Responsibility Center Management

At the University of South Florida
Current: Incremental System

- Central USF 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
Overview of RCM Model

Revenue

↓

Responsibility Centers

College Direct Expenses

Central and Academic Support Center Expenses

Strategic Fund

Subvention Across Responsibility Centers
Four benefits Universities can achieve in implementing RCM

1. **RCM encourages and creates greater transparency**
   a. Utilizes formulas to determine revenue and cost allocations in a way that is predictable, objective, and easy to understand
   b. Allows deans to engage in long-term planning because they are able to accurately predict their budget for future years

2. **RCM enhances accountability across all areas of the university**
   a. Holds the college deans and support unit heads accountable for their unit’s finances
   b. Induces deans to develop efforts that reduce costs and prioritize expenses
Four benefits Universities can achieve in implementing RCM

3. **RCM eliminates the need for negotiation**
   a. Because the allocation are formulaic, colleges are not required to negotiate for a share of the institution’s funds. Instead, the university relies on specific metrics to determine how much each college receives.

4. **RCM helps institutions manage effectively even if funding declines**
   a. An RCM model addresses declines in funding because it forces deans to align academic planning with a focus on the fiscal consequences of those strategic decisions
   b. Thus a decentralized model demonstrates an added benefit by making the campus community aware of the challenge of balancing a budget amidst changing circumstances.
How RCM Works (the formula)

The Formula:

1. **Revenue** *(E&G allocation calculated for each RC)*
   - Less: **Direct Expenditures** *(managed by each RC)*
   - Less: **Strategic Investment Tax**

2. **Gross Margin**
   - Less: **Centralized Services** *(calculated for each RC)*

3. **Net after Central Costs**
   - Plus/Minus: **Subvention** *(adjustment of RCs gains/losses)*

4. **Net Surplus** *(Cash for non-recurring use by some RCs)*
RCM model – Simple Case

Example: Two Colleges and One Service Provider

- College A generates twice as much E&G share as College B
- College A has proportionally higher faculty and other direct costs
- College A and B are “taxed” at the same rate (5% in this example) to contribute to the Strategic Investment Pool
- Central costs charged to A are twice those of B given allocation methods used that address service consumption
- The Support Center receives $75 M as “revenue” to fund its E&G operations
- College B requires a subsidy of $20 M to cover its Net after Central Costs
- College A contributes $20 M of its surplus to College B
- End of Year Cash is expected to be: College A $10 M, College B $0, and the Support Center $0

<table>
<thead>
<tr>
<th>RCM MODEL</th>
<th>College A</th>
<th>College B</th>
<th>Support Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 REVENUE</td>
<td>200</td>
<td>100</td>
<td>75</td>
</tr>
<tr>
<td>DIRECT COSTS</td>
<td>(110)</td>
<td>(90)</td>
<td>--</td>
</tr>
<tr>
<td>STRATEGIC INVESTMENT</td>
<td>(10)</td>
<td>(5)</td>
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</tr>
<tr>
<td>2 GROSS MARGIN</td>
<td>80</td>
<td>5</td>
<td>75</td>
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<tr>
<td>CENTRAL COSTS</td>
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<td>(25)</td>
<td>(75)</td>
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<tr>
<td>3 NET after CENTRAL COSTS</td>
<td>30</td>
<td>(20)</td>
<td>0</td>
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<tr>
<td>SUBVENTION</td>
<td>(20)</td>
<td>20</td>
<td>--</td>
</tr>
<tr>
<td>4 NET SURPLUS</td>
<td>10</td>
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</tbody>
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RCM Model – Revenue Allocation Calculations

Revenue is income for each RC from all E&G sources, as follows:

- **General Revenue & Lottery**
  - Allocated based 50% distributed based on historic EG direct expense, the other 50% via formula with three components - Funded SCH, Grant expenditures, and ranked faculty

- **Tuition & Fees**
  - UG Tuition & GRI, GRII: 90% to instructional unit, 10% to home unit
  - Programmatic and Professional 100% to the instructional unit

- **Performance Funding**
  - Allocated by USF PBF Model based on BOG performance metrics
Allocation of Expense for Support Centers

• Support Centers (both Central and Academic) are funded via assessments to each Responsibility Center.

• These assessments are allocated dependent on the type of Support Center. For example, Physical Plant Expenses may be allocated based on square footage being used, while HR expenses may be allocated based on number of employees.
How are we organized to support RCM?

USF Program for RCM FY 15/16

- Executive Sponsors: President and SVPs
- Budget and Finance Executive Oversight
- RCM Program Office
- RCM Work Groups

Guidance and Recommendations
- Project Planning, Work Group Coordination and Assistance, Cross-team Information Sharing, Status Reporting
- Develop Recommendations
- Provide Feedback to Work Groups

Accountable to:
- Deans & Other Stakeholders
- Nick Trivunovich
- Nick Setteducato and RMA Team
- Work Group Leaders
- Business Managers

Responsibility Centers (RCs)
USF TAMPA Academic Support Units (ASUs)
USF TAMPA Central Services Units (CSUs)
RCM Workgroups Updates

RCM Program
- Facilitated workgroup meetings once or twice a month and requested a consensus recommendation from each
- Jan-June -- Deans and VP finance offices will adopt low-impact changes to their budgets by July 1, 2016
- Note: RCM will affect E&G budgets in the colleges as well as the support centers

Governance
- Drafted a charter for the RCM Oversight Committee (RCMOC)
- The role of the RCMOC is to provide recommendations and guidance on revisions to the RCM model

Revenue Allocation
- Revenue is income for each RC from all E&G sources, for USF Tampa (not including Health)
- For FY16/17, revenues will cover each college’s direct expenses and their share of support units’ costs

Support Units Cost Allocation
- Allocated by transparent methods: Headcount for HR; Square-feet-use for facilities; Faculty and staff FTE for Library

Legacy Gap
- Under RCM, some general-purpose recurring obligations will be part of the annual RCM budget cycle

Subvention
- Subvention cash will be distributed to colleges to cover negative balances
- A plan to minimize or eliminate shortfalls in the future will be negotiated

Strategic/Executive Investment
- The strategic fund workgroup recommends using the USF Strategic Plan as a guide
- The strategic investment target amount to be collected by a tax

Infrastructure
- Analyzed USF budget process impacts
- The group recommends that RCM will involve a simple reporting overlay to the existing systems

Research F&A
- Decision by senior leadership to defer RCM implementation for F&A until July, 2017
- Will provide options for recognizing revenue and distributing costs associated with USF Research
- Initially guided by the Huron report to address how to incorporate RCM methodology to F&A