Executive Summary
Report of the RCM Review Committee
Indiana University Bloomington

October, 1996

In the fall of 1995 a Committee was appointed by Vice President Gros Louis to review the policies and procedures of the financial planning, budgeting, and financial administration system known as Responsibility Centered Management. The Committee investigated the perceptions of RCM by 1) soliciting comments from faculty, staff, students and others and 2) by interviewing those individuals and constituencies who had insights and experience regarding RCM and those whose views were broadly representative of campus opinions. The Committee also collected information and data to help in determining the impact of the implementation.

The Committee heard many positive and some negative comments; for many, especially but not exclusively in the non-instructional units, it was difficult to disentangle the effects of RCM from the effects of the difficult financial constraints of the early years of implementation.

The dominant findings of the Review are:

- RCM as a budgeting/management system works reasonably well.

- RCM provides an environment in which deans and directors have the flexibility to make substantive and beneficial changes in their operations in a timely manner.

- The incentives inherent in RCM have resulted in increased attention to income generation and cost containment.
• Students have benefited from improved course availability.
• There is concern that the system seems more oriented toward quantitative measures and it may not respond as well to measures of quality.
• Some feel that the system may be one factor causing an erosion of the spirit of collegiality and cooperation that has been such a valuable aspect of academic life at IUB.
• Misperceptions and misinformation about RCM are common, and several widely cited opinions are not supported by data.

Based on the findings, the Committee made a number of recommendations including the following:

• The current version of RCM be maintained with minor modifications.
• Existing principles of income attribution and assessment should be maintained with adjustments to facilitate planning.
• The instructional units be given income incentives to encourage expanded recruiting of non-resident students.
• A Chancellor's Discretionary Fund be established to provide resources to the Chancellor to reward quality and to leverage campus priorities.
• The Chancellor seek additional opportunities to encourage collegiality and cooperation.
• The baseline services initiative be expanded, where appropriate, to include measures of performance.

Finally, it is recommended that the Office of Budgetary Administration and Planning continue to monitor the RCM process and consult with the Deans Advisory Committee and the Budgetary Affairs Committee regarding additional modifications. There should be another comprehensive review not later than the academic year 2000-2001.
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In the fall of 1995 a Committee was appointed by Vice President Gros Louis to review the policies and procedures of the financial planning, budgeting, and financial administration system known as Responsibility Centered Management. The Committee interviewed many people to determine the perceptions of RCM and obtained and reviewed revelant data to determine the impact of RCM. The Committee then considered the perceptions and the data, and formulated recommendations for improvements. The findings and recommendations are the primary topics of this report.

1. The Historical Context

Prior to 1990, the budget construction and administration process for Indiana University Bloomington was a very traditional one. Resources from state appropriations and instructional fees were attributed to campus level accounts, and unit expenditure budgets were created and administered under guidelines that permitted relatively little unit autonomy in allocating or reallocating resources.

In even numbered years the University prepared a biennial Operating Request for consideration by the Higher Education Commission and the State Legislature. In the spring of odd numbered years the Legislature adopted a financial plan for the university, based on assumptions about student fee income and expenditure changes, and it provided state resources to implement that plan. In addition to funds to cover inflationary cost increases, special state appropriations were provided in response to quality improvement requests. Examples include the funds for library automation, part-time faculty replacement, and "super professors." In the decade prior to implementing RCM (1979-80 through 1989-90) state appropriations (excluding fee replacement) increased from $74,398,777 to $140,556,501, an increase of 88.9% or an average of 6.6% per year. During this time there was a modest increase in enrollment. Undergraduate enrollments increased from 23,084 in the fall of 1979 to 26,387 in the fall of 1989. Graduate enrollments decreased slightly during the same period: from 6566 in the fall of 1979 to 6075 in the fall of 1989. Total enrollments (including professional, non-degree, and non-classified students) increased from 31,843 to 34,863 during this period, with most of the increase coming in the period 1986-1989.

Each year, beginning in January and continuing through February, the campus held a series of budget conferences with the College, the schools, and the major academic and administrative support units. During these conferences, each dean or director presented a plan for the next year, and requested funds for new initiatives. In response to the plans and initiatives, each dean and director was provided with incremental resources for salary adjustments, financial aid, general supplies and expenses, travel, equipment, etc. These resources were to be used for specific purposes, and reallocations had to be approved by campus level budget officers. Campus allocations to units were guided by the operating budget approved by the Legislature, especially in the compensation areas, and by the advice of the Budgetary Affairs Committee and the Chancellor's staff.
Development and Implementation of RCM

In the fall of 1987 President Ehrlich initiated discussions that led to the development of a system known then as Responsibility Center Budgeting, and now as Responsibility Centered Management. President Ehrlich’s goal was to develop a system guided by three basic principles:

- all costs and income attributable to each school and other academic unit should be assigned to that unit;
- appropriate incentives should exist for each academic unit to increase income and reduce costs to further a clear set of academic priorities;
- all costs of other units should be allocated to the academic units.

The system was developed with the active participation of faculty, the Budgetary Affairs Committee, deans, campus level administrators, and system level administrators. Dr. Edward Whalen, Director of the University Budget Office, provided general leadership in the process. Preliminary drafts of policies and procedures were widely discussed during the spring of 1988 and the academic year 1988-89. Budgets were constructed in the traditional way until implementation; however, costs and income were attributed in shadow budgets in RCM format beginning in 1988-89. The original intention was for both IUPUI and IUB to shift to the new budgeting system on July 1, 1989. However, a review of progress in the late fall of 1988 showed that several important issues were not resolved, and it was decided to defer implementation at IUB until July 1, 1990. IUPUI proceeded with implementation on July 1, 1989.

During 1989-1990 IUB resolved outstanding issues with the help of three committees consisting of faculty and administrators and chaired by members of the Budgetary Affairs Committee. These Committees focused on the attribution of costs for non-instructional units that were large and for which there was a potential for disaggregating costs, should that be desirable. The Committees reviewed assessments for 1) the Library, 2) space, and 3) University Computing Services.

Expenditure budgets were constructed for 1990-91 in the usual way. Then, anticipated income was attributed to units, costs of non-instructional units were allocated to the instructional units using the algorithms developed over the preceding two years, and state appropriation was allocated to instructional units to provide balanced budgets for each unit. Two aspects of the implementation are especially important and deserve repeating for emphasis: First, the original allocation of state appropriation was as a technical "plug factor," and second, at the time of transition resources were provided to the College and schools to cover all assessment costs.

Accompanying the introduction of RCM, there was a shift in emphasis from planning for the next year to a multi-year planning horizon. It is now expected that unit plans are developed for one year in some detail, and for two or three years in greater generality. In particular, reserves are typically accumulated and expended over a period of several years. These plans are discussed with the deans regularly to determine progress and revisions, and they provide the setting for the annual budget conferences each winter.

In other RCM systems, e.g., those in place in the late 1980s at private universities and those being considered today by other public universities, it is common for a portion of the instructional fee income to be attributed to the school in which the student majors or to the campus. In contrast, the IUB version attributes all instructional fee income to the unit providing the instruction.
From the time of implementation instructional units had the option of transferring unexpended funds and unbudgeted income to reserve accounts at year end (June 30), and accessing those funds for approved uses in the future. In the early years of RCM, the campus continued to use unexpended balances in the accounts of non-instructional units to meet unanticipated expenses. Recently, the non-instructional units have had access to a portion of their unexpended balances for approved uses, primarily equipment purchases. The latter change has significantly decreased the ability of the campus to respond to unanticipated needs and to leverage campus priorities.

At the time of implementation it was anticipated that the system would be a dynamic one: we would discover better ways of handling some things and not all of the results would be quite as intended. That has indeed been the case, and there have been a number of changes. For instance, at implementation we attributed undergraduate fee income by student residence classification, but in the second year we shifted to an allocation process in which undergraduate fee income is pooled and allocated to the instructional units by the fraction of credit hours taught without regard to residency status. Also, in some cases the changes in assessments resulting from parameter changes have appeared unreasonable, and after consultation with the Deans Advisory Committee and the Budgetary Affairs Committee the changes indicated by the algorithms were not fully implemented. It is anticipated that RCM at Bloomington will continue to be a dynamic system, and with appropriate consultation the system will continue to evolve.

Financial Environment after Implementation

Implementation of RCM at Bloomington did not take place in a stable environment. Indeed, there were two important events that must be recognized in assessing the impact of the new planning and budgeting system.

First, as part of the policy of President Ehrlich there were significant reallocations of resources from non-instructional units to instructional units. Operationally, this was accomplished by constraining the growth of the budgets of non-instructional units and thereby making a disproportionately large share of incremental resources available to the instructional units - the College and the schools. One way to describe the results of this effort is to note that the College and schools had 52.5% of the campus budget in their direct expense budgets in 1990-91 and 56.5% in 1995-96. Another way to describe the result is to note that the budgets of the College and the Schools would be $14.6 million smaller had the reallocations not been made.

Second, changes in state appropriations in the period 1991-1995 were significantly different from those envisioned when planning for RCM. Indeed, state appropriations (excluding fee replacement) actually decreased by more than 2% over this period. Thus, although variability in state appropriation was anticipated, the change from a period with average yearly increases of over 6% to a four year period in which the appropriation actually decreased altered the environment substantially.

Thus, the implementation of RCM coincided with a period of financial constraints in higher education in Indiana (and elsewhere). The attribution of these constraints to RCM rather than to the change in the external environment, which is the appropriate attribution, has been a persistent problem. This has been an especially widespread perception in the non-instructional units.
Enrollments in the period 1990-1996 have shown modest fluctuations with 35,453 in the fall of 1990, a high of 36,076 in 1992 and a low of 35,059 in the fall of 1995. There have been, however, more significant shifts in enrollments among schools. Data and graphs showing some significant school by school enrollment trends are included in the attachments.

2. Methods

The Committee began its work by identifying those individuals and constituencies whose views were broadly representative of campus opinions and who had insights and experience regarding RCM, and representatives of the Committee met with them. In addition, a notice of the review was widely distributed and advice and opinions were solicited from faculty and others. A list of the individuals and groups whose comments helped inform the Committee is appended as Attachment 3.

Each individual or group was interviewed by representatives (usually two) of the Committee. The interview was guided by a set of issues for discussion identified by the Committee at its first two meetings. A copy of the Issues for Discussion is included as Attachment 4. The results of each interview were circulated in written form to the Committee, and the general themes that emerged are summarized in the Findings and form the basis of the Recommendations.

In addition to the information collected in the interviews and the responses to the request for comments and suggestions, the Committee reviewed data on enrollments, financial resources, allocation of state appropriation, and assessments. These data are collected and described in the attachments.

3. Findings of the Review

Overview

The Review Committee encountered diverse views about RCM. The most common position expressed, especially by those who had been close to actual financial decision-making, was that RCM is a planning/budgeting/management system that is working reasonably well, that most of its elements should be kept, and that what is really needed are some modifications to make it work even better. Persons whose programs have suffered financial difficulties sometimes blamed their problems on the budgeting system, even though the main causes may lie elsewhere. Review Committee members believe that RCM has been blamed for many financial difficulties and management problems that have occurred during the past five years, even though RCM itself was not a primary cause of the problem. Administrators who have been successful in adjusting their programs to take advantage of the opportunities offered by RCM strongly favor the system. Even administrators who have struggled under the system (e.g., in COAS) often supported the system strongly, at least in its overall conceptualization.

A few responses to the general call for comments were extremely critical. Those writers focused on perceptions that RCM has created undue competition for students, leading to a distinct loss of collegiality across campus, and has led to the development of new courses that are mediocre and superficial, lacking quality. In fact, administrators and faculty in the units where such courses are alleged to have been developed often point out the high quality of the new courses being offered and the substantial benefits they provide to students. Some of those interviewed believe there has been a decrease in faculty/staff morale and more tensions between schools because of RCM. The Review
Committee agrees that there has been some deterioration in the quality of the campus climate. But higher education across the country has been under fire from various critics, and Indiana has behaved like other states in reducing its financial support for higher education. Some local critics of RCM feel that everyone attributes the campus morale problem to the results of RCM. The Committee believes there would be a considerable morale problem under any budgeting system. How much of the decrease in morale has been a response to RCM and how much a response to other changes that IUB has experienced is impossible to determine. Clearly RCM should not be blamed for all such problems.

Early in the work of the Committee, it became obvious that perceptions of the impact of RCM didn't always agree with the realities of the situation. Other factors such as the reduction in state support have had an impact on academic life in Bloomington, an impact which should not be attributed to RCM. In addition, some of the alleged negative consequences of RCM, such as an increase in the number of large classes, simply have not happened. Thus, whenever possible, the Committee tried to find data that would indicate the actual effect of the implementation of RCM. A major effort was made to determine what has been the reality of RCM and what has been perception only.

Positive perceptions about RCM:

The following topics were mentioned most often in interviews and letters as being beneficial results of the RCM system:

- providing strong incentives for income generation in all the instructional units
- placing the accountability with the decision-maker at the least centralized point possible
- increasing the responsibilities of the units and giving them an opportunity to generate the resources to meet those responsibilities
- hastening real changes because budgets can be readily modified at the local level to accommodate change
- allowing schools a considerable degree of flexibility and independence
- shifting the focus to serving people, i.e., the students who are at least in a sense our customers
- providing an incentive to improve the quality of courses so as to attract more students
- increasing the responsiveness to students' interests and concerns
- encouraging units to make long-range plans with more confidence that the unit will have the funds available to implement the plans
- encouraging decision-making from the bottom up rather than from the top down
- enabling the campus to successfully weather the financial difficulties of the early 90's
• causing some units to be more accountable to each other across the campus (e.g., units that pay assessments want confirmation that those dollars are used effectively)

**Negative perceptions of RCM:**

Among the negative statements coming to the Committee about RCM, the following were mentioned most often:

• tendency to de-emphasize cooperation and collaboration between schools, to reduce collegiality

• pressure to offer more courses, even outside the school’s major areas of expertise, and to lower standards to enroll more students

• failure to respond to the quality of particular programs in any direct way

• tendency for RCM incentives to reduce quality because the emphasis is on other factors

• lack of understanding of when, why, and how the assessments charged to a unit change

• failure to provide a ready method for controlling costs

• incentive to hire temporary or part-time faculty to get teaching done less expensively

• units paying the bills (instructional units) don’t have enough control over the way the non-instructional units are managing their operations

• non-instructional units feel that they have little means of income generation and are at the mercy of campus administration for resources each year

• less discretionary money now exists at the campus level for meeting the "common goods" needs of all

• some non-instructional units lament the loss of access to the pool of reverted year-end funds as in the past

• tendency to cause a proliferation of fees

• tendency to cause grade inflation

Not all of the negative characteristics mentioned above were supported by the data that the Committee acquired, as will be explained the Findings that follow. Some negative comments are legitimate and we have addressed these, at least in part, by our Recommendations in the final section of this report.
The Quality Issue

The quality of research and teaching activities on the Bloomington campus is cited often as a significant reason for making particular administrative decisions. Because of allegations that quality has become a less important factor in making decisions under RCM and that quality is therefore either actually or potentially deteriorating, the Committee devoted considerable time and energy to considering this issue.

"Quality" is truly on almost everyone's mind. Academic decisions will thus be made to enhance quality and not just to maximize financial rewards. The financial incentives of RCM should be considered as only one of several major factors affecting decision-makers. Incentives for the maintenance and improvement of quality do exist. Under RCM, units derive some financial benefit from attracting new students whose tuition dollars come to that unit. National data show that students choose schools in part because of their perception of school quality.

The Committee could find only minimal evidence for more variation today in quality between programs or between individual course offerings than existed before RCM, and there are no signs of an overall decrease in program quality.

In spite of the above considerations, there remain concerns about the impact of RCM on the quality of teaching and research. Because "quality" is a difficult concept to quantify, dealing with quality in an RCM environment - necessarily highly quantitative - can be difficult. Following considerable discussion of comments from various members of the campus community, the Review Committee concluded that there is considerable pride in the quality of performance of every unit on campus, instructional and non-instructional. Because of this pride and the recognition in the instructional units that high quality will attract both graduate and undergraduate students, quality is an important factor governing decisions even under RCM. Having access to their year-end balances provides administrators with a means of funding projects that will enhance quality. That access has existed under RCM for instructional units and to a lesser extent for non-instructional units. As the Committee reflected upon the campus situation prior to RCM, it became clear that there were perceived shortcomings in the ability of the campus to recognize and respond to issues of quality at that time as well.

As an important part of an environment conducive to high quality research, teaching, and service, it is necessary to generate and maintain a sense of vision for the campus. This vision goes to the heart of the academic values of the campus, and it is largely independent of whether RCM or some other planning and budgeting system is used. To some extent, the desire to achieve and maintain national stature and to exceed the goals and expectations of accrediting bodies stimulates a shared vision of academic excellence. The campus chancellor has a major role to play in leading the campus and promoting a shared vision, and the discretionary fund proposed in this report would provide resources to leverage campus priorities.

The Review Committee spent substantial time discussing possible ways that RCM could be structured so that quality would become a more integral part of the equation driving academic decisions. One conclusion was that there is no reliable way to quantify quality, especially with regard to the teaching mission, which is where most of the concern lies. This is different from research, where grant money tends to flow to projects and units that exemplify the best research/creative activity. The attendant overhead thus becomes a quantitative reward for high-quality work. Another complication about the quality of courses is that one can teach excellent courses and not attract many students if the subject
matter is not currently appealing to students. Although we do have methods for measuring the quality of teaching, there is sometimes no satisfactory linkage between course quality and financial incentives. With the new University-wide committee beginning to study ways to reward faculty for quality teaching, there may be elements of their report that will suggest meaningful ways to reward units for the quality of teaching of their faculty.

Until a way can be determined to quantify teaching quality rather generally and routinely, qualitative judgements by peers and administrators will remain as an important way of recognizing "quality." The Review Committee considers this an important part of the arguments that the Chancellor have a significant discretionary fund to be used to nurture and reward quality undertakings.

Attribution of Tuition Income

When RCM was implemented in Bloomington, the tuition income for a given year was distributed according to the distribution of credit hours for that same year. Thus, each year the dean of an instructional unit had two unknowns: total enrollments and how those enrollments were distributed. These uncertainties made planning difficult, and last minute surprises, information which became available too late to alter hiring plans, led the deans to look for ways to moderate the situation. In 1991 the deans approved distributing the current year's income based on the previous year's enrollments by RC - the present practice - as an improvement over the original distribution pattern. Many feel that even this one-year lag does not provide units with enough latitude to alter teaching plans. The Budgetary Affairs Committee recognized this problem in the budget planning for COAS this year and recommended that tuition be distributed on an average of the previous three years' enrollments. The Review Committee recommends a middle position, that the tuition distribution be based on the averaged student course enrollment numbers of the prior two years. This provides more opportunity than at present for a unit to make teaching plans with a realistic budget estimate, yet it does not isolate a unit too much from the urgency to reduce costs by cutting sections when student numbers fall, nor does it ask a unit with increasing student enrollments to wait too long before receiving the appropriate increases in resources.

Another issue regarding tuition attribution was whether instructional RCs should receive the incremental income from non-resident students compared to resident students. That was the original configuration as RCM was implemented in Bloomington, but it was changed so that resident and non-resident undergraduate tuition now all goes into a common pool and is distributed according to the total student credit hour numbers in each unit. Teaching non-resident students "costs" a unit the same amount as teaching the same number of resident students, so this seems appropriate. Some members of the School of Music continue to raise a concern about this because they teach so many non-resident students. They forget that when they lost their non-resident "bonus" their state appropriation was increased by the same amount so as to make the switch revenue neutral. In fact, were the campus to start attributing non-resident income to units teaching them, the transition would again be made revenue neutral by adjusting the state appropriation to each RC. Thereafter the School of Music would be in a very undesirable position regarding possible changes in their resident/non-resident mix because their enrollment of non-residents is already so large. President Brand provided the most significant impetus to move to attributing non-resident income to the units teaching the hours. After accommodating all qualified Indiana residents who wish to enroll at Bloomington, he believes we should encourage an interest by all units in attracting more non-resident students in order to expand the number of high quality undergraduate students and to receive the increased tuition income. To do this in a way that maintains an appropriate balance between resident and non-resident students in various
units and does not stimulate an unhealthy on-campus competition for the non-resident students already here, the RCM Review Committee has outlined a strategy in our recommendation section for sharing a portion of the income from increases in total non-resident student enrollments among those units whose non-resident student numbers increase. Most of the tuition income would still go into a single fund to be distributed according to total student credit hours.

No significant interest was found in attributing part of the tuition income to units according to where majors are declared, a part of RCM as implemented at some other institutions.

The Assessment/Accountability Issues

During the five years that RCM has been in place on the Bloomington campus, continual adjustments have been made to modify the assessment algorithms so that the fluctuations in assessments seen by instructional units represent reasonable changes in response to actions that they have taken--e.g., increasing faculty, decreasing credit hours, etc. Even after all these adjustments, however, there is still often a sense of mystery about why the assessments have changed from year to year. Even deans who have seen the changes in assessments that have occurred over several years are often surprised and mystified by changes in their assessments that occur in a given year.

Under the model of RCM established in Bloomington, non-instructional units are to receive most of their operating budgets from instructional units via assessments. This constitutes their major source of operating income. When assessments were originally established, the transition to the new system was made "revenue neutral" by appropriately setting the state appropriation for each instructional unit. Thereafter, when instructional units have undergone changes in such things as faculty FTE and student credit hours taught, they have experienced changes in their assessments that are based on the assessment algorithms.

Related to the assessment levels is the issue of how much control the instructional units should be able to exert over non-instructional units to which they pay their assessments, which raises the important issue of accountability. Some instructional units feel almost totally ineffective in helping direct the activities of non-instructional units, while directors of the non-instructional units sometimes feel that they now have far too many "masters." There is no easy answer to this tension. Here is a place where communication at budget conferences and similar meetings will continue to be invaluable. One virtue of RCM is that it makes accountability more compelling because instructional units notice what they are being "charged" for various services and they want to be sure they are getting full value for their dollars.

The Committee believes that overall accountability could be improved if each non-instructional unit underwent a careful review every five years or so. The reviewing group should include members of the Deans' Advisory Committee and Budgetary Affairs Committee.

An additional concern of the Review Committee is whether the assessment algorithms for such things as computer usage, space, and library should be completely reevaluated. There were surprisingly few comments directed toward changing these particular algorithms, but the Committee notes that there does continue to be a communication problem about why certain assessments change from year to year. We did not rush to change these algorithms and see no immediate reason for others to do so at this time.
Assessment Algorithm for RUGS

The method used to allocate costs for the Research and University Graduate School was raised as an instance where the assessment method actually provides disincentives for generating external grants. Indeed, currently a portion, about 60%, of a unit's assessment for RUGS is directly related to the volume of external grants and contracts. In some cases, awards from the State of Indiana are an example, the contract provides no funds beyond those required to meet the direct costs of the project. In such circumstances a dean whose school receives such an award must reallocate from other sources to provide funds for the increased RUGS assessment resulting from the award of the contract. Even in cases where the award carries indirect costs, there is an increasing tendency for granting agencies to constrain indirect costs, both the amount and the use. Finally, there is considerable year-to-year volatility of amount of external funding.

As a result, the Committee believes it would be preferable that the portion of the RUGS assessments now allocated on the basis of contract and grant volume be allocated instead on the basis of faculty FTE. This shift should be revenue neutral for the College and all schools. This change would eliminate the current disincentive for deans to encourage faculty to secure external funding, namely, that if external funding is obtained, then (all else being equal) the RUGS assessment to the school will increase. The proposal to use faculty FTE as the assessment parameter is based on the fact that IUB is a research university, and all faculty are expected to have an active research program.

Non-instructional Units

The guidelines for functioning under RCM are different for the non-instructional units compared to the instructional units. It is also true that money has been reallocated from non-instructional unit budgets and used to increase the budgets for instructional units, a shift not causally linked to RCM. Most of that shift was completed during the first two years of RCM on the Bloomington campus. For the past few years there has been general agreement from the Budgetary Affairs Committee and the Deans’ Advisory Committee not to reallocate major additional funds from the non-instructional units. The Review Committee believes that the present policy of not providing incentives for the non-instructional units to seek funds outside of their regular allocations is appropriate. Most of such new funds would probably come from user-fees charged to students or other units, and that does not seem appropriate. In order to provide better incentives for the non-instructional units to find savings in their expenditure budgets and to plan for creative programming, the Review Committee believes that non-instructional units should have more budgetary latitude with more access to year-end balances.

The deans of instructional units in the RCM environment are much more concerned than previously about the budget situations in the non-instructional units. They now realize that large numbers of dollars from their assessments are flowing into particular areas, and they would like to have more influence on the ways that those dollars are spent. For the immediate future - and perhaps for the long-term - there will be a continuing tension to get the right balance between autonomy and meaningful accountability.

The Budgetary Affairs Committee will continue to evaluate the budget plans and requests from the non-instructional units and to provide advice to the Chancellor on them. In addition, members of the BAC should be involved in the important discussions regarding base-line services and accountability for these units.
Providing Service Functions

In an RCM environment, there is a continuing concern regarding the merits of centralization compared with decentralization of service functions. In general, it appears that instructional units prefer decentralized services while non-instructional units would prefer to keep them centralized. In fact, this was not often mentioned as a major concern.

More units spoke of a desire to have some service functions privatized or at least made more easily obtainable from off-campus. Painting and printing were most often mentioned. Aware of some of the hidden costs involved in doing that, the Committee is not recommending changes in these situations. If reporting lines for these service units were more closely aligned to the Bloomington campus, their services would better meet Bloomington needs.

Admissions

The Committee believes that the functioning of the Admissions Office is vitally important and discussed it at some length. Because that unit is under review by another group, we make no recommendation about it.

Two additional points should be made about the admissions process. 1) In the above section on Attribution of Tuition Income we note the desirability of increasing out-of-state enrollments. 2) Once students have decided to attend Bloomington, they should not be hounded by schools attempting to procure them as majors. Recently there has been an indication that some units are attempting to do too much internal recruiting, which is wasteful of resources and very harmful to collegiality.

Dispute Resolution

There is a perception among some members of the campus community that RCM has led to considerable discord and conflict among units. When people are asked for examples, however, relatively few emerge, but these are very important to the parties involved. There is simply a belief that there have been many instances of dispute rather than a data-driven conclusion. This is an example of one of the places where perception and reality seem to be at odds.

Chancellor Gros Louis maintains direct and indirect contacts with the deans and directors of both instructional and non-instructional units. Acting with the advice of the Budgetary Affairs Committee and Deans’ Advisory Committee he is in a position to act decisively when necessary to settle conflicts that arise between units. In the case of the non-instructional units, he has the opportunity for direct influence through the unit budget. With the instructional units, his decisions are implemented more by moral suasion, though his position would gain clout were he to retain a portion of the state appropriation to be used in special circumstances.

The Campus Curriculum Committee existed for some time as a committee with limited influence and no history of making difficult decisions. More recently it has been reinvigorated and it has resolved some significant campus curriculum disputes. The Review Committee believes that this committee must continue to gain stature and influence so that it can serve as the primary forum for resolving curriculum disputes that cannot be resolved at the unit level. It should focus on academic issues and seek to be
proactive in anticipating the needs of students and in identifying the teaching strengths of units with a
goal of minimizing competition among units for student enrollments.

Not every administrator or advisory group has had the same understanding regarding the parameters
under which management should occur in an RCM environment. Some misunderstandings, hard-
feelings, and potential conflicts have developed because of differing perceptions of what is fair and
permissible and what is not. Guidance is now provided in several ways. The campus has leadership from
the Chancellor and advice from the Campus Curriculum Committee and the Budgetary Affairs
Committee. The meetings of campus deans regularly convened by the Chancellor provide opportunities
to share information and comment on issues affecting several units. Nevertheless, the Review
Committee believes the campus would benefit from having a more formal identification of guiding
principles and expectations of decision making under RCM. Other sections of this report which deal with
issues of collegiality, dispute resolution, and quality provide examples where there are different points
of view. The Review Committee is too large a group to undertake this task effectively and suggests that
Chancellor Gros Louis appoint a small group to do so.

Cooperation among RCs/ Campus Collegiality

There have been a few sharp conflicts between RC units since RCM was instituted, although the
smallness of the number should probably be considered remarkable. For the first few years, there was
not even sufficient curricular conflict to stimulate the formation of an all-campus curriculum committee
with teeth. On the other hand, the Review Committee heard a number of comments that the institution
of RCM has had a "chilling effect" on the tendency of units to cooperate to accomplish particular
interunit goals. At the same time, there is evidence that some cooperative efforts are moving forward;
for instance, the current discussion between SPEA and the College for a joint Bachelors Degree in
Geological and Environmental Science and between Continuing Studies and Education for a joint
Masters Degree in Community and Corporate Education. The Review Committee sought data to show
that units are now undertaking fewer joint projects but was not able to find anything conclusive.
Without great difficulties, ways have been found to share the income from projects undertaken
between units. The Dean of the Faculties Office has established funds specifically to support inter-unit
activities. Also, the guidelines used for distributing the funds for the Strategic Directions Charter state
that projects crossing unit boundaries will be judged favorably.

The Review Committee believes that the ethos of collegiality and shared commitment to the academic
enterprise that exists among individuals and between schools on the Bloomington campus is one of the
major assets of the institution. Sustaining that culture is important, and some suggestions for that
sustenance appear in the Recommendations section of this report.

Distribution of the State Appropriation

During the past five years the distribution of state appropriation has been changed for various reasons,
and the Committee reviewed this history. With appropriate rationales, changes similar to those of the
past should continue, and an additional mechanism for change is proposed later in this report - the
Chancellor’s Discretionary Fund. Redistribution should be undertaken only with the advice of the
Budgetary Affairs Committee and the Deans' Advisory Committee.
Grade Inflation

Because some persons interviewed expressed the belief that RCM has contributed to grade inflation--almost always in units other than their own--the Review Committee sought data that might indicate the extent to which that is true. The grade point averages for many units have edged upwards for two decades. This trend has continued under RCM but does not seem to be causally linked to its presence.

Fee Proliferation

The perception heard in a number of interviews and seen in some letters about an increase in the number of items for which individual fees are charged for existing services under RCM is simply not supported by the data. There has been essentially no change in the number of items for which fees are charged, and therefore no change in RCM is needed in response. The Review Committee is sympathetic to the student desire to keep incidental fees to a minimum, nor do we wish to add to the list of services for which individual faculty/staff must pay. In contrast to that, however, we believe it is important for users of services to understand the real costs of those services so that they can adjust their use accordingly, constraining the use of services that are expensive to provide. This will undoubtedly continue to be a creative tension point. We believe strongly that the campus should continue to adhere to the maxim that there be no new user-fees established for services, unless the service itself is new. Fees have been reviewed in the past and will continue to be in the future.

Differential Tuition

The Review Committee considered the possibility of establishing differential tuition levels by school or by class level and concluded that within RCM there is no advantage - or disadvantage - per se in moving to a more complex tuition structure. The Committee saw no urgent need to make a change.

Class Size

The Review Committee procured from the Registrar data regarding class sizes on the Bloomington campus over the past six years. In strong contradiction to the perception that class sizes have increased, we found that the number of large sections (those enrolling over 300 students) remained essentially constant until the last two years and then actually decreased. At the same time the number of small sections has increased. At least three factors may be responsible for these data: 1) the large classrooms are already fully used every semester and hence no new large sections can possibly be established, 2) the College has made a special effort to introduce "topics courses" for freshmen in situations where the section sizes are capped, and 3) through the 1% tuition dedication plan, students have generated an additional 1% in tuition each of the last two years for the express purpose of providing funding for additional faculty to keep section size from increasing.

Use of Non-tenure-track Faculty

Because temporary or visiting or other non-tenure-track faculty are often less expensive than regular tenure-line faculty, the Review Committee heard a number of complaints that RCM is increasing the reliance of the Bloomington campus on non-tenure-track faculty to carry out its teaching. As a result, we sought data from the Dean of the Faculties on the number of faculty in each of various categories by school over the past six years. In only one unit, Education, was there evidence of any significant increase
in reliance on non-tenure track faculty. That turned out to be the result of a bookkeeping change necessitated by federal regulations. Supervising teachers in the public schools were not listed as "faculty" in the past; now some of them are. The clear result of our analysis is that RCM has not led to an increase in the use of non-tenure-track faculty.

**Extension of RCM into Subsidiary Units**

Only HPER has implemented RCM in a comprehensive fashion below the school level, where each of the three departments functions as an RC. The Review Committee considered the operation of that school compared to others and concluded that each school should make its own decision about how much RCM authority should be passed down to the next lower level. The Committee also acknowledged that the College of Arts and Sciences could benefit from giving its larger departments more budgetary autonomy and noted that the College Incentive Program, although still in its formative stages, is probably a step in the right direction.

RCM works well only if there are well trained staff prepared to access the relevant data and pass it to decision-making administrators in an appropriate form. At the present time, there is still some difficulty training staff appropriately and that would become a larger problem if RCM were passed along to subsidiary units.

**4. Recommendations**

In light of the findings reported above, the Committee makes the following recommendations:

**Fundamental Recommendation**

The Committee recommends that the current version of RCM be maintained. Rationales for this conclusion can be found throughout the findings section.

Subject to the Fundamental Recommendation, the Committee recommends that RCM be modified as follows:

**Income Attribution: Instructional Responsibility Centers**

The Committee affirms the basic principle that income should be attributed to the Responsibility Center providing the service or incurring the cost. In particular, the Committee does not endorse a process - used or proposed elsewhere - that certain common good or executive management activities be supported by attributing a portion of instructional fee income to those units.

The Committee recognizes that income shifts resulting from shifts in enrollments should be reflected in school budgets in a timely manner. There are, of course, costs incurred in teaching new students, and the Responsibility Centers providing the instruction should be provided with resources to do so. However, there are costs associated with rapid shifts in budgets of academic units, and the Committee concludes that income shifts should be moderated.
The Committee recommends that undergraduate instructional fee income be distributed according to the fraction of undergraduate credit hours taught in the preceding two years. That is, for example, the fraction of undergraduate fee income attributed to COAS in fall 1999 would be the ratio

$$\frac{\text{(undergraduate credit hours taught by COAS in fall 1997 and fall 1998)}}{\text{(total undergraduate credit hours taught in fall 1997 and fall 1998)}}$$

The Committee recommends that assessments depending on undergraduate credit hours be handled in a similar way. That is, units experiencing enrollment shifts will have their assessments adjusted at the same time the income is recognized.

**Incentives to units for recruiting non-resident undergraduates**

The Committee believes that when the activities are properly coordinated, academic units can play a valuable role in recruiting students, especially non-resident students who frequently select a university largely on the basis of quality of a specific academic program. The Committee also believes that appropriate incentives should be provided to schools to become actively involved in such recruiting provided additional students can be accommodated in Bloomington once all qualified resident applicants have been admitted.

To this end, the Committee recommends the differential distribution of some portion of the incremental fee income derived from an increase in the resident/non-resident mix above a base value. That is, fee income generated by an increase in the number of non-resident undergraduates should be distributed to those units teaching the courses taken by those students. Undergraduate fee income associated with the base resident/non-resident mix would be distributed in the usual way. Details of a specific implementation plan should be developed by the Office of Budgetary Administration and Planning in consultation with the Deans Advisory Committee and the Budgetary Affairs Committee.

**Income Attribution: Non-Instructional Responsibility Centers**

The Committee recommends that the expenditure budgets of non-instructional units continue to be determined on the basis of the services to be provided (using the current practice). Income generated by the unit should be attributed to it as a portion of the resource base, remaining resources coming from assessments. Unbudgeted income (that is, income above that assumed when the budget was constructed) should be attributed to the unit as required to provide the services producing the unbudgeted income. Other unbudgeted income will normally be used to support general campus needs, including those of the unit which generated the income.

Fees and fee rates for services provided by the non-instructional units will be reviewed carefully by the Chancellor’s Office using established policies. In general, non-instructional units will be expected to continue to provide baseline services without additional incidental fees.
Non-Instructional Responsibility Centers - Year-end Balances

The Committee recommends that the incentives of RCM be extended to the non-instructional units by instituting a policy under which such units retain access to sixty percent of their year end balances for approved expenditures in future years.

Non-Instructional Responsibility Centers - Baseline Services and Accountability

As the deans gain information about their costs for support services, there are increased concerns for accountability. The Committee recommends that the baseline services initiative be expanded, where appropriate, to include measures of performance. Progress on this recommendation should be evaluated in a series of reviews of non-instructional units to be completed prior to the next comprehensive review of RCM.

Assessments

The Committee believes that the assessment process is an appropriate means of allocating the costs of operating the non-instructional units. The assessment process does not determine the budgets of non-instructional units. Instead, it distributes the costs after the budgets have been determined. Providing information on the costs of operating the non-instructional units to the deans is one of the fundamental goals of RCM. However, the goal of providing information, and through that information an increased understanding of costs, does not, and should not, mean that decisions are, or should be, based solely on cost considerations.

The Committee recommends that the goals and concepts of the assessment process be communicated more effectively. The widespread misunderstanding and misinformation associated with the assessment component of RCM should be remedied by providing more useful information to the deans and the unit advisory committees.

Parameter Values Used in Assessments and Timing of Assessment Changes:

The Committee recommends that in general the most recent parameter values be used to determine assessments, and that if the results are inappropriate, adjustments be discussed with the Deans Advisory Committee and the Budgetary Affairs Committee.

In those cases where shifts in income attribution are smoothed, the Committee recommends that there be comparable smoothing of assessment adjustments. The increased costs of "doing business" should be incurred only when increased revenues are available.

Assessment Algorithm for RUGS

The methods used to allocate costs have been reviewed and found to be generally satisfactory. However, it is recommended that those costs in RUGS now allocated on the basis of contract and grant volume be allocated on the basis of faculty FTE. The recommended change will eliminate the current disincentive for deans to encourage faculty to secure external funding, namely, that if external funding is obtained, then (all else being equal) the RUGS assessment to the school will increase. This shift should be revenue neutral for the College and all schools.
Fee-for-Services as an Alternative to Assessments

Although the general philosophy of using assessments to support non-instructional units should be maintained, there may be areas in which fee-for-service arrangements are appropriate. (Here the term fee-for-service refers to fees paid by a unit which receives a service to a unit providing the service.) It is recommended that the campus pursue a limited pilot effort to identify appropriate activities and implement fee for service support mechanisms. These efforts should be made with the advice of the Deans Advisory Committee and the Budgetary Affairs Committee.

Chancellor’s Discretionary Fund

Under the pre-RCM budgeting system the Chancellor, based on the advice of the Budgetary Affairs Committee, deans, and her/his staff, allocated a portion of the incremental resources each year to achieve campus goals that involved several units or the entire campus. Under the present version of RCM the Chancellor has very limited discretionary resources, and the Committee views this as a shortcoming. To improve the situation, it is recommended that each year the Chancellor have resources that can be allocated to leverage campus priorities to achieve campus-wide goals. This is to be accomplished by creating a Chancellor’s Discretionary Fund.

This fund should be replenished each year by allocating 1 - 1.5% of state appropriation to it. In years when state appropriation is increased, the funds should come from incremental state appropriation. In years when state appropriation is not increased, the funds would come from reallocating existing state appropriation.

One motivation for this recommendation is the concern that RCM has more automatic responses to quantitative measures than to qualitative measures. Addressing issues of quality requires judgements and intervention. Thus, the Chancellor would allocate discretionary funds, in part, to preserve and enhance quality. Units receiving resources from this fund would have special accountability responsibilities since it is essential that the resources be used to enhance quality and not circumvent the usual incentive structure of RCM.

Another motivation is to enable the campus to be an active participant in investments that lead to revenue enhancement. Although the primary source of investment funds should be the responsibility center which expects to receive the new revenues, there may be occasions when it is appropriate for the campus to participate in such investments.

A third motivation is to provide resources to stimulate inter-unit cooperative ventures and initiatives of campus-wide importance.

In making these allocations, the Chancellor would seek the advice of her/his usual advisory groups. Requests for resources will usually arise in the ordinary budget conference process. However, there may be occasions when it is appropriate to respond in a time frame different from that imposed by the budget conferences. In all cases the usual consultative process should be used.
Collegiality and Cooperation:

The Committee recommends that the Chancellor adopt a pro-active approach to fostering collegiality and cooperation. The Chancellor's Office has a responsibility to foster an ethos of shared goals and collegiality through direct action and indirectly by influencing the actions of others. The Chancellor's Discretionary Fund will provide one new vehicle to stimulate cooperation, and there are many other occasions and mechanisms for suggestion and persuasion.

Dispute Resolution

The introduction of RCM has led to new tensions among academic units over academic program and curricular issues. The recently reinvigorated Campus Curriculum Committee has been effective in resolving some contentious issues, and it is now proactive in attempting to resolve contentions before they reach the dispute stage. Discussions in that Committee have emphasized the benefit to the campus of school specialization and non-duplication. At the same time it is recognized that academic areas are dynamic and the boundaries between disciplines are moving targets. The Review Committee believes that the effective functioning of this Committee is crucial to campus collegiality and maintaining the unique Bloomington culture that is so valuable.

The Committee also believes that many of the tensions which naturally occur in an RCM environment can be relieved if there were more clearly defined principles to guide academic decision-making. That is, deans and unit advisory/executive committees should have a good understanding of what behavior is appropriate and what is not. To this end, the Committee recommends that a set of governing principles be developed and used by deans when making decisions which affect other units as well as their own. It is recommended that these policies be developed in the Dean of the Faculties Office and the Office of Budgetary Administration and Planning with the advice of the Campus Curriculum Committee and the Budgetary Affairs Committee.

Continued Evaluation

It is recommended that the Office of Budgetary Administration and Planning continue to monitor the RCM process and consult with the Deans Advisory Committee and the Budgetary Affairs Committee regarding additional modifications. There should be another comprehensive review not later than the academic year 2000-2001.

Attachments

The Attachments are available upon request from the Budgetary Administration and Planning Office, Bryan Hall 100.