ROM – A Guide to the new Results Oriented Management Budget Model

Implementation Progress Update

Since the announcement of UNM’s new Results Oriented Management in mid-May, a newly created implementation and technical team has been working diligently to create the data infrastructure and analysis backbone necessary for the successful implementation of ROM in fiscal year 2015. This has been a broadly representative, collaborative effort including representatives from Academic Affairs, Administration, colleges, and other academic departments. In addition, considerable time has been spent determining the operational aspects of ROM, including governance, revenue allocation, and incentive mechanisms. This report provides an update on progress made to date, as well as key components of the new budget model.

ROM Data and Reporting Initiative

A robust reporting and analysis infrastructure is absolutely critical to achieving the levels of performance and transparency we desire. As such, UNM is engaged in the creation of an ROM data warehouse, which will bring together relevant financial, student, and human resources data in a logical, transparent manner to support reporting and analysis. Given the complexity of UNM’s multiple data systems and current reporting structure, creating a single location that contains relevant, transparent, verifiable, and vetted data for reporting and analysis is critical. In addition to the underlying data structure, the technical team is creating a series of analysis tools and reports to enable full ROM implementation. To accomplish this, the technical team has formed two sub-groups: a planning team and a reporting team:

ROM Planning Team: This sub-group is building a planning and forecasting tool that will provide academic departments the ability to run forecasts and model various scenarios to determine the efficiency of departments and optimize the delivery of the curriculum. Specifically, the planning tool forecasts revenue and expense levels based on key variables such as enrollments, class size, course offerings, faculty workload, and faculty rank. This interactive planning tool creates an iterative planning process that empowers department chairs, deans, and the provost to incorporate financial implications into decision-making and optimize instructional offerings. The forecasting tool is currently going through testing and training with financial staff from each of the main campus colleges.

ROM Reporting Team: This sub-group is building a suite of reports to compliment the aforementioned planning tool. These reports will support the planning effort by providing information to units at the operational level – highlighting specific performance metrics and trends over time, as well as the real-time tracking of performance as compared to a units initial plan and budget. Further, these reports will facilitate peer benchmarking and highlight areas that may have opportunities for revenue growth, cost containment, or additional investment. The reporting team is also creating a series of quarterly management-level reports and dashboards for
broad communication and reporting on the performance of specific units, as well as the overall university on key ROM performance measures.

It is our belief that these efforts will provide maximum flexibility for units engaged in planning, data analysis, and reporting. Additionally, this approach structures the relevant data in such a way that information for analysis is easy to extract and is highly customizable, which is a crucial step of ROM implementation and the successful integration into individual units.

**ROM Operating Details, Policies, and Procedures**

Results Oriented Management is built upon the key concepts of net change, continuous improvement, and the alignment of responsibility with authority. Working within this construct, we are tasked with creating a budget model that improves financial performance across the university, and creates new discretionary funds for incentives and investment at all levels of the university. In order to implement a model based on continuous improvement and net change, we must begin by determining scope and establishing a current baseline. The initial scope of the ROM budget process will include the main campus I&G budget, with a goal of integrating non-I&G funded units in the future. We recognize that most non-I&G units are already operating under an RCM-style budget model, so the goal will be to integrate their existing processes into ROM.

**Expenditure Budgets**

The foundation of UNM’s ROM budget model is facilitating continuous improvement in financial performance in units across campus, and optimizing expenditure levels will be critical to achieving this goal of continuous improvement. Thus, ROM must include an incentive structure to facilitate cost reductions and expenditure efficiencies where opportunities exist across the university. The key challenge is to create a process that incentivizes cost savings while allowing a portion of these savings to be accumulated and distributed for strategic reinvestment and performance funding.

Our approach to this challenge was inspired by the work of the College of Arts and Sciences RCM workgroup. The budget process would begin with determining improvement targets for overall I&G expenditures. These targets would be determined by senior leadership, and then targets for individual units would be distributed throughout the organization (the Provost would set individual targets for Colleges, the Deans would set individual targets for Departments, etc.). At the outset, these expenditure targets will be implemented through an initial reduction in the base I&G funding allocation to each unit. These reductions would be pooled in a fund for strategic investments and performance funding, and could include funding for “block grants” to backfill reductions for certain units during the period of transition to ROM.

Recognizing the importance of having a single comprehensive budget process, any other new I&G funds (either through new state formula workload or a potential increase in tuition) will also flow into the Funding Pool. All monies in the Funding Pool will be split among three purposes: must-funds, a Strategic Investment Fund, and a Performance Fund.
The Strategic Budget Leadership Team (SBLT) will be responsible for making recommendations on the mix of funding allocated to strategic investments versus performance funding, as well as specific funding recommendations and requirements. The overarching process is depicted in the following figure:

Based on this new process, the development of the I&G allocation for a specific unit would consist of the following:
**Strategic Investment Fund**

As outlined in the graphic on the previous page, a portion of new revenues in the Funding Pool would flow into a Strategic Investment Fund to be invested in activities outlined in the strategic plan or allocated to university-wide initiatives. The SBLT will be responsible for recommending the portion of overall funding that will flow into the Strategic Investment Fund, as well as initial recommendations on specific investments.

The SBLT will also further develop the investment process by which units request funding for new initiatives or strategic investments. All new requests will be vetted and endorsed by the relevant Dean/Vice President prior to consideration by the SBLT, which will evaluate proposals based on their alignment with the strategic plan and the impact the request would have on making progress toward institutional goals (such as retention and graduation rates, research growth, etc.)

**Performance Fund**

As described earlier, a portion of new I&G revenues created through the ROM expenditure targets, new state workload funding, or a potential tuition increase would flow into a Performance Fund to be allocated to units based on their performance on a variety of metrics and outcome measures. The Strategic Budget Leadership Team will be responsible for recommending the portion of overall funding that will flow into the Performance Fund, as well as for making initial recommendations about performance funding to be allocated to the units.

There is still work to be done with regards to identifying the most appropriate performance measures, but the list below is a set of potential metrics that have been discussed to date. Current plans include both institution-wide and unit-specific performance measures, thereby creating a mechanism to reward units for performance toward achieving broad university goals (an overall increase in the graduation rate, for instance).

**Potential Academic Unit Performance Metrics:**

**Institution-Wide:**
- Retention & Graduation Rates
- Completion Ratios
- Time to Degree
- Cost per Degree

**Unit-Specific:**
- Student Credit Hours
- Degree Completion
  - Bachelors, Masters, Doctorate
  - Stem-H
  - Pell-Eligible
- Research Expenditures
- Scholarly Productivity
Potential Support Unit Performance Metrics:

**Efficiency:**
- Overhead Ratios
- Cost/Unit Ratios
- Peer Benchmarks

**Service Levels:**
- Processing Time/Turnaround Time
- Effectiveness Levels
- Customer Satisfaction

In addition to budgeted new revenues, any net growth in I&G pooled accounts (most likely the result of increased tuition revenues as a result of enrollment increases) would be allocated to the Performance Fund. A portion of these revenues would be allocated directly to the colleges that generated them, serving as an incentive for individual units to work to generate additional revenues. The Strategic Budget Leadership Team will be responsible for making recommendations on the details of this process. Key decisions that remain are the timing of these allocations, the mix of recurring and non-recurring funds in these allocations, and whether units would have additional funding placed at risk if their tuition generation decreased in any given year.

**Conclusions and Next Steps**

It is Administration’s belief that this new Results Oriented Management approach to budgeting will begin to focus departments across the university on performance. The incremental nature of this approach will drive continuous improvement throughout the university, while working to minimize the disruption to operations at the unit level. Additionally, by aligning accountability for performance with authority, we have created a framework by which each unit can focus directly on carrying out their mission as effectively as possible and optimizing the delivery of services. We are also engaged in a substantial training and communication effort, which involves presentations and discussions with academic and administrative leadership, department chairs, fiscal staff, etc. The timeline below outlines major milestones in ROM implementation as they relate to the FY15 budget process:

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<tr>
<th>Nov-Dec: Forecasting Tool Power-User Training</th>
<th>Jan: Expenditure Targets determined for Dean/VP level Orgs</th>
<th>March: SBLT Finalizes Strategic Investment and Performance Fund Recommendations</th>
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<tr>
<td>Jan-Feb: Forecasting Tool General Training</td>
<td>Feb-March: Provost/Budget Office review of budget forecasts</td>
<td>March: Administration presents Budget Scenarios to Regents</td>
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