Budgeting at Northeastern
Update to Faculty Senate

April 2018
Why Move to RCM and Hybrid?

- Encourages entrepreneurial activities
- Aligns resource generation with resource allocation
- Provides colleges with resources for strategic investment
- Encourages units to set priorities and develop new activities in support of the university’s mission and academic plan
- Promotes efficiency at the unit level
- Includes mechanisms to encourage cross-unit collaborations
Northeastern’s History with Hybrid

- 2009 - Hybrid Budget Model Planning Team appointed

- Researched, assessed and amended best principles of RCM management strategy pioneered in higher education over 40 years ago and successfully implemented at hundreds of universities in US and abroad

- Held public forums involving all sectors of the University community—every school/college as well as Faculty Senate

- Phased implementation began July 2010 with four academic units – Business, Law, Engineering, CPS

- Full implementation in July 2011

- Model has evolved as experience was gained
Hybrid Budget Model Overview

- Decentralized budgeting system with each School/College established as a Responsibility Center (RC)

- Units that generate significant annual income also designated as Responsibility Centers (Dining Services, Residence Halls, etc.)

- Central support units are Cost Centers

- RCs are the key decision-making units in the budget model (12 academic, 5 non-academic RCs), allowed to retain annual surpluses for future investment
Responsibility Centers

**Academic Responsibility Centers**
- Bouve College of Health Sciences
- College of Arts, Media & Design
- D’Amore McKim School of Business
- College of Computer & Information Science
- College of Engineering
- College of Professional Studies
- College of Science
- College of Social Sciences & Humanities
- Gordon Leadership Program
- School of Law
- International Study Programs (GEO)
- University Programs (General Studies and Undeclared)

**Other Responsibility Centers**
- Summer Conferences (EMSA)

**Auxiliary Responsibility Centers**
- Campus Dining Services
- Conference Centers
- Parking
- Residence Halls
Cost Centers

Cost Centers (selected examples):

- Administrative (Office of the President, Office of the SVP/CFO, Facilities)
- Academic (Office of the Provost, Office of the Registrar, Career Services)
- Student Services (EMSA)
- Library
- Research (Office of the SVP Research, ORAF)
## Hybrid Budget

### RC/College Template

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate Tuition</td>
<td>$</td>
</tr>
<tr>
<td>Graduate Tuition</td>
<td>$</td>
</tr>
<tr>
<td>(Financial Aid)</td>
<td>$(</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td>$</td>
</tr>
<tr>
<td>Gifts and Endowment Income</td>
<td>$</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$</td>
</tr>
<tr>
<td>(University Contribution)</td>
<td>$(</td>
</tr>
<tr>
<td>Current Fund Allocation</td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$</td>
</tr>
<tr>
<td>Other Direct Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Allocated Costs</td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

**BALANCE for Fiscal Year** $
Revenue in the Hybrid Model

- Revenue is attributed to the RC that generates it:
  
  ✓ Undergraduate tuition (except Study Abroad and “Semester In...”) is divided 50%-50% between the RC offering the instruction and the RC of enrollment
  
  ✓ Undergraduate financial aid is calculated as an average discount on the tuition of all undergraduate students
  
  ✓ Graduate tuition flows to the instructing unit; graduate financial aid is assessed based on average prior years’ discount of the enrolling college
  
  ✓ Revenue from grants and contracts, gifts, endowments, and non-credit activities flows directly to RCs
  
  ✓ Indirect cost recovered from externally funded grants and contracts is credited to the RCs, split by the percentages in the grant proposals
University Contribution

- RCs pay a “University Contribution” (a percentage of all revenues except direct grant funding, gifts and endowment income)

  ✔ The “University Contribution” funds a “Current Fund Allocation” used by the Provost to achieve appropriate balance between an RC’s revenue and expenses and University initiatives

- For the FY18 budget cycle, piloted a one-year reduction in the academic RC “University Contribution” rate from 20% to 17.5%

- For FY19, reduced the “University Contribution” even further to 5% for all RCs

  ✔ Applied our standard “hold harmless” calculations to adjust CFAs
  ✔ Distributed additional CFA across RCs
Allocated Costs

- Central university costs are covered by the RCs through an allocated cost model

- Prior to FY18, costs were distributed across 8 separate categories:
  - Administrative
  - Student
  - Research
  - Classrooms
  - Academic
  - Library
  - NU Global Network
  - Space

- Last year, to help RCs project costs, the university moved to a consolidated model with only three allocated cost buckets:
  - Professional Advancement Network (PAN) – based on multi-year revenue goals
  - Space costs – based on occupancy and type
  - All other – 76% of direct expenditures for academic RCs and 27% for non-academic

- For FY19, the “all other” allocated cost rate has been reduced:
  - 75% for academic RCs
  - 26% for non-academic RCs
FY17 Actuals ($ millions)

Revenue - $1,163.1

- Tuition and fees (net) $821.0 71%
- Endowment/gifts $39.0 3%
- Grants and contracts $92.4 8%
- Indirect cost recovery $27.8 2%
- Auxiliary/Other enterprises $181.3 16%
- Financial Aid - $314.4
  - Undergraduate aid $264.2 84%
  - Graduate aid $50.2 16%

Expense - $1,095.3

- Instruction $416.6 38%
- Research $122.4 11%
- Academic support $175.6 16%
- Student services $121.1 11%
- Institutional support $127.4 12%
- Other student aid $6.6 1%
- Auxiliary/Other enterprises $125.7 11%

Source: 2017 audited financial statements
2018 presentation to Board of Trustees
Hybrid Budget at NU Today

- Revenue growth has allowed colleges/schools to invest in new faculty lines and programs

- Increased spending from the RCs has generated additional funds for central to invest in research, infrastructure improvements and NU2025

- Deans are empowered to make resource allocation decisions for their units and take responsible risks to generate new revenue

- Hybrid model supports the advancement of metrics which move the institution forward, not just those that maximize revenues

- The model continues to evolve – we remain committed to RCM but acknowledge there is always room for improvement
Additional Information

➢ Learn more at:
https://provost.northeastern.edu/budget/