

OPPORTUNITIES & RISK ANALYSIS of the RCM BUDGET MODEL

A Report

Submitted to Faculty Council at Colorado State University

by

The Committee of Strategic and Financial Planning (CoSFP)

October 26, 2023

Background and Overview:

Universities currently face serious challenges, which some consider as existential threats, from multiple systemic factors. These include the pending demographic enrollment cliff, but also an unprecedented “demand cliff”, which refers to enrollment declines in universities due to changing perceptions that question the value of a university degree.¹ CSU is no exception. CSU’s viability also depends on its ability to recruit top talent by paying competitive salaries across all positions. Two of the top three risks identified by universities in a recent survey are enrollments and hiring/recruitment.² All of these factors, combined with rising education costs, student loan debt, a changing job market and alternative credentialing options in the new “gig” economy, necessitate a strategic response by CSU to preemptively address these threats. Failing to do so will risk its ability to fulfill its primary land grant missions.

The current budget redesign proposal is the Administration’s response to these challenges. The CSU website states: “Colorado State University recognizes a need to design and implement a new budget model that will further the financial prioritization of our mission areas as well as proactively support growth and success in the ever-changing landscape of higher education.”³ In response, the University is exploring a hybrid model that combines the current incremental budget model with an incentive-based responsibility-centered management (RCM) model. The anticipated outcome is to land somewhere in the middle on a continuum between those two extremes.

Objective:

The objective of this second CoSFP report, entitled *Opportunities and Risk Analysis of the RCM Budget Model*, is to help with the design process of the new budget model by operationalizing the CoSFP values submitted to Faculty Council in a previous report—see Appendix I. For that purpose, CoSFP has identified potential opportunities and risks associated with the RCM model. CoSFP’s sole intention in identifying the potential risks is to strengthen the model: The Committee hopes and expects that necessary measures are taken to avoid, alleviate or eliminate the potential risks so that the budget model becomes stronger.

The Committee expects this document to evolve and be updated as the details of the budget model emerge in the months ahead. The list of risks identified in this report is not exclusive. Neither are the recommended actions the only possible actions. Nevertheless, we hope that CoSFP’s *Opportunities & Risk Analysis Report* facilitates constructive discussions and generates innovative ideas in the Faculty Council and across the university.

¹ Rebecca Mathews, Bijan Warner, and Peter Stokes. October 16, 2023. “Managing the Demand Cliff,” Inside Higher Ed, available at <https://www.insidehighered.com/opinion/views/2023/10/16/managing-other-enrollment-cliff-opinion>

² 2022 Top Risks Report: Insights for Higher Education, United Educators, available at <https://www.ue.org/4902a8/globalassets/risk-management/reports/2022-top-risks-report-he.pdf>

³ CSU Budget Model Redesign: Overview and Process, available at <https://operations.colostate.edu/budget-model-redesign/>

Topic 1: Risk of Doing Nothing

Opportunity: Keeping the current budget will have well-known consequences.

Risk: CSU will face serious challenges from potential enrollment declines and a pressing need to fund salary increases for employee morale and external competitiveness.

Impact: If these risks are not strategically addressed in a timely manner, all units will suffer. The major risk to the University is doing nothing.

Related CoSFP Values: #1, #2

Risk Drivers:

1. The well-documented “enrollment cliff” related to demographic factors.
2. An unprecedented “demand cliff” causing significant enrollment declines across universities due to changing perceptions that question the value of a university degree.
3. Rising education costs and student loan debt.
4. The changing landscape of job markets and alternative credentialing in the new ‘gig’ economy.
5. Unexpected/unforeseen risks such as pandemics, geopolitical events, or financial crises.

Possible actions:

1. Use an integrated approach with two essential components: (1) implement an incentive-based RCM hybrid budget model to increase institutional flexibility and innovation and to create incentives for strategic and innovative growth potential, and (2) a salary improvement plan to address internal and external equities to improve employee morale and external competitiveness. The university should make an institutional commitment to the salary improvement plan and make the salary adjustments uniformly across all units.

Topic 2: Growth

Opportunity: The new budget model will provide benefits in growth.

Risk: Unrealistic expectation that new budget model will benefit all

Impact: Morale issues from unmet expectation of new budget model

Related CoSFP Values: #1, #2, #3

Risk Drivers:

1. RCM models will create winners and losers.

Possible actions:

1. Provide supplemental funding for units experiencing losses during an appropriate transition period.
-

Topic 3: Enrollments and Financial Decisions

Opportunity: The new budget model will help in enrollment and financial decisions.

Risk: Transient ebbs and flows in metrics (e.g., student enrollment numbers) will strongly influence resource-allocation decisions

Impact: Some units will be deprived of needed resources or even eliminated based on short-term fluctuations.

Related CoSFP Values: #1, #2, #3

Risk Drivers:

1. Ebbs and flows in student enrollment numbers often take place “naturally” without any rational explanation. The outcomes cannot be explained by individual variation in performance.

Possible actions:

1. Higher-revenue units should contribute more to the common pool resources.
2. Establish appropriate processes for “checks and balances” mainly involving the faculty to decide on eliminating programs.
3. Metrics could be averaged over the last five years before using them as a basis for resource allocation.

Topic 4: Transparency

Opportunity: The new budget model will improve the transparency of the way budget decisions are made.

Risk: Financial decisions will not be sufficiently transparent at every level.

Impact: Lack of accountability on resource-allocation decisions.

Related CoSFP Values: #8, #9

Risk Drivers:

1. There is already a lack of clarity regarding financial and academic decisions: For instance, college level performance decisions, strategic initiatives, subvention, etc.

Possible actions:

1. Improve accountability and transparency at all levels.
2. “Strategic initiatives” should be clearly defined at every unit level.
3. Ensure that the money generated by academic units is allocated to our core mission of teaching, research, service/engagement.

Topic 5: Colleges as new “Responsibility Centers”

Opportunity: In the new budget model, colleges will be in a better position to make resource-allocation decisions.

Risk: There will be unnecessary duplication of services.

Impact: Inefficient use of resources

Related CoSFP Values: #7, #8

Risk Drivers:

1. Services will be paid by the responsibility centers.

Possible actions:

1. Ensure adequate centralized services.

2. Limit services from consulting firms.
-

Topic 6: Revenue generation, cost reduction and student credit hours.

Opportunity: The new budget model will lead to healthy competition among units, leading to revenue generation, cost reduction, and increase student credit hours.

Risk: There will be unhealthy internal competition for student credit hours.

Impact: Course cannibalization. Offering courses outside academic expertise. Student experience undermined.

Related CoSFP Values: #2, #3, #5

Risk Drivers:

1. The question is not “how to serve students better?” but “how to generate revenues?”

Possible actions:

1. De-incentivize colleges to compete over student credit hours.
 2. Take measures to prevent course cannibalization.
 3. Consider that serving students better and generating revenue are not mutually exclusive.
 4. Use the AUCC processes already in place to vet course offerings and allow affected departments to comment on possible infringements.
-

Topic 7: Impact on cost reduction, innovation, and collaboration.

Opportunity: The new budget model will lead to new methods for cost reduction.

Risk: Innovation within units will be disincentivized, and collaboration among units will be discouraged.

Impact: Reduced innovation and collaboration.

Related CoSFP Values: #1, #7

Risk Drivers:

1. Main focus for each unit will be to raise revenues and reduce their immediate costs; less attention will be given to long term innovative thinking.
2. Units’ interests will be against each other, and they will compete over resources.

Possible actions:

1. Ensure that the formulas to distribute revenues encourage innovation within colleges and collaboration within and across colleges.
 2. Fund collaborative and interdisciplinary programs/new initiatives within and across colleges.
-

Topic 8: Cost reduction and salaries

Opportunity: We will find new ways to reduce costs.

Risk: Wages will be suppressed.

Impact: Reduced wages for those particularly vulnerable: Non-tenure track and adjunct faculty, graduate students, post-docs.

Related CoSFP Values: #4, #5, #6

Risk Drivers:

1. Salary inequities include: salaries below peer median for the relevant discipline and/or job position (external inequity); salary compression/inversion within units (internal inequity);

and inequities along gender or racial/ethnic lines (equity across social groups). A major risk is that the new budget model will fail to sufficiently incentivize and/or fund the steps necessary to correct these inequities. Continued improvements in quality and competitiveness are critical to our future growth, and any plans for future salary increases will be pointless if the funding dries up because we failed to meet our strategic targets. Human resources are a significant cost factor, so a tiered approach is needed to strategically phase in adjustments over time. If our expenditures on salary improvements achieve the intended goals of maintaining competitiveness and quality to promote growth, then it should benefit all units and help to ward off financial exigencies.

Possible actions:

1. A multiyear phased approach should be adopted with a timetable for incremental adjustments.
2. Incremental adjustments should address all types of salary inequity.
3. It is more cost effective to address cases of salary compression proactively before they culminate in retention raises or new employee searches.
4. Salary raises should prioritize cost-of-living adjustments with the aim of matching inflation to stay current with market benchmarks.
5. Minimum salary thresholds should be supported where applicable for those at the lower end of the pay scale.
6. Adjustments should not ignore those particularly vulnerable: non-tenure track and adjunct faculty, graduate students, post-docs.
7. All salary/compensation equity adjustments should be made uniformly across all units.

Topic 9: Cost reduction and TTF & CCAF

Opportunity: We will find new ways to reduce costs.

Risk: Increased hiring of the number of CCAF as compared to TTF based on lower salaries.

Impact: Fewer tenured faculty at land-grant institution that are conducting research and teaching upper division courses. A greater number of NTTF also perpetuates the overreliance on NTTF across the University which lack protection from tenure for academic freedom.

Related CoSFP Values: #4, #6

Risk Drivers:

1. NTTF already teach majority of teaching credits across the University.

Possible actions:

1. Encourage and advise administration to focus on critical hires of TTF in areas of need, reduce new NTTF hires, and develop a mechanism for a just transition to TTF for those willing.

Topic 10: Decentralization

Opportunity: The new budget model will lead to efficiencies from decentralization (giving decision-making power to the units that have more basis for making decisions).

Risk: Decentralization will undermine our sense of community.

Impact: Reduced sense of community for the whole university.

Related CoSFP Values: #1, #2, #3, #5, #6

Risk Drivers:

1. Main focus for each unit will be to raise revenues and reduce their immediate costs; less attention will be given to community building.

Possible actions:

1. Initiate and encourage programs to create a sense of community for the whole university.
Examples:
 - a. Continue programs, such as Pell Grant for students in need.
 - b. EnCircle Mentoring Network for faculty.
 2. Facilitate cooperation among responsibility centers, ensure that accounting processes/software allows responsibility center to split revenue in joint programs.
 3. Review the core curriculum (AUCC) and bring it up to date. Consider offering some common courses to first year students to ensure common language and values and facilitate a sense of community.
-

Topic 11: Highly flexible budget approach

Opportunity: The new budget model will improve growth, facilitate innovation, and increase transparency.

Risk: New budget approach will not work as expected; the campus will not be given sufficient time to learn and understand the new budget model.

Impact: Broken budget process

Related CoSFP Values: #1, #8

Risk Drivers:

1. RCM model introduces a *modus operandi*, a whole new culture and mentality in running a university.

Possible actions:

1. Periodic assessments of the model should be made, and the university should have an exit strategy in case the model doesn't meet the expectations. The principles of shared governance should be followed regarding the decision for a possible exit.
-

Topic 12: Budget model discussions

Opportunity: The campus will have the opportunity to explore the pros and cons of the new budget model relative to the current.

Risk: A new budget model will be blamed for financial limitations and the results of political processes (internal and external) that already exist in the current incremental model.

Impact: Unnecessary divisiveness among stakeholders .

Related CoSFP Values: #1, #2

Risk Drivers:

1. Budget is a contested issue that can be divisive.

Possible actions:

1. Faculty Council and its committees should strive for a neutral dispassionate communication.
-

Sources:

Barnes, Mallory and Kyle Clark. N.D. “Responsibility Center Management: The good, the Bad, and the Ugly,” *Texas Tech University Report*, available at <https://tinyurl.com/4jvvbyk7>

“Colorado’s Cuts to Higher Education Threatens Access and Equity”. N.D. *Center on Budget and Policy Priorities*, available at <https://www.cbpp.org/sites/default/files/atoms/files/10-23-19sfp-factsheet-colorado.pdf>

Comrie, Andrew. 2021. *Like Nobody’s Business: An Insider’s Guide to How US University Finances Really Work*. Open Book Publishers.

Courant, Paul and Amy Dittmar. N.S. “Report on the State of the Budget Model and Budget System at the University of Michigan,” *University of Michigan*, available at https://obp.umich.edu/wp-content/uploads/pubdata/budget/Budget%20Model%20Review%20abridged_FINAL.pdf

Daniels, Mitch, October 10, 2023. “How Tenure Paralyzes Higher Education,” *Washington Post*, available at <https://www.washingtonpost.com/opinions/2023/10/10/tenure-paralyze-higher-education/>

Dilawar, Arvind. June 22, 2021. “Universities are Slashing Faculties and Blaming Covid” *The Nation*, available at <https://www.thenation.com/article/economy/universities-budget-cuts-covid/>

Doug Lederman. October 2, 2023. “Citing Significant Budget Deficits, Several Colleges Face Cuts,” *Inside Higher Ed*, available at <https://www.insidehighered.com/news/business/cost-cutting/2023/10/02/several-colleges-plan-cuts-address-significant-financial-woes>

“House Spending Bill Eliminates Federal Work-Study and Seog Grants, Makes Other Drastic Cuts to Higher Ed Programs,” July 17, 2023, *American Council on Education*, available at <https://www.acenet.edu/News-Room/Pages/House-2024-Spending-Bill.aspx>

Hutchinson, Piper. August 20, 2023. “Budget Cuts Like Those at West Virginia Have Happened in Louisiana. Could they Happen Again?” *Louisiana Illuminator*, available at <https://lailluminator.com/2023/08/20/budget-cuts-like-those-at-west-virginia-have-happened-in-louisiana-could-they-happen-again/>

Kitch, Martin. 2016. “AAUP Recommendations for Addressing the Budget Shortfalls” <https://thewebsiteofwrightstateuniversitysaaupchapter.files.wordpress.com/2018/08/004-aaup-recommendations-for-addressing-budget-shortfalls.pdf>

Mintz, Beth. 2021. “Neoliberalism and the Crisis in Higher Education: The Cost of Ideology” in *The American Journal of Economic and Sociology*, vol. 80, issue1, available at <https://onlinelibrary.wiley.com/doi/epdf/10.1111/ajes.12370>

Mitchell, Michael, Michael Leachman, and Matt Saenz, October 24, 2019. “State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality,” *Center on Budget and Policy*

Priorities, available at <https://www.cbpp.org/research/state-budget-and-tax/state-higher-education-funding-cuts-have-pushed-costs-to-students>

Nietzel, Michael T. September 30, 2023. “More Colleges, Universities Announce Budget Cuts Amid Financial Woes,” *Forbes*, available at <https://www.forbes.com/sites/michaelnietzel/2023/09/30/more-colleges-universities-announce-budget-cuts-amid-financial-woes/?sh=358963495507>

Nietzel, Michael. September 18, 2023. “The Cuts at West Virginia University: Trend Setter or Outlier?” *Forbes*, available at <https://www.forbes.com/sites/michaelnietzel/2023/09/18/the-cuts-at-west-virginia-university-trend-setter-or-outlier/?sh=2989440c4761>

Olssen, Mark and Michael A. Peters. 2007. “Neoliberalism, Higher Education and the Knowledge Economy: From the Free Market to Knowledge Economy,” *Journal of Education Policy* Vol.20, Issue3: 313-345, available at <https://www.tandfonline.com/doi/abs/10.1080/02680930500108718>

Pettit, Emma. September 26, 2023. “Citing ‘Unprecedented’ Financial Challenges, Miami U. Tells Low-Enrollment Majors to Change,” *The Chronicle of Higher Education*, available at <https://www.chronicle.com/article/citing-unprecedented-financial-challenges-miami-u-tells-low-enrollment-majors-to-change>

Powell, Meerah. March 24, 2023. “Oregon Community Colleges Plan Budget Cuts Due to Falling Enrollment, Loss of Pandemic Funding” OPB, available at <https://www.opb.org/article/2023/03/24/oregon-community-colleges-budget-cuts-falling-enrollment-end-of-pandemic-funding/>

“RCM at Rutgers: A Five-Year Review” 2021 *A Report by Rutgers University*, available at https://www.rutgers.edu/sites/default/files/2021-08/RCMReviewReport-6-10-21_Final.pdf

“Responsibility Center Management at Major Public Universities.” 2008. *A report Prepared by Hanover Research Center*, available at https://www.etsu.edu/125-chapter-1/newbudgetprocess/documents/responsibility_center.pdf

“Reviewing the RCM Model: What Five Years Taught the Rutgers about a Broken Budget System,” 2021, *Rutgers AAUP AFT*, available at <https://rutgersaaup.org/wp-content/uploads/securepdfs/2021/12/Reviewing-the-RCM-Review.pdf>

“Review of RCM FY2022,” 2022, *Temple University Report*, available at <https://finance.temple.edu/sites/finance/files/documents/Overview%20of%202021%20Review%20and%20Next%20Steps%20Spring%202022.pdf>

Schulz, Chris. August 18, 2023. “West Virginia University’s \$45 Million Budget Shortfall to Force Cuts,” *NPR*, available at <https://www.npr.org/2023/08/18/1194562328/west-virginia-universitys-45-million-budget-shortfall-to-force-cuts>.

Shelton, Jon. 2023. *The Education Myth: How Human Capital Trumped Social Democracy*, Cornell University Press.

Schwartz, Natalie. September 22, 2023. "This Week in Numbers: Budget Cuts Loom over Public Colleges," *Higher Ed Dive*, available at <https://www.highereddive.com/news/this-week-in-numbers-budget-cuts-loom-over-public-colleges/694429/>

Slade, Duncan and Erin Beck. September 15, 2023, "WVU's Board of Governors has approved budget cuts. Here's what to know" *Mountain State Spotlight*, available at <https://mountainstatespotlight.org/2023/09/15/wvu-board-cuts-degrees-layoffs/>

Quinn, Ryan. 2023. "A Flagship Research University: Without Language Degrees or Math Ph.D.s?" *Inside Higher Ed*, available at <https://www.insidehighered.com/news/institutions/research-universities/2023/08/31/wvu-r-1-flagshipwithout-language-degrees-or-math>

Weatherby, Leif. August 20, 2023. "What Just Happened at West Virginia University Should Worry all of Us," *New York Times*, <https://www.nytimes.com/2023/08/20/opinion/west-virginia-university-cuts.html>.

Wendling, Zach. October 3, 2023. "University of Nebraska at Kearney Faculty, Students Protest Budget Cuts," *Nebraska Examiner*, available at <https://nebraskaexaminer.com/2023/10/03/university-of-nebraska-at-kearney-faculty-students-protest-budget-cuts/>

Whalen, Edward. 1992. *Responsibility Center Budgeting: An Approach to Decentralized Management for Institutions of Higher Education*.

2nd Institutional Review of Responsibility Center Management (RCM), 2021, Temple University, available at <https://finance.temple.edu/sites/finance/files/documents/Summaryof%20RCM%20Review%202021%20key%20findings.pdf>.

APPENDIX I:
GOALS AND VALUES REGARDING THE BUDGET MODEL
Previous CoSFP report submitted to Faculty Council

GOALS AND VALUES REGARDING THE BUDGET MODEL

A Report

Submitted to Faculty Council at Colorado State University

by

The Committee of Strategic and Financial Planning (CoSFP)

September 21, 2023

Background:

After being invited by President Amy Parsons in Spring 2023 to contribute to the development of a new budget model, CoSFP members decided to work throughout the summer so that the committee could provide timely feedback. For that purpose, Dr. Gamze Cavdar, Chair of CoSFP called for volunteers to organize a subcommittee to work throughout the summer months of 2023 (June, July, and August). Many members including those with nine-month contracts volunteered to work. A total of eight out of 12 voting members actively participated in the subcommittee work. Once the draft was completed, the report was submitted to the entire committee at the beginning of the academic year. The Committee reviewed the draft and finalized it.

The subcommittee work was informed by the book entitled *Like Nobody's Business: An Insider's Guide to How US University Finances Really Work* by Andrew Comrie. Comrie recommends that the development of a budget should start with a list of “values” that would set up the parameters of the new budget model and inform all steps that come after. That’s because, Comrie believes, before units begin getting into nitty gritty details and advocating their own interests, they have a best chance of collectively deciding what values they want the new budget model to be created around. Because these values are “common denominators” and because they are agreed before any details are known, the document of “Goals and Values” acts like a “constitution” of the budget model shaping and informing all other documents that are developed later and taking precedence in case of a conflict.

Goals and Values for Budget Model

GOALS:

This statement of values, respectfully submitted by CoSFP to inform the current budget design process, reflects the Committee's overarching goals of continuing to maintain and increase the overall effectiveness of all CSU employees in Fort Collins in achieving the University's core mission as the land-grant university of Colorado.

VALUES:

- 1) **CORE ACADEMIC MISSION FIRST:** As the land-grant university of Colorado, our core academic missions are “teaching, research, service and extension for the benefit of the citizens of Colorado, the United States, and the world.”⁴ The budget model is only a tool to achieve our mission.
- 2) **COMMON GOOD:** The model should prioritize what is best for the University and our core academic mission instead of individual units.
- 3) **UNIVERSITY AS AN ECOSYSTEM:** The model should acknowledge and promote interdependence among individual units. As the principle of shared governance dictates, faculty are the primary stakeholder in decision-making concerning the curriculum and the elimination of programs cannot be solely made based on budgetary concerns.
- 4) **DIVERSITY, EQUITY, INCLUSION AND SOCIAL JUSTICE (DEISJ):** The budget model should continue to support DEISJ goals.
- 5) **STUDENT SUCCESS:** The model should encourage initiatives for attracting, retaining, and supporting quality students and broad diversity goals.
- 6) **FACULTY AND STAFF SUCCESS:** The model should encourage initiatives for recruiting, retaining, and advancing quality faculty and staff and establish compensation mechanisms to address both internal equity goals and external market demands.
- 7) **INNOVATION, CREATIVITY, and FLEXIBILITY:** The model should provide opportunities for innovative ideas, such as interdisciplinary and multidisciplinary initiatives, as well as for substantiable growth and agility.
- 8) **TRANSPARENCY, ACCOUNTABILITY, and SHARED GOVERNANCE:** Both the budget model itself and the development process should maintain transparency, accountability, and shared governance. The process should be unhurried.
- 9) **SIMPLICITY: The model should allow for informative and understandable calculations and projections.**

⁴ CSU System Colorado State University, <https://csusystem.edu/we-are-colorado/>