Budget Development Models
Over Time – U of MN

1992 ------1997

Pre IMG
“Infante” Phase

1998 ------1999

IMG
“Install” Phase
-Revenue Attribution
(see next slide)

“Why” Move to RCM?
• Grow out of Budget Problems – State and National Changes
• Improve Transparency Surrounding Decisions
• Improve Accountability and Management of Resources
• Clarify Maze of Cross-Subsidies
• More Clearly Link Performance to Rewards

2000 ------ 2006

IMG
“Shared Responsibility” Or “Common Good” Phase

“Tweaks” to IMG
• Created & abandoned a facilities charge - $5/ASF
• Created IRS tax to fund institutional common goods & academic priorities (FY06-8.5% of nonsponsored revenues - $100 million)
• Created the University Fee to fund student services & investments

2007 ------ ????

“Earned Income & Full Cost Model” Phase
U of MN Budget Development

“Budget Framework”

Part 1: Available Resources
- Tuition
- State Appropriation
- Planned Reallocation
- Other

Part 2: Costs & Investments
- Compensation
- Academic Investments
- Facility Costs
- Other

Part 3: Balancing the Budget

Biennial & Annual Operating Budget
“Framework” & “Long-Range Financial Plan”

Budget Model
[Revenue & Cost Attribution]

Annual Resource Allocation

“Central” Decision Process
Full Revenue and Cost Allocations
THE “BUDGET MODEL”

Earned Revenues
- Tuition
- ICR
- Fees
- Gifts
- Sales
- Etc.

Allocated State Appropriation

“Academic” Units (RRC level)

Allocated Costs
- Utilities
- Facilities Ops
- Debt
- Leases
- Libraries
- Research
- Technology
- Student Serv.
- Classrooms
- Support Serv.

In combination with the “Budget Framework” and the “Decision Making Process” = full Budget Development
Three Bases for Cost Allocation:

1) **Consumption Based Allocation** – cost allocated based on actual measurement of use
   - creates *direct incentive* toward desirable behavior
   - example – utilities and debt service

2) **Cost Driver Based Allocation** – cost allocated based on relative share of identified cost driver variable
   - variable acts as a “proxy” for use – no measurement of actual use
   - no direct incentive toward any behavior – provides better mgmt. information
   - example – Library on basis of student & faculty headcount

3) **Common Good Based Allocation** – cost allocated based on a variable accepted as reasonable measure of participation in the University community
   - no direct or primary connection to incentives – just a reasonable way to fairly allocate a shared cost
   - example – general support services (traditional “administration”)


U of MN Characteristics that May Make RCM Easier

- Relatively Large Unrestricted State Appropriation
- Autonomy from the State
- Ability to Carry Forward Balances at Year End
- Leadership that Strongly Supports Distributed Management and Accountability
- Strong Financial Personnel in Each Academic Unit
- Data Systems to Support Analysis and Methodology
WHAT HAVE WE LEARNED?

1. Development & Implementation Process is Important

2. The Model will be “Tweaked” After Implementation

3. The Revenue and Cost Incentives Work (need to manage them – e.g., academic program/course placement; incentives for interdisciplinary activity; cost control and service levels in support functions)


5. Communicate – Communicate – Communicate – Help People Understand the Budget Process and the Place the Model Holds Within It


7. Support Functions & Leadership – Incented to Be As Efficient As Possible

8. Strong Financial Analysts in the Units & Good Data Systems Are Important