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EAST TENNESSEE STATE  
UNIVERSITY

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# Ad Hoc Budgeting Process Committee

Final Report

August 2015

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## INTRODUCTION

In October, 2013, President Noland appointed an Ad Hoc Budgeting Process Committee (membership attached). This Committee was charged with making recommendations to the President related to the development of a new budgeting process for ETSU that embraced the elements of a transparent, open, and inclusive process that aligned planning and budgeting with resource allocation. While a new budgeting committee and report process is part of the Committee's recommendations, the group quickly realized that a shift in "culture" would be required in order to accomplish the goals set forth by the President.

The Committee enjoyed representation from a wide variety of constituencies. Multiple meetings have taken place which included webinars concerning Responsibility Centered Management, conversations with University representatives of Miami and Indiana, a review of the Kentucky implementation model along with a significant amount of quality dialog and frank conversation. Each member of the committee was actively involved in the process and reached a remarkable level of agreement.

## Ad Hoc Committee on Budgetary Process

<b>Reports to:</b>	President		
<b>Charge:</b>	The Ad Hoc Committee on Budgetary Process—informed by the Staisloff consultancy—is charged to recommend to the President by March 1, 2014 an operational budgetary process. It is the University expectation (a) that the process will be characterized by expanded flexibility and accountability at the College level and (b) that it will be clearly amenable to the entire University participating in a five-year growth agenda that adheres to reasonable qualitative and quantitative standards.		
<b>Status</b>	<b>Membership Structure</b>	<b>Name</b>	<b>Area of Representation</b>
<b>Voting</b>	Academic Deans	Dr. Gordon Anderson	Arts & Sciences
		Dr. Larry Calhoun, <b>Chair</b>	Pharmacy
		Dr. Linda Garceau	Business & Technology
		Dr. Randy Wykoff	Public Health
		Dr. Wendy Nehring	Nursing
	Faculty Representatives	Dr. Amal Khoury	Health Sciences Management & Policy
		Dr. Wally Dixon	Psychology
		Dr. Mike Smith	Social Work
		Dr. Randy Byington	Allied Health Sciences
		Dr. David Linville	College of Medicine
	Staff Representatives	Mr. James Batchelder	Fiscal Affairs, College of Public Health
		Ms. Raven Moody	Budget & Financial Planning
		Dr. B.J. King	Financial Services
		Dr. William Duncan	Research & Sponsored Programs

# **PROBLEM STATEMENT**

As higher education transitions to a funding paradigm personified by diminishing state support, it is imperative that budget structures be developed that engage all facets of the university. This structure must provide a clear and concise means to communicate the elements of the university that make ETSU distinctive within a competitive and crowded higher education market. The proposed budget process provides a means to align core resources with strategic priorities, thereby creating shared ownership across colleges and departments. The development of a strategic budget process will yield key deliverables and demonstrable elements specific to charting ETSU's future direction and growth.

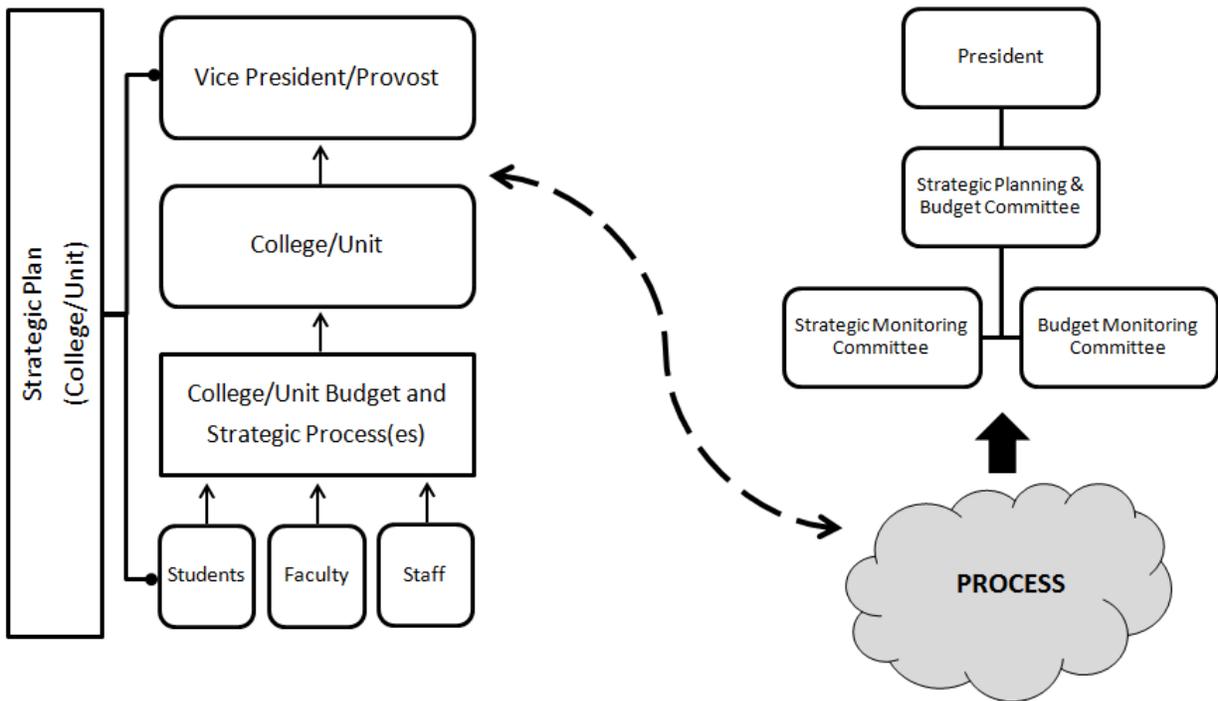
\* From President Noland's Committee appointment letter

# Strategic Planning and Budgeting

## The Revised Process

The revised process, as recommended by the Ad Hoc Budgeting Process Committee, takes into consideration the Staisloff recommendation, but further considers the necessary relationship between strategic planning and budgeting. A description of a strategic planning process, discussed by the Committee, appears in the Appendix, as does the Staisloff recommendation.

The process, shown below and proposed by the Ad Hoc Committee, integrates strategic planning and budgeting activities.



At the heart is the Strategic Planning and Budgeting Committee (SPBC). At the head committee is the President, supported by a director of strategic planning. Members of the Strategic Planning and Budgeting committee include the President's leadership team, specifically the vice presidents reporting to him, and representatives of Faculty Senate, Staff Senate, the Council of Chairs and Student Government.

As it pertains to strategic planning, it is the role of this SPBC to engage periodically in an environmental scan, review and approve mission and vision statements, identify strategic priorities that will drive the

planning process and evaluate initiatives that support strategic priorities across the University. The endorsement of a strategic initiative at the University level assumes the investment of University resources in the initiative. Typically, these strategic planning activities will occur on a 3-5 year cycle. When the Committee is not actively engaged in the development of the strategic plan, its annual planning responsibilities include the review of progress on approved University strategic initiatives with the possible decision to continue, discontinue or replace a program or service, and review of the ongoing relevancy of strategic priorities in light of changing conditions. The recommendation to reconsider a strategic initiative or priority may come from the Strategic Planning and Budgeting Committee or from recommendations emerging from the Strategic Monitoring Committee. The Ad Hoc Budget Committee recommends that any curriculum proposal for a new program that requires the University's financial support during the start-up period be reviewed in a timely manner by the SMC and SPBC. In addition, the SPBC will review the annual implementation of the strategic plan as recommended by the Strategic Monitoring Committee.

The SPBC's budgetary responsibilities include oversight of the University's budget and approval of the tax rate. Information and recommendations for these decisions flow from the Strategic Monitoring Committee (SMC) and the Budget Monitoring Committee (BMC). It is the responsibility of the SMC to provide the SPBC with information about environmental changes that may impact the implementation of the strategic plan, and the financial consequences of continuing, discontinuing or replacing strategic initiatives. The BMC is responsible for ongoing budget oversight, future budget projections and the recommendation of tax rates. In the process of developing the budget, it will accumulate expense information, as well as revenue projections, including tuition revenue, philanthropy, service revenue and resources resulting from research activities. The Strategic Monitoring Committee will also interface with the Budget Monitoring Committee to inform them of recommended changes to the strategic plan that will impact the budget.

A summary of the responsibilities of each of the committees follows:

Strategic Planning and Budgeting Committee (SPBC)	Strategic Monitoring Committee (SMC)	Budget Monitoring Committee (BMC)
Every 3-5 years <ul style="list-style-type: none"> <li>• Conduct Environmental scan</li> <li>• Prepare SWOT</li> <li>• Review and approve University mission and vision statements</li> <li>• Identify strategic priorities</li> <li>• Evaluate and endorse strategic initiatives</li> </ul>		
Annually <ul style="list-style-type: none"> <li>• Evaluate progress on strategic initiatives</li> </ul>	Annually <ul style="list-style-type: none"> <li>• Conduct annual environmental scan</li> </ul>	Annually <ul style="list-style-type: none"> <li>• Propose University budget, accumulating</li> </ul>

Strategic Planning and Budgeting Committee (SPBC)	Strategic Monitoring Committee (SMC)	Budget Monitoring Committee (BMC)
<ul style="list-style-type: none"> <li>• Evaluate ongoing relevancy of strategic priorities</li> <li>• Approve proposed annual strategic plan</li> <li>• Approve University budget</li> <li>• Approve University tax rate</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate progress on University funded strategic initiatives (discontinue/continue)</li> <li>• Evaluate proposed strategic initiatives</li> <li>• Develop annual strategic plan</li> </ul>	<ul style="list-style-type: none"> <li>projected revenues and expenses for all University activities</li> <li>• Propose tax rate</li> </ul>
		Quarterly <ul style="list-style-type: none"> <li>• Review quarterly budget performance (actuals to budgeted)</li> </ul>

The proposal that the Committee makes for these three committees maps closely to those proposed in the Staisloff report with the SPBC functioning as the Institutional Effectiveness Committee, the SMC as the Strategic Planning Subcommittee and the BMC as the Resource and Performance Subcommittee. Subcommittees defined as “Programs and Services” and “Capital Investment” are not shown; their strategic plans and budgets being overseen by the senior managers to whom they report.

The Responsibility Centered Management approach to planning and control assumes the decentralization of planning budgetary control. As shown in the flow chart, the responsibility centers define their strategic plans and proposed budgets, which are then reviewed by the senior administrators who oversee each of the major areas of the University. The integration of these activities in the planning and budget process is critical.



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.

# **Additional Ad Hoc Budgeting Committee Observations**

The following recommendations and observations were developed over the course of the 18 months that the committee has been working. Some are incorporated into the Final Recommendations to the President, but bear repeating, whereas others are not stated explicitly in that document.

## ***Planning and Budgeting***

The committee spent a considerable amount of time and effort focused on the role of strategic planning and its relationship to budgeting, and makes the following recommendations:

1. Budgeting and planning need to be linked. This cannot be over-stated.
2. A revamped strategic planning process tied to budgeting must undergo regular review.
3. There should be a process identified for the approval of new initiatives that occurs outside of the approved strategic plan.

## ***Implementation***

The committee recommends that implementation of an RCM-type budget model should be the second phase of a two-phase program. Current financial and human resources and budgeting culture are not in place to sustain an immediate adoption of RCM and development of technical, personnel and financial resources should be an intentional target of any effort to adopt RCM over time. When implementation occurs, the committee believes that the following are important to note:

4. The President will play a key role in the implementation of a new budgeting model.
5. Primary responsibility and accountability for implementing an RCM-type system rests with the President of the university.
6. This new budgeting process needs to have a champion at the level of senior administration.
7. In addition to a Provost/Vice-Presidential level champion, other individuals must be identified from the faculty and staff level in order to facilitate the cultural change.
8. A new position should be created to oversee the planning and budgeting process. This should be a full time position reporting to the President.
9. Deans and non-academic equivalents should be responsible for driving planning and budgeting to the department and faculty/staff levels.
10. Each college should have an identified financial officer.
11. There should be a hold harmless, or "limited harm" period as a safety net for a period of time.

## ***Operational Principles***

It is important that those impacted, whether members of revenue centers or cost centers, have a clear understanding of how any new system will operate. Thus, the operational principles must be clearly defined and communicated. This will require a significant culture change, which will require time and careful communication.

12. Transparent "Rules of Engagement" should be determined.
13. Growth should be rewarded in a new budgeting process.
14. Accountability should be linked to authority because of the continually changing environment.

15. Any new process should have continual predictability.
16. Revenue centers and cost centers must be identified and tied to any “tax” for allocation of funds.
17. Responsibility centers (e.g., colleges and major service and administrative units) should have the flexibility to roll over unspent, net revenue.
18. Essential programs and services need to be protected in a revenue based environment.
19. There should be rationality, transparency, and clarity in determining “tax rates” along with sensitivity to tendencies to “build in” profit/slack which should be resisted.
20. There should be a specific process for continual programmatic and administrative review of services.
21. There should be a transparent process for determining centralization vs. decentralization of services.

**STRATEGIC PLANNING  
DISCUSSION  
DOCUMENT**

**DRAFT FOR DISCUSSION**

**Consideration of a RCM-based Budget Model**

**DRAFT FOR DISCUSSION**

## Introduction

Strategic planning and budgeting must be integrated processes. Strategic plans or initiatives must have the resources to be carried out effectively, and they must be established with the budgetary constraints of the institution firmly in mind. In conjunction with a revised strategic planning model, it is necessary to establish a revised budget process.

The current budget model is highly centralized, providing few and continually diminishing incentives for colleges and departments (the source of most revenues) to be entrepreneurial and to seek to enhance productivity or efficiency. The university has engaged the financial consultant group rpkGROUP to provide input regarding a new budget model for the university, and while they have not espoused a strict Responsibility Center Management (RCM) model, they have proposed that we consider some variation on a RCM model. The following represents such a variation.

## Overview of the Model

All revenues generated by a college through tuition, specialized fees, indirect costs, fundraising, etc. should initially be assigned to that college. Funds that are designated for specific purposes within the college, e.g. specialized course fees, and designated fundraising, should be retained 100% by the college. Other revenues, e.g. general tuition, and indirect costs, would be subject to an overhead charge that would be transferred to the general fund and used to support the university's cost centers, such as Student Affairs, the library, Graduate School, Honors College, Admissions, Financial Aid, etc. and, where appropriate, to subsidize more expensive academic programs. Two additional overhead amounts should be charged to fund (a) strategic initiatives of the university that would be identified and supported as outlined in the strategic planning

document, and would be funded at the university level; and (b) a pool of funds or reserve to provide a safety net for colleges that, through changes in circumstances and through no fault of their own, cannot meet their financial obligations in a given year.

Each college would therefore be responsible for developing its own sources of revenue and covering all of its costs, and this should lead to greater efficiency, productivity and entrepreneurial activities at the college level. With a fixed percentage of revenues going to the general administration to be allocated to cost centers, it should also lead to careful examination of their expenditures and increased efficiencies there also.

Such a model would move significant decision-making authority, as well as responsibility for outcomes, to the college, and perhaps department level. In a period of growth the college dean would have greater autonomy in deciding how to invest the college's resources; and in a period of decline it would be the responsibility of the dean to determine the measures needed to balance the college budget. Failure to balance the budget in a given fiscal year could be covered by the reserve, but it could also lead to a withholding in the following year.

There would be more than one way of handling many types of revenues and expenditures. For example, graduate assistant tuition revenue, the cost of a tuition waiver, and the stipend cost could all belong in the college, or the tuition waiver could be handled centrally in the form of a scholarship and an adjustment could be made to the college's overhead rate; either approach would work. In all such matters, simplicity and transparency should be considered of prime importance.

### How should college revenues be determined?

#### **1. Student tuition**

Student tuition (undergraduate and graduate) should follow student credit hours (SCH) and be assigned 100% to the college in which the course is offered, with the possible exception of general education courses (see below). Graduate and undergraduate tuition should be separated so that a college with a high percentage of graduate programs receives the higher tuition amount paid for graduate credits. Since the cost per credit above 12 hours is reduced for undergraduates (and above 10 hours for graduate students), tuition revenue should be assigned on the basis of FTE students.

Whereas general education courses are taken by all undergraduate majors, the costs of offering the courses are borne by the college in which they are offered. We might consider three possible models for handling general education courses.

- A) All revenue from general education courses should be divided with a certain percentage being assigned to the college offering the course, and a second percentage being divided among the colleges based on the number of non-general education SCH generated by each college (a substitute figure for the number of majors, given that the latter is very difficult to determine and is constantly changing). By selecting these percentages appropriately, it might be possible to apply a consistent overhead rate to all colleges. (A number of state universities that have adopted a RCM-based model assign 75% or 80% to the college offering the course, with the remainder going to the college in which the student is majoring.)
- B) All revenue from general education courses should be assigned to the college in which the courses are offered. As a result, different overhead rates would need to be determined for each college. Since a large majority of general education courses are

offered in the College of Arts and Sciences, it would be reasonable that a higher overhead rate would be charged to that college.

- C) A third possibility would be to create "General Education College" in which all general education courses would be housed. This "college" would contract faculty from existing colleges to teach courses. This would seem to create another level of unnecessary bureaucracy.

Tuition revenue received by each college would be subject to overhead charges.

#### General education courses

There are currently 73 courses that may be used to satisfy general education requirements, offered as follows: Arts and Sciences 64; Business and Technology 4; Education 2; Public Health 2; Service Learning 1. It should also be noted that certain general education courses are required (ENGL 1010 and 1020), others provide limited choice (SPCH 1300, 2300 or 2320; MATH 1530, 1840 or 1910), and the remainder provide cafeteria-style menus from which students may choose (e.g. two social science courses from a menu of 14 items).

## ***2. State appropriation***

The state appropriation is calculated based on a formula that recognizes deliverables, student progression, degrees awarded, etc. The state appropriation should be allocated to colleges based on those same metrics so that colleges are rewarded for accomplishments that bring state revenue to the university. Since those metrics are determined after the fact, the state appropriation would be based on the previous year's figures, i.e. the portion going to each

college in Year X will be based on data from Year X-1. These funds should be subject to overhead charges.

### ***3. Indirect costs on external grants and contracts***

100% of indirect costs on external grants and contracts should be provided to the college(s) in which they were generated but they should be subject to overhead charges. (As noted above, there is more than one way to handle this. If 100% goes to the college, then the overhead rate would be higher in order to provide funds to ORSP and other units. Alternatively, a smaller percentage could go to the college, with a percentage going to support other units, and the overhead rate would be lowered.)

### ***4. Specialized fees***

Specialized fees such as course fees, materials fees, and on-line fees should be allocated to the college that generated them. Those that are charged for particular purposes, e.g. lab or clinic fees, should remain 100% with the college to be used for those purposes. More general fees, such as on-line fees, should be subject to overhead. (Mandatory student fees such as the green fee, CPA, etc. would go directly to those purposes.)

### ***5. Private donations***

All private donations to colleges or departments should be used for the purpose for which they were given, and not be subject to overhead charges.

### **How should the overhead rate be determined?**

The overhead rate should be considered as analogous to the Facilities and Administrative (F&A) rate on federal grants. It should be negotiated according to a well-defined set of metrics and then it must be considered fixed for a period of at least 3 years, when it may be re-negotiated.

Implementation of this model must provide an opportunity for careful review of current expenditures at the university. In establishing an overhead rate, it should be recognized that certain costs are fixed, for example, the university needs an approximately fixed budget for building maintenance, custodial work, and utilities for a fixed number of buildings. In other areas, such as Admissions, Financial Aid, and International Programs, costs should go up or down as the number of students increases or decreases. Although certain colleges may have a greater or lesser dependence on certain university offices or cost centers, e.g. a college with primarily graduate programs has little dependence on the Office of Undergraduate Admissions, it should not be possible for a college to opt in or out of portions of the overhead charge. Also, while negotiation of an overhead rate should provide an opportunity to review the quality and efficiency of university cost centers, many functions must remain centralized for the sake of efficiency and reporting to the state: ETSU needs to have one Office of Human Resources, one Graduate School, one Payroll Department, etc.

At one level it would be simpler to have a single college overhead rate, negotiated once every three years, and make adjustments for general education courses, cost of programs, etc. in other ways, including subventions where necessary. However, if other areas can be simplified, different overhead rates could be negotiated by college.

#### Other considerations

To institute any form of RCM-based model will necessitate a major overhaul of many of the university's financial practices and will entail a huge amount of staff work. It likely cannot be accomplished with the present number of staff. The transition would require more staff than are currently available in the Office of Budget and Financial Planning. Moving forward, each

college is likely to require a fiscal officer to support the dean. It is imperative that a switch to a RCM-based model be accompanied by a thorough and objective review of current academic programs, and administrative offices and practices, and be followed by some difficult decisions. To engage in the amount of work needed to adopt an RCM-based model, and then to adjust the overhead rate(s) and subventions in order to maintain the status quo, would be sheer folly. There are many issues not addressed in this draft (and many others that are not in the following list) that would need to be addressed if a RCM-type model is to be considered. The following are a few thorny issues we might want to consider.

**Construction and maintenance:** Should these continue to be handled centrally, or should colleges be responsible? This could be done either way by adjusting the overhead rate. If maintenance was a college responsibility then the dean would need to plan for the possibility of a leaking roof and department flood!

**Space:** Should space be assigned centrally, or should colleges rent the amount and quality of space they occupy? Should colleges be charged for classroom usage, possibly paying a premium for large classrooms in which they can generate high revenue levels?

**Scholarships:** While departments or colleges have their own scholarships, most scholarships, e.g. Honors and APS, are university-wide and impact students taking courses across colleges. If an APS student takes a course in college X, that college gains in terms of tuition revenue. If that same APS student works in an office in college Y, should college Y (or X) pay for his/her time?

**Graduate assistantships:** Should GA stipend and tuition waiver pools reside in the Graduate School and be funded through the overhead charge, or should colleges be required to cover the costs of both? Would that mean colleges could set their own stipend rates?

**Overhead rates as a percentage:** If the overhead rate is set as a percentage of revenue, the dollar figure will rise or fall as revenues increase or decrease. If enrollment increases and staff are added in, for example, Financial Aid and the Counseling Center, what happens to those staff when revenues decrease?

**Faculty tenure:** Finally, to address a major concern of many, if a college (especially a smaller one) sees a significant drop in enrollment or other revenues such that it cannot continue to cover its costs, does that mean there is a state of financial exigency?

**ETSU Institutional Effectiveness Committee Membership**

**Steering Committee**  
 Vice Presidents, Provost,  
 Faculty Senate Rep, Staff  
 Senate Rep, SGA Rep,  
 Subcommittee chairs

**Strategic Monitoring**

- Executive Director Planning and Analysis
- Director of Institutional Research
- Vice Provost of Enrollment
- SACS liaison
- Director of Quality Enhancement

**Resource and Performance**

- AVP Budget and Financial Planning
- Associate Director of Budget and Financial Planning
- AVP Financial Services
- Director of Admissions
- Director Employee Relations, Compensation and Development
- Financial representatives from Health Sciences
- Institutional Foundation
- Research Foundation

**Programs and Services**

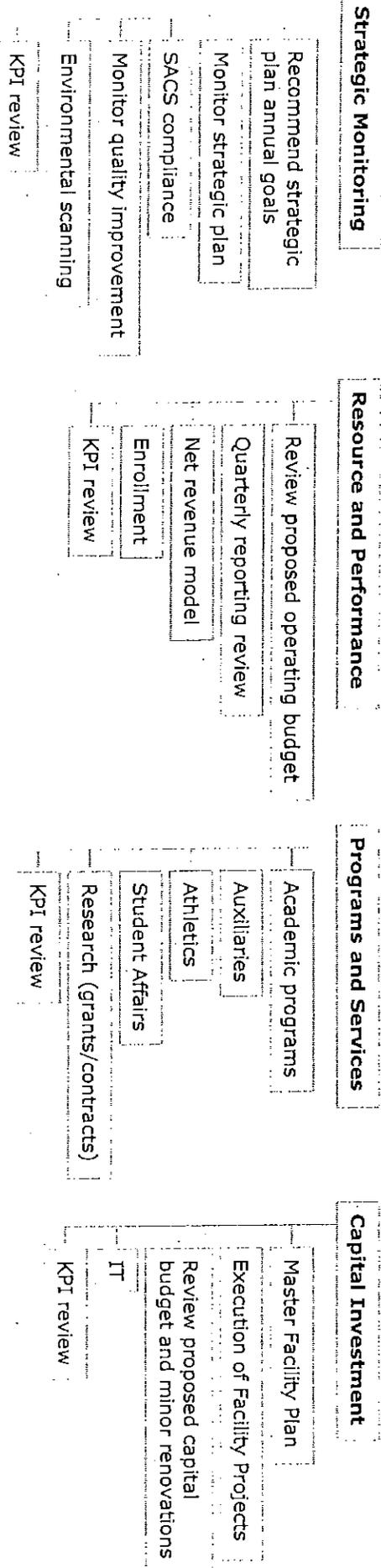
- Vice Provost Academic Affairs
- Director of Athletics
- Student Affairs
- Vice Provost Research
- Dean Representative - Health Sciences
- Dean Representative - Academic Affairs
- Representative from Staff Senate
- Representative from SGA
- Representative from Council of Chairs
- Director of Auxiliary Services
- Faculty representative - Health Sciences
- Faculty representative - Academic Affairs

**Capital Investment and Information Technology**

- CIO
- Director of Facilities Management, Planning and Construction
- Vice Provost Academic Technology
- AVP Procurement and Contract Services

**EISU Institutional Effectiveness Committee  
Roles and Responsibilities**

**Steering Committee**  
All KPIs; Strategic Plan;  
Peer group review;  
Subcommittee reports



Note: Each subcommittee will be allocated appropriate KPIs to monitor and report to Steering Committee

# Conversation with Miami University

February 20, 2014

Phyllis Callahan, Dean, College of Arts and Sciences

Chris Makaroff, Associate Dean, College of Arts and Sciences

Ruth Groom, Data & Planning Analyst

1. Miami is in their first full year of implementation of Responsibility Centered Management.
2. Question: What problems were they trying to fix?
  - a. Operating efficiencies.
  - b. A need for better financial outcome.
  - c. Encouraging entrepreneurship as opposed to “cutting our way out”.
  - d. More accountability and transparency.
3. Question: What safeguards are in place to prevent maximizing revenue at the cost of academic integrity?
  - a. Provost (came from Delaware where RCM had been in place for 20 years) made this an institutional priority. Lots of strong conversations and difficult issues were addressed during implementation.
4. Question: What linkage was there between budgeting and planning?
  - a. Increased conversation at the college level relative to planning before the budget was developed. Prior to implementation of RCM, the VP of Finance handed the Deans their budget with no conversation – that has changed.
5. Chairs need to know budgeting and planning processes.
6. RCM provides the data necessary for programmatic success.
7. In the beginning, programs were consolidated and not eliminated. During the implementation of RCM we NEVER spoke toward revenue, always spoke toward quality and preventing redundancy (If it was just a matter of dollars, we would have closed our PhD programs.)
8. Question: Where did you go to learn about RCM?
  - a. Several committees were formed in the initial stages to determine the overall model while a second committee was developed to implement details. The Delaware model was used because the Provost had worked in that system.
9. Nobody took major hits abruptly in the beginning.
10. Faculty had buy-in due to the fact that decisions were not solely made on the basis of revenue.
11. At Miami, Arts and Sciences is one fourth of the University’s revenue.
12. All Deans have budget personnel and those budget personnel all collaborate and communicate.
13. New programs are built and identified from the ground up, as opposed to the top down.
14. University is looking at growing non-classroom programs (e-learning).
15. In the beginning, graduate programs were left alone.
16. Each division was responsible for building its own “rainy day fund”.

17. Currently everyone is in the black (by approximately one million dollars). Miami started implementing RCM at a good time (“sweet spot”).
18. Currently not concerned about support centers being over-resourced (was reduced in the past when no academic units were affected).
19. Deans’ attitude toward this program is critical for success.
20. VP of Finance and Provost having experience and support in RCM also critical to success.
21. Question: Anything that you would have done differently?
  - a. Would reevaluate the 75/25 split relative to first major (may have been too simplistic to only look at first major).
22. Can’t express enough about the importance of the depth of budget information necessary for the deans to make appropriate decisions.
23. Deans must know what are in the numbers – what information they need – and any other data necessary for good decision making.
24. It was important to have a true “parallel year/shadow year”.
25. Within RCM the administration still makes decisions by tweaking formulas (could move millions of dollars).
26. Overall very supportive of the RCM model and feel like decisions are being driven down to the Dean and department level.

# Conversation with Dr. Marion Broome

Dean of Nursing, Indiana University

(Previously Associate Dean for Research at UAB)

- The College of Nursing retains 100% of their tuition, 80% of their indirects, and are assessed “taxes” for ancillary services (Bloomington campus colleges do not receive 100% back on their tuition rates.)
- Deans move from “beggars” to “managers”.
- Deans also have the ability with administrative approval to eliminate non-producing programs.
- Responsibility Centered Management provides for considerable overlap (example: engineering and biomedical engineering).
- Any new initiative the college bears the cost.
- Taxes may go up. This is tricky politically
- There is considerable transparency and deans
- Follows course and credit hours
- Each college is responsible for presenting at budget
- Each college has a budget affairs committee
- Tax rates are sometimes not as
- Four deans represent the 21 deans at budget hearings.
- Recommendations if RCM is
- Different colleges have different salary rate adjustment
- There seems to be movement toward of part time faculty in the future and longer contracts (1 plus 3)
- A significant challenge is the costing out of programs.
- The dean in this model needs to know budgeting and forecasting and needs to



Financial Model

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# Welcome from the Provost and the EVPFA

Dear Colleagues,

We extend our deepest appreciation for your commitment to the financial success and sustainability of our great University.



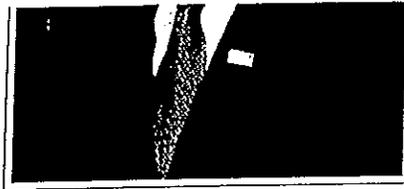
As a \$2.7 billion enterprise, UK requires a budget system that maximizes the ability of our colleges, departments, and units to make decisions on how best to serve our education, research and health care missions. As an institutional community, we have faced a decade's worth of level-to-declining state appropriations, both in real

terms and as a percentage of our overall resources. At the same time, we have experienced unprecedented growth in sponsored research.

Currently, we are facing a period of diminishing resources. Federal grant funding is more competitive, swings in the markets have affected our endowment performance, and state appropriations will continue to, at best, remain constant.



Our situation is not unique among other public universities. In response to these pressures, many institutions have become ever more dependent on tuition revenues. Although partial



reliance on tuition revenues is inevitable, UK's commitment to maintain affordability and to continue to be a gateway for Kentucky students to access

higher education must prevail. We know that the economics of higher education are changing, and we know that we must proactively change to meet this challenge. Therefore, finding a solution to balance our resources while accomplishing our strategic priorities is paramount.

One of the critical components in achieving this goal is the implementation of a resource allocation model that reinforces our academic mission, aligning authority and responsibility at the College level to enhance financial stewardship and to help promote innovative and entrepreneurial activities. A key part of how a budget model helps achieve these goals is by creating transparency around our financial planning and decisions. The new budget model is designed to:

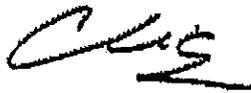
- Foster an information-rich conversation on the budget
- Promote informed and robust decision-making by enhancing the understanding of the financial, instructional, and research impacts of potential decisions
- Create a more elegant system of funding flows and cross-subsidies

This enriched environment of transparency extends to the support and resource units of the University as well. Under the new model, support and resource units will become more efficient, effective, and communicative – thereby empowering the institution to make more informed decisions.

As you explore this website, please remember that our Finance and Operations team is committed to being a valuable resource for you. We are here to answer your questions, to provide assistance, and to help ensure that accountability, quality and excellence, collaboration, coordination, and transparency are incorporated every step of the way.

Our mission – the Kentucky promise - deserves a model for resource allocation that is centered on our core principles and that will help us continue to build on our powerful sense of momentum. The value-based model starts and ends with our mission.

Yours in service to the Commonwealth,



**Christine Riordan**  
*Provost*



**Eric Monday**  
*Executive Vice President for  
Finance and Administration*

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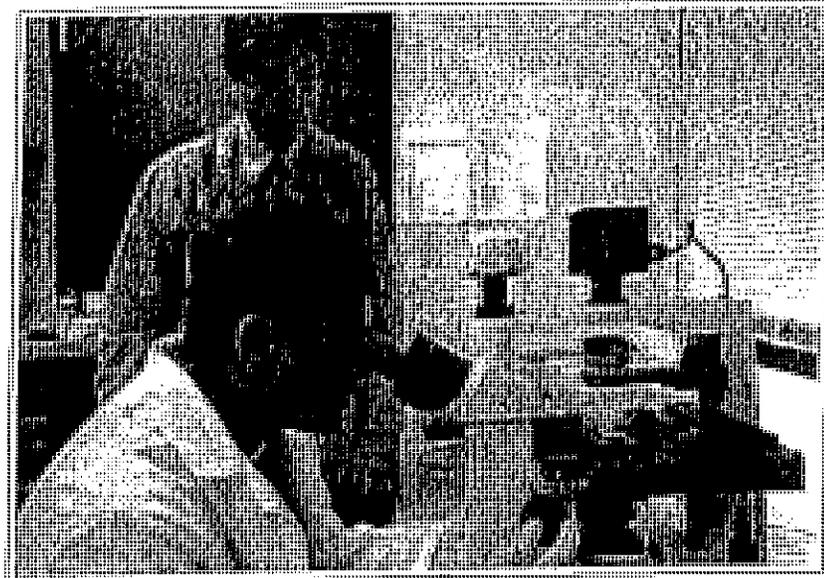
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## Background/Rationale



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Why is the University of Kentucky moving to a values-based financial model and what does that mean? Our mission — to educate, conduct research and serve the Commonwealth — has not changed. But the way we are funded to do that critical work has — dramatically so. Consider a few factors:

- State funding for UK has declined on a recurring basis by \$50 million in the last five years - and no one projects those dollars to come back in the near future.
- Policymakers, parents and students are raising questions and concerns about access and affordability, giving rise at both the state and federal levels to serious discussions about different performance funding of our work together.
- At the same time, federal support for research — our primary source of dollars in this area — also has been flat or declining.

As a result, we have to think differently, more creatively, and more collaboratively about how we receive funding for our work and how we do it together. We are not alone in this process.

Other institutions, including many of those to whom we compare ourselves or aspire to emulate, have adopted their own values-based financial models. But our financial model must be based on our unique institutional values and legacy — a flagship, land-grant institution committed to education from undergraduate to post-doctoral programs as well as nationally recognized research and service intently focused on the Commonwealth. A new model is designed to focus on aligning resources with academic decision-making authority and accountability — for enrollment and how we grow, for increasing student retention and graduation rates, for measuring success in research and for creating incentives to support and promote service and interdisciplinary work and scholarship. A values-based model creates those incentives in two fundamentally important ways:

1. Making the financial aspects of our operation more transparent and our system more nimble
2. Empowering Colleges to make informed decisions about investing in priorities

The University of Kentucky is an institution with momentum. And as faculty, students, staff and supporters of UK, you are what make that progress and momentum possible. The new values-based financial model will empower us to continue moving forward, while ensuring accountability, quality and excellence, collaboration, coordination and transparency.

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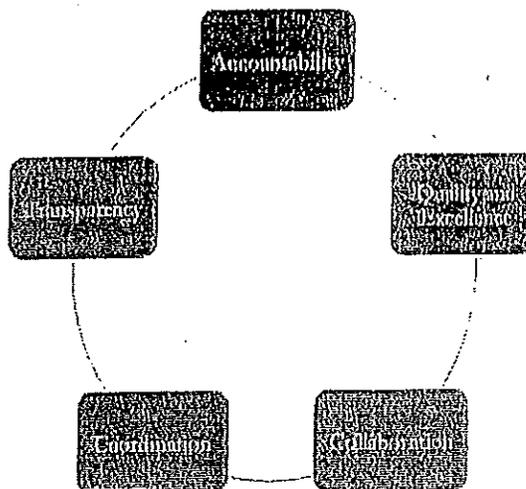


# Guiding Principles

What are the guiding principles behind the new financial model, and how do they align with the mission and vision of the University of Kentucky?

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- **Accountability:** everyone should understand not only how our institution is funded, but how those funds are generated and how they flow
- **Quality and Excellence:** a financial model should provide incentives to reward and enhance excellence — in teaching, research and service
- **Collaboration:** greater interdisciplinary and multi-disciplinary work should be incentivized as more and more research, teaching and, ultimately, the jobs our students compete for require skills across a broad set of disciplines.
- **Coordination:** the values-based financial model places an emphasis on decentralizing both revenues and authority for spending those revenues. At the same time, though, everyone in the institution — from central administration to support and academic units — must be committed to coordinating the flow of information and efforts toward

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ensuring the model works in the best interests of the university.

- **Transparency:** we must be committed to communicating clearly, openly, and honestly about the assumptions inherent in the model and with each other about how revenues are both generated and spent across the campus.

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# Frequently Asked Questions

As we continue to partner with colleges, departments and units to understand and implement a new, values-based budget model for the University of Kentucky, a number of recurring questions and themes have emerged. Below are some of the more frequently asked questions about the model.

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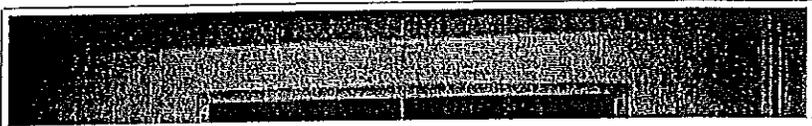
[Feedback/Contact Us](#)

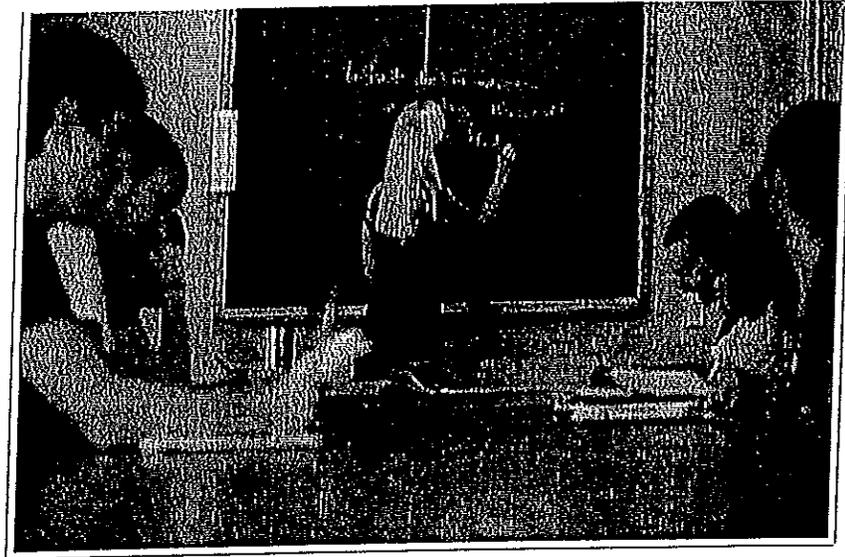
- In addition to enrollment and growth, what does the model incentivize? Why is the model essential to financial success and sustainability at UK?
- How does the model balance competition and collaboration?
- How will the model affect the academic quality of the Colleges?
- What does the model prioritize?
- How will the model affect graduate education?
- How will administrative and service unit budgets be held accountable within the new model?
- Why are we holding everyone harmless, regardless of current levels of productivity?
- The model doesn't allocate funds for service. How will we fund future service activities?
- I teach in a small department that will never enroll enough students to be financially self-sustaining. How will this model affect me?
- How will capital projects be funded in the new model?
- UK is different from the other institutions that have implemented RCM.
- What is the timeline moving forward, and what does parallel/partnership process mean?

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In addition to enrollment and growth, what does the model incentivize? Why is the model essential to financial success and sustainability at UK?

The new model focuses on aligning our financial resources with academic decision-making authority and accountability. This includes authority and accountability not only for enrollment and how we grow, but also for increasing student retention and graduation rates, measuring our success in research, and creating incentives to support and enhance interdisciplinary work that helps students and furthers scholarship.

A values-based model creates these incentives in two fundamentally important ways:

- Making the financial aspects of our operation more transparent and our system more nimble
- Empowering Colleges to make informed decisions about investing in priorities

Our move to a values-based model recognizes that the ways in which we have traditionally funded our ambitions and operations in public higher education are changing - dramatically. Consider a few factors:

- State funding for UK has declined on a recurring basis by \$50 million in the last five years - and no one projects those dollars to come back in the near future.

- Policymakers, parents and students are raising questions and concerns about access and affordability, giving rise at both the state and federal levels to serious discussions about different performance funding models. The bottom line is that we cannot simply raise tuition as a formula for funding challenges.
- At the same time, federal support for research - our primary source of dollars in this area - also has been flat or declining.

As a result, we must courageously and collaboratively position ourselves to succeed - and to build upon our institutional momentum - no matter what the shifting fortunes involved with state and federal funding may entail.

Other institutions, including many of those to whom we compare ourselves or aspire to emulate in terms of funding, graduate education and student success levels, have adopted their own values-based models in recent years in recognition of the same changing dynamics.

Our financial model - based on our unique institutional values and legacy - must look at where and how we grow in enrollment. At the same time, it must underscore our commitments to serve the Commonwealth as its public flagship, land-grant institution and to fulfill our service, graduation, education and research missions.



### How does the model balance competition and collaboration?

The new model powerfully leverages both competition and collaboration to promote institutional priorities and values. The model encourages colleges to offer the highest quality programs to attract the best students at all levels. The model encourages us to compete - with ourselves and with each other - to retain and graduate those students in a timely manner. And the model empowers our researchers to aspire to even greater levels of success within a highly competitive marketplace for grants and funding.

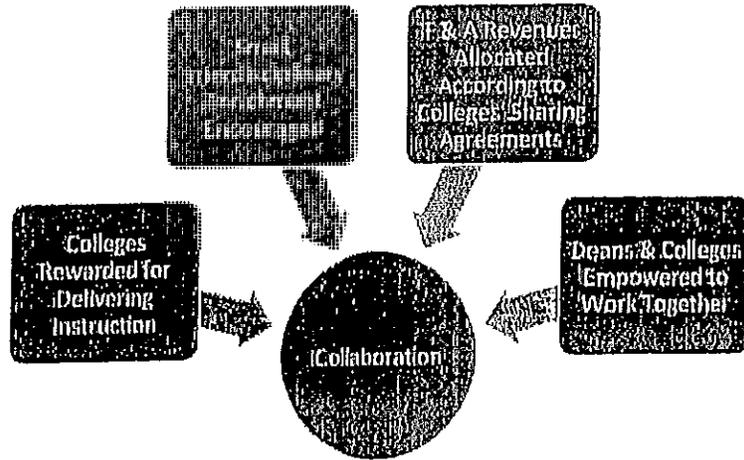
Healthy competition will be fostered by academic leadership at the Provost, Dean and Chair levels - in collaboration with faculty leadership - to ensure that issues are identified early in the process and handled appropriately and productively.

The history of our sister institutions in a values-based model is instructive. Indiana University, for example, noted that Responsibility Centered Management "served to make transparent the actual costs and financial trade-offs involved in cross-RC activity, and as a result, fostered healthy conversations about the underlying substantive merits of interdisciplinary proposals."

Several tools are integrated within UK's values-based model to encourage collaboration:

- By allocating undergraduate tuition 75% based on student credit hours (SCH) of instruction based on the faculty member's home College, the model explicitly encourages the free movement of students across College lines as they explore opportunities, and rewards Colleges for delivering instruction regardless of where that student is enrolled
- The model ensures that small, interdisciplinary enrichment programs are adequately valued and supported by increasing the relative value of a student credit hour taught in the Honors Program or the Gaines Center
- The model allocates F&A revenues according to the sharing agreements into which Colleges themselves enter.

- The model empowers Deans and Colleges to work out collaborative, mutually beneficial arrangements among themselves. The new financial model places more control, resources and authority at the college level, better enabling collaborative agreements among colleges.



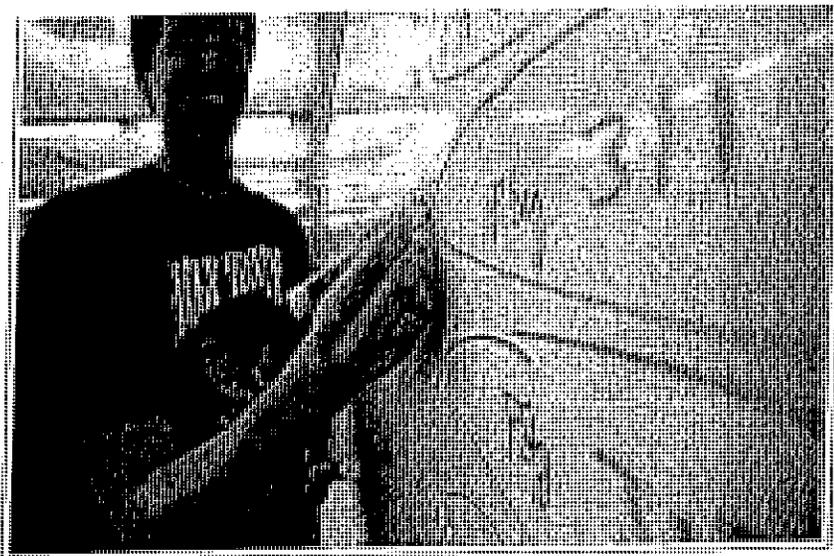
**How will the model affect the academic quality of the Colleges?**

The values-based model creates more transparency and predictability with respect to revenues. Because leadership will be centered within the colleges, academic considerations will be given an even greater priority as decisions are made by those closest to the impact of those decisions - at the college, department and unit levels.

**What does the model prioritize?**

The values-based model is centered on putting mission first and aligning resources to that mission. The greater transparency and decentralization created by the new model argue compellingly for a system in which revenues are what they should be - a means to an end. That end is accomplishing our missions of education, research and service as Kentucky's public flagship, land-grant institution.





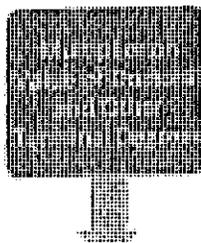
### How will the model affect graduate education?

The new model will give Colleges more control and ability to invest in graduate education if that is their priority. Aligning resource control and authority at the College level is a fundamental tenet of the values-based model.

Additionally, specific mechanisms have been built into the values-based model to encourage support for graduate education:

- The allocation of graduate tuition separately from undergraduate tuition will ensure that the value of graduate students/instruction is not overwhelmed by potential growth in undergraduate enrollments
- For purposes of allocating state appropriations, a multiplier has been placed on the value of doctoral and other terminal degrees. This recognizes the additional level of time and effort that goes into shepherding those students to degree completion
- The model treats student financial aid - for undergraduates and graduate students - as a common good that we will all financially support

Graduate Tuition  
Allocated  
Separately from



Student Financial  
Aid Treated as a

Tuition

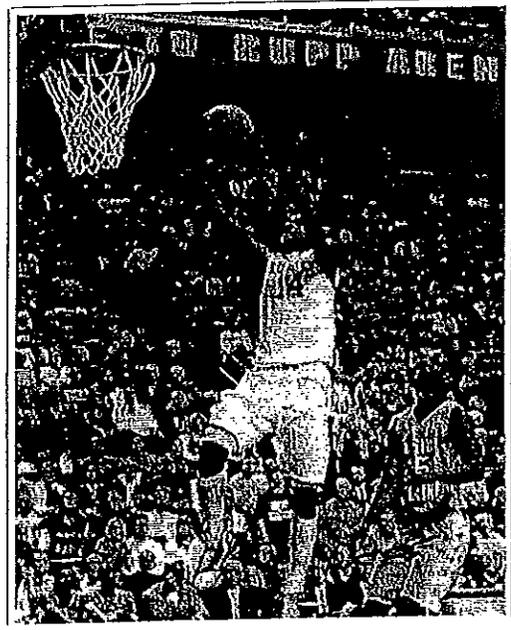
Support for Graduate Education

**How will administrative and service unit budgets be held accountable within the new model?**

Our current financial system does not allow everyone to see and understand what the costs are for centralized administrative services and how they are allocated. In accordance with the Guiding Themes of Transparency and Accountability, the new model will provide a clear understanding of what is being spent on administrative and support units.

Drawing on best practices from other institutions that have been successful with these models, we are developing a governance process that will give Colleges a voice in the conversation about service unit budgets.

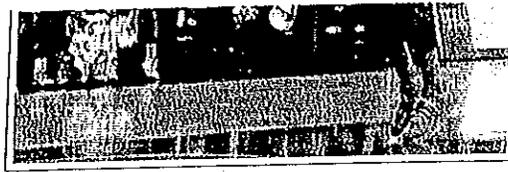
The goal is to enforce accountability at the highest levels of administration for managing costs and improving the effectiveness of administrative and support units. Making those costs transparent and then holding units accountable for agreed-upon performance expectations will be an essential part of UK's values-based model.



Why are we holding everyone harmless, regardless of current levels of productivity?

The "hold harmless" principle acknowledges two core values:

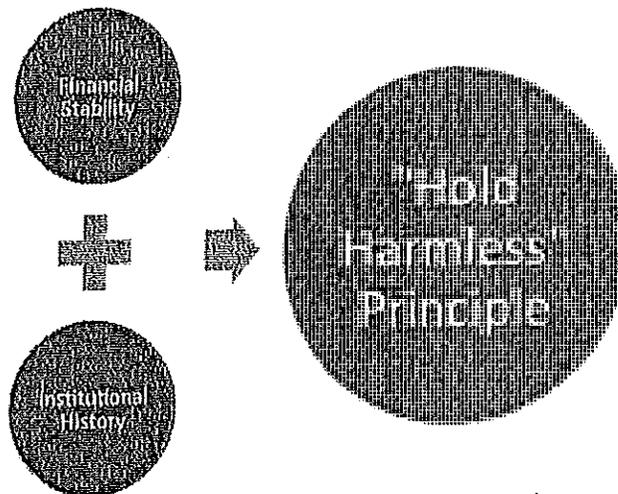
The importance of financial stability.



Colleges need and deserve time to thoughtfully respond to the incentives that

will be built into the new financial model.

- A respect for our shared history. The economics of higher education are changing, and our new financial model will empower us to proactively change to meet this challenge. Our history is an important part of this evolution. We must move forward in a planned and intentional way that recognizes the importance of the past while preparing us for the future.



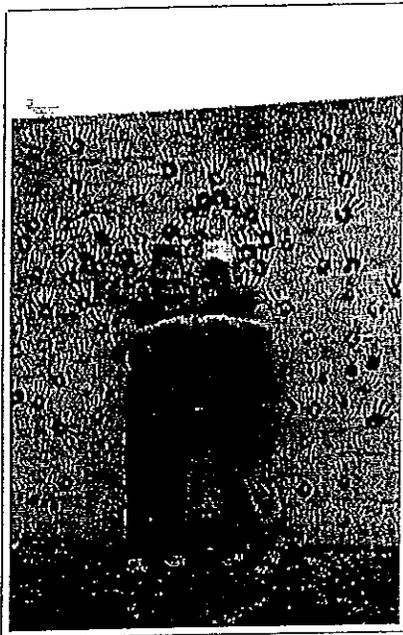
Having a "hold harmless" principle means that in the first year that the new budget model is implemented, the model will not be used to adjust College's budgets. Operationally, it means that the University will hold back enough funds centrally in a Strategic Initiatives Fund (SIF) that it can "true up" Colleges to ensure a balanced budget in the hold harmless year.

This process speaks to the partnership that must exist among colleges and units and between colleges and the administration. Colleges will work in partnership with the Provost and EVPFA to determine appropriate SIF subsidies, if necessary, in future years to meet mutually agreed upon goals and how we will measure progress together to support our institutional values. To that end, throughout the year, it will be important that the Provost and EVPFA are meeting with colleges and units regarding progress

toward short-term and long-term goals to determine annually the amount of SIF subsidy that is appropriate.

**The model doesn't allocate funds for service. How will we fund future service activities?**

Service will always be a vital part of our mission - our institutional ethos. Service is a value that we will continue to subsidize in many, if not most, cases because it costs dollars rather than generating revenues. The new financial model will improve our ability to serve by helping us to understand where our revenues come from and by empowering us to make informed decisions about what to fund (revenue generating or not) and at what levels.



**I teach in a small department that will never enroll enough students to be financially self-sustaining. How will this model affect me?**

The model we are implementing is designed to distribute revenues, responsibility and authority to the College level, not to departments or units within Colleges. It is perfectly

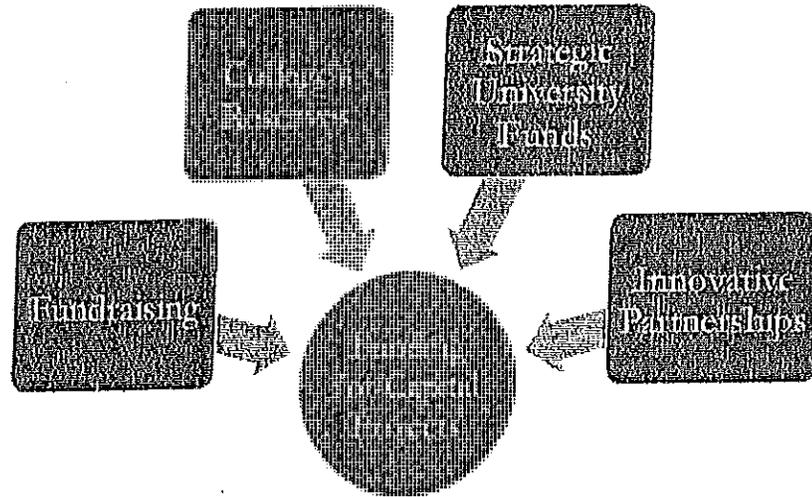
reasonable to expect that we will continue to subsidize certain academic units and departments that are not or cannot be financially self-sustaining. Just as before, Colleges and departments will establish priorities which align with UK's mission and values.

**How will capital projects be funded in the new model?**

Future capital projects will likely draw from a combination of potential sources, including: Fundraising

- A College's own reserves

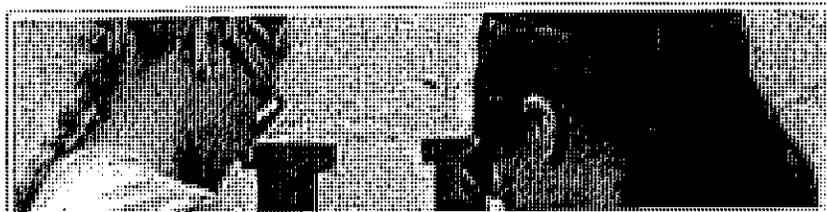
- A commitment from a pool of "strategic initiatives funds," distributed under the discretion of the President and Provost, and/or
- Innovative partnerships (e.g., the partnership with Athletics to help fund the new Academic Science Building or the partnership with EdR)



Routine and deferred maintenance will continue to be funded within the University's facilities budget, which is one of the support area costs allocated to the Colleges in the new model. The distribution of costs to Colleges will be based on their share of square footage.

**UK is different from the other institutions that have implemented RCM.**

UK is, indeed, different, which is why we have diligently worked to ensure that our new financial model represents our mission and our values. While our model has been informed by best practices gleaned from other universities, we have meticulously tailored each and every component to meet the unique needs of UK. Our model is carefully aligned with our institutional values and priorities, and is designed with the flexibility to evolve to meet the changing needs of UK over time.





**What is the timeline moving forward, and what does parallel/partnership process mean?**

We are working to go-live in FY16 (July 1st, 2015). Our goal over the remainder of this year and the upcoming academic year is to continue sharing information on the values-based financial model and to examine the model in parallel to our existing incremental budget system.

In accordance with the Guiding Themes of Collaboration and Coordination, studying the new model on a partnership-centered test basis will provide us all with the opportunity to understand more fully how the values-based system will work. Together, we will develop a strong understanding of where changes or modifications may need to be made to ensure that the system we adopt for the following year - Fiscal Year 2015 - maximizes our success.

During the partnership process, we will immerse ourselves in the details of the model, engage in meaningful conversation about the model, understand how the format of our budgets will look different under a values-based model, and determine how best to prepare ourselves for managing and leading under the new model.

The partnership process will not be a "live" model where changes are made on a monthly or weekly basis as the actual financial situation on the ground changes. Rather, the numbers will change only as we make informed, collaborative and deliberate decisions to change the assumptions upon which the new model is built.

Our team is honored to serve as your enthusiastic resource and partner throughout this inherently complex process. We look forward to answering questions, working collaboratively and responding transparently to ensure that UK continues to be financially successful and sustainable for generations to come.

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The University of Kentucky is in the process of implementing a new financial budget model, one that reflects and strengthens our shared values and priorities. As a \$2.7 billion enterprise, our institution is undoubtedly complex, but our goals are straightforward. We need a budget system that maximizes the ability of colleges, departments and units to make decisions on how best to serve our education, research and service missions. These goals drive our collaborative decision-making process, as we focus on placing more decisions where they should be: at the college and unit level.



## Earning Our Way Forward

Our mission — to educate, conduct research and serve

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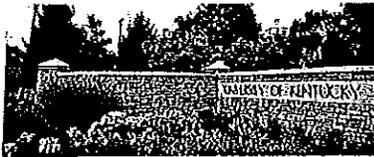
the Commonwealth — has not changed. But the way we are funded to do that critical work has.

[View details](#)

## More Transparency, Collaboration

The new financial model is designed to be more transparent in regard to how resources are allocated at the University of Kentucky.

[View details](#)



## Welcome

The Finance and Operations team is committed to being a valuable resource by answering questions, providing assistance and ensuring accountability, quality and excellence, collaboration, coordination, and transparency.

[View details](#)



## Our Commitment to the Campus

Embedded in this process is an important commitment to the community – consistent, constant and transparent communication about the development of the financial model.

[View details](#)



#Altraining

## MOVING TO A RESPONSIBILITY- CENTERED BUDGET MODEL

PRINCIPLES OF  
RESPONSIBILITY-CENTER  
MANAGEMENT

Larry Goldstein | Campus Strategies, LLC | [Larry.Goldstein@Campus-Strategies.com](mailto:Larry.Goldstein@Campus-Strategies.com)



## LEARNING OUTCOME

### After participating...

...you will be able to assess if your institution is prepared to move to a responsibility-center budget model.

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2

## SESSION AGENDA

- Responsibility-Center Management 101
- Assessing if RCM is a good fit for your institution
- Assessing if your institution is ready to begin developing an RCM model

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## POLL

**What is the dominant characteristic of your current approach to budgeting?**

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## RESPONSIBILITY-CENTER MANAGEMENT 101

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### ■ TERMINOLOGY

- Responsibility-center management
- Responsibility-center budgeting
- Activity-based budgeting
- Revenue responsibility budgeting
- Cost center budgeting
- Profit center budgeting
- Incentive budgeting

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## DEFINITION

### RESPONSIBILITY-CENTER BUDGETING

- Classifies individuals programs and units as either revenue or cost centers (or blended units)
- Revenue centers control the revenues they generate and are responsible for financing both their direct and indirect costs and are subject to taxes
- Cost centers are funded from central revenues and the taxes assessed on revenue centers

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## CAVEAT

- No pure RCM models
  - Numerous hybrid models based primarily on RCM principles
- RCM-based hybrids are often used in combination with other models such as formula, performance-based, incremental, etc.
- Despite this reality, my discussion assumes RCM applies to all resource decisions

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## WHY PURSUE RCM?

- RCM focuses attention on revenue
  - In particular, RCM establishes appropriate incentives for engaging in activities that lead to increased revenue
- RCM supports and facilitates responsible pursuit of entrepreneurial activities
- And it facilitates cost-benefit analyses and trade-off studies

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## WHY PURSUE RCM?

- RCM encourages delivery of effective, competitive administrative services
- RCM focuses appropriate attention on cost control, price restraint, and educational outcomes
- Finally, RCM emphasizes revenue optimization as opposed to counterproductive internal competition

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## ■ PRINCIPLES

- Mechanisms for increasing available resources are preferable to those focused on merely dividing existing resources
- Outcomes measures are preferable to input controls
- Outcomes-based academic performance criteria are essential to the achievement of academic excellence

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## ■ PRINCIPLES

- Best decisions occur when decision maker is close to and has access to relevant information
- Level of decentralization must be proportional to organizational size/complexity
- Responsibility and authority should be aligned

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## ■ PRINCIPLES

- Accountability—rewards and sanctions—are required to achieve excellence
- All units throughout the institution must rely on common information systems providing timely and accurate data
- Transparency with clarity is critical

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## ■ PRINCIPLES

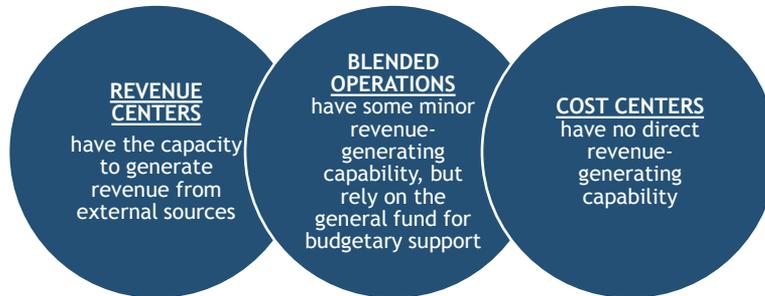
- Central administration must retain sufficient control to ensure achievement of institutional goals
- Stable financial environments facilitate good planning
  - Good planning contributes to stable financial environments

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## RCM STRUCTURE

ACTIVITIES WITHIN THE INSTITUTION ARE  
DIVIDED INTO THREE MAJOR CATEGORIES



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IMPRESSIONS 15

## REVENUE TREATMENT

- Revenue ownership
  - Revenue centers own the revenues they generate
  - General revenues—unrestricted appropriations, investment income, unrestricted gifts and endowment income—are owned by central administration
  - Revenues generated by blended units are subject to varying treatment

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IMPRESSIONS 16

## EXPENSE TREATMENT

- Revenue centers are responsible for covering all expenses
  - Direct
  - Indirect
- Revenue centers purchase services from cost centers, helping to underwrite the cost centers' operations

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## EXPENSE TREATMENT

- A major charge incurred by revenue centers (and some blended units) is a tax on their unrestricted revenues, which must be paid to central administration
  - Some cost centers may generate small amounts of revenue that would be outside the scope of RCM

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## EXPENSE TREATMENT

- Cost centers are financed in the same manner as they would be in any other resource allocation model
  - With the exception of some blended units, their entire budget represents a subsidy from central administration

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## TAXES AND SUBVENTION

- As mentioned earlier, revenue centers pay taxes on unrestricted revenues
  - Taxes are used, along with general revenues, to achieve institutional objectives
    - Subsidize cost centers
    - Redistribute wealth through subvention
    - Fund institutional priorities in accordance with established plans

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**HOW DOES  
RCM  
BUDGETING  
OPERATE?**

1. Charge all units to prepare and submit operational plans in support of the institution's strategic plan, infrastructural plans, and unit priorities
2. Based on approved operational plans, project the full budget for future year(s)
3. Estimate preliminary budgets for cost centers based on anticipated resources and required quality /volume of services

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**HOW DOES  
RCM  
BUDGETING  
OPERATE?**

4. Project allocation of indirect costs to revenue centers based on preliminary budgets and historical usage data
5. Project tuition revenues and financial aid
6. Set tax rate in support of plans (influenced by degree of restriction on appropriations and other sources)...

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**HOW DOES  
RCM  
BUDGETING  
OPERATE?**

7. Project utilization of central resources, including RCM taxes
  - Amount needed to fund cost centers
  - Amount available for subvention
  - Amount intended to support achievement of institutional priorities
8. Charge all centers to develop balanced budgets
  - Spending from unit reserves may be approved...

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**HOW DOES  
RCM  
BUDGETING  
OPERATE?**

9. Conduct a structured review / feedback process of preliminary results, including deviations from guidelines
10. Rebalance the whole by vetting / refining revenue and cost centers' proposed budgets

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## QUESTIONS

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## ASSESSING IF RCM IS A GOOD FIT FOR YOUR INSTITUTION

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## POLL

**What or who is the driving force related to the interest in RCM?  
(Select all that apply.)**

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### ■ ORGANIZATIONAL MANAGEMENT PHILOSOPHY

- Basic principles of RCM require a decentralized management approach
- If the institution is wedded to a highly centralized management structure, RCM likely will not succeed
- Decentralized responsibility and authority must be aligned under RCM
  - Central oversight will still be required, but RCM operates with much more delegated authority than other models

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## ANALYTICAL CAPABILITY

- RCM requires a significant overhead investment
  - Initially to develop the model and determine its specific characteristics
  - Thereafter to manage it and respond to changed circumstances
- If the institution isn't willing or able to make the required investment, RCM will not be successful

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## SIZE MATTERS

- RCM operates best when implemented at the school / college level within a university
  - Most community colleges operate in a relatively centralized manner
    - If a community college wants to pursue RCM, it probably would have to be done at the division level

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## ■ SIZE MATTERS

- Three revenue centers is the minimum number to make it meaningful, and four or more is much better—though some smaller universities are attempting RCM
- If an institution has fewer than three revenue centers—that is, schools or colleges—it might consider implementing at the department level—though with some risk...

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## ■ SIZE MATTERS

- This is challenging because it's hard enough to find deans with the requisite skills
  - It might be impossible to find a sufficient number of department heads with the knowledge, skills, and entrepreneurial interest

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## ■ ASSESSING THE CURRENT CLIMATE

- Is there capacity to grow enrollment?
- Do you have flexibility with respect to tuition pricing?
  - Is there justification for differential tuition?
- How strong are your deans—especially in terms of financial capability?
- Do the schools and colleges have in-house finance professionals?...

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## ■ ASSESSING THE CURRENT CLIMATE

- How strong is the senior leadership?
- How would you characterize the level of trust between the administration and the faculty?
- How transparent is the current approach to resource allocation?
- Is your administration prepared to involve faculty and others in the development of the RCM model?...

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## ■ ASSESSING THE CURRENT CLIMATE

- What's the relative strength of the staff in the budget office?
  - Do they have the expertise to support the analysis required to design and implement the RCM model?
  - If not, are you prepared to invest funds to obtain consulting assistance?
- Are you prepared to visit other institutions to gain from their experience?

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## ■ ASSESSING THE CURRENT CLIMATE

- If you're at a public institution, how much of the operating appropriation is restricted to specific purposes?
  - Is any portion of the operating appropriation driven by enrollment within specific schools or colleges?

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## IN SUMMARY

### GOOD FIT

- Large, decentralized campus structure
- Differentiated tuition
- Budget-savvy deans and administration
- High level of trust and transparency across campus

### QUESTIONABLE FIT

- Small, centrally-managed institution or community college
- Limited staff to execute change
- Highly restricted operating appropriations
- Lack of expansion capability

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## ? QUESTIONS

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## ASSESSING IF YOUR INSTITUTION IS READY TO BEGIN DEVELOPING AN RCM MODEL

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### POLL

**Indicate the level of commitment  
to RCM at your institution.**

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## KEY READINESS QUESTIONS

- Is the senior leadership committed to RCM?
- Is there a credible individual with sufficient visibility to serve as champion for the effort?
- How likely is it that you can attract high-quality individuals to serve on a broadly representative task force reflective of the campus' diversity?

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## KEY READINESS QUESTIONS

- Will you be able to identify co-champions from within the task force?
- What other major initiatives are currently underway?
- What's the recent track record with respect to major campus initiatives requiring broad-based buy-in?

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## KEY READINESS QUESTIONS

- How will the informal leaders respond to a new resource allocation model?
- Does the culture support a transparent approach to developing an RCM model?
- Do you have the capacity to establish appropriate communication protocols to keep the campus informed of the effort?

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IMPRESSIONS 43



## RESOURCE

### Responsibility Center Budgeting by Edward L. Whalen

This book is an in-depth description of Indiana University's development of RCM. It covers the key approaches and includes an appendix covering their complex approach to allocating overhead using a simultaneous equation.

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IMPRESSIONS 44



## RESOURCE

### **Responsibility Center Management by John R. Curry, Andrew L. Laws, and Jon C. Strauss and**

This 2013 NACUBO book details the key elements of RCM and reviews the experience of nine large public and private institutions. It's particularly helpful because it discusses the benefits and challenges related to RCM.

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## QUESTIONS

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## MOVING TO A RESPONSIBILITY-CENTERED BUDGET MODEL

CONSIDERATIONS FOR IMPLEMENTING RESPONSIBILITY-CENTER MANAGEMENT ON CAMPUS

Larry Goldstein | Campus Strategies, LLC | [Larry.Goldstein@Campus-Strategies.com](mailto:Larry.Goldstein@Campus-Strategies.com)



### POLL

**What's the level of alignment between planning, resource allocation, and assessment on your campus?**

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## LEARNING OUTCOME

### After participating...

...you will be able to analyze and respond to challenges in RCM implementation.

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### SESSION AGENDA

- Review of common issues associated with RCM models
- Implementation issues / considerations
- Case study examples / lessons learned

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## REVIEW OF COMMON ISSUES ASSOCIATED WITH RCM MODELS

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### **GAINING BUY-IN FOR THE NEW MODEL**

- Top-down / bottom-up approach
- Identification of champion(s)
- Broadly representative task force charged with developing the model
  - Co-chairs
    - Mid-level administrator
    - Iconic faculty member
- Ongoing educational campaign
- Transparent effort
- Opportunities for input by community

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## ■ TRAINING

- Start early as key decisions are made
- Conduct periodic information sessions for key personnel
  - Senior leaders
  - Budget Office
  - Provost’s finance staff
  - Deans and their finance staff
  - Academic chairs and their finance staff
  - Other revenue center managers and their finance staff
- Once model is developed
  - Conduct comprehensive training

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## ■ OWNERS OF THE MODEL

- President or chancellor
- Chief academic officer
- Chief financial officer
- Chief of staff
- Other
  - Avoid shared ownership

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## POLL

# Who owns the current budget process?

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## PROCESS ISSUES

- Institutional Effectiveness Committee
- Linkage to plans / assessment processes
- Calendar
- Guiding principles (e.g., transparency, openness, inclusivity)
- Hearings / reviews / forums

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## PROCESS ISSUES

- Participants
  - Cabinet
  - Classified staff council
  - Deans
  - Department heads
  - Directors
  - Faculty senate
  - Student association
  - Other

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## QUESTIONS

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## IMPLEMENTATION CONSIDERATIONS

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### KEY DECISIONS

- Identification and classification of units
  - Revenue centers
  - Cost centers
  - Blended units
  - Other

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## KEY DECISIONS

- Inclusion / exclusion of revenues
  - All funds?
  - Treatment of specific revenue categories
    - Tuition
    - Appropriation
    - Gifts / endowment income
    - F&A recoveries
    - Other

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## KEY DECISIONS

- Identification of cost pools
- Aggregation versus disaggregation
- Sample aggregated cost pools
  - Academic
  - Student
  - Executive
  - Administrative
  - Facilities
  - Research

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## KEY DECISIONS

- Determining allocation methods for revenues and expenses
  - Potential drivers for the distribution of revenues and administrative / support costs
    - Student credit hours
    - Student headcount
    - Total headcount
    - Square feet
    - Direct expenses (e.g., research, instruction)

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## KEY DECISIONS

- Application of sample drivers to sample aggregated expense pools
  - Academic—student credit hours
  - Student—student headcount
  - Executive—total direct expenses
  - Administrative—total headcount or direct expenditures
  - Facilities—net assignable square feet
  - Research—direct research expenses

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## KEY DECISIONS

- Identification of cost centers using disaggregated approach
  - Executive and Administrative
    - Executive management
    - Fiscal operations
    - Business services
    - Sponsored programs administration
    - Community relations
    - Alumni relations
    - Facilities
    - Information technology

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## KEY DECISIONS

- Academic support programs
  - Library
  - Academic affairs
  - Academic administration
  - Learning resources
  - Research and graduate development
  - Instructional technology

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## KEY DECISIONS

- Student services
  - Student services administration
  - Admissions, registrar
  - Counseling and guidance
  - Financial aid administration
  - Campus life, intramurals, clubs, etc.

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## KEY DECISIONS

- Step-down
  - Established cost pools may be distributed after loading for other costs
  - Step-down approaches take various costs (e.g., facilities, IT) and distribute the costs to the pools before the pools are allocated
  - Hides the true cost of the pool because it includes the other costs

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## KEY DECISIONS

- Failure to utilize step-down approaches burdens units with costs that actually relate to other activities—for example, administration
- Key consideration in step-down is the order in which costs are distributed
  - Indiana University famously utilizes a simultaneous equation as part of its step-down approach

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## KEY DECISIONS

- Distribution of tuition involves two key considerations for all institutions
  - “Cost of instruction” weighting
    - Proportionally distributes tuition in favor of higher-cost disciplines
  - Home versus course delivery unit
    - Differentially distributes tuition to unit in which student is registered and to unit teaching the courses

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## KEY DECISIONS

- Other complexities related to tuition
  - Surcharges imposed on out-of-state students
    - Specific identification or blended distribution
  - Variable tuition rates
  - Graduate tuition versus undergraduate tuition
  - Dual-degree enrollments

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## KEY DECISIONS

- State appropriations
  - Must consider how appropriations are determined and what they cover
    - Enrollment-based appropriation clearly should be distributed
      - But at what rate and using what driver?
    - Appropriations not based on enrollments might be distributed based on combined tuition / research revenues / expenses

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## KEY DECISIONS

- Financial aid
  - Undergraduate
    - Centrally awarded aid usually treated as a revenue reduction and allocated in proportion to tuition
      - Exception applies for aid awarded by the units
  - Graduate
    - Almost always treated as a unit direct expense

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## KEY DECISIONS

- Facilities and administrative cost recoveries
  - Generally credited to principal investigator's unit
    - Special arrangements needed for interdisciplinary research projects with co-PIs
  - Not uncommon to be adjusted by formula to support research services or to support PI generating the recoveries

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## KEY DECISIONS

- Taxing protocol
  - Base—which revenues / expenses are subject to taxation?
    - Taxing revenues can discourage revenue generation
    - Taxing expenses can lead to game playing with cost recovery
  - Rate—what rate(s) will be applied?
    - Should the rates vary by type of revenue / expense?

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## TYPICAL TIMETABLE

- Most effective implementation processes require two years of preparation
  - First year focused on design of system
  - Second year employs either phased or parallel approach
  - Third year represents full implementation of RCM principles

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## TYPICAL TIMETABLE

- Development phase can easily take one year, but can be done more quickly
  - Some time needed to study RCM options / possibly visit other campuses
  - Significant time needed to deliberate and communicate the key decisions mentioned earlier
  - Time needed to model the impact of the decisions using historical data
    - Recognize inherent flaws in modeling based on historical data

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## TYPICAL TIMETABLE

- Experimentation phase utilizing one of two approaches
  - Phased implementation
    - Select a small number of diverse revenue centers to operate under RCM with some protection during the first year
    - Requires a highly visible approach with extensive sharing of experience throughout the institution

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## TYPICAL TIMETABLE

- Parallel system implementation
  - Operate using the existing system but model the impact as if RCM had been implemented
    - Safest approach to ensure minimal surprises when fully implemented
    - Requires duplicate systems and can be burdensome for both units and central office staff

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## POLL

**Based on what you know today, which implementation approach would work best at your institution?**

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 **QUESTIONS**

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**CASE STUDY EXAMPLES  
AND LESSONS LEARNED**

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 **ACADEMIC IMPRESSIONS** 36

## CASE STUDY 1

- Land-grant university with approximately 15,000 students
- Identified 19 revenue and cost centers
- Relied on a formula-based revenue distribution
- Full-cost model, units charged for space-related costs
- Guiding principles
  - Equity and simplicity
  - “Hold harmless” through a permanent balancing adjustment—not subject to inflationary increases

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## CASE STUDY 1

- Revenues
  - Units own all direct revenues they generate
  - Relies on a weighted two-year cycle to measure credit-hour production in support of undergraduate tuition distribution
  - Actual enrollment for graduate tuition
  - 30 percent of state appropriation distributed to units based on faculty salaries paid

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## CASE STUDY 1

- Expenses
  - All direct expenses are attributed to responsibility centers
  - Allocations
    - Facilities based on net assignable square feet
    - General administration & academic administration based on prior year revenues and personal service expenses

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## CASE STUDY 1

- Results
  - Deemed an unqualified success
  - Reserves have grown substantially
  - Achieving enhanced outcomes by academic programs
  - Improved performance by service centers

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## CASE STUDY 2

- Land-grant university with approximately 25,000 students
- Process
  - Began with a day-long session facilitated by a consultant
    - Invited three other universities to share their experience with RCM
    - The remainder of the day was spent analyzing what they heard and determining which of it made sense for this university

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## CASE STUDY 2

- Established a broadly representative task force to develop a model
- Extensive study of how other universities approached RCM, including campus visits
- The model they developed employed an advisory committee for each administrative / support cost area
- Intentionally committed to keeping the model static for the first five years

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## CASE STUDY 2

- Recently engaged a consultant to conduct a review of the model’s effectiveness
  - Overall assessment is very favorable, although some issues are being revisited
  - Formulas may be revised slightly
  - The advisory committees are deemed to be overly cumbersome and will be abandoned
  - Generally, they remain satisfied

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## CASE STUDY 3

- Comprehensive public university with 25,000 students
  - Unqualified failure
  - After-the-fact analysis determined that the president and chief academic officer were not visibly supportive of the effort (proving CFO alone cannot lead this effort)
  - Lacked broad-based participation
    - A small group of central office personnel designed the model

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### CASE STUDY 3

- Attempted to adopt another university’s model with only limited changes
- It operated for two years before it imploded

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### LESSONS LEARNED

- Take time to gain buy-in
  - Every RCM system is complex
    - Provide appropriate time for communication and deliberation
- Plan on periodic reviews
  - Indiana University first implemented in 1991
    - Comprehensive reviews every five years since then
    - Various tweaks to the system

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## LESSONS LEARNED

- Establishment of provost fund; subsequently increased amount
- Introduced one-year lag for data used for tuition distribution
- 5 percent of F&A recoveries allocated directly to research VP
- Allow service units to retain 40 percent of year-end balances
  - » Academic units continue to retain 100 percent
- Improved transparency over time

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## LESSONS LEARNED

- Someone must own the system to ensure leadership changes don't result in dramatic shifts or even abandonment of the model
- Monitor the model's operation
- Periodically test against principles
- Don't assume that circumstances will remain the same over time
- In particular, subventions must be examined periodically to ensure that they remain appropriate

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## LESSONS LEARNED

- Know when to “fold ‘em”
  - One institution seemingly did everything right
    - Collaborative process
    - Highly transparent
    - Extensive investigation of others’ RCM models
    - Carefully developed model
    - Comprehensive training program
  - Got cold feet and pulled the plug just before full implementation

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## KEYS TO SUCCESSFUL IMPLEMENTATION

- Provost and chief financial officer oversee implementation—highly visible co-champions
- Transparent, inclusive development process
- Gain early agreement on key principles
- Rapid (one-year) development process with extensive communication and training
  - Pilot / phase the model for one year
  - Consider “hold harmless” to protect existing budgets for a period of time

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## RESOURCE

### List of institutions that currently use an RCM budget model

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## RESOURCE

### Responsibility Center Budgeting by Edward L. Whalen

This book is an in-depth description of Indiana University's development of RCM. It cover the key approaches and includes an appendix covering their complex approach to allocating overhead using a simultaneous equation.

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## QUESTIONS

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# The Ad Hoc Committee on Budgeting Process

Informational Session –  
Responsibility Center  
Management



EAST TENNESSEE STATE  
UNIVERSITY

March 18, 2015

**Dr. Larry Calhoun**, Dean, College of Pharmacy, Chair

**Dr. Gordon Anderson**, Dean, College of Arts and Sciences

**Mr. James Batchelder**, Assistant Dean (Fiscal Affairs), College of Clinical and  
Rehabilitative Health Sciences

**Dr. Randy Byington**, Associate Professor, Allied Health Sciences

**Dr. Wallace Dixon, Jr**, Chair and Professor, Psychology

**Dr. William Duncan**, Vice Provost for Research, Office of Sponsored Programs

**Dr. Amal Khoury**, Associate Dean, Quality and Planning, College of Public Health

**Dr. B.J. King**, Senior Associate Vice-President for Finance and Administration,  
Office of Financial Services

**Dr. David Linville**, Associate Dean, Graduate Medical Education, Quillen College of  
Medicine

**Ms. Raven Moody**, Associate Director, Budget and Financial Planning

**Dr. Wendy Nehring**, Dean, College of Nursing

**Dr. Michael Smith**, Professor & Chair, Department of Social Work

**Dr. Randy Wykoff**, Dean, College of Public Health



# Agenda

---

- Introduction – Dr. Larry Calhoun
- Why RCM – How the Landscape is Changing – Dr. Randy Wykoff
- Process of the Committee – Dr. David Linville
- Elements of RCM – Mr. James Batchelder
- Guiding Principles to this Point – Dr. Michael Smith
- Open Discussion



# Key Issues

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- Strategic Planning ↔ Budgeting
- What We Didn't Do
- Importance of Site Visits to Implementation



# Why Are We Considering any Changes in the Budget Model at ETSU?

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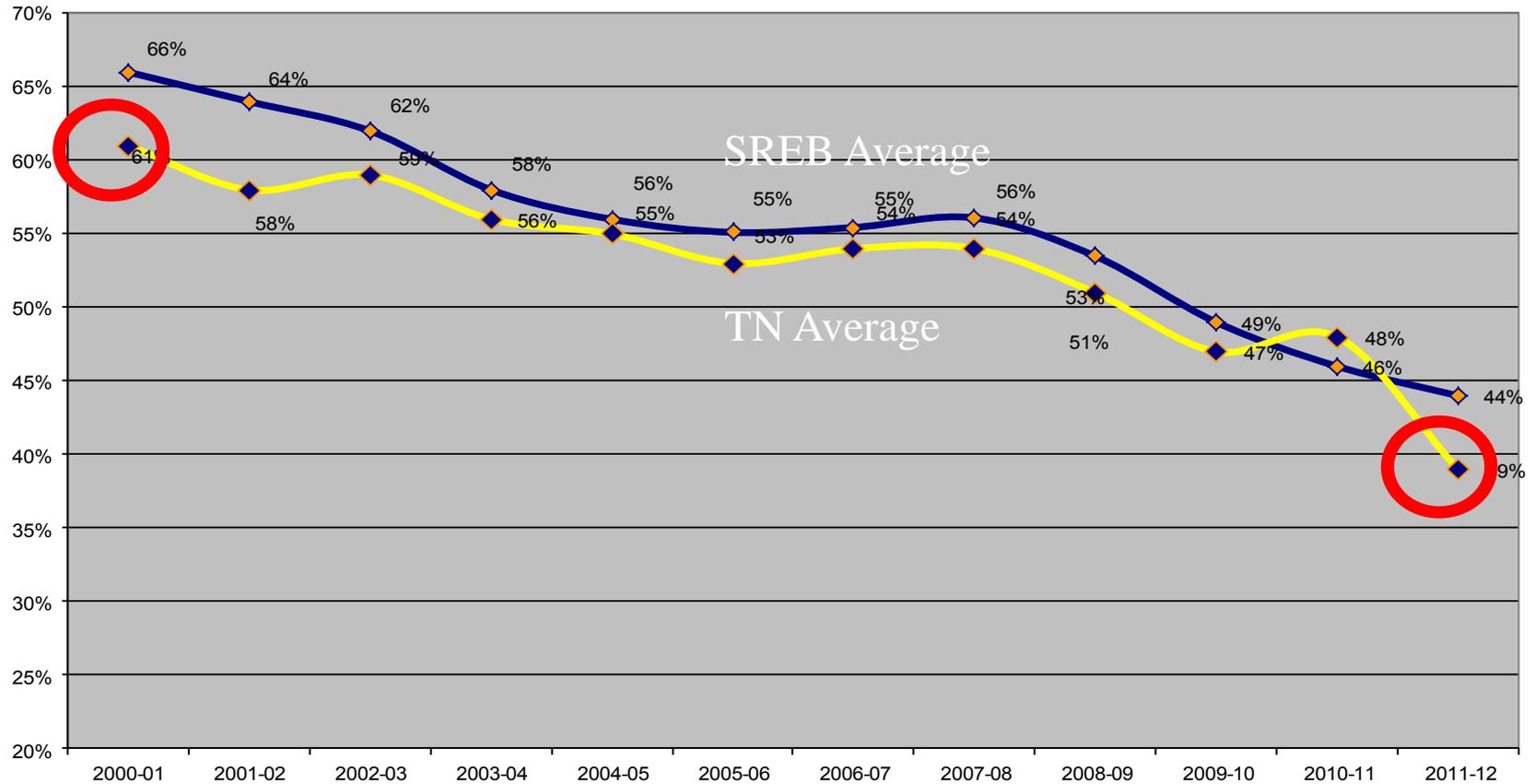
# Challenges we Face in 2015 and Beyond . . .

---

- Changes in State Funding Amounts



# Declining Role of State Support per FTE



Source: SREB Data Exchange July 2013



EAST TENNESSEE STATE  
UNIVERSITY

# The Shifting Dependency on Tuition Revenues

	State Revenues						Tuition Revenues					
	2000-01	2007-08	2008-09	2009-10	2010-11	2012-13	2000-01	2007-08	2008-09	2009-10	2010-11	2012-13
<b>SREB states</b>	<b>66%</b>	<b>56%</b>	<b>53%</b>	<b>49%</b>	<b>46%</b>	<b>44%</b>	<b>34%</b>	<b>44%</b>	<b>47%</b>	<b>51%</b>	<b>54%</b>	<b>56%</b>
Alabama	53%	55%	45%	39%	36%	37%	47%	45%	55%	61%	64%	63%
Arkansas	66%	57%	54%	52%	50%	52%	34%	43%	46%	48%	50%	48%
Delaware	38%	33%	33%	30%	26%	23%	62%	67%	67%	70%	74%	77%
Florida	78%	72%	69%	63%	62%	57%	22%	28%	31%	37%	38%	43%
Georgia	73%	65%	62%	52%	50%	44%	27%	35%	38%	48%	50%	56%
Kentucky	62%	45%	44%	41%	39%	39%	38%	55%	56%	59%	61%	61%
Louisiana	61%	66%	62%	55%	53%	47%	39%	34%	38%	45%	47%	53%
Maryland	60%	52%	51%	49%	49%	48%	40%	48%	49%	51%	51%	52%
Mississippi	66%	56%	55%	53%	46%	46%	34%	44%	45%	47%	54%	54%
North Carolina	80%	69%	70%	67%	66%	68%	20%	31%	30%	33%	34%	32%
Oklahoma	69%	55%	52%	50%	47%	45%	31%	45%	48%	50%	53%	55%
South Carolina	55%	39%	28%	24%	19%	17%	35%	61%	72%	76%	81%	83%
<b>Tennessee</b>	<b>61%</b>	<b>54%</b>	<b>51%</b>	<b>47%</b>	<b>48%</b>	<b>39%</b>	<b>39%</b>	<b>46%</b>	<b>49%</b>	<b>53%</b>	<b>52%</b>	<b>61%</b>
Texas	66%	51%	49%	49%	45%	45%	34%	49%	51%	51%	55%	57%
Virginia	61%	46%	44%	39%	37%	31%	39%	54%	56%	61%	63%	69%
West Virginia	58%	38%	37%	35%	34%	35%	42%	62%	63%	65%	66%	65%

Source: SREB Data Exchange July 2014



**EAST TENNESSEE STATE**  
UNIVERSITY

# Challenges we Face in 2015 and Beyond . . .

---

- Changes in State Funding Amounts



# Challenges we Face in 2015 and Beyond . . .

---

- Changes in State Funding Amounts
- Changes in State Funding Formula



# THEC Funding Formula

---

Students Accumulating 24 hrs	<b>3.0%</b>
Students Accumulating 48 hrs	<b>5.0%</b>
Students Accumulating 72 hrs	<b>7.0%</b>
Bachelors and Associates	<b>25.0%</b>
Masters / Ed Specialists	<b>15.0%</b>
Doctoral / Law Degree	<b>7.5%</b>
Research and Service	<b>12.5%</b>
Transfers Out with 12 hrs	<b>5.0%</b>
Degrees per 100 FTE	<b>10.0%</b>
Six-Year Graduation Rate (expressed as %)	<b>10.0%</b>
Bonus: Adult Student Achievement	
Bonus: Low Income Student Achievement	



# 2013-14 Performance Funding Summary

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<b>Standard 1A: General Education Assessment (CCTST):</b>	<b>15 points</b>
<b>Standard 1B: Major Field Assessment:</b>	<b>15 points</b>
<b>Standard 1C: Accreditation and Evaluation:</b>	<b>25 points</b>
<b>Standard 1D: Satisfaction Studies (NSSE):</b>	<b>10 points</b>
<b>Standard 1F: Assessment Implementation:</b>	<b>10 points</b>
<b>Standard 2: Student Access and Student Success:</b>	<b>25 points</b>



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers



# Challenges we Face in 2015 and Beyond . . .

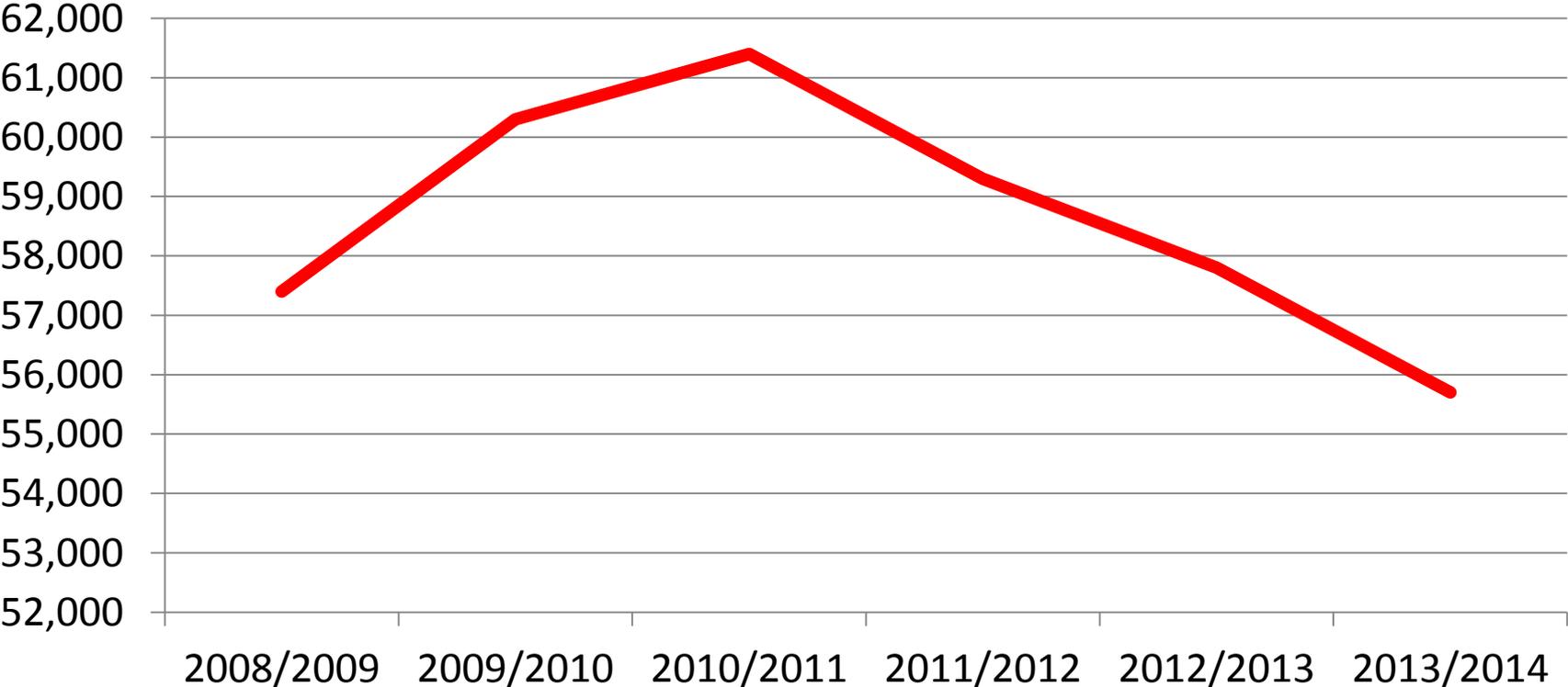
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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
  - Number of High School Graduates

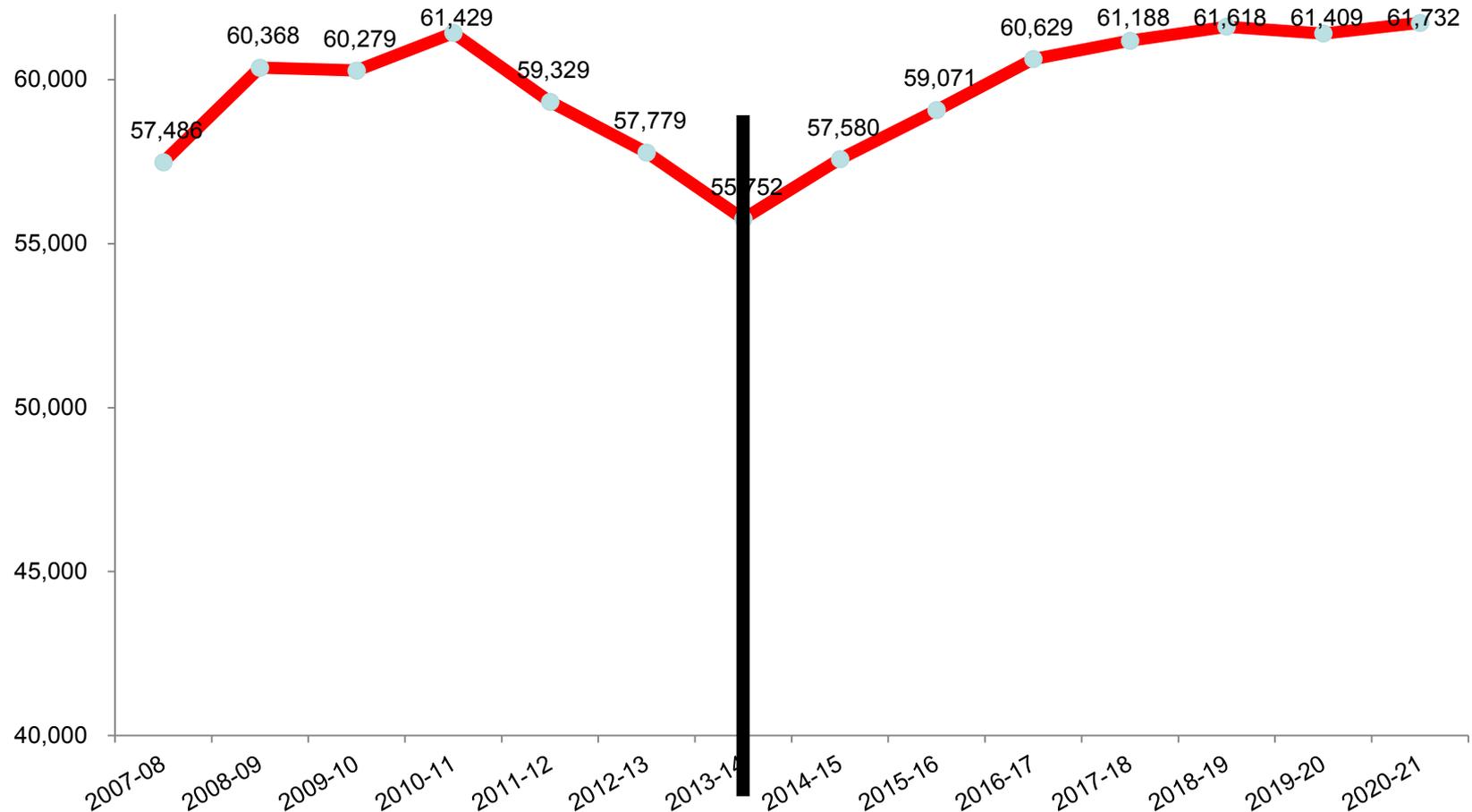


# High School Graduates in Tennessee

## High School Graduates



# Current and Projected Number of High School Graduates



Source: Western Interstate Commission on Higher Education, "Knocking at the College Door"



EAST TENNESSEE STATE  
UNIVERSITY

# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
  - Number of High School Graduates



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
  - Number of High School Graduates
  - Actual enrollment



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background

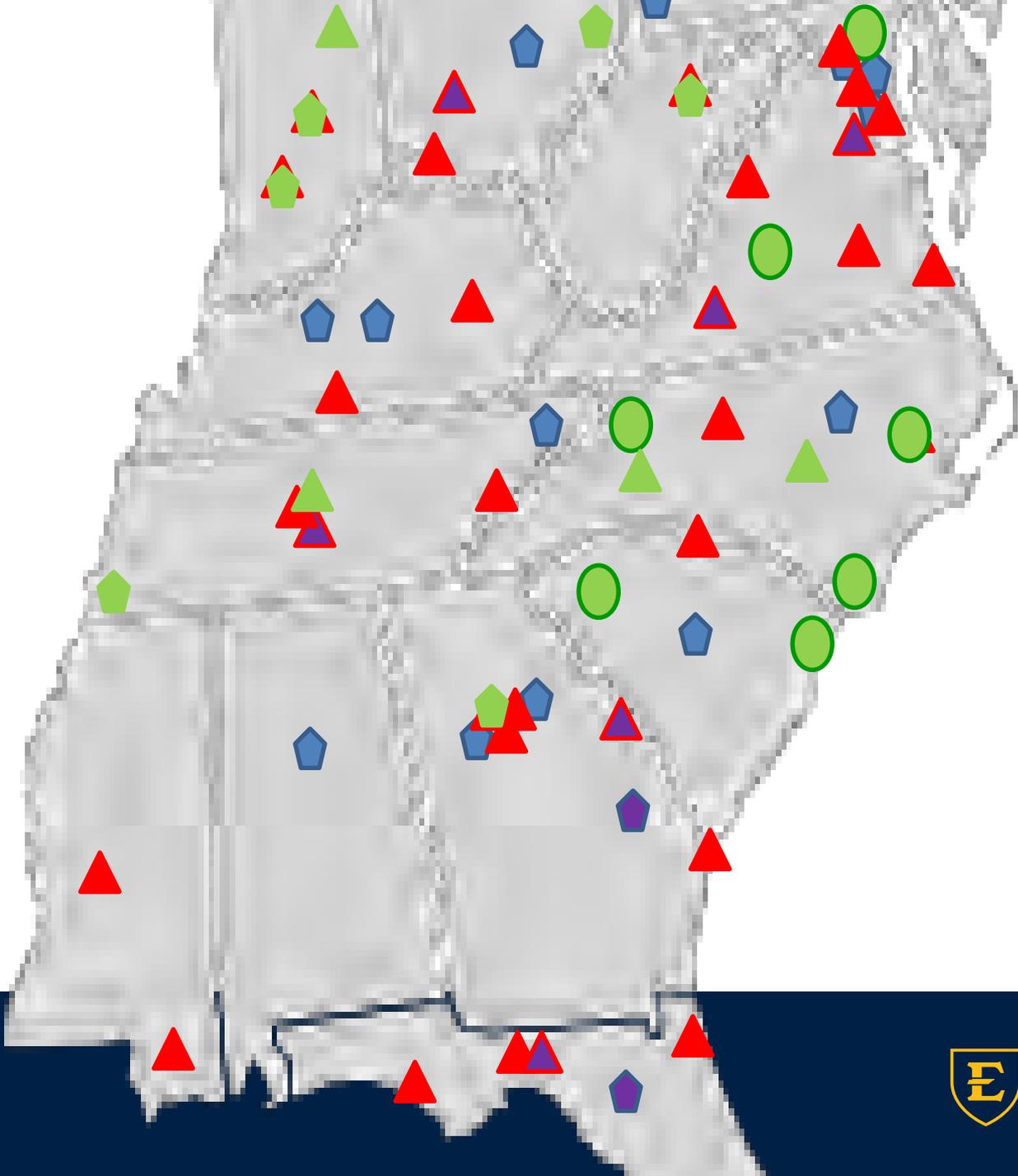


# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background
  - Program Specific





EAST TENNESSEE STATE  
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# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background
  - Program Specific

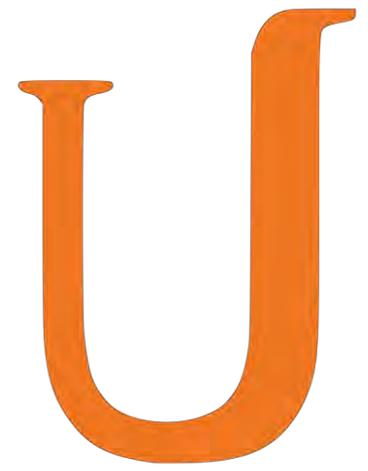


# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background
  - Program Specific
  - Not Program Specific





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# ETSU's "Capture Rate" for Local High Schools

High School	Graduates (2012)	Percent Going to College (2012)	Percent Going to ETSU (2014)	
			Of All Graduates	Of All College-Bound
David Crockett	298	48%	23%	61%
Elizabethton	191	57%	23%	40%
Science Hill	486	72%	27%	38%
Volunteer	271	46%	21%	34%
Daniel Boone	353	55%	17%	31%
Tennessee High	272	63%	17%	28%
Dobyns-Bennett	421	69%	18%	26%



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background



# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background
- Limitations in the Current Budget Process



# Challenge We Face in 2015 and Beyond

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- Focus on Student Retention
- Focus on Student Recruitment
- Empower Colleges and Departments to be Entrepreneurial



# Timeline

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- Ad-hoc committee convened, November 2013
- Received charge from Dr. Noland as a result of the work from the 125 Committee
- Our committee has met 19 times from then until now



# Committee Process

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- Information from consultant, rpkGROUP
- Review of ETSU's current budget process
- Review of relevant publications and examples
- National webinar series on RCM
- Telephone/video conferences
  - Indiana University
  - Miami University
- Extensive committee discussions



# Moving Forward

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- Committee progress reports presented at President's leadership retreats
- Today's session
- Final report to Dr. Noland



# The RCM Model

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- RCM Model divides campus units into Revenue Centers and Cost Centers.
- Revenue Centers = Colleges, Auxiliaries, or other revenue producing units.
- Cost Centers = Administrative or support units which don't produce revenue.
- RCM aligns budget authority and responsibility with accountability.



# The RCM Model – Revenue Centers

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- RCM provides incentives to Revenue Centers for increasing revenue and supports entrepreneurial efforts.
- Revenue Centers own the unrestricted revenue generated from tuition, fees, charges, unrestricted grants or gifts, research dollars, etc.
- Revenue Centers cover all their own direct expenses.
- Revenue Centers pay a “tax” or overhead rate to support Cost Centers, mission critical high-cost or low-revenue academic programs (subvention), and institutional strategic priorities and initiatives.



# The RCM Model – Cost Centers

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- Cost Centers are necessary to carry out the institutional mission.
- Cost Centers are dependent on the Revenue Center “tax”.
- RCM supports efficient, competitive administration of Cost Centers.
- RCM encourages customer focused Cost Centers.



# Recommendations

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- The implementation and on-going operation of the RCM model should be intimately tied to the comprehensive strategic planning process of the University.
- Careful analysis of the experience of other institutions in the implementation of RCM should inform the process at ETSU.



# Recommendations

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- Technical, personnel, and financial resources--especially in the service of empowering colleges and non-academic equivalents--should be developed as part of RCM implementation. This includes identifying a senior leader to be the champion for RCM at the university level.



# Recommendations

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- There should be a variable assessment (e.g. "tax") among colleges and other revenue centers based on their unique missions.
- Cost-center/centralized functions should be focused on providing those services essential to the operation of the University, and on supporting the revenue centers in their activities.



# Recommendations

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- Responsibility Centers (e.g., colleges and major service and administrative units) should have the flexibility to roll over unspent, net revenue.
- The RCM process should be carefully and regularly evaluated, particularly in the first year, to account for unintended consequences and errors in assumptions.



# Recommendations

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- Throughout the implementation of RCM there should be a careful communication/education/buy-in program to ensure clarity and transparency.



# Challenges

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- Models don't create new \$'s – only facilitate the process
- Still have to build in opportunities for special situations
- Education – Organization (specifically leadership at all levels)
- “The Transition”



# The Ad Hoc Committee on Budgeting Process

Informational Session –  
Responsibility Center  
Management



EAST TENNESSEE STATE  
UNIVERSITY

March 18, 2015

# Tennessee Board of Regents: Institutional Budget Model Seminar

April 2015



Huron Consulting Group is pleased to have the opportunity to share our perspective on trends in higher education resource allocation with selected Tennessee Board of Regents institutions and stakeholders.

***This document is intended to:***

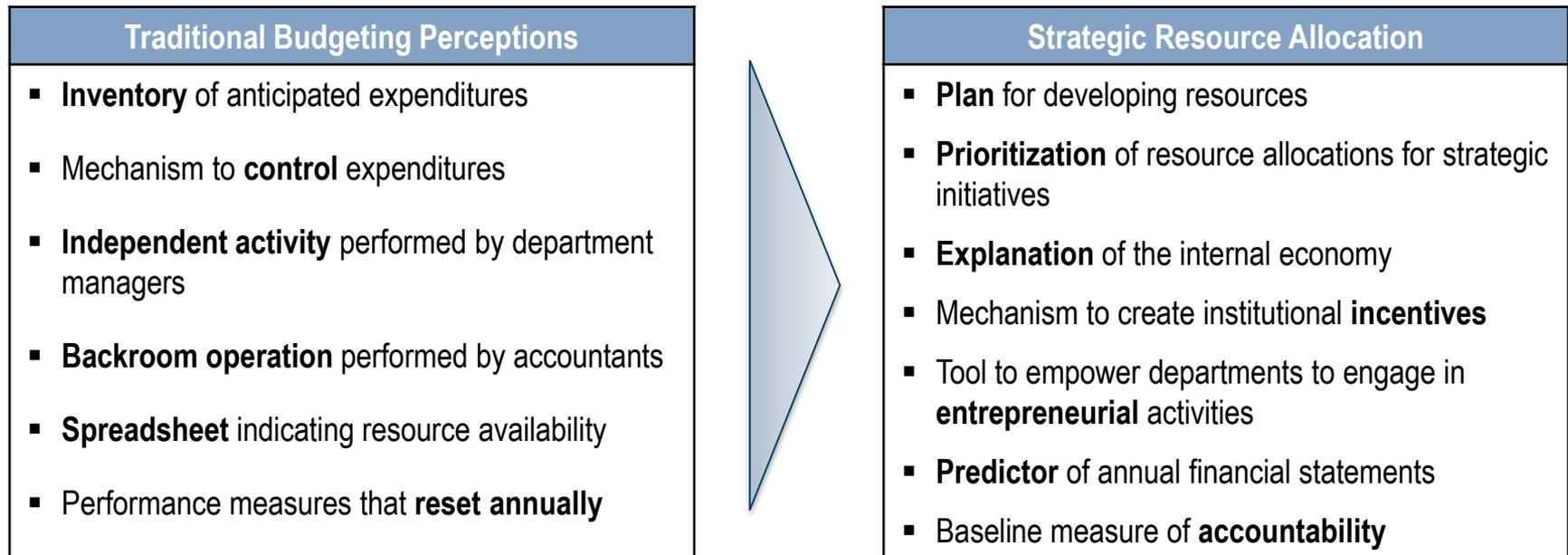
- Present a Selection of Budget Redesign Trends
- Describe Approaches to Resource Allocation
- Highlight a Selection of Budget Redesign Initiatives
  - University of Memphis
  - Tennessee Technological University
  - East Tennessee State University
- Shared Concluding Thoughts and Answer Questions

# Budget Redesign Market Overview

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# Shifting Focus of University Budgeting

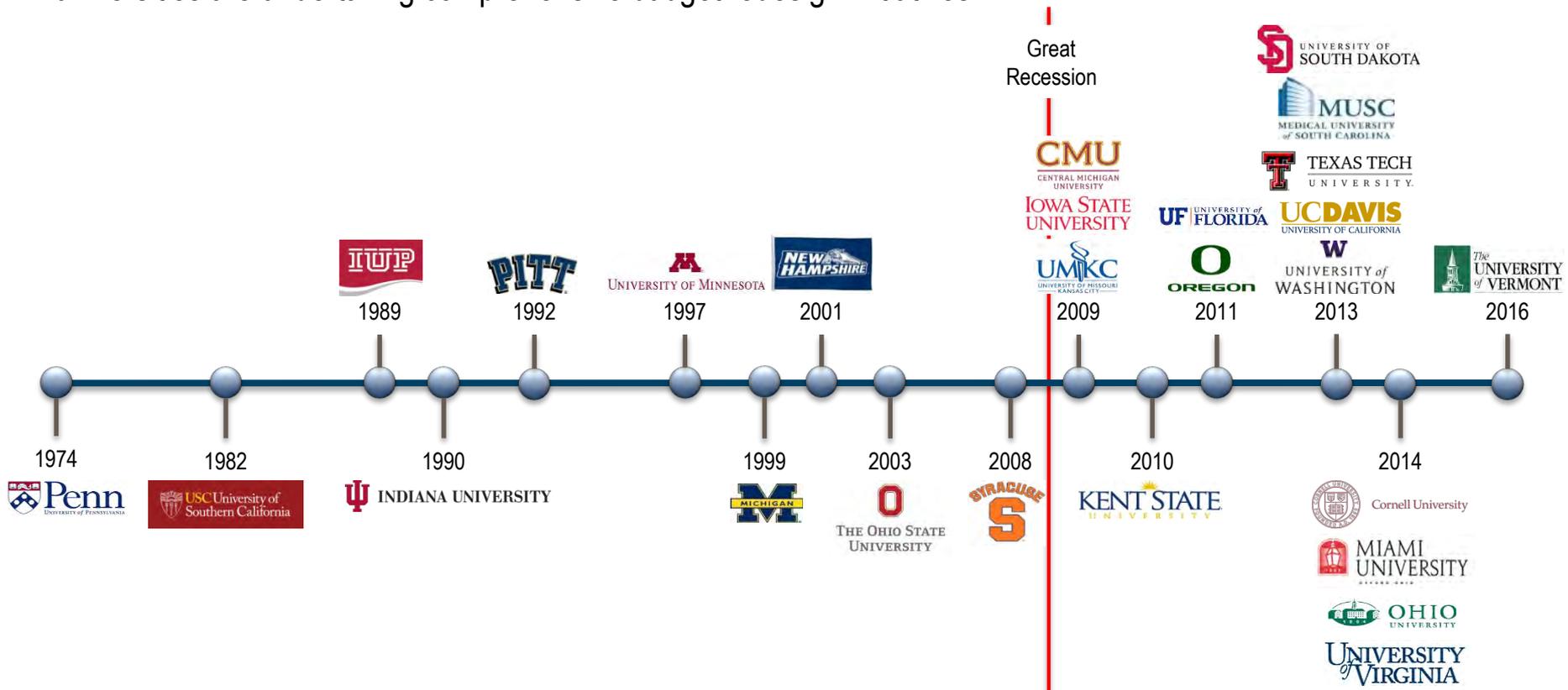
University budgeting initiatives often begin with an attempt to reframe traditional campus budgeting perceptions by highlighting the strategic importance of resource allocation.



**As university community members begin to shift their thinking on the role of budgeting, individuals will be more willing to prioritize the budget process, share information and make strategic decisions.**

# Recent Higher Education Budget Redesigns

The negative effects of the struggling economy have considerably increased the frequency with which universities are undertaking comprehensive budget redesign initiatives.



The number of institutions pursuing budget redesigns continues to grow as universities face fiscal challenges and seek to expand the number of institutional leaders focused on resource maximization.

# Industry Trends in Resource Allocation

An Inside Higher Ed Survey of College & University Business Officers reports that most institutions use incremental budget models, though adoption rates have recently declined.

Budget Models*	Incremental	Formula	Performance	Incentive	Zero-Based
All Institutions	60.2%	26.1%	19.6%	14.2%	30.0%
Public Institutions	59.3%	34.8%	21.0%	11.8%	25.6%
Doctoral	78.7%	44.7%	25.5%	21.3%	0.0%
Private Institutions	62.3%	17.1%	18.2%	17.1%	33.2%

Changes in Budget Models, FY07-08 vs. FY10-11					
All Institutions	-8.4%	-1.0%	7.4%	4.0%	9.0%
Public Institutions	-9.6%	-2.2%	8.2%	4.3%	9.0%
Doctoral	-8.5%	0.0%	10.6%	14.9%	-2.1%
Private Institutions	-6.2%	0.3%	6.6%	4.1%	8.5%

\* Numbers may total more than 100% and Institutions may be listed multiple times because some use more than one budget model.  
Source: Inside Higher Ed Survey of College & University Business Officers; Huron Consulting Group benchmarking

**Private institutions have among the highest adoption rates of incentive-based budgeting, though more public institutions appear to have made the transition to incentive-based models in recent years.**

# Recent Higher Education Budget Redesigns (1 of 3)

Unique contexts have led to a number of recent budget redesigns, but a review of redesign rationales shows common themes behind many redesign initiatives.

## Common budget redesign rationales:

- Change nature of decision making
- Move to a more methodical approach
- Grow revenue
- Promote incentives
- Increase transparency

Institution	Reasons for Redesign	Implementation Date
	<ul style="list-style-type: none"> <li>• Promote academic excellence and financial sustainability at all levels of the university</li> <li>• Encourage innovation and entrepreneurship</li> <li>• Improve transparency, clarity and predictability of budgeting</li> </ul>	In Progress (Projected FY2016)
	<ul style="list-style-type: none"> <li>• Align revenue streams to the colleges in support of their instructional mission</li> <li>• Direct tuition to colleges based on their teaching activities</li> <li>• Implement a cost pool system that assigns colleges the costs for support services</li> </ul>	In Progress (Projected FY2015)
	<ul style="list-style-type: none"> <li>• Distribute revenues and address costs in ways that are consistent, coherent, and transparent across colleges and units</li> <li>• Allow the university to think and make decisions collectively</li> <li>• Bring clear understanding of the university's finances and expenses</li> </ul>	In Progress (Projected FY2014)
	<ul style="list-style-type: none"> <li>• Identify sources of new revenue</li> <li>• Improve the allocation of resources</li> <li>• Achieve greater operating efficiencies</li> <li>• Provide better information for decision making</li> </ul>	In Progress (Projected FY2014)

# Recent Higher Education Budget Redesigns (2 of 3)

Institution	Reasons for Redesign	Implementation Date
	<ul style="list-style-type: none"> <li>Position academic units to rationally compete for resources and discuss the appropriate balance between academic and non-academic resource allocation</li> <li>Encourage decisions based on current and future needs rather than past assumptions</li> </ul>	In Progress (Projected FY2014)
	<ul style="list-style-type: none"> <li>Increase the self-reliance of schools and other major units</li> <li>Provide greater transparency and awareness of the implications and costs of academic and service choices</li> <li>Support the development and pursuit of academic priorities defined by deans and faculty by matching up authority with responsibility</li> </ul>	In Progress (Projected FY2014)
	<ul style="list-style-type: none"> <li>Institute a fundamental change to the university's budgeting approach which had become excessively complex and riddled with rules</li> <li>Develop a philosophy of budgeting and financial management to clarify incentives</li> <li>Enable entrepreneurship and improve financial stewardship</li> </ul>	FY2013
	<ul style="list-style-type: none"> <li>Advance the university's vision (align funding to institutional priorities)</li> <li>Provide assurance of reasonable reserves, oversight, and potential direct benefit for those units willing to engage in responsible risk-taking</li> <li>Support transparency and acknowledge the need for simplification</li> </ul>	FY2013
	<ul style="list-style-type: none"> <li>Increase incentives and ensure financial rewards are linked directly to strategic goals</li> <li>To give more control to individual colleges and to encourage colleges to try new methods</li> <li>To focus on how to better engage with the university's mission</li> </ul>	FY2013
	<ul style="list-style-type: none"> <li>Enable reallocation of resources when necessary</li> <li>Create greater local planning and accountability</li> <li>Implement policies that serve the best interests of the university</li> <li>Support "common good" services, programs, and operations across the entire institution</li> </ul>	FY2013

# Recent Higher Education Budget Redesigns (3 of 3)

Institution	Reasons for Redesign	Implementation Date
	<ul style="list-style-type: none"> <li>Promote innovative and entrepreneurial activities that are financially viable</li> <li>Generate new revenue sources</li> <li>Achieve success through decentralized decision making</li> </ul>	FY2011
	<ul style="list-style-type: none"> <li>Couple authority with financial responsibility</li> <li>Associate revenues directly to revenue creating activity</li> <li>Reward good decision makers</li> </ul>	FY2011
	<ul style="list-style-type: none"> <li>Build on the successes of the university by making it easier to invest in academic programs and services</li> <li>Encourage greater academic planning based on trends in university funding</li> </ul>	FY2010
	<ul style="list-style-type: none"> <li>Provide an effective way to accomplish the goals of the strategic plan</li> <li>Reward units that focus on high quality education, research and outreach programs,</li> <li>Provide decision makers with more transparent and relevant information</li> </ul>	FY2009
	<ul style="list-style-type: none"> <li>Align revenue authority with units directly responsible for advancing the university's mission</li> <li>Provide greater transparency into university budgets</li> </ul>	FY2008

# Approaches to Resource Allocation

# Overview of Budgeting Alternatives

Incremental budgeting is the most common approach to university resource allocation, though an array of alternative and hybrid models exists.

Common Budgeting Models <sup>1</sup>			
<p style="text-align: center;"><b>Incremental Budgeting</b></p> <ul style="list-style-type: none"> <li>▪ Centrally driven</li> <li>▪ Current budget acts as “base”</li> <li>▪ Each year’s budget increments (decrements) adjust the base</li> <li>▪ Focus is typically placed on expenses</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Block-grant models bucket line-items together to promote local control</li> <li>– Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base</li> </ul> </li> <li>▪ Approximately 60% of institutions and 79% of public doctoral institutions report using this model</li> </ul>	<p style="text-align: center;"><b>Formula Funding</b></p> <ul style="list-style-type: none"> <li>▪ Unit-based model focused on providing equitable funding</li> <li>▪ Unit rates are input-based and commonly agreed upon</li> <li>▪ Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Weighting schemes to control for local cost structures</li> <li>– Used only for select activities (e.g., instruction)</li> </ul> </li> <li>▪ Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model</li> </ul>	<p style="text-align: center;"><b>Performance Funding</b></p> <ul style="list-style-type: none"> <li>▪ Unit-based model focused on rewarding mission delivery</li> <li>▪ Unit rates are output based and commonly agree upon</li> <li>▪ Annual fluctuations are driven primarily by changing production and not from changes to rates</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Weighting schemes to control for local unit mission</li> <li>– Used only for small portions of overall resources (as little as 1% - 5%)</li> </ul> </li> <li>▪ Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model</li> </ul>	<p style="text-align: center;"><b>Incentive-Based Models</b></p> <ul style="list-style-type: none"> <li>▪ Focus on academic units</li> <li>▪ Incorporates a devolution of revenue ownership to local units, as generated</li> <li>▪ Allocates costs to revenue generating units</li> <li>▪ Utilizes a centrally managed “subvention pool” to address strategic priorities</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Revenue allocation rules</li> <li>– Number of cost pools</li> <li>– Participation fee (tax rate)</li> </ul> </li> <li>▪ Approximately 14% of all institutions and 21% of public doctoral institutions use an incentive-based model</li> </ul>

(1) Adoption rates from the 2011 Inside Higher Education Survey of College and University Business Officers; Percentages do not add to 100% due to hybrid budgeting models

A spectrum of incentive-based models is shown on a following slide

**It is very common to find institutions that are utilizing multiple budget models simultaneously, either as hybrid models or models to facilitate various university missions.**

# Spectrum of Incentivized Models

While incentive-based budgeting is commonly perceived as an entirely de-centralized budget model, several incentive-based iterations exist.

Incentive-Based Budget Model Iterations		
<p><b>Contemporary Decentralized Budgeting</b></p> <ul style="list-style-type: none"> <li>▪ A higher degree of central control</li> <li>▪ Local units keep a majority of their revenue but give up more than in the traditional incentive-based budgeting model through a higher subvention “tax” paid</li> <li>▪ Through increased tax revenue, central administration has greater ability to subsidize colleges, fund strategic initiatives, and support mission-related programs</li> <li>▪ Higher tax rate, typically between 15 and 20% (in addition to indirect cost rates)</li> <li>▪ This iteration has been the most commonly implemented since 2005</li> </ul>	<p><b>Responsibility Center Management</b></p> <ul style="list-style-type: none"> <li>▪ Some centralized control</li> <li>▪ Local units keep most of the revenue they generate, but give up some to a central pool through a subvention “tax” paid</li> <li>▪ Taxes generated can be used by the central administration to subsidize colleges, fund strategic initiatives, and support mission-related programs</li> <li>▪ Generally low tax rate of less than 10% (in addition to indirect cost rates)</li> <li>▪ These models were most frequently implemented from 1990 to 2004</li> </ul>	<p><b>Each Tub on its Own Bottom (ETOB)</b></p> <ul style="list-style-type: none"> <li>▪ Extremely de-centralized model</li> <li>▪ Academic units essentially operate as their own financial entities</li> <li>▪ Very little strategic control held by the central administration</li> <li>▪ No sympathy for market forces</li> <li>▪ Under-performing units must cut costs or generate more revenue to cover any losses incurred</li> <li>▪ Only three U.S. institutions use this extreme iteration, one of which is shifting away</li> </ul>



**In order to optimally tailor a budget model for a given institution, it is critical to identify and create an appropriate balance of centralized and de-centralized control.**

# Budgeting Alternatives: Pros and Cons

The use of hybrid models reflects the reality that each model comes with its own set of benefits and considerations.

Common Budgeting Models				
	Incremental Budgeting	Formula Funding	Performance Funding	Incentive-Based Models
Benefits	<ul style="list-style-type: none"> <li>Consistent treatment of budgets over time</li> <li>Simple to understand and facilitate</li> <li>Provides equity across units</li> <li>Maximizes central flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Provides an objective method for making budget decisions</li> <li>Uses readily available data</li> <li>Easy to understand</li> <li>Success is easy to measure</li> </ul>	<ul style="list-style-type: none"> <li>Focus placed on achievement of university mission</li> <li>Productivity data is used</li> <li>Encourages planning</li> <li>Rewards high-performing units</li> </ul>	<ul style="list-style-type: none"> <li>Promotes entrepreneurship / revenue growth</li> <li>Encourages efficient operation of administrative service units</li> <li>Aligns revenues and costs</li> <li>Facilitates conversations about priorities</li> </ul>
Considerations	<ul style="list-style-type: none"> <li>Requires stability of funding and consistent priorities</li> <li>Needs periodic “re-basing” to ensure base does not become an entitlement</li> <li>Encourages spending to maintain budget</li> </ul>	<ul style="list-style-type: none"> <li>Incentive to increase size, not increase quality</li> <li>Difficult to differentiate among local unit business models (e.g. student type, research)</li> <li>Accounting for local unit factors increases model complexity</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to account for differences in quality of inputs and/or may sacrifice quality of outputs</li> <li>Poor performance may lead to a “downward spiral”</li> <li>Units may experience time lag between decision and results</li> </ul>	<ul style="list-style-type: none"> <li>Requires strong central and local unit leadership</li> <li>Criticized for replacing academic with financial focus</li> <li>Without adequate transparency, academic collaboration hampered</li> <li>May require additional infrastructure to support financial management</li> </ul>

**Institutional culture, organizational complexity, mission, and systems capabilities are all factors that should be considered when determining a university’s optimal budget model.**

# Budgeting Alternatives: Goal Alignment

In determining the most appropriate budget model, stakeholders should consider which models provide alignment with their desired budgeting goals-and resolve identified operating gaps.

Budget Model Goal Alignment				
<i>Institutional Goals:</i>	Incremental Budgeting	Formula Funding	Performance Funding	Incentive-Based Models
Institutional Flexibility	●	○	○	◐
Revenue Growth	○	◐	◐	●
Expenditure Containment	◐	◐	◐	●
Funding Justifications	◐	●	●	●
Transparency	●	●	●	●
Periodic Assessment	○	●	●	●
Entrepreneurship and Innovation	○	◐	●	●

● = High Goal Alignment; ○ = Low Goal Alignment

**In considering how models align with institutional budgeting goals, thought should also be given to what portions of the university's budget (revenues, expenses, etc.) should be subjected to each model.**

# Budget Models and Institutional Profiles

Some institutions are more likely than others to adopt decentralized budget models based on their operational and financial profiles.



Typical Institutional Characteristics	
<ul style="list-style-type: none"><li>• Small</li><li>• Limited sources of funding</li><li>• Narrow scope of operations</li><li>• Small portfolio of colleges / schools</li><li>• Limited endowment support</li></ul>	<ul style="list-style-type: none"><li>• Large</li><li>• Variety of funding sources</li><li>• Multi-layered mission</li><li>• Diverse portfolio of colleges / schools</li><li>• Strong endowment support</li></ul>
Example Institutions	
<ul style="list-style-type: none"><li>• Single-mission / instruction-focused institutions (i.e. community colleges, technical institutes)</li><li>• Institutions with limited infrastructure to support decentralized model</li></ul>	<ul style="list-style-type: none"><li>• Research institutions / institutions with multiple large-scale operations</li><li>• Institutions with sizable infrastructures and endowment supported</li></ul>

# Critical Redesign Components

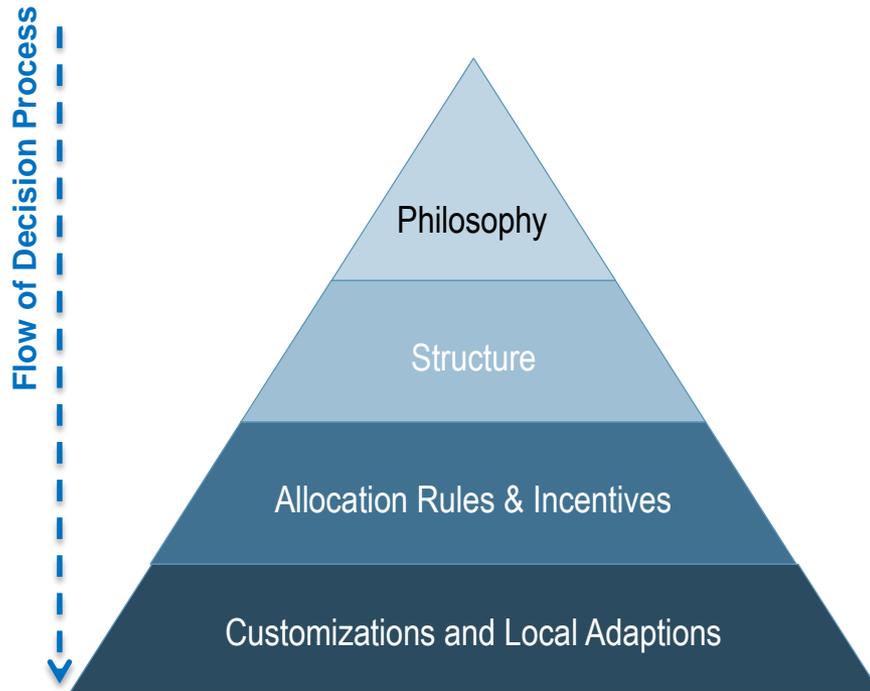
# Recommended Budget Redesign Steps

Huron recommends a transition timeline of 18-24 months, which allows for a five-phase approach, beginning with a due diligence and visioning phase and culminating in a one-year parallel process.

Phase	Description
<b>I. Due Diligence and Visioning</b> (~6 weeks)	<ul style="list-style-type: none"> <li>• Develop a clear understanding of the redesign goals, including model principles, the model's structure, and the model's inherent revenue and cost allocations</li> <li>• Develop the vision through an assessment of budget model alternatives and an evaluation of the techniques utilized by other institutions</li> </ul>
<b>II. Financial Modeling</b> (~10-12 weeks)	<ul style="list-style-type: none"> <li>• Focus on the build-out of a pro forma incentive-based budget model, typically built using financial data from an institution's most recent fiscal year close</li> <li>• Provide a platform for the testing of various model alternatives and scenarios, and allows stakeholders the ability to understand the strength of incentives and to identify unintended consequences</li> </ul>
<b>III. Consensus Building</b> (~10-14 weeks)	<ul style="list-style-type: none"> <li>• Address change management challenges through methodical and data-driven consensus building</li> <li>• Include steering committee meetings, stakeholder focus groups, and one-on-one sessions with key leaders</li> <li>• Aim to ensure stakeholders begin to own the new model and acknowledge its potential for success.</li> </ul>
<b>IV. Infrastructure Development</b> (~10-12 weeks)	<ul style="list-style-type: none"> <li>• Continue development of the incentive-based model and supporting tools via the expansion of the model to include budgets for the upcoming two years, as well as the development of templates for unit-level planning</li> <li>• Focus on administrative and service units to help ensure they are optimally positioned to support the decentralized budget model</li> </ul>
<b>V. Parallel Process</b> (1 year)	<ul style="list-style-type: none"> <li>• Establish parallel resource decisions to follow the institution's historical model, yet the structure is in place for the redesigned model</li> <li>• Utilize concurrent process to ensure that deans and business managers deeply understand the changed resource management environment and that they are positioned to take ownership of the model</li> <li>• Incorporate more formalized model training for relevant stakeholders</li> </ul>

# Elements of Model Development

Effective budget redesign typically requires four stages of decisions, with each level requiring increased levels of institutional insights and customizations.



- **Philosophy** – reflects the university’s desired financial management model, considering elements such as centralization, authority, accountability and responsibility
- **Structure** – reflects the elements of the model with respect to scope of funds, categorization of operating units, presentation of data, etc.
- **Rules** – reflects how the model will portray the institution’s internal economy and drive behavior
- **Customizations** – reflects model tweaks to address operational realities, institutional culture, and local unit needs

**Material consensus for each element of is needed among model development leaders prior to moving forward with implementation.**

As with any change management initiative, anxieties are likely to run high when consideration is given to changing institutional funds flows.

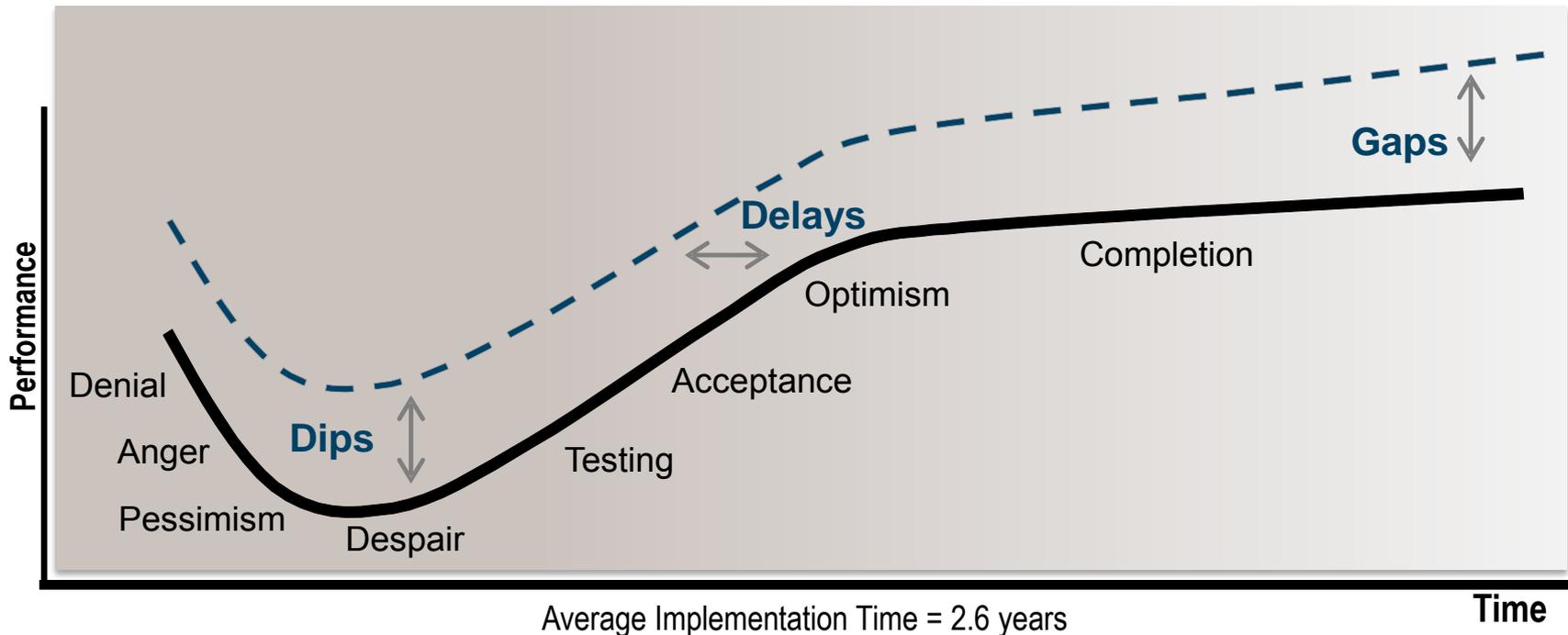
## ***Common Criticisms/Challenges:***

- New budget models do not create new resources; therefore, modifications are zero-sum games
- Illustrative funding models almost always create an impression that the grass is greener
- Proposals will undoubtedly be made for special considerations for unique business models
- Model adaptations for special considerations result in excess model complexity (model can collapse under its own weight)
- Constituents often prefer the “devil they know”

**Diligent project management, frequent communication, and data-driven recommendations can help alleviate these challenges and lead to successful implementation.**

# Change Management Process

Effective change management must address the ups-and-downs of both organizational resistance and individual resistance, attempting to reduce “dips”, shorten “delays” and minimize “gaps”.



**Communications strategies can help build credibility through consistent messaging and coordinated stakeholder engagement can help alleviate the challenges associated with change.**

While no two budget model redesigns are identical, approaching redesigns with a developed and focused implementation plan can significantly increase the probability of success.

## Elements of Effective Implementation

1. Build a foundational understanding of the nature of resource allocation, planning, and management
2. Develop, and maintain focus on, a list of the benefits of a new budget model
3. Engage a broad cross-section of stakeholders for the development of guiding principles
4. Overlay guiding principles with funds flows to highlight alignment of funds flows with principles
5. Build support for key model attributes/elements through the use of data to drive consensus
6. Make the changes “real” through one-on-one meetings and deans’ retreats to review tangible reports and models
7. Build confidence and ensure deans are prepared for success through an implementation timeline
8. Develop appropriate model governance structures and the supporting infrastructure

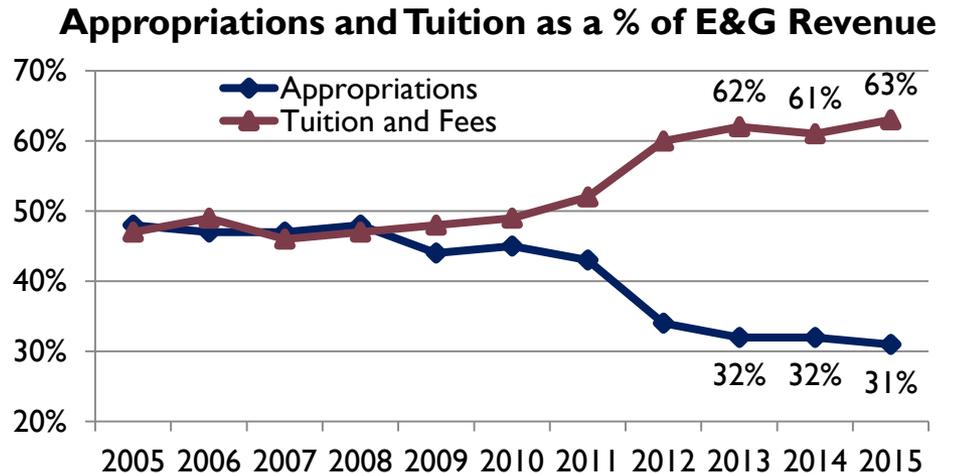
**These elements can improve implementation timelines, which vary by university, though the average timeframe for implementation is about 2.6 years and the typical span is between two and four years.**

# University of Memphis

# SRI Initiative – Why Change?

The University of Memphis (UM) launched the Strategic Resource Investment (SRI) Initiative in Fall 2013 with the goal of designing a more responsive and responsible approach to resource management, allocation and planning.

- UM's desire to redesign its budget model was prompted in-part by a strain on resources stemming from a decline in state appropriations



- Additional factors limiting resource availability included a decline in enrollment, loss of stimulus dollars and challenges of the current funding environment

# SRI Initiative – Why Change?

UM leadership identified the development of a new budget model as a strategic priority in order to create a sustainable approach for managing its resources going forward.

- While UM's historical approach to resource allocation served the University well in the past, ***funding challenges from the current financial environment exposed risks*** in continuing with this approach
- UM leadership realized it ***must allocate all resources strategically*** and targeted the budget model as the primary tool for accomplishing this goal
- Through the SRI Initiative, the University seeks to ***develop an approach to resource allocation that aligns resources with strategic priorities*** and is responsive to factors complicating resource generation

# Goals and Governance Structure

To carry out the development of a new budget model, UM leadership defined a set of goals and assembled a group of stakeholders from across the University.

## **The University's Goal Is to Develop a Model That Is:**

- Responsive to changes in enrollment, state appropriations, and student demand for academic offerings
- Transparent and easily understood
- A link between academic decision making and financial implications

## **SRI Initiative Governance Structure**

- Initiative Co-Chairs – Representatives from the Offices of the Provost and CFO serve as co-chairs of the SRI Initiative with oversight from the President
- SRI Steering Committee – Includes 19 stakeholders representing deans, administrative unit leaders, and business and finance stakeholders
- Academic Deans – All deans, including those not on the Steering Committee, were incorporated into the decision-making process

# SRI Initiative Expected Outcomes

SRI Initiative leaders developed a set of expectations for what the model will deliver, as well as a set of outcomes that will only result if stakeholders respond to the incentives within the model's allocation methodology.

## *The SRI Model is intended to...*

- Inform decision making
- Engender responsiveness
- Provide transparency
- Foster a culture of accountability
- Incentivize responsible growth
- Create equity

## *The SRI Model will NOT...*

- Create new resources
- Drive academic priorities
- Achieve strategic goals

*...on its own without the response of stakeholders to incentives*

# SRI Initiative Progress – Fall 2013

In the Fall of 2013, the UM began the SRI Initiative with initial efforts in stakeholder engagement and model development.

- UM engaged Huron Consulting Group to conduct training sessions for a working-group and to facilitate a handful of steering committee meetings; UM was responsible for the model development and overall change-management process
- After reaching several key milestones in model redesign, UM's progress stalled due to a number of factors, delaying the University's original timeline for model implementation
- Moving to a new budget model remained one of UM's top strategic initiatives, and UM re-engaged Huron Consulting Group to further support the initiative

# SRI Initiative Progress – Fall 2014

Upon being re-engaged in Fall 2014, Huron supported the SRI Initiative with project management, stakeholder engagement and model development expertise.

## **Initiative Highlights:**

- Facilitated seven discussions with the SRI Steering Committee Group to develop an initial model for deans of the colleges and schools to further refine
- Facilitated over 60 hours of scheduled meetings with colleges and schools to provide an update on the SRI Initiative's progress and collect feedback on model development
- Assembled panelists from outside institutions that conducted similar initiatives and facilitated a Budget Panel Discussion, attracting over 165 participants
- Closely worked with budget and finance office to build an initial model (MS Excel)
- Facilitated two deans retreats to refine the SRI Steering Committee's model proposal

# Overview of Model Alternatives

While incremental budgeting is the most common model used to allocate resources, the SRI Model uses less-centralized, incentive-based approach.

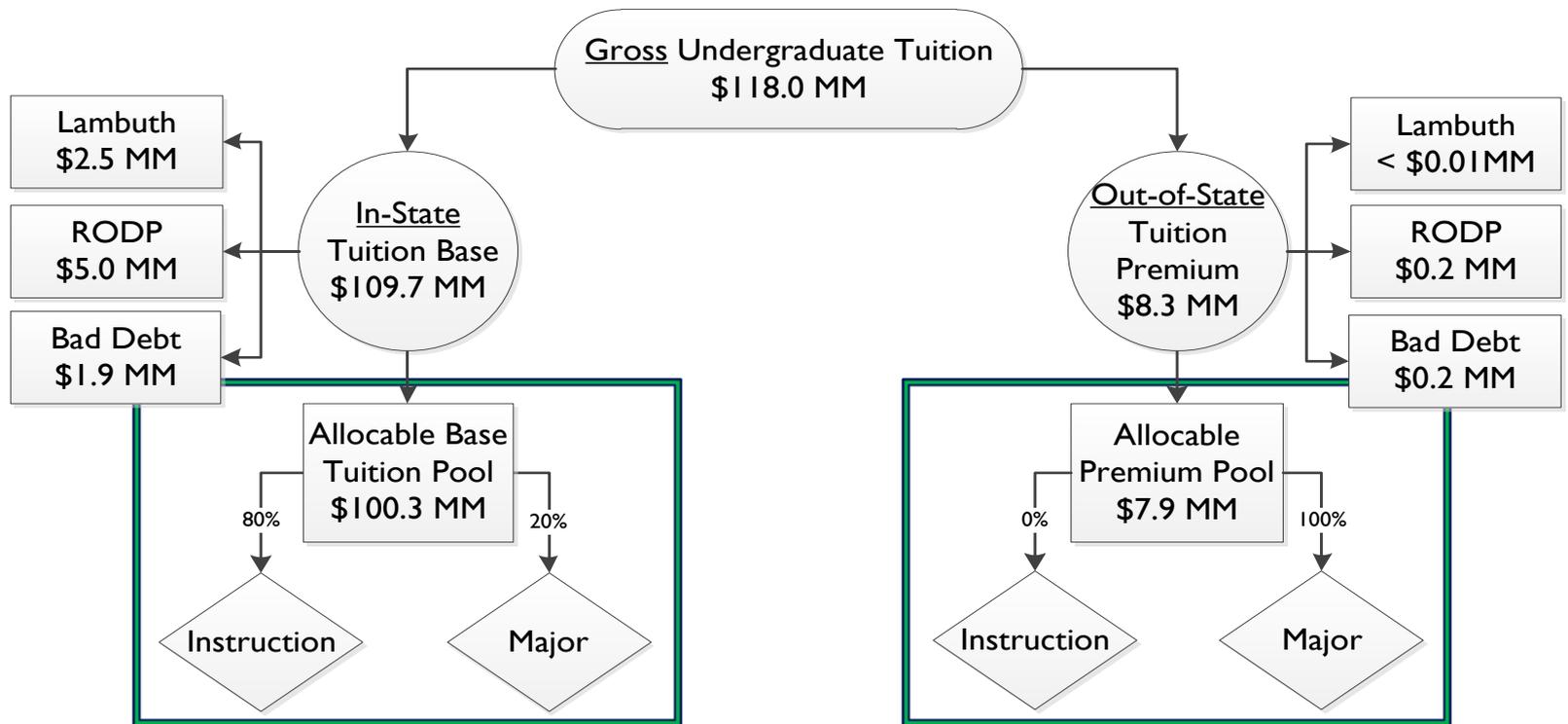
Common Budgeting Models <sup>1</sup>			
<p><b>Incremental Budgeting</b></p> <ul style="list-style-type: none"> <li>▪ Centrally driven</li> <li>▪ Current budget acts as “base”</li> <li>▪ Each year’s budget increments (decrements) adjust the base</li> <li>▪ Focus is typically placed on expenses</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Block-grant models bucket line-items together to promote local control</li> <li>– Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base</li> </ul> </li> <li>▪ Approximately 60% of institutions and 79% of public doctoral institutions report using this model</li> </ul>	<p><b>Formula Funding</b></p> <ul style="list-style-type: none"> <li>▪ Unit-based model focused on providing equitable funding</li> <li>▪ Unit rates are input-based and commonly agreed upon</li> <li>▪ Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Weighting schemes to control for local cost structures</li> <li>– Used only for select activities (e.g., instruction)</li> </ul> </li> <li>▪ Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model</li> </ul>	<p><b>Performance Funding</b></p> <ul style="list-style-type: none"> <li>▪ Unit-based model focused on rewarding mission delivery</li> <li>▪ Unit rates are output based and commonly agree upon</li> <li>▪ Annual fluctuations are driven primarily by changing production and not from changes to rates</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Weighting schemes to control for local unit mission</li> <li>– Used only for small portions of overall resources (as little as 1% - 5%)</li> </ul> </li> <li>▪ Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model</li> </ul>	<p><b>Incentive-Based Models</b></p> <ul style="list-style-type: none"> <li>▪ Focus on academic units</li> <li>▪ Incorporates a devolution of revenue ownership to local units, as generated</li> <li>▪ Allocates costs to revenue generating units</li> <li>▪ Utilizes a centrally managed “subvention pool” to address strategic priorities</li> <li>▪ Common modifications:                             <ul style="list-style-type: none"> <li>– Revenue allocation rules</li> <li>– Number of cost pools</li> <li>– Participation fee (tax rate)</li> </ul> </li> <li>▪ Approximately 14% of all institutions and 21% of public doctoral institutions use an incentive-based model</li> </ul>



(1) Adoption rates from the 2011 Inside Higher Education Survey of College and University Business Officers; Percentages do not add to 100% due to hybrid budgeting models

# Undergraduate Tuition

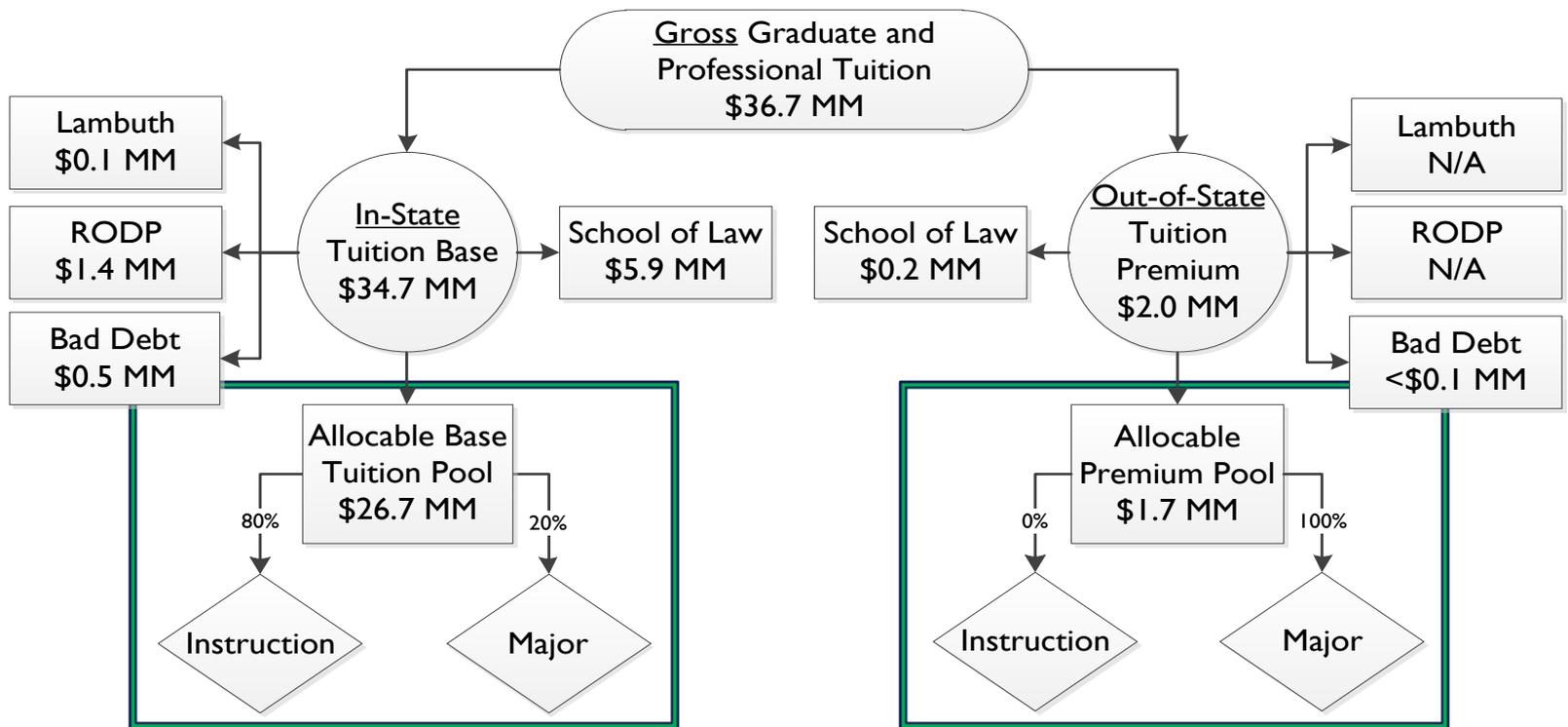
Undergraduate tuition is allocated using an instruction to major (record) split that takes into consideration a student's residency within the model.



All figures represent FY13 Actuals

# Graduate Tuition

Similar to undergraduate tuition, graduate tuition is allocated to support the college of instruction and major and accounts for student residency.

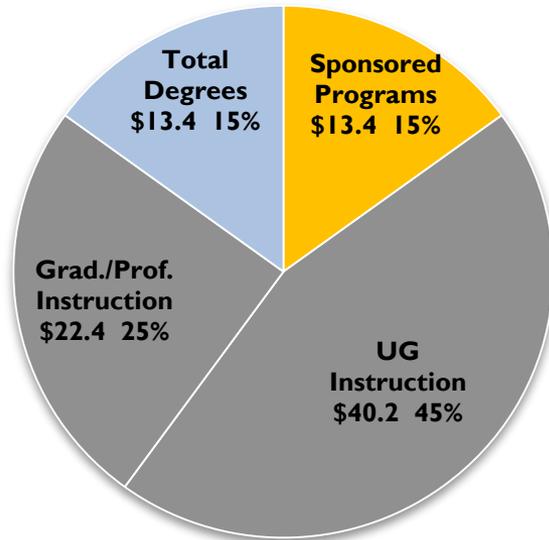


All figures represent FY13 Actuals

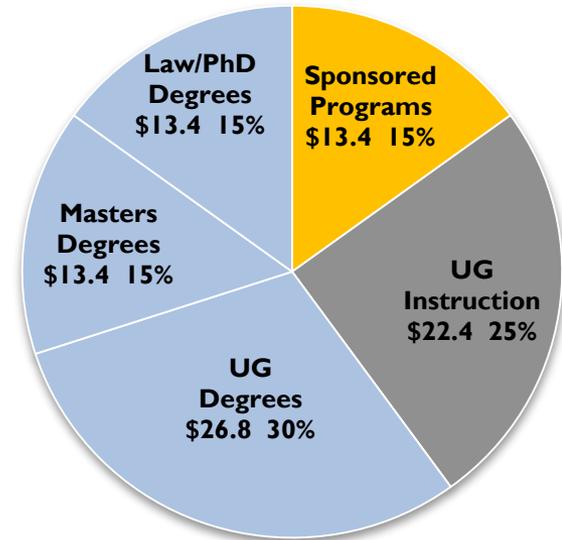
# State Appropriations

The deans' discussions on state appropriations resulted in a new allocation approach that shifted focus from credit hours towards degrees awarded.

**SRI Steering Committee Recommendation**



**Deans' Recommendation**



(\$ in MM)

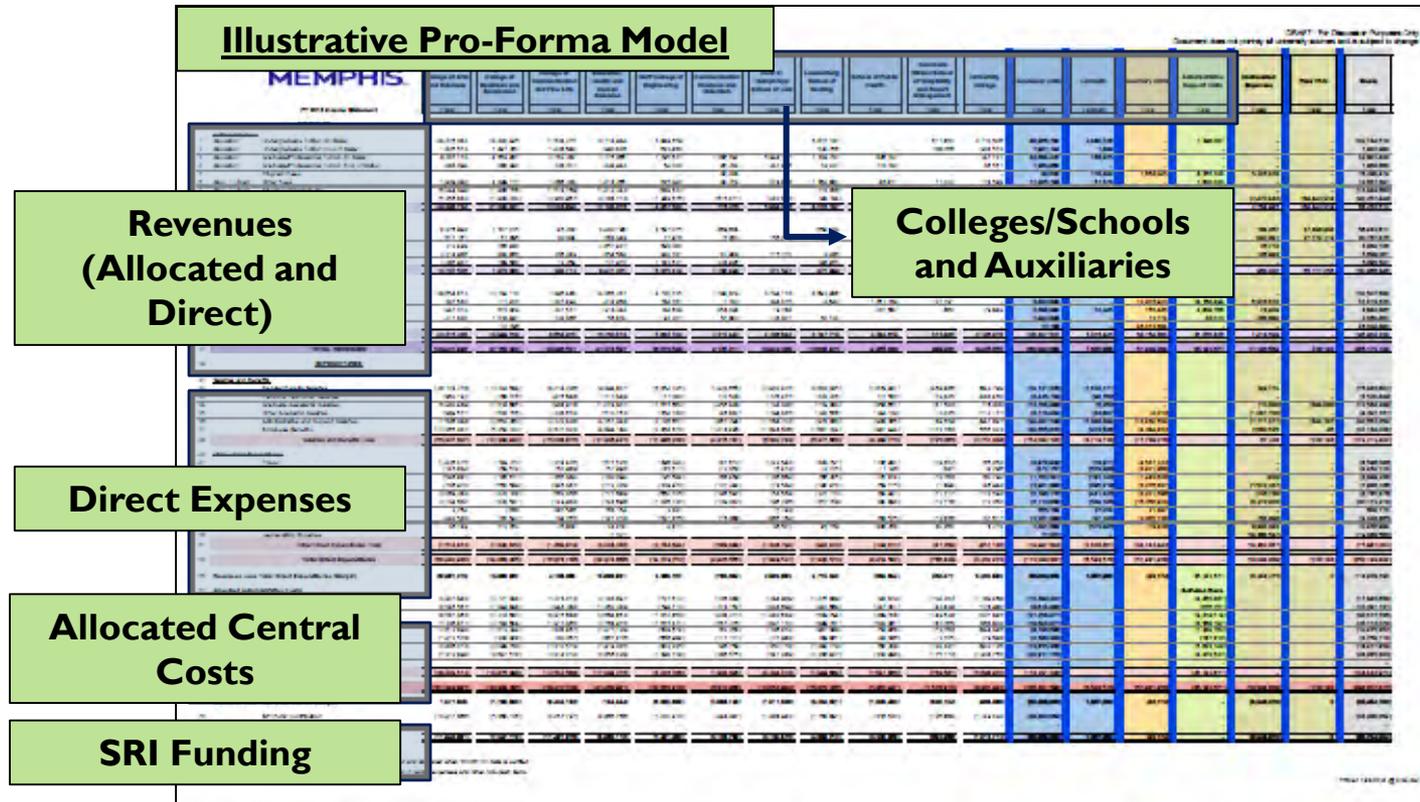
■ Instruction Incentive (CHs)   ■ Sponsored Programs Incentive   ■ Majors Incentive (Degrees)

**The allocation approach for state appropriations was recommended by the deans to better align with the state funding formula and provide stronger incentives for retaining and graduating students.**

All figures represent FY13 Actuals

# SRI Initiative Progress – Present

The stakeholder engagement and model development efforts have resulted in a pro-forma model that incorporates an allocation methodology that is currently under further review.



# SRI Initiative Timeline

The SRI Initiative timeline includes an 18-month transition period for stakeholder engagement and infrastructure development prior to “go live.”

FY15				FY16				FY17				FY18			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Partnership Year				Parallel Process				“Live” Model (Year 1)				“Live” Model (Year 2)			

Activities	
<b>Partnership Year</b>	<ul style="list-style-type: none"> <li>Academic Unit Engagement</li> <li>Administrative and Auxiliary Unit Engagement</li> <li>Model Development</li> <li>Infrastructure Development (Governance, Tools/Reporting, Training)</li> <li>Tweaks to allocation methods based on further analysis</li> </ul>
<b>Parallel Process</b>	<ul style="list-style-type: none"> <li>Budgets Reflect Current Model</li> <li>Back-end Reporting Conducted to Illustrate Impact Under New Model</li> <li>Formalized Model Training Created and Provided</li> <li>Tweaks to allocation methods based on further analysis</li> </ul>
<b>“Live” Model</b>	<ul style="list-style-type: none"> <li>New Model Takes Effect</li> </ul>

# **Tennessee Tech University**

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**Historically, TTU's budget model has operated with the following characteristics:**

- Academic and administrative budgets roll forward automatically within the financial system each year
- Budgets serve as “expense authority” controls and do not focus on unit-level revenue generation
- Variation in budgets year-over-year is limited to decisions made by top leadership in conjunction with Budget Advisory Committee
- Funding decision-making by leadership is not typically understood to be based on established metrics
- Budgets have not been regularly evaluated by a central authority
- Budget cycle not governed by a dedicated budget office, but rather resources across the Business Office

**TTU's incremental model provides simplicity and stability to the budget function, but it does not have the flexibility to systematically allocate resources based on activity levels.**

# President Oldham's Principles for Budget Model

**The development of the budget model also reflected a set of principles developed by President Oldham, which overlapped with the Workgroup's principles:**

**Transparency:** There should be no surprises. All parties should fully understand and be able to reasonably anticipate changes in funding levels well in advance in order to make necessary operational adjustments and provide security to make long-term strategic investments.

**Reflective of Unit Mission, Performance, and Real Costs:** The budget is most effective as a planning tool when resources are tied to mission priorities and funding is reasonably and predictably adjusted based on unit performance and cost of doing business

**Effective Tool for Communication, Establishment, and Implementation of Unit Priorities:** Effective communication and negotiation are essential to establishment of a useful budget. The “why?” discussions are ultimately more important than the answers to “what?” or “how much?”

**Maximum Control at Operational Level:** Unit leaders (i.e. deans, dept. heads, etc.) must feel empowered to effectively manage available resources within the context of their own unique environments in order to lead their respective units to meet mission objectives.

**Coherent with University Level Priorities:** High level priorities must be established, communicated, and operationalized within the budget. However, this needs to be accomplished while maintaining appropriate management control and autonomy at the unit level.

# Budgeting Methodology Options

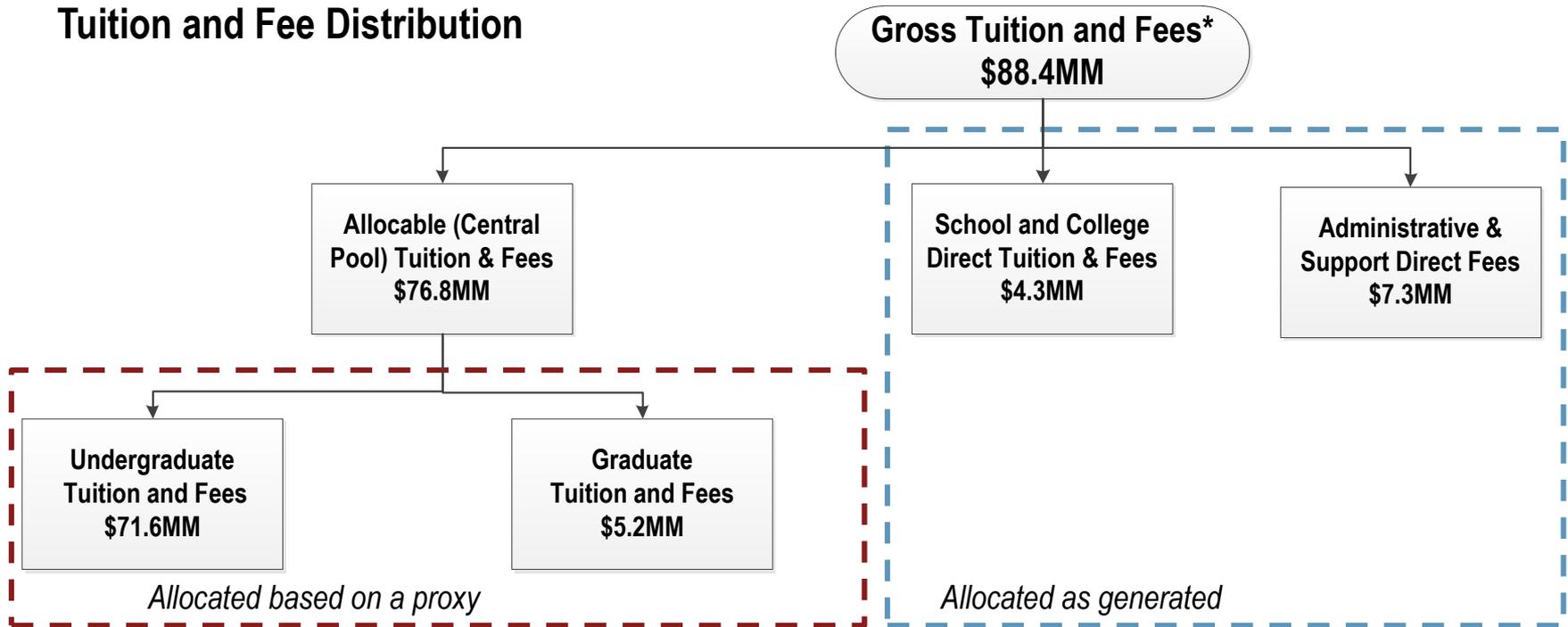
**Budget-setting methodologies fall along a spectrum of centralization. TTU desired an incentive-based budget model with less decentralization than traditional Responsibility Center Management models.**

Budgeting Methodology Options				
	Incremental Budgeting	Margins Target Budgeting	Responsibility Center Management (RCM)	Every Tub on Its Own Bottom (ETOB)
Potential Benefits	<ul style="list-style-type: none"> <li>Treats funding consistently over time</li> <li>Simple to understand and plan</li> <li>Provides for relatively equal growth for units</li> </ul>	<ul style="list-style-type: none"> <li>Allocated revenues follow costs and institutional priorities</li> <li>Provides Deans with “levers” and incentives to grow revenue or reduce direct costs</li> <li>Clear link between margin targets and retained earnings</li> </ul>	<ul style="list-style-type: none"> <li>Promotes entrepreneurship and aligns revenue and costs</li> <li>Encourages efficient operation of administrative units by allocating overhead costs</li> <li>Facilitates conversations about priorities</li> </ul>	<ul style="list-style-type: none"> <li>Focus is on accountability and self reliance</li> <li>Pushes authority (almost totally) out to the academic units</li> <li>Distributes responsibility for weathering difficult economic environment</li> </ul>
Considerations	<ul style="list-style-type: none"> <li>Requires stability of funding and consistent priorities</li> <li>Needs periodic “re-basing” to ensure base does not become an entitlement</li> <li>Encourages spending to maintain budget</li> <li>Budgets do not vary to reflect demand/enrollment change</li> </ul>	<ul style="list-style-type: none"> <li>Central strategic investment/support pools remain necessary</li> <li>Units must cover missed margin targets</li> <li>Selection of allocation drivers (prior year v. moving average) affects responsiveness of incentives</li> <li>Space costs may be allocated to academic units to increase options for expense reduction</li> </ul>	<ul style="list-style-type: none"> <li>Requires strong central and local unit leadership</li> <li>Criticized for increasing focus on finances at expense of academics</li> <li>“Fully-costed” models require larger subvention funds to help cover unit losses</li> </ul>	<ul style="list-style-type: none"> <li>May further separate the “haves” and “have nots”</li> <li>May result in duplicate academic offerings and administrative services</li> <li>Challenges collaboration; promotes tariff walls</li> <li>Works best when outside funding levels are high</li> </ul>

# Tuition and Fees: Allocable Revenue

Gross tuition and fees are categorized into several tuition pools, distinguished by their direct assignment to the generating units or allocation by-proxy.

## Tuition and Fee Distribution

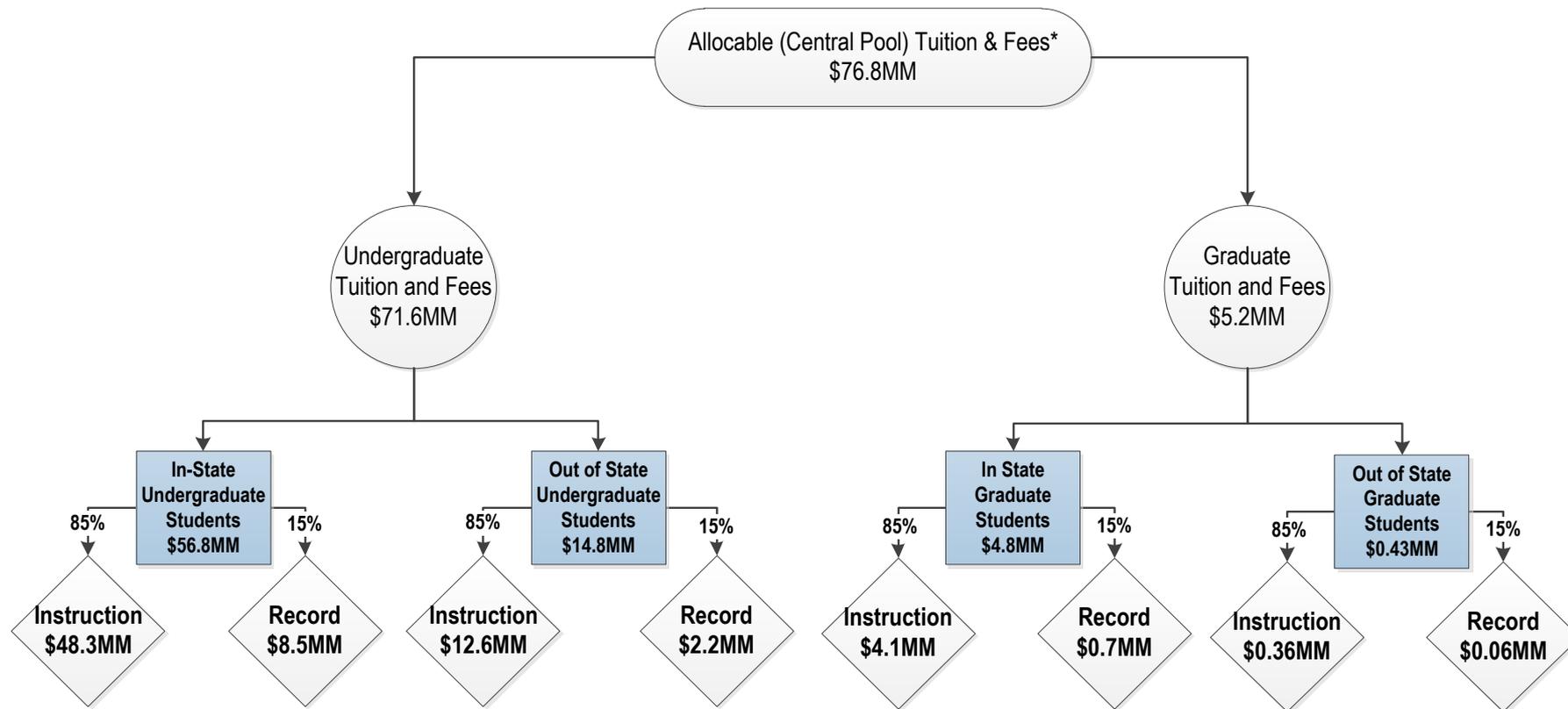


Wherever possible, revenues be allocated as they are generated. Tuition and fees that are not booked directly to an organizational unit should be allocated using a proxy to align costs with revenues.

\*Excluded RODP Tuition and Fees

# Tuition and Fees: Undergrad and Graduate

Distinguishing between in and out-of-state tuition and fee generation will create incentives for growing the out-of-state student population.

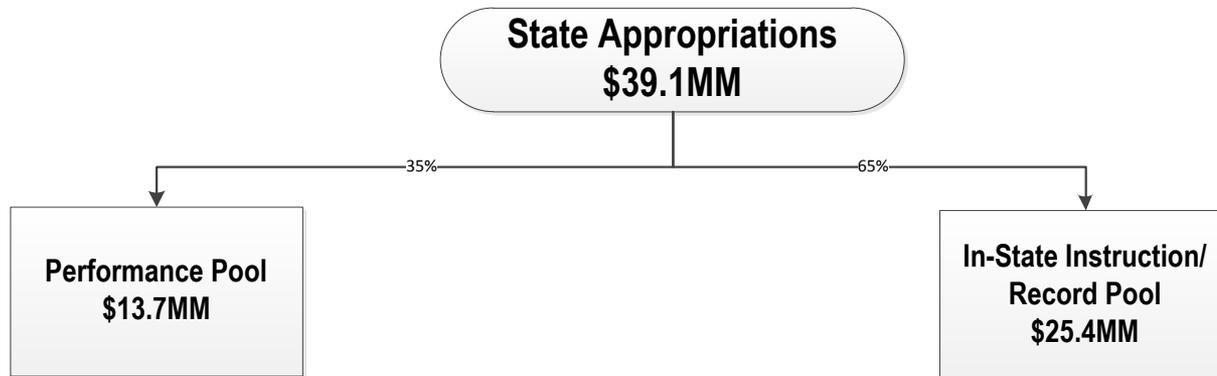


**Institutions balance the tuition premium associated with out-of-state students by focusing the state appropriation allocation methodology on in-state student enrollment and instruction.**

\*Excluded RODP Tuition and Fees

# State Appropriations

State appropriations are devolved into two pools: one allocated on select performance metrics, and the other following instruction and enrollment of in-state students.



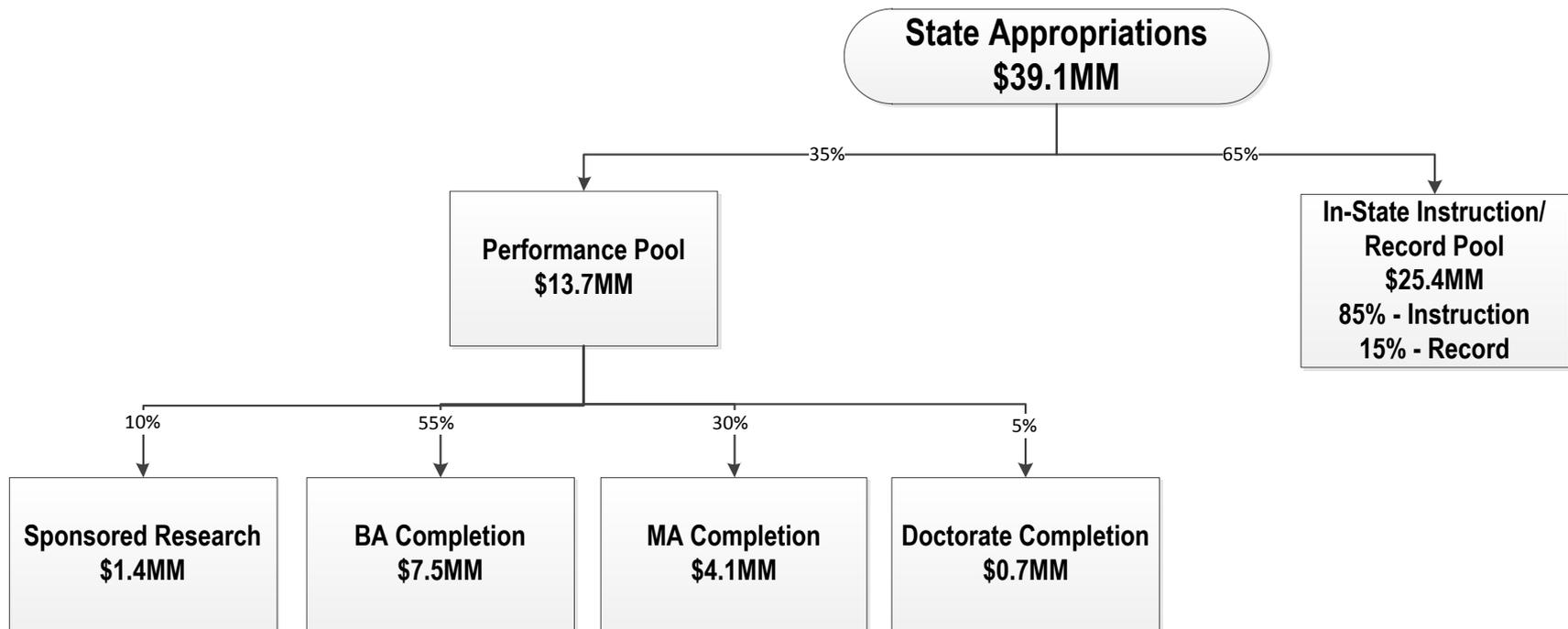
To determine an initial Instruction/Record and Performance split, Huron analyzed the contribution of State Appropriations to the total amount of allocable revenue generated in FY14:

State Appropriations	\$39,080,184
Allocable Tuition and Fees	<u>\$76,807,464</u>
Total	\$115,887,648
State Appropriations Share	~35%
Tuition and Fees Share	~65%

Approximately 65% of all allocable revenue will be allocated on instruction or record, a proportion which should be devolved to the allocation of state appropriations.

# State Appropriations: Performance Incentives

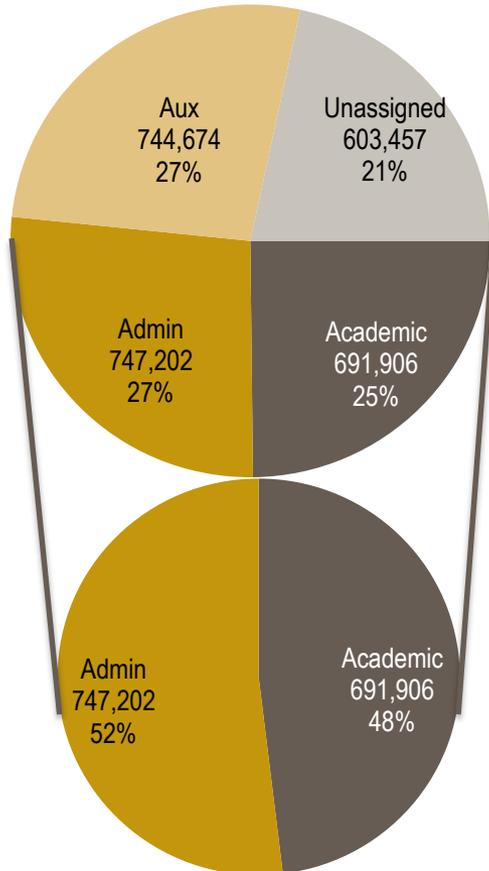
Proposed that 35% of state appropriations be devolved to the Performance Pool. The relative weighting of the performance metrics were aligned with TTU's institutional priorities.



Recommended that the largest incentives in the performance pool drive bachelor's and master's degree completion, which have the greatest potential to quickly increase resources across the university. Investment in research and doctoral program development, meanwhile, may be better be targeted through strategic funds.

# Space Analysis and Allocation

## Space Breakdown and Analysis



## Allocation of Facilities Costs

	Cost	Academic Sq Ft	Cost/Sq Ft
Net Expenses	\$ 9,803,331	691,606	\$ 14.17
Transfers to Plant	\$ 5,195,800	691,606	\$ 7.51
<b>Total</b>	<b>\$ 14,999,131</b>		<b>\$ 21.68</b>

- \$15.0 million in facilities costs will be allocated to Schools and Colleges according to their share of Academic Space
- **Facilities costs-per-square foot are estimated at \$21.68/sq ft**
- Estimated cost-per-square foot varies according to the size of the Academic Space pool. Cost-per-square foot does not reflect the actual maintenance cost of a given square foot.
- Additional review and updates to space data may adjust Academic Space pool.

**Allocating facilities costs should lead to the establishment of a market in which deans will be able to reduce assessed costs by releasing occupied but under-utilized space to another academic unit or the central pool.**

**Propose the establishment of an infrastructure and reinvestment pool to be established within the model, in order to support central costs, cover budgeted unit losses, and fund strategic initiatives.**

An assessment on all unrestricted net revenue except direct fees (projected at 18%) provides for the following:

- Improved flexibility of central administration to control or direct administrative & support unit costs
- Guaranteed coverage of budgeted academic unit losses
- Dollars made available for infrastructure and strategic investments in academic units
- Available investment funds will increase with revenue growth and A&S unit cost containment
- Alignment with assessment rates utilized by other institutions with decentralized, incentive-based budget models

**Recommended that the infrastructure and reinvestment pool be funded at a rate high enough to increase the ability of central administration to control A&S costs, while providing sufficient funds to support strategic initiatives**

# Proposed Model Mock-up: BUDGET

Below is a high-level and simplified mock-up of what a university's operating budget would look like under incentive-based budget model that sets a target margin for each college/school.

1. General or pooled sources of revenue would be **allocated** – typically using historic SCHs

2. These revenue sources would be assigned **directly** to the college that generated them.

4. Central will work with the colleges to set realistic direct expense budgets which will be used to determine the budgeted or target margins

3. 100% of budgeted revenue would **NOT** be allocated. The Infrastr & Reinvestment Pool would help provide coverage for net-loss units, and provide central with more control of Admin & Support funding.

5. Target budget margins reflect the expected contribution to central after all revenues are allocated and direct expenses and space/facilities cost allocations are budgeted

	Schools and Colleges					Administrative & Support Units Total	Model Total
	College A	College B	All Other Colleges	Infrastructure & Reinvestment Pool	Total Schools and Colleges Unrestricted		
<b>Revenue</b>							
Allocated UG Tuition	2,862,437	32,776,398	35,918,186	-	71,557,020	-	71,557,020
Allocated Grad Tuition	1,863	453,950	4,794,630	-	5,250,444	-	5,250,444
Other Fees	-	2,361,845	6,973,556	-	9,335,402	7,911,213	17,246,615
Scholarships and Fee Waivers	(289,268)	(3,594,750)	(4,442,795)	-	(8,326,814)	(4,918,105)	(13,244,919)
Net Tuition and Fees	2,575,032	31,997,443	43,243,577	-	77,816,052	2,993,108	80,809,160
State Appropriations	1,872,711	12,674,246	24,533,227	-	39,080,184	-	39,080,184
Indirect Cost Recovery	47,990	163,593	609,576	821,159	821,159	67,191	888,351
Other Sources	716,243	19,598	982,366	1,718,207	1,718,207	8,255,938	9,974,145
Infrastructure & Reinvestment Pool (18%)	(938,156)	(8,018,566)	(11,773,043)	20,729,765	-	-	-
<b>Total Revenues</b>	<b>4,273,821</b>	<b>36,836,314</b>	<b>57,595,703</b>	<b>20,729,765</b>	<b>119,435,603</b>	<b>11,316,237</b>	<b>130,751,840</b>
<b>Expense</b>							
Faculty & Academic Salaries	1,250,471	9,849,822	19,554,004	-	30,654,297	1,643,729	32,298,026
Admin, Prof, Clerical, Supp, & Other Salaries	853,206	1,302,856	6,179,584	-	8,335,646	22,965,879	31,301,525
Summer School Salary Allocation	121,965	657,902	1,661,075	-	2,440,942	-	2,440,942
<b>Total Salaries</b>	<b>2,225,643</b>	<b>11,810,580</b>	<b>27,394,662</b>	<b>-</b>	<b>41,430,885</b>	<b>24,609,608</b>	<b>66,040,493</b>
Employee Benefits	754,786	3,723,425	8,186,314	-	12,664,525	10,900,265	23,564,790
Other Expenses	577,434	1,306,012	4,133,472	-	6,016,918	31,231,054	37,247,972
<b>Total Direct Expenses</b>	<b>3,557,863</b>	<b>16,840,017</b>	<b>39,714,448</b>	<b>-</b>	<b>60,112,328</b>	<b>66,740,927</b>	<b>126,853,255</b>
<b>Unit Margin</b>	<b>715,958</b>	<b>19,996,297</b>	<b>17,881,255</b>	<b>20,729,765</b>	<b>59,323,274</b>	<b>(55,424,690)</b>	<b>3,898,585</b>
Space Cost Allocations	(1,927,997)	(3,631,280)	(9,439,854)	-	(14,999,131)	14,999,131	-
<b>Unit Margin After Space Cost Allocations</b>	<b>(1,212,039)</b>	<b>16,365,017</b>	<b>8,441,401</b>	<b>20,729,765</b>	<b>44,324,144</b>	<b>(40,425,559)</b>	<b>3,898,585</b>
Academic Infrastructure & Reinvestment	1,212,039	-	2,580,391	(3,792,431)	-	-	-
Administrative Infrastructure & Reinvestment	-	-	-	(16,301,871)	(16,301,871)	16,301,871	-
<b>Unit Margin after IRP Allocation (Actual Margin)</b>	<b>-</b>	<b>16,365,017</b>	<b>11,021,792</b>	<b>635,464</b>	<b>28,022,273</b>	<b>(24,123,688)</b>	<b>3,898,585</b>
<b>Target/Budgeted Margin</b>	<b>-</b>	<b>16,365,017</b>	<b>11,021,792</b>	<b>635,464</b>	<b>28,022,273</b>	<b>(24,123,688)</b>	<b>3,898,585</b>

# Proposed Model Mock-up: ACTUALS

This is an illustrative example of what the proposed model might look like at the end of the fiscal year when it is updated with actuals to determine how the colleges' results of operations compare to their target or budgeted margins.

1. During the fiscal year, College A was able to out-perform its target / budgeted margin by reducing salaries

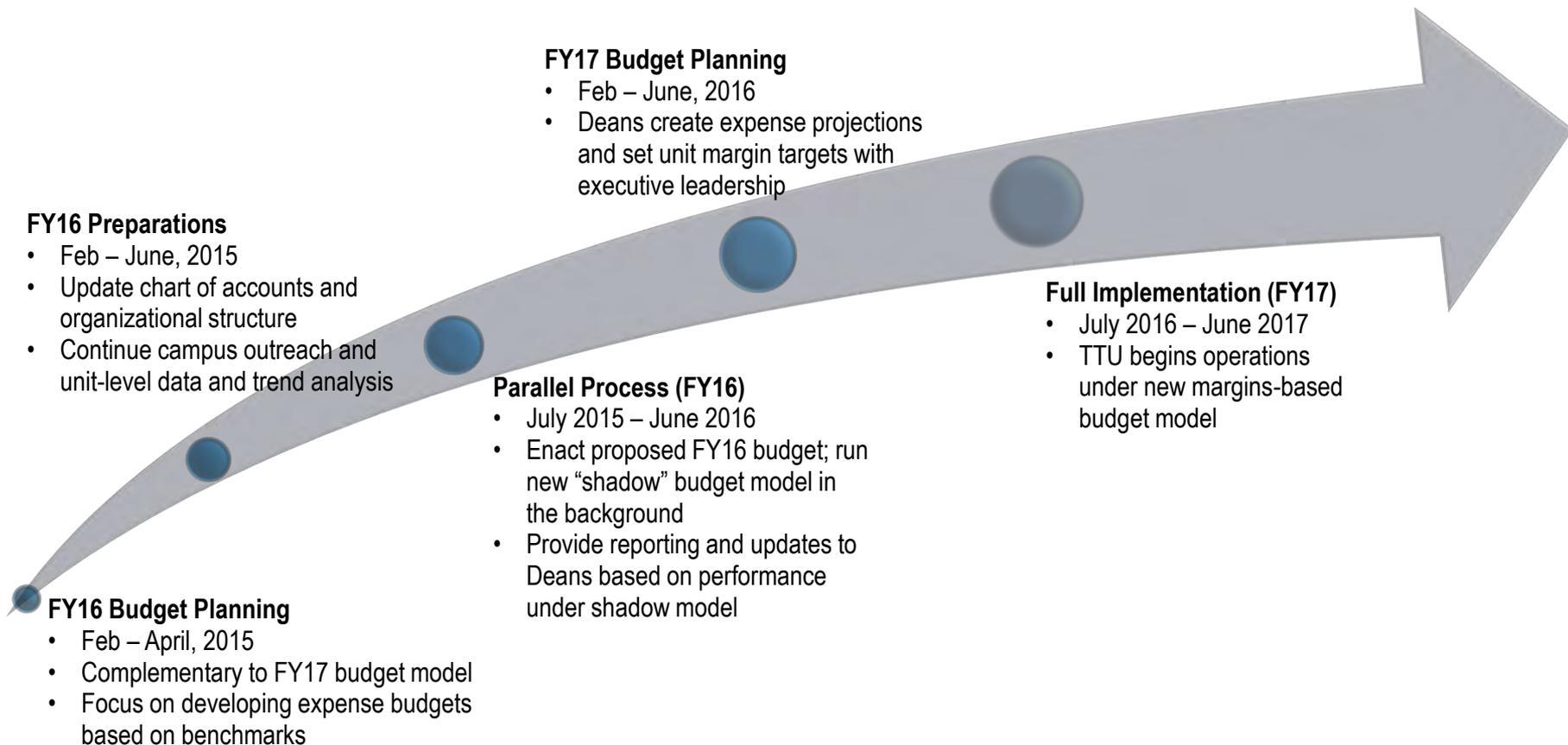
2. Another College did not meet revenue growth expectations, and fell short of the target margin

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	College A	College B	All Other Colleges	Infrastructure & Reinvestment Pool	Total Schools and Colleges Unrestricted		
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Other Sources	716,243	19,598	982,366	-	1,718,207	8,255,938	9,974,145
Infrastructure & Reinvestment Pool (18%)	(938,156)	(8,018,566)	(11,773,043)	20,729,765	-	-	-
<b>Total Revenues</b>	<b>4,273,821</b>	<b>36,836,314</b>	<b>57,495,703</b>	<b>20,729,765</b>	<b>119,335,603</b>	<b>11,316,237</b>	<b>130,651,840</b>
<b>Expense</b>							
Faculty & Academic Salaries	1,150,000	9,849,822	19,554,004	-	30,553,826	1,643,729	32,197,555
Admin, Prof, Clerical, Supp, & Other Salaries	853,206	1,302,856	6,179,584	-	8,335,646	22,965,879	31,301,525
Summer School Salary Allocation	121,965	657,902	1,661,075	-	2,440,942	-	2,440,942
<b>Total Salaries</b>	<b>2,125,171</b>	<b>11,810,580</b>	<b>27,394,662</b>	<b>-</b>	<b>41,330,414</b>	<b>24,609,608</b>	<b>65,940,022</b>
Employee Benefits	754,786	3,723,425	8,186,314	-	12,664,525	10,900,265	23,564,790
Other Expenses	577,434	1,306,012	4,133,472	-	6,016,918	31,231,054	37,247,972
<b>Total Direct Expenses</b>	<b>3,457,392</b>	<b>16,840,017</b>	<b>39,714,448</b>	<b>-</b>	<b>60,011,857</b>	<b>66,740,927</b>	<b>126,752,784</b>
<b>Unit Margin</b>	<b>816,429</b>	<b>19,996,297</b>	<b>17,781,255</b>	<b>20,729,765</b>	<b>59,323,746</b>	<b>(55,424,690)</b>	<b>3,899,056</b>
Space Cost Allocations	(1,927,997)	(3,631,280)	(9,439,854)	-	(14,999,131)	14,999,131	-
<b>Unit Margin After Space Cost Allocations</b>	<b>(1,111,568)</b>	<b>16,365,017</b>	<b>8,341,401</b>	<b>20,729,765</b>	<b>44,324,615</b>	<b>(40,425,559)</b>	<b>3,899,056</b>
Academic Infrastructure & Reinvestment	1,212,039	-	2,580,391	(3,792,431)	-	-	-
Administrative Infrastructure & Reinvestment	-	-	-	(16,301,871)	(16,301,871)	16,301,871	-
<b>Unit Margin after IRP Allocation (Actual Margin)</b>	<b>100,471</b>	<b>16,365,017</b>	<b>10,921,792</b>	<b>635,464</b>	<b>28,022,273</b>	<b>(24,123,688)</b>	<b>3,898,585</b>
Target/Budgeted Margin	-	16,365,017	11,021,792	635,464	28,022,273	(24,123,688)	3,898,585
<b>Actual vs Target Margin: Better/(Worse)</b>	<b>100,471</b>	<b>-</b>	<b>(100,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Resource Gain (65% of Gain to College)	65,306	-	(100,000)	-	-	-	-

3. If a college out-performs their target / budgeted margin, the resource "gain" is split once. In this example, 65% remains with the college and 35% goes to a central strategic fund.

# Model Implementation Timeline

Tennessee Tech is planning an official implementation for FY17, but planning and preparations are already beginning prior to the FY16 budget process.



# East Tennessee State University

# Key Issues

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- Strategic Planning ↔ Budgeting
- What We Didn't Do
- Importance of Site Visits to Implementation



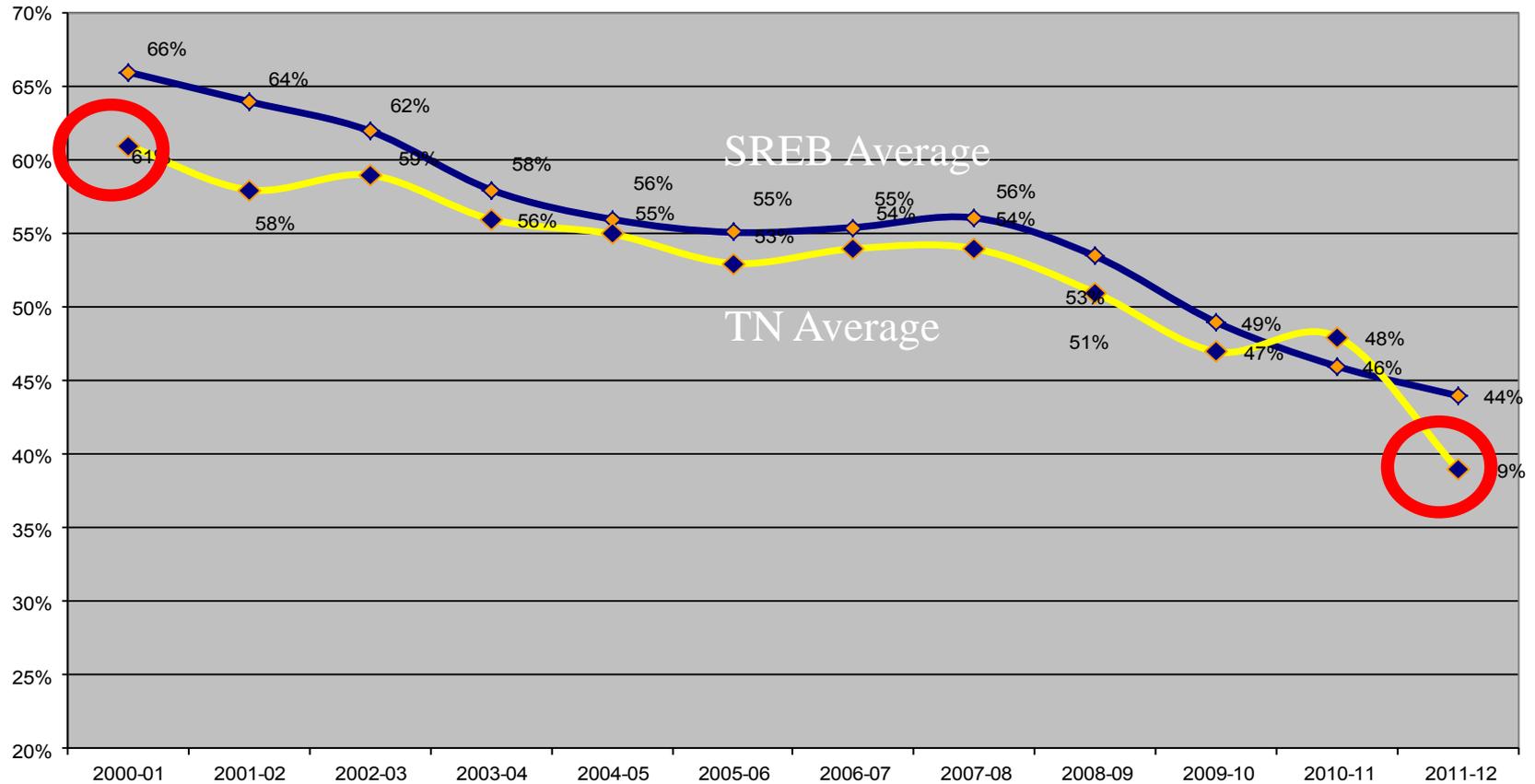
# Challenges we Face in 2015 and Beyond . . .

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- Changes in State Funding Amounts
- Changes in State Funding Formula
- Changes in Student Numbers
- Changes in the Competitive Background
- Limitations in the Current Budget Process



# Declining Role of State Support per FTE



Source: SREB Data Exchange July 2013



EAST TENNESSEE STATE  
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# The Shifting Dependency on Tuition Revenues

	State Revenues						Tuition Revenues					
	2000-01	2007-08	2008-09	2009-10	2010-11	2012-13	2000-01	2007-08	2008-09	2009-10	2010-11	2012-13
<b>SREB states</b>	<b>66%</b>	<b>56%</b>	<b>53%</b>	<b>49%</b>	<b>46%</b>	<b>44%</b>	<b>34%</b>	<b>44%</b>	<b>47%</b>	<b>51%</b>	<b>54%</b>	<b>56%</b>
Alabama	53%	55%	45%	39%	36%	37%	47%	45%	55%	61%	64%	63%
Arkansas	66%	57%	54%	52%	50%	52%	34%	43%	46%	48%	50%	48%
Delaware	38%	33%	33%	30%	26%	23%	62%	67%	67%	70%	74%	77%
Florida	78%	72%	69%	63%	62%	57%	22%	28%	31%	37%	38%	43%
Georgia	73%	65%	62%	52%	50%	44%	27%	35%	38%	48%	50%	56%
Kentucky	62%	45%	44%	41%	39%	39%	38%	55%	56%	59%	61%	61%
Louisiana	61%	66%	62%	55%	53%	47%	39%	34%	38%	45%	47%	53%
Maryland	60%	52%	51%	49%	49%	48%	40%	48%	49%	51%	51%	52%
Mississippi	66%	56%	55%	53%	46%	46%	34%	44%	45%	47%	54%	54%
North Carolina	80%	69%	70%	67%	66%	68%	20%	31%	30%	33%	34%	32%
Oklahoma	69%	55%	52%	50%	47%	45%	31%	45%	48%	50%	53%	55%
South Carolina	55%	39%	28%	24%	19%	17%	35%	61%	72%	76%	81%	83%
<b>Tennessee</b>	<b>61%</b>	<b>54%</b>	<b>51%</b>	<b>47%</b>	<b>48%</b>	<b>39%</b>	<b>39%</b>	<b>46%</b>	<b>49%</b>	<b>53%</b>	<b>52%</b>	<b>61%</b>
Texas	66%	51%	49%	49%	45%	45%	34%	49%	51%	51%	55%	57%
Virginia	61%	46%	44%	39%	37%	31%	39%	54%	56%	61%	63%	69%
West Virginia	58%	38%	37%	35%	34%	35%	42%	62%	63%	65%	66%	65%

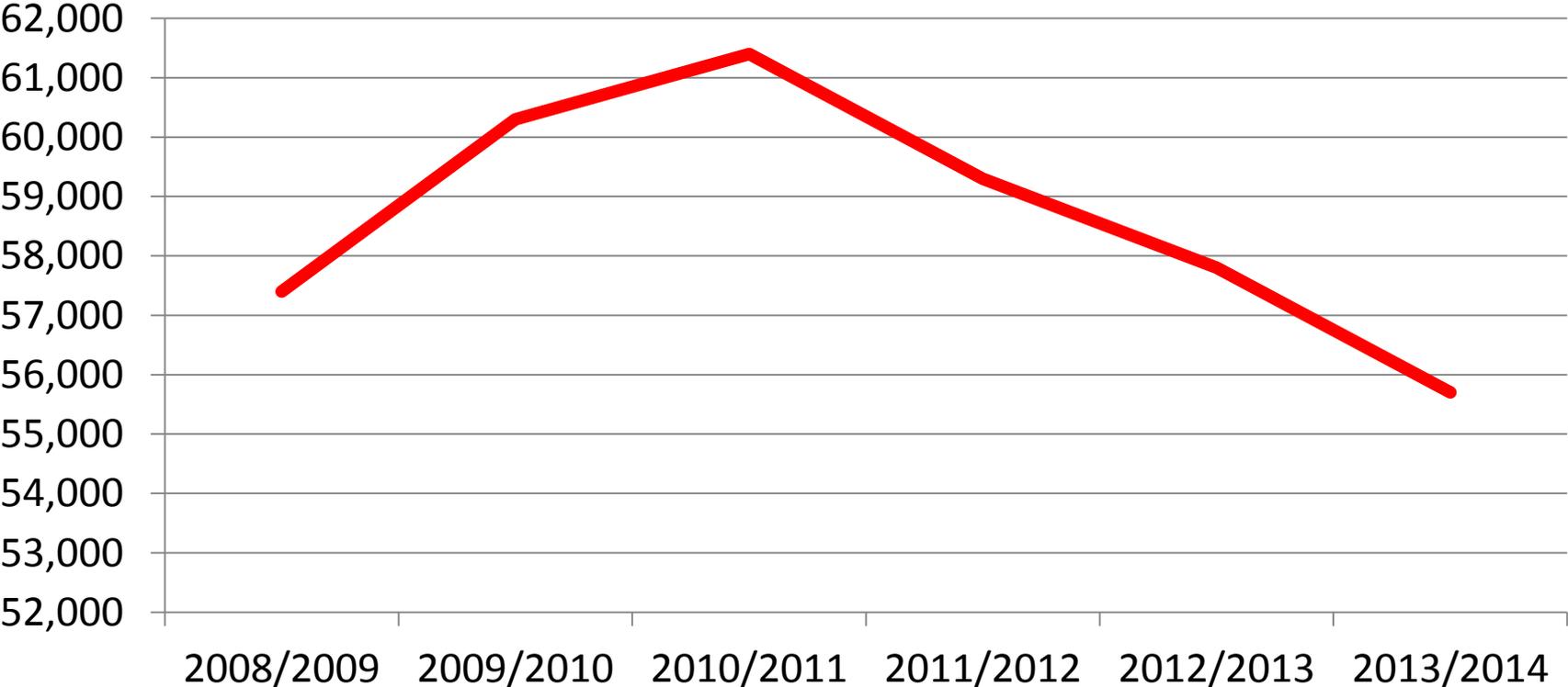
Source: SREB Data Exchange July 2014



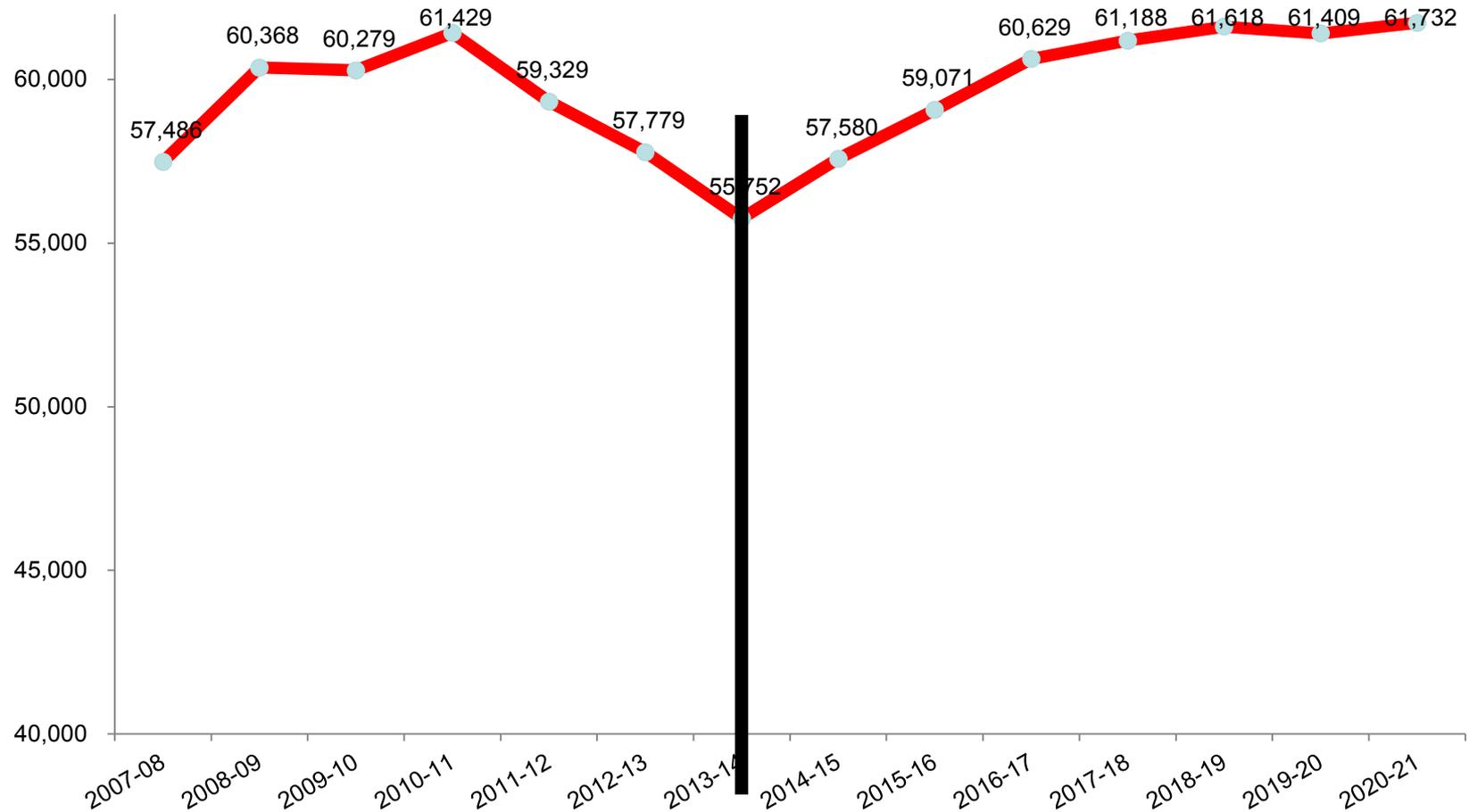
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# High School Graduates in Tennessee

## High School Graduates



# Current and Projected Number of High School Graduates



Source: Western Interstate Commission on Higher Education, "Knocking at the College Door"



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# ETSU's "Capture Rate" for Local High Schools

High School	Graduates (2012)	Percent Going to College (2012)	Percent Going to ETSU (2014)	
			Of All Graduates	Of All College-Bound
David Crockett	298	48%	23%	61%
Elizabethton	191	57%	23%	40%
Science Hill	486	72%	27%	38%
Volunteer	271	46%	21%	34%
Daniel Boone	353	55%	17%	31%
Tennessee High	272	63%	17%	28%
Dobyns-Bennett	421	69%	18%	26%



# So What Do We Do About these Challenges. . .

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- Focus on Student Retention
- Focus on Student Recruitment
- Empower Colleges and Departments to be Entrepreneurial



# Timeline

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- Ad-hoc committee convened, November 2013
- Received charge from Dr. Noland as a result of the work from the 125 Committee
- Our committee has met 19 times from then until now



# Committee Process

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- Information from consultant, rpkGROUP
- Review of ETSU's current budget process
- Review of relevant publications and examples
- National webinar series on RCM
- Telephone/video conferences
  - Indiana University
  - Miami University
- Extensive committee discussions



# The RCM Model

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- RCM Model divides campus units into Revenue Centers and Cost Centers.
- Revenue Centers = Colleges, Auxiliaries, or other revenue producing units.
- Cost Centers = Administrative or support units which don't produce revenue.
- RCM aligns budget authority and responsibility with accountability.



# Recommendations

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- The implementation and on-going operation of the RCM model should be intimately tied to the comprehensive strategic planning process of the University.
- Careful analysis of the experience of other institutions in the implementation of RCM should inform the process at ETSU.



# Recommendations

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- Technical, personnel, and financial resources--especially in the service of empowering colleges and non-academic equivalents--should be developed as part of RCM implementation. This includes identifying a senior leader to be the champion for RCM at the university level.



# Recommendations

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- There should be a variable assessment (e.g. "tax") among colleges and other revenue centers based on their unique missions.
- Cost-center/centralized functions should be focused on providing those services essential to the operation of the University, and on supporting the revenue centers in their activities.



# Recommendations

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- Responsibility Centers (e.g., colleges and major service and administrative units) should have the flexibility to roll over unspent, net revenue.
- The RCM process should be carefully and regularly evaluated, particularly in the first year, to account for unintended consequences and errors in assumptions.



# Recommendations

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- Throughout the implementation of RCM there should be a careful communication/education/buy-in program to ensure clarity and transparency.



# Challenges

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- Models don't create new \$'s – only facilitate the process
- Still have to build in opportunities for special situations
- Education – Organization (specifically leadership at all levels)
- “The Transition”



# Questions & Concluding Thoughts

# Comparing UM, TTU, and ETSU

The different approaches and priorities of each institution are reflected through the allocation of resources in their budget models.

	Summary of Model Iterations		
	University of Memphis	Tennessee Technological University	East Tennessee State University
<b>Undergraduate In-State Tuition</b>	<b>80% / 20%</b> College of Instruction / Student Record	<b>85% / 15%</b> College of Instruction / Student Record	Allocated to Revenue Centers
<b>Undergraduate Out-of-State Tuition</b>	<b>0% / 100%</b> College of Instruction / Student Record	<b>85% / 15%</b> College of Instruction / Student Record	Allocated to Revenue Centers
<b>Graduate In-State Tuition</b>	<b>80% / 20%</b> College of Instruction / Student Record	<b>85% / 15%</b> College of Instruction / Student Record	Allocated to Revenue Centers
<b>Graduate Out-of-State Tuition</b>	<b>0% / 100%</b> College of Instruction / Student Record	<b>85% / 15%</b> College of Instruction / Student Record	Allocated to Revenue Centers
<b>State Appropriations</b>	Instruction – <b>25%</b> Research – <b>15%</b> Degree Production – <b>60%</b>	Instruction – <b>65%</b> Research – <b>3.5%</b> Degree Production – <b>31.5%</b>	Allocated to Revenue Centers
<b>Administrative Overhead Costs</b>	Admin. units are pooled by function, and net expenses of each pool are allocated to colleges using a unique driver	Space and facilities renewal costs are allocated to colleges; other admin. units are funded via budgeted unit margins	Cost Centers identified and funded through tax on Revenue Centers
<b>Subvention</b>	<b>25%</b> of select revenues	<b>18%</b> of select revenues	Funded through tax on Revenue Centers

Huron's experience in designing budget and financial planning models at over 440 higher education institutions have allowed us to develop and refine our methodology.

## **Among the critical lessons learned:**

- These engagements require high levels of stakeholder engagement
- Stakeholders will be eager to hear about models deployed at other institutions
- From day one, the conversations must be designed with implementation in mind
- Data analysis helps inform and narrow ultimate model selection
- Transparency and continuous communications are key factors in the change management process

# Appendix

# Andrew L. Laws

## Managing Director

Since joining Huron, Andrew has helped more than 30 institutions to maximize, allocate and leverage financial resources. Andrew specializes in designing budget models which use incentives to drive behaviors and focus resources on institutional strategies.

Representative examples of Andrew's engagement experience include:

- Led a team to evaluate an institution's planned budget redesign and institutional change readiness following multiple failed implementations. The evaluation focused on a model diagnostic and an assessment of the University's historical implementation efforts. Team developed a new model, a path for successful implementation, and conducted assessments of IT, HR and Finance to build institutional capacity for change.
- Directed a budget redesign initiative to help a \$450 MM institution move from a modified incremental budget to an incentive-based budget model. The model's goal is to incentivize revenue growth, decentralize decision-making, and enhance institutional service levels. The engagement began in January 2011 and the University is scheduled to go-live with the model implementation for the 2013 fiscal year.
- Led an evaluation of the resource management, planning, and allocation process for a leading university with a \$2.7 billion budget. Documented and analyzed the processes, policies, and incentives used by the institution and its peers, and designed a two-year implementation plan.
- Managed a resource optimization project at a top 30 private liberal arts university. The project scope targeted approximately 20 non-academic departments including auxiliaries, financial operations, and student services. The engagement resulted in nearly 75 revenue enhancement and cost reduction recommendations to fund the institution's strategic plan.
- Performed an organizational assessment of a financial aid office administering more than \$150MM annually in loans, grants, and scholarships. The assessment was designed to increase efficiency and customer service by analyzing the department's organization, staffing, processes, and technology.

Prior to joining Huron, Andrew spent four years in investment banking, where he acquired significant experience with financial modeling, ratio analysis, revenue and cost forecasting, and transaction structuring.

### Education

- Doctor of Education, Vanderbilt University
- Master of Business Administration, University of Chicago
- Bachelor in Business Administration, University of Mississippi

### Publications

- Responsibility Center Management, A Guide to Balancing Academic Entrepreneurship with Fiscal Responsibility, with John R. Curry and Jon C. Strauss, NACUBO, 2013
- The Buck Stops Elsewhere, The Business Officer, NACUBO, January 2013

### Professional associations

- Speaking engagements include, CACUBO Annual Meeting (2014); NACUBO Budget Forum (2014, 2013); SACUBO Annual Meeting (2014); NACUBO Higher Education Accounting Forum (2014); EACUBO Annual Meeting ( 2011)
- Faculty Member, Higher Education Finance, Vanderbilt University, Peabody Professional Institute, 2012-2013
- Chairman, Private College Research Incentives Subgroup, Mississippi Secretary of State Business Incentives Study Group, 2012
- Board of Directors, The University of Mississippi Alumni Association, 2005-2008



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