

# Resource Allocation, Management, and Planning

## Steering Committee #6

### *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. Review model decision points
3. Discuss concepts of central funding
4. Introduce the concepts of governance structures
5. Outline stakeholder engagement and next steps

# Recent Efforts

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

- Conducted “baseline” and “customized” model review meetings
- Incorporated “baseline” model review meeting feedback in “customized” version of the model
- Documented “customized” model review feedback
- Presented project overview to the Budget Counsel, University Senate Finance and Budget Committee, and Board of Regents
- Held Campus Open Forum event on 5/9 which was attended by 130+ campus stakeholders
- Scheduled Department Chair meetings for 5/22 and 5/23
- Finalized scheduling for the Budget Panel event on 5/31
- Conducted initial model training

# Current Phase Project Plan

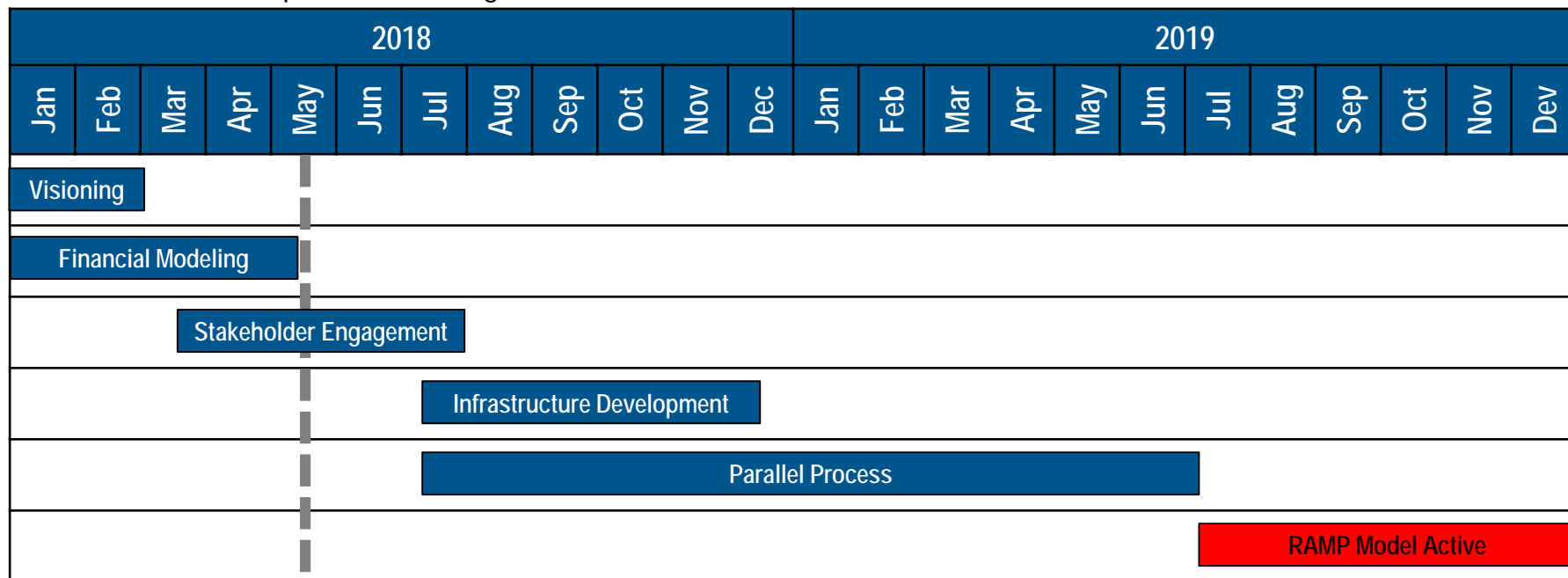
The project plan for the current phase of this engagement structures primary activities into overlapping work streams that take place over a 20-week period.

Workstream	Week →	Jan 29	Feb 5	Feb 12	Feb 19	Feb 26	Mar 5	Mar 12	Mar 19	Mar 26	Apr 2	Apr 9	Apr 16	Apr 23	Apr 30	May 7	May 14	May 21	May 28	Jun 4	Jun 11	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
<b>Current State Assessment</b> <ul style="list-style-type: none"> <li>Assess strengths and challenges of WKU's current approach to resource allocation</li> </ul>																						
<b>Data Review</b> <ul style="list-style-type: none"> <li>Organize, interpret, and analyze financial and activity-level data</li> </ul>																						
<b>Initial Model Build</b> <ul style="list-style-type: none"> <li>Develop guiding principles, model framework, and structure</li> </ul>																						
<b>Stakeholder Engagement</b> <ul style="list-style-type: none"> <li>Engage academic deans, business officers, and additional stakeholders</li> </ul>																						
<b>Model Refinement</b> <ul style="list-style-type: none"> <li>Review feedback, discuss with Committee, and determine what refinements are needed</li> </ul>																						
<b>Model Training</b> <ul style="list-style-type: none"> <li>Review of the model framework, design, functionality, and calculations</li> </ul>																						
<b>Steering Committee Meetings</b>	★			★			★		★				★					★	★			



# RAMP Redesign Timeline

Since the initiative started 16 weeks ago, Huron has met with 40+ 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 Modelling	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.

# 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

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

## Baseline Model

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

## Customized Model

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

The deans have examined the “actuals” model, followed by a review of the “baseline” model. The model review meetings held on 5/15-5/16 focused on a review of the “customized” model.



# Decision Points



# Model Structure

An incentive-based model requires the identification of units to serve as the drivers of revenue-generating activities; other units are expected to support the activities of revenue generating units.

## Primary Units

- Ability to influence revenue generation:
  - Price
  - Quantity (not captive market)
- Cover direct costs with generated revenue
- Fully-allocated central (support unit) costs
- Accountable for performance, retaining both surpluses and losses
- Pay subvention tax

## Central Support Units

- Limited-to-no ability to influence revenue
- Provide services and/or support to academic, research, and auxiliary units
- No allocation of central costs
- Accountable for optimal service levels
- Encouraged to justify funding levels through benchmarking
- Accountable for fiscal performance
- IT, HR, and Facilities may have service-level agreements with select primary units

## Hybrid Units

- Units that do not fall cleanly into one of the other categories; some operations may act like a primary unit while others act like a support unit
- For simplicity and consistency, these are not typically recommended

# 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"> <li>Typically recognized as revenue by the primary unit for goods or services provided</li> </ul>
Allocation of General Revenues	<ul style="list-style-type: none"> <li>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&amp;A)</li> </ul>
Direct Expenses	<ul style="list-style-type: none"> <li>Colleges have traditionally been accountable for, and actively managed, direct expenses</li> </ul>
Allocation of Indirect Expenses (Cost Pool Allocations)	<ul style="list-style-type: none"> <li>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</li> <li>By understanding how indirect costs are allocated, management can estimate the full marginal costs of proposed initiatives</li> <li>Each primary unit (i.e. academic units and auxiliaries) pays for its own direct expenses plus a share of the central support unit expenses</li> </ul>
Use of Central Funding	<ul style="list-style-type: none"> <li>The provision of direct resources for strategic initiatives benefits the whole institution</li> <li>Allocations from central sources (i.e. "subventions") to primary units are used to support mission-critical units with under-funded operating costs</li> <li>In part, the use of a central fund addresses the economic problem of the commons</li> </ul>



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

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

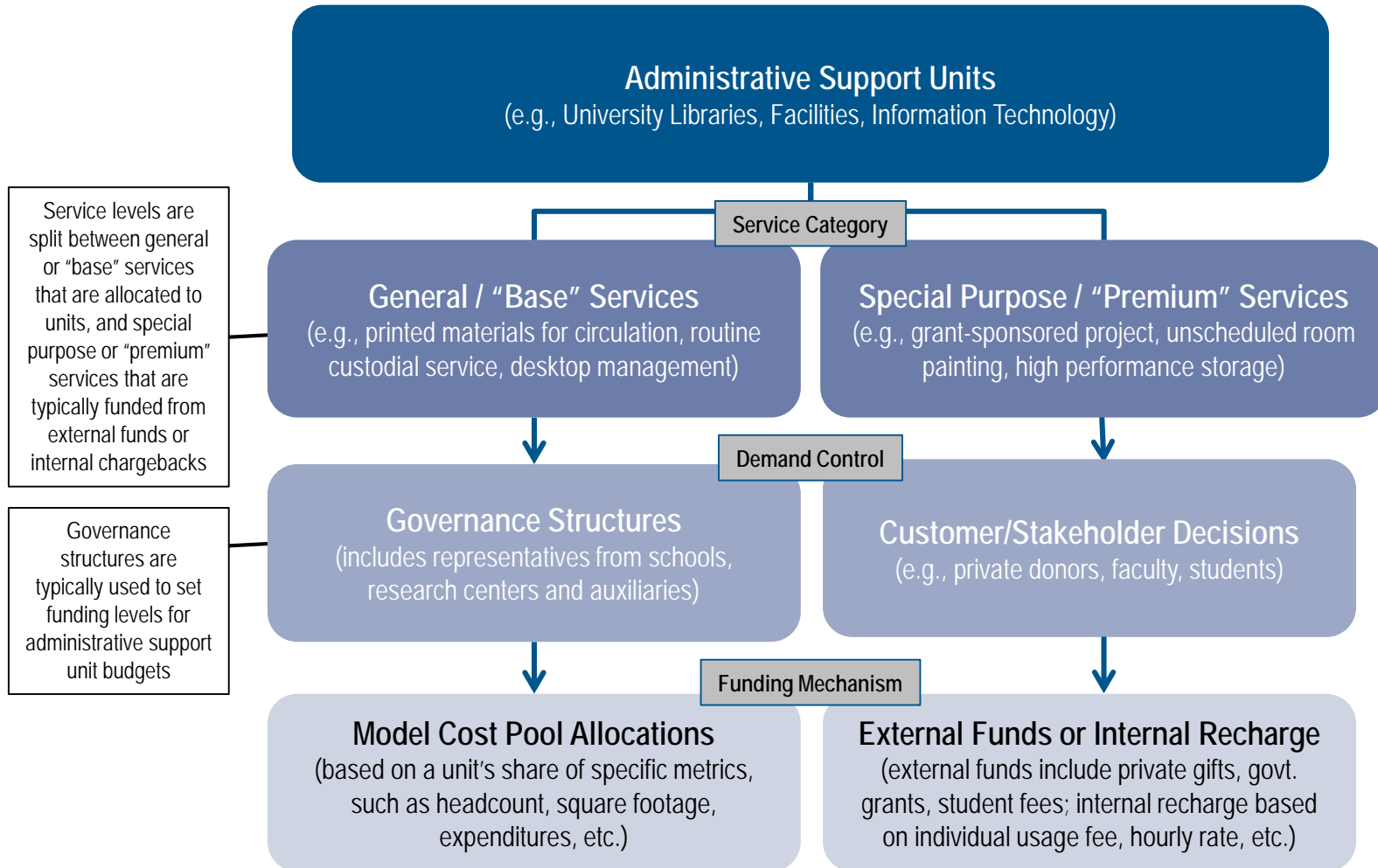
Most universities typically use a participation fee for central funding pools, but may introduce other concepts depending on the internal economy of the institution.



# Governance Introduction

# Cost Pool Allocation Approach

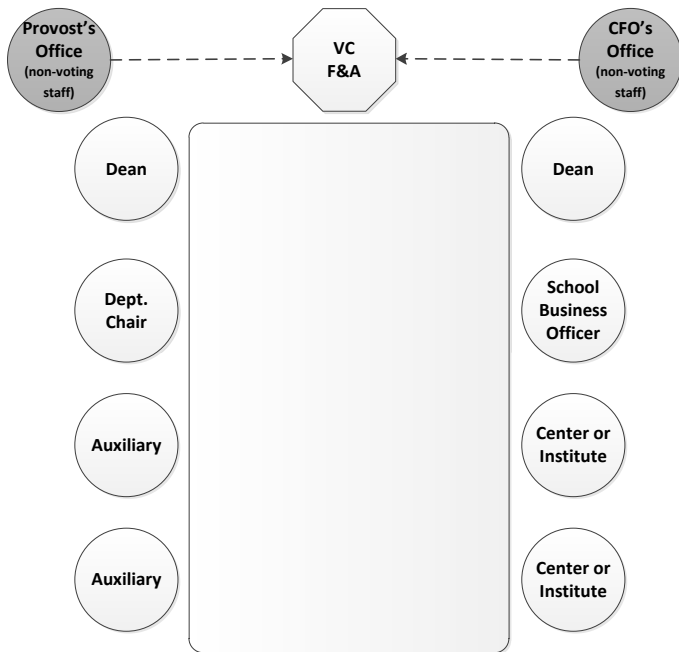
In incentive-based budgeting systems, universities typically distinguish “base” services from “premium” services in how they handle costs incurred by administrative support units.



# Support Unit Allocation Committee

The Support Unit Allocation Committee could meet during October and November to support unit leadership to review each unit's budget proposal, and promote service effectiveness and efficiency.

## Membership



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

## Potential Responsibilities<sup>1</sup>

- 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 Budget Committee
- Elevates the budget proposal for the Office of the SVP for Finance & Administration, and any unresolved issues, to the 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





# Stakeholder Engagement

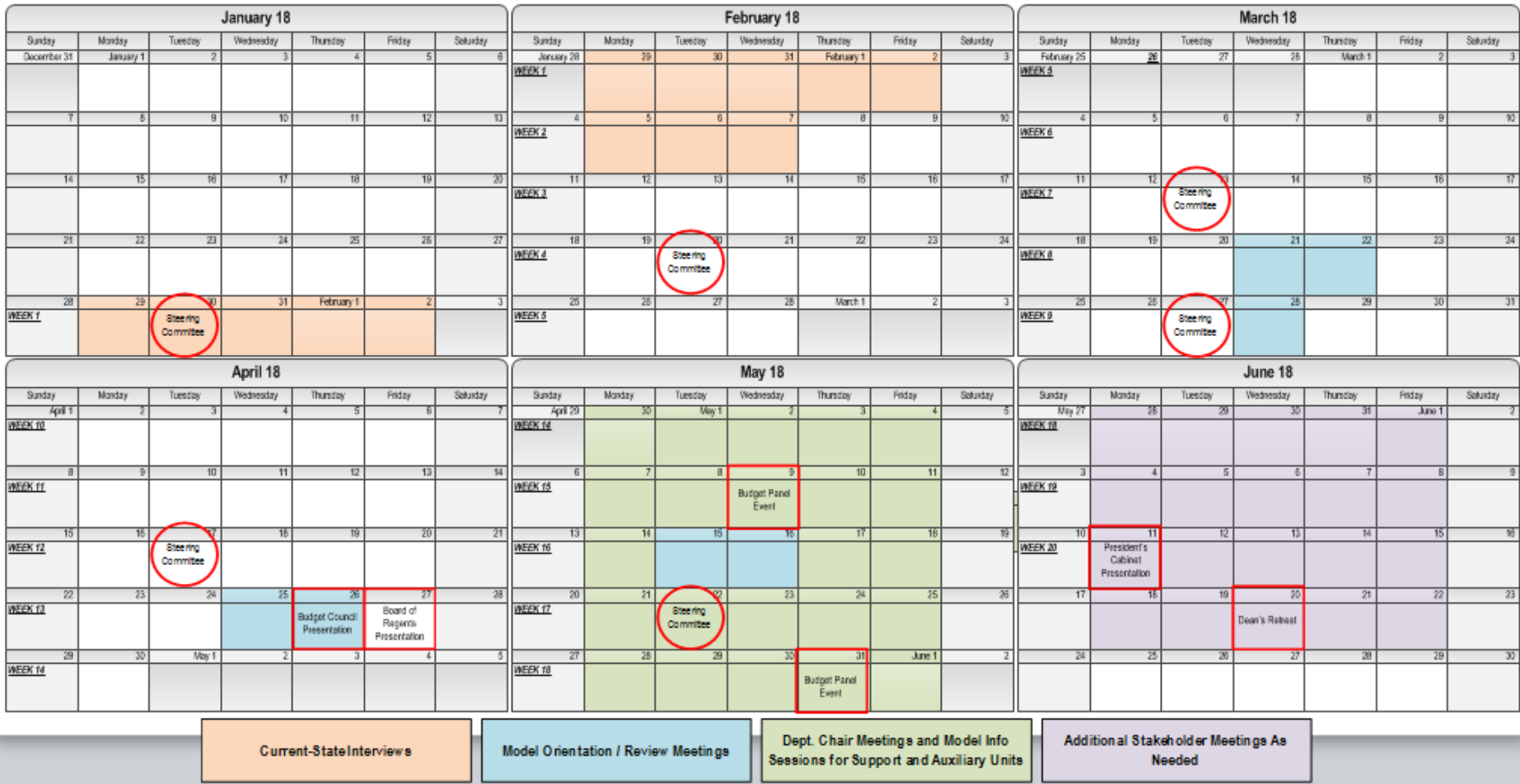
# Stakeholder Engagement

Huron is using a variety of different settings to engage with WKU leadership, faculty, staff, and other campus stakeholders to solicit feedback and to gauge consensus for the new budget model.

Element	Timing	Description
University Communications	Ongoing	<ul style="list-style-type: none"> <li>Distributed University-wide message from President Caboni in early January.</li> <li>Post relevant project updates to the WKU RAMP website (<a href="http://www.wku.edu/ramp">www.wku.edu/ramp</a>).</li> </ul>
Dean-level Model Orientation	late March	<ul style="list-style-type: none"> <li>Overview initiative goals, progress to date, and model framework and functionality.</li> <li>Review actuals version of the model and activity-level data used in model.</li> </ul>
Dean-level Model Review	late April	<ul style="list-style-type: none"> <li>Review baseline version of the model to illustrate the impact of proposed incentives.</li> <li>Solicit questions and guidance for the Dean's capstone meeting.</li> </ul>
Campus Open Forum	early May	<ul style="list-style-type: none"> <li>Joint presentation by WKU leadership and Huron.</li> <li>Overview the budget model redesign initiative and answer stakeholder questions.</li> </ul>
→ Supp. and Aux. Unit Info. Session	mid/late May	<ul style="list-style-type: none"> <li>Overview initiative goals, progress to date, and model framework.</li> <li>Discuss common support unit role within an incentive-based budget model.</li> </ul>
→ Department Chair Meetings	mid/late May	<ul style="list-style-type: none"> <li>Partner with Dean in a separate meeting for each College's department Chairs.</li> <li>Deliver general project updates and answer Chair questions.</li> </ul>
Budget Panel Discussions	late May	<ul style="list-style-type: none"> <li>Sponsor panel discussions that include academic and administrative stakeholders from institutions that adopted incentive-based models.</li> </ul>
Dean's Capstone	mid/late June	<ul style="list-style-type: none"> <li>Discuss current state assessment, case for change, and baseline version of the model.</li> <li>Review model's critical decision points, and the customizations for a "WKU Model."</li> </ul>
Other	Ongoing	<ul style="list-style-type: none"> <li>Meet with various campus University groups including Board of Regents, University Senate Finance Committee and Budget Committee, Budget Council, and President's Cabinet</li> </ul>

# Stakeholder Engagement Timeline

As laid out in the project plan, Huron will continue to engage various campus stakeholders. The below graphic displays a high-level project calendar with key stakeholder engagement elements highlighted.





# Next Steps

# Next Steps

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

- Continue to refine RAMP model as needed
- Conduct meetings with academic department chairs
- Conduct ad-hoc meetings with campus leadership as needed
- Prepare for the Budget Panel event to be held on 5/31



# Questions?



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



(312) 583-8700



[www.huronconsultinggroup.com](http://www.huronconsultinggroup.com)