

# 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

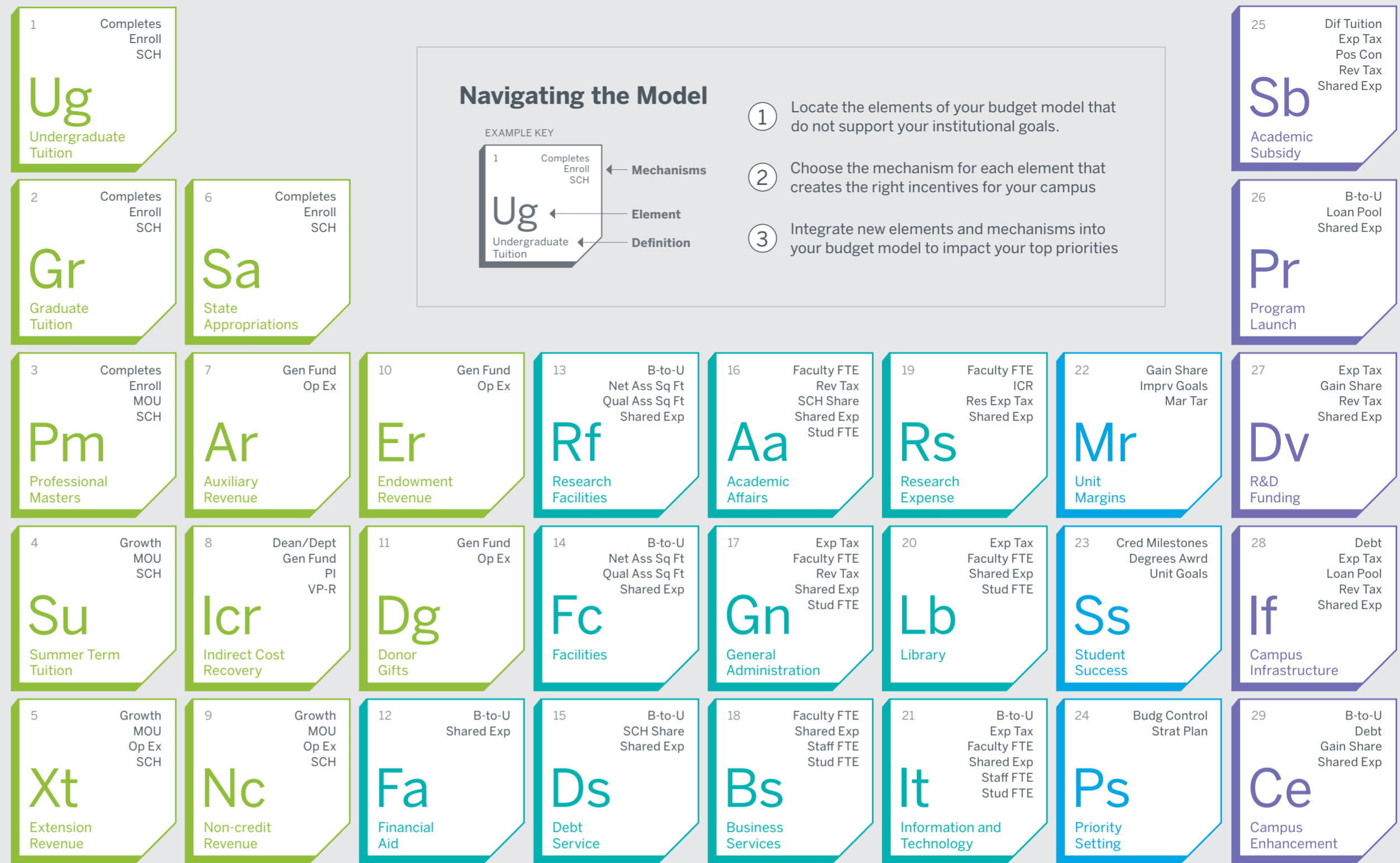
Many large universities have switched to or are considering an RCM budget model that allocates most resources to deans. RCM, however, does not automatically solve an institution’s budget problems.

 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.

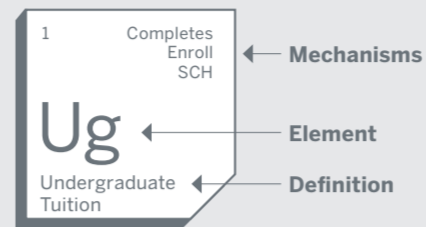
 RCM does create incentives for deans to manage costs, but also requires additional (and more expensive) administrative support staff to manage.

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



### Navigating the Model

EXAMPLE KEY



- 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

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

### COST ALLOCATION

Methods to Assign University Expenses

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

### PERFORMANCE TARGETS

Mechanisms to Inflect Unit Behavior

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

### STRATEGIC FUNDING

Sources of Funding for Strategic Objectives

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

