Resource Allocation, Management, and Planning
Steering Committee #3
Executive Summary

March 13, 2018
Agenda

Huron is pleased to have the opportunity to partner with WKU on this resource allocation, management, and planning (“RAMP”) initiative.

Our goals for today’s meeting include:

1. Review recent efforts and project plan
2. Discuss revenue and cost allocations
3. Introduce central funding concepts
4. Discuss next steps
5. Answer remaining questions
Project Goals and Objectives

Huron understands that WKU desires a consulting partner to assist with the development of a new performance-based resource allocation 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 Plan

Huron’s project plan structures the primary activities into several overlapping work streams that will take place over a 20-week period.

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Week 1-20</th>
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</thead>
<tbody>
<tr>
<td>Current State Assessment</td>
<td>Jan 29-Feb 5</td>
</tr>
<tr>
<td>Data Review</td>
<td>Jan 29-Feb 5</td>
</tr>
<tr>
<td>Initial Model Build</td>
<td>Jan 29-Mar 5</td>
</tr>
<tr>
<td>Stakeholder Engagement</td>
<td>Jan 29-May 7</td>
</tr>
<tr>
<td>Model Refinement</td>
<td>Jan 29-Feb 5</td>
</tr>
<tr>
<td>Model Training</td>
<td>Jan 29-Feb 5</td>
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- **Current State Assessment**
  - Assess strengths and challenges of WKU’s current approach to resource allocation

- **Data Review**
  - Organize, interpret, and analyze financial and activity-level data

- **Initial Model Build**
  - Develop guiding principles, model framework, and structure

- **Stakeholder Engagement**
  - Engage academic deans, business officers, and additional stakeholders

- **Model Refinement**
  - Review feedback, discuss with Committee, and determine what refinements are needed

- **Model Training**
  - Review of the model framework, design, functionality, and calculations

- **Steering Committee Meetings**

*Steering Committee Meeting*
Allocation Overview
## Revenue and Expense Allocation Overview

In general, incentive-based budget models share five common elements related to the flow of revenues and expenses across the institution.

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Revenues</td>
<td>- Typically recognized as revenue by the primary unit for goods or services provided</td>
</tr>
<tr>
<td>Allocation of General Revenues</td>
<td>- Models devolve ownership of revenues from central administration to the local units that generate them; particularly, general state appropriations, tuition, and indirect cost recovery (i.e. F&amp;A)</td>
</tr>
</tbody>
</table>
Revenue Allocation
Direct Revenues vs. General Revenues

Huron worked with the University to distinguish direct revenues from general revenues, which are typically allocated to primary units based on a defined methodology to promote balanced growth.

<table>
<thead>
<tr>
<th>Direct Revenues</th>
<th>General Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Revenues that are directly attributable to goods or services provided by a primary unit</td>
<td>▪ Revenues are received by central administration on behalf of those primary units that generate the revenue</td>
</tr>
<tr>
<td>▪ Revenue is typically recognized by the primary unit within the University’s financial systems</td>
<td>▪ Revenues are pooled together and allocated to primary units based on varying methodologies to promote growth</td>
</tr>
</tbody>
</table>

Examples include:
- Direct State Appropriations
- Student Fees
- Grants & Contracts
- Sales & Services
- Auxiliary
- Gifts

Examples include:
- General State Appropriations
- Undergraduate Tuition
- Undergraduate Scholarships (contra-revenue)
- F&A Revenue
- Graduate Tuition
- Graduate Scholarships (contra-revenue)

Huron recommends treating graduate tuition and scholarships as well as F&A revenue as direct revenues for the purposes of the model.
Tuition Allocation: Overview

Universities commonly use more than one allocation methodology for tuition revenue to promote behaviors that align with multiple goals.

### Direct Tuition Revenue
- Applies to graduate tuition, terminal degree programs, and specific memorandums of agreement
- 100% is allocated to the **college of record** (i.e., academic unit that awards the degree)

### General Tuition Revenue
- Applies to undergraduate tuition
- Allocated according to each academic unit's share of either **instructed** (college of instruction) or **enrolled** (college of record) credit hours
State Appropriation Allocation: Overview

Direct state appropriations are assigned to specific units without any allocation rules, whereas general appropriations provide an opportunity to incentivize research and instruction.

### Direct State Appropriations
- Direct state appropriations that are restricted for specific purposes (e.g., special programs, financial aid) are identified within the financial records.
- Revenues are directly assigned to the appropriate operating units or strategic pool based on the restricted purpose of those funds.

### General State Appropriations
- General state appropriations can be allocated to support instruction and research.
- Funds for research can be allocated on each school's share of sponsored revenue and funds for instruction can be allocated on each school's share of student FTE.
- WKU can also consider allocating funds based on metrics found in the KY performance funding model.

[Diagram with flow from Strategic Pool or Academic Unit to Direct State Approps. to General State Approps. to Instruction, KY Performance, and Research]
Kentucky State Performance Funding

The state of Kentucky recently published a performance funding model which establishes a comprehensive system for the allocation of state funds based on student success, course completion, and other metrics.

10% Maint. & Operations
Based on each institution’s share of square footage dedicated to student learning

10% Institutional Support
Based on each institution’s share of sector total instruction and student services support

10% Academic Support
Based on each institution’s share of sector total FTE

35% Student Success
Based on degrees and credentials awarded, degrees per 100 FTE enrollment, STEM+H degrees, degrees earned by minority and low-income students, and student progression

35% Course Completion
Based on each institution’s share of sector total student credit hours earned, weighted to account for cost differences by degree level and academic discipline

Source: https://kypolicy.org/questions-answers-performance-funding-higher-education/
Indirect Expense Allocation
## Allocation of Indirect Expenses

WKU’s support units have been grouped into nine cost pools from which net expenditures will be allocated to each primary unit based on a single metric that best represents the driver of cost.

<table>
<thead>
<tr>
<th>Cost Pool</th>
<th>Description</th>
<th>Potential Allocation Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Services and Administration</td>
<td>Departments include Finance and Administration, General Counsel, Human Resources, Office of the President, Public Affairs, and Campus &amp; Community Events</td>
<td>Total Direct Expenditures (Less Transfers)</td>
</tr>
<tr>
<td>Academic and Admin Student Affairs</td>
<td>Departments include Provost, Acad. Aff., Enrollment Mgmt, Honors College, Institutional Research, Chief Diversity Officer, Admin. Student Affairs, Intl., and Study Abroad</td>
<td>Student FTE</td>
</tr>
<tr>
<td>Facilities</td>
<td>Facilities Management and Campus Services</td>
<td>Net Assignable Sqft</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Information Technology, Telecommunications, Enterprise Systems, Academic Computing Services, Networking &amp; Computing Support</td>
<td>Total HC</td>
</tr>
<tr>
<td>University Libraries</td>
<td>University Libraries</td>
<td>Student FTE + Faculty FTE</td>
</tr>
<tr>
<td>Philanthropy and Alumni Engagement</td>
<td>Development, Alumni Relations, and Institutional Advancement</td>
<td>Total Direct Expenditures (Less Transfers)</td>
</tr>
<tr>
<td>Graduate School</td>
<td>Graduate School</td>
<td>Graduate Student HC</td>
</tr>
<tr>
<td>Research</td>
<td>VP Research, Research &amp; Economic Development, Sponsored Programs, Proposal Incentive, Research Start-up, Faculty Fellowship, Faculty Scholarship</td>
<td>Sponsored Revenue</td>
</tr>
</tbody>
</table>
Indirect Expense Allocations: Example

Incentive-based budget models use a variety of metrics to allocate support unit expenditures to the primary units. The following is an illustrative example for consideration.

Illustrative Allocation: Square Footage (SQFT)

- Universities often choose to allocate centrally-managed facilities costs to primary units based on square footage, as it best depicts the fluctuation of expenditures for the given unit (economic reality). In this example, the allocation formula is as follows:

\[
\text{Allocation}_{PU_n} = \left[ \frac{\text{SQFT}_{PU_n}}{\text{SQFT}_{PU \text{Sum of all } n}} \right] \times \left( \text{Revenues}_{SU_n} - \text{Expenditures}_{SU_n} \right)
\]

Primary Unit’s share of square feet  
Support Unit’s net expenditures

1 Allocation Formula Notes:
PU = Primary Unit; SU = Support Unit
For PU\(_n\), \(n\) represents each individual primary unit (i.e. academic units, centers & institutes, auxiliaries)
Central Funding
Central Funding Characteristics

Within incentive-based models, universities typically allocate dollars to support two central funding mechanisms, each with distinct roles.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Subvention Pool</th>
<th>Strategic Investment Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>A centrally-held pool of revenues to address mission-critical needs, the nature of which, are not self-funding</td>
<td>A centrally-held pool of revenues to address university-wide priorities and revenue growth strategies</td>
</tr>
<tr>
<td><strong>Rationale</strong></td>
<td>Sum of the parts is not optimal for the whole; WKU needs the ability to act as one entity to achieve University-wide goals</td>
<td>In part, the use of the central fund addresses the economic problem of the commons</td>
</tr>
<tr>
<td><strong>Illustrative Uses</strong></td>
<td>Ensure appropriate subsidies to meet major institutional goals</td>
<td>Provide start-up funding for high priority academic programs</td>
</tr>
<tr>
<td></td>
<td>Address compliance and regulatory issues as they arise</td>
<td>Underwrite new initiatives which do not naturally fall under one unit's care</td>
</tr>
<tr>
<td><strong>Funding Formula</strong></td>
<td>Various funding models are used across institutions, each with pros and cons</td>
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</tr>
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Central pools must be sufficient in size to allow institutional goals to be funded and ensure that mission-critical activities are subsidized appropriately.
**Central Funding Approach**

Universities with incentive-based models typically choose one or more of the following approaches to fill the subvention pool as well as the strategic investment pool.

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue Retention</th>
<th>Legacy Model Adjustment</th>
<th>Participation Fee</th>
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<tbody>
<tr>
<td><strong>Pros</strong></td>
<td>▪ Select revenue(s) are centrally retained</td>
<td>▪ Fixed amount or percentage of operating surplus is redistributed from outlier(s) to select unit(s) to reflect historical subsidies</td>
<td>▪ Participation fee is assessed on specific set revenues for all primary units</td>
</tr>
<tr>
<td></td>
<td>▪ Provides a direct funding mechanism</td>
<td>▪ Promotes neutral starting points for new model implementation</td>
<td>▪ Considers various revenue sources</td>
</tr>
<tr>
<td></td>
<td>▪ Relatively simple to implement especially if revenues previously not distributed</td>
<td>▪ Often used to dramatically reduce tax rates, thereby strengthening incentives to grow marginal revenues</td>
<td>▪ Potential for increased size as the institution experiences revenue growth</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td>▪ Revenue often limited in terms of future growth</td>
<td>▪ Difficult to determine legacy model adjustment amount; calculation might be considered “as much art as science”</td>
<td>▪ Requires diligent assessment of initial rate</td>
</tr>
<tr>
<td></td>
<td>▪ Funding size can be volatile due to lack of revenue diversification</td>
<td></td>
<td>▪ Perception is influenced if rate increases due to diminishing revenue sources</td>
</tr>
</tbody>
</table>

Most universities typically use a participation fee for central funding pools, but may introduce other concepts depending on the internal economy of the institution.
Next Steps
Next Steps

In accordance with the proposed project plan, Huron suggests the following next steps:

1. Finalize “Actuals Model”
2. Conduct model orientation meetings with academic units
3. Obtain and document feedback on the “Actuals Model”
4. Reconvene at the next steering committee meeting on 3/27