Chair Talk #9  Some Aspects of RCM

RCM, or Responsibility Centered Management is an approach to budgeting that ties revenues to activities in a transparent way – this principle of expenses and allocations being tied to activity is the core of RCM. As most of you surely know, the UA is adopting RCM, and this Chair Talk will discuss a few key aspects of this shift.

To start, RCM is not magic, it will not create money – but it will clarify things. RCM is a tool that can be used effectively or not. Wise leadership at every level remains essential – poor leadership will undermine both the RCM process and the UA. RCM is also a process that should not be viewed through the lens of a single year, but rather as a multiple year strategic process.

Roughly speaking, the RCM budget process works like this (see figure below): the "UA Budget" derives from several sources: state general funds; tuition, differential tuition and program fees; and facilities and administration recovery for sponsored projects. In the first instance, the UA Budget supports allocations, subventions and strategic investments to the Colleges. College budgets in turn are comprised of: RCM allocations and subventions; strategic investments; sponsored activity; course fees, online, summer session; philanthropy; sales and services (in some cases). College budgets support the activities of the departments, but also must cover assessments for facilities, support units, and a central strategic fund. This reflects the fact that while activities generate revenues they also have costs associated with them. Finally, support unit budgets are comprised of subventions, various fees, income from auxiliaries such as the Union and Bookstore, and philanthropy.

Revenue-generating activity and a substantial part of the associated costs are located at the department level, where faculty and others teach and engage in research. The transparency of RCM will reveal that in most Colleges some departments generate more revenue than they might be allocated, while others might be allocated more than they generate. These differences have always been there. Critically, both revenue-positive and revenue-negative units make essential contributions to the mission of their College and the UA. We are a university, not a profit-making enterprise.¹

RCM reveals the critical interrelatedness of everything we do at the UA. Consider the research domain: recovery of F&A dollars through grants typically doesn’t cover all the costs associated with carrying out the research, and hence research and discovery, like instruction, must be subvented from the UA budget. We don’t stop doing research because it cannot fully pay for itself, nor do we stop doing research that generates low F&A rates, or is unfunded. Such research is an essential part of

¹ Much the same dynamic plays out across Colleges, which differ in their revenue generation/cost ratios, though all are essential to the mission of the UA.
our mission. It is subvented by the rest of the institution, because this is what we do as a university – we work together.

RCM exposes this key principle: we thrive at the UA when we act as a community, not merely as a collection of individuals. Our ability to do this will now be tested, as RCM moves into implementation at the College level. Each College should now be asking, in an open and transparent way, how the various members of its community contribute to the strategic goals and priorities of the College, by virtue of their teaching, research and other activities.

And remember, this is a test, not of the budgeting tool (RCM), but of leadership.