



EAST TENNESSEE STATE UNIVERSITY

Ad Hoc Budget Committee

Final Recommendations to the President

May 14, 2015

The Ad Hoc Budgeting Process Committee was charged with reviewing the existing budget process at ETSU and determining whether that process should be retained, modified, or replaced. Specifically, the Committee was charged with considering whether a Responsibility Center Management (RCM) model or a variant of the RCM model should be adopted.

RCM is a financial model that devolves budgetary decision-making and control from a central level to the level of the College and/or the Department ("the Responsibility Centers"). Typically, in an RCM system, tuition revenue is returned to the College and then the tuition revenue and/or the state funding for the University is "taxed" at a pre-determined rate in order to operate those parts of the University that are "cost centers." RCM operates most effectively when the responsibility centers and the cost centers work together to develop over-arching strategic goals for the organization; when there is strong support for RCM on the part of the organization's leadership; when there is shared decision-making as to how centralized resources are expended; and when there is a careful and systematic process to introduce the RCM model into an organization. At its best, an RCM model provides incentives for enrollment growth; aligns budget responsibility with budget authority; ties budgetary decisions to strategic planning, and provides a process by which budget reduction decisions can be made during times of reduced revenue.

The Ad Hoc Budget Committee believes that our current planning and budget models are not optimally structured to position ETSU to succeed in a rapidly changing academic world. We also believe that revenue, budget authority, and entrepreneurial energy should reside at the level of the Colleges. The committee recommends that the university move in the direction of developing and implementing an RCM-type budget model by studying in detail several models used at other institutions, visiting such institutions and bringing knowledgeable representatives from such campuses to ETSU, and possibly by hiring a consultant who is familiar with the implementation of RCM-type budget models to help us through the process. Changing a budget model, in and of itself, will not address all of the challenges that face ETSU and other institutions of higher learning, and the committee feels very strongly that other aspects of how the university operates must be addressed during this information-gathering and development phase.

In reflecting on the questions raised and comments made at the March 18, 2015 meeting, and in subsequent conversations, it is evident that some faculty and staff were not merely unclear or uncertain about the direction in which the Committee was moving, but they were alarmed. Specifically, some faculty and staff were concerned about what implementation of an RCM-type model at ETSU would mean for them, and their units. The committee understands this difficulty, since there was an absence of specific, detailed information about key elements of how an RCM would be implemented at ETSU. The committee approached the meeting as an

opportunity to discuss RCM in a general sense, while some participants were hoping for a more detailed presentation on what RCM would look like at ETSU.

Based on its deliberations over 18 months, the input from consultants and other institutions, and, reflecting on the input from the March meeting, the Committee recommends that the university adopt a phased approach towards the development and implementation of an RCM-type budget model that includes the following components:

Phase I

1. Major revision in how the university conducts strategic planning

The planning process needs to be well-defined, transparent, collaborative, closely linked to the budgeting process, and yet nimble enough to allow the university to take advantage of opportunities as they arise. The strategic plan needs to provide clear direction for the university, as reflected by the commitment, to the greatest extent possible by faculty, staff, administrators, and students.

2. Appointment or identification of a Vice President or Director of Strategic Planning and Budgeting

It is imperative that there be a champion of any new planning and budgeting initiative, a respected individual who is committed to the change and has the authority to guide and implement the process. This should not be the president, but someone who can devote his/her time and energy to the process. The proposed Executive Director of Policy Planning and Analysis, and that office, would provide excellent support to this individual.

3. Address campus communication

A pattern of clear communication at all levels must be developed before embarking on such a major initiative as implementation of a new budget model, which will inevitably give rise to fears and uncertainties.

4. Gather information and develop a new budget model

While ETSU represents a unique environment, a group headed by the VP or Director should gather as much pertinent and detailed information as possible from universities that have instituted an RCM-type model. This should include in-depth study of models used at other universities, visiting such institutions and bringing representatives from those campuses who are intimately involved in their budget process to ETSU, and possibly by hiring a consultant who is familiar with the implementation of RCM-type budget models at other universities. This should include a clear idea of the costs of implementation, including hiring budget managers, and training for deans and chairs. Their goal would be to propose a model that would be appropriate for ETSU.

Phase II

The committee wishes to emphasize that development of a meaningful strategic plan, with clear communication to the campus, should precede any effort to introduce a new budget model. With a clear strategic plan in place, the VP or Director can lead efforts to educate the campus regarding the new budget model, its details, and how it will be implemented.

In Summary: If a decentralized, RCM-type model is to be developed at ETSU, we believe the following specific actions must be taken:

- a. ETSU must hire or identify a respected, collaborative, senior leader at the Vice President or Director level to be the implementation leader/champion for effective strategic planning and the RCM model.
- b. The senior leadership team of the university must demonstrate their support for the implementation of an RCM-type model.

- c. ETSU should establish a working group to identify principles and parameters for the implementation of the RCM-type model.
- d. Members of this working group should visit other institutions that have implemented an RCM-type model to gather data that would inform the process at ETSU, and have those institutions visit ETSU.
- e. Consideration should be given to a variable assessment (tax) among colleges and other revenue centers based on their missions.
- f. The RCM-type process should be carefully and regularly evaluated, particularly in the early years, to account for unintended consequences and any errors in assumptions.
- g. There should be a recognition that there are alternative ways of defining "cost" centers, including identifying those that are "Essential" (activities that must take place for the university to achieve its mission), those that are "Strategic Assets" (activities determined highly desirable for the university to achieve its strategic vision) and those that are "Optional" (those activities that, while potentially of significant value, are not essential for the university to achieve its mission).
- h. It must be recognized that there will be initial costs associated with developing and implementing a new model, and appropriate funding should be identified for this purpose.
- i. Prior to, and throughout the implementation of a new budget model, there needs to be careful communication/education/buy-in to ensure clarity and transparency in comprehensive understanding of WHAT the model is; WHY it is being implemented; WHEN it will start; HOW it will impact budgets; and WHO will conduct training and be available for questions.