

Resource Allocation, Management, and Planning

Steering Committee #3

Executive Summary



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

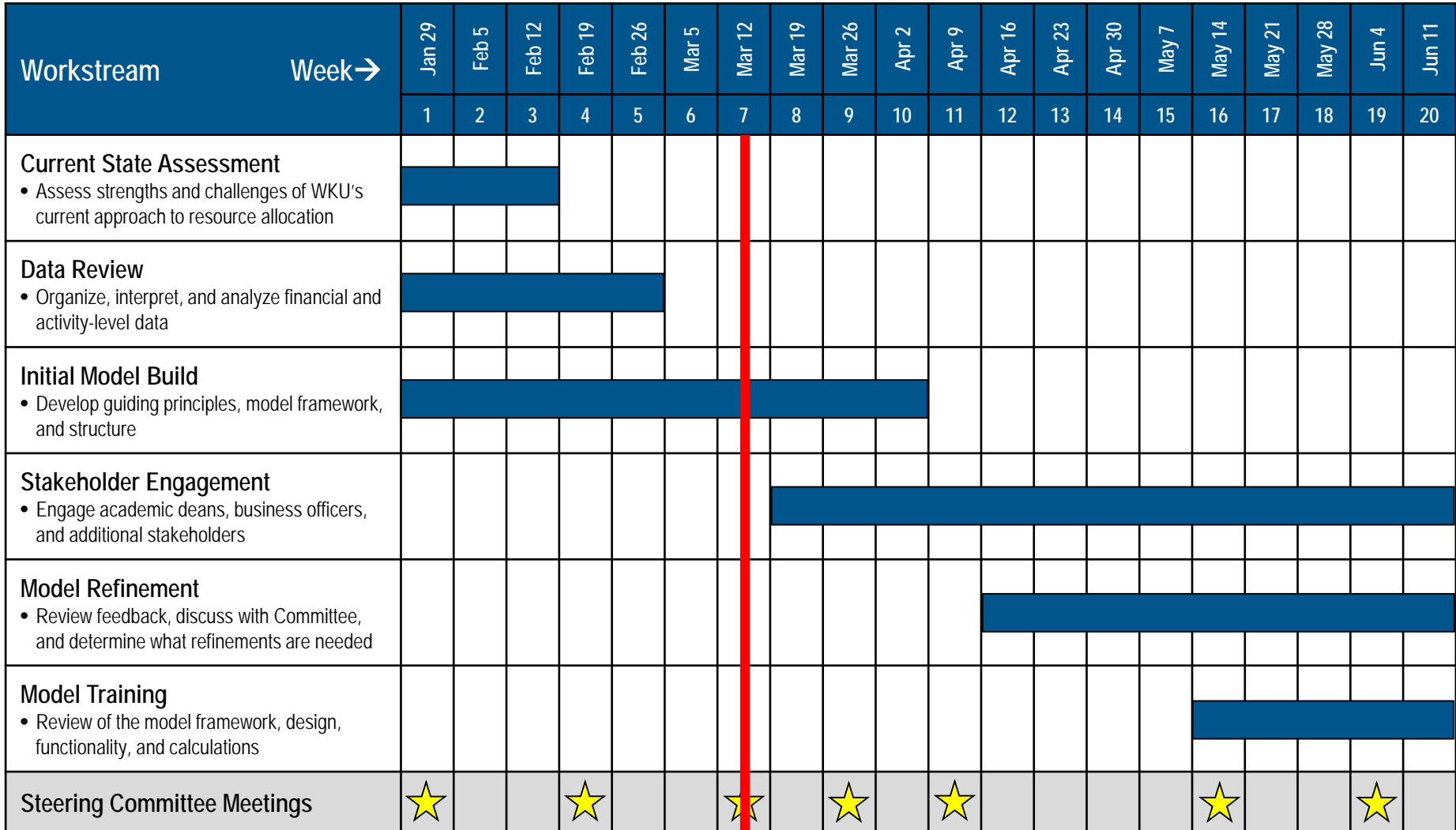
Huron understands that WKU desires a consulting partner to assist with the development of a new performance-based resource allocation model and proposed implementation schedule.

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.





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.

Element	Description
Direct Revenues	<ul style="list-style-type: none"> Typically recognized as revenue by the primary unit for goods or services provided
Allocation of General Revenues	<ul style="list-style-type: none"> 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&A)
Direct Expenses	<ul style="list-style-type: none"> Colleges have traditionally been accountable for, and actively managed, direct expenses
Allocation of Indirect Expenses (Cost Pool Allocations)	<ul style="list-style-type: none"> Optimal decision-making requires that the full costs of activities be understood; not just the direct costs, but also the facilities utilized and central services provided By understanding how indirect costs are allocated, management can estimate the full marginal costs of proposed initiatives Each primary unit (i.e. academic units and auxiliaries) pays for its own direct expenses plus a share of the central support unit expenses
Use of Central Funding	<ul style="list-style-type: none"> The provision of direct resources for strategic initiatives benefits the whole institution Allocations from central sources (i.e. "subventions") to primary units are used to support mission-critical units with under-funded operating costs In part, the use of a central fund addresses the economic problem of the commons



Revenue Allocation

Direct Revenues vs. General Revenues

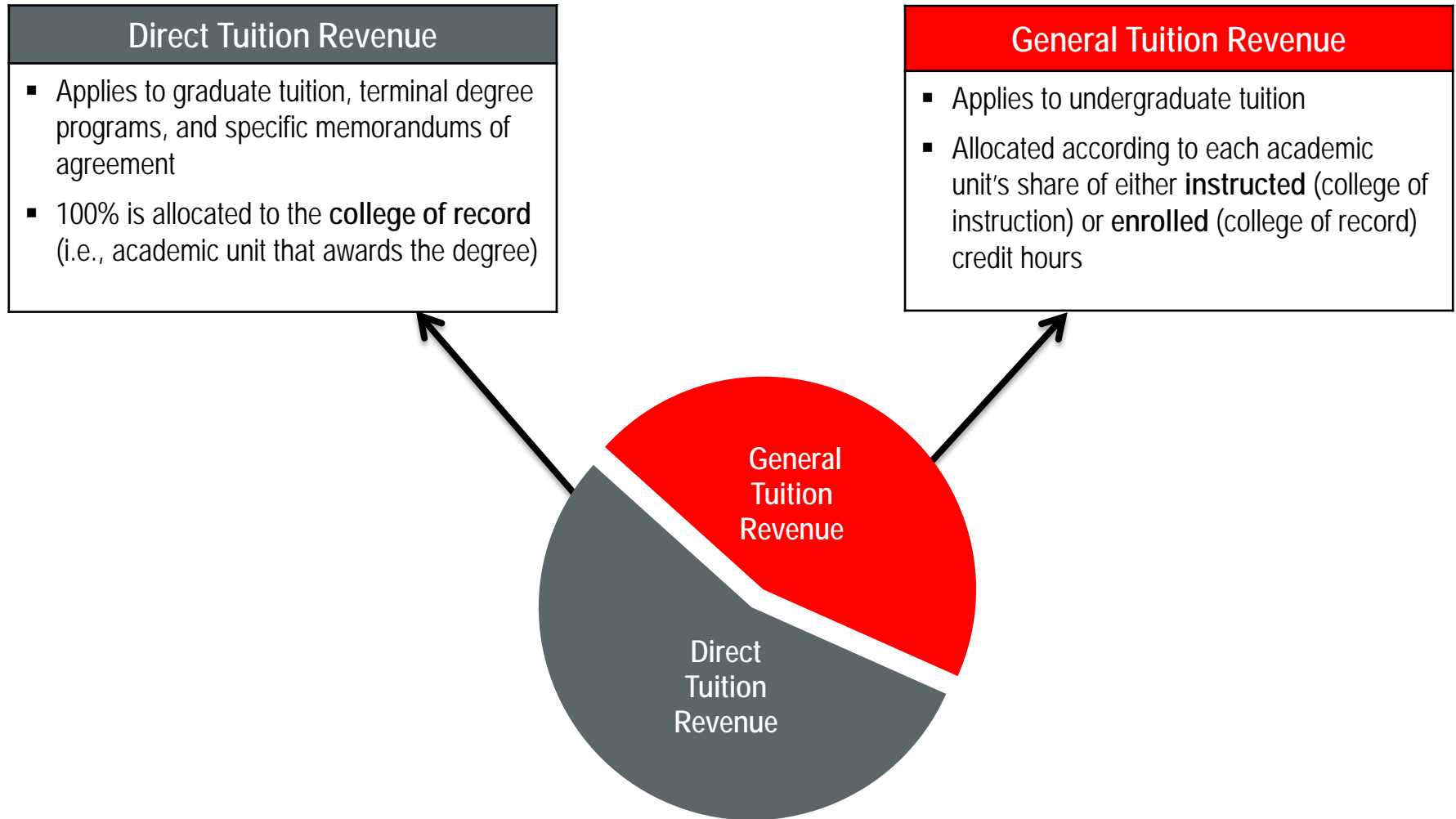
Huron worked with the University to distinguish direct revenues from general revenues, which are typically allocated to primary units based on a defined methodology to promote balanced growth.

Direct Revenues	General Revenues
<ul style="list-style-type: none"> ▪ Revenues that are directly attributable to goods or services provided by a primary unit ▪ Revenue is <u>typically</u> recognized by the primary unit within the University's financial systems 	<ul style="list-style-type: none"> ▪ Revenues are received by central administration on behalf of those primary units that generate the revenue ▪ Revenues are pooled together and allocated to primary units based on varying methodologies to promote growth
<p><u>Examples include:</u></p> <ul style="list-style-type: none"> ▪ Direct State Appropriations ▪ Student Fees ▪ Grants & Contracts ▪ Sales & Services ▪ Auxiliary ▪ Gifts 	<p><u>Examples include:</u></p> <ul style="list-style-type: none"> ▪ 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.



State Appropriation Allocation: Overview

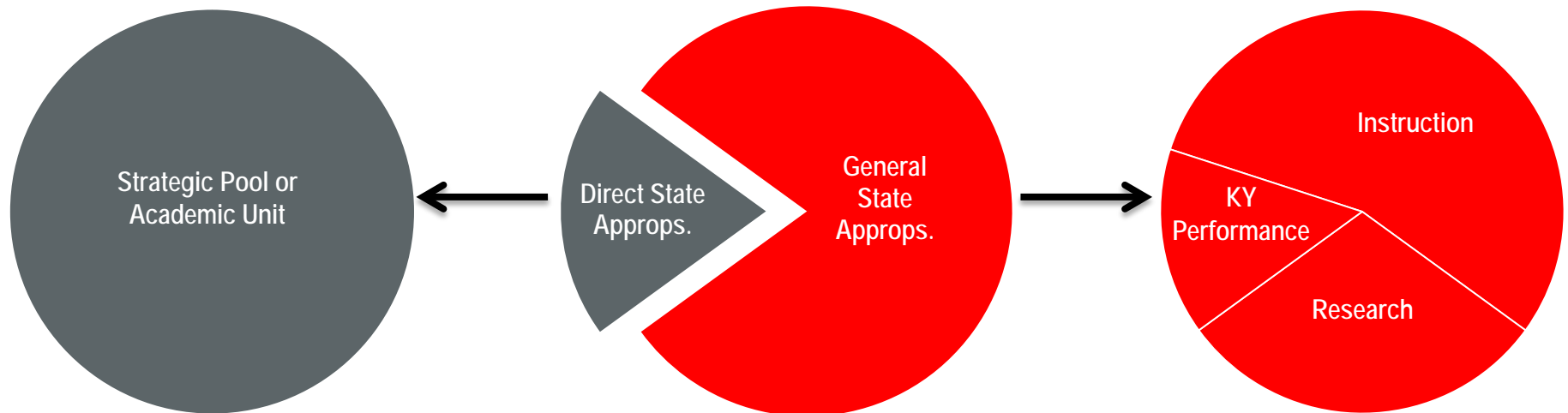
Direct state appropriations are assigned to specific units without any allocation rules, whereas general appropriations provide an opportunity to incentivize research and instruction.

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

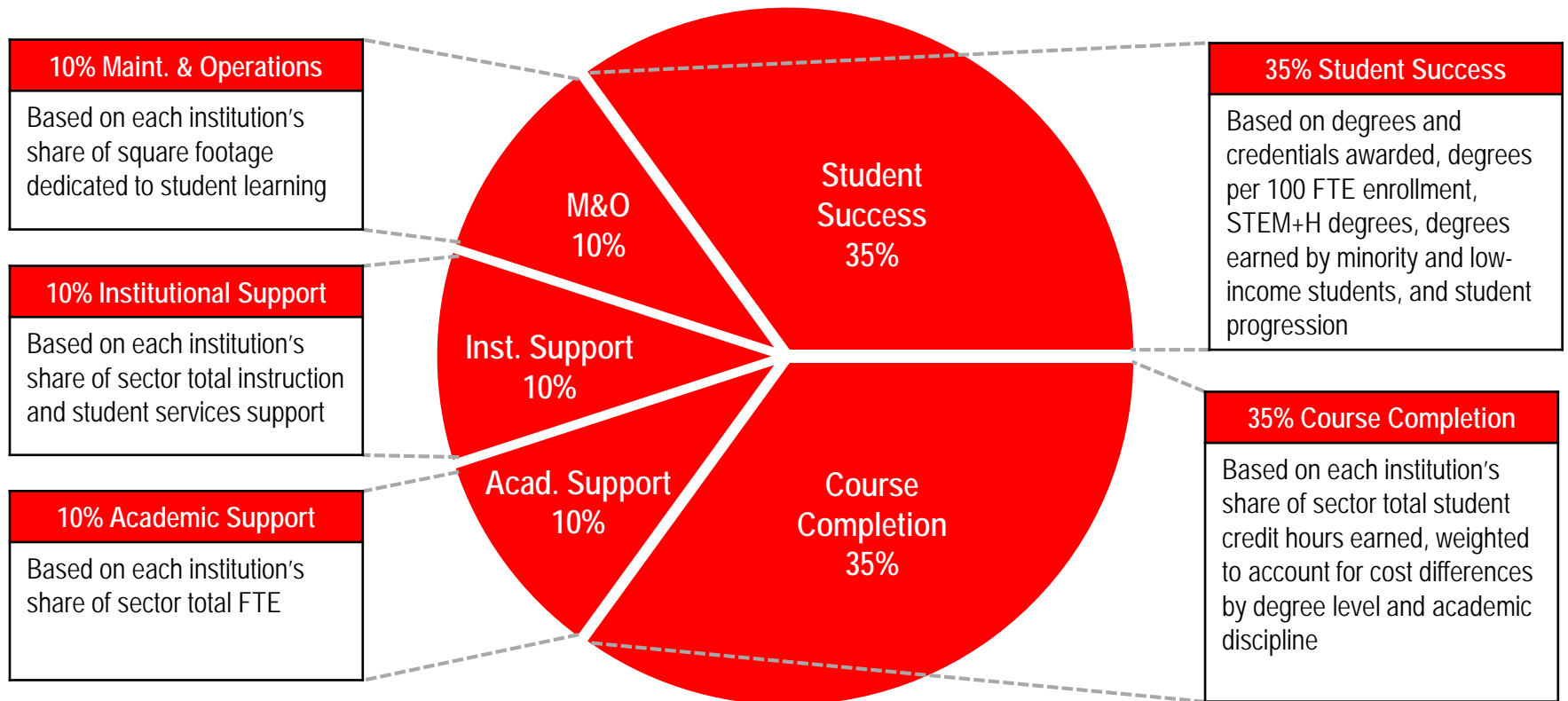
General State Appropriations

- 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



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.





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.

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

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 follows¹

$$\text{Allocation}_{\text{PU}_n} = \left[\underbrace{\frac{\text{SQFT}_{\text{PU}_n}}{\text{SQFT}_{\text{PU}_{\text{Sum of all } n}}}}_{\text{Primary Unit's share of square feet}} \times \underbrace{(\text{Revenues}_{\text{SU}_n} - \text{Expenditures}_{\text{SU}_n})}_{\text{Support Unit's net expenditures}} \right]$$

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.

	Subvention Pool	Strategic Investment Pool
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 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.

	Revenue Retention	Legacy Model Adjustment	Participation Fee
Description	<ul style="list-style-type: none"> Select revenue(s) are centrally retained 	<ul style="list-style-type: none"> Fixed amount or percentage of operating surplus is redistributed from outlier(s) to select unit(s) to reflect historical subsidies 	<ul style="list-style-type: none"> Participation fee is assessed on specific set revenues for all primary units
Pros	<ul style="list-style-type: none"> Provides a direct funding mechanism Relatively simple to implement especially if revenues previously not distributed 	<ul style="list-style-type: none"> Promotes neutral starting points for new model implementation Often used to dramatically reduce tax rates, thereby strengthening incentives to grow marginal revenues 	<ul style="list-style-type: none"> Considers various revenue sources Potential for increased size as the institution experiences revenue growth
Cons	<ul style="list-style-type: none"> Revenue often limited in terms of future growth Funding size can be volatile due to lack of revenue diversification 	<ul style="list-style-type: none"> Difficult to determine legacy model adjustment amount; calculation might be considered "as much art as science" 	<ul style="list-style-type: none"> Requires diligent assessment of initial rate Perception is influenced if rate increases due to diminishing revenue sources

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



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