RCM-Service Units

Responsibility Centered Management Review
Service Units
October 5, 2011
What is RCM?

- RCM is Responsibility Centered Management
- Management and financial approach providing incentives to increase efficiency and promote revenue growth.
- Focused allocation methodology enabling academic units to become more entrepreneurial and benefit from it.
- All Responsibility Centers will be held accountable for financial decisions.
Why RCM at WSU?

• Provides a budget model that will stimulate entrepreneurial activities.
• Increases the university’s ability to invest strategically.
• Increased transparency in university financial transactions and obligations.
Basic Components of RCM

- **Academic Responsibility Centers (ARCs)**
  - Colleges and Schools and Lake Campus

- **Responsibility Centers (RC)**
  - Centers and Institutes
  - Auxiliaries (excluding Student Union)

- **Service Units**
  - Administrative Units
  - Library
  - Facility Operations
WSU ARCs

• Raj Soin College of Business
• College of Education and Human Service
• College of Engineering & Computer Science
• College of Liberal Arts
• College of Nursing and Health
• College of Science and Math
• Boonshoft School of Medicine
• School of Professional Psychology
• Lake Campus
WSU RCs

- Institute for Defense Studies (IDSE)
- WSU Centers of Excellence
- Wright State Research Institute (WSRI)
WSU RCs

- Food Service
- Intercollegiate Athletics
- Lake Campus Bookstore
- Main Campus Bookstore
- Nutter Center
- Residence Service
- Parking & Transportation
- Vending

*Student Union is an auxiliary but for purposes RCM modeling it will be treated as a Service Unit
Revenue Allocations

- All revenue will be allocated to the ARCs and RCs
- Tuition and Fees
  - Based on student credit hours
- Non Resident Tuition
  - Based on student credit hours
- Federal Appropriations
- State Appropriations
  - Based on research and student credit hours
Revenue Allocations

- Scholarships
- Federal Grants & Contracts
- Nongovernmental Grants & Contracts
- State Grants & Contracts
- Facilities and Administrative (F&A)
- Gifts
- Sales & Service
- Interest Income
Revenue Allocations

- Special Fees
- Miscellaneous Revenue
- Non-Credit Fees
- Other
Service Units – Indirect Costs

- Service Units are those organizations that support the academic and overall mission of the university.
- Service Units are not typically responsible for generating revenue, however there is a possibility that revenue will be generated by some.
- The budgeted expenses associated with the Service Units will be allocated to the Responsibility Centers.
Service Units – Indirect Costs

- Service Units that generate revenue or cost recovery will be allocated at the net expense level.
- Service Units will be allowed to carry forward unspent budget dollars.
- Policies guiding the level of carry forward will be determined.
- Benchmark data must be gathered and presented to verify expense levels.
Service Units – Allocation Methodologies

- Service Unit expense budget will be allocated based on 7 methods/drivers
  - Expenses
  - Student Credit Hours – SCHs generated
  - Square Footage – Net Assignable per Reporting System
  - Total Research Dollars
  - Headcount Total – Number of Employees and Students
  - Employees – Number of Employees
  - Faculty – Number of Faculty
Allocation Method Rationale

- Expenses - Identifies the best economic driver to represent consumption of services which are provided for the entire institution by the individual Service Units.

- Student Credit Hours – Service Units that are related to the students, and reflect the continuously growing alumni community and the services rendered to current students.

- Square Footage – Reflects the economic reality of space occupancy by an individual unit.
Allocation Method Rationale

• Total Research Dollars – Reflects the services rendered to support research operations.
• Headcount – Services that are driven for the purpose of Faculty, Staff and Students.
• Employee – Services that are rendered for the primary purpose of Faculty and Staff.
• Faculty – Services that are rendered for the primary purpose of the Faculty community.
Allocated based on Expense Method

Level 3 Organizations

- Budget Planning & Resource Analysis
- Business Services
- Communications & Marketing
- Institutional Research
- Internal Audit
- Other Institutional
- President
- University Controller
- VP Business & Fiscal Affairs
- VP University Advancement
Allocated based on Student Credit Hour Method

Level 3 Organizations

- Counseling
- VP Enrollment Management
- Financial Aid
- Graduate Studies
- Registrar
- Student Health Clinic
- University College
- Associate Provost for Undergraduate Studies & University College
- VP Student Affairs
- Centrally Budgeted Strategic Investments
Allocated based on Square Footage Method

Level 3 Organizations
- Facilities Management
- Facilities Planning & Management
- Purchased Utilities

Square Footage Allocated
- Square Footage is based on OBR square footage survey.
- Annual inquiry of Responsibility Center square footage will be reviewed for accuracy.
- Campus and leased space is included
- Square footage released will have to be brokered prior to the allocation revision.
Allocated based on the Total Research Dollars

Level 3 Organization

- VP Research and Graduate Studies
Allocated based on Total Headcount

Level 3 Organization

- Computing & Telecommunications
- Disability Services
- University Libraries
- University Police Department
- Centrally Budgeted Computing and Telecommunications
Allocated based on Employees

Level 3 Organization

- Affirmative Action
- Human Resources
- General Counsel
- Centrally Budget Compensation
Allocated based on Faculty

Level 3 Organization

- Provost
Pass Throughs

- Certain items are re-categorized as pass a through as money comes in and goes out without having an impact on the ARC’s, RC’s or Service Units. Those items are separated and shown as Pass a through rather than excluding them totally from the model.
  - Examples of such items are
    1. Ohio Link
    2. Pell grants
Model Highlights

• Budgeted Revenue
  – Tuition and fees are projected – Data will be provided to ARCs.
    • Enrollment trends
    • High School graduation rates
    • New programs enrollments
    • Admissions data
  – F & A – Data will be provided to ARCs
    • Projected Restricted Budget
    • Annualized ARC actuals of current fiscal year
Model Highlights

• FTE
  – Staff and Faculty FTE is based on budgeted FTE
    • Annual review of budgeted personnel FTE
  – Student FTE is based on the Academic Data Series
  – Percent of Investment Income is proportional share of previous year Carryover balances

• Expenses
  – Budgeted Direct expenditures
  – Allocated Service Unit budgets
Model Highlights

- Updates of Revenue Actuals
  - ARC and RCs will be provided reports/tools to manage projected year end outcomes.

  - Allocated Service Unit budgets will not be adjusted for actuals.

  - Service Units will be required to justify budgetary overages exceeding X% of the adopted budget.
Model Highlights

• Opportunity to better align resources with productivity
• Focused results driving growth in enrollment and research funding
• Annual adjustments made to base and one time funding reflecting actual revenues and expenditures
• Alignment of resources with university Strategic Plan and Goals
# Projected Timeline

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<thead>
<tr>
<th>Key Activities</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
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<th>March</th>
<th>April</th>
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<tbody>
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<td>Data Collection, Organization &amp; Interpretation</td>
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<td>Budget Planning distributes FY12 RCB Model</td>
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<td>Budget Planning develops “Budget to Actual” reporting</td>
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<td>Select Service Unit orient the Recharge Committee</td>
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<td>Service Units prepare benchmarking data</td>
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<td>Service Units develop and remit budget plans</td>
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<td>Service units send assumptions and call letters</td>
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<tr>
<td>ARC’s and RC’s develop and remit budget plan for upcoming fiscal year</td>
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<td>Budget Plans reviewed and approved</td>
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<td>Annual University Budget Review and Presentation</td>
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FAQ’s

What is included in the Total Headcount driver?

Total Headcount is based on FTEs and is the sum of the Employee and Enrollment drivers:

- **Employees:** This driver is the sum of the total FTEs in the Personnel Funding Book.
  - **Faculty:** This driver is comprised of tenure-line faculty, non tenured faculty, adjunct faculty, and the calculated graduate teaching assistant FTEs.
  - **Staff:** This driver is comprised of classified and unclassified staff member FTEs in Personnel Funding Book.
- **Enrollment:** This driver is comprised of student FTEs, where one student FTE is defined as 45 credit hours.

How was the model’s Deferred Maintenance amount determined and allocated?

The model’s deferred maintenance is determined by the amount of incremental accumulated building depreciation. It differs from the stated depreciation amount in the Annual Report which includes additional depreciation incurred from land improvements & infrastructure, machinery & equipment, or library books & publications. The model’s depreciation is allocated to the Responsibility Centers based on their proportional square footage.

Can WSU change the number of Service Units?

WSU can change the number of Service Units whenever it sees fit. WSU will perform periodic reviews every 3-5 years to evaluate its Service Units.

How will the transition from quarters to semesters impact the model?

The transition from quarters to semesters will not impact the model’s functionality. However, it could have an effect on model outcomes. Historically, the transition to semesters has caused a decrease in enrollment which would impact the Student Credit Hours driver and the corresponding allocation of revenues and expenses.
FAQ’s

- **What is the distinction between direct expenses and indirect expenses?**
  Direct expenses are allocated directly to the ARCs and RCs based on each unit’s costs incurred. Indirect expenses, or overhead costs, are allocated based on the designated allocation methodology.

- **Will there be any additional oversight to help manage the RCM model?**
  Administrative units will continue to provide data and analysis to ARCs. Additionally, WSU will establish appropriated committees to help manage and maintain the integrity of the RCM model.

- **How does the model account for students in the University College?**
  University College students are assigned to their declared major. For example, a University College student who is declared as an intending business major will be viewed as a Raj Soin Business School major in the model.

- **How will the new model differ from the 75/25 program?**
  The 75/25 program allowed select units to be allocated a portion of their revenues and expenses. The proposed model will allocate all revenues and expenses to each ARC.

- **How will this affect Faculty hiring and salaries?**
  Currently, ARCs cannot move expense items from salary to non-salary lines without the approval of the Provost. In the proposed model, ARCs can more freely move expense items. Additionally, vacancy credits will no longer exist in the new model. ARCs will make a case for new faculty hires or salary increases by presenting their budget to demonstrate how they will fund this added expense. They can reduce their expenses or create new revenue streams to cover this additional expense.

- **How will the parallel process work?**
  In FY12, WSU will continue to operate under the current funds flow model alongside which deans will also practice managing their incentive-based budget. This parallel process will allow deans to gain experience managing an incentive-based budget without assuming any risk. The deans and WSU will be better prepared for the launch of the new model in FY13.
FAQ’s

- **What service level will be provided by the Service Units?**
  The Service units will be expected to provide service levels competitive with the market. Certain Service units may provide service level agreements which outline the specific services to be provided. For example, Plant Operations & Maintenance may agree to provide routine maintenance X times per year. ARCs will be guaranteed this level of service but will need to pay extra if they request additional maintenance beyond the required service level.

- **How can WSU evaluate if Service Units services and fees are competitively priced?**
  Service units can perform various types of benchmarking to inform decisions about Service Units services and fees. The University can perform peer benchmarking, industry benchmarking, historical benchmarking, and/or internal benchmarking. Additionally, Service Unit will need to justify their financial plans to the Recharge Committee and provide reasoning for their costs. This process will incentivize Service Unit to maximize efficiencies and minimize costs.

- **What was the criterion to exclude certain units from ARC cost drivers?**
  Certain units were excluded from ARC cost drivers if they had been broken out as a Service Units. For example, the Student Health Clinic was made into a Service Units so it was excluded from the College of Nursing & Health’s drivers. Likewise, the Student Union and Counseling & Wellness Services’ drivers were removed from Auxiliary Enterprises and S OPP’s total drivers, respectively. These exclusions prevent these ARCs from unjustly bearing the cost of a shared service.

- **What was the criterion to exclude ARCs from specific indirect cost allocations?**
  An ARC was excluded from the allocation of an indirect cost if it did not have access that Service Units services. For example, Lake Campus, BSOM and S OPP were excluded from the Counseling and Wellness Services, Service Units as they do not have access to this service.
FY2010 Education & General Expenditure per Student FTE – Unrestricted

Source: Ohio Board of Regents - HEI Expenditure Query
Prepare for Benchmarking Efforts

### Peer Benchmarking

**Development Officer Staffing and Effectiveness**
- Illustrates # of personnel relative to comparable institutions

<table>
<thead>
<tr>
<th>Dollars per Officer (‘000)</th>
<th># of Officers</th>
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</thead>
<tbody>
<tr>
<td>Peer A</td>
<td>Peer B</td>
</tr>
<tr>
<td>$0</td>
<td>$0</td>
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</table>

### Industry Benchmarking

**Gross Square Footage Covered Per Custodian**
- The custodial staff covers fewer square feet than industry standards, pointing to opportunities in productivity

<table>
<thead>
<tr>
<th>(000s)</th>
<th>School</th>
<th>University</th>
<th>Public</th>
<th>All</th>
<th>D/I/R Extensive</th>
<th>SRAPPA</th>
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<tr>
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<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
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### Historical Benchmarking

**Number of Annual Proposals and Awards**
- Illustrates growth in cost drivers for research administration

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<thead>
<tr>
<th>Year</th>
<th>Proposals</th>
<th>Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>50</td>
<td>10</td>
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<tr>
<td>2003</td>
<td>100</td>
<td>20</td>
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<td>2004</td>
<td>150</td>
<td>30</td>
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<tr>
<td>2005</td>
<td>200</td>
<td>40</td>
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<tr>
<td>2006</td>
<td>250</td>
<td>50</td>
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### Internal Benchmarking

**Sales Less Prime Costs per Transaction**
- Only three dining facilities earn healthy amounts over prime cost (food and labor)

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<thead>
<tr>
<th>Hall</th>
<th>Median: $1.96</th>
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<tbody>
<tr>
<td>A</td>
<td>$2.00</td>
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<td>B</td>
<td>$2.50</td>
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<td>C</td>
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