

Resource Allocation, Management, and Planning

Steering Committee #4

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. Introduce central funding concepts
3. Discuss state appropriation and tuition allocations
4. Answer remaining questions

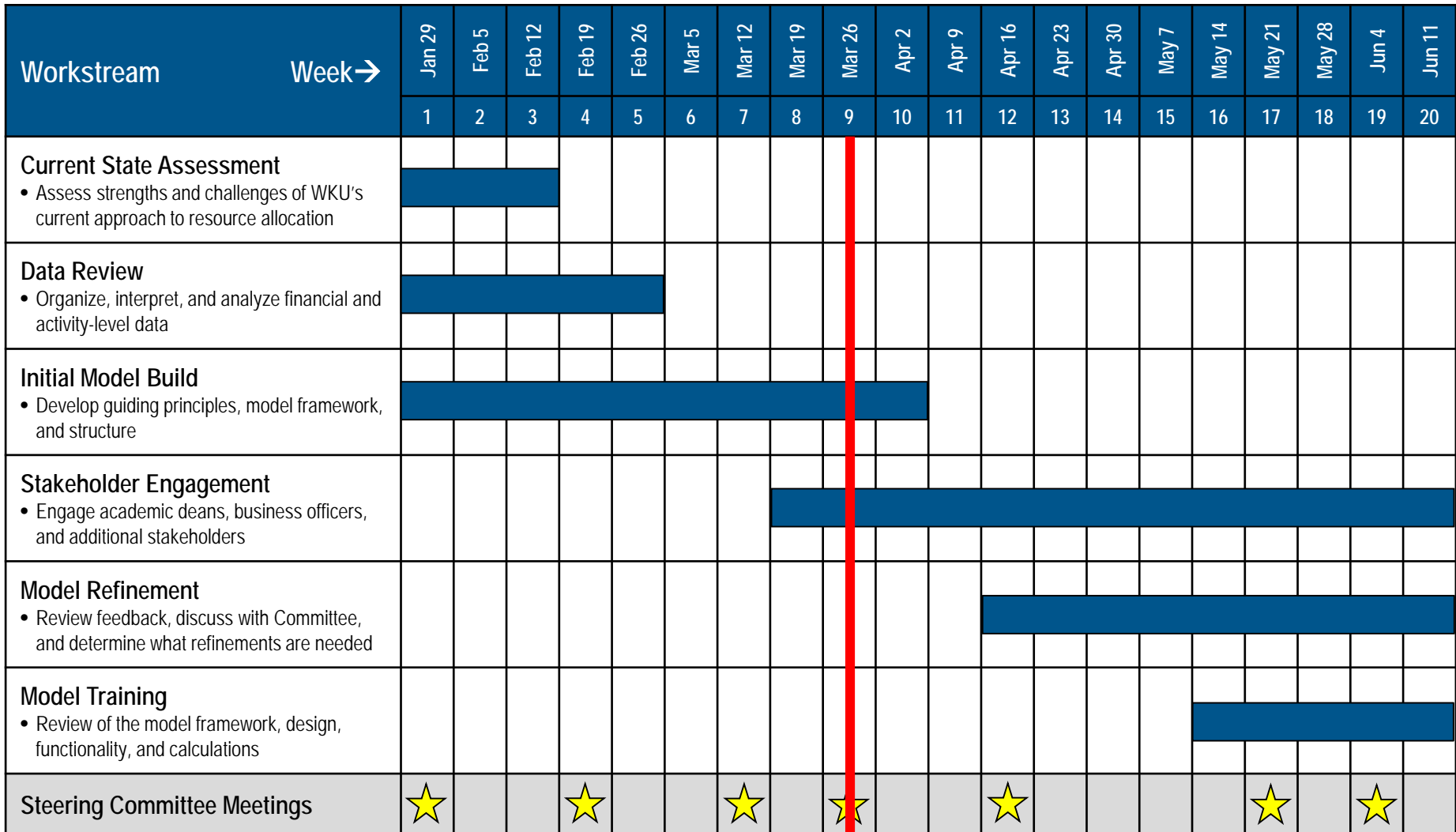
Recent Efforts

Since the last steering committee meeting, Huron has completed several tasks described in the project plan; these are as follows:

- Finalized first draft of the “Actuals Model”
- Reviewed first draft of the “Actuals Model” with the Executive Team
- Worked with the budget and accounting staff to analyze outstanding data items
- Conducted model orientation meetings with four academic Deans
- Begun “Baseline Model” build based on guidance from the Steering Committee

Project Plan

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



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

Model Development

The process to develop a customized model is an iterative one during which Huron and WKU will rely heavily upon community feedback for each model iteration, which culminates in a highly customized model that reflects the unique culture and strengths of the University.

Actuals Model

Category	Actuals	Model	Variance
Revenue	1,234,567	1,234,567	0
Expenses	876,543	876,543	0
Net Income	358,024	358,024	0

- No use of allocation rules
- Reflects general ledger activity
- Reorganization of transactions to align with unit and account definition

Baseline Model

Category	Actuals	Baseline	Variance
Revenue	1,234,567	1,234,567	0
Expenses	876,543	900,000	-23,457
Net Income	358,024	334,567	23,457

- All data-driven allocation rules
- Reflects internal economy
- Baseline for sensitivity analysis

Customized Model

Category	Actuals	Customized	Variance
Revenue	1,234,567	1,234,567	0
Expenses	876,543	800,000	76,543
Net Income	358,024	434,567	-76,543

- Highly customized incentives to drive mission-critical needs
- Fits with University culture and strengths
- Features strategic investment pool for University priorities

During model orientation meetings with the Deans, we have presented the current “Actuals Model”. During our first set of meetings, we will review the various allocation methodologies that make up the “Baseline Model”.



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.



State Appropriation and Tuition Allocations

State Appropriation Allocation: Overview

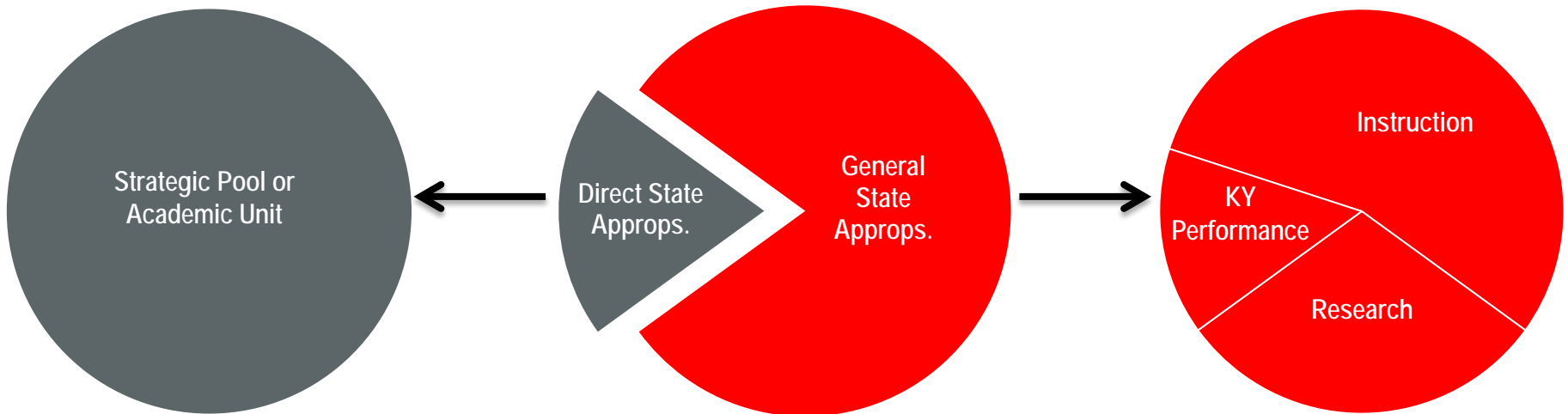
Direct state appropriations are assigned to specific units without any allocation rules, whereas general appropriations provide an opportunity to incentivize research and instruction.

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

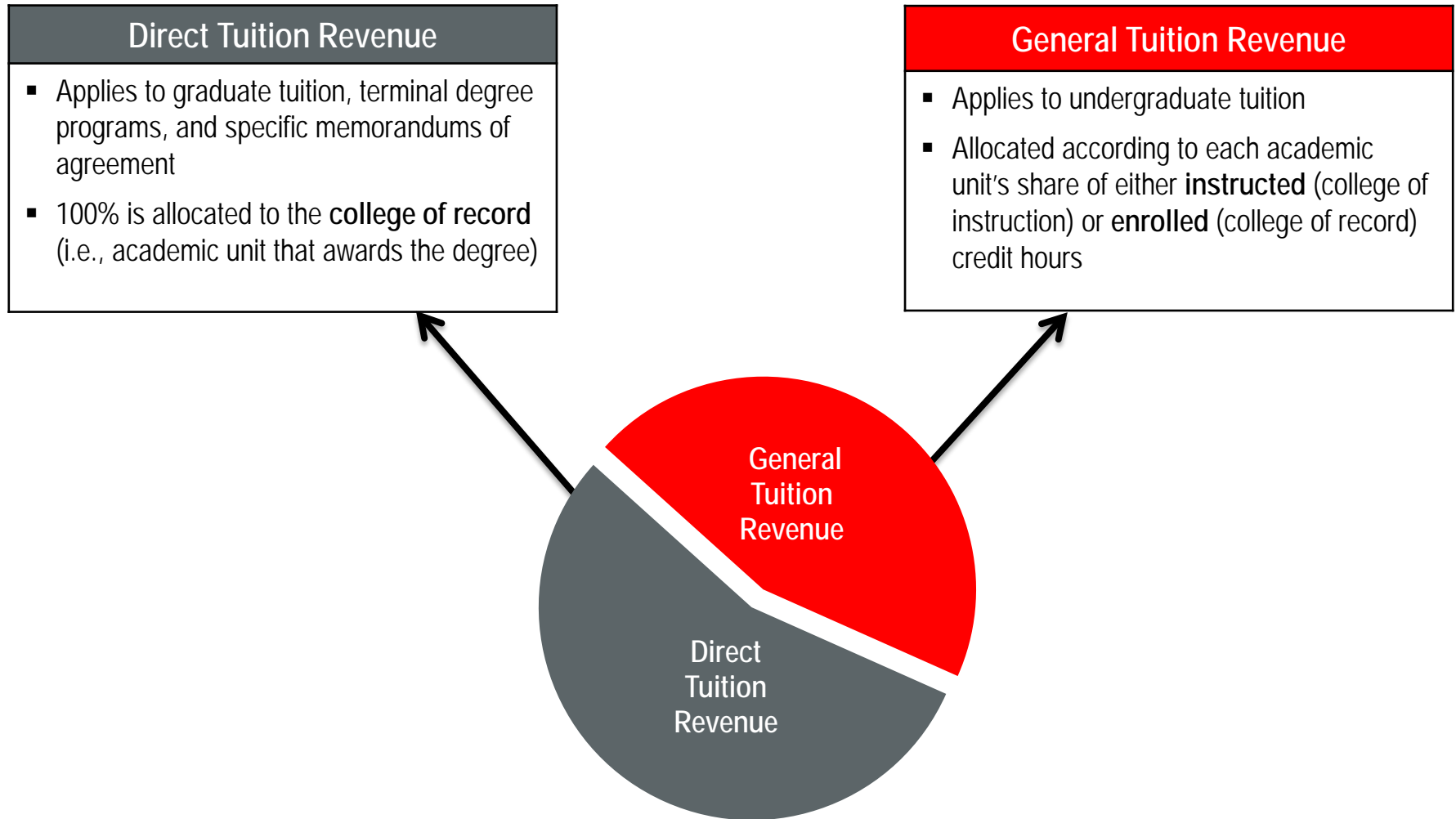
General State Appropriations

- 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



Tuition Allocation: Overview

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





Next Steps

Next Steps

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

1. Complete Model Orientation meetings
2. Refine "Actuals Model" as needed
3. Continue to work on "Baseline Model"
4. Reconvene at the next steering committee meeting on 4/17



Questions?



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