Introduction to Responsibility Center Management

At the University of Florida
Housekeeping

• Roster
• Cell phones, pagers, text messages
• Approximately 2-hour session
  – No scheduled break
Today’s Workshop

• Introduce the new budget system: RCM
  – What is Responsibility Center Management?
  – Why are we changing to a different budget system?
  – How does it compare to our current budget system?

• Define some key concepts

• Review general details
Today’s Workshop

• Describe the expected impact
  – When fully implemented, what do we hope to achieve?

• Identify next steps
  – What’s the timeline?

• Answer your questions
Today’s Workshop

• Today: High level overview
• For details: Please plan to attend “RCM Nuts and Bolts” Workshop in October
UF Is a Great University

Great University + Financial Autonomy = Increased Quality and Academic Achievement
One Step Forward …
Two Steps Back

One Step Forward
We make progress in improved quality, national stature, and cutting edge efforts

Two Steps Back
State circumstances require that we cut budget—Can’t make investments in programs and salaries that advance and support our institution's quality
A Great University Requires Stable Funding

- RCM will allow us to:
  - Focus more consistently on standards of quality and academic achievement
  - Be proactive, rather than reactive
- It is designed to encourage much-needed financial autonomy
  - So that we are not as significantly impacted by changes in the state’s budget
What Is Responsibility Center Management?
Responsibility Center Management (RCM)

• Decentralizes decisions and financial authority/responsibility to academic leadership:
  – For example, college deans and their faculty are in a better position to understand the impact of resource use and related decisions
Responsibility Center Management (RCM)

- Encourages academic units to take greater responsibility for revenue generation and spending decisions
  - Promoting “entrepreneurial thinking”
- Supports growth even when government funding is limited
Why Is the Change to RCM Important for UF and Our Success?
Why Change Budget Systems?

• Decreasing state support puts UF’s quality of education, research, and service at risk
Why Change Budget Systems?

• In order to sustain standards of quality and achieve greater levels of academic excellence, we must look for ways to:
  – Increase our self-reliance
  – Promote innovative and entrepreneurial activities that are financially viable
  – Generate new revenue sources
State Appropriation and Tuition Revenue per Full-time Equivalent Student
AAU Public Average vs. UF
AAU Peer Institution
Undergraduate Tuition (Full-time, Resident)
Why Change Budget Systems?

• Because college-level academic leadership is put in control with RCM
  – Better decisions about how the university uses its resources are expected
Why Change Budget Systems?

• Greater transparency also occurs:
  – Encourages “information-rich” discussion about budget
  – Deepens understanding of financial impacts when making decisions
  – Clarifies current maze of cross-subsidies
    – Now, colleges subsidize each other
    – Need to ask instead—
      • What does this class or program cost?
      • What is its impact?
Why Change Budget Systems?

• Additionally, with RCM, support units are subjected to regular review for efficiency, effectiveness, and proper incentives
  – Are we spending our limited resources wisely on administrative functions?
Other Universities Using RCM

- American Univ
- Auburn Univ
- Cal Tech Univ
- Central Michigan
- Clemson
- Duke
- Florida International
- Harvard
- Indiana
- Kent State
- Purdue
- Temple Univ
- Tulane
- University of California—Los Angeles (UCLA)
- Univ of Michigan
- Univ of Minnesota
- Ohio State
- Vanderbilt
UF RCM Committee

- All UF Deans
- Provost Office
  - Kathleen Long
  - Andy McCollough
- Administration
  - Ed Poppell
- HSC
  - Russ Armistead
- IFAS
  - Joe Joyce
- Student Services
  - Dave Kratzer
- Faculty Senate
  - Frank Bova
How Does RCM Compare to Our Current System?
UF’s Total Funding

- State Appropriations: 31%
- Sponsored Programs: 28%
- Component Units: 11%
- Auxiliaries: 9%
- Tuition and Fees: 9%
- Other: 12%
RCM

• Our budget from the state and students has always been driven by Student Credit Hours

• RCM is no different
  – Based on this same funding structure
  – Tied to instruction and entrepreneurial activities
  – Also follows strategic direction—it doesn’t set it

• RCM helps clarify cross-subsidies across colleges
Current: Incremental system

- Central UF administration provides funds to colleges/administrative areas based primarily on historic spending patterns.

- Central authority for financial planning, execution, and control.

- Budgets based on past allocations.

- Changes are gradual and occur over time as circumstances warrant and resources allow.
RCM

- Uses a formula to allocate state funds
  - Based on Student Credit Hours (SCH) taught, enrollment, and other factors
- Colleges and auxiliaries also keep:
  - Surplus funds
  - As an incentive, all entrepreneurial revenue they generate to support their priorities
UF Funding Structure

Instruction:
Student Credit Hours

Entrepreneurial Activities:
Research
Self-Funded Classes
Auxiliaries, etc.

Strategic Direction
Deans have more info (increased transparency) and control over their budget.

Can use limited resources more effectively to support priorities.

Overall effect: Improved outcomes for UF.
Questions?
What Are Some Key Concepts?
Let’s Define

- Responsibility Centers
- Support Centers
  - Budget Review Council
- Direct-Funded Units
- Student Credits Hours (SCH)

- Enrollment
- Weighted Cost of Delivery
- Base Student Allocation (BSA)
- Leverage Fund
- Strategic Fund
Work Units

• All work units at UF will be designated as:
  – Responsibility Centers
  – Support Centers
  – Direct-Funded Units
Responsibility Centers

• Colleges, auxiliaries, and certain centers (UF International Center, for ex.) are considered Responsibility Centers (RC)

• Responsibility Centers generate revenue and incur costs
  – The dean, director, or vice president, as appropriate, will be accountable for both
Responsibility Centers

• Revenue
  – Receive all revenue earned from their activities
  – Receive an allocation of state appropriations based on a formula using student credit hours

• Expenses
  – Responsible for all direct expenses
  – A share of Support Center costs

• RCM creates a full cost view of academic operations
Support Centers

• Support Centers, or administrative units
  – Tend to generate little or no revenue, but do incur costs
  – Managers of these areas are accountable for costs only—and value of services provided

• Support Centers will be funded via assessments to each Responsibility Center
Support Centers

• Each year, Support Centers will explain their value and services to a Budget Review Council to justify their budget requests
• Council will be composed of reps from colleges, VP areas, faculty senate – 12-15, with rotating membership
• Every five to six years, each Support Center also will go through a “zero-based” budget review
Support Centers

• Support Centers to go through “zero-based” budget review will be:
  – Purchasing and Disbursement Services
  – UF Bridges
  – IT (in general)
  – UF Privacy Office
  – General Counsel Office

• Will need good measurements, benchmarking
Direct-Funded Units

- Certain areas receive funding directly from the state
  - These Direct-Funded Units are neither Responsibility nor Support Centers
- State-appropriated funds will be provided to them directly
- Will receive their 2009-10 budget going forward
  - Will change if they receive new state funding or budget reductions
Direct-Funded Units

- Animal Care
- Biotech Incubator
- Biotechnology
- Center for Smell and Taste
- College of Med-JAX
- Digital Worlds Institute
- Eastside Clinic
- Emerging Pathogens
- FL Center for Library Automation
- FL Museum of Natural History
- FL Sea Grant
- Harn Museum of Art
- ICBR
- IFAS—Extension and Research
- Institute for Child Health Policy
- McKnight Brain Institute
- Phillips Center for the Performing Arts
- ROTC
- University Auditorium
- University Press of FL
- Water Institute
- Whitney Labs
- Women’s Athletics
Designation Listing

• Don’t know if you work in a Responsibility Center, Support Center, or Direct-Funded Unit (state-funded center)?

• Visit www.cfo.ufl.edu for a listing
State-Appropriated Funds

• Now, let’s discuss key concepts surrounding allocation of state-appropriated funds to Responsibility Centers
Student Credit Hours (SCH)

- The formula for determining a college’s state-appropriated allocation will be based, in part, on the number of Student Credit Hours (SCH).
- Total SCH: For each class taught in your college--

\[
\text{Total SCH} = \text{# of credit hours for classes} \times \text{# of students in classes}
\]
Enrollment

• Formula for determining a college’s state-appropriated allocation also will be based on enrollment

# of students accepted and enrolled in a college regardless of where they are taking classes = Enrollment
Enrollment

• Formula for determining a college’s state-appropriated allocation also will be based on enrollment

For example, a business management major is enrolled in the College of Business Administration
Weighted Cost of Delivery

• Five weightings used for each college’s SCHs:
  - Lower Level
  - Upper Level
  - Graduate I
  - Graduate II
  - Graduate III
## Weight By College

<table>
<thead>
<tr>
<th>College</th>
<th>Lower</th>
<th>Upper</th>
<th>Grad I</th>
<th>Grad II</th>
<th>Grad III</th>
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<tr>
<td>Veterinary Medicine</td>
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<tr>
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<td>Pharmacy</td>
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<td>11.610</td>
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</table>
Weighted Cost of Delivery

• Weighting based on historical expenditure analysis (FY 07-08) of what it costs to teach classes in each college
  – Number of personnel engaged in academic activity and salary cost
  – Actual state appropriated expenditures
  – Number of SCHs by level
Weighted Cost of Delivery

• Process was initially nonjudgmental
  – However, any funding biases in the past were brought forward since historical data were used

• To control for that, weightings were then compared with other schools
  – For example, universities in Ohio, Texas, and other Florida publics

• Adjusted weights
BSA—Base Student Allocation

- The value for one student credit hour (SCH) with a weight of 1.00
- Used to calculate how much of state appropriations the colleges will receive through RCM
- End result is the allocation of state-appropriated funds
BSA—Base Student Allocation

• BSA provides a baseline associated with a 1.0 weighting
  – For ex., 1 Lower Level SCH = $37.31 (BSA)
BSA—Base Student Allocation

- If your college’s Lower Level SCH weighting is 10, then for each Lower Level SCH, the college will receive state appropriation dollars of $373.10

<table>
<thead>
<tr>
<th>SCH</th>
<th>Weighting</th>
<th>BSA for Lower Level Classes</th>
<th>State Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>37.31</td>
<td>$37.31</td>
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<tr>
<td>1</td>
<td>10</td>
<td>37.31</td>
<td>$373.10</td>
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<tr>
<td>2</td>
<td>10</td>
<td>37.31</td>
<td>$746.20</td>
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</table>
Leverage Fund

• Designed to “leverage” or reward a college’s existing entrepreneurial activities—that is, activities other than instruction that are already going well

• A percentage of state appropriations will be used for the Leverage Fund
  – Total Leverage Fund—roughly 8 percent of state appropriations (general revenue, tuition, and lottery)
Leverage Fund

• Each college will earn an amount from the Leverage Fund based on relative productivity of core faculty
  – All revenues into a college (grants, foundation, auxiliaries, etc.) will be considered
Leverage Fund

- Because the amount received each year is outcome-based, each college’s amount will likely change each year
  - For example:
    - More research in FY 11-12 = more from Leverage Fund in FY 12-13
    - Less research = less from fund
Strategic Fund

• Designed to support new or key initiatives
  – Central fund funded by tuition increases as well as Pepsi fund, logo fund, etc.
  – Used at the discretion of the President
Questions?
Let’s Review Some Details
## College Revenue Components

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<tr>
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<td>Endowment Earnings and Gifts</td>
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<td>Material &amp; Supply (M&amp;S) &amp; Equipment Use Fees</td>
</tr>
</tbody>
</table>

**Total College Revenue**
College Revenue Components

State Appropriations

- General Revenue
- Lottery
- Tuition
College Revenue Components

- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

State-Appropriated Allocation Per College
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

From all three sources: General revenue, lottery, and tuition
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

Goes to college teaching the class
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

SCHs are weighted based on cost of instruction of the class
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

Based on number of students officially accepted and enrolled in your college
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

The portion of funding received from general revenue and lottery will be weighted.
College Revenue Components

- 8 percent for Leverage Fund
- 64.4 Percent Based on Student Credit Hours (SCH)
- 27.6 Percent Based on Enrollment

The portion from tuition will not be weighted
College Revenue Components

- State Appropriations
- Entrepreneurial Activities
College Revenue Components

- State Appropriations
- Entrepreneurial Activities

• 100 percent of revenue returned to college

For example:
• Sales and service
• Self-funded “off book” academic programs (receive no state funding)
<table>
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<th>College Revenue Components</th>
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College **Revenue Components**

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- Sponsored projects—Federal and non-federal contracts and grants awarded typically in support of research activities
College Revenue Components

- State Appropriations
- Entrepreneurial Activities
- Contracts and Grants

- 100 percent provided to college, including all Indirect Costs (funds collected to operate and support UF’s sponsored research program)
## College Revenue Components

- State Appropriations
- Entrepreneurial Activities
- Contracts and Grants
- Endowment Earnings and Gifts
College Revenue Components

- State Appropriations
- Entrepreneurial Activities
- Contracts and Grants
- Endowment Earnings and Gifts

- Spendable gifts plus endowment earnings received in a year
## College Revenue Components

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<td>Material &amp; Supply (M&amp;S) &amp; Equipment Use Fees</td>
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</table>
College Revenue Components

- State Appropriations
- Entrepreneurial Activities
- Contracts and Grants
- Endowment Earnings and Gifts
- Material & Supply (M&S) & Equipment Use Fees

- 100 percent of revenue returned to college
College Revenue Components

- State Appropriations
- Entrepreneurial Activities
- Contracts and Grants
- Endowment Earnings and Gifts
- Material & Supply (M&S) & Equipment Use Fees

Total College Revenue
College Expense Components

- Payment for Support Centers
- Direct expenditures
College Expense Components

• Support Center costs are allocated to each Responsibility Center based on certain cost drivers
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library
- Sponsored Project Admin
College Expense Components

Info Technology

- Bridges
- Information Technology
  - Covers cost of UF infrastructure and base level of services
  - Will still pay separately for equipment, software, “wall plates” (network cabling to each workstation), etc.
College Expense Components

- Info Technology
  - Percentage based on your direct expenditures, excluding Sponsored Research
<table>
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<tbody>
<tr>
<td>Info Technology</td>
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<tr>
<td>General Admin</td>
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</table>
College Expense Components

- Info Technology
- General Admin
  - Audit & Compliance Review
  - Board of Trustees
  - Business Affairs
  - Business Services
  - CFO
  - EH&S
  - Finance & Accounting
  - General Counsel
College Expense Components

- Info Technology
- General Admin
  - Governmental Relations
  - Human Resources
  - Institutional Activities
  - Operations Analysis
  - UF Police Department
  - President’s Office
  - Provost’s Office
  - University Relations
  - UF International Center*
College Expense Components

- Info Technology
- General Admin

• Percentage based on your direct expenditures, excluding Sponsored Research
College Expense Components

- Info Technology
- General Admin
- HSC Admin
College Expense Components

- Info Technology
- General Admin
- HSC Admin

- VP Health Affairs
- Only applies to Health Science Center (HSC) colleges
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
  - Admissions
  - Financial Aid Admin
  - Graduate School
  - Registrar
  - Student Affairs
  - UF International Center*
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin

- Amount paid will be based on number of students
- Distinction made for graduate vs. undergraduate students
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
  - Construction and Planning
  - Physical Plant Division
# College Expense Components

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Info Technology</td>
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<td>General Admin</td>
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<td>HSC Admin</td>
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<tr>
<td>Student Services Admin</td>
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<td>Facilities</td>
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</table>

- Cost of utilities, custodial services, and building maintenance
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities

• Based on square feet of what you “own” as reflected in UF’s Space Tracking and Reporting System (STARS)
# College Expense Components

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<td>Facilities</td>
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</table>

- Different amounts will be charged for office, lab, classroom, and “other”
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities

• Shared space will be paid for by area to which it is assigned
## College Expense Components

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<td>Facilities</td>
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</table>

- No charge for off-campus facilities if already responsible for own utilities, custodial services, etc.
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library

- Charge based on number of students and faculty
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library

• Three weights: Lower vs. upper undergraduate vs. graduate students/faculty
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library
- Sponsored Project Admin
## College Expense Components

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<tr>
<td>Library</td>
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<tr>
<td>Sponsored Project Admin</td>
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</tbody>
</table>
  - Contracts and Grants  |
  - DSR                   |
  - Cost Analysis         |
College Expense Components

- Info Technology
- General Admin
- HSC Admin
- Student Services Admin
- Facilities
- Library
- Sponsored Project Admin

• Percentage charged based on Sponsored Research expenditures
## College Expense Components

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<tr>
<td>Sponsored Project Admin</td>
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<tr>
<td><strong>Total Assessments</strong></td>
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Any Questions?
What’s Next?
Implementing RCM

• First year (FY 2009-2010):
  – Budget will continue to be provided to each academic and administrative area via current centralized system
  – Parallel system using RCM will run concurrently to allow colleges to compare
  – Also will provide an opportunity for us to ensure that RCM works for UF
    – May make adjustments to formulas, weighting, etc.
Implementing RCM

• Starting FY 2010-2011, RCM will be used to determine how state appropriations will be allocated to academic colleges.
Timeline

• July 1, 2009
  – Incremental budget process
  – Parallel RCM budget system

• July 1, 2010
  – Refinement of RCM budget system
  – Implementation of RCM budget system
  – Begin amortization of historical cross-subsidies
Moving Forward

- “RCM Nuts and Bolts” Workshop
  - More details about the mechanics of RCM
- Ongoing “budget officer” training
  - Budget prep and other information offered as part of ongoing UF T&OD-sponsored curriculum
- “Intro to RCM” online
  - Elearning version available in October
What Outcome Do We Expect?
Increased:

- Risk-taking and innovation
- Flexibility and timeliness in responding to changes in demand for academic programs, courses, and majors
- Willingness to reduce or discontinue lower priority programs and services
- Self-reliance in developing financial plans to support investment and innovation
Expected Success Stories

• Colleges may:
  – Teach large classes where effective
  – Invest funds generated from those SCHs in:
    – Classes that require eminent scholars or low student/instructor ratio
    – Something of higher priority where funds are needed
  – Expand self-funded classes that extend UF’s reach to new students to generate new funds
Expected Success Stories

• Overall, we will be more aware of administrative costs
  – Do we really need that service?
  – Cost-saving measures expected
Changes in Roles

• Rethink fundamental roles of key university managers
  – Executive
    – How the President and Sr. VPs for the academic units set the priorities for the institution
  – Academic
    – How deans will set priorities for their colleges and encourage entrepreneurial growth to support their priorities and those of the institution
Changes in Roles

- Budget officer for college
  - How to disseminate budget received via RCM to departments
- Support
  - How to explain services/value to UF as part of the budget process
Changes in Roles

– Academic behavior
  – How does this program, class, area of research help me be great?
  – Which will help UF be great
“RCM is a means of putting revenue and expense incentives in the hands of program leaders so that they will make the right choices as to where to invest their funds.

…It’s about having incentives to invest in things that matter most from the academic point of view.”

University “B,” Education Advisory Board
University Leadership Council
Custom Research Brief
What Are Your Questions?
Today’s Workshop

• Introduced the new budget system: RCM
• Defined some key concepts
• Reviewed general details
• Described expected impact
• Identified some next steps

Thank you for being here today!

Have you signed the roster?

Please complete an evaluation!
Introduction to Responsibility Center Management

At the University of Florida