

Resource Allocation, Management, and Planning Steering Committee #1



Agenda

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

Our goals for this discussion include:

- Introduce Huron’s project team
- Confirm our understanding of your needs
- Review project approach
- Discuss industry trends and other resource allocation discussion topics
- Facilitate discussion of WKU resource allocation redesign elements
- Facilitate discussion of guiding principles
- Discuss next steps
- Questions

Project Team



Andrew Laws,
Managing Director

alaws@huronconsultinggroup.com

- **Experience:** 15+ years
- **Focus Area:** Andrew has helped more than 45 universities optimize institutional resources through financial modeling and budget planning initiatives; revenue enhancement and cost reduction initiatives; and organizational assessment and business process redesign initiatives.
- **Recent Clients:** University of Denver, University of St. Thomas, University of Wyoming, University of Virginia, Auburn University, University of North Dakota, University of Kentucky



Matt Smith,
Project Director

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- **Experience:** 15+ years
- **Focus Area:** Matt has worked on a variety of finance-related projects, which include budget model redesign, capital planning, business process reengineering, financial report development, strategic planning, fund balance analysis, endowment spending research, and program cost analysis.
- **Recent Clients:** University of Colorado Denver, University of North Carolina, University of North Dakota, Purdue University



Victor Canestrini,
Project Manager

vcanestrini@huronconsultinggroup.com

- **Experience:** 5 years
- **Focus Area:** Victor has experience supporting academic institutions with financial management, chart of accounts optimization, financial report development, resource allocation, academic portfolio management, and performance improvement initiatives.
- **Recent Clients:** Arkansas State University System, University of the Pacific, University of North Carolina, University of Pennsylvania Health System



Doug Priest,
Subject Matter Expert

priest@indiana.edu

- **Experience:** 40+ years
- **Focus Area:** Doug was Associate Professor Emeritus at Indiana University-Bloomington in the Department of Education Leadership and Policy Studies. Doug has held several roles at IU, including Special Advisor to the Chancellor, Senior Associate Vice President for Finance, and Executive Associate Dean for Budgetary Administration and Planning, among others. Doug is the co-author of Incentive-Based Budgeting Systems in Public Universities and various other published works.



Gauree Patel,
Project Consultant

gpatel@huronconsultinggroup.com

- **Experience:** 2 years
- **Focus Area:** Gauree has supported academic institutions on a variety of projects, which include budget assessment, clinical trial financial management assessment, research billing compliance, and operational assessment.
- **Recent Clients:** Dartmouth College, University of South Alabama, University of Florida, Children's Mercy Hospital

Huron's Understanding of Your Needs

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.

Huron understands that WKU is in a period of change, and that in the last year, the University:

- Appointed a new university president (predecessor served for 20 years)
- Commenced the development of a new strategic plan under the guidance of the new president

Huron understands that WKU is looking for a strategic partner to:

- 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 Approach

Steering Committee

The Steering Committee will act as a decision-making resource that can speak and act on behalf of the campus. The primary role of the Committee is to provide guidance for this initiative, to review project status reports, and to validate the opportunities presented.

| Name | Title |
|----------------------|----------------------------------------------------------|
| Dr. David Lee | Provost and Vice President for Academic Affairs |
| Ann Mead | Senior Vice President for Finance and Administration |
| Dr. Larry Snyder | Dean, Potter College of Arts and Letters |
| Susann DeVries | Dean, University Libraries |
| Dr. Beth Laves | Associate Vice President, Extended Learning and Outreach |
| Dr. Michelle Trawick | Associate Dean, Gordon Ford College of Business |
| Dr. Greg Arbuckle | Associate Dean, Ogden College of Science and Engineering |
| Dr. Evelyn Ellis | Regional Chancellor, Elizabethtown |
| Dr. Sylvia Dietrich | Director of the School of Teacher Education |
| Brian Kuster | Vice President for Student Affairs |
| Teresa Oliver | Manager Budgets and Resources, University College |
| Deidre Greene | Budget Coordinator, College of Health and Human Services |
| Kim Reed | Assistant Vice President for Resources Management |
| Ladonna Hunton | Associate Vice President, Budgets and Administration |
| Dr. Robert Dietle | University Senate representative |
| Greg Hackbarth | Staff Council representative |

Project Approach

Huron's approach to accomplishing the project goals consists of the following activities to be executed over a 20-week period:

| Workstream | Week→ | 1-5 | 6-10 | 11-15 | 16-20 | | | | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------|--------|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|--------|--------|--|
| Current State Assessment <ul style="list-style-type: none"> Assessment of the strengths and weaknesses of WKU's current approach to resource allocation | | [Work Stream] | | | | | | | | | | | | | | | |
| Data Review <ul style="list-style-type: none"> Organize, interpret, and analyze financial and activity-level data | | [Work Stream] | | | | | | | | | | | | | | | |
| Initial Model Build <ul style="list-style-type: none"> Develop guiding principles, model framework, and structure | | [Work Stream] | | | | | | | | | | | | | | | |
| Stakeholder Engagement <ul style="list-style-type: none"> Engage academic deans, business officers, and additional stakeholders | | | | [Work Stream] | | | | | | | | | | | | | |
| Model Refinement <ul style="list-style-type: none"> Review feedback, discuss with Committee, and determine what refinements are needed | | | | [Work Stream] | | | | | | | | | | | | | |
| Model Training <ul style="list-style-type: none"> Review of the model framework, design, functionality, and calculations | | | | | | | | | | | | | | [Work Stream] | | | |
| Steering Committee Meetings | | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | [Star] | |

 Work Stream

 Steering Committee Meeting

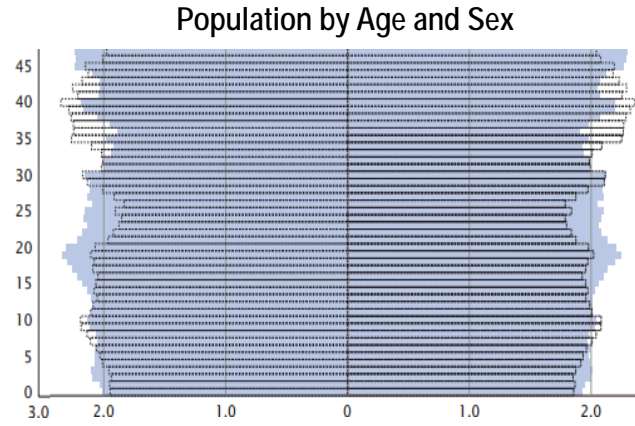
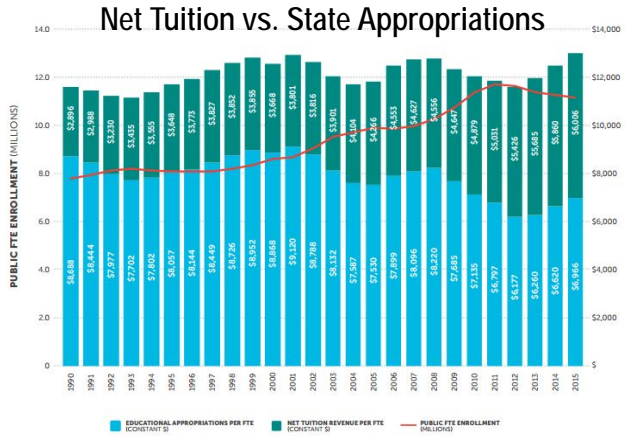


Industry Trends and Discussion

Higher Education: Changing Landscape

As WKU considers a new budget model, it is important to recognize a number of persistent trends that are driving institutions to think differently about their business models and approaches to resource management.

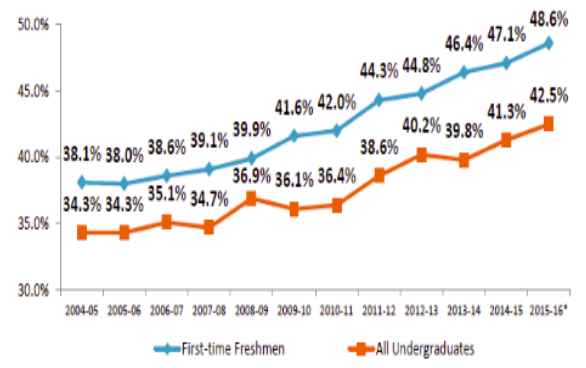
1 Shift in cost of education: in 1991 individuals only covered 26% of the total cost. Today that number has increased to 47%.



2 Demographic declines in traditional college age students (7-year age decline; smaller cohort than 2000)

3 Increased price along with decreased demand have resulted in continued increases in discount rates and financial aid.

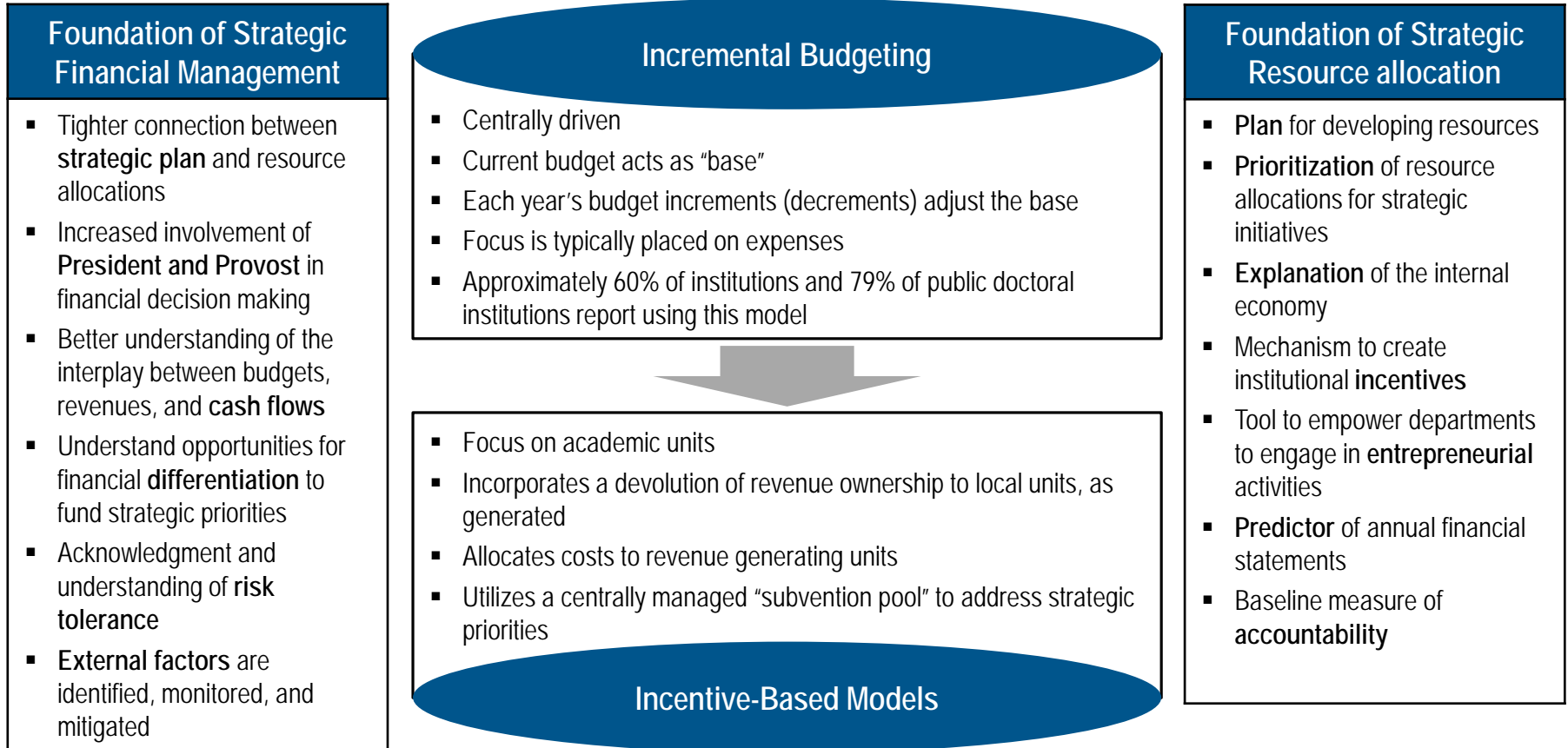
Avg. Private Institution Tuition Discount Rate



While these trends are creating challenging fiscal environments for institutions, in many instances, they are helping institution leaders drive change through an increased stakeholder willingness to change.

Changing Business Models

These trends are driving more and more institutions to look at ways to change their business models and close to 50% of institutions have reported changing their approach to resource allocation in the last four years¹.



While incremental models remain the most common, the majority of institutions adopting new budget models are opting for modified decentralized models of “highly centralized, decentralized models”.

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 resources, 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 four years with 35% of those who have not changed their institutions model planning to do so
 - 21% of those surveyed say their institution uses a Responsibility-Centered Management (RCM) budget 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

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**



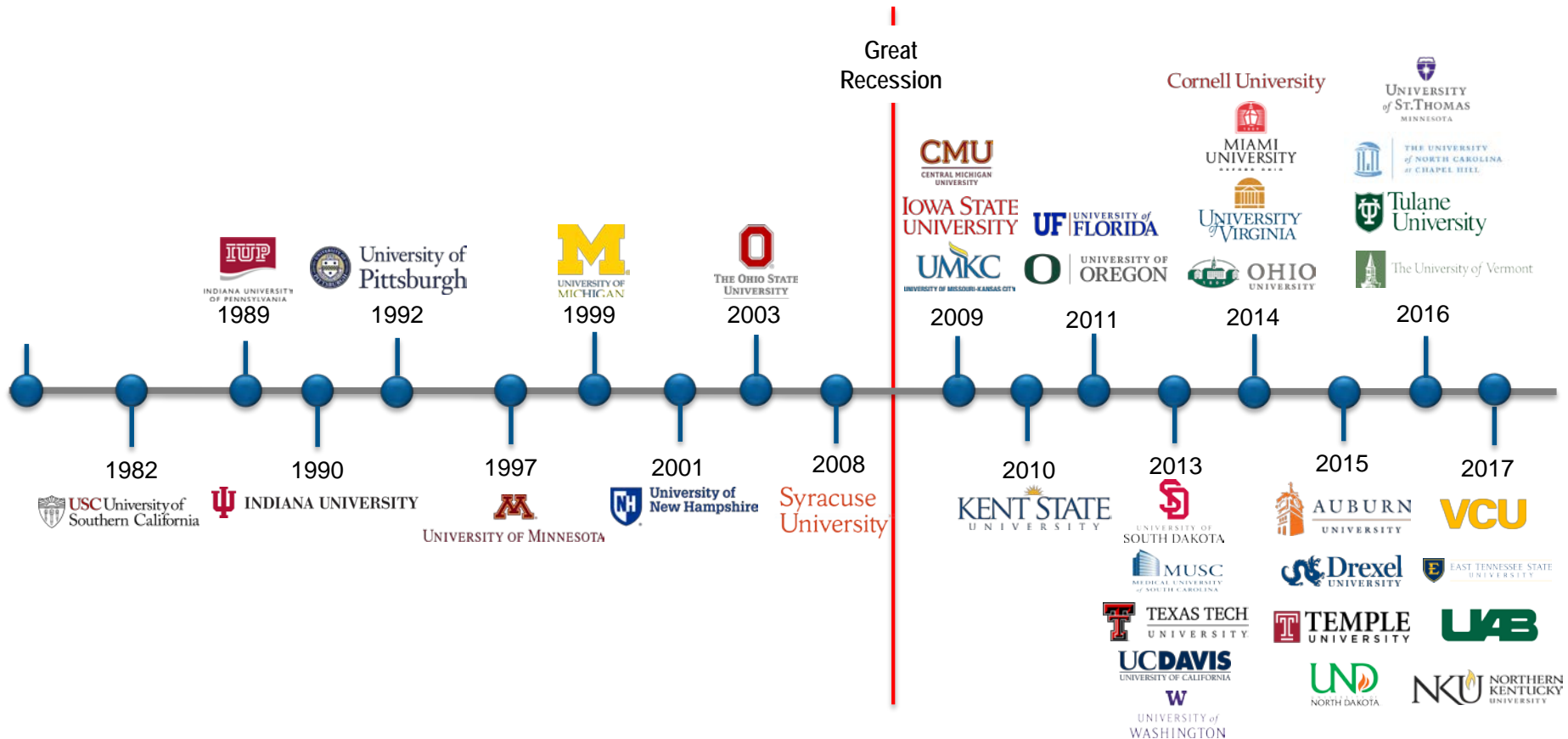
Strategic Resource Allocation

- **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.

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.

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 Models¹

| 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 • Approximately 60% of institutions and 79% of public doctoral institutions report using this model | <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) • Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model | <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%) • Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model | <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) • Approximately 14% of all institutions and 21% of public doctoral institutions use an incentive-based model |

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

Spectrum of Incentivized Models

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

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

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.



Resource Allocation at WKU

Benefits of Effective Resource Allocation

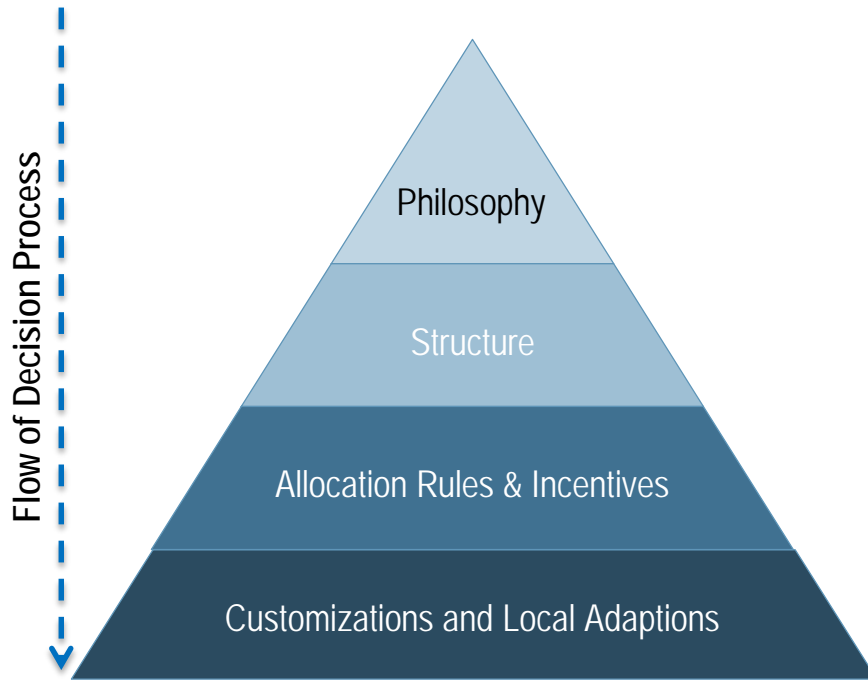
As a campus explores potential changes to its resource allocation model, it is important to maintain its focus on the benefits of effective resource allocation.

- **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.

Elements of Model Development

Effective resource allocation 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 is needed among model development leaders prior to moving forward with implementation.

Resource Allocation Model Decision Points (1 of 2)

For a resource allocation process redesign, the Steering Committee typically considers a broad set of critical decisions, which should be informed through ongoing conversations with academic leadership.

1. **Model Philosophy:** What principles should guide the University's desired approach for financial management? How closely should the model reflect economic reality?
2. **Model Structure:** How should operational units be classified and treated (e.g. college/school, administrative & support units, research centers and institutes, and auxiliaries) within the model?
3. **Tuition Allocation:** What is the appropriate balance of allocating tuition on the basis of instructed credit hours versus department enrollments?
4. **State Appropriation Allocation:** What activities (e.g. instruction, advising, research) should be supported through the allocation of state appropriations?
5. **Research Support:** How should growth and increased quality of the research enterprise be promoted and subsidized?
6. **Cost Pools:** How many cost pools should be created? How much detail should be made available on administrative overhead costs?

Resource Allocation Model Decision Points (2 of 2)

7. **Cost Allocations:** What metrics should be used to allocate administrative overhead costs to revenue-generating units?
8. **Scholarships, Aid and Waivers:** What types of financial aid and scholarships should be charged directly to colleges/schools and what should remain as a central cost?
9. **Subvention Funding:** What should be the size of the subvention (strategic investment) pool? How should it be funded, and how should strategic investments be allocated back to the institution?
10. **Model Sensitivity:** How responsive should the model be to one-year changes in institutional activity? For example, how long should changes in enrollment, instruction, or research activity take to affect model allocations?
11. **Model Infrastructure:** Does the institution currently have the professional and technological resources to manage a sophisticated, decentralized model? What additional investments are necessary?
12. **Model Governance:** What stakeholder group will have ultimate authority for annual resource allocation system operations? Who will influence changes to the model ruleset and who will govern committees that address concerns related to administrative service delivery, space management, academic quality, etc.?


Effective Resource Allocation Model Redesign

While no two resource allocation 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 resource allocation 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” via individual 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.



Guiding Principles and Resource Allocation Questions

WKU's Current Resource Allocation Model

Developing a crisper understanding of WKU's current resource allocation model/context will provide important framing for our conversation about budgeting objectives and alternative models.

- How inclusive is the resource allocation process of all funding sources?
- Who is involved in the annual resource allocation process? (Deans, committees, faculty, etc.)
- What incentives are created by/absent from WKU's current resource allocation process?
- Are budget units held accountable for meeting the expectations governing the funding they receive, and if so, how?
- What is a challenge or barrier you experience during the current resource allocation process?
- Are financial and other data considered to have high levels of integrity?
- What are the thoughts surrounding revenue distribution of generated tuition revenues?

What other context is important for Huron to know in order to fully understand why WKU is considering a redesign initiative for their current resource allocation model?

Discussion of Guiding Principles

The selection of model variations should ideally be informed by a set of guiding principles that are used to communicate a model's objectives.

- How should WKU frame resource allocation decisions?
- What role should college and school leaders have in the resource allocation process?
- What do you envision as the optimal outcome of this initiative?
- What is the most significant challenge/barrier anticipated?
- What resource allocation trends are most important to WKU?
- How does this group think about funding central initiatives and/or priorities?
- What information do you as campus leaders need for optimal decision making?

Huron recommends that guiding principles be concise, reinforce the institutional mission, and invoke a positive tone.

Common Elements of Guiding Principles

The following elements are commonly found in a principles-based approach to model development because, collectively, they ensure that financial management reflects institutional priorities.

| Element | Task |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mission | Assure key stakeholders the University is committed to its core academic and research mission and that the budget model is merely a tool to facilitate this mission |
| Strategy | The strategic plan is an articulation of University goals, and resource allocations should align and support institutional strategy |
| Stakeholders | Articulate the importance of the budget process to institutional stakeholders and their decisions about resource prioritization |
| Future | Focus on the reality that the budget model is not a zero-sum game, but that it is an opportunity to strengthen the university through win-win opportunities and outcomes |
| Transparency | The model should provide full transparency, both with respect to what decisions are made, as well as why those decisions were made |
| Authority / Responsibility | The core of incentive-based models are ensuring the alignment of authority for financial management decisions and responsibility for those decisions (e.g. feedback loops and responsiveness) |
| Balance | Balance and compromise may be required with respect to many model elements, for example, central vs. local services and economic reality vs. simplicity |
| Rewards / Entrepreneurship | The principles should support a culture of rewarding performance and entrepreneurial behavior |
| Matching | Matching should be incorporated to ensure revenues are aligned with the expenses incurred to generate them, not for a profit motive, but so clarity is given to institutional subsidies |
| Simplicity | The model and processes should be simple to use, explain and maintain |
| Mission | Assure key stakeholders the University is committed to its core academic and research mission and that the budget model is merely a tool to facilitate this mission |

Sample University 1: Liberal Arts

Sample guiding principles for a liberal arts university:

1. Support the academic mission of the University by closely aligning resource allocations with university priorities and expectations of academic excellence
2. Support strong academic governance that connects with the University strategic plan.
3. Promote a holistic view of the University that underscores a student focus, inter-connections amongst departments, and a systemic perspective.
4. Provide a clear connection between performance and rewards to deans and academic department heads.
5. Promote fiscal trust, responsibility, accountability, and transparency.
6. Demand a reliable trusted data source to provide sound data-driven analyses for decision making.

Sample University 2: Research

Sample guiding principles for a research university:

1. Encourage planning that supports and aligns with the University's strategic mission of instruction, research and public service.
2. Provide leadership with incentives for effective management of both revenues and expenses, and reward creativity and innovation.
3. Increase accountability through enhanced visibility, forecasting and planning.
4. Allocate resources through a consistent and fair methodology.
5. Be transparent and easily understandable.
6. Promote responsible decision making.



Next Steps

Moving Forward

In order to ensure that WKU's resource allocation redesign continues in an optimal direction, Huron proposes the following next steps:

1. Conduct current state interviews with stakeholders
2. Inventory interview themes and implications for new budget model
3. Begin to organize, interpret, and analyze financial and activity-level data
4. Develop working draft of guiding principles for new model
5. Begin building resource allocation model framework and structure
6. Reconvene at Steering Committee #2 on 2/20



Questions?



Appendix

Common Transition Challenges

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

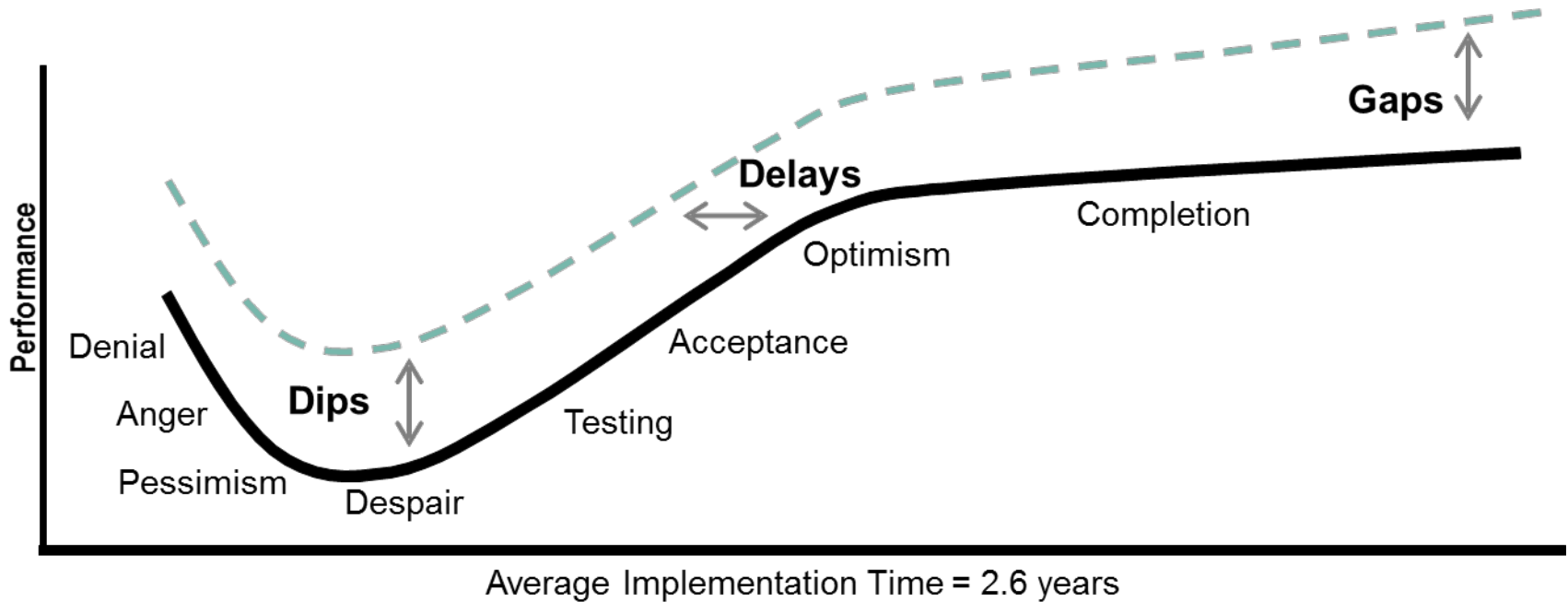
Common Criticisms/Challenges

- 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 to help alleviate the challenges associated with change.

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

Recent Higher Ed Budget Redesigns (1 of 3)






Unique contexts have led to a number of recent budget initiatives a review of initiative rationales shows common budget review themes behind many of these efforts:

- Change nature of decision making
- Adopt a more methodical approach
- Increase transparency
- Promote incentives to influence growth






| Institution | Reasons for Redesign | Implementation Date |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
|  VCU <small>VIRGINIA COMMONWEALTH UNIVERSITY</small> | <ul style="list-style-type: none"> ▪ Enable departments, schools, and the college to adopt entrepreneurial spirit and take calculated, well-informed risks to advance and support VCU's goals. ▪ Support academic planning with transparent resource decisions. ▪ Enhance VCU's commitment to accountability and integrity. | In Progress (Projected 2017) |
|  Tulane University | <ul style="list-style-type: none"> ▪ Promote funds flows consistent with Tulane's mission and strategic priorities ▪ Create clear and appropriate connections between desired performance and rewards, with appropriate accountability measures and flexibility ▪ Be transparent, understandable, and predictable | Projected 2016 |
|  <small>THE UNIVERSITY OF</small> MEMPHIS | <ul style="list-style-type: none"> ▪ Model redesign effort was prompted, in-part, by a decline in enrollment, a loss of state appropriations, and a loss of central stimulus dollars ▪ Goal was to design a more responsive and responsible approach to resource management, allocation and planning | Projected 2016 |
|  NKU <small>NORTHERN KENTUCKY UNIVERSITY</small> | <ul style="list-style-type: none"> ▪ Allocate resources in a manner that aligns with the University's core mission and strategic priorities ▪ Model to promote student success, stimulate strategic growth, encourage innovation and entrepreneurship, and support transdisciplinary and institutional excellence | Projected 2016 |

The University of South Carolina changed its budget model to a VCM in 2003, which persisted until 2011.

Recent Higher Ed Budget Redesigns (2 of 3)

| Institution | Reasons for Redesign | Implementation Date |
|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
|  | <ul style="list-style-type: none"> Approach to resource allocation must enhance decision-making and match strategy, not history Assist with prioritization of activities and provide a methodologically sound basis for funding levels Increase stakeholder authority, responsibility, and accountability and shift focus to long-term planning | 2015 |
|  Cornell University | <ul style="list-style-type: none"> Align revenue streams to the colleges in support of their instructional mission Direct tuition to colleges based on their teaching activities Implement a cost pool system that assigns colleges the costs for support services | 2015 |
|  | <ul style="list-style-type: none"> Distribute revenues and address costs in ways that are consistent, coherent, and transparent across colleges and units Allow the university to think and make decisions collectively Bring clear understanding of the university's finances and expenses | 2015 |
|  | <ul style="list-style-type: none"> Make it easier to translate strategic goals into management and operating plans Create stronger incentives for revenue growth and cost management at the college level Increase transparency into budget decisions, enhance stewardship of funds, and provide incentives for academic innovation | 2015 |
|  | <ul style="list-style-type: none"> Incentivize schools and departments to strive for excellence in teaching, research & service Emphasize transparency and access to information that can lead to efficiencies and encourage multi-year strategic planning and alignment of resources with top priorities Decentralize responsibility and involve more faculty in budget and planning decisions | 2015 |
|  | <ul style="list-style-type: none"> Ensure that resource management, planning and allocation aligns with the University's mission of teaching, research, creative activities, and service Provide incentives for promoting flexibility, efficiency, innovation, and entrepreneurship through the use of data based decision making | 2015 |

Recent Higher Ed Budget Redesigns (3 of 3)

| Institution | Reasons for Redesign | Implementation Date |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
|  | <ul style="list-style-type: none"> Position academic units to rationally compete for resources and discuss the appropriate balance between academic and non-academic resource allocation Encourage decisions based on current and future needs rather than past assumptions | 2014 |
|  | <ul style="list-style-type: none"> Increase the self-reliance of schools and other major units Provide greater transparency and awareness of the implications and costs of academic and service choices Support the development and pursuit of academic priorities defined by deans and faculty by matching up authority with responsibility | 2014 |
|  | <ul style="list-style-type: none"> Institute a fundamental change to the university's budgeting approach which had become excessively complex and riddled with rules Develop a philosophy of budgeting and financial management to clarify incentives Enable entrepreneurship and improve financial stewardship | 2013 |
|  | <ul style="list-style-type: none"> Advance the university's vision (align funding to institutional priorities) Provide assurance of reasonable reserves, oversight, and potential direct benefit for those units willing to engage in responsible risk-taking Support transparency and acknowledge the need for simplification | 2013 |
|  | <ul style="list-style-type: none"> Increase incentives and ensure financial rewards are linked directly to strategic goals To give more control to individual colleges and to encourage colleges to try new methods To focus on how to better engage with the university's mission | 2013 |



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