RCM Update

Fall, 2012
Guiding Principles

The following set of principles will guide the implementation and application of Responsibility Center Management (RCM) at Ohio University. These principles, which also will inform the five-year review of the model and affirm that RCM’s application in planning and decision-making should:

• Ensure the sustained strength of Ohio University by aligning resources with university priorities to support academic excellence.
• Support strong academic governance that promotes collaboration across units and builds on the strengths of the university.
• Present a holistic view of the university budget that provides a clear connection between performance and incentives.
• Empower unit-level decision making authority to promote academic excellence and institutional efficiency that is balanced by responsibility and accountability.
• Create a simple and transparent budget process driven by the goals of financial predictability, and stability.
Academic Quality Indicators

Indicators that can be used to ensure that academic units do not focus solely on financial aspects of the model but also maintain academic quality consistent with the mission of the unit. Changes in these indicators would be monitored and discussed to ensure that they are consistent with the academic strategy of the unit.

- Maintenance of Appropriate Mix of Full-Time Faculty
- Maintenance of Tenure-Track Faculty Workload
- Maintenance of Research and Creative Activity Production
- Minimal Course Duplication and Credit Hoarding
- Controlling Section Size
- Controlling Time to Graduation
- Controlling Grade Inflation
- Maintaining Incoming Student Profile
- Maintaining Program Accreditation
- Maintaining Support for Honors Programs
- Maintaining Support for Interdisciplinary Programs
The Big Picture

What We Have Now

- Academic Activity
  - College A
  - College B

Subsidy Tuition Fees

96.8% of Athens Revenue

Athens Budget

- College A Budget
- College B Budget
- Support Unit Budgets

What The Budget Model Seeks to Reveal

- Revenue Attribution

- Indirect Cost Allocations

Support Unit Budgets
RCM Model Construction Goals

• The model is an approximation of the underlying economics of our academic activity – as such there is a balance between accuracy, simplicity and adding factors to the model that modify revenue and expense flows.

• The primary goal is to provide incentives for growth and fairly align resources with academic activity using a model that is as simple and transparent as possible.

• Revenue attribution approaches are designed to create stability and predictability while balancing competing factors such as variable costs across disciplines, service course distribution, and costs for attracting enrollments.

• Cost allocations are designed to use allocators that roughly correspond to the impact on particular units in determining a fair share of central costs.

• The general approach with the Deans was to start with attribution and allocation principles that reflect the goals of simplicity and fairness while guarding against perverse incentives. Once these principles are agreed to, the numbers simply fall out of that structure. Starting with numbers leads to premature focusing on details and potential incentives for gaming.
Current Status of the RCM Model

• This model is the result of a series of iterations with the Deans over several years.
• This past year Huron Consulting has participated in refinement of the model with the Deans.
• DRAFT versions of model and its components were reviewed by the Deans and their Budget Unit Managers this spring, summer and fall. Several adjustments and refinements were identified for incorporation into the first version of the model to serve as the starting point for the implementation.
• This first version (FY13 parallel) of the model will be completed soon.
• There will be discussions next semester within each college about how the model would be used by the college as part of its academic planning.
• Feedback will be collected from the colleges and other constituent groups (including the Faculty Senate F&F committee) about how well the structure and incentives in the model meet the goal above.
• The revenue allocation portion was distributed to the College RCM planners and F&F last week.
How Credit Hours Translate into Revenues

<table>
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<tr>
<th>Course</th>
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<th>Non-Res</th>
<th>In State Complete</th>
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<td>Total</td>
<td>125</td>
<td>16</td>
<td>99</td>
<td>375 SCH</td>
<td>297 SCH</td>
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- 125 x 3 CH = 375 SCH
- 16 x 3 CH = 48 SCH
- 99 x 3 CH = 297 SCH

/45 = 6.60 FTE

- Instructional Fee Revenue
- Non Resident Fee Revenue
- Formula Subsidy
Subsidy

• State Funding associated with Ohio residents at the undergraduate level and all students at the graduate level
• Allocations are made to colleges based on the activity used by the Board of Regents to determine the amount of funding we receive. The components are as follows:
  • Formula subsidy (currently 75% - shifting to 50%)
    • Generated through course completions
    • Includes an additional allocation for at-risk students
  • Degree subsidy (currently 25% - shifting to 50%)
    • Generated through degree completions
    • Given for all students (not just Ohio residents)
    • Out of State changes to ¼ rate in proposed formula
  • Doctoral (capped at about $10.5M)
    • Course completions (70% but zero in six years)
    • Degrees granted (20% but increases)
    • Research funding (NSF & NIH)(10% but increases)
  • Medical – based on enrollment headcount not credit hours
State Subsidy Taxonomy and Weights

- 22 cost models – represents statewide average cost of producing an FTE (45 quarter hours) in different discipline groups
  - AH = Arts & Humanities
  - BES = Business, Education & Social Science
  - STEM = Science, Technology, Engineering & Math
- Shaded = Graduate
- Weighted = weighted for course completions
- Earnings are Reimbursement Cost x FTE x SSI Rate at top (~20.8%)

- Local Share is the amount of cost that has to be covered by tuition
- The Tuition Weight is a derived factor to create differential tuition to use to allocate tuition revenue to colleges in proportion to costs = WSCH
- Weights are not used for graduate models (see slide 11)

### Table of Costs

<table>
<thead>
<tr>
<th>Model</th>
<th>Reimbursement Cost FY 2013</th>
<th>Funded FTEs (Weighted)</th>
<th>SSI Earnings</th>
<th>FY 2013 SSI Earnings per FTE</th>
<th>Subsidy Weight</th>
<th>Local Share</th>
<th>Tuition Weight - for model</th>
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<td>AH 1</td>
<td>$8,207</td>
<td>938.28</td>
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Tuition and Fees

• Separate calculation for Instructional Fee and Non-Resident Fee
  • Why? This is designed to attribute non-resident fee revenue to the places where those students take their courses since those areas do not get subsidy for those students and this fee is basically a replacement for the subsidy.

• Undergraduate Tuition and Fees are based on credit hours averaged over two years
  • Why? The state uses a similar approach for subsidy and the reason is that it helps smooth year-to-year fluctuations. Units with decreases are buffered and given time to recover.

• Undergraduate Tuition and Fees are weighted by cost of instruction based on statewide six-year averages used in the subsidy calculation (WSCH)
  • Why? The cost of instruction varies by discipline because of class size constraints, costs of faculty, costs of labs/equipment, etc. but we charge the same tuition for all courses prohibiting units from charging for these additional costs. Weighting removes the “penalty” for high-cost disciplines but does reduce accuracy.
Tuition and Fees

• Undergraduate Instructional Fee is allocated 85% on credits and 15% on majors.
  • Why? This is a recognition of the concept that students come here for majors. Units offering service courses like general education do not carry the additional costs for attracting, advising, retaining, and placing those students. On the other hand the majority of costs are in the unit where instruction occurs.
• Undergraduate Non-Resident Fee is allocated 85% on credits and 15% on majors that are non-residents.
  • Why? Same reasons as above with the additional incentive that the 15% is based only on non-resident majors to provide an incentive for units to attract non-resident students and recognize the additional costs associated with recruiting those students.
• Graduate tuition is not averaged or weighted
  • Why? The vast majority is waived. If you weighted revenue and averaged it over two years, you would also have to do the same thing with waivers which essentially wipes out the differential from weighting.
• General Fee will be shown flowing into colleges and then allocated out
  • Why? Represents that although the fee must go to general fee costs, it is still triggered by the academic activity in the colleges.
Scholarships and Waivers

• Undergraduate Scholarships and Athletic Scholarships are distributed to the colleges in proportion to their undergraduate tuition and fee revenue
  • Why? This is essentially taking it “off-the-top” so that the model is blind to where students with need actually enroll. Colleges do not have a perverse incentive to avoid admitting students with need.
• Employee Fee Waivers are distributed in proportion to the number (FTE) of employees in the unit that are eligible for that benefit.
  • Why? Treats this as a general employee benefit. Colleges do not have a perverse incentive to avoid hiring employees with dependents or who take classes.
• All graduate waivers are allocated directly to colleges where the they are used
  • Why? All the graduate revenue is attributed to that college and the waiver simply cancels that revenue out. As we move to RCM, colleges will be given the ability to determine their own waivers and revenue goals since they will be basically be waiving their own revenue (requirements for stipend to trigger waivers will still be in place)
Indirect Cost Allocations

• Since all the revenues will be attributed to the colleges, all central costs also need to be allocated to the colleges (see diagram on slide 4). The task is determine how much should be distributed to each college.
• The general approach to allocating all the central costs to the colleges is to come up with an allocator that is simple and links a unit’s share to a major driver of those costs.
• Many costs are also distributed to regional campuses and auxiliaries.

Academic Resource Cost Pool Allocations

• Units that are closely related to instruction (Library, WOUB, Wellworks, Kennedy Museum, Child Development Center, Athena) by serving as learning laboratories but also serve as common benefit to the university and community.
• Most are spread across all units with the library and WOUB partially allocated to Regional Campuses. Auxiliaries participate in all these cost pools except the library.
• Allocations are in proportion to either total FTE students and employees except Wellworks and Child Development which are just employee FTE
Indirect Cost Allocations

Administrative Cost Pool Allocations

• Expenditure Driven Allocations
  • Used to allocate costs for President, Marketing/Communication Provost, Central pool, VP Finance & Administration
  • Expenditures are used instead of revenues to create an incentive in the model for units to save and build their own reserves through carry forward.
  • VP F&A is allocated on total expenditures from all funds but the rest are only on operating expenditures – creates an incentive to spend non-operating dollars first.
• Enrollment Management (including Admissions, Registrar, Financial Aid) is allocated in proportion total undergraduate credit hour production. Revenue from fees and fines (applications, transcripts, diplomas) reduces the amount allocated by $2M.
• Graduate College is allocated in proportion to the graduate student headcount in each unit.
• OIT is allocated in proportion to the total FTE - students and employees.
• Human Resources is allocated in proportion to the FTE employees.
Indirect Cost Allocations

Administrative Cost Pool Allocations

• VP Research is allocated in proportion to all grant and contract expenditures. This makes the allocation blind to whether a grant includes F&A which creates an incentive for colleges to build that in whenever possible since that would add revenue to the college without increasing the VPR cost allocation.
• Advancement is allocated on the number of degrees granted since 1986 as an approximation for total number of alumni.
• Space costs
  • Space Costs are allocated on Net Assignable Square Footage (excludes hallways, stairs, lobbies, mechanical, etc.)
  • 72% of the Athens space is in the colleges and auxiliaries so 72% of the space costs are allocated to them—essentially charging them for the space they control.
  • The remaining 28% of the space belongs to the academic resource centers, administrative units and general fee units. The costs associated with this space are added to that unit’s budget and the combined total is then allocated. This way colleges with larger amounts of space don’t get charged a disproportionately larger portion of central space costs because of that.
RCM Space Principles

• The space costs allocated to a college reflect the costs to maintain the space (cleaning crew, repairs and the electric bill)

• It is NOT the equivalent of the mortgage or rent.

• Therefore, colleges do not “own” their space. They are paying for the ability to get access to a space.

• The concept is to reflect the fact that space is not a free commodity. If you expand your footprint, you add costs. If you do not need space, you are rewarded for giving it up.

• For classrooms, we have moved to a central approach for technology upgrades of all priority and central classrooms and are working on a similar refresh plan for furniture and finishes. Space charges for classrooms reflect the awarding of priority scheduling control to a college and do not imply the ability to shut out or charge other colleges for classroom use.

• If a college wants to give up priority, a classroom will go to enrollment management and all colleges will share in the cost – 100% of the total classroom costs will still be paid by the colleges as a group.

• With current space shortages, units that wish to give up small amounts of space, even single offices, can free up space they don’t need. Cross-charging other units for offices will be prohibited.
Governance

• Budget Planning Council
  – Normal review and recommendations for macro revenue and cost assumptions and strategic investment initiatives
  – Participate in the five-year review process
  – Includes chair, vice-chair, and F&F chair from faculty senate. Plus a department chair and faculty at large.

• RCM Budget Implementation Committee (New)
  – Chaired by John Day – reports to EVPP and VP F&A
  – Includes primarily Deans and some VPs
  – Direct refinement and implementation of RCM Model.
  – Oversee the five-year review process which will involve feedback from Colleges and constituent groups
  – Regular Consultation with Colleges

• Academic Support Improvement Committee (New)
  – Co-chaired by Chad Mitchell & Scott Seaman – reports to EVPP and VP F&A
  – Includes associate deans, department chairs, budget managers, faculty, etc.
  – Reviews support units to make recommendations to BPC on appropriate funding levels, service levels, customer satisfaction and performance
Governance

- Facilities Planning and Advisory Council (Existing)
  - Works with and advises Facilities and University leadership about prioritization of capital and deferred maintenance projects
  - Includes three faculty, two appointed by faculty senate and a department chair

- Space Management Committee (Existing)
  - Monitors use of space and tracking of space allocations to units
  - Will be more active to find effective re-purposing of space and planning for new space needs

- University Curriculum Council (Existing) and College Curriculum Committees
  - Monitoring of Academic Quality Indicators related to the curriculum
    - Course duplication
    - Curriculum hoarding
  - Report concerns to EVPP

- Service Alignment Projects Oversight Committee
  - Coordinated by Terry Conry – reports to EVPP and VP F&A
  - Includes a Dean, two dept chairs, two faculty, two budget unit managers and representative from Finance, HR and OIT
  - Review and monitor projects associated with the Service Alignment initiative
  - Communicate with campus constituents regarding projects
Transition Timeline

- FY2012 (last year)
  - Model Development
- FY2013 (this year)
  - Parallel Budget Process
  - Hold Harmless and Hold Benefit
  - No Rebalancing
- FY2014
  - Limited Hold Harmless
  - Set Rebalancing Levels
- FY2015
  - Hold Harmless Phasing Out
  - Case-by-Case Rebalancing (potentially over multiple years)
- FY2016
  - Full Implementation
  - Rebalancing still phasing in
- FY2017
  - Five-Year Review
Frequently Asked Questions

Will future decisions be driven more by financial than academic considerations?

- The RCM model will make the relationship between funding and academic activity more transparent. Academic values will continue to drive the university’s mission and its strategic planning efforts. The RCM budget model is intended to better inform decision-makers and not replace the need for sound decision-making.
- The best place to evaluate the potential tradeoff between revenue opportunities and academic quality is at the college level which is where RCM puts that decision as opposed to trying to make those decisions at the university level.
- The balance between financial considerations and academic quality is the primary responsibility of the dean. The provost’s office will require the deans to monitor appropriate academic quality indicators and justify changes. There will be a constant tension along these dimensions since academic quality is funded by resources that derive from financial flows and pursuing financial flows to the detriment of academic quality may provide short term gains but will ensure long-term decline.

Will RCM encourage the development of new academic programs and new student markets?

- Compared to incremental budgeting, RCM has greater potential to encourage and support the development of new academic programs. In the past, resources were slow to be moved to programs with enrollment growth, if at all, creating a disincentive for program expansion and new program development. The RCM model provides incentives for entrepreneurial activities such as new programs that attract additional students. Such rewards are also provided for improved student retention so new student markets are not always necessary for an academic program to grow its financial resources.
Frequently Asked Questions

When colleges have either positive or negative balances between revenues and costs, what happens?

• Any differences reflected in the model are simply representations of differentials that have always existed across colleges. The model simply reveals what already exists.
• This means that differential “investment” in different colleges has always existed and the model simply makes these investments explicit.
• In terms of continuing these investments and attracting additional investment, the argument remains one of persuasion just as it did under incremental budgeting. The model simply provides an additional financial dimension to the argument, which would be balanced with other considerations that have always been used such as reputation, academic quality, demand, depth and breadth of program offerings, etc.
• In addition to the built-in balancing provided by tuition weighting, current discussions with the deans have revolved around the concept of stepping into the model in a neutral way and making any adjustments across multiple years – as reflected in the proposed timeline.
• So as a first step in the parallel conversion, each college would be rebalanced to their current level as a starting point.
• Then there would be a strategic decision to about what, if anything, to do with cross allocations over time just as strategic decisions about the size of college budgets are made today under the current incremental system.
• The model will not tell you how much to invest strategically and there is no requirement in the model that every college ever balance to zero.
Frequently Asked Questions

How will support/administrative unit budgets be determined?
• The model itself will not tell you the appropriate cost for administrative units. Support units remain in an incremental budget environment.
• RCM reveals to colleges the portions of their revenues that get allocated to central costs.
• This leads to pressure to establish service level agreements where support units explain what is provided for the funding and for deans to question the value of the service compared to the cost.
• A new committee for support unit review is created under the RCM governance structure where support unit budgets are reviewed annually to determine their future budget. Ultimately, however, the final decision on support unit costs will remain a central strategic decision, just as it is now.

Would an “opt out” provision be available for central costs?
• For most support services, an opt-out option will not be allowed. Instead, the university community will set expectations for service levels within the budget provided and support units will need to provide benchmarking and justification for expenditures.

How are raises handled under RCM?
• Raise pool allocations will remain a central decision, as will tuition increases and benefit levels.
• This is not an “every tub on its own bottom” system. If a raise pool is created, it will need to be funded via additional revenues or budget cuts just as it has in the past.
• The provost’s office will maintain the same control that it currently does over raise pools such as the minimum and maximum levels units can implement without permission.
Frequently Asked Questions

Will units be able to determine their own tuition?
• Tuition rates cannot be different by program at the undergraduate level as required by the state legislature, but graduate fees and course-specific fees can be adjusted just as they are today. Such fee adjustments will still be centrally reviewed and still require trustee approval.

How would this model impact collaboration between areas? Will it create a barrier for interdisciplinary programs?
• Even with our current system of incremental budgeting, there are issues that hinder greater collaboration and interdisciplinary program development.
• Some universities have used central investment funding to encourage collaboration and cross-disciplinary activities. Others have found that the revenue-sharing arrangements negotiated under RCM, because they are explicit, have actually encouraged greater collaboration. However, the potential for increased competition also will need to be monitored.

Will space and construction be treated differently under the RCM model?
• One of the primary objectives of RCM is to increase the control over resources like space by academic units but it must be done within the state guidelines the university is required to follow.
• Space costs will be allocated to units on a square foot basis creating an incentive for units to manage their space as efficiently as possible. While options for units will be constrained by historical allocations and quality of space, over time there may be options for units, such as contributing classroom space to central scheduling to reduce their allocation, or contributing unneeded space for use as swing space during construction.
• In addition, this makes transparent the full budget impact of a decision to add additional space both in terms of debt service and ongoing operating costs.
Frequently Asked Questions

Will the RCM implementation increase competition and tension between units?
• RCM will increase the necessity of units working together. Productivity and efficiency cannot be achieved in isolation. Units will need to form partnerships in order to make the best use of their available resources.
• Should pragmatic self-interest prove to be insufficient to promote good university citizenship, bodies such as the University Curriculum will ensure that a fair playing field exists.
• Likewise, the Executive Vice President and Provost has the authority to overrule decisions made by one unit that would unduly disadvantage other units.

Will financial incentives encourage colleges to duplicate courses and change requirements to hoard credit hours?
• Monitoring and control of curricular changes will need to be provided by the academic leadership. Peer pressure among the deans and oversight from the University Curriculum Counsel will need to be part of this.
• There is an additional potentially positive affect related to this concern when units begin to evaluate the outcomes of service courses their students take in other colleges, which could create motivation to improve student learning.

Will financial incentives encourage grade inflation and erosion of rigor.
• While these trends have existed prior to the implementation of RCM, there is the possibility that short-sighted management of a college could result in additional decline in these standards. In the long term a college that allows such a decline ultimately harms its reputation and ability to attract high-quality students, which would lead to a financial decline. This is another area that we plan to monitor and for which colleges will be held accountable.
Frequently Asked Questions

Will financial incentives encourage the reduction of tenure-track and full-time faculty resources in favor of adjunct and part-time faculty?
• While there are national trends in this direction regardless of RCM implementations, Ohio University has experienced this to a lesser extent.
• Group I faculty are important to the core mission of the institution and will remain so under RCM. However, meeting the instructional needs of students will require a mix of faculty.
• That mix will vary between units depending on the mission of that unit and the types of faculty a discipline requires. Creating the right mix is why one of the core elements of RCM strategic planning involves a staffing plan for each responsibility center.

Will my job as a faculty or staff member change as a result of the RCM Implementation?
• Faculty and staff that are currently not involved in budget development are not likely to see their jobs change. Unit leadership (Deans and Associate Deans), Budget Unit Managers, Business Managers in service units are most likely to see changes.
• Given the level of budget transparency associated with RCM it is likely that all employees will have the opportunity to become more knowledgeable about budget issues and will have the chance to participate more frequently in discussions of academic planning if they have an interest.

Will the RCM implementation result in changes to staffing levels, salaries, or benefits?
• RCM by itself does not require change in staffing levels or compensation. It is simply a model for setting budgets. These sorts of changes are driven by changes in funding which can occur under any budget system.