Responsibility Center Management Budget Model Design
ACADEMIC AFFAIRS WORKGROUP

INITIAL REPORT SUBMITTED TO
THE RCM BUDGET MODEL REDESIGN TASK FORCE
TEXAS STATE UNIVERSITY

November 7, 2024

Academic Affairs Workgroup Roster

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Report Submitted to the Budget Model Redesign Task Force

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Charge and Process

The Academic Affairs Workgroup was charged to make recommendations regarding the 13 Decision Points provided by EAB. The charge specifically called for identifying shared priorities prior to considering the budget effects on specific units. As such, these recommendations are preliminary and are likely to need further refinement from the Workgroup when a budget draft is generated for the university's various units. The Workgroup consisted of 27 members from across the Division of Academic Affairs, with one representative from the Division of Research. The Workgroup met 13 times from May 31, 2024 to October 30, 2024.

Guiding Principles

The Academic Affairs RCM Budget Workgroup adopted **transparency** and **shared governance** as essential principles of an equitable budgeting process that fosters success for all faculty, staff, students, and academic programs in a comprehensive public research university and Hispanic-Serving Institution. Recommendations are grounded in these principles.

RCM is a budget model. As such it exists to serve the needs of the university community and to preserve, protect, and promote the mission and values of that community. Only by working together through cooperation, collaboration, and communication will we be able to realize the potential of the RCM model for TXST. Shared governance, shared success, and shared challenges will ensure a smooth transition to the new model.

The Workgroup's understanding is that we are transitioning to the RCM model to enhance accountability, support mission critical areas, support institutional strategy, address inefficiencies that exist in our current system, foster a collaborative organizational culture that promotes entrepreneurial dynamism and growth, and locate greater budgetary decision-making at the college rather than central level. To that end, we expect that there will be greater transparency and communication among all stakeholders in the design and implementation of the RCM model.

- The Workgroup endorses a model in which all academic revenue is assigned to the colleges, with an administrative tax then collected for the operational needs of the university. There needs to be full transparency regarding how this administrative tax is constructed and what it funds specifically (in contrast to the current statement of revenue and expenses in which *Other Institutional Expenses* are not defined).
- When the RCM Task Force makes determinations on the Decision Points, further feedback should be requested from the Academic Affairs Working Group in an iterative process.
- Members of Academic Affairs and the colleges need to be included in RCM decisions going forward in both design and implementation.
- The RCM shadow budget used during the design process needs to provide sufficient data and capacity to see effects in real time and make adjustments as needed.
- Parameters for "hold harmless" during initial implementation need to be defined. The Workgroup recommends a phased approach to implementation and "hold harmless," rather than an open window.
- All decision makers and account managers should be trained in budget nuances, requirements, and reports.

- Access to accurate and live/current budget data is necessary.

Decision Point 1: What percentage of tuition revenue should we allocate through an activity-based formula?

<u>Assumption</u>

Tuition revenue is academic revenue, including that which is earned through weighted SCHs (formula funding), statutory tuition, and designated tuition. [WSCH = Semester Credit Hours X Program/Level Weight X Supplement (1.1)* X Rate*the supplement for UG courses] Differential tuition is a separate talking point. Research activities are separate.

<u>Recommendations</u>

- Responsibility Centers (colleges) should retain 75-80% of this revenue.
- The college tax rate of 20-25% should fund institutional support services and overhead expenses such as Student Success, Transportation, Facilities, HR, Senior Leadership, Custodial, ITAC, etc. This is the model followed by UVA (25%) and Temple University (20%). These seem to be at productive levels for their organizations.
    - At UVA, colleges keep 75% of both tuition and state funding; at Temple, colleges keep 80% of tuition, but central administration keeps all state funding. Our references to a tax rate are based on a strong recommendation that all tuition revenue and state funding will flow to the colleges, with 20 to 25% paid back to the university in an administrative tax.
- Auxiliary units should be self-supporting: They are directly funded through fees and other revenue.
- Any shortfalls for auxiliary units should come out of the 20-25% tax revenue listed above. Auxiliary and administrative units will need to participate in the reduction of fiscal inefficiencies along with the colleges. The model will need to ask what it is feasible to fund from the revenue generated by the colleges.
- The Graduate and Honors Colleges are vital and central units to the university. As such, they should receive a share of the academic revenue generated by their activities to enable their operation. Data are necessary to determine this revenue generating formula.

Decision Point 2: How should we weigh SCH versus majors in tuition allocation?

<u>Assumption</u>

The university’s tuition revenue composition is a mixture of SCH and major-based academic units. The EAB literature pointed out a range of 85/15 to 70/30.

<u>Hard Stop</u>

A purely SCH or purely major-based formula would adversely affect many colleges, and a model that reflected 100% either way is a hard no.

Recommendations

- The Workgroup recommendation ranges from 66/33 to 80/20 (SCH/Major), and not differentiating ratios for undergraduate vs. graduate programs. A specific ratio needs to be determined.
- The two largest colleges by SCH production teach into almost every major in the university. We also recognize the importance incentives for colleges to grow their majors.
- Colleges with a heavy SCH concentration from majors alone may need subvention from the outset (example: 95% of SCH in the College of Health Professions are generated from majors).
- This decision point will need to be revisited once we have data that models different implications for the functional operation of the academic colleges.

Decision Point 3: Should we use enrollment smoothing to allocate tuition revenue?

Hard Stop

A hard no was a year-to year model such as at South Dakota State and Miami University.

Recommendations

- Some smoothing is necessary.
- Smoothing should be based on an average of at least three years of data with greater weights assigned to recent years
- The Workgroup asks for a time-series analysis that weights the last or first year more heavily.
- Academic Affairs should establish a safety-net fund for units with dramatic shifts in enrollment.
- The Workgroup recommends a user-friendly and live budget dashboard that displays department and college indicators in a manner that is usable for real-time budget planning and monitoring in those units.

Decision Point 4: Should we allocate any forms of differential tuition revenue?

Assumptions

- Undergraduate differential tuition is an added tuition assessment attributed to high demand and high-cost programs. It is currently assessed on courses in three colleges regardless of the student's major – CoSE, McCoy College, and CHP.
- It is not currently shared.
- Responsibility Centers (colleges) must pay faculty salaries, which are often higher in those colleges with differential tuition. The relationship of weighted SCH to higher salaries should be considered.

- The EAB definition of differential tuition is different than that of TXST. The RCM Workgroup discussed these other elements:
    1. Out of state tuition –
    2. Financial aid –
    3. Weighted credit hours

Recommendations

- Preserve incentive compatibility across all funding sources.
- 100% of differential tuition should go to the Responsibility Centers (colleges) that generate it, without a tax. The level of differential tuition must be periodically reviewed and adjusted to reflect changing conditions.
- The same rule should apply to graduate program fees such as in McCoy College.
- Other elements that fall under EAB's definition:
    - Out of state tuition – the Workgroup recommends that Responsibility Centers should not have visibility of whether a student is in-state or out-of-state. Members of the Workgroup felt visibility on their origin could create perverse incentives. The same rule should apply to graduate program fees such as in McCoy College.
    - Financial aid – The Workgroup recommends that the current method of paying for the financial aid set-aside should continue (allocating to each academic unit based on SCH production). Similar to the first element, the Workgroup thinks that visibility on who gets the financial aid could create perverse incentives.
    - Weighted credit hours – As defined by EAB, the Workgroup sees this element was not applicable.

The Workgroup's recommendations for these elements follow the EAB recommendations.

Decision Point 5: Should we allocate unrestricted state appropriations?

Assumptions

- Foster transparency in the budget allocation model, process, and decisions.
- Align academic units with state-level funding and incentives.
- Shows legislature that the state appropriation is directly being spent on educating students.

Recommendations:

- Both unrestricted state appropriations and tuition revenue should be disbursed and taxed at the same rate.
- ECF funds should also be included in this distribution, and IDC distribution should be reviewed.
- TXST Global/AOP revenue distribution in the context of an RCM should be reviewed. As much as possible, TXST Global revenue should follow a similar distribution to other appropriations.

Decision Point 6: How do we allocate overhead costs to maximize incentives and maintain buy-in?

Assumptions

- Keep the model clear and transparent, making it easier to understand and encourage individual unit responsibility.
- Recognize institutional priorities to advance strategic initiatives and offer services that benefit all stakeholders.

Recommendations

- The overall tax should include university overhead costs. If there is a need to break out individual taxes, the total tax on colleges should not exceed 20-25%.
- If this tax is imposed separately from the overall tax, we agree with the EAB recommendation of limiting to 4-6 cost pools, with 1-2 cost drivers per cost pool. That said, beyond space and utilities, it was unclear how other cost pools would be determined in a manner that provides colleges agency in making decisions that drive that cost.

Additional Considerations/Questions

- The Workgroup has significant concerns with individualized unit charges such as space, utility, and other facility usage. How will academic and non-academic units be charged space allocation? A space charge should not apply only to the colleges or only to Academic Affairs.
- How is the Division of Research allocation impacted? If supported through the overall tax, IDC distribution should be revisited (UVA colleges retain 75% of IDC).
- More precise understanding of "other institutional costs" is needed to make a more informed recommendation.

Decision Point 7: How do we regulate unit spending to protect institution finances and strategic goals?

Assumptions

- There should be checks and balances, but not micromanagement of colleges.
- Unit goals should align with university strategic priorities, allowing deans to have oversight on unit goals and actions including finances, operations, strategy, and hiring.
- Deans/Colleges are responsible for effectively managing faculty workloads.

Recommendations and Considerations

- Deans should annually review college strategic plans to ensure alignment with university strategic goals. These college plans should be meaningful (e.g., funding for new initiatives should be tied to goals in college plans).

- Net new permanent, promotion eligible FTE faculty and programs will be discussed with the Provost's Office, recognizing that RCM model places greater budgetary decision making authority at the local college level. Timing of postings should align with disciplinary norms so as to avoid a negative effect on the quality if applicant pools.
- Mission-critical operational decisions within the colleges should be led by the deans with appropriate checks and balances from appropriate university units (administration, UCC, etc.). That said, if Colleges have the funds, budget allocation and hiring decisions should be at the dean level in real-time. (example: Faculty member submits retirement/resignation letter in August; dean should have authority to launch a search that year for a replacement for the following year rather than waiting until the following summer to request permission to use existing funds for a one-to-one replacement).

<u>Additional Considerations/Questions</u>

- Thorough, timely, and appropriate data should be made available to deans to assist in strategic decision-making.
- What are some commonly agreed performance measures as it relates to cost containment?

Decision Point 8: How do we ensure sufficient central reserves for strategic investments?

<u>Recommendation</u>

- 3-4% tax for strategic initiatives, with total tax not to exceed 25%.
- Academic Affairs and central administration transparency is required, with input from Academic Affairs stakeholders regarding how this fund will be used. The Workgroup recommends a continuing Academic Affairs Advisory Group comprised of multiple deans, chairs, and representatives.

<u>Hard Stop</u>

- Total tax should not exceed 25% (including this tax).

<u>Information we need/Decisions still to be recommended</u>

- What will a Strategic Investments reserve fund support? (e.g., new academic programs, merit, FDL, modified retirement, equity adjustments, spousal hires, research activity, etc.).
- Global planned to generate revenue for strategic initiatives including new on campus programs. How will those be allocated transparently? What are other streams into the strategic initiatives reserve, and parallel streams? (Collin, TUF, MX, etc.). Units are doing labor to create the Global and other courses/programs.

Decision Point 9: How overt or hidden should subvention be?

Recommendation

- Subvention should be overt. Utilize subvention to support majors and programs consistent with a vibrant, comprehensive public research university.
- Full transparency about units receiving subvention and the reasons subvention is being used (role of the unit in the institutional mission); other forms of revenue should be included in the transparency and this revenue (e.g., differential tuition, differences in formula funding, fees, auxiliary funding, profit from university investments, grant overhead funding, development, etc.) should flow to the college/entity that collects it.
- Balance the tax rate with the number of programs requiring subvention; recognition that subvention needs will vary over time and need to be annually evaluated (e.g., changes in grant funding, changes in college structure, exit plan from subvention, commonly agreed efficiency measures to track cost containment in subvented units).
- First subvention adjustments should come from department then the college to support programs/units. If a college needs a "permanent" subvention, there needs to be a different expectation of the provost level's involvement and outcomes.
- The tax amount on grant overhead should be reviewed and transparently considered (currently 75%).
- Can University Marketing and/or University Advancement strategically assist those units who are receiving subventions so that they can be supported by gifts to reduce subvention required?

Hard Stop

- Total tax should not exceed 25% (including this tax).
- Inflexible subvention model or inequity among colleges with programs with varying needs for subvention (university should support programs in colleges that can't support programs requiring subvention, while annually evaluating the subvention and reasonable cost containment as noted above).

Information we need

- How fiscally under- or overextended are the academic units?
- Are we anticipating severe cuts with the transition to RCM?
- How do university investments contribute to the bottom line?
- Funding for graduate scholarships is needed so we can be competitive – where will those funds come from? Can they be part of subvention?

Decision Point 10: How do we motivate units receiving subvention to still make financial improvement?

Recommendation

- In the transition to RCM, academic units should be held harmless (with bridge and structural subventions) until we build confidence in the data/numbers; an 'investment' approach vs. a 'deficit' approach should be taken philosophically with subvention.
- A process is needed for regular review of the need for subvention with input from within and outside college.
- Input is needed from units receiving subvention and the units supporting subvention on decisions related to budget, perhaps through the Academic Affairs Advisory Group.
- Consistent accountability expectations should exist for all units (e.g., workload policy, PC policy, etc.).
- Consider both accreditation standards and state regulations in assessing a need for subvention.
- The budget model needs to be both fiscally conscientious and intentional about building a vibrant comprehensive public research university (e.g., support fellowships, Fulbrights, FDL, etc.).
- Set reasonable and data-informed goals to address barriers to growth or a balanced budget, and possibly setting a path to exit subvention.
- Subvented and non-subvented units can and should address inefficiencies, reduce redundancies and be strategic about efficiently managing the Schedule of Classes.
- Develop a process and/or criteria for determining mission critical units for the purpose of subvention.
- Be explicit about distinctions between bridge subventions and mission-critical subventions, possibly identifying bridge support as subvention and on-going mission-critical support as structural investment.

<u>Hard Stop</u>

- Lack of transparency about program/department costs and reasons for subvention.

Decision Point 11: How do we incent student success goals through the budget model?

<u>Recommendations</u>

- There needs to be funding for initiatives that we know support student success e.g., discussion sections, supplemental instruction, undergraduate research, streamlined curricula, tutoring labs, experiential learning, etc. Units that provide these activities should be rewarded. Academic units should be rewarded for student retention (i.e., increasing or maintaining retention rates) and graduation rates.
- Align performance and staffing of 1st year retention and overall student success appropriately. Include stakeholders from all colleges, but recognize that not all units interact with first year students through instruction and advising.
- The funding for institutional-level student success initiatives should come from the funds that the university receives as part of the overall tax and possibly from existing student fees. Central funding should incentivize units to implement student success initiatives.

- Develop a collaborative approach to retention and student success. The collaboration should be between Academic Affairs and Student Success, between departments, and across colleges. Identify where student success staff are placed within the university and align accountability with organizational structures and reporting lines.
- KPIs can be considered: retention, persistence, outcomes, job placement, and graduation rates, keeping the above in mind.
- Follow up is needed for units that don't meet student retention goals - performance improvement plan with strategic interventions to increase retention, providing time for the program to work on retention goals. If no progress, units wouldn't receive incentives for retention and responsibilities or funding may be adjusted. Apply to academic and non-academic units based on student success responsibilities across all divisions.
- Questions:
    - How are student retention activities funded now? Decentralized support is valuable for meeting student success goals (e.g., faculty advising students, dissertation support groups, tutoring labs/office hours). Where does it come from now?
    - What is the current reward to academic units for student retention?
    - How do academic units and Division of Student Success work together to promote student retention and timely graduation?
    - How do we count students when they switch majors, and will there be an incentive for TXST persistence?

<u>Hard Stop</u>

- Student Success is not solely the responsibility of the Division of Student Success; These issues need a deeper dive between Academic Affairs and Student Success.

Decision Point 12: How do we incent research growth through the budget model?

Recommendations:

- There should be incentives to grow (or maintain high levels of) research. This should be funded as part of the overall tax to central administration (decision points 1 and 8, TUF funds). As part of this discussion the IDC process also needs to be reviewed so that sufficient funds flow back to the academic colleges to support the research enterprise.
- Need transparency in the collection and distribution of IDC. Follow the same funding model as above: Distribute IDC to the colleges and then tax at a to be specified rate.
- Need transparency in the distribution and use of TUF funds.
- Research incentives cannot only be funded out of IDC since not all colleges/disciplines have equal levels of funding opportunities.
- Deans could consider funding research activity through workload offsets, depending on budget availability.
- Deans and colleges should identify discipline-specific expectations for scholarly/creative activity outcomes.

- Consider and develop a plan for how faculty developmental leave, administrative leave, and startup funding will be covered.

Decision Point 13: How do we incent targeted new program launches through the budget model?

Recommendations

- Consider the capacity of new program proposals to grow revenues, respond to local needs, target new student segments, enhance market competitiveness, and increase enrollment.
- The university infrastructure needs to grow to enable innovative initiatives like microcredentials.
- In new programs proposals, distinguish what is essential to launch the program versus what would be nice to have.
- When developing new programs, consider course design for necessary courses that can have higher enrollment, student recruitment and enrollment, workforce need, cost to launch this program (e.g., faculty, clinic space, resources), and course scheduling (e.g., alternative class schedules).
- Reserve a portion of central strategic funds (from decision point 8, strategic reserves, etc.) to seed targeted new programs.
- Provide funding for faculty to create and develop new program proposals.
- Provide incentives for online programs that increase enrollment.
- New programs should be in line with strategic initiatives for the university.
- Balance growth incentives and outcomes with space issues.
- Determine the percentage set aside for incenting new programs, considering current sources and amounts for incenting new programs.
- This decision point needs to be revisited later in the design process, when other Decision Points are clearer.