CMU
CENTRAL MICHIGAN UNIVERSITY
Office of The Provost

Preliminary Reorganization Recommendations
January 29th, 2018

Committee III: Responsibility Centered Management

A. Introduction

This report describes proposed changes to the operation of the CMU Responsibility Centered Management (RCM) budget model. CMU operates a mixed model where the budgets of the academic colleges increase and decrease based on changes in funding from state appropriation (determined by the three-year rolling average of the percentage of total SCH in each college) and tuition revenue. There is an assessment rate for each college, based on the cost of programs, that determines the percentage of college revenue (state appropriation plus tuition) that is available to support the academic and non-academic service centers. The service centers receive a base-budget allocation that may be adjusted annually dependent on changes in the university's overall revenue.

Although most of the recommendations affect the academic colleges that operate under the RCM model, the committee advocates adopting some of the changes proposed for colleges to service centers both within and outside the academic division.

B. Summary of Recommendations

1. Create a uniform framework for budget management within departments and colleges:

    - Unify college budget personnel administratively under a new Associate Vice Provost for Academic Budget Management reporting to the Senior Vice Provost for Academic Administration; and

    - Develop uniform budget guidelines and procedures that apply to all colleges and departments while at the same time giving departmental chairs greater autonomy and more support to manage departmental budgets.

2. Improve financial analysis of current and proposed academic programs:

    - Use normative data to evaluate costs during program review; and

    - Develop or adopt (if such a product exists) a sophisticated utility to analyze the financial viability of proposed programs including implications at the department, college, and university levels.

3. Balance incentives for sound fiscal management with long-term investment:

    - Preserve the incentive for prudent fiscal management by departments, colleges and academic service centers by allowing them to retain a significant proportion of carry-forward surpluses for department-level investments;

    - Cap college and academic service center carry-forward surpluses to create a centralized fund in the Provost's Office for investment in new academic programs; and

- Apply the same model of capping carry-forward balances for service centers outside the Academic Division to create an investment fund in the President's Office for university-wide initiatives.

4. Provide a mechanism to encourage units to invest in new faculty and facilities:

    - Develop a process to allow commitments for faculty start-up packages to be administered centrally and distinguished from uncommitted funds; and

    - Create a mechanism and incentive for units to save funds for the maintenance and replacement of equipment and infrastructure.

5. Conduct a review of current RCM policies and make changes where appropriate.

C. Detailed Recommendations

1. Create a uniform framework for financial management within colleges and departments:

Rationale: The current RCM budget system provides considerable autonomy over budgetary decisions to deans. The flexibility not only applies to how college funds are spent but also to the operation of RCM within a college. Some deans retain more centralized control while others provide greater flexibility to chairs and departments to make decisions about reallocating their budget between different expense categories. For example, some colleges operate on a FTE basis when hiring fixed-term faculty (e.g., allocating 3 FTE to a particular department), while others give departments a dollar amount for this purpose. Similarly, in some colleges revenue from online courses is controlled by the dean as a contingency fund whereas in others this revenue becomes part of departmental budgets. At a macro level, these differences are unproblematic because they do not affect the overall ratio of revenue to expenses. However, at an operational level these differences contribute to a general lack of understanding of the budget and create confusion and contention amongst faculty, staff and administrators including deans which encourages a tendency to "comparison shop" those aspects of budget management that appear more beneficial in other colleges.

A related problem is a general lack of understanding of assessment rates charged on tuition revenue and state appropriation under the RCM model. This leads to a commonly held misconception that different assessment rates are unfair (to colleges with higher rates) or reflect a value judgement by the central administration that programs with low assessment rates are more important than those with higher rates. The reality is that assessment rates are based on disciplinary difference in the cost of instruction, with higher cost programs (e.g., Engineering and Music) having lower effective assessment rates than programs where the cost of instruction is less (e.g., English and Mathematics). This is because tuition and the amount of state appropriation per SCH is largely the same for all undergraduate programs and consequently high cost programs need to retain more of their revenue to operate. College assessment rates are based on the relative distribution of enrollment between high and low-cost programs, with those colleges with more students in lower cost programs having a higher assessment rate. The disciplinary-specific differences in instructional costs are independent of the financial model and would be the same under a centralized budget model as they are under CMU's RCM.

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Finally, departments and departmental chairs have the most intimate knowledge of the needs of their academic programs and as such are best positioned to make financial decisions at the operational level. Thus, providing chairs with more autonomy over the management of departmental budgets should ensure that resources are used efficiently. Although a more uniform budget model across all colleges may appear antithetical to increased departmental autonomy, it is in fact essential to achieving this goal; providing departmental chairs with greater flexibility over financial decisions without a framework of well-defined policies and guidelines would create chaos.

The committee believes that the following would improve RCM at CMU:

i. Increase overall understanding of the budget including the basis for establishing assessment rates;

ii. Greater operational and training support for deans, department chairs and college budget personnel to manage their budgets in the face of fluctuating enrollments and revenue;

iii. A more uniform model so that a departmental chair in one college has similar responsibilities over budget management as do chairs in other colleges. There should be a single model for dealing with issues such as budget shortfalls and surpluses at the departmental level;

iv. Maintenance of the academic judgement of deans and departments within a harmonization of operational management. For example, the relative allocation of resources between fixed-term faculty and graduate student TA are operational decisions that should be based on programmatic priorities as determined by departments and the college. However, these decisions should be made in the context of a more uniform operational model based on an analysis of best-practices that increase transparency and efficiency; and

v. Aligning budget management decisions with operational responsibilities. This would preserve the dean's authority to allocate resources to departments based on overall college priorities and revenue but would allow departments greater flexibility to decide how best to use these resources to support programs.

Recommendation:

i. Create a position of Associate Vice Provost for Academic Budget Management (AVP-ABM) under the Senior Vice Provost for Academic Administration. This AVP-ABM would provide operational support to the college budget personnel, department chairs and deans to allow them to effectively manage their budget within the context of the more uniform structure outlined above. The AVP-ABM position would be paid for by salary savings from other reorganizational changes within the academic division;

ii. College budget personnel would report to the AVP-ABM but would remain in the individual colleges to provide support to deans and department chairs and to capitalize on their specific expertise of individual colleges as well as allowing them to continue providing support for college-specific non-financial roles. College budget personnel would continue to interact directly with the dean and departmental chairs in a manner analogous to the reorganization and centralization of IT. However. in order to most effectively utilize the collective skills of this group, the AVP-ABN may assign individuals with special skills (e.g., in academic post-award grant management) to projects in other units or across the academic division. This reorganization will achieve greater consistency of budget

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management between colleges while preserving the authority of the chairs, deans and provost over budget management in the academic division;

iii. The role of the AVP-ABM is new and will provide a greater level of operational support for budget management. The creation of the AVP-ABM does not change the relationship between Finance and Administrative Services and the academic division except by (a) creating a central high-level point of contact within the academic division for the Office of Financial Planning and Budgets (FPB) and (b) aligning college processes so that there is less college-to-college variation;

iv. The AVP-ABM would be responsible for developing a uniform operational budget management process across colleges and departments during the implementation phase in 2018-2019. This should provide chairs with greater autonomy to manage departmental budgets based on programmatic priorities and would ensure that decisions about academic programs are made in the context of a uniform financial model; and

v. The AVP-ABM would be responsible for working with FPB and the Senior Vice Provost for Academic Administration to adjust budgets for reorganizational changes that will be implemented in 2019-20 (e.g., new departments, reorganized colleges, etc.) to achieve the goal of making these changes financially neutral. The committee recommends that Committee III continue to serve in 2018-19 to provide feedback to guide these changes as well as other aspects of the implementation phase.

2. Improving financial analysis of current and proposed academic programs:

a. Current programs:

Rationale: The CMU RCM model originally called for periodic base-budget analysis and adjustments to ensure that college assessment rates were adjusted to reflect changes such as the relative proportion of high and low-cost programs. In practice, a base-budget analysis has not been done since the current RCM model was implemented in 2008-09, although there have been annual adjustments to, for example, reduce assessment rates to pay for new centrally-funded faculty positions (by allowing the college to retain more of their tuition and state appropriation revenue) or increasing the assessment rate when OIT was centralized (by an amount equivalent to the expenses for the OIT staff). The practical reason that a systematic base-budget analysis has not been done is that it requires a large amount of time and effort. A more feasible approach to ensuring instructional resources are appropriate is to use normative external data, such as comparison with peer institutions, to provide a benchmark that can be used to ensure CMU programs receive an appropriate level of funding per SCH.

Recommendation:

i. Program costs should be evaluated during program review using the normative national data on instructional costs as a benchmark. Where costs are significantly different, colleges would work with the AVP-ABM to develop a plan to either adjust assessment rates (in order to provide more resources for underfunded programs) or to reduce expenses to bring the cost of instruction more into line with external comparators. There may be quantitative and qualitative reasons why some programs differ from external benchmarks; reasons for such discrepancies should be made explicit.

b. New programs:

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Rationale: One challenge inherent with financial planning in academia is that costs tend to be long-term investments that are both stable and difficult to reallocate (e.g., tenure-track faculty), whereas enrollment revenue is harder to predict and more variable across shorter time-scales. This is a particular problem when considering the financial consequences of new academic programs. The current analysis is both narrowly focused and naïve because it is based on programmatic enrollment projections considered in isolation. Almost all proposed programs considered by the Academic Planning Council (APC) are claimed to be fiscally positive, which is demonstrably false at the institutional level (overall student enrollment has not increased despite the plethora of new programs). This is because the projected increases in enrollment do not materialize, or are achieved by attracting students from other CMU programs without increasing overall revenue. Similarly, new programs are frequently proposed on the basis that they will incur no additional costs, which, in most cases, is also unrealistic.

Of course, there may be excellent programmatic reasons to start a new program even if it does not increase overall enrollment at CMU because doing so provides a valuable educational opportunity to students and takes account of technological and societal changes to ensure that the university remains competitive, which does affect enrollment in the long term. However, in a zero-sum situation where overall enrollment is static (or even declining), development of new programs must be done in the context of reductions in expenses elsewhere. Unfortunately, CMU, in common with many universities, finds it easier to create new programs than to make a conscious decision to discontinue those that have declined to very small numbers of students. A sophisticated model for analyzing programs' financial viability will provide departments, deans, the Academic Planning Council and the Provost with a thorough review when evaluating new program proposals and program review of existing programs.

An unintended consequence of RCM is that it encourages competition between departments and colleges for a greater share of the SCH revenue from the existing student body rather than increasing overall enrollment and acts as a barrier to collaboration in interdisciplinary programs. A more holistic analysis of the financial implications of new programs at the university rather than the departmental level would provide an important tool to ensure that the consequences of initiating new programs or existing ones was understood and incorporated into the approval process.

Recommendation:

i. The university should develop a more sophisticated model for the financial analysis of new programs. The model should take account of the overall financial consequences at the department, college and university-level that includes best and worst-case assessments. Such an analysis would also provide a budget management tool for the entire university and allow conscious decisions to be made regarding programs based on their projected or actual revenues and costs and overall effect on the university budget; and

ii. The responsibility for the financial analysis of new programs should be transferred from Academic Development to Academic Administration and specifically to an expanded Office of Institutional Research working in collaboration with the new position of AVP-ABM and other key stakeholders across the university.

3. Balance incentives for sound fiscal management with long-term investment:

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Rationale: In the academic division, developing new programs requires investment in new faculty lines and in many cases in equipment and facilities for faculty research and teaching. The current model allows colleges to retain surpluses where the ratio of revenue to expenses is higher than anticipated. However, there is no correspondence between the ability of colleges to accumulate surplus funds and the opportunities for investment in new programs that will increase enrollment and revenue. This is not an issue under a centralized budget model, where colleges receive funding to operate their current programs and any new investments are funded centrally. However, a centralized model tends to lack incentives for sound fiscal management because departments and colleges receive no benefit from increases in efficiency and instead tend to operate on the basis of "spend it or lose it." The challenge is how best to modify the RCM model at CMU to incentivize sound fiscal management while creating a mechanism to enable investment in new programs.

The units in the academic division outside of the colleges and those in the remainder of the university operate under a centralized base-budget model where the central administration allocates funds generated by the colleges (from budgeted assessment receipts) to support service centers. Unlike colleges, where expense budgets are intended to be managed in response to fluctuations in enrollment revenue, service centers manage in response to budget adjustments imposed by the central administration based on the overall changes in revenue. However, as with colleges, service units can also generate surpluses where expenses are kept below the allocated budget. These units are also allowed to retain their carry-forward surpluses, at the discretion of their division head. As with colleges, allowing base-funded units to retain some of their carry-forward surplus creates an incentive for prudent fiscal management.

Recommendation:

i. Adopt a uniform policy across the colleges operating under RCM with departments allowed to retain all surplus funds up to 5% of their base expenditure budget and a progressively declining percentage between 5 and 10% of expenditure budgets. It is important to be clear that these percentages are placeholders and the exact numbers might change during implementation based on a complete analysis. It should also be emphasized that these percentages represent a significant amount of money because departments generally have multimillion-dollar expenditure budgets;

ii. Adopt a similar mechanism at the college-level allowing colleges and academic service centers to retain all funds in excess of their approved expenditure budget up to 5% of their operating budget (this includes funds retained by departments), a progressively declining percentage between 5 and 10%, with all money in excess of 10% reverting to the Provost for new investments, subject to the normal oversight process (e.g., approval by the President and in some cases the Board). As above, these percentages are placeholders;

iii. Create a process to allow colleges and academic service centers to apply for funding from this centralized investment fund to initiate new programs. This should include the more sophisticated analysis of the overall financial viability of proposed new programs outlined above to ensure that decisions regarding new programs are based both on programmatic consideration and the overall financial consequence to the university; and

iv. Create a parallel mechanism for the units outside the academic division that would operate in the same manner (e.g., units be allowed to retain a percentage of their carry-forward), with the remainder reverting to the President to create an investment fund for the university. The percentage of the

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carry-forward retained by service centers would be determined in the implementation phase of the reorganization.

4. **Encourage long-term investments in faculty and facilities:**

Rationale: Colleges frequently make financial commitments (investments) that span multiple years, the most frequent of which are start-up packages for new faculty members who receive offer letters that commit up to several hundred thousand dollars per individual (based on need) to establish their research program at CMU. Faculty are generally allowed up to three years to expend these funds, which allows for effective stewardship of these monies in the face of research plans and priorities that often change in the early part of a faculty member's career. Consequently, significant amounts of money appear as unrestricted in SAP when, in fact, they have been committed. Although from an accounting perspective these funds are not restricted because they could be used for other purposes, doing so should be a last resort because reneging on institutional commitments during the hiring process would inevitably damage subsequent recruiting efforts.

A related issue is the need to acquire new or replace existing capital equipment for research and teaching that in some cases may cost well over one million dollars. Although in theory a college could save up money for equipment replacement, the money would again appear in SAP as unencumbered funds that could be utilized for other priorities. Although colleges can internally earmark funds for capital equipment maintenance and replacement, because this money is vulnerable for appropriation for other purposes there is a disincentive for prudent fiscal management and planning to replace essential equipment. A similar logic applies to academic and non-academic service centers that also face replacement or repair costs for capital equipment and infrastructure.

Recommendation:

i. All start-up funds committed to new hires by the colleges or Provost should be centralized in a single account in Academic Administration, differentiated by IONs for each faculty member. Colleges would seek reimbursement for start-up expenses incurred on an annual basis prior to the end of the fiscal year. At the end of three years faculty could apply for a one-year extension to spend any unused funds, which would be granted in cases where there was a compelling rationale. Any unexpended funds would revert to the funding source;

ii. Colleges would be allowed to deposit funds into an account in Academic Administration, differentiated by IONs for each college, which would be designated explicitly for the purchase of new capital equipment (including providing required match for equipment grants) or the repair of current equipment. The funds would be considered committed and protected except for financial exigency to be used for purchasing new or replacing existing capital equipment costing at least $25,000 for a single item (including required accessories, software, computer etc.). Subject to Provost approval the funds could be used to purchase multiple items of equipment costing less than $25,000 provided the total purchase was at least $100,000; this would allow replacing microscopes or computers in a teaching laboratory or classroom. Each college would be allowed to accumulate a maximum of 20% of the total value of capital equipment costing more than $25,000 (purchase price), with no more than 5% of the value being allocated per year. Thus, a college with a total of $10 million in capital equipment could accumulate a reserve of up to $2.0 million to acquire or replace equipment, but could not contribute more than $500,000 per year. All major capital expenditures would require approval by the Provost, President or Board of Trustees, as required by CMU policy; and

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iii. The policy allowing colleges to save funds to improve or replace capital equipment should be extended to the academic and non-academic service centers, although the specific details would need to be worked out during the implementation process. Again, the goal is to create incentives for sound fiscal management and planning rather than relying on providence and funding from central administration.

5. Conduct a review of current RCM policies and make changes where appropriate:

Rationale: The university has many policies related to the RCM budget model. As a part of each RCM review, it is prudent to ensure policies are up-to-date and applicable based on any changes to the organizational structure and budget model such as are proposed in this document.

Recommendation: Once the final reorganization of the RCM model has been approved, Committee III will have the necessary information to perform a review of RCM policies during the implementation phase of the reorganization (2018-2019).

D. Committee Members

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