary funds, cost recovery programs, charge backs, grants and indirect cost recovery, and contracts. These funds are budgeted and monitored through processes separate from the GPR budget process. In addition, the allocation processes for the distribution of some of these funds traditionally have had strong committee and student influence. Due to the frequency of both committee membership and student turnover, long range planning is difficult to implement as part the budgeting process, leading to unpredictability. Some of these revenue sources are detailed below.

Differential Tuition: A university-level Differential Tuition (DT) was started in 2004-05 and partially funds several units, among them:

- Career Services
- Center for Academic Resources
- Counseling Center
- Math Lab
- Reading Study Center
- Undergraduate Advising Resource Center
- Undergraduate Journal (Oshkosh Scholar)
- Undergraduate Research
- Writing Center

DT was originally proposed by student leaders and was approved by an all-student referendum. The DT amount started as \$110 per student/year and stayed at that level for four years. In 2008-09, DT was approved again by the Board of Regents along with a 3% increase each year. The DT rate was frozen in 2012-13, and is currently \$123.85/year. The DT Finance Committee decides the level of funding for each unit based on the details of the request, the funds available for the year, and available reserves.

Segregated Fees: Several campus units are partially funded using Segregated Fees (SF) paid by students; examples include:

- Children's Learning and Care Center
- Intercollegiate Athletics
- Oshkosh Student Association
- Oshkosh Sports Complex
- Reeve Memorial Union
- Student Legal Services
- Student Allocations Committee
- Student Health Center
- Student Recreation and Intramurals

The SF committee is comprised of students, faculty, academic staff, and university staff, all appointed by their respective governing bodies. Each unit submits an annual budget request to the SF Committee. The committee then recommends a level of funding for each unit and the SF rate per student.

Fee for Service: Several campus units are partially funded by Fee for Services (FFS), examples include:

- Residence Life & Gruenhagen Conference Center
- University Books & More
- University Dining

Early in the fall semester, Financial Services sends out a budget spreadsheet template for each unit. The template includes a salary spreadsheet, a detailed budget, a five-year budget, a 10-year capital needs budget, and maximum/minimum allowable reserves spreadsheet. The budget process for each of the units varies, but they all budget based on the mission of their unit and the strategic plan for the university.

Cost Recovery Programs: An RCM-like feature within UW-Oshkosh's current operations is the Cost Recovery Program (CRP), which works as follows:

- Academic CRPs must be new programs, or expansions of existing, hybrid programs, and not a conversion of existing academic programs that are supporting UW-Oshkosh's central tuition revenue target, which must be met to secure the full GRP allocation from UW System.
- Incentives for the development and delivery of CRPs include sharing the net CRP revenue: 40% to the college/unit and 60% to the campus' Central Initiative Fund.
- CRP development plans require administrative approval at several levels.
- A unique department number within Wisconsin Data Mart (WISDM) is used to identify each CRP, which allows for tracking revenues and expenses.
- CRP examples include:
 - CAPP
 - Remedial Math
 - Executive Masters of Business Administration
 - Lifelong Learning and Community Engagement

Chargebacks: Some campus service units, such as Facilities, generate funds using chargebacks for services other than routine operational maintenance; this process is conceptually similar to FFS.

Most programs/units receive funding from multiple sources. For example, Facilities is partially funded by GPR in addition to chargebacks, and several CRPs are also augmented with GPR.

Incentive-Based (RCM) Budgeting Redux

While many university budget models were studied in some detail, a portion of the CSG-BS charge entailed analyzing the budget models of several specific universities in great detail. Four universities were chosen for this exercise, each of which had significant information about their budgetary models on their websites.

- University of New Hampshire (UNH)
- Ohio University (OU)
- Wright State University (WSU)
- Northeastern University (NEU)

All four had adopted a new budget model within the last 15 years. The new models were generally in the RCM family, but specifics varied by university. Documents obtained from these universities indicate they were attracted by the many RCM pros outlined above. The topics covered below reflect their RCM changeover experiences.

A typical first step, after committing to an RCM budget model changeover, is determining the Responsibility Centers (RCs) - the basic units within an RCM model. In the four universities studied (and among others as well) it was common for each academic college to become its own RC. Other units, often labeled "auxiliaries" included areas like Athletics, Housing, Dining, Printing, Parking, Academic Affairs, etc.; each were also formed into an RC. Total RC count per university was in the 15-22 range.

In general, each RC is either a Revenue-Generating RC (RGRC) or a Cost-Center RC (CCRC). Some RCs can support themselves financially whereas others cannot; those solvent are RGRCs and those insolvent are CCRCs. Exposing the bottom lines for each RC entails a thorough analysis of the costs and revenues of every program along with the amount each is subsidized by revenue from other colleges/units, GPR, or other revenue sources. This exercise is fundamental to obtaining budgetary transparency, and is a hallmark of RCM.

While there are many aspects to RCM, some of the most crucial include revenue and cost identification, revenue attribution, cost attribution, subvention funding, carryovers and lapses, as well as accountability and governance.

Revenues and Costs: A tenet of RCM is that each RGRC keeps all its own revenues (tuition, gifts, GPR, fees, differential tuition, scholarships, non-credit fees, grants and contracts, indirect cost recovery, interest income, and all other miscellaneous revenue) and pays its own direct costs (salaries, wages, benefits, support, debt service, etc.) and its proportionate share of indirect overhead costs (facilities, student affairs, academic affairs, etc.). In this sense, RCM is structured much like a typical household or roommate budget model: all revenues in one column, all costs in another column, and a bottom line.

Revenue Attribution: Some types of RGRC revenue (e.g., college-specific fees and gifts) are relatively easy to attribute to a specific RGRC. However, some other revenue components (e.g. tuition, GPR) must be attributed more carefully. Here are three examples:

- Example 1: Suppose a business major is taking a class in COLS. Does the tuition revenue accrue to the college of enrollment or the college of instruction? Different universities have different solutions, but most involve some sort of revenue split between the two colleges. For example, NEU uses a 50/50 rule whereas Kent State University uses an 80/20 rule; in each case 50% and 80% of the tuition revenue stays in the unit of instruction (COLS, in this example), respectively.
- Example 2: Suppose an RCM model allows all tuition revenue to accrue to the college of instruction. This may induce colleges to develop courses designed to steal students from other colleges in an effort to capture tuition revenue; e.g., an engineering program may start offering Engineering Calculus in an effort to capture tuition revenue from the math department. Universities using RCM typically have criteria they apply to minimize these types of behaviors.
- Example 3: A university considering RCM may hope for a simple installation wherein colleges fund themselves on tuition and GPR funds central operations. RCM is not this easy. Moreover, it is unadvisable to simply allocate GPR to CCRCs without fully scrutinizing their costs, quality of service, and efficiency. A best practice is to expunge the old GPR allocation method and replace it with a fresh analysis, otherwise pre-existing IBM inefficiencies and opaqueness will persist.

Logical, simple, and fair revenue attribution rules are fundamental to the success of RCM.

Cost Attribution: CCRCs, having insufficient or no revenue of their own, are funded by the indirect costs attributed to the RGRCs. Here are four examples:

- Example 1: A college uses X number of classrooms, each of which has a price that is paid to Facilities. In this way, Facilities is compensated for supplying its classrooms.
- Example 2: A college uses Y units of electricity and is billed for its portion of the university-level electricity bill.
- Example 3: The library is used by all colleges, yet is unable to generate revenue itself. Accordingly, it must be funded by billing the RGRCs.
- Example 4: Central functions such as Human Resources do not generate revenue and must likewise be funded by billing the RGRCs.

Ensuring cost attribution works well requires much thoughtful effort. WSU and OU were particularly concerned with ensuring that service inputs were of adequate quality, which led them to do extensive work on benchmarking service quality, needs, and expenses.

Subvention Funding: Central administration typically charges the RGRCs a subvention tax, which populates a centralized fund, typically to be used for university-level strategic initiatives. Many universities are careful to note that all RGRC units pay and therefore all should benefit from subvention funds, which helps cultivate a joint sense of purpose across the colleges/units. Some universities call this tax a “university contribution” (e.g., NEU) instead of a subvention fee. Other universities, such as UNH, have a capped subvention fund created instead with GPR, and then have a separate strategic initiative fund.

Carryovers and Lapses: A core tenet of RCM is the ability to do financial carryovers from year to year. This allows each RC to plan and to absorb unexpected fluctuations. Often the reserves are capped at some level; e.g., UNH uses 6-10% of the RC’s total budget. Because carryovers are critical to the functioning of RCM, unexpected budget lapses would be problematic. A budget lapse occurs when an unspent portion of an allocation is usurped by the authority that originally issued the allocation. Lapses therefore inhibit colleges/units from shifting unspent funds from one year to the next.

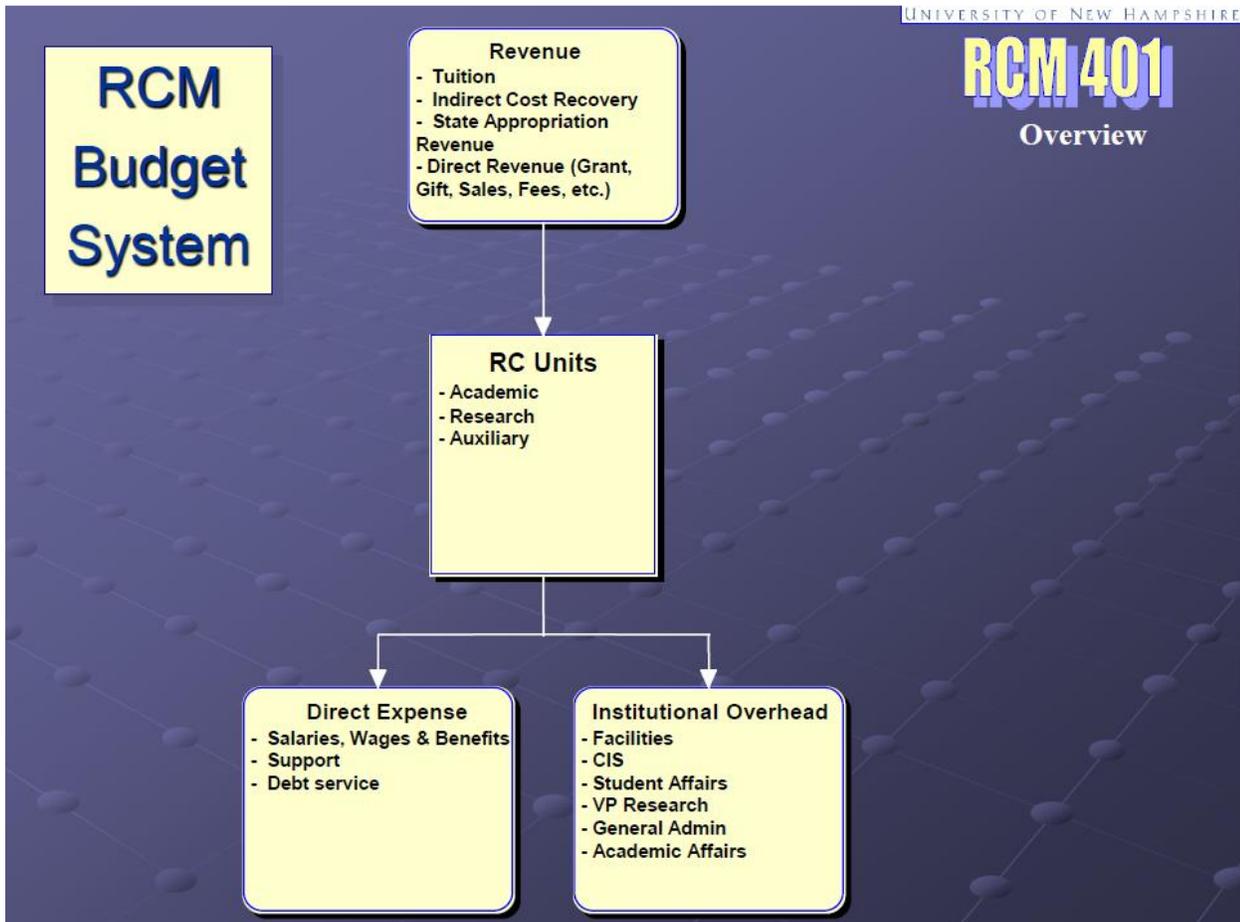
Accountability and Governance: RC leaders must be held accountable for their economic and academic performance. Central oversight should remain to monitor and mitigate everything from perverse incentives to rogue deans. Rule changes anywhere in the university must be thought through carefully to avoid unintended consequences for the RCs; the inherent transparency of RCM facilitates these types of analyses. Most universities that use RCM conduct periodic reviews of their models, often in five-year intervals (e.g., UNH, Indiana University – Bloomington).

Under RCM, central administration serves a somewhat different role than in IBM. While its budgetary allocation tasks wane, tasks regarding oversight and strategic planning, for example, remain. New and critically important responsibilities include incentive tracking and management, along with maintenance of revenue and cost attribution mechanisms.

To ensure academic quality, most schools using RCM develop guidelines for central administration to use as oversight metrics to ensure that the RGRCs do not become too engrossed in revenue generation. For example, UNH monitors superfluous course development as well as changes in grade inflation, class size, course fees, among several other factors. UNH, which implemented RCM in 2001, tracked academic quality and ultimately concluded that “Qualitative and quantitative data suggest

that the RCM model has not affected academic quality.”⁸ OU was likewise concerned about academic quality and employed a similar set of metrics focused on student/teacher ratios, time to graduation, and assuring program accreditation compliance.

UNH has an especially succinct schematic for the structure of their RCM model:⁹



As the chart indicates, revenues of all types are attributed directly to the RCs, which then pay direct and indirect costs. Embedded in each arrow is a set of attribution mechanisms that assign revenues or costs to the RCs.

An Ideal Budget Model Moving Forward?

UW-Oshkosh, like many public universities around the nation and in Canada, faces a low-to-no-GPR future. As noted above, UW System (and therefore UW-Oshkosh) operates under several constraints, which magnify the need to do more with less. These fiscal challenges have been long in the making and are likely permanent, and they must be successfully met in order for UW-Oshkosh to successfully operate. Aspiring to do more with less, many universities have adopted (or are considering) a different budget model that better aligns with the five desiderata. Evidence confirms that budget model changeovers of this type are efficacious, and all indications suggest that UW-Oshkosh would

⁸ <http://www.unh.edu/vpfa/pdf/rcmrevexecutivesummary.pdf>

⁹See “Responsibility Centered Management” @ <http://www.unh.edu/vpfa/rcmpresentations.html>

likewise benefit from such a change. While a new budget model is not the entire solution to ongoing fiscal challenges, a highly effective budget model could certainly help.

While doing the background research for this white paper, it quickly became clear that RCM (and the incentive-based budget model family more generally) fits most if not all of the guiding desiderata, and therefore repeatedly emerged as a top choice among universities seeking a budget-model changeover; some of these schools are listed in the appendix. The apparent affinity for RCM appeared especially strong among universities coming from an IBM model. As of 2011, about 21% of public four-year universities used some version of RCM¹⁰, whereas less than 1% of public universities used broad-scale RCM circa 1996.¹¹ PBBM was also chosen as a new budget model with some regularity, and while it has advantages, it is a lesser fit to the desiderata. In short, of the models reviewed, which span the past, current, and future-planned budget practices in higher education, RCM matches the desiderata better than any other model.

The rise of RCM among public universities and its venerable popularity among private universities not only evinces its merit but also implies a potential cost to forgoing such a changeover. To compete and thrive in the low-GPR era, UW-Oshkosh should likewise consider investing in a model that offers flexibility, transparency, and strong incentives for revenue generation, cost controls, and innovation. The degree to which RCM offers competitors an advantage is the degree to which UW-Oshkosh loses by retaining IBM.

Should UW-Oshkosh be compelled to move towards RCM or something similar in the incentive-based family, the next step would entail creating a Budget Model Steering Committee, comprised of selected central administrators, deans, key faculty, and perhaps additional stakeholders. All members must be committed to the changeover, willing to serve with earnestness, and must embrace RCM logic, even if their own units may be financially threatened. Even the theoretically best budget model requires an assiduous installation. To this end, it would be logical to charge such a committee with the following tasks:

- Create a blueprint of the university's current budget model as a starting benchmark
- Benchmark external factors relevant to enrollment and funding
- Understand UW System regulations regarding Level-2 budget models
- Study other RCM installations in detail
- Interact with RCM users
- Generate an RCM "best practices" document
- Generate an RCM "common mistakes" document
- Create an RC leader profile
- Develop a clear mechanism for evaluating primary and secondary incentives
- Repeatedly interact with RCM installation consultants
- Draft and re-draft RCM attribution rules
- Interact with stake holders (e.g., via websites, budget forums, FAQs)
- Form a transition plan and a timeline

In the end, a budget model is simply a set of tools that must be learned, maintained, and wielded effectively to facilitate the university's mission. However, not all budget models work equally well in all fiscal realities. While IBM has served UW-Oshkosh for decades, there are other choices that better fit modern needs and challenges.

¹⁰ <https://www.insidehighered.com/download/?file=insidehigheredcfosurveyfinal7-5-11.pdf>

¹¹ RCM as a Catalyst, NACUBO Business Officer. 8/1997

Glossary

- CAPP: Cooperative Academic Partnership Program
- COEHS: College of Education and Human Services
- COLS: College of Letters and Science
- CRP: Cost Recovery Program
- CSG: Chancellor Study Group, defined by Chancellor Leavitt:
 - Chancellor's Study Groups are small groups made up of three to five individuals selected based on their expertise in the subject matter. These study groups take advantage of the academic culture of this institution and put our best and brightest minds to work on problems and opportunities. The deliverable from a charged group will be a white paper outlining research and options to inform decision-making.
- CSG-BS: Chancellor Study Group – Budget Structures
- DT: Differential Tuition
- EAB: Education Advisory Board
- FBBM: Formula-Based Budget Management
- FFS: Fee For Service
- GAO: Government Accountability Office
- GPR: General Program Revenue (tax dollars)
- IBBM: Incentive-Based Budget Management
- IBM: Incremental Budget Management
- NEU: Northeastern University
- OSA: Oshkosh Student Association
- OU: Ohio University
- PBBM: Performance-Based Budget Management
- RC: Responsibility Center
- RCM: Responsibility Center Management or Revenue-Cost Management
- SCH: Student Credits Hours
- SF: Segregated Fees
- UNH: University of New Hampshire
- USP: University Studies Program
- WISDM: Wisconsin Data Mart
- WSU: Wright State University
- ZBBM: Zero-Based Budget Management

Appendix: Some Universities Using Incentives-Based or RCM Hybrid Models

Algonquin College	Syracuse
American University	Temple University
Auburn University	Texas A&M
Brandeis University	Texas Tech University
CalTech University	Trent University
Central Michigan University	UCLA
Central Washington University	University of Alaska
Claremont Graduate University	University of Arizona
Clarkson University	University of Cincinnati
Clemson University	University of Delaware
Columbia	University of Denver
Cornell University	University of Florida
Drexel University	University of Idaho
Duke University	University of Illinois (Urbana)
Florida International University	University of Illinois - Chicago
George Washington University	University of Iowa
Georgetown	University of Kentucky
Harvard	University of Michigan
Indiana University – Bloomington	University of Minnesota
Indiana University of Pennsylvania	University of New Hampshire
Iowa State University	University of New Mexico
IUPUI	University of Oregon
Kent State University	University of Pennsylvania
Loyola (Chicago)	University of Saskatchewan
Marquette University	University of Southern California
McMaster University	University of the Pacific
Mercer University	University of Toledo
Northeastern University	University of Utah
Ohio State University	University of Vermont
Ohio University	University of Virginia
Okanagan College	University of Washington
Portland State University	Vanderbilt University
Queens University	Washington University (St. Louis)
Rensselaer Polytechnic Institute	West Chester University (PA)
Saint Joseph University	Wright State University
Southern Illinois University	Youngstown State University