1. General Information

1.1 Introduction

Welcome to the University of Florida Responsibility Center Management (RCM) operating manual. This manual provides information covering aspects of budgeting and financial management at the University of Florida. This document provides information on:

- Vision and goals for RCM
- Executive summary of RCM
- History of RCM
- Financial governance and roles
- RCM revenue and expense allocation methodologies
- Useful RCM tools
- Links to presentations on RCM
- Links to other institutions that have implemented RCM

We hope you find this manual informative and useful. Please contact our office with any questions, comments or improvements.

UF Budget Office Directory:

University Budget Officer:	Sheri Austin
Assistant Budget Director	Julie Wang
Sr. Administrative Assistant	Chris Gaynor
Office phone:	352.392.2402
Website:	http://cfo.ufl.edu/budget.asp

We would like to thank Provost Fellow, Dr. Brian Harfe, for his contribution to this manual and his help with understanding faculty issues regarding RCM.

1.2 Glossary of terms used at the University of Florida in association with RCM.

Entrepreneurial Activities - entrepreneurial activities include all activities that generate revenues from a third party and are not paid or supplemented with state appropriations.

FTE – Full time equivalent. FTE is defined as the teaching of 40 credit hours at the undergraduate level or 32 credit hours at the graduate level for a fiscal year. Professional FTE is equal to the headcount enrolled at such professional school.

IHEs – institutions of higher education

Off-book or Self-funded – For-credit courses or programs that are taught without the financial assistance of any state appropriations. The cost of providing such courses or program is entirely paid from tuition generated by such course.

On-book – Any for-credit course that is not Off-book.

Pass-through expenditures – One or a few transactions that exceed $100,000 and require only minimal handling by the support units. Such costs may include construction expenditures, one time payments for organizing conferences, or other large one-time purchases.

Responsibility Center (RC) – A unit that generates revenue from third parties. Examples of such revenues are tuition, state appropriations, and sales of products or services. Third parties would include students, governments, or corporations.

SCH – Student credit hours.

STARS system - A computer database maintained by the university listing all rooms and building space owned by the university. The database lists the type of space and the primary user.

Support Unit (SU) – A non-revenue generating unit primarily providing product or services to responsibility centers at the University.

Unit – A unit describes a unique entity within the University of Florida and may be a college, a department or a service center depending on the contextual use of the word.

Weighted Cost of Delivery - the cost to provide a college's instructional mission, departmental research and college administration based on the strategic historical allocation of state appropriations by Presidents and Provosts, and their costs of facilities

1.3 Executive Summary

The fundamental basis of the RCM model is to move decisions and resulting revenues and expenses to the responsibility centers and to create transparency in the budget process. The state budget is distributed to the responsibility centers via an algorithm that is driven primarily by on-book student credit hours and weighted cost of delivery.

The model is intended to create incentives for entrepreneurial behavior at the unit level. Revenues from entrepreneurial activities are retained entirely by those units undertaking such entrepreneurial risks. That activity must fall within the strategic scope and meet the strategic goals of the university.

Support unit cost assessments are paid on all expenditures. All revenues are allocated to responsibility centers. Therefore, responsibility centers must pay for the services provided to them through an allocation or assessment system. The unit can pay its invoice from any source that it deems appropriate except for endowment and gift funds.

Total dollars from indirect cost recoveries from grants are transferred entirely to the unit generating those dollars. Certain research related support costs (DSR, animal care, contracts and grant accounting) are paid via a research assessment to cover those specific costs.

In the RCM model, the amount of money that a Responsibility Center (RC) pays to support core university functions is based on the amount of money that the RC spends over the 18 month period ending on December 31 of the year preceding the beginning of the budget year. The advantage of using this system is that the invoice that is due is directly proportional to the amount of money that the RC has spent. A unit can pay its invoice from any source that it deems appropriate except a RC cannot pay taxes from endowment earnings or gift sources. An additional benefit is a RC can save revenue (i.e., not "expend" it) without incurring assessments on this income.

1.4 Vision of RCM

- Each RC will have its own revenue streams
- Each RC will be responsible for managing its revenues and full costs
- Each RC will benefit directly from the success of its initiatives and entrepreneurial activities that increase revenue or decrease operating expenses
- The University will maintain a Strategic Fund to support new initiatives, reward excellence and promote the University's mission.

1.5 Goals of RCM

- Provide decision-makers with increased transparency into the university's finances and **foster an information rich discourse on college priorities and budget matters**
- Create appropriate incentives that advance the university's Strategic Work Plan
- Allow RCs to keep revenues that they generate
- Recognize the differences in the cost of teaching
- Align responsibility and authority over fiscal matters

1.6 Principles of RCM[1]

- Proximity – push down the financial responsibility and authority to the lowest organizational unit because the faculty and staff have the best knowledge regarding their opportunities
- Proportionality – balances Proximity, only push down the financial responsibility and authority to a level that can be manage the data and understand their role in the Strategic Work Plan
- Knowledge – distribute revenues to the RCs generating the revenues in a manner that is transparent, easy to understand, and informative
- Performance recognition – provide financial incentives recognizing quality and success
- Stability – do not significantly change the algorithms of the model
- Community – recognize we are a university first and a college or unit second. Achievement of the university's goals supersede any unit's individual goals. The Strategic Fund is established to promote university-wide, long-term goals and interdisciplinary activities.

The University of Florida has implemented these core principles in a manner that supports the university's mission.

1.7 History of Responsibility Center Management

President Machen convened the Responsibility Center Management Committee on July 21, 2008. The committee was charged with reviewing the merits of a revenue based budget model known at IHEs as RCM. This request was, in part, a response to the changing expectations of public universities by taxpayers and government; the reality that traditional revenue sources (i.e., state appropriations) no longer provide sufficient funds for fulfilling the multi-faceted missions of today's public universities; and the resulting need for public universities to proactively identify and generate new revenue sources. Through the committee meetings and meetings between the Chief Financial Officer and the senior vice presidents, a consensus model, methodology, and algorithms were developed. The RCM model was implemented in FY2011 based on costs of delivery at the end of FY2010.

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[1] Edward L. Whalen. Responsibility Center Budgeting, Indiana University Press, 1991

1.8 Responsibility Centers (RC)

Fundamental to implementing RCM is identifying the areas of the University that are "responsibility centers". By definition, RCs must generate revenues. Areas not generating revenues are considered part of the University support costs or state funded units. If an area is identified as a RC, that unit is responsible for all financial decisions as well as managing revenues, expenditures and fund balances. At the University of Florida the following areas are identified as RCs:

Colleges

- College of Agricultural and Life Sciences
- College of Business Administration
- College of Dentistry
- College of Design, Construction, and Planning
- College of Education
- College of Engineering
- College of Fine Arts
- College of Health and Human Performance
- College of Journalism and Communications
- College of Law
- College of Liberal Arts and Sciences
- College of Medicine
- College of Nursing
- College of Pharmacy
- College of Public Health and Health Professions
- College of Veterinary Medicine

Auxiliaries

- Academic Technology (internal and external sales)
- Animal Care Services
- Baby Gator
- Baughman Center
- Bookstore
- Business Services (Administration)
- Computer Network Services (internal sales)
- Division of Continuing Education
- Document Services
- Florida Museum for Natural History
- Housing
- I.D. Card Services
- J. Wayne Reitz Union
- Laundry Services
- Military Science (ROTC)
- Physical Plant (sales to 3rd parties)
- Recreation Sports
- Stephen O'Connell Center
- Student Government
- Student Health Care Center
- Transportation and Parking
- University Auditorium
- University of Florida International Center
- Wellness Center

Centers

Biotechnology
Biotechnology Development Incubator
Center for Excellence Regenerative Health Biotechnology
Center for Latin American Studies
Center for Smell and Taste
Digital Worlds
Emerging Pathogens
Florida Museum for Natural History
Florida Sea Grant
Harn Museum of Art
IFAS Research Centers and Extension
Institute of Child Health Policy
Military Science (ROTC)
Phillips Center for the Performing Arts
University Auditorium
Water Institute
Whitney Marine Laboratory

1.9 Support Units

Support unit (SU) costs are divided into cost pools. The cost pool determines the cost allocation method. RCs are not permitted to "opt-out" of services to reduce the service and support expenses charged to their Unit. Colleges will determine how SU assessments are allocated to departments. Under the guidance of the Budget Review Committee, SUs will be regularly reviewed to ensure their effectiveness. This committee will also regularly advise on the method of allocating SU costs. The eight cost pools and the affiliate SUs are as follows:

General Administration

Audit and Compliance Review
Board of Trustees
Business Affairs
Office of the Chief Financial Officer
Environmental Health & Safety
Finance and Accounting
General Counsel
Office of the President
Human Resource
Institutional Activities
Office of the Provost
Public Relations
Office of Small Business/Vendor Diversity
University Police Department
University Relations

Information Technology

Academic Technology
Enterprise Systems
Computer Network Services
Information Technology
Operations Analysis

Student Services

Admissions
Graduate School
Registrar
Student Affairs
Student Financial Services
University of Florida
International Center

Facilities

Facilities Planning and Construction
Physical Plant

Research A

Biotechnology subsidy
Biotechnology Development
Incubator subsidy
Center of Excellence
Regenerative Health
Biotechnology subsidy
Contracts and Grants
Accounting
Cost Analysis
Division of Sponsored
Research

Research B

Animal Resources
Institutional Animal Care and
Use Committee
Institutional Review Board
Biostatistics

University Libraries

Office of the Sr Vice President for Health Affairs

1.10 Direct Funded Units

Direct funded units are funded directly by the State of Florida and are not included in the RCM. These units are managed by the University of Florida for the benefit of the State. Direct funded units are:

Florida Center for Library
Automation
University Press of Florida

2. RCM Oversight

2.1 Operational Oversight

2.1.1 Central Administration Roles and Responsibilities

The President of the University provides oversight for the University as a whole. The Chief Financial officer serves as the chair for the RCM Committee. Any changes to the RCM model require the approval of the President. The RCM Committee is responsible for the continuous evaluation of the RCM principles, objectives, model and algorithms. The RCM committee consists of each dean at the University of Florida, a representative of each vice president and the Chair of the Faculty Senate. The office of each vice president provides oversight for those RC units reporting to it and ensures that unit budgets reflect priorities as set for by the University. The Provost/Senior Vice President for Academic Affairs, Senior Vice President for IFAS, and the Senior Vice President for Health Affairs are responsible for leading the academic planning process and ensuring academic quality.

2.1.2 Responsibility Center Roles and Responsibilities

Each RC is responsible for developing strategic and financial plans that fit within the overall Strategic Work Plan. All operating decisions must comply with University policies. Financial modeling for existing and new programs is the responsibility of the RC although assistance is available from the Office of the Chief Financial Officer. The Office of the Chief Financial Officer is continuously developing new tools to assist RCs with financial planning and modeling. RCs are responsible for their overall fiscal performance encompassing all funds assigned to the RC and have the flexibility to implement incentives for improving fiscal performance. RC units are held accountable for the effective and efficient management of their resources.

2.1.3 Budget Review Committee

Each RC unit is allocated a portion of the costs of the support units based on algorithms discussed in Section 4.2. Support units represent infrastructure operations that are necessary to operate the University. The mechanism for periodic review of central services is through the Budget Review Committee (BRC). The BRC is responsible for providing oversight of support unit budgets and making budget recommendations to the President. The President has final authority over all support unit budgets. The support units are expected to adhere to the University's overall mission and values as articulated in the Strategic Work Plan.

Members of the Budget Review Committee

The Budget Review Committee is comprised of representatives from each college, each vice presidential unit, and a representative from the Faculty Senate. This committee is chaired by a representative from the Office of the Chief Financial Officer. Each member of this committee has a continuing, individual charge to serve as a representative of the campus community as a whole and to avoid behaving as a partisan advocate.

Objectives of the BRC

The BRC shall strive to serve as an oversight mechanism that ensures the integrity, balance and value to the University by:

- Providing a review of the support unit costs to ensure that they are reasonable.
- Ensure campus' understanding of the allocation of such costs.
- Recommend to the President the budget of each support unit and what costs should be allocated through the various cost pools.
- Recommend future support unit funding priorities to the President.

General Description of the Budget Process for Support Units

Every five years each unit will prepare a strategic plan and a zero-based budget. Zero-based budgeting starts from a "zero base" and every function within a SU is analyzed and justified for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one. The strategic plan should include a description of services offered, cost of each service, organizational chart, and service level expectations. In addition, a comparison of the services provided by the University SUs and comparable SUs at peer universities should be performed. The zero-based review of SUs is on staggered basis. Therefore, approximately five support units will submit strategic plans for review each year. Every year, all other SUs will provide an incremental budget, analysis of reserves and employee FTE changes from prior year. The plans will include proposals for any new services or changes to existing services and proposed budget changes.

Each of the plans and budgets described above must be submitted to the BRC by December 15th. The BRC will make its recommendation to the Senior Vice Presidents by February 15th and the President by March 15th. The initial estimate of the allocation of revenues and support unit costs will be made publically available to campus by the first week of April.

2.2 Academic Oversight

2.2.1 Faculty Senate and the Budget Council

The Faculty Senate is the representative body of the faculty. It operates according to the principles of shared governance, a constitutionally created system of mutual authority and responsibility, which recognizes the faculty's central role in enhancing UF's intellectual profile as well as the quality and value of the education it provides to students from both the State of Florida and throughout the world.

The Budget Council, a sub-committee of the Faculty Senate, is responsible for reviewing budget and fiscal matters as they involve the academic mission of the University, including the recommendation of budget priorities involving academics and research, the fiscal implications of the creation, modification or deletion of academic programs, the collection and dissemination of information about University budgeting and planning; and monitoring whether the allocation of resources is consistent with Faculty Senate actions and the University's long term and short term strategic plans.

3. Look Back Period

The university uses the annualization of the prior 18-month period SCHs to allocate revenue as described in Section 4. The university uses the annualization of the prior 18-month period expenditures to allocate general and administration, and IT costs as described in Section 5.

4. RCM Allocation of Funds (Methodologies)

4.1 Allocation of Revenues

4.1.1 Weighted Cost of Delivery Concept

The weighted cost of delivery is the cost to provide a college's instructional mission, departmental research, public service, and college administration. These costs are based on the strategic historical allocation of state appropriations by Presidents and Provosts at the University of Florida. The weights were initially created as a cost per SCH at each level. The university uses the following levels to articulate the weighted cost of delivery for each college; undergraduate lower, undergraduate upper, Graduate I (primarily master's level students), Graduate II (primarily doctoral level students) and Graduate III (primarily clinical students). The costs per credit hour were converted to the weighted cost of delivery by college to allow comparison to other universities and application regardless of changes in appropriations and tuition. The weights were set in FY2011. The weighted costs of delivery factors will remain unchanged except for limited circumstances. Such limited circumstance include, the periodic incorporation of allocations from the Strategic Fund and transfer of programs between colleges. The following is the matrix of the weighted cost of delivery:

College Name	Lower	Upper	Grad I	Grad II	Grad III
Agricultural and Life Sciences	1.56	2.65	9.36	12.99	-
Business Administration	0.98	1.63	6.97	22.06	-
Dentistry	-	9.21	5.26	-	23.68
Design, Construction, and Planning	3.23	3.81	7.61	10.03	-
DOCE	2.02	9.38	-	-	-
Education	0.55	1.85	5.07	8.82	-
Engineering	1.96	5.85	11.95	15.78	-
Fine Arts	3.97	5.57	18.45	18.47	-
Health & Human Performance	1.73	2.09	8.73	13.57	-
Journalism & Communications	1.76	2.03	9.53	15.76	-
Latin American Studies	7.29	21.5	35.60	37.95	-
Law	-	-	7.92	7.94	-
Liberal Arts & Sciences	2.16	3.36	11.28	13.31	-
Medicine	-	8.84	9.07	18.10	34.17
Nursing	-	6.69	3.82	12.00	-
Pharmacy	-	7.42	4.24	4.53	-
Public Health & Health Professions	0.84	5.39	3.48	9.60	-
Veterinary Medicine	-	7.92	4.52	14.2	27.14

4.1.2 General Revenue and Educational Enhancement (Lottery) Funds

The university allocates a portion of appropriations to the Direct Funded Units prior to the inclusion of the general revenue and lottery funds into the RCM model. The State of Florida allocated certain funds to the university to manage these Direct Funded Units on behalf of the State or the State University System (SUS). Funds for these units were earmarked in the appropriation statutes by the legislature in the current or previous years. These earmarks are placed in the "base" appropriations to the university in the years subsequent to the initial legislation. The university will increase or decrease the allocation to the Direct Funded Units in proportion to the change in the total appropriation to the University.

An amount for "Graduate School Fellows" stipends is allocated to the Graduate School.

The remaining state appropriations and educational enhancement funds are allocated to the colleges based on each college's weighted cost of delivery coefficient by level as follows:

a. 70% based on SCHs taught by the college, and
b. 30% based on SCHs taken by majors in the college.

"Taught by the college" means the college that owns the course as denoted by the three character course prefix.

"Majors in college" means the primary major. The RCM system does not give credit for secondary majors or minors.

4.1.3 Gross Tuition

Base Tuition

Base tuition is the On-book, prior year assessed tuition (in dollars) including changes in assessed whether from price increase or changes in enrollment, plus the allocation of tuition described below.   Base tuition is allocated as follows.

1. Any prior year unallocated Strategic Funds are returned to the Strategic Fund.
2. Prior years' recurring allocation of Strategic Funds until such allocation is incorporated into the weighted cost of delivery coefficients. The university will maintain a database of allocations. Periodically (every 5 years) the university will incorporate the specific recurring allocations into the weighted cost of delivery for each college.
3. 70% of the remaining base tuition to the colleges based on SCH taught and weighted cost of delivery coefficients.
4. The remainder to each college based on each college's percentage of the tuition generated from its majors (excluding professional differential).

Annual Increase in Tuition

The annual increase in tuition is allocated in the following priorities and amounts:

1. Allocate to financial aid an amount necessary to fulfill the legislative requirement for needs based aid equal to 30% of undergraduate differential tuition, if any.
2. Commitments of funds by the Provost in years prior to the implementation of RCM.
3. Allocation of professional school tuition differentials are returned to the professional schools using the following criteria. The professional school differential retained by the professional school is the increase in the per student tuition dollars at the professional school less the increase in the per undergraduate student tuition dollars. For example, if the professional school increased its FTE tuition by $5,000 and the FTE undergraduate tuition increased by $1,000, the professional school would receive $4,000 per student enrolled in such professional school. The professional schools are; the College of Medicine, the College of Law, the College of Pharmacy, the College of Veterinary Medicine and the College of Dentistry.

4. 75% of the remaining tuition increase is allocated to the Strategic Fund. This percentage is subject to the President's discretion based on economic conditions and university goals.
5. The remainder of the tuition increase is applied to the "base" tuition for allocation as described below.

4.1.4 Facilities and Administrative Recovery (aka IDC or returned overheads)

The allocation of IDC is determined by the Vice President for Research and the Division of Sponsored Research. The allocation of IDC is currently:

8.5% of direct expenditures to pay the costs of supporting the research mission (includes the units described in Section 1.8 – Research)
10% of the IDC to the Principal Investigator to augment research
7.5% of the IDC to the department of the Principal Investigator to support research, and
the remainder to the college of the Principal Investigator

4.1.5 Other Revenues

Other revenues flow directly to the RC incurring the expenses that generate the revenues. Such revenues include, but are not limited to, auxiliary enterprises, Self-funded (Off-book) program revenues, gifts, endowment earnings and grant funds.

University-wide revenues such as, credit card commissions, soft drink commissions, logo sales, and bookstore commissions are allocated to the Strategic Fund.

4.1.6 Financial Aid and Stipends

The Graduate School allocates "Graduate School Fellows" stipend revenues to colleges based on Graduate School criteria. Such revenues are added to the receiving colleges' appropriations.

Each college is charged a pro rata share (based on tuition) of university-wide scholarships. Such scholarships include any scholarships mandate by legislation.

All remaining scholarships are at the discretion of the college and the college granting the scholarship is charged the tuition covered by the scholarship.

4.1.7 Bad Debts

Auxiliary enterprises are charged directly for bad debts that previously generated revenue for such auxiliary enterprise. Bad debts related to tuition are charged pro rata to the colleges. The current rate is 1.3% of each college's tuition revenue.

4.2 Allocation of Expenses

4.2.1 Direct Expenditures

Direct expense such as, salaries, wages, fringe charges, OPS and operating expenses are charged directly to the RC incurring the expense.

4.2.2 General and administrative expenses

General and administrative expenses include all costs incurred by the departments described in Section 1.8 – General and Administrative. Clinical practices pay 1.1% of revenues to central administration. IFAS Research and Extension pays 1.3% of expenditures to central administration.

The remaining general and administrative costs are allocated to the RCs based on each RC's expenditures (not including pass through expenses, expenditures from endowment earnings, gifts and research expenditures) in proportion to all RCs' expenditures (not including pass through expenses, expenditures from endowment earnings, gifts and research expenditures).

4.2.3 Facilities

Facility costs include all costs incurred by departments described in Section 1.8 – Facilities. Such costs include janitorial and maintenance services, and utility costs. Capital costs and depreciation are not charged to the RC. IFAS research centers, extension offices, housing and off-campus rental space pay their facility costs directly to employees or service providers. Therefore, such facilities are not allocated any facility costs from the central facilities cost pool.

The central facilities cost pool is allocated to RCs based on the net square feet "owned" in the STARS system and a weighting coefficient by type of space. Classroom space that is "owned" by the registrar is allocated to the colleges based on the college's proportionate use of the registrar's classroom space. Space and the related weights are:

Space Type	Weight
Lab	2.75
Classroom	1.50
Office	1.25
Other	1.00

The current, unweighted cost per square foot is $9.17.

For example, if 100 square feet of lab space is being used by an RC, such RC would incur a cost of $2,522 ($9.17 x 100 square feet x 2.75 weight)

4.2.4 Information Technology Infrastructure

Information technology costs include all costs incurred by the departments described in Section 1.8 – Information Technology. Information technology costs are allocated to the RCs based on each RC's expenditures (not including pass through expenses and research expenditures) in proportion to all RCs' expenditures (not including pass through expenses and research expenditures).

4.2.5 Student Services

Student service costs include all costs incurred by the departments described in Section 1.8 – Student Services. Student service costs are allocated to colleges based on their proportion of all weighted headcount of students to the university's total weighted headcount of students. The classifications and weightings are as follows:

Headcount Type	Weight
Undergraduate - lower	2.0
Undergraduate – upper	3.0
Graduate I	4.0
Graduate II	4.0
Professional	2.0

4.2.6 Library Expenses

Library costs include all of the costs incurred by Library West, Marston Library, and the Health Science Center Library. Library costs are allocated to colleges based on their proportion of all weighted headcounts of students, faculty and certain staff to the university's total weighted headcount of students, faculty, and certain staff. The classifications and weightings are as follows:

Headcount Type	Weight
Undergraduate - lower	2.0
Undergraduate – upper	3.0
Graduate I	5.0
Graduate II	5.0
Professional	5.0
Salaried Faculty	5.0
OPS Adjunct Faculty	4.0
Research Staff	4.0
Post Docs	5.0
House Staff/Residents	5.0

4.2.7 Research Administration

Research administration costs include all costs incurred by the departments described in Section 1.8 – Research. The housestaff contract is assessed at 1.1% of expenditures. Research A administration costs are allocated to the RCs based on each RC's direct research expenditures excluding subcontract expenditures, in proportion to all RCs' research expenditures excluding subcontract expenditures. Research B administration costs are allocated to those colleges with animal and human research activities proportionally to their direct research excluding subcontract expenditures.

4.2.8 Health Science Center Administration

Health Science Center (HSC) Administration costs include such items as a portion of the Office of the Sr. Vice President of Health Affairs, the Health Net system, and the grant proposal review office. Such costs are allocated to only the HSC colleges as determined by the Sr. Vice President of Health Affairs. Administration costs are allocated to the RCs based on each RC's direct research expenditures, in proportion to all RCs' research expenditures.

5. RCM Tools

A simple simulator tool is available (access privileges must be obtained from Julie Wang at wangj@ufl.edu. The tool can forecast revenues and expenses for the college, department or program by changing certain variables and assuming all other factors remain constant. The variables are SCHs taught, SCHs of majors and salaries. The Office of the Chief Financial Officer is striving to provide more robust forecast (what-if analysis) tools as they become available.

6. Presentations and Communications

The Office of the Chief Financial Officer frequently makes presentations to campus groups about the principles of RCM. We have provided links to the website that contains these presentations and communications. We will strive to update the website with new presentations and 3rd party publications concerning revenue based budgeting as they become available.

http://cfo.ufl.edu/present.asp

7. Links to Other College & University RCM Websites

Many other colleges and universities have implemented some form of responsibility budget models. We have included links to the websites of some of these colleges and universities.

Indiana University	http://weathertop.bry.indiana.edu/mas/rcm/
Iowa State University	http://www.public.iastate.edu/~budgetmodel/
Kent State University	http://www.kent.edu/about/administration/business/rcm/index.cfm
Ohio State University	http://www.rpia.ohio-state.edu/
University of Michigan	http://sitemaker.umich.edu/obpinfo/general_fund_budget_study
University of Minnesota	http://www.budget.umn.edu/int_bud_model_overview.pdf
University of New Hampshire	http://www.unh.edu/rcm/index.htm
University of Pennsylvania	http://www.finance.upenn.edu/comptroller/rcm/

In addition, many other public and private universities are utilizing or implementing a version of RCM but do not have information posted on the Internet. These institutions include:

University of Illinois - Urbana Champaign
Southern Illinois University
Marquette University
American University
University of California at Los Angeles (UCLA)
University of Toledo
Clemson University
Harvard University
Washington University of St. Louis
Indiana University of Pennsylvania
Mercer University
CalTech University
Vanderbilt University
Duke University

Auburn University
Clarkson University (considering)
Purdue University
Temple University
University of Oregon
University of Pennsylvania
University of Southern California
University of Toronto
West Chester University (PA)
Central Michigan University
University of Iowa
University of Alaska
McGill University
Renssalear Polytechnic Institute

8. Frequently Asked Questions

8.1.1 What is the difference between "base tuition" and "tuition differentials"?

In 2007, the Florida legislature passed a bill (statute 1009.24 (4)(a)-(d)) that allowed UF to raise undergraduate and graduate tuition up to 15% per year. There are two components of the 15% increase in tuition, a legislatively established increase in "base tuition" and a remainder "tuition differential" set by the UF Board of Trustees. UF will be allowed to raise tuition up to 15% each year until the "…aggregate sum of undergraduate tuition and fees per credit hour, including the tuition differential, *does* not exceed the national average of undergraduate tuition and fees at 4-year degree-granting public postsecondary educational institutions". The base increase in tuition and tuition differential percentage has the potential to change each year. For example, if the tuition base increase is set at 10% for the 2011-2012 fiscal year, the maximum UF tuition differential would be a 5% increase. Professional schools can also increase tuition 15% per year (see section 4.1.3). In the 2010-2011 fiscal year all increases in tuition (both the base and differential) went to pay for faculty and staff raises. In 2010-2011 the 15% increase in tuition resulted in UF obtaining an additional $21 million dollars with an additional $32 million dollars expected to be generated in the 2011-2012 fiscal year through increases in tuition.

<u>Issues being examined regarding both the tuition increase and tuition differentials</u>

The money generated by the 15% per year increase in tuition is used at the discretion of the President. The 15% increase in tuition is currently the largest new source of revenue generated each year. It is at the discretion of the president if any portion of this money will be placed into the RCM model in any given year.

The overall dollar amount of the 15% increase in tuition in professional RCs is much larger than the dollar amount of the undergraduate 15% tuition increase. One consequence of this situation is that professional schools generate a larger amount of the tuition increase per student than RCs that have fewer or "cheaper" graduate programs. As described in section 4.1.3, professional schools retain the additional revenue generated by the their larger (in dollars) tuition increase.

8.1.2 How does a RC increase revenue generation in the University of Florida RCM budget model?

RCM budgeting incentivizes Responsibility Centers to deliver a superior "product" using less resources. Increasing revenue under the University of Florida RCM model can be accomplished in a number of different ways. Some of the mechanisms used to increase a RC's revenue are described below.

Increasing enrollment and/or student credit hours (SCHs)
The largest source of revenue for most Responsibility Centers is state appropriations. These funds are provided to each Responsibility Center based on the number of student credit hours that a given center teaches and the number of students enrolled. Currently, 70% of state appropriations is allocated based on the number of student credit hours that are taught by a Responsibility Center and 30% is allocated based on the number of student majors. For each Responsibility Center, the actual dollar amount provided for each SCH is different since SCHs are weighted based on the cost of instruction of the class. Increasing the number of students majoring in a given Responsibility Center and/or the number of SCHs taught will increase revenue. A decrease in enrollment and/or SCH taught by a Responsibility Center will result in a decrease in state appropriations.

Enrollment of undergraduate, degree-seeking students in on-book programs is not expected to increase at UF. However, non-degree students can take classes along with degree students. These students pay the same fees that degree students do. Filling empty seats in a course that is not full will generate additional revenue for a center. Non-degree students are only allowed on campus during summer sessions.

Designing new entrepreneurial activities – Off book courses
Off book courses receive no state funds. They are self-funded through tuition paid by the students in the program. Centers receive all the tuition paid by students in off-book courses in the calendar year that students take classes. There is no delay in receiving revenue from off book courses. Unlike on book courses, in which the amount of tuition that can be charged is limited by state law, off-book tuition is set to recover allowable costs, unless market rates are approved by the Board of Governors In off book courses tuition covers all costs associated with the program (including faculty salaries). The revenue generated from off book courses isnot subject to competition from other responsibility centers.

8.1.3 Tuition waivers for UF students and RCM

There are two types of tuition waivers issued at UF. Those that are mandated by the state (“statutory” waivers), which include but are not limited to, children of law enforcement officers or fire fighters killed in the line of duty; graduate students enrolled in state-approved school psychology training programs; students enrolled through the Florida Linkage Institutes Program; FL residents aged 60 years or older; and certain active-duty members of the Florida National Guard and waivers that are issued at the discretion of the responsibility center. Each Responsibility Center pays a proportion of all statutory waivers based on the total amount of tuition revenue it receives in state appropriations.

Discretionary waivers can be revoked by a center, which will result in the direct generation of additional revenue. However, this will be offset by a loss of SCHs, which depending on the weighted value of the SCH may result in a net decrease in revenue. This is especially true for graduate students that are on tuition waivers. A decrease in the number of these students can result in a large decrease in state revenue allocations due their higher weightings in addition to loss of a potential teaching assistant in a course that generates a large number of SCHs. If a student on a waiver is replaced by the same type of paying student (i.e. a waivered masters student is replaced with a paying masters student), the Responsibility Center will increase its revenue by the amount of the waiver. The revenue increase will be reflected in the next fiscal year.

8.1.4 Competition between Responsibility Centers.

In a successful RCM budgeting environment, competition for limited resources between responsibility centers occurs. In the current fiscal environment at the University of Florida state revenues are projected to remain flat (at best). "Poaching" of students may occur in an effort to increase SCHs at one responsibility center while at the same time decreasing SCHs are a competing responsibility center. There is also the potential for centers to encourage students to enroll in a given college in which a student has a poor chance of being academically successful in an effort to generate more revenue. Increasing the amounts of credits of a required core course will also increase SCHs for a given center ("credit creep"). These activities are highly discouraged. It is the responsibility of the Provost office to identify situations in which the RCM model is being abused.

8.1.5 A Summary of RCM and Space

Each Responsibility Center is charged for the space that it uses. At the University of Florida space is divided into four different classes. Each type of space incurs a specific charge per square foot. For the 2011-2012 financial year Responsibility Centers will be charged the following for the space that they own:

Type of space	Cost/sq. foot
Laboratory	$25.22
Classroom	$13.76
Office	$11.46
Other	$9.17

Examples of "Other" types of space include barns and storage.

The space costs described above are actual costs and can change each financial year. Since buildings at the University of Florida are not individually metered, the per-square-foot fee that a Responsibility Center is charged represents the University-wide average cost to operate a given type of space. Averaging the amount of money it costs to operate space across the entire University of Florida system allows Responsibility Centers to pay the same per-square-foot fees for a given type of space, regardless of location or the actual cost to operate the space. For example, offices located in older buildings may cost more to heat and cool. With averaged operating costs, Responsibility Centers located in these buildings are not placed at a disadvantage. A drawback of this system is that it provides little incentive for a given Responsibility Center to conserve resources to reduce its own costs. For example, the savings realized through decreasing the electricity used in a given building will not be directly credited to the Responsibility Center that owns the space. Instead, the savings will be averaged throughout the entire campus and the Responsibility Center responsible for the savings may only realize a few percent of the actual savings. Campus-wide resource conservation efforts have the potential to significantly decrease the amount of money all Responsibility Centers are charged for space that they own.

The University of Florida receives Plant Operating and Maintenance (PO&M) revenue each year from the State of Florida. The revenue from this source historically has covered ~80% of the actual costs to operate space. Before implementation of RCM in the 2010-2011 financial year, the ~20% funding shortfall was provided by Central Administration prior to the allocation of funds to Responsibility Centers (this money was removed from the State Revenue pool). Under RCM, all revenue including PO&M and the additional ~20% of State Revenue previously withheld by Central Administration is allocated to each Responsibility Center. As a result, space costs did not affect each Responsibility Center's 2010-2011 financial year overall budget.

It is important to note that PO&M revenue from the State, as well as the costs for each type of space shown above, can change each financial year (for example if Gainesville experienced an exceptionally hot summer, electricity costs may be higher depending on use and the cost of electricity/gas). The Office of the Chief Financial Officer will work with Responsibility Centers to aid them in planning their space budgets for the upcoming financial year.

<u>“Trading” of space between Responsibility Centers</u>
Responsibility Centers can decrease their costs by relinquishing space to another Responsibility Center. For example, if Responsibility Center A transferred 1000 sq. feet of laboratory space to Responsibility Center B, Responsibility Center A would decrease their space costs by $25,220 (1000 X $25.22). Consequently, Responsibility Center B would be charged an additional $25,220 that financial year and would pay the laboratory space cost each year that they own the space. If Responsibility Center B uses the newly acquired space to attract a new faculty member capable of obtaining a grant with indirect costs recovery, Responsibility Center B will generate additional revenue (assuming that indirect cost recovery is greater than the cost to the Responsibility Center to own the space). The above example is true for all space. The Responsibility Center that gives up space will decrease their costs while the Responsibility Center assuming the space will increase their costs. The receiving Responsibility Center will generate additional revenue if they can cover the costs of owning the additional space. For example, this could be accomplished by obtaining grants that have indirect cost recovery (as described above), using newly gained classrooms to teach additional courses (which will increase SCHs, resulting in an increase in State Revenue) or obtaining offices that result in an increase in faculty productivity which leads to revenue generation. The Provost and the VP for Business Affairs are currently building a system to facilitate such transactions.

The cost of space that is relinquished is immediately credited to the Responsibility Center that has given up the space while the receiving Responsibility Center is immediately charged.

In RCM budgeting at the University of Florida, PO&M revenue is allocated in the weighted cost of SCH delivery. The consequence of this mechanism is that Responsibility Centers that receive additional existing space do not receive the PO&M revenue associated with this space. If they increase SCHs as a result of owning more space they will increase their revenue. This revenue increase could be less or more than the theoretical PO&M costs associated with the space (exact PO&M costs for specific space are only known for new buildings – see below). The Responsibility Center relinquishing space retains the same revenue and reduces their costs (assuming the relinquishing Responsibility Center maintains the same number of SCHs).

Space can be relinquished/obtained as needed. For example, if space is needed for only a year to teach a specific course, the Responsibility Center can relinquish the space after a year if another Responsibility Center assumes ownership of the space. It is essential that Responsibility Centers obtain approval from the Provost prior to relinquishing /obtaining space.

<u>The future of RCM and space</u>
The State of Florida appropriates new PO&M revenue for new buildings. This new source of revenue will be allocated to the owner(s) of the space. For example, if 50% of the new building were owned by Responsibility Center A

then they would receive 50% of the new PO&M revenue. If this source of revenue is not enough to cover the cost of the space the Responsibility Center that owns the space is required to provide the difference.

The exact PO&M revenue designated for new space is known and this information is retained in The Office of the Chief Financial Officer. When ownership of “new” space is transferred between Responsibility Centers in which PO&M revenue is known the new owner of the space will assume the costs associated with the space and a proportion of PO&M revenues.

The President does maintain a “bank” of space. Colleges and support centers can permanently relinquish space to the President. This space will not be in use and will be charged lower rates than space owned by Responsibility Centers. Responsibility Centers that contribute space to this bank will not be able to reacquire this space at a future date. The “Presidential space bank” will consist of large blocks and Responsibility Centers may be provided an incentive to relinquish space in buildings that are of strategic use to the mission of the University.