

Resource Allocation, Management, and Planning Steering Committee #10



Agenda

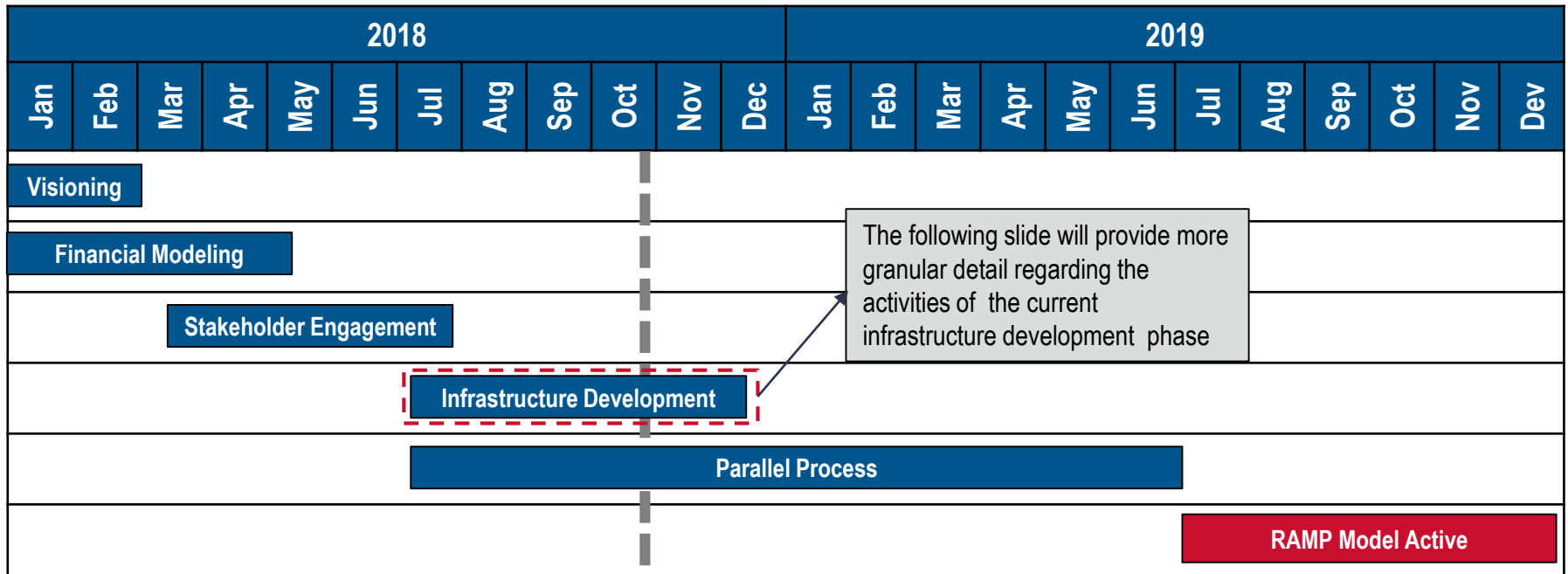
Huron is pleased to partner with WKU on this resource allocation, management, and planning (“RAMP”) initiative.

Our goals for today’s meeting includes:

1. Review project timeline and plan
2. Discuss model updates and participation fee analysis
3. Recommend new carryforward policy
4. Outline next steps

RAMP Redesign Timeline

Since the initiative started 9 months ago, Huron has met with 75+ stakeholders to ensure the RAMP model meets campus needs. The current phase of the engagement is part of a broader five-phase approach necessary for a successful RAMP process 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	Test a new model to understand outcomes if the new model were implemented.

Current Phase Project Plan

The project plan for the current phase of this engagement structures primary activities into overlapping work streams that take place over a 14-week period.

Workstream	Week →	30-Jul	6-Aug	13-Aug	20-Aug	27-Aug	3-Sep	10-Sep	17-Sep	24-Sep	1-Oct	8-Oct	15-Oct	22-Oct	29-Oct	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Develop Governance Structures • Develop initial governance structures, charges and membership			█													
Propose New Annual Budget Process • Identify roles, responsibilities, and develop a schedule of activities for each “budget actor”			█													
Engage Auxiliary and Support Unit Leadership • Meet with Auxiliary and Support Unit Leadership to review the model		█											█			
Model Expansion: Budgeted Financial Data • Expand the budget model to include FY2018 and FY2019 budgeted data		█ FY19 Model Development								█ FY18 Model Development						
Department Chair Meetings • Review university wide model and scenario reports with Department Chairs								█								
Model Training and Expansion • Train WKU Budget Office to build the FY2018 actuals financial model					█											
Steering Committee Meetings							★				★			★	★	



MODEL UPDATES AND PARTICIPATION FEE ANALYSIS

Model Updates

Since the previous Steering Committee meeting, Huron has made the following key updates to the FY17, FY18, and FY19 models:

- Reclassified additional WKU Public Radio expense from Information Technology to Central Services and Administration
- Moved the centrally budgeted carry forward within the FY19 budget to a below-the-line revenue item
- Allocated the FY19 budgeted structural deficit of \$5,230,300 to all units based on their proportional share of direct expenditures for illustrative purposes
- Reclassified graduate fellowships to the academic units based on their historical share of directly assigned graduate fellowships
- Allocated DSU student fees to the auxiliary units responsible for paying the debt service

Participation Fee Characteristics

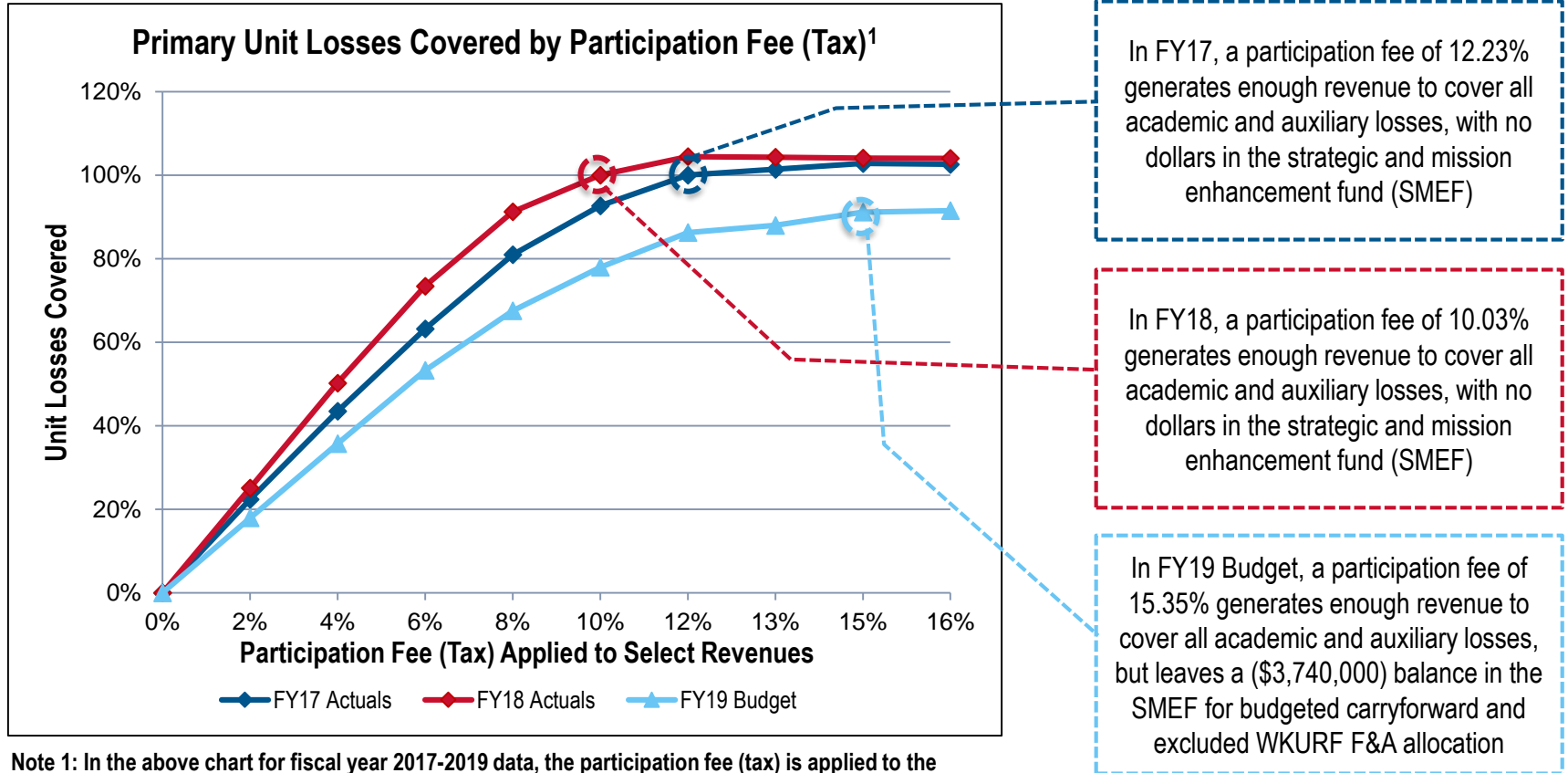
Within incentive-based models, universities typically assess a participation fee on select revenues to allocate dollars to support two central funding mechanisms, each with distinct roles.

	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.

Central Funding Levels

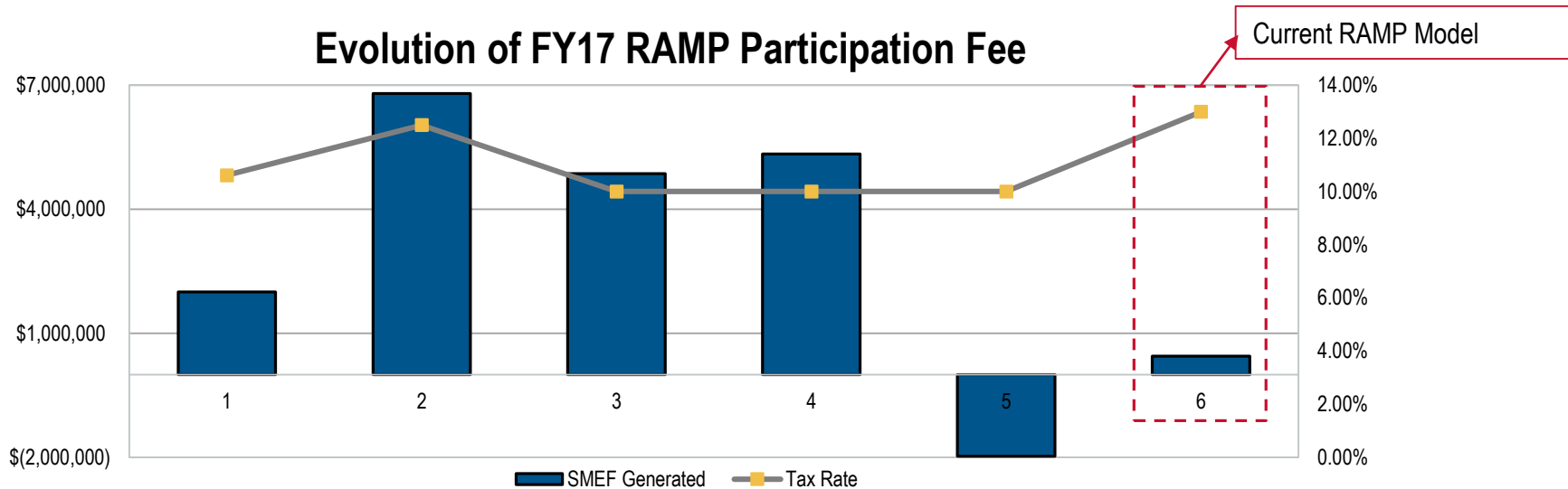
A participation fee of 13% on select revenues ensures sufficient funding exists to cover any operating deficits after primary units have paid the participation fee, while also generating funding for strategic incentives.



Note 1: In the above chart for fiscal year 2017-2019 data, the participation fee (tax) is applied to the following revenues sources: undergraduate tuition, graduate tuition, DELO tuition, and general state appropriations.

Evolution of RAMP Participation Fee

As changes to the model have been made through the iterative process of model development, alternative participation fee rates have been needed to provide sufficient central funding.



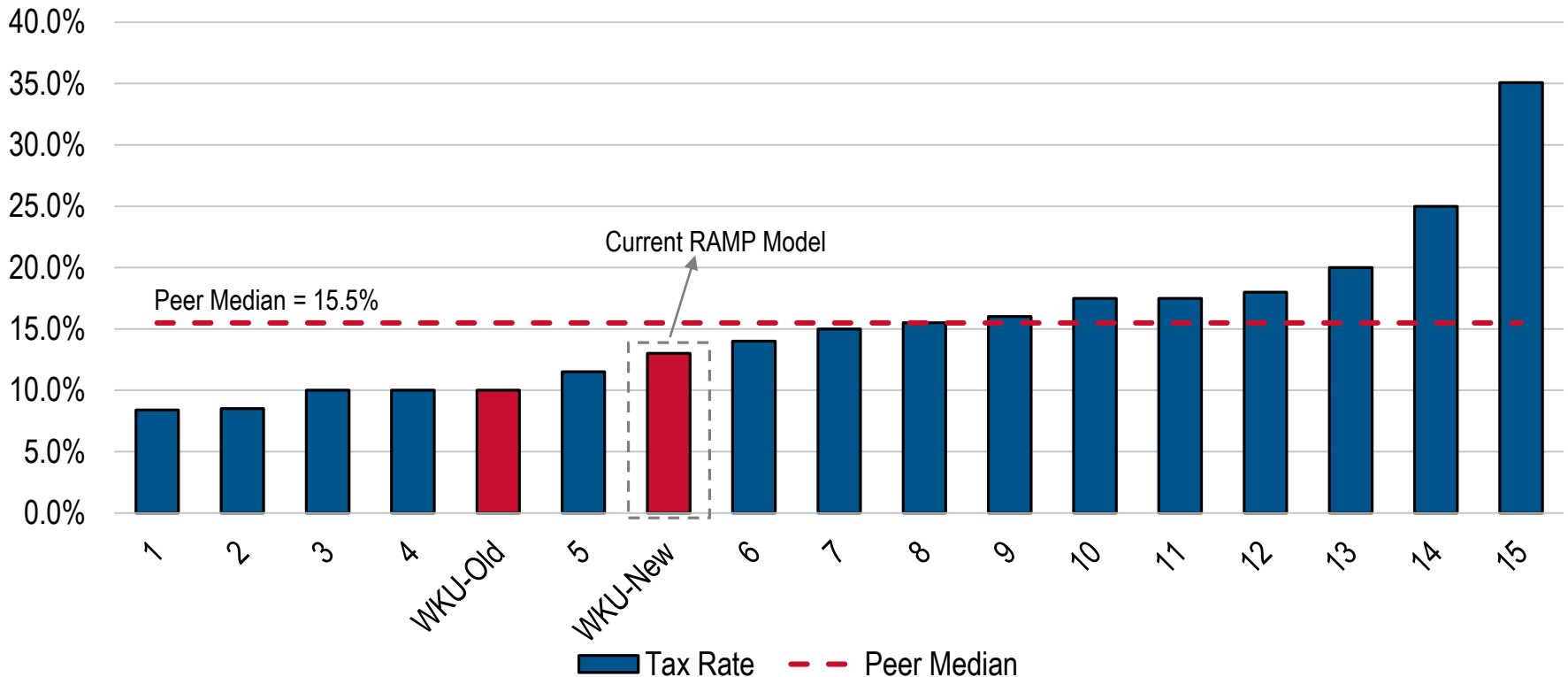
#	Model Version	PF Rate	SMEF Generated
1	Baseline Model Meetings	10.61%	\$ 2,000,000
2	Customized Model Meetings	12.50%	\$ 6,798,284
3	Deans Retreat	10.00%	\$ 4,860,138
4	Department Chair Meetings	10.00%	\$ 5,340,167
5	Steering Committee #9 Meeting	10.00%	\$ (1,971,062)
6	Steering Committee #10 Meeting	13.00%	\$ 449,206

Based on the updates that have been integrated into the model, it may be necessary for the University to increase the participation fee to adequately subvene all primary units.

Participation Fees at Other Universities

It is helpful to examine the participation fee rate in comparison to other institutions that have moved to similar incentive-based models.

Participation Fee Benchmarking¹



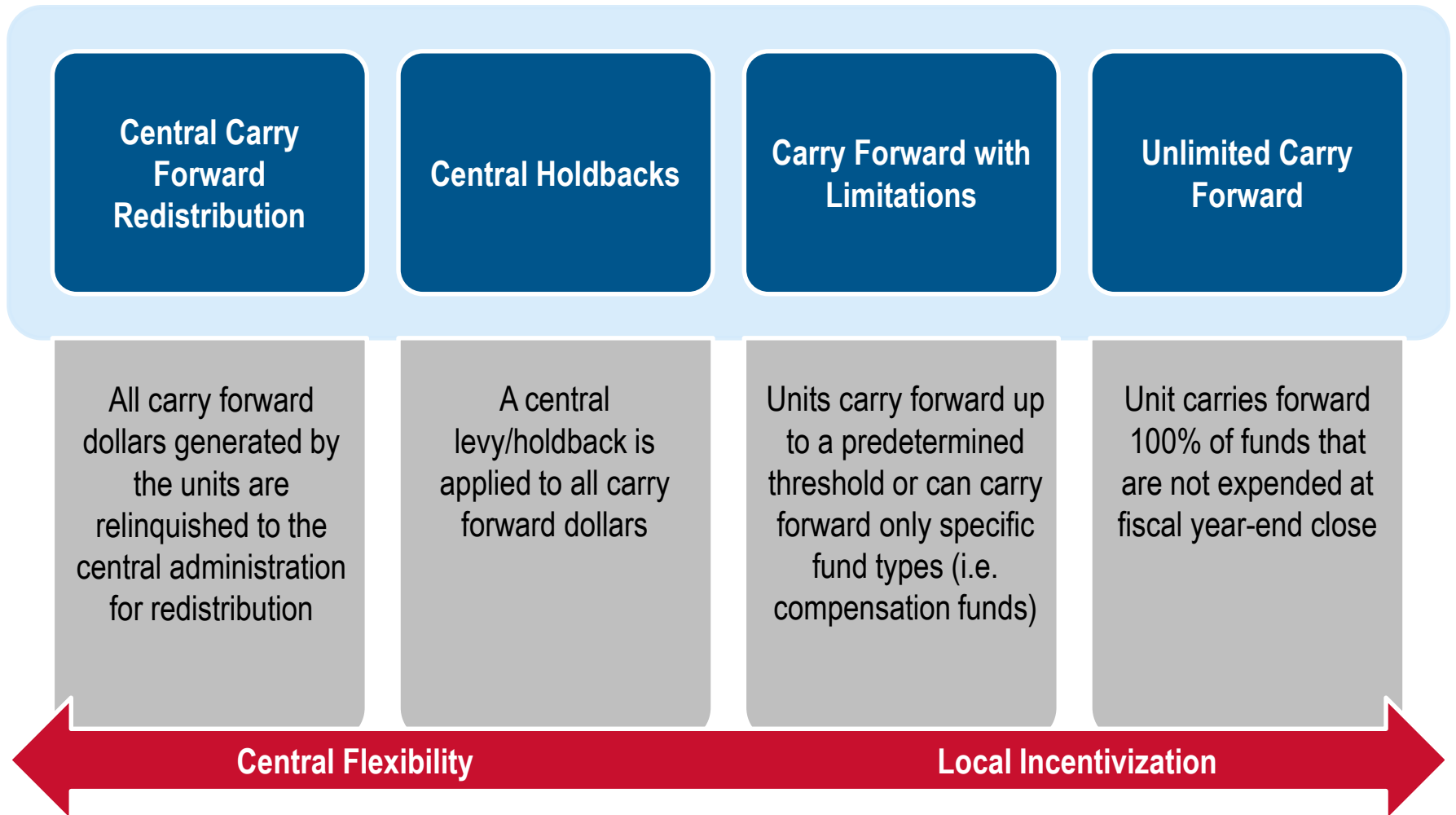
While an increase to the participation fee may be necessary, a 13% rate is still below the median rate when compared to other universities.

Note 1: Huron selected 15 of the most recent institutions where we have performed budget redesigns and for which we have sufficient data

CARRY FORWARD

Overview of Carry Forward Alternatives

While Huron has outlined four common approaches to the treatment of carryforward dollars, a hybrid customized policy that balances central flexibility with local incentivization should also be considered.



Carry Forward Alternatives Considerations

It is important to consider the consequences of different carryforward policies as WKU strives to develop an ideal policy that aligns with its culture and goals.

Carryforward Policies				
	Central Carry Forward Redistribution	Central Holdbacks	Carry Forward with Limitations	No Carry Forward Limits
Benefits	<ul style="list-style-type: none"> Encourages “tighter” unit budgets that can reduce opportunity costs Provost can use carry forward dollars to fund university-wide strategic initiatives VPFA can use dollars to fund capital renewal 	<ul style="list-style-type: none"> Encourages the generation of carryforward dollars for local units while still allowing predictable dollars to be produced for central administration 	<ul style="list-style-type: none"> Enhances the opportunity for units to build a carryforward reserve to cover multi-year commitments, replace equipment, and address unexpected changes in revenues and expenditures 	<ul style="list-style-type: none"> Units are more easily able to build reserves for multi-year commitments Units have the greatest incentive to generate revenue, spend wisely and implement efficiencies because they retain all savings
Considerations	<ul style="list-style-type: none"> Risk that units might make unnecessary or poorly planned expenditures near year-end close to avoid losing carryforward funds Removes opportunity for units to build a carry forward reserve for capital renewal or unexpected changes 	<ul style="list-style-type: none"> Primary units can feel that they are being “double-taxed” on dollars they generate, which can lead to frustration and spend downs of carryforward funds 	<ul style="list-style-type: none"> Specific dollar amount could change based on the unit’s budget size. Tax rate could change based on unit’s budget size 	<ul style="list-style-type: none"> Central administration will have fewer funds to tap for university-wide initiatives that enhance the common good Risk that units become too conservative, creating opportunity costs that reduce strategic investment

Carry Forward Recommendation

Developing a sound carry forward policy is an important decision needed to support an incentive-based model that can enhance planning and spending decisions across the institution.

Proposed Carryforward Policy

“Year-end balances, excluding the employee benefits of health insurance and workers compensation, will be allocated as follows: 75% returned to each division and 25% to the Strategic Incentive Fund. Any division carry forward in excess of 5% of revised budget will be allocated to the Strategic Incentive Fund”

- The Carry Forward of Year-End Funds Policy will ensure that the University has capacity to invest in strategic priorities and divisions can allocate resources based on long-term priorities
- Each division will have discretion in how it administers its carry forward funds, which will allow additional flexibility to fund multi-year commitments and contingency planning
- To ensure financial security of the self-insured health insurance and workers' compensation programs, these programs are exempt from the Carry Forward Policy

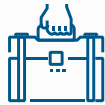
With the new clearly defined carry forward policy, Colleges and administrative units will be better able to manage multi-year commitments while also generating predictable dollars for central administration.

NEXT STEPS

Next Steps

In accordance with the current project plan, Huron proposes the following next steps:

- Finalize governance charters for the newly established committees that outlines roles, meeting frequency, and charges
- Provide FAQ document and additional RAMP website materials to be distributed to the larger campus community
- Host initial governance kick-off meeting to discuss the roles, charges, and address any questions
- Present an updated model for the Board of Regents to approve in December
- Host a third open forum to provide an additional platform to address campus questions



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