

The Periodic Table of Budget Model Elements

Aligning Resources with Institutional Goals


What Is a Budget Model?


As institutions recognize the limits of the typical incremental approach to budgeting, they are looking at new budget models designed to incentivize revenue growth, control costs, set performance targets, and invest in strategic priorities. Beneath the sometimes confusing nomenclature of responsibility-centered management (RCM), activity-based budgeting (ABB), zero-based budgeting (ZBB), and others is a set of "budget model elements" specifying how revenues and costs are allocated. Each element creates incentives for certain activities and disincentives for other activities to better align unit-level decisions and resources with broader institutional objectives.


Is RCM the Answer?


Key Findings from EAB Research on RCM Budget Models

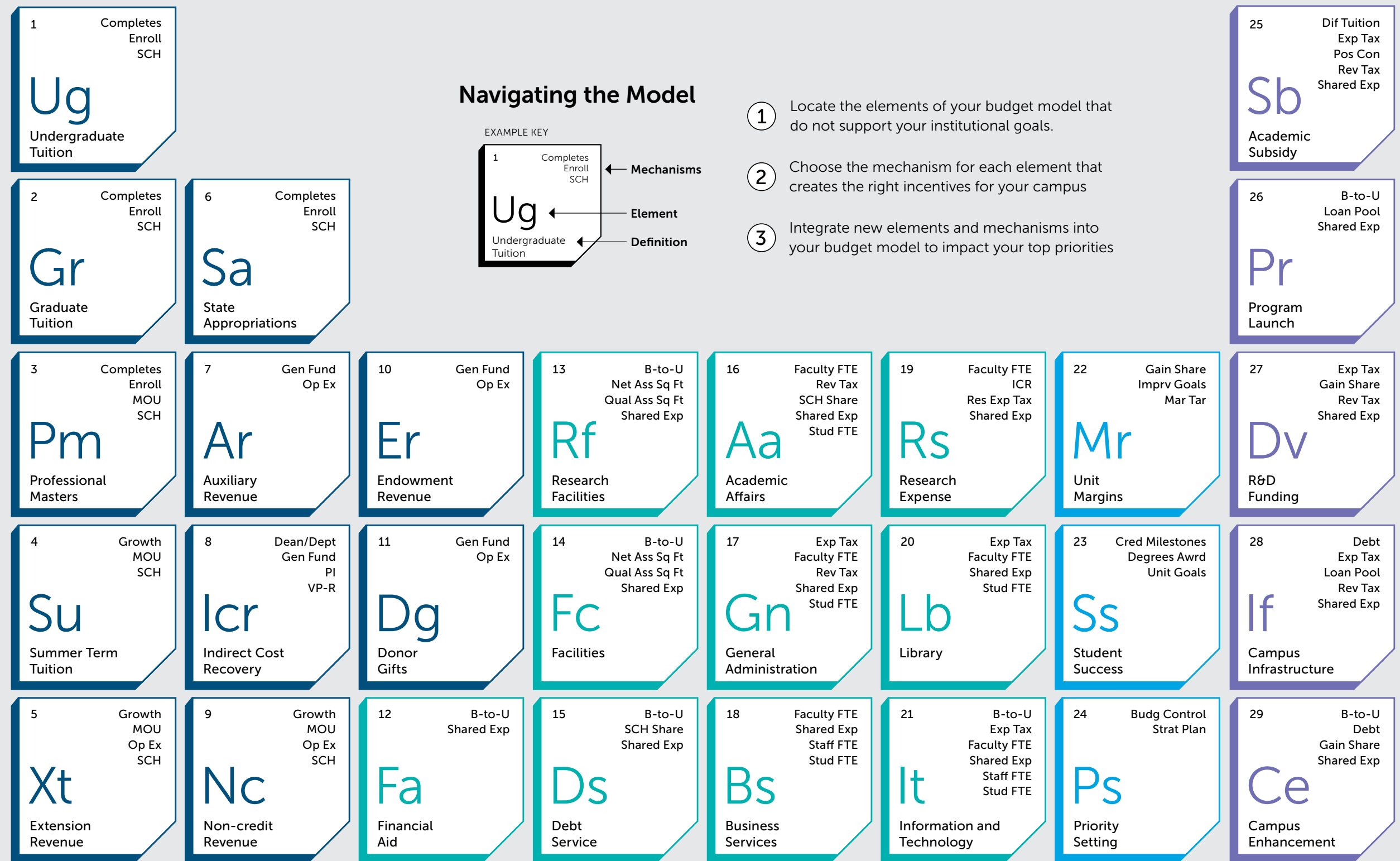
Many large universities have switched to or are considering an RCM budget model that allocates most resources to deans. RCM, however, does not automatically solve an institution's budget problems.

 RCM covers dozens of different models, each with different mechanisms for resource allocation. Focusing on specific activities to be encouraged or discouraged is more useful than debating the overall merits of RCM.

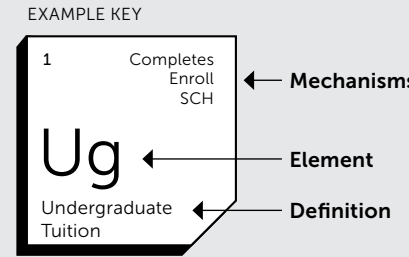
 RCM does create incentives for deans to grow revenue, but RCM institutions do not necessarily grow revenue faster than non-RCM institutions.

 RCM does create incentives for deans to manage costs, but also requires additional (and more expensive) administrative support staff to manage.

 RCM focuses resources at the unit-level and often makes it harder to accumulate funds for strategic or centralized investments.



Navigating the Model



- 1 Locate the elements of your budget model that do not support your institutional goals.
- 2 Choose the mechanism for each element that creates the right incentives for your campus
- 3 Integrate new elements and mechanisms into your budget model to impact your top priorities

Revenue Allocation

Methods to Allocate University Revenues to Units

<input type="checkbox"/> Completes	Number of student completions in a college or department
<input type="checkbox"/> Dean/Dept	Money distributed to the dean or department chair
<input type="checkbox"/> Enroll	Program enrollment in a college or department
<input type="checkbox"/> Gen Fund	Money pooled into general fund
<input type="checkbox"/> Growth	Growth in student credit hours in a college or department
<input type="checkbox"/> MOU	Memorandum of understanding with a college or department
<input type="checkbox"/> Op Ex	Money used for unit's operating expenditures
<input type="checkbox"/> PI	Money distributed to the principal investigator
<input type="checkbox"/> SCH	Student credit hours generated by a college or department
<input type="checkbox"/> VP-R	Money distributed to the vice president for research

Cost Allocation

Methods to Assign University Expenses

<input type="checkbox"/> B-to-U	Bill to unit for costs
<input type="checkbox"/> Exp Tax	Unit charged expense tax
<input type="checkbox"/> Faculty FTE	Charge for full-time equivalent faculty
<input type="checkbox"/> ICR	Tax on indirect cost recovery revenue
<input type="checkbox"/> Net Ass Sq Ft	Charge for net assignable square feet
<input type="checkbox"/> Qual Ass Sq Ft	Charge for quality of net assignable square feet
<input type="checkbox"/> Res Exp Tax	Unit charged research expense tax
<input type="checkbox"/> Rev Tax	Unit charged revenue tax
<input type="checkbox"/> SCH Share	Charge for share of student credit hours generated
<input type="checkbox"/> Shared Exp	Shared expense from general fund
<input type="checkbox"/> Staff FTE	Charge for full-time equivalent staff
<input type="checkbox"/> Stud FTE	Charge for full-time equivalent students

Performance Targets

Mechanisms to Incent Unit Behavior

<input type="checkbox"/> Budg Control	Budget control over line items
<input type="checkbox"/> Cred Milestones	Awards for meeting student credit accumulation milestones
<input type="checkbox"/> Degrees Awrd	Number of degrees awarded
<input type="checkbox"/> Gain Share	Portion of saving gains shared with units
<input type="checkbox"/> Imprv Goals	Units given performance improvement goals
<input type="checkbox"/> Mar Tar	Units given contribution margin targets
<input type="checkbox"/> Strat Plan	Goals set through strategic planning
<input type="checkbox"/> Unit Goals	Awards for unit specific goals

Strategic Funding

Sources of Funding for Strategic Objectives

<input type="checkbox"/> B-to-U	Bill to unit for costs
<input type="checkbox"/> Debt	Paid for by issuing debt
<input type="checkbox"/> Dif Tuition	Paid from differential tuition fees
<input type="checkbox"/> Exp Tax	Unit charged expense tax
<input type="checkbox"/> Gain Share	Portion of saving gains shared with units
<input type="checkbox"/> Loan Pool	Paid from revolving loan pool
<input type="checkbox"/> Pos Con	Use position control to reallocate vacant position
<input type="checkbox"/> Rev Tax	Unit charged revenue tax
<input type="checkbox"/> Shared Exp	Shared expense from general fund