IUB RCM Review Committee Report

May 16, 2017
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During Spring 2017, the Indiana University Bloomington Responsibility Center Management Review Committee met eight times to discuss, analyze and ultimately recommend revisions to the campus and university’s Responsibility Center Management (RCM) budget models. The committee also took this opportunity to address other critical academic priorities with the goals of strengthening doctoral education, ensuring the continued vibrancy of liberal education at Indiana University Bloomington (IUB), and providing academic units some protection from dramatic fluctuations in credit hour trends.

The committee, chaired by Vice Provost for Finance and Strategy M.A. (Venkat) Venkataramanan, included three deans, the Executive Dean of the College of Arts and Sciences Larry Singell, Dean of the Kelley School of Business Idelene Kesner, and Dean of the Maurer School of Law Austen Parrish; the co-chairs of the Budgetary Affairs Committee of the Bloomington Faculty Council, Professor and Chair of the Department of Mathematics Elizabeth Housworth and School of Public and Environmental Affairs Professor Robert Kravchuk; Vice Provost for Research Rick Van Kooten; Vice Provost for Undergraduate Education Dennis Groth; and the Associate Vice Provost and Director of Budgetary Planning and Development Aimee Heeter.

The following report provides an overview of the RCM model and outlines the committee’s recommendations with respect to key elements of the IU RCM model, including state appropriations, provost funds, assessment drivers, and strategies to address critical academic priorities affected by the RCM budget model.
**Introduction**

Since its introduction to academic institutions nearly forty years ago, Responsibility Center Management (RCM) System concept has acquired a reputation for balancing academic flexibility, entrepreneurship and innovation, on the one hand, with fiscal decentralization, transparency, and responsibility, on the other. Indiana University became the first public university to implement RCM in 1991. A rapid increase in decentralized budgeting among public institutions began around 2004. Nationally, use of RCM budgeting approaches has risen in the last fifteen years. Some fifteen years ago, in 2002, only a small number of universities operated RCM-type systems (less than a dozen, including Indiana University). Since then, the number of academic institutions – both public and private – that have adopted RCM budget models has increased rapidly. According to research performed by the National Association of College and University Budget Officers (NACUBO), as of mid-2013, 14.2 percent of universities reported employment of an RCM budget model. According to the *Inside Higher Education* Survey of College and University Business Officers, in 2011, more than 21 percent of public doctoral degree-granting universities reported using RCM.

It is important to note RCM is not a panacea for all financial challenges, but simply a tool for allocating resources and responsibilities. Academic priorities are the basis of decision making and the institution’s financial model is simply a mechanism to achieve these priorities, as addressed later in the report.

**Essential Features of RCM Budget Systems**

The three most essential features of an RCM budget system may be summarized as follows:

1. Tuition and other revenues (such as ICR) are allocated to the academic units that generate them, less some percentage for overhead and investments made for the common good (i.e., at IUB, known as the campus and university “taxes”).
2. Costs of physical plant operation, maintenance, and capital replacement costs (the portion not subject to bonding), as well as campus and central university administrative costs, are transparently allocated and captured in proportion to the facilities used, space occupied, and central services rendered and consumed.
3. Some more or less small central “pool” of resources are captured “off the top,” as part of the “taxes” paid to the center, and are intended for specific projects, or to meet the common needs of the university or campus community. At IUB, this pool takes the form of the “Provost’s Fund,” and it serves a vital purpose in permitting the provost to steer the ship towards safe waters by meeting needs not currently being met through current budgetary allocations.

**Factors Propelling RCM Systems**

The RCM budget model varies somewhat among academic institutions. There are rarely two models that operate in quite the same way. On this point, Doug Priest, one of the architects of the IU RCM system, has written that, “It is rare for any one approach to budgeting to be applied in a theoretically pristine form” (Priest et al, 229). Further, Whalen (1991) notes the importance for the RCM environment to be...
reflective of each universities’ objectives in teaching, research, and scholarship. Thus, the culture of the institution shapes, changes, and enhances a decentralized budget model and creates differences among institutions.

IUB has employed a somewhat “modified” RCM system in comparison to others, putting its own “stamp” on the system, in order to meet its own needs. However, there are certain common motivations, operating features, and other attributes that are discernible among RCM adopters. RCM in most institutions – IUB among them – has evolved over time in response to strategic academic goals, external forces, and threats. External forces include maintaining financial affordability, flattening availability of new state funds, and shifting student interests. Internal factors have been largely in response to these external pressures. These include a drive towards decentralization of academic decision-making, achieving balance between academic authority and fiscal responsibility, promoting budgetary transparency, unleashing academic entrepreneurship and innovation, and promotion of “full cost” consideration of academic programs.

**Shifting Public Support.** Higher education institutions across the country have experienced decreases in state support since the early 1990s, when RCM was adopted. As a percentage of income, reductions in the State of Indiana have not been as drastic as in many other states. Nonetheless, increases in state funding have been minimal compared to the late 1990s. With three main sources of revenue (student fee income, state support and contracts & grants), the lower increases in state funding coupled with low tuition increases has created financial pressures. With the growing reliance upon college and unit tuition and fees, a greater premium is placed on cost consciousness, financial flexibility, and program innovation at the unit level than ever before.

**Devolution and Competitive Pressures.** Since the end of the Second World War, there has been an increasing devolution of authority and responsibility to individual faculty members and to their academic units. From federally-funded grants to individual researchers and unit-level research labs, to the determination of research expectations and appropriate teaching and service loads, universities have had increasingly to recognize the diverse nature of their instructional units and the work that they do. Here at IUB, typical faculty members spend their time very differently in the Kelley School of Business than they do in the Jacobs School of Music, the School of Optometry, or the College of Arts & Sciences. The various IUB units compete with other universities in their respective fields, and along very different dimensions than one another. RCM is a powerful mechanism for recognizing these differences, precisely by empowering the academic leadership of the various units with the fiscal autonomy to respond. Under RCM, the units are better able to align their resources with their strategic needs.

**Shifting Student Interest.** There can be little doubt that students and parents have become more sensitive to the employment utility of college programs of study. Traditional programs of study have been altered and revised, and new programs added, in response to the changing needs of contemporary society. As student interests and needs have shifted and changed, colleges and universities have responded with new, tailored degree programs. RCM provides a
means to provide a gradual realignment of resources with the emerging trends in student enrollments.

**Advantages of RCM Systems**

Some of the clear advantages and strengths of RCM budget systems are indicated above. Following are the more significant ones:

- Universities are organized as *federations*, essentially. They are comprised of semi-autonomous units that collaborate in specific areas. RCM at IUB has been managed by a strong administrative center that generates internal cooperation, particularly through such enabling institutions as the Council of Deans. RCM thus embodies a structure of “fiscal federalism” that respects college and school independence, while providing opportunities for inter-unit collaborations and cooperation.

- Colleges and schools are decision-makers with a data rich environment. This allows units to be more informed and thus better able to respond to changes in their unique environments. Thus RCM incentivizes innovative behavior, entrepreneurship, and experimentation.

- Incentives are provided for growth and development of academic programs that both meet and, just as importantly, anticipate student needs.

- RCM promotes the prudent management of costs while incentivizing innovation.

- RCM at IU Bloomington aligns authority with fiscal responsibility, focusing accountability on the academic leadership (deans and associate deans). This is important because, prior to adoption of RCM at Indiana University, academic authority was not linked to fiscal responsibility.

- An “all funds” budgeting and financial management approach, such as that recently adopted here at IUB, facilitates and enables the above advantages of RCM.

- Finally, indirect costs that are diverted to support academic administration are more transparent and discernible, permitting faculty budgetary affairs committees to more easily review and comment on their allocation and growth.

On balance, the IUB RCM Committee considers the RCM system has evolved at IUB to have served its essential purposes with admirable distinction. As has been the case with prior RCM reviews, the committee offers its recommendations to revise certain features of the system and its operation, with an eye to improving its smooth and transparent operations to the benefit of all campus units.

**Academic Unit Funding Sources**

Academic units receive funding from four primary sources. In order of their relative size, they are: 1) tuition and fees, 2) external grants and contracts, 3) state appropriations, and 4) advancement.

1) **Revenue from tuition and fees**, including the following sources:
   - **Undergraduate tuition revenue** flows directly to the Campus. Undergraduate financial aid is taken off the top and the remainder is distributed to academic units based upon a
per credit hour rate mechanism (described in more depth in the section immediately below).

b. Graduate tuition revenue flows directly to the relevant academic unit.

c. Student and program fees are clearly defined and support several dedicated purposes, from fees that support a major or course to those that help fund critical student services (e.g., information technology, Campus Bus, and IU Health Center, to name a few).

2) External grants and contracts, which sustain much of the research mission of the university. These funds are dedicated to specific research projects as defined by the funding entity and program and typically flow directly to the Principle Investigators through the Office of Research Administration. An Indirect Cost Recovery portion goes to the Offices of the Vice President and Vice Provost for Research as well as the Principle Investigators’ home schools to fund the general infrastructure that supports research on campus.

3) State appropriations authorized each biennium by the Indiana State General Assembly.

4) Advancement, which can be used only for the purposes outlined by the donors and which supports everything from faculty chairs to student scholarships to IU Libraries collections.

Of the sources noted above, the tuition revenue and state funding are the two sources most affected by the RCM model and thus are the only two discussed in this report.

**Undergraduate Tuition Revenue Allocation**

As noted, undergraduate tuition revenue is the largest source of revenue for the Campus, and thus a critical piece of financial planning for academic units. Prior to FY16, Campus allocated undergraduate tuition revenue based upon units’ market shares of undergraduate credit hours. The Campus also included undergraduate financial aid in units’ Campus Assessment (see Glossary). These two mechanisms—using assessments as a means to fund financial aid and distributing revenue to units based on undergraduate credit hour market share—created a great deal of financial uncertainty for units and limited deans’ ability to plan from year to year.

To reduce uncertainty and increase transparency, the Campus implemented two changes:

**Undergraduate Financial Aid.** The Campus now captures undergraduate financial aid off the top of undergraduate tuition revenues rather than collecting it as part of the Campus Assessment. Undergraduate financial aid helps to meet shared campus goals of attracting and retaining a diverse, high quality group of undergraduate students—a common goal that benefits each academic unit as well as the campus as a whole.

**From Market Share to Per Credit Hour Rate.** At the recommendation of a deans working group, appointed by the Provost in 2015, the Campus moved from distributing undergraduate tuition revenue to academic units based on a market share formula to a per credit hour dollar rate. Prior to 2015, undergraduate tuition revenue was distributed based on a unit’s market share of total undergraduate credit hours. This allocation method led to great unpredictability since the performance of other units affected each unit’s market share and thus revenue. The deans
working group recommended using a fixed dollar rate per credit hour for a unit’s average number of credit hours taught over the last three years (see Glossary for more detail).

By reverse engineering the prior market share formula, the Campus determined that academic units had been receiving the equivalent of approximately $441 per credit hour in FY15. At the time that the new per credit hour rate needed to be set for the FY16 budget construction process, the Campus expected a 2% across the board increase in tuition. With those anticipated parameters in mind, the Campus and deans agreed to a $450/credit hour rate. When the Campus learned that in-state tuition would remain flat for two years and out-of-state tuition was set at 1.75%, it continued to honor the $450/credit hour rate, but froze it at $450 for FY17. For FY18, the Campus and deans have agreed to $458 per credit hour (once again needing to reach that agreement prior to knowing the tuition increase or final number and mix of students). Once the IU Board of Trustees announces the tuition increase for 2017-2018, the Campus will set a per credit hour rate for FY19, which the Campus anticipates will be around $462. In general, the credit hour rate is derived by taking the anticipated undergraduate tuition revenue (based on expected student enrollment numbers and anticipated mix of residential and non-residential students) less financial aid, and then dividing that amount by the total number of undergraduate credit hours taught. Each unit then receives the agreed upon rate for the annual number of credit hours they taught, based on a 3-year blended average.

These two changes in undergraduate tuition disbursements allowed more predictability and transparency for units while also creating a strong campus incentive to strategically manage financial aid disbursements and to carefully plan for and monitor the mix of in-state and out-of-state students to ensure revenue goals are met. Not only does this require a strategic and intentionally managed approach to recruitment (as well as entailing some financial risk to the Campus), it also demands constant assessment of market demands and vigilant tracking of yield rates.

**Recommendation #1: The committee recommends maintaining the current mechanism for allocating undergraduate tuition revenue since it strengthens the financial planning ability of schools.**

**State Appropriations**

Since 1990, academic units have each received an allocation from the Campus labeled “State Appropriation” (see Appendix A: Glossary of Terms). Despite its name, this allocation was not tied directly to the funds appropriated by the legislature each year, but rather were amounts that fluctuated and that include the sum of: a) an original “plug number” for each unit (based upon the amount each unit was receiving from the Campus at the time of transitioning to RCM), b) increases (and potential decreases) to legislated state appropriations, c) a unit’s Provost Fund allocations, and d) other campus commitments to the unit.

To reduce confusion and more accurately label this subvention, the committee recommends changing the label for new allocations of Provost Funds and other campus sources of support from “State Appropriations” to “Campus Support.” Current unit “State Appropriations” allocations will be
maintained at their present levels for FY18 and will continue to carry the label “State Appropriations”. The following chart outlines the current and proposed terminology:

<table>
<thead>
<tr>
<th>CURRENT 1990 to present</th>
<th>PROPOSED FY18 and forward</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOURCE OF FUNDS</strong></td>
<td><strong>SOURCE OF FUNDS</strong></td>
</tr>
<tr>
<td>“Plug numbers” (based on allocation to units at time of transitioning to RCM)</td>
<td>Current unit allocation labeled “State Appropriations”</td>
</tr>
<tr>
<td>Increases or decreases to state funding</td>
<td>Future increases or decreases to state funding</td>
</tr>
<tr>
<td>Provost Fund allocations to units</td>
<td>Future Provost Fund allocations to units</td>
</tr>
<tr>
<td>Other campus sources of support to units</td>
<td>Future other campus sources of support to units</td>
</tr>
</tbody>
</table>

“State Appropriations”  

“Provost State Appropriations”  

“Campus Support”

In FY18, actual legislated state appropriations increased by 1.3% for IUB and will increase by 1.2% for FY19. The committee recommends that this increase—a $4.9M base increase over the two year biennium—be kept as “Provost State Appropriation” base funding. Cash generated from this funding will be used for multi-school initiatives. Future increases in legislated state appropriations will be added to “Provost State Appropriations,” and will provide a reserve for reductions in state funding, thus buffering academic units from potential decreases in state funding. For example, Purdue lost $5M in state funding in this last biennium. If the Provost State Appropriations fund exceeds $10M in base funding, the Provost will appoint a committee to consider options for redistributing some of the funds. Coupled with the new form of provost funds generation described below, this will greatly increase the stability and predictability of funds flowing to academic units.

It may be worth noting that recent increases in state funding for IU Bloomington have been attributed largely to our success under the state’s performance metrics formula, and specifically our number of Indiana graduates. This number is predicted to level off in the coming years, thus, IUB is unlikely to see significant revenue increases from this source.

**Recommendation #2: The committee recommends freezing the “State Appropriations” allocation to units at current levels. Increases to state funding will be held in “Provost State Appropriations” fund as a reserve for potential reductions in state funding. Cash from this fund will be used for multi-school initiatives.**

**Provost Funds**

Each spring, academic and support units submit budget requests to the Provost for Provost Funds (see Glossary). Historically, this fund was derived from an annual pullback of 1.5% of units’ “State Appropriations” line and 0.2% of their net direct expenditures. Beginning in FY19 (or possibly as a pilot
in FY18), the committee recommends that the Provost Fund be taken off the top of undergraduate tuition, similar to the way financial aid is currently derived. The proposed mechanism will increase the predictability of units’ financial projections and result in a savings from their current “State Appropriation pullback”.

Over several years, the Campus will work toward its goal of $5M which aligns with the original intent for the Provost Fund (approximately 0.6% of undergraduate tuition revenue). As the Campus attempts to reach the target goal by FY21, it will ensure that compensation to units does not fall below $458 per credit hour. The Campus anticipates that increases to the credit hour rate will be more moderate as it builds the Provost Fund to its target level.

<table>
<thead>
<tr>
<th>PROVOST FUND</th>
<th>Current</th>
<th>Proposed (beginning FY18 or FY19)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURPOSE</td>
<td>Funds used to support campus priorities and multi-school initiatives</td>
<td>Funds taken off the top of undergraduate tuition, plus $165,000 in graduate education assessment</td>
</tr>
<tr>
<td>SOURCE OF FUNDING</td>
<td>Pullback of 1.5% of units’ “state appropriations” plus 0.2% of units’ net direct expenditures</td>
<td>Goal: $5M by FY21</td>
</tr>
<tr>
<td>TOTAL POOL OF FUNDS</td>
<td>Approximately $4M base, which can be allocated as base or cash (one-time or multi-year) to units</td>
<td></td>
</tr>
</tbody>
</table>

In FY19, the Campus will attempt to generate $4M in base Provost Funds (this amount includes the $165,000 graduate assessment described below). (Note: Current Campus models for the FY19 per credit hour rate predict $462 per credit hour. This rate factors in the funding set aside for the Provost Fund, which would equivalent to approximately $4/credit hour). If the Campus falls short of $4M in FY19, the goal will be to reach $4M by FY 2021. Once the Campus attains the $4M mark, the equivalent of an additional $1 per credit hour will be held back the following year to reach the desired $5M goal. After attaining the $5M target, the Campus will recommend an additional off-the-top reduction equivalent to a $1 per undergraduate credit hour for every $100M increase in undergraduate revenue increase.

*Recommendation #3: The committee recommends that funding for the Provost Fund be taken off the top of undergraduate revenues and that the Provost Fund reach $5M by over the next several years.*

**Graduate Education Assessment**

To justify the allocation of Provost Funds to graduate education, the committee recommends that the Campus collect a graduate education assessment totaling $165,000 (through the Campus Assessment process). Each unit will be assessed $15,000 annually, except Medical Sciences and Social Work given
their small budgets. Maurer School of Law and the School of Optometry will be assessed an additional $15,000 since they do not have undergraduate programs and thus do not contribute to the Provost Fund through that mechanism. The chart below shows the contribution from each academic unit.

<table>
<thead>
<tr>
<th>Academic Unit</th>
<th>Grad Provost Fund Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARTS &amp; SCIENCES</td>
<td>$15,000</td>
</tr>
<tr>
<td>MEDICINE &amp; HEALTH SCIENCES</td>
<td>0</td>
</tr>
<tr>
<td>PUBLIC HEALTH</td>
<td>$15,000</td>
</tr>
<tr>
<td>BUSINESS</td>
<td>$15,000</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>$15,000</td>
</tr>
<tr>
<td>LAW</td>
<td>$30,000</td>
</tr>
<tr>
<td>PUBLIC &amp; ENVIRONMENTAL AFFAIRS</td>
<td>$15,000</td>
</tr>
<tr>
<td>MUSIC</td>
<td>$15,000</td>
</tr>
<tr>
<td>OPTOMETRY</td>
<td>$30,000</td>
</tr>
<tr>
<td>INFORMATICS</td>
<td>$15,000</td>
</tr>
<tr>
<td>OTHER ACADEMIC PROGRAMS</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$165,000</strong></td>
</tr>
</tbody>
</table>

**Recommendation #4:** The committee recommends that units be assessed $15,000 each as a graduate education contribution to the Provost Fund. Schools without undergraduate programs will be assessed $30,000. Small academic programs will not pay this assessment.

**Campus Performance Fund**

With the new undergraduate tuition revenue mechanisms in place (described on page 7), revenue will exceed target goals in some years and in other years it will fall short. If the Campus generates better net revenue than predicted (tuition minus undergraduate financial aid and disbursements to schools based on the credit hour rate formula), the remaining amount is kept in the “Campus Performance Fund.” On the other hand, if campus recruitment goals fall short of their strategy (from a decline in enrollment or from a higher ratio of resident to non-resident students than projected), the shortfall can be covered through the Campus Performance Fund. In effect, this fund creates a tuition buffer (i.e., reserve) for units and ensures the Campus can follow-though each year on the per credit hour rate that is established even before tuition increases and net revenues are realized.

The committee recommends that the Campus Performance Funding, which is currently close to $9M in base funding, remain in place as a buffer for the future. In addition to dampening the impact of credit hour rate swings for units, cash from the Campus Performance Fund supports important campus initiatives that strengthen the research mission of the university. For example, over the last two years, approximately $17M has been generated. Of this, $8M in base has already been disbursed to Grand Challenges, the College and schools under the College, the development of the Intelligent Systems
Engineering program, and the implementation of the Common and Coalition applications and undergraduate recruiting CRM. Additionally, cash generated from the fund has been set aside for additional investments in Grand Challenges and Emerging Areas of Research as well as for the College of Arts and Sciences. Unlike Provost Funds, which also fund strategic campus priorities, the Campus Performance Fund are set aside primarily for central risk pooling.

**Recommendation #5: The committee recommends that the Campus Performance Fund remain in place as a reserve to protect units from credit hour rate swings.**

**Campus and University Assessment Drivers**

Each year, the Campus and University Administration (UA) charge units for shared services, such as facilities, student support services, information technology and central administration, to name a few. These charges are referred to informally as Campus Assessment and UA tax.

The assessment drivers for the IUB campus have been simplified in the last five years to improve predictability and ease in planning. The current drivers include: (1) tenure track FTE, (2) credit hours, (3) staff and other faculty FTE, and (4) assignable square feet. The only committee recommendation is a review of the space allocation costs in FY 2018. First, the committee recommends working with the Vice President for Capital Planning and Facilities to explore how the Campus could migrate toward a single cost for space (including for rentals from IU Real Estate) so that only rent from outside the university would be at a different rate (i.e., market rate). This will standardize the assessment charge for space and encourage more efficient space utilization.

In addition to this proposed change, the committee recommends that the Campus review how labs and other specialized learning spaces are assessed. Currently, such space may be over-assessed in that no credit is given for the instruction that occurs in the space. The committee recommends that a team review the relevant space drivers and guidelines for applying them and develop recommendations for adjustments that mitigate any undesired incentives to favor one type of educational space over another.

For the System Service Charge (SSC), or UA level funding, UA informs the Campus of its UA tax, and the Campus may then allocate that tax to units as it deems appropriate. The committee proposes a change to how increases to IUB’s charge will be allocated to its units. The current methodology of using a 3-year rolling average of net direct expense is flawed because, among other things, every transfer of money from one account to another is included in those expenses, thus double-counting many charges. The committee proposes freezing current University (SSC) charges to IUB units at FY18 levels. Beginning in FY19, SSC increases could be allocated based upon either of two options:

1. Relative proportion of units’ net tuition revenue (tuition revenue minus financial aid); or
2. Units’ percentage of campus assessment charge (e.g., if a unit currently pays 10% in campus assessments, then the unit will represent 10% of any new increase in university tax).
As the Campus builds its FY18 budgets, it can model the potential impact of both options on units. The Campus, with input from its deans, will then be able to decide between these two methods for allocating increases in SSC charges to IUB units.

** Recommendation #6: The committee recommends that current campus assessment drivers remain in place. The committee also recommends that working groups be appointed to explore options for space charges, including a) instituting a single cost for space and b) how specialized learning spaces (e.g., labs, studios) are assessed. Furthermore, the committee recommends reviewing options for how increases to the UA tax should be allocated among units.**

**Commitment to Doctoral Education**

Doctoral education is one of IUB’s most critical and fundamental missions as well as an endeavor that enhances reputation. The metric used for reputation is often simplistically the number of Ph.D. graduate degrees granted per year. A tension exists since doctoral education is a not a revenue generating function and requires cross subsidization from other source of revenues. When attempting to reduce costs, doctoral education can be a tempting source to cut. However, because of its importance to the reputation of IUB, the Campus should design robust incentives to sustain both the quality and quantity of the doctoral students admitted and graduated across all units.

Enhancements to doctoral education can be made through RCM reform. These include:

- Lowering the barrier to students being able to take courses outside of their home schools;
- Reducing barriers to students teaching or providing services to units outside their home schools;
- Returning the “pass through” portion of funding from the IUB Graduate School to the academic units, hence, improving transparency; and
- Adding central funds to the IUB Graduate School to implement programs geared to improving doctoral education on campus.

Tuition waivers are typically provided as part of a package that allows a student to take courses from the home school and requires a student to teach in that school. Currently, when a student takes a course from another unit, the home unit must transfer money to the other unit for the course. In cases where a student is employed by another unit to teach, the unit employing the student must transfer money to the student’s home unit to cover part or all of the student’s tuition waiver. These transfers of fees among units—for both courses taken and those taught—provide most of the revenue from doctoral education since few students pay tuition for doctoral programs, unless they are covered through an external grant. Appendix C illustrates FY17 movement of student credit hours and dollars across units.

Since most doctoral students receive tuition waivers as a part of their doctoral fellowships, schools receive only a very small portion of actual tuition revenue for doctoral education, typically from other schools or grants. Close to 95% of a unit’s doctoral education “revenue” is generated by the home schools through their financial aid (in essence, units pay themselves). About 6% of the revenue is
distributed from one school to another to cover courses taken by their students in another school. The overall net of these transactions is 2%. Last year, the College received a net of $576,000 (which represented 87% of the overall net positives among schools) for courses taken in the College by students from other schools, Informatics received $76,000, and Medical Sciences received $6,000. All other schools had net negatives.

The committee recommends that the provost appoint a committee including representation from various academic units and the provost office to consider ways to reduce the barrier that doctoral students from one unit face when trying to teach in other units. This committee should analyze standards for teaching in another unit, the ability of the students to take on such an assignment while making progress towards their degree, and financial arrangement between units. Possibilities to be considered should include setting aside a given pool of base funds to cover the course fees currently moving between units and limiting the number of hours to be taken outside of the home school. Such approaches should facilitate lowering the real cost for academic units and increasing the number of Ph.D. students.

The IUB Graduate School currently receives about $5.5M per year from Campus Assessments to provide mostly additional stipends for Ph.D. students on campus. Of the $5.5M, $2.9M are currently pass-through funds to various units to use for financial aid or stipends for Ph.D. students. The distribution of these funds among the units was at one point based on metrics, but was frozen in 2014. The committee recommends adding these funds directly back to the units’ operating budgets in the form of campus allocations (i.e., it will be revenue neutral to the academic units) but the Campus expects that the units will continue to use these funds for Ph.D. student stipends and financial aid.

The remaining $2.6M per year ($5.5M minus the $2.9M pass-through) is dedicated primarily to providing additional stipends for IUB Ph.D. students, with little if any available to the Graduate School to use as discretionary funding to improve doctoral education. To address this, the committee also recommends augmenting the remaining $2.6M with an additional $1.2M to be dedicated towards enhancing doctoral education. The additional $1.2M goal can be achieved via a staged base enhancement of $400,000 for each of the next three years coming from a combination of advancement when possible, as well as assessments, Campus Performance Funding, and Provost Funds. These additional funds will be held centrally by the IUB Graduate School to fund the development of programs that enhance doctoral education campus metrics. Examples include graduate student fellowship support to units for innovative and effective new pilot projects to reduce time to Ph.D. degree and/or candidacy, training grant stipend-matching funds, fellowship seed funding for new programs (particularly interdisciplinary ones), curricular revisions that promote exploration of multiple career pathways, and exploration of the nature of the dissertation.

**Recommendation #7:** The committee recommends a working group review strategies for reducing barriers to graduate students taking courses and teaching in other schools. The committee also recommends that the $2.9M in Graduate School funding that is currently passed through to schools be transferred to those schools’ budget (and remain dedicated to doctoral student financial aid and stipends), and that an
additional $1.2M be added to the Graduate School’s funding for the purposes of developing programs to enhance graduate student metrics.

Commitment to Liberal Arts Education

Indiana University has a long tradition of commitment to a liberal arts education, which includes the sciences. IU is dedicated to developing the habits of mind that enable students to question critically, think logically, communicate clearly, act creatively, and live ethically. These foundational skills are not only those that employers indicate they value highly, but they are critical for life success in a world of complexity, uncertainty, and change. The liberal arts are, nonetheless, under threat despite their intrinsic and instrumental value. Specifically, multiple national trends including the expansion of dual credit programs in high schools, transfer credits from community colleges, the increasing real cost of college that yields return-on-investment focus for students and their parents, and the rising relative representation of out-of-state and international students who tend to have a professional focus, have led to a decline in the number of credit hours taken in the liberal arts. These external factors, when combined with internal factors such as the 2010 general education reform that resulted in students taking a greater proportion of courses inside the school that houses their degree, have led to IU students graduating with a smaller proportion of their courses located in the liberal arts tradition.

The committee recognizes that the RCM system can generate financial incentives for RCM units to retain student credit hours and that this could be addressed in the short term by credit assignment rules. However, the committee strongly believes that a long-term resolution to the credit hour decline in the liberal arts in an RCM system must fundamentally rest on an academic commitment to the liberal arts that addresses the underlying intellectual needs of students in the 21st Century. Thus, the RCM Review Committee recommends a working group be appointed to evaluate academic solutions to these issues of supporting a liberal arts education at Indiana University Bloomington. The working group should include the vice provosts for undergraduate education, and finance and strategy, the associate vice provost for budgetary planning and affairs, and deans from the College and other schools. Initiatives to consider include the creation of appealing cognates (thematic clusters), minors, 4+1 degrees, and similar academic programs which draw upon the rich core liberal arts education the College provides. The working group is part of a more holistic Campus strategy to provide support to the liberal arts at IU.

As an example of Campus support for liberal arts and sciences, the Campus provided the College approximately $15M in base funding between FY12 and FY17, primarily through Provost Fund and Campus Performance Fund allocations. Over the next four years, the Campus will also be providing $4M in base funding and $10M in cash from campus sources to support the mission of the College and to ensure that SGIS, the Media School, and SoAD begin in a financially neutral position. This complements other Campus investments such as the Grand Challenges and Emerging Research Areas that provide important research support for the College of Arts and Sciences.

Recommendation #8: The committee recommends that a working group be formed to develop academic solutions to supporting liberal arts education at IUB.
Managing Massive Annual Changes in Undergraduate Credit Hours

Predictability is important. To dampen fluctuations in income, the Campus recently moved from an assessment formula focused on credit hour market share, to a formula based on a three-year rolling average of credit hours taught. Even using a three-year average, however, a substantial drop in undergraduate credit hours (e.g., a drop of 5%) and thus in income is extremely difficult for units to manage. In the absence of a significant increase in the overall size of the IUB student body, a large increase of credit hours in one unit necessarily results in decreases in other units because the total credit hours taught remain fairly constant. The recommendation is to create mechanisms to increase predictability and the ability of all units to plan, enabling growing units to manage their growth and declining units to manage their costs and expenses while in a period of decline.

The Committee proposes that the Campus work with the schools and academic units to develop more predictable models for managing increases and decreases in total credit hours. Each academic unit with undergraduate fee income should also work towards maintaining a 1.5% undergraduate fee income reserve, in addition to the 2.0% mandated guideline reserve set by the IU Trustees. The additional reserve will help to buffer unexpected external forces, such as fluctuations in international enrollments due to a shifting political climate or declines in out-of-state enrollment due to economic conditions. If an academic unit falls below their targeted undergraduate credit hours for budget purposes, and if other units substantially outperform their projections, the following guidelines will be used:

- If the academic unit can cover its current and future income deficits over a three year period from its reserve fund balance, no mechanism will be invoked. The Campus will work closely with the unit to ensure finances are stabilized, but the deficit will be managed internally by the unit.
- If the academic unit is unable to meet their budget and does not have sufficient current and future reserves to cover their budget shortfall over a three year timeframe, they will first use their reserve funds. The Campus will then provide additional support, as necessary, but will have much stricter control of the unit’s finances, including hiring decisions and other cost-cutting measures.

For academic units substantially outperforming their income projections, they will not realize their full revenue increases immediately. Those revenues will be used to help units with shortfalls that cannot be covered by the units’ own reserves and fund balances. The unit that has substantially outperformed can expect to recover their full revenues in three years. The Campus will appoint representatives from a group of affected schools and campus administrators to develop a detailed plan in these cases.

**Recommendation #9:** The committee recommends that each academic unit work toward creating a 1.5% reserve (in addition to the Trustee-mandated 2.0% reserve) to buffer the potential impact of external factors, such as changes to the economic or political landscape that affect enrollment.
Conclusion

Overall, the committee views RCM (decentralized budgeting) to be the best source of distribution of budgets among the several models that are in use among American colleges and universities. While the committee offers recommendations for improving the operation of IUB’s budget system, the RCM model has been found to be fundamentally a profound improvement over the former “strong center” model that dominated higher education in decades past. Specifically, the committee finds that:

- RCM is not a barrier to collaboration where mutual gains to cooperation are present. RCM is a system that makes the benefits and costs to cooperation across academic units much more transparent, and easier to evaluate.
- Funds held at the center (i.e., the Provost’s Fund) are designed to encourage collaboration when it serves the campus common interest, and may be used for this purpose when collaboration is not clearly beneficial to one or more of the units involved.
- A strong and enlightened administrative center – primarily in the Office of the Provost acting in conjunction with the Council of Deans – has historically been able to maintain a sense of unity and the common good in the operation of the RCM system.
- RCM supports the process of faculty governance within the schools through the institution of school-level Budgetary Affairs Committees, by aligning fiscal responsibility with the faculties that have responsibility for devising and delivering specific academic programs.

In closing, the committee notes that the process by which this report and recommendations have been developed has been a highly collaborative and collegial one. The perspective adopted by the committee from its earliest meetings was one of working for the common good, and we believe that we have achieved that goal. We therefore respectfully submit this report to the faculty and administration of the IU-Bloomington campus.
Appendix A: Glossary of Terms

Campus Assessment and UA Tax: Both the Campus and the University must cover common good expenses, such as facilities, utilities, and central services (from administration to research to student services). In order to fund these services, the Campus and the University use an assessment or tax based on different drivers. The current Campus Assessment is based upon: 1) the number of tenure track faculty FTE, 2) the number of staff and other faculty FTE, 3) credit hours taught, and 4) assignable square footage. The UA (University Administration) tax is allocated to campuses based upon a 3-year rolling average of net direct expenses.

Campus Performance Fund: The Campus Performance Fund started when the Campus transitioned to a guaranteed per credit hour rate for undergraduate fee income distributions to units. Increases or decreases from the base budget would be applied to this fund. With positive enrollments (i.e., higher enrollments than the target number), this fund provides an additional buffer or source of funds that ensures the Campus can meet the per credit hour rate that Campus guarantees to units each year (currently set at $458 for FY18). Both the mix of student in-state and out-of-state residency as well as enrollment levels above and below the target affect this fund.

“Campus Support” (proposed budget line item): Beginning in FY18, all increases from Provost Fund allocations or other campus initiatives to the schools will be named “Campus Support.”

Legislated state appropriations: The actual amount that the Indiana State legislature appropriates for Indiana University Bloomington each biennium. Within the RCM review, dialogue on state appropriation most often refers to operating only.

Provost Fund: For more than 10 years, the annual base increase for the Provost Fund has ranged between $3M to $4M, despite continuous increases in the budget. Each year during budget conferences, academic and support units make requests. A recommendation for allocation is provided by the Budgetary Affairs Committee of the Bloomington Faculty Council. After advisement, the Provost typically makes allocations for base, one-time, and multi-year initiatives in the late spring. The fund is used to strengthen diversity efforts, build capacity in advancement, support the core mission of the university, and foster student success initiatives. In the past, the “Provost Fund” was derived from a pullback of 1.5% of units’ state appropriations and 0.2% of their net direct expenses. Due to changes in state allocations, the funding failed to reach its original recommended level of $5M in base funding. Furthermore, the process of using the “pullback” lacked transparency. Moving forward, the committee proposes the Provost Fund be generated from a percentage of new state funding with the remaining funds coming off the top of undergraduate tuition revenue. Over the next 5-6 years, the fund is expected to reach its intended target of $5M in base funding.

“Provost State Appropriations” (proposed budget line item): This is the proposed name given to future increases and potential decreases related to state support for the operating budget. The funds will be held centrally by the Campus. This fund will be the first source of reduction if a state reduction is implemented, thus providing a financial buffer to the schools. Future increases to the central Provost Funds will come from this funding mechanism.
**Pullback**: The term “pullback” is used in reference to funding being taken directly from an income source without going through an assessment and/or tax algorithm. The Provost Fund is the most notable pullback currently, given that funds have been “pulled-back” from state appropriations. The “pullback” is not necessarily equivalent to the level of disbursements that it helps to fund, but rather is a contribution toward the purpose of the funding.

**“State Appropriations” (existing budget line item)**: This term has been used by the Campus to refer to the funding provided to various units by the Campus. It is not connected to any school specific allocation deemed by the state. Instead, state appropriations was used as a “plug number” when RCM was introduced in 1990 to keep each unit budget whole. Since that time, increases to that “plug number” have occurred on the basis of new state dollars and provost fund allocations. Overtime, the “state appropriations” line item bore little resemblance to actual state appropriations. Beginning in fiscal year 2018, the disbursement called “state appropriations” will remain flat. Instead, a “Campus Support” funding line will be used instead to allocate increases or decreases to state funding.

**System Service Charge**: The formal term used for the University Administration (UA) tax.

**UA Tax**: (see Campus Assessment and UA Tax)

**Undergraduate Tuition Revenue Allocations**: Undergraduate fee income is distributed on a per credit hour rate mechanism based on a rolling 3-year (term-specific) average. A 3-year average is used to smooth increases and decreases in enrollment in order to give units time to adjust to structural changes in credit hour numbers. Undergraduate financial aid is taken off the top of total undergraduate tuition revenue prior to disbursing the remainder based on the per credit hour rate methodolodgy.
Appendix B: Summary of Committee Recommendations

**Recommendation #1: Undergraduate Tuition Revenue Allocation.** The committee recommends maintaining the current mechanism for allocating undergraduate tuition revenue since it strengthens the financial planning ability of schools.

**Recommendation #2: State Appropriations.** The committee recommends freezing the “State Appropriations” allocation to units at current levels. Increases to state funding will be held in “Provost State Appropriations” fund as a reserve for potential reductions in state funding. Cash from this fund will be used for multi-school initiatives.

**Recommendation #3: Provost Funds.** The committee recommends that funding for the Provost Fund be taken off the top of undergraduate revenues and that the Provost Fund reach $5M by over the next several years.

**Recommendation #4: Graduate Education Assessment.** The committee recommends that units be assessed $15,000 each as a graduate education contribution to the Provost Fund. Schools without undergraduate programs will be assessed $30,000. Small academic programs will not pay this assessment.

**Recommendation #5: Campus Performance Fund.** The committee recommends that the Campus Performance Fund remain in place as a reserve to protect units from credit hour rate swings.

**Recommendation #6: Campus and University Assessment Drivers.** The committee recommends that current campus assessment drivers remain in place. The committee also recommends that working groups be appointed to explore options for space charges, including a) instituting a single cost for space and b) how specialized learning spaces (e.g., labs, studios) are assessed. Furthermore, the committee recommends reviewing options for how increases to the UA tax should be allocated among units.

**Recommendation #7: Commitment to Doctoral Education.** The committee recommends a working group review strategies for reducing barriers to graduate students taking courses and teaching in other schools. The committee also recommends that the $2.9M in Graduate School funding that is currently passed through to schools be transferred to those schools’ budget (and remain dedicated to doctoral student financial aid and stipends), and that an additional $1.2M be added to the Graduate School’s funding for the purposes of developing programs to enhance graduate student metrics.

**Recommendation #8: Commitment to Liberal Arts Education.** The committee recommends that a working group be formed to develop academic solutions to supporting liberal arts education at IUB.

**Recommendation #9: Managing Massive Annual Changes in Undergraduate Credit Hours.** The committee recommends that each academic unit work toward creating a 1.5% reserve (in addition to the Trustee-mandated 2.0% reserve) to buffer the potential impact of external factors, such as changes to the economic or political landscape that affect enrollment.
## Appendix C

### Student Program School (Ph.D LEVEL)

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<thead>
<tr>
<th>Income to RC</th>
<th>College</th>
<th>Med Science</th>
<th>Public Health</th>
<th>Business</th>
<th>Education</th>
<th>Law</th>
<th>SPEA</th>
<th>Music</th>
<th>Optometry</th>
<th>Informatics</th>
<th>Total funding received from other Schools</th>
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<td>$35,266</td>
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**Total Fee Income from Students**  
$30,012,542  $95,947  $1,751,113  $933,349  $4,919,605  $193,369  $730,508  $801,003  $385,964  $4,039,427  $2,799,590

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**Funding received from other Schools**

- College: $1,376,763
- Med Science: $164,367
- Public Health: $164,367
- Business: $164,367
- Education: $384,225
- Law: $10,366
- SPEA: $1,376,763
- Music: $384,225
- Optometry: $137,890
- Informatics: $586,981
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<tr>
<th>Total funding received from other Schools</th>
<th>% of Funding received from other Schools</th>
<th>% of Funding made to Other Schools</th>
<th>Income sent to other schools from student's program (home) school</th>
<th>Net Income</th>
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