

Resource Allocation, Management, and Planning Presentation for Board of Regents





Industry Overview

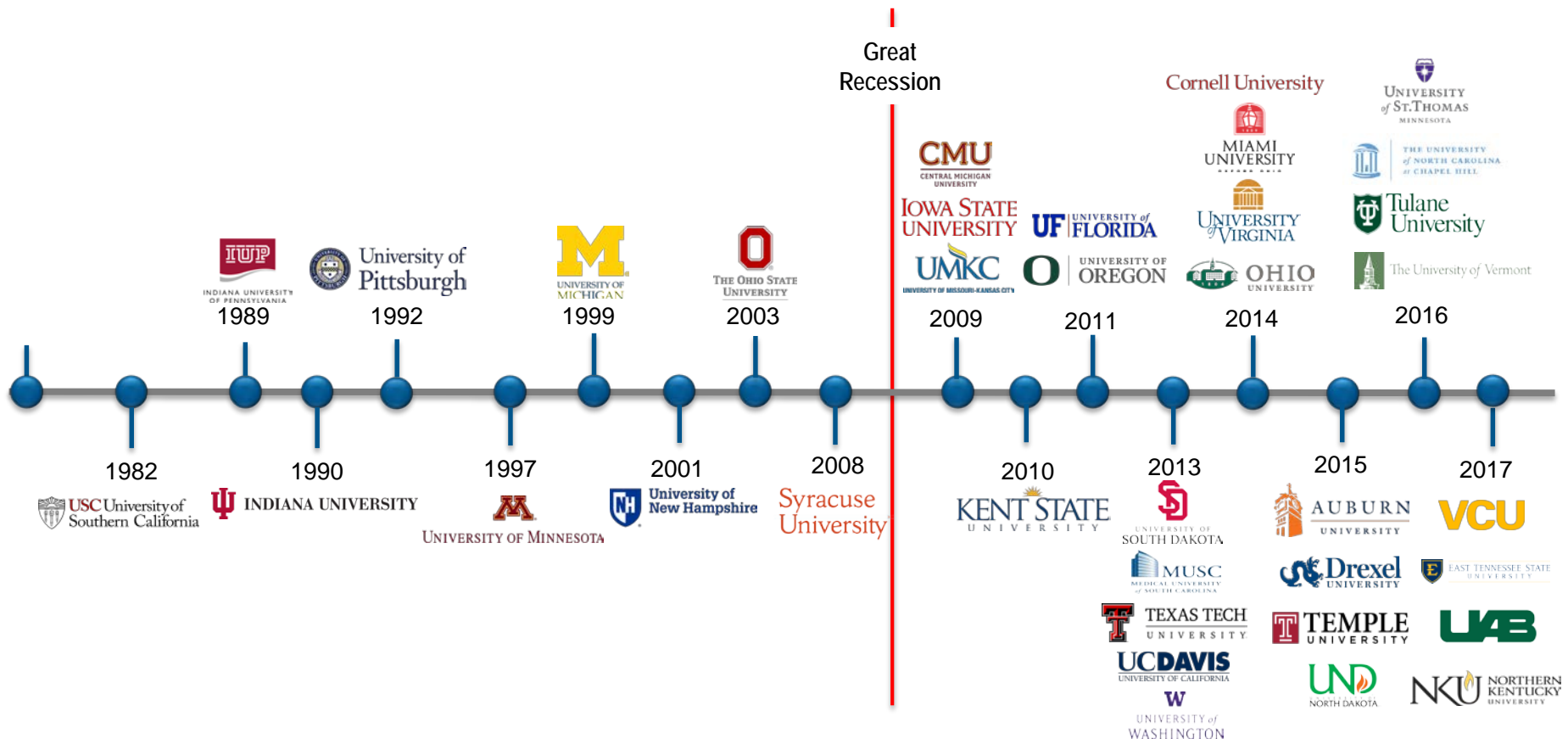
Recent Trends in Budgeting

A significant number of institutions have recently decided to undertake budget redesign initiatives to find a long-term solution to recent financial challenges.

- Institutions are working diligently to reframe budgeting as a way to develop new revenues, promote desired activities, and funnel resources to strategic priorities
- A 2016 Inside Higher Ed Survey reported that 47% of U.S. institutions surveyed have changed their budget model in the past 4 years with 35% of those that have not changed their institution's model planning to do so
 - 21% of those surveyed say their institution uses a Responsibility-Centered Management (RCM) model
- Recent changes have resulted in more inclusive strategies that acknowledge the powerful impact engaged faculty and staff can have on institutional resources
- With enhanced inclusiveness, universities have needed to produce more timely, comprehensive, and insightful data and reports
- Ultimately, universities appear to be adopting hybrid budgeting models that are highly customized to institutional cultures and goals

Recent Higher Education Budget Redesigns

Since the Great Recession, and with the continued strain on revenue sources, universities are undertaking comprehensive budget redesign initiatives with increasing frequency.



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.

Benefits of Effective Resource Allocation

As a campus explores potential changes to its resource allocation model, it is important to maintain its focus on the benefits of effective resource allocation.

- **Facilitates two-way discussions** between entities, a joint understanding of markets, and annual discussions about institutional priorities
- Translates strategic goals into **management and operating plans**
- Results in policies and procedures that **focus on incentive alignment, entrepreneurship, and the efficient use of resources**
- Improves the **effectiveness of incentives** with the potential to create win-win opportunities across an entire institution
- Identifies the **true nature of internal subsidies** (transfer payments)
- **Avoids “incremental” budgeting**, which fails to evaluate base budget allocations or adequately reflect changes in key drivers

Effective resource allocation leads to the distribution of useful information, data-informed decisions, and the effective utilization of institutional resources.



Project Overview

Project Goals

Huron understands that WKU desires a consulting partner to assist with the development of a new performance-based resource allocation, management, and planning (RAMP) model and proposed implementation schedule.

The RAMP model will seek to address the following desires:

- Align with the State's funding formula to better position WKU to increase State funding
- Address current financial trends, which include declines in student enrollment and sponsored programs
- Allocate funds in a way that will support the University's new strategic plan
- Reward performance and invest in strategic priorities in an equitable manner
- Increase transparency and simplicity in resource allocation

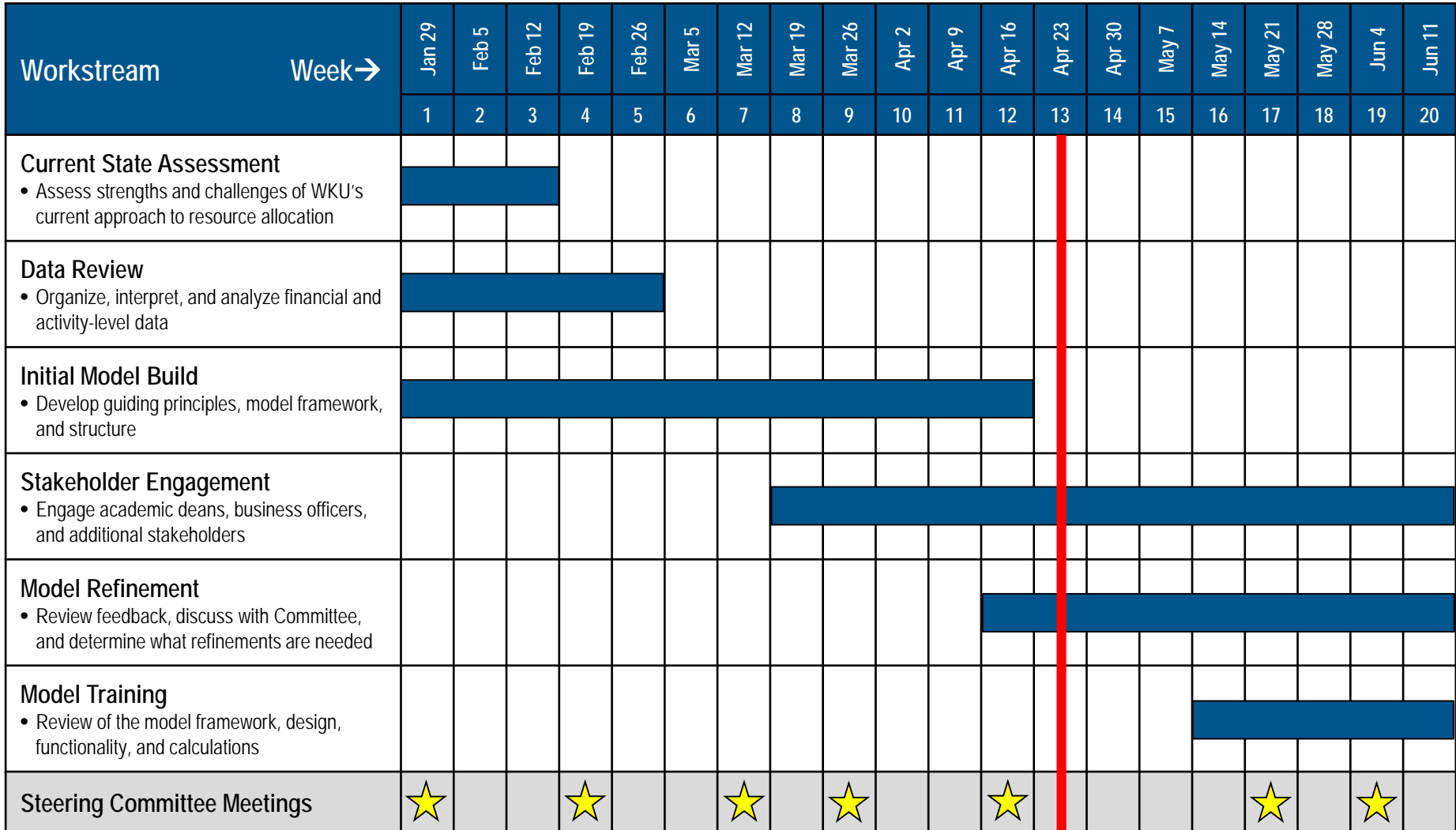
Project Guiding Principles

WKU's Steering Committee members submitted proposals for guiding principles, which are summarized below. These principles are being used to inform decisions surrounding the development of the new budget model.

- Create a **clear link** between resource allocation and the University's **mission, strategic priorities, and commitment to student success**
- Develop a model that remains **flexible** and can **adapt and respond** to changing conditions, evolving priorities, and new mission-aligned opportunities
- Provide a **consistent and predictable** methodology for revenue and cost allocation that is **easy to understand** and features **incentives** that reward performance, entrepreneurship, and innovation
- Promote a **collaborative and sustainable** budget process that promotes **transparency, efficiency, and accountability** across all units
- Use a **holistic approach** to budgeting that reflects a **shared commitment** to the fiscal health of campus and ensures that **institutional priorities** can be funded
- Leverage **trusted and reliable data** to facilitate **data-driven decision making** and to promote enhanced **forecasting and long-range planning**

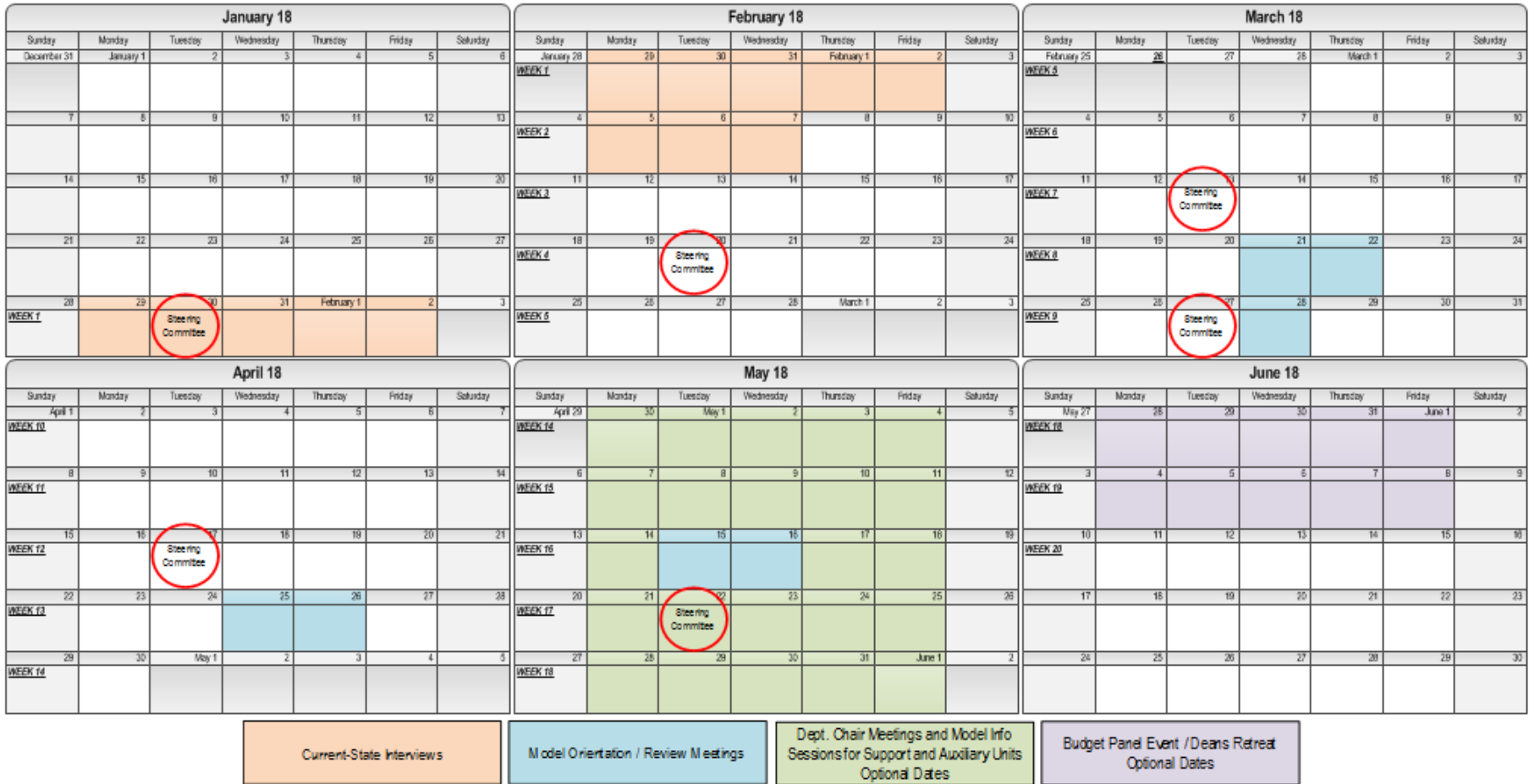
Project Plan

The project plan structures primary activities into overlapping work streams that take place over a 20-week period.



Stakeholder Engagement Timeline

As laid out in the project plan, Huron will continue to engage various campus stakeholders. The below graphic displays a high-level project calendar with key stakeholder engagement elements highlighted.





Appendix

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.

Traditional Budgeting Perceptions

- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that **reset annually**



Strategic Resource Allocation

- **Plan** for developing resources
- **Prioritization** of resource allocations for strategic initiatives
- **Explanation** of the internal economy
- Mechanism to create institutional **incentives**
- Tool to empower departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of **accountability**

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.

Overview of Budgeting Alternatives

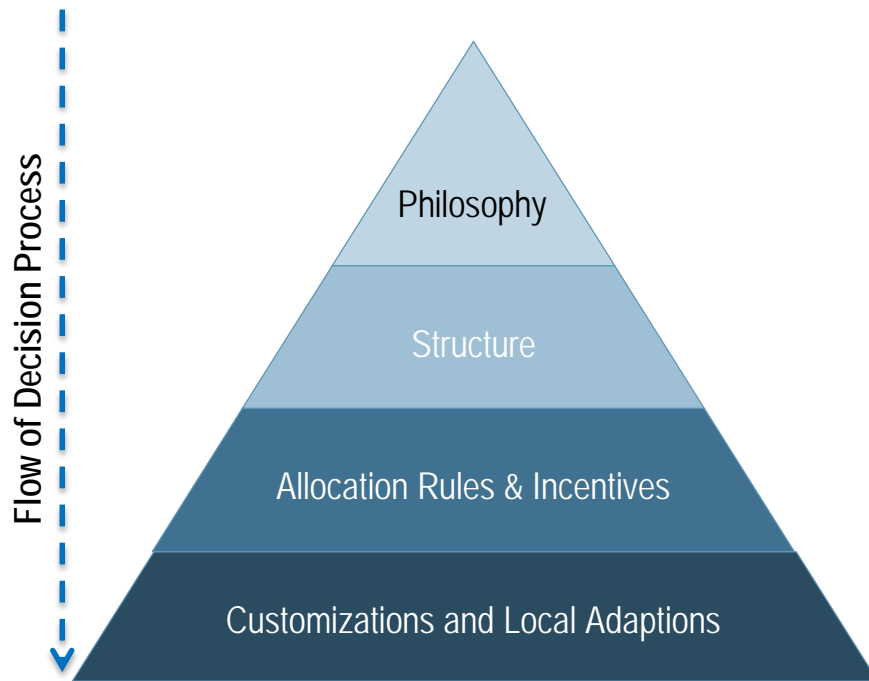
Incremental budgeting is the most common approach to university resource allocation, though an array of alternative and hybrid models exists.

Common Budgeting Models

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

Stages of Model Development

Effective resource allocation redesign typically requires four stages of decisions, with each stage 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 stage is needed among model development leaders prior to moving forward with implementation.

Proposed Model Framework

Huron will present a model framework that allows for unit-level funds flow statements. A condensed version of the proposed structure, for illustrative purposes, is shown below.



FY 2017

	College A	College B	College C	Total Academic Units	Total Auxiliary Units	Total Centers and Institutes	Total Primary Units	Total Administrative Support Units	Pass Through	University Total
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
REVENUES										
Tuition & Fees										
Scholarships & Aid										
Grants & Contracts										
State Appropriations										
Other Revenues										
TOTAL REVENUES										
DIRECT EXPENDITURES										
Personnel Total										
Other Direct Expenditures Total										
TOTAL DIRECT EXPENDITURES										
Margin Before Administrative Support Unit Cost Allocations										
ALLOCATED ADMINISTRATIVE SUPPORT UNIT COSTS (INDIRECT EXPENDITURES)										
<i>Driver</i>										
Student Headcount	Cost Pool 1									
Student FTE	Cost Pool 2									
Direct Expenditures	Cost Pool 3									
Weighted NASF	Cost Pool 4									
Faculty/Student HCT	Cost Pool 5									
Total Headcount	Cost Pool 6									
Sponsored Expenditures	Cost Pool 7									
Employee HCT	Cost Pool 8									
Total Allocated Administrative Support Unit Costs										
TOTAL DIRECT EXPEND. + TOTAL ALLOC. ADMIN. SUPPORT UNIT COST										

Primary Units

Revenues and Direct Costs

Admin & Support Units Allocated to Primary Units

Illustrative



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