

Resource Allocation, Management, and Planning

Board of Regents Retreat



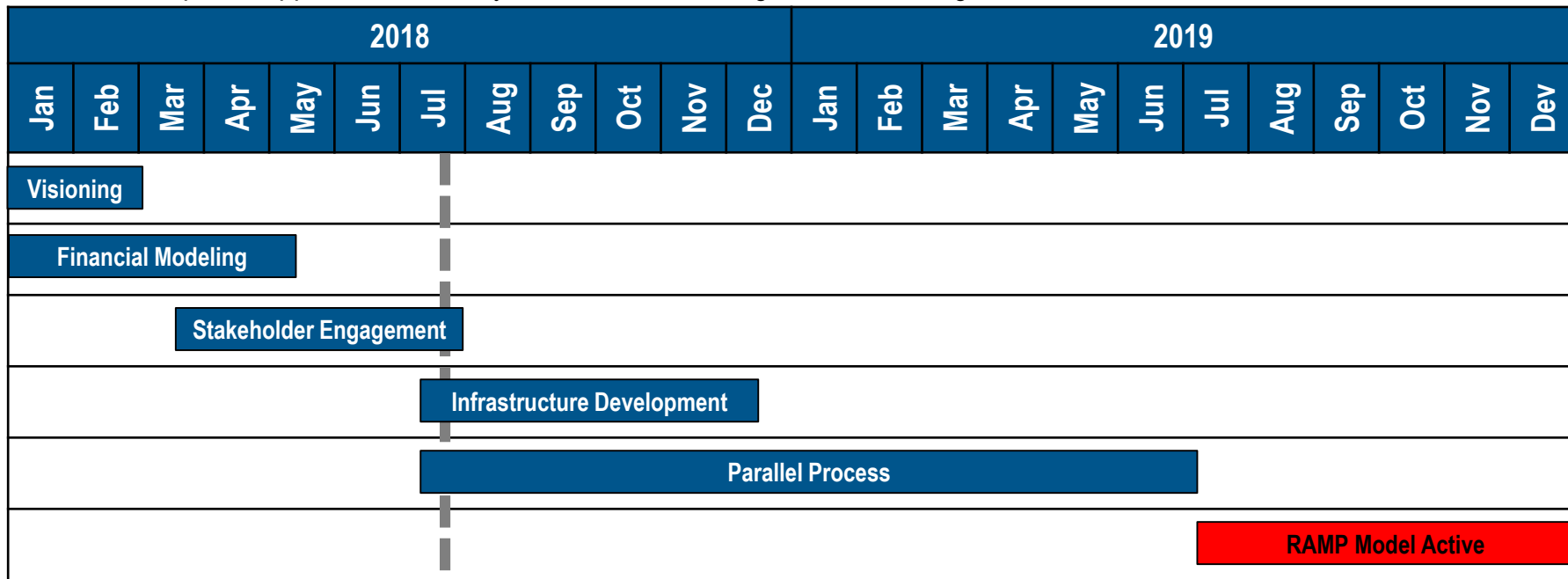
Project Guiding Principles

At the onset of the project, WKU's Steering Committee members submitted proposals for guiding principles, which are summarized below. These principles were used to inform the development of the proposed 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 Timeline

Since the project start, Huron has met individually with over 40 stakeholders and connected with well over 100 individuals to ensure the proposed model meets campus needs. The current phase of the engagement is part of a broader five-phase approach necessary for a successful budget model redesign.



Phase	Overview
1. Due Diligence and Visioning	Develop a clear understanding and vision through an assessment of current resource allocation practices.
2. Financial Modeling	Build-out a “pro-forma” model to provide a platform for testing different model alternatives.
3. Stakeholder Engagement	Address change management through methodical, data-driven stakeholder engagement.
4. Infrastructure Development	Develop supporting tools, processes, and governance to carry out budget development.
5. Parallel Process	Adjust roles, policies, and practices to prepare for the new model’s impact.

Decision Points

The transition to a decentralized and incentive based model requires dozens of decisions regarding the model's scope, structure, and methodology; a selection of those decisions are most critical and will highlighted today.

Critical Model Decisions

1. **Unit Organization**
2. **Tuition Revenue**
 - Undergraduate
 - Graduate
 - DELO
3. **State Appropriations**
4. **Undergraduate and Graduate Aid**
5. **Cost Pool Allocation**
6. **Central Funding**

1. Unit Organization

Campus units have been categorized as academic units, auxiliary units, or support units based upon their impact on revenue generation and their level of financial self sustainability.

Academic and Auxiliary Units

Generally defined by the following characteristics:

1. Ability to influence revenue generation
2. Receives allocation of central unit costs
3. Accountable for performance, retaining both surpluses and shortfalls
4. Contributes to and may receive distributions from the Strategic and Mission Enhancement Fund ("SMEF")

Central Support Units

Generally defined by the following characteristics:

1. Less opportunity to influence revenue
2. Provides services and/or support to Revenue Units
3. Accountable for operating within an expense budget (net of any specific direct revenues)
4. Responsible for providing optimum service and may be held to service-level agreement expectations

Academic and Auxiliary Units Include:

College of Health and Human Services	Athletics
Potter College of Arts & Letters	Housing, Dining, and Other Student Affairs
College of Education and Behavioral Sciences	Parking and Transit Services
Ogden College of Science and Engineering	WKU Store
Gordon Ford College of Business	Other Business Services
University College	

DELO

Central Support Units Include:

Central Services and Administration	Academic and Admin Student Affairs
Facilities	Information Technology
University Libraries	Philanthropy and Alumni Engagement
Graduate School	Research
Regional Campuses	

Model Structure

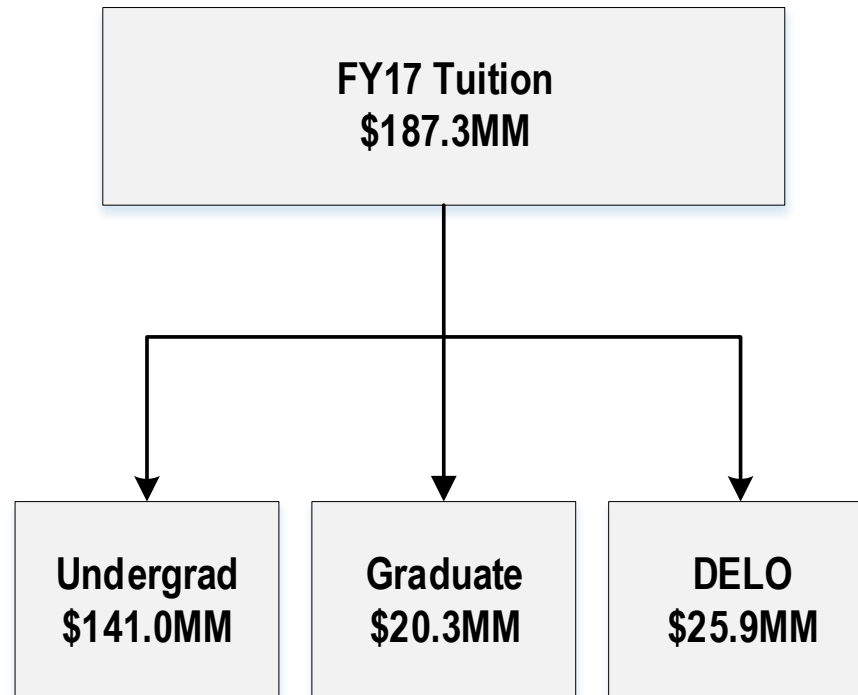
Primary Units have been organized as either Academic Units or Auxiliary Units, while Support Units have been grouped into nine cost pools from which net expenses will be allocated to each primary unit.

Primary Units		Central Support Units
Academic Units (7)	Auxiliary Units (5)	Illustrative Examples
<ul style="list-style-type: none"> ▪ College of Health and Human Services ▪ Ogden College of Science and Engineering ▪ Potter College of Arts & Letters ▪ Gordon Ford College of Business ▪ College of Education and Behavioral Science ▪ University College ▪ DELO 	<ul style="list-style-type: none"> ▪ Athletics ▪ Housing, Dining, and Other Student Affairs ▪ Parking and Transit Services ▪ WKU Store ▪ Other Business Services 	<ul style="list-style-type: none"> ▪ Administration ▪ Academic/Central ▪ Finance & Admin. ▪ Information Technology ▪ Utilities ▪ Libraries ▪ General Counsel ▪ Development ▪ Research ▪ Regional Campuses

2. Tuition Allocation

In the proposed budget model, tuition is grouped into three primary pools with allocation methodologies applied to all the groupings.

Tuition Allocation



2.1 General (Allocated) Undergraduate Tuition

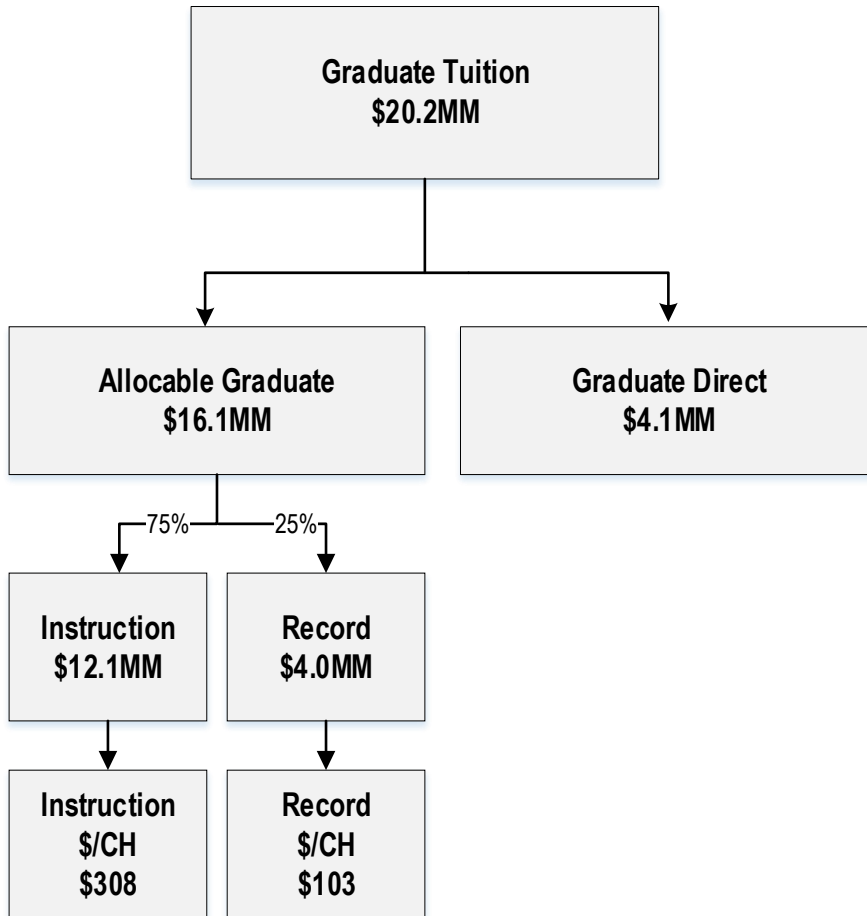
For the proposed budget model, undergrad tuition is allocated in such a way as to recognize direct cost of instruction, academic program development, and the prestige of particular programs.

Proposal	Resident¹	<ul style="list-style-type: none"> Allocate 75% based on instructed resident UG credit hours (i.e., School of Instruction) Allocate 25% based on enrolled resident UG credit hours (i.e., School of Record)
	Non-Resident	<ul style="list-style-type: none"> Allocate 100% of non-resident premium based on enrolled non-resident UG credit hours (i.e., School of Record)
	International	<ul style="list-style-type: none"> Allocate 75% based on instructed international UG credit hours (i.e., School of Instruction) Allocate 25% based on enrolled international UG credit hours (i.e., School of Record)
Change from Current Practice	In the current practice, general undergraduate tuition is received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process	
Rationale	Funds for credit hours that pertain to the School of Instruction will support the direct costs of instruction while funds for credit hours that pertain to the School of Record will support program development, student recruitment, and retention. Non-resident premium is allocated 100% to the School of Record to recognize the prestige of programs that attract non-resident students	
Implications	Compared to the current practice, academic units will benefit from a stronger relationship between revenue generation and revenue distribution. As a result, there will be much greater emphasis on effective tools to analyze credit hour trends and make future projections	

¹Resident students are comprised of resident, TIP, and P-12 Educ students

2.2 Graduate Tuition

Graduate tuition has been grouped into the following buckets based on information found in the operating ledger and information provided by the Bursar.



Allocable Graduate Tuition

- Identified using tuition receipt information provided by the Bursar
- Allocated based on:
 - 75% based on each unit's share of instructed Grad. credit hours (i.e., School of Instruction)
 - 25% based on each unit's share of enrolled Grad. credit hours (i.e., School of Record)

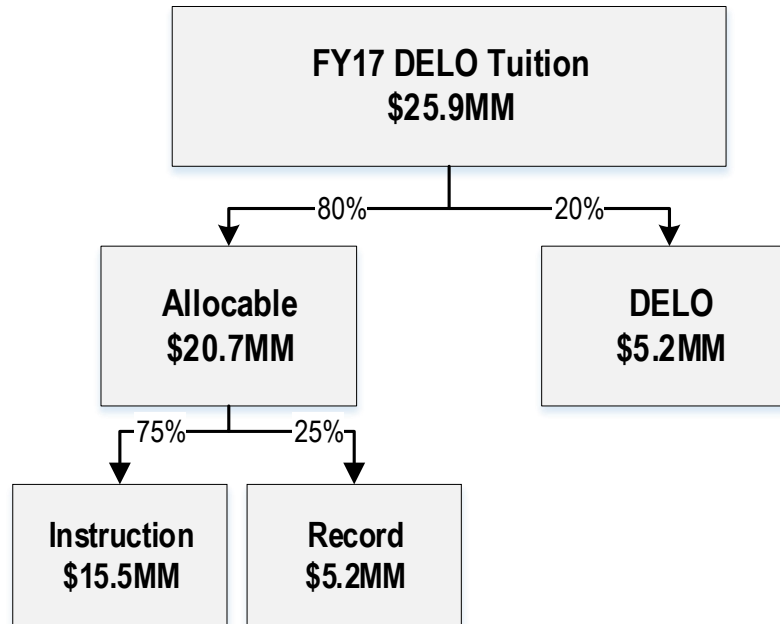
Direct Graduate Tuition

- Applies to terminal degree programs and specific memorandums of agreement
- Directly assigned to each academic unit to correspond with the Banner operating ledger

2.3 DELO Tuition

DELO tuition has been organized into the following buckets based on information in the operating ledger, information provided by the Bursar, and information provided by WKU Budget Staff.

DELO Tuition Allocation

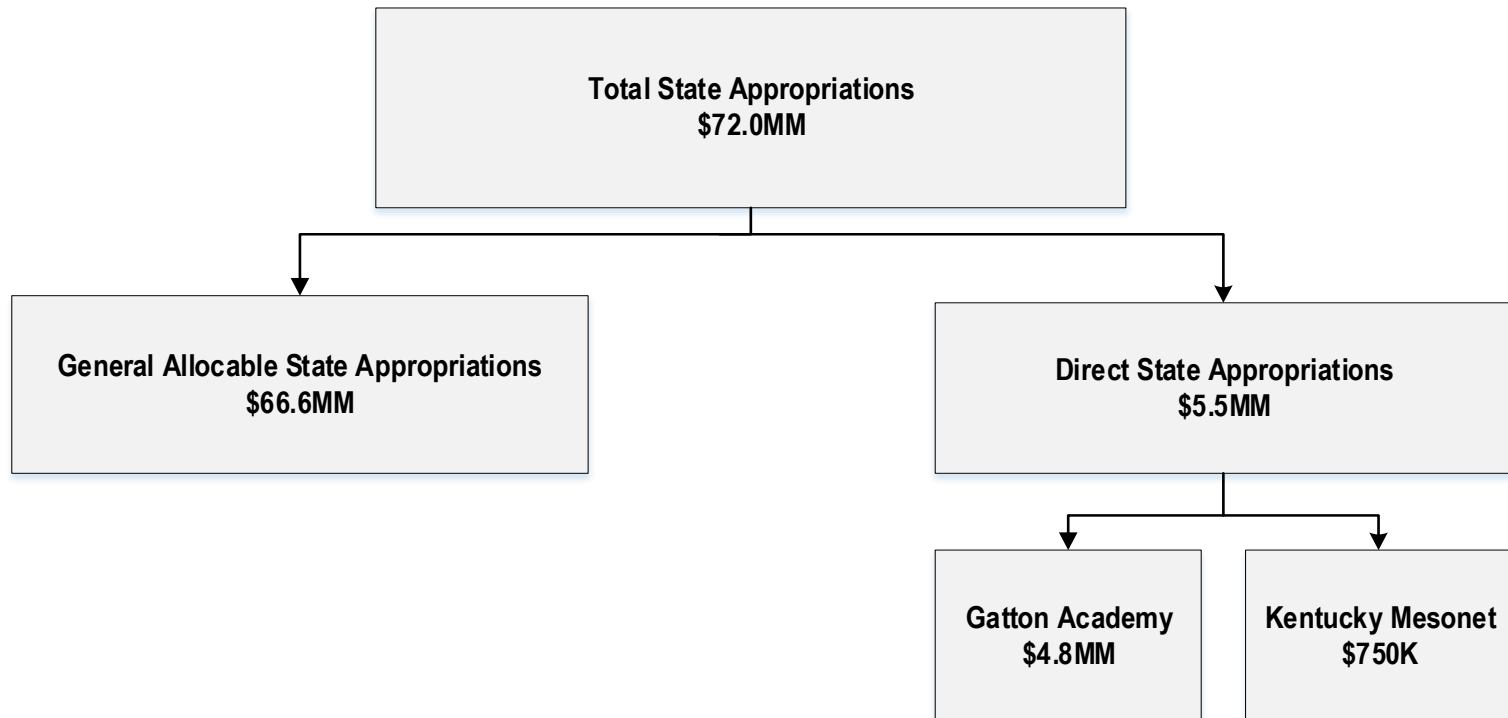


DELO Tuition Allocation

- 80% of DELO tuition is allocated to academic units; of this amount, 75% is allocated to the college of instruction for DELO courses and 25% is allocated to the college of record for DELO courses.
- Unlike before, summer school is included in the FY17 DELO tuition amount, which accounts for the change from \$15.8MM to \$25.9MM
- 20% of DELO tuition is retained by DELO; this amount represents the premium charged to DELO courses.

3. Total Appropriations

For the proposed model, direct state appropriations are direct assigned to specific units, whereas general appropriations provide an opportunity to incentivize research, instruction, and other activities.

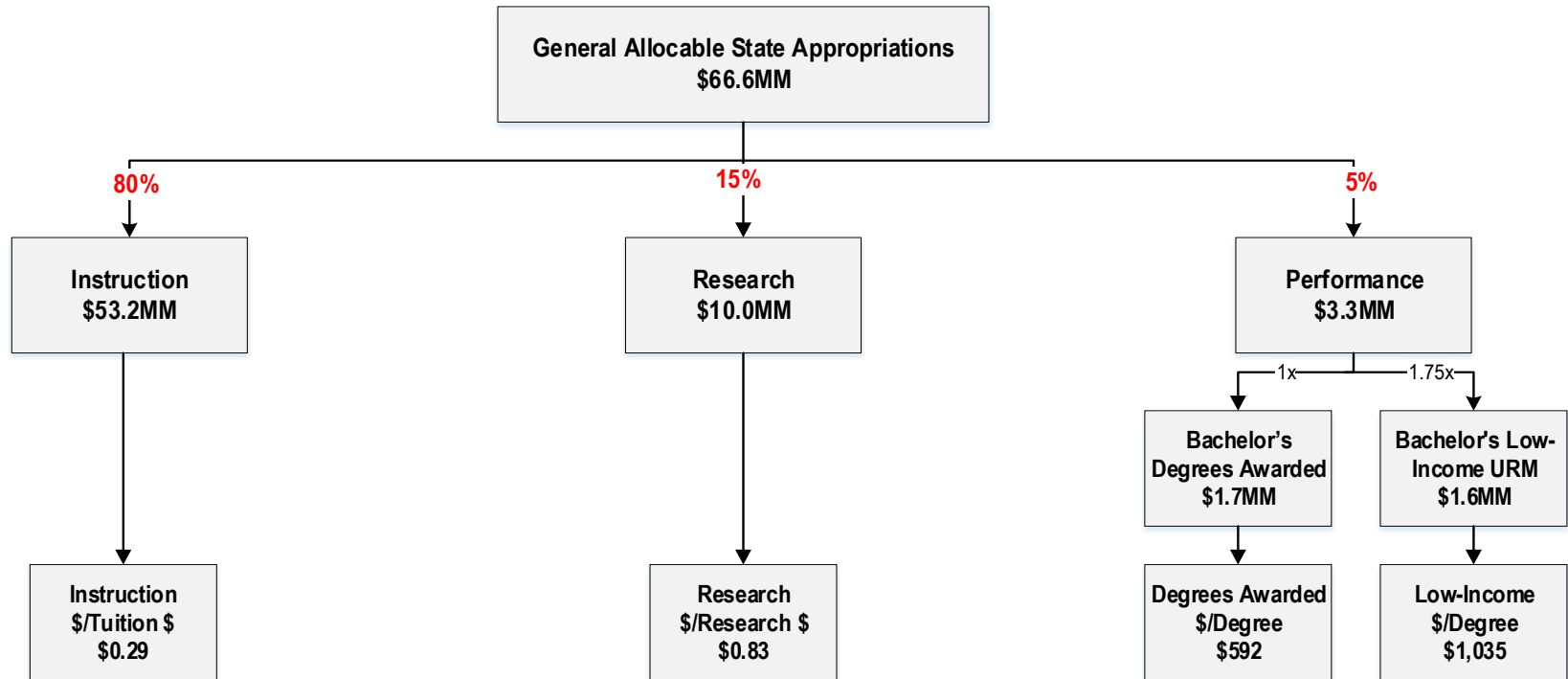


Direct State Appropriations

- Direct state appropriations restricted for specific purposes are directly assigned to the appropriate operating units or strategic pool based on the restricted purpose of those funds

3. General Allocable State Appropriations

The current proposal is to increase the allocation of state appropriations for research while retaining the same sized performance allocation and continuing to allocate the vast majority of state appropriations for instruction.



Proposed Instruction Allocation	Proposed Research Allocation	Performance Allocation
<ul style="list-style-type: none"> Reduce the allocable instruction percent from 85% to 80% to increase research allocation. Allocate instruction state appropriations on the proportional share of total tuition dollars received. 	<ul style="list-style-type: none"> The percent for research allocation is 15%. Increasing the research allocation pool aligns with the strategic goal of supporting student centered research. 	<ul style="list-style-type: none"> Performance funding is allocated based on the primary units' weighted proportion of total bachelor's degrees awarded (1x) and bachelor's degrees awarded to low income & underrepresented minority students (1.75x).

3. General Allocable State Appropriations

For the proposed model, general state appropriations are allocated to support instruction, research, and performance based outcomes.

Proposal	Instruction (80% of total)	<ul style="list-style-type: none"> Allocate on the proportional share of tuition dollars received
	Research (15% of total)	<ul style="list-style-type: none"> Allocate on the proportional share of grants & contracts revenue
	Performance (5% of total)	<ul style="list-style-type: none"> Allocate based on weighed bachelor's degrees awarded (1.0x) and bachelor's degrees awarded to low income & underrepresented minority students (1.75x)
Change from Current Practice	In the current practice, general state appropriations are received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process	
Rationale	Funds for research recognize the need for central investment due to limitations on research costs that universities recover (e.g., unrecovered IDC, mandatory cost share, start up packages, bridge funding, etc.). Funds for performance recognize the state of Kentucky Performance funding model, and aligns with the project goal to better position WKU to increase State funding	
Implications	Places greater emphasis on research and academic planning activities because dollars are closely linked to specific research and enrollment indicators	

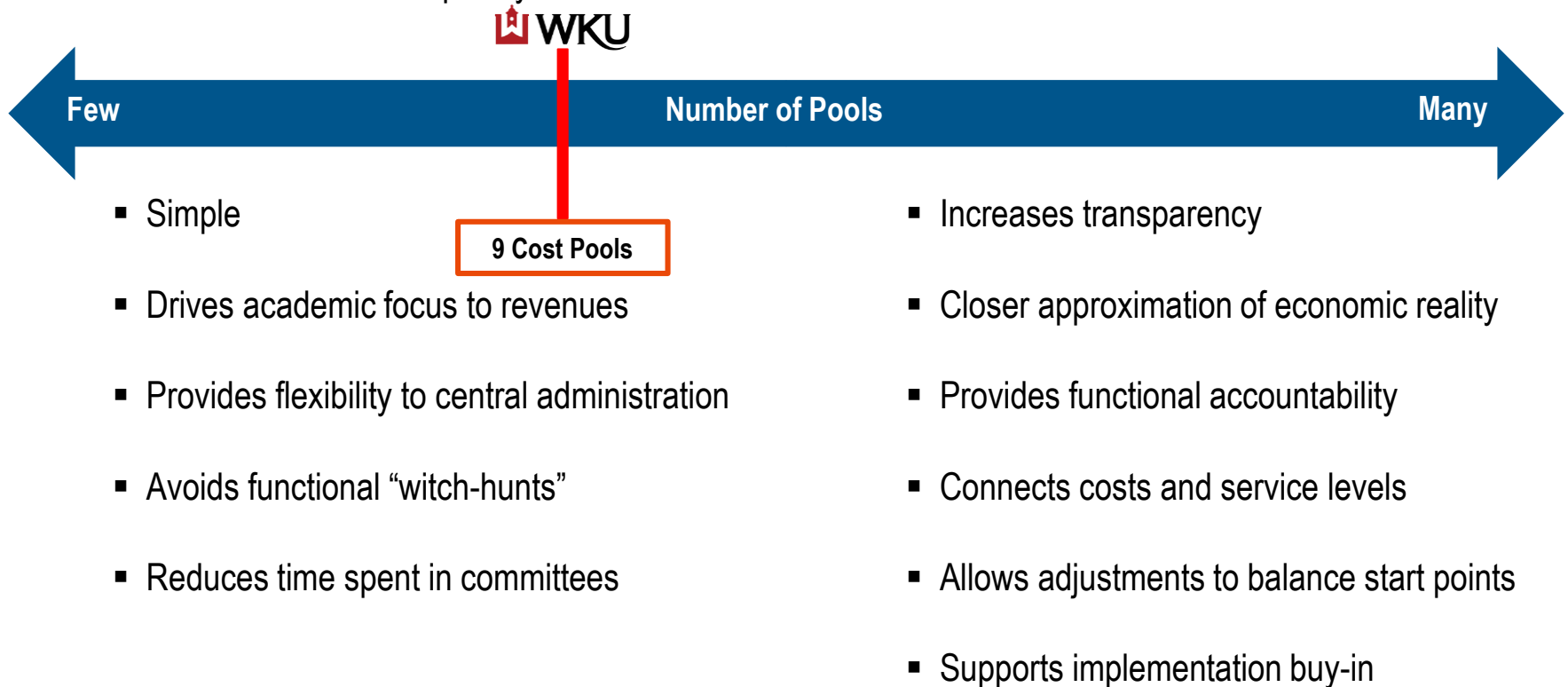
4. Undergraduate and Graduate Aid

For the proposed model institutionally awarded undergraduate scholarships are allocated on total undergraduate tuition allocated; at the graduate level, the majority of aid is allocated based on the student's college of record.

Financial Aid	Description	
Undergraduate Scholarships	Departmental (\$12.0MM)	Directly assigned based on operating ledger classification
	Institutional (\$28.6MM)	Allocated based on allocable undergraduate tuition revenue received
Graduate Fellowships and Waivers	Direct (\$1.9MM)	Directly assigned fellowships where they were incurred in FY17
	Allocable (\$1.4MM)	Allocated based on allocable graduate tuition revenue received

5. Cost Pool Structure

Those units that are not categorized as primary units are typically considered central support units; these are grouped into cost pools, the number of which should be driven by balancing the desired level of transparency with the desired level of model complexity.



A model with limited transparency into support unit activities can fail to drive efficiencies; however, a model with too much transparency can sensationalize decisions.

5. Cost Pool Allocations

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

Cost Pool	Description	Allocation Metric (A)	Net Exp. (B)	Cost per Unit (B/A)
Facilities	Facilities Management and Campus Services	Net Assignable Sqft	\$24.7M	\$24.49
Acad. and Admin Student Affairs	Departments include Provost, Acad. Aff., Enrollment Mgmt, Honors College, IR, Admin. Student Affairs, and Study Abroad	Student FTE	\$22.8M	\$749.92
Central Services and Admin.	Departments include Finance and Admin., General Counsel, Human Resources, Office of the President, and Public Affairs	Total Direct Expenditures	\$13.6M	\$0.08
Information Technology	IT, Telecommunications, Enterprise Systems, Academic Computing Services, Networking & Computing Support	Total HC	\$12.6M	\$299.56
University Libraries	University Libraries	Student FTE + Faculty FTE	\$8.6M	\$272.70
Regional Campuses	Elizabethtown/Fort Knox, Glasgow, and Owensboro	Regional Campus Fac. CH	\$4.5M	\$415.79
Philanthropy and Alumni Engagement	Development, Alumni Relations, and Institutional Advancement	Total Direct Expenditures	\$4.2M	\$0.02
Research	VP Research, Sponsored Programs, Proposal Incentive, Research Start-up, Faculty Fellowship, Faculty Scholarship	Sponsored Revenue	\$1.7M	\$0.14
Graduate School	Graduate School	Graduate Student HC	\$0.7M	\$103.42

6. Central Funding Characteristics

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

	Subvention Pool	Strategy and Mission Enhancement Fund
Definition	<ul style="list-style-type: none"> A centrally-held pool of revenues to address mission-critical needs, the nature of which, are not self-funding 	<ul style="list-style-type: none"> A centrally-held pool of revenues to address university-wide priorities and revenue growth strategies
Rationale	<ul style="list-style-type: none"> Sum of the parts is not optimal for the whole; WKU needs the ability to act as one entity to achieve University-wide goals 	<ul style="list-style-type: none"> In part, the use of the central fund addresses the economic problem of the commons
Illustrative Uses	<ul style="list-style-type: none"> Ensure appropriate subsidies to meet major institutional goals Address compliance and regulatory issues as they arise 	<ul style="list-style-type: none"> Provide start-up funding for high priority academic programs Underwrite new initiatives which do not naturally fall under one unit's care
Funding Formula	<ul style="list-style-type: none"> Various funding models are used across institutions, each with pros and cons 	<ul style="list-style-type: none"> Various funding models are used across institutions, each with pros and cons

Central pools must be sufficient in size to allow institutional goals to be funded and ensure that mission-critical activities are subsidized appropriately.

6. Revenue Sources for Central Funding Pool

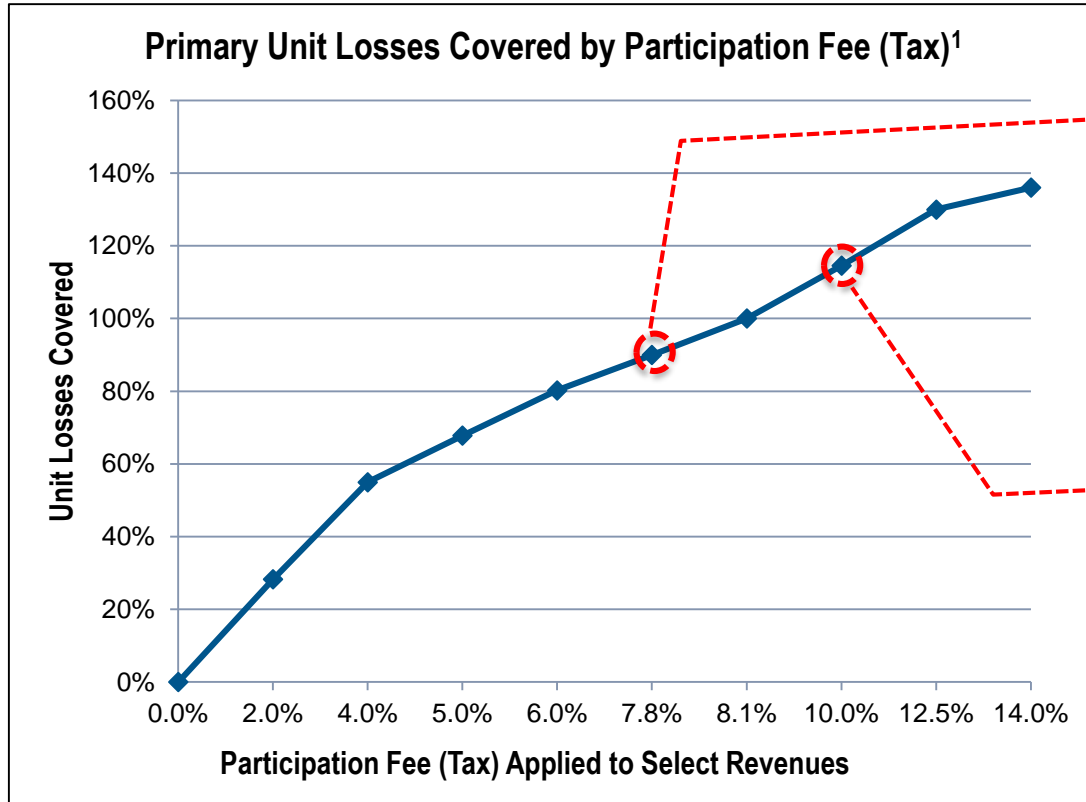
In the proposed budget model, a participation fee is applied to select revenue sources across the primary units to fund subvention and strategic initiatives. Below is a table of the selected revenues:

Revenues	Operating Revenues	SMEF Included?
Total Undergraduate Tuition	\$140,068,684	Yes
Total Graduate Tuition	\$20,115,563	Yes
DELO Tuition	\$25,938,972	Yes
General State Appropriations	\$66,562,051	Yes
Fees	\$11,150,356	No
All Other Sales & Services	\$14,007,772	No
Endowment, Investment, and Foundation Revenues	\$1,165,233	No
Direct State Appropriations	\$750,000	No
Grants, Contracts, and F&A	\$13,164,741	No
Total Operating Revenues	\$292,923,372	

The base of revenues for the participation fee represent 86% of the total operating revenues across the primary units.

6. Central Funding Levels

Using FY2017 actuals in this iteration of the model, a participation fee of 10% on select revenues ensures sufficient funding exists to cover any operating deficits after primary units have paid the participation fee, while also generating fund for strategic incentives.



Current model iteration shows that a participation fee (tax) of 7.8% on select revenues¹ is required to cover 100% of academic and auxiliary units losses.

In the current model iteration a participation fee (tax) of 10% on select revenues¹ generates enough dollars to cover all academic and auxiliary losses, and provide \$4.9MM for the strategic and mission enhancement fund (SMEF), representing 2% of the primary units operating revenues.

Note 1: In the above chart for fiscal year 2017 data, the participation fee (tax) is applied to the following revenues sources: undergraduate tuition, graduate tuition, DELO tuition, and general state appropriations.

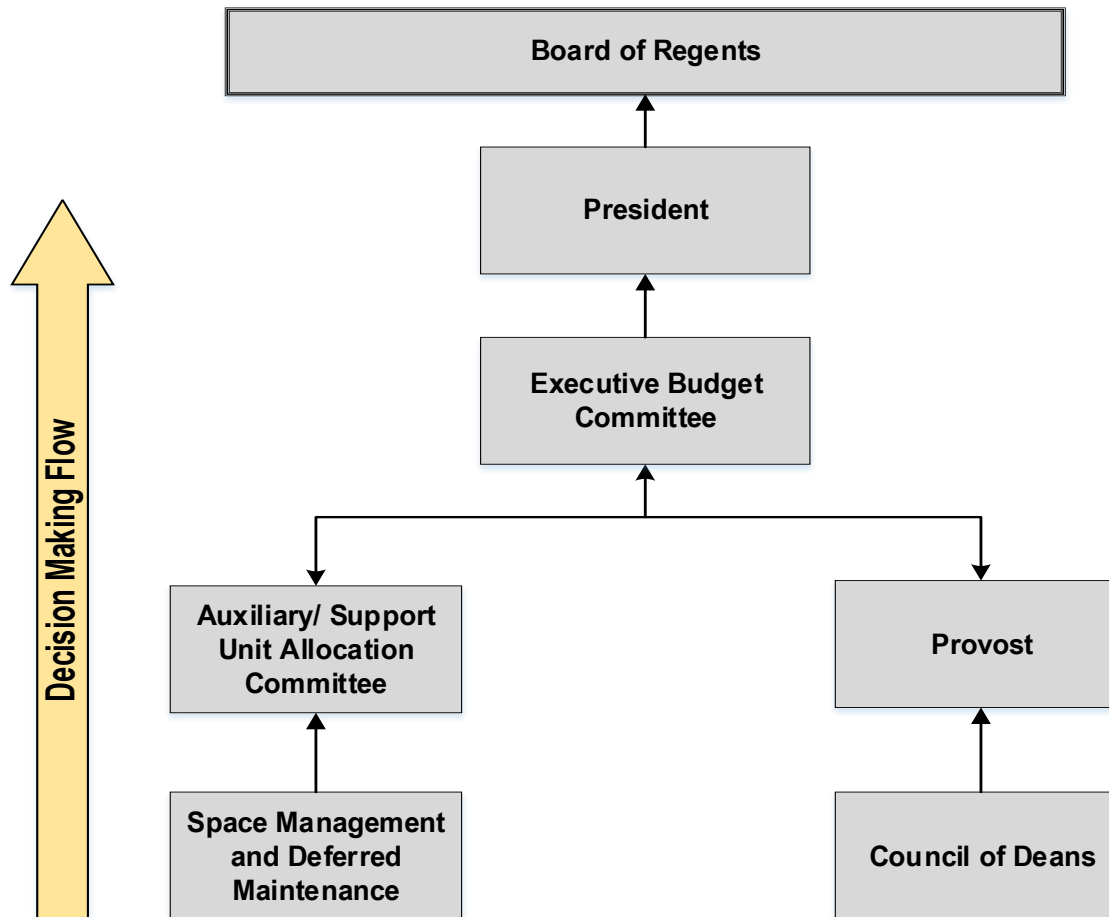
6. Year-over-Year Subvention

While subvention is set on an annual basis, Academic Unit Leadership will meet with the President/Provost/SVP for Finance & Administration to develop rolling 3-year guidance, which will prevent an annual formulaic dollar-for-dollar reduction in subvention in relation to positive margins and/or prior-year carryforwards.

- While it is expected that **the degree to which subvention occurs will generally decrease over time**, this change is **not based on a formula, but data-informed, strategic decisions**. As such, an increase in revenues would not necessarily result in a formulaic and corresponding decrease to subvention.
- **The degree to which a school is subvented is neither inevitable nor constant over time**. As the goal is to increase strategic initiatives and decrease subvention, conversations with President/Provost/SVP for Finance & Administration during the initial budget setting process will inform the proposed subvention requirements over a rolling 3-year timeframe.
- While agreements are subject to adjustment in the event of large, external shifts to anticipated revenues (state funding cuts, tuition freezes, etc.), **rolling subvention plans provide time for deans to realize multi-year growth and cost reduction strategies** without substantial changes in subvention.

Illustrative Governance Structure

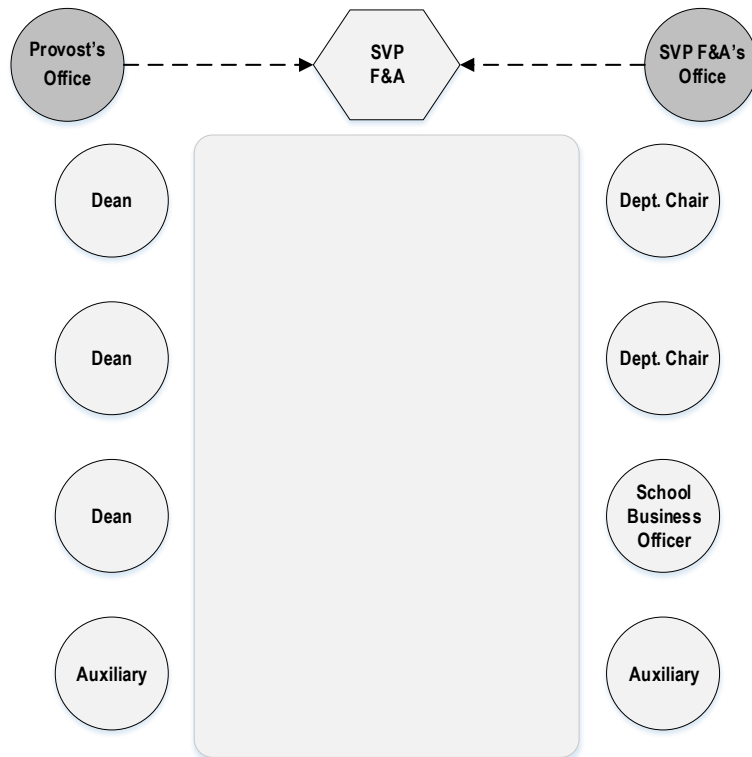
In the annual budgeting process, central leadership, primary units, support units, and governance committees work in close coordination to optimize the use of resources to advance the mission of the institution.



Support Unit Allocation Committee

The Support Unit Allocation Committee typically meets during October and November with support unit leadership to review each unit's budget proposal.

Membership



Membership can be based on official position or on staggered three to five-year terms

Potential Responsibilities¹

- Reviews the support unit's budget proposals, including strategic objectives, service level demands, and workforce plans
- Examines benchmark data, customer survey results, and performance metrics to evaluate service level effectiveness and efficiency
- Offers suggestions for performance improvement; promotes development of service level agreements between primary units and select support units
- Submits an executive summary of the unified support unit budget recommendations to the Executive Budget Committee
- Elevates the budget proposal for the Office of the SVP for Finance & Administration, and any unresolved issues, to the Executive Budget Committee

Note 1: The potential responsibilities of this committee are for illustrative purposes based on common approaches at other institutions and may be modified to meet the needs of WKU

Illustrative Scenario Planning

The table below illustrates how marginal increases in various metrics can impact a units net operating margin.

		Scenarios		
		A) 30 additional resident CH instructed	B) 30 additional resident CH consumed	C) 30 additional resident CH instructed/ consumed within College
Revenues	Rates			
UG Instruction Allocation	\$237 / SCH instructed	\$7,110		\$7,110
UG Record Allocation	\$84 / SCH consumed		\$2,520	2,520
UG Scholarship Allocation	\$0.20 / UG tuition \$ received	(1,422)	(504)	(1,926)
Appropriations Allocation	\$0.29 / Tuition received	2,062	731	2,793
Total Revenues		7,750	2,747	10,497
Direct Expenditures				
Adjunct Hire (0.5 FTE)	\$3,500 per 30 CH instructed	3,500		3,500
Central Unit Allocations				
Central Services and Admin	\$0.08 / \$ direct expenses	280		280
University Libraries	\$272.70 per FTE	545		545
Philanthropy and Alumni Engagement	\$0.02 / \$ direct expenses	70		70
Central Unit Allocations		895		895
Subvention Fund Participation	10.00%	917	73	1,242
Net Margin		\$2,437	\$2,674	\$4,859

Model's Impact on Decision Making

Incentive-based models have the potential to materially transform institutions over a five to ten-year period as they change the culture of decision making.

- **Executive Leadership:** removes the luxury of “all things to all people” by forcing difficult decisions
 - Institutions understand Colleges and Schools are creating and using resources
 - Allocations reflect the University's mission and act as “value judgements” for institutional units
- **President, Provost and SVP for Finance & Administration:** force clarity regarding priorities and strategic initiatives
 - Through the design of incentives, priorities have meaning and produce funding for local units
 - Full transparency in how resources are used to promote strategic initiatives
- **Deans:** understand the full cost of activities (academic programs, research, etc.) and prioritize them through cross-subsidies between their revenue generating activities and their mission-driven activities
 - Program growth is no longer a question of simply “doing more with less”
 - Promotes understanding that research activities lose money and require investment
- **Support Units:** connect service levels and resource levels
 - Support unit budgets must be justified and paid for by revenue producing units, which introduces enhanced accountability and perhaps competition
- **Department Chairs and Faculty Members:** see how activities drive funding for their respective units
 - Incentivize innovation in the classroom, much like incentives for innovation in research
 - Drive “trade-off” conversations and proactive prioritization

Implementation Timeline

The implementation timeline should leverage current momentum while providing time for additional engagement, infrastructure development, and training.

	FY 18 (July 17 – June 18)				FY 19 (July 18 – June 19)				FY 20 (July 19 – June 20)				FY 21 (July 20 – June 21)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Suggested Implementation Timeline			Budget Model Development		Parallel Year/Hold Harmless Year + Infrastructure Development				"Live" Model (Year 1)				"Live" Model (Year 2)			

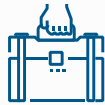
Rationale for suggested implementation timeline:

- Accelerated implementation timeline allows benefits of the model to be realized sooner
- Attempts to avoid budget model redesign fatigue
- Maintains project momentum by offering immediate reward and risk to primary units

Implementation Timeline

Recommended next steps towards implementation are outlined below, with today's Retreat representing the culmination of Stakeholder Engagement.

Task	Description	Status
Due Diligence and Visioning (~ 6 Weeks)	<ul style="list-style-type: none"> Evaluate the University's approach to resource allocation, planning, and management Assessment of budget model alternatives and an evaluation of the techniques utilized by other institutions 	Complete
Financial Modeling (~10 Weeks)	<ul style="list-style-type: none"> Build-out a pro forma market based budget model, using financial data from fiscal year 2017 Develop a model to provide executive stakeholders the opportunity to change assumptions and allocation algorithms for an understanding of the strengths of various incentives and the identification of unintended consequences 	Complete
Stakeholder Engagement (~18 Weeks)	<ul style="list-style-type: none"> Continued stakeholder consensus building, engagement, and education to develop a well-defined "WKU Model" Includes steering committee meetings, deans meeting, department meetings, and one-on-one sessions with key leaders Ensure that stakeholders begin to own the new model and acknowledge its potential for success 	Underway
Infrastructure Development (~12 – 16 Weeks)	<ul style="list-style-type: none"> Establishment of governance structures and implementation roadmap Continued development of model and support tools; expand model to include FY17 and FY18 budget Support administrative and service units to help ensure they are optimally positioned to operate in new model 	Underway
Parallel Process/ Hold Harmless (1 Year)	<ul style="list-style-type: none"> Resource decisions follow the historical model, yet the structure is in place for the redesign model Concurrent process helps ensure deans and business managers deeply understand the changed environment Incorporate more formalized model training for relevant stakeholders Tweaks to allocation methods may be incorporated if any material issues arise 	Forthcoming



550 W Van Buren St #1700, Chicago IL, 60607



(312) 583-8700



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