

# University of MN Responsibility Centered Management

APL Commission on Information,  
Measurement, & Analysis

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# Budget Development Models Over Time – U of MN

**Pre IMG**  
**“Infante” Phase**

1992 -----1997

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

1998 -----1999

## “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

**IMG**  
**“Shared Responsibility”**  
Or **“Common Good”**  
Phase

2000 ----- 2006

## “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

**“Earned Income & Full Cost Model” Phase**

2007 ----- ????

# 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”**

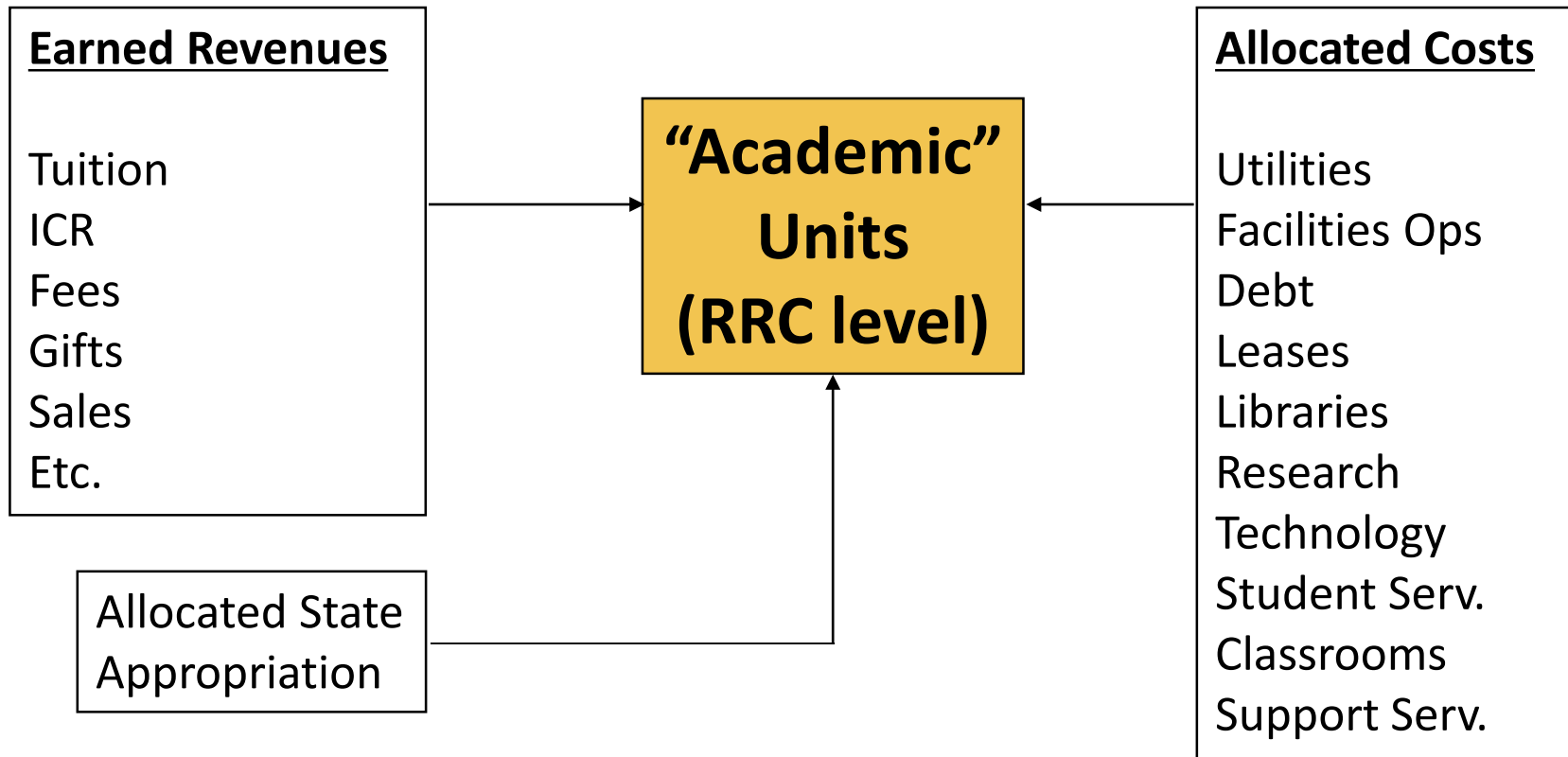
*Annual  
Resource  
Allocation*

**Budget Model  
[Revenue & Cost  
Attribution]**

**“Central” Decision  
Process**

# Full Revenue and Cost Allocations

## THE “BUDGET MODEL”



★ 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)
4. Deans/Academic Leaders Make Decisions on More than “Financial” Impacts  
- Accountable for the Overall Strength of Their Units – Academic & Financial
5. Communicate – Communicate – Communicate – Help People Understand the Budget Process and the Place the Model Holds Within It
6. Budget Conversations Change – Everyone Gains an Understanding of the Revenue and Cost Levers They Can Impact – Healthy Questions Raised
7. Support Functions & Leadership – Incented to Be As Efficient As Possible
8. Strong Financial Analysts in the Units & Good Data Systems Are Important