

**Ad Hoc Budget Committee**

**Discussion Draft**

Background:

As higher education transitions to a funding paradigm characterized by diminishing state support, and as innovation and policy drives changes in how and where higher education is delivered, the President called for the creation of an Ad Hoc Budget Committee to explore opportunities to revise the existing budget structure to better align resources with priorities, and to more effectively position ETSU to compete with the increasingly competitive environment of higher education.

Between November, 2013 and February, 2015, the Committee met on 19 occasions; reviewed information provided by the consultant; reviewed relevant publications; participated in a national webinar; discussed budget experiences with two other universities; and held extensive internal discussions.

The Committee focused on learning more about the Responsibility Centered Management (RCM) budget model that has been adopted at a number of other universities.

What is an RCM Model?

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 Center”). 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 should be 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; and provides a process by which budget reduction decisions can be made during times of reduced revenue.

The Committee’s Current Recommendations:

* The committee believes that the university should move towards an RCM-type model, and that budget authority and entrepreneurial energy should devolve to the level of the Colleges and other revenue centers.
* **The committee believes that an RCM model will be most effective at ETSU, if:**
  + Leadership:
    - ETSU identifies or hires a respected, collaborative, senior leader to be the implementation leader/champion for RCM.
    - The senior leadership team of the university is supportive of RCM implementation.
    - The senior leadership team should evolve to include representation from both cost and revenue centers;
  + Strategic Planning:
    - A new, comprehensive strategic vision, and a resulting strategic plan, is an essential next step for the University;
    - The implementation of the RCM model must be closely tied to the development and implementation of that strategic plan;
  + Prior to implementation of an RCM, ETSU should establish a working group to:
    - Identify principles and parameters for the implementation of the RCM model.
    - Conduct a careful analysis of the experience of other institutions in the implementation of RCM informs the process at ETSU.
  + Implementation:
    - There should a variable assessment (e.g. tax) among colleges and other revenue centers based on their unique missions.
    - The RCM process should be carefully and regularly evaluated, particularly in the first year, to account for unintended consequences and any errors in assumptions.
    - There is 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).
  + Roll-out
    - Appropriate funding must be identified to support the planning for, and implementation of RCM.
    - Prior to, and throughout the implementation of RCM, there needs to be a careful communication and education program to ensure clarity and transparency in comprehensive understanding of:
      * WHAT the RCM 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.