

Resource Allocation, Management, and Planning Steering Committee #9



Agenda

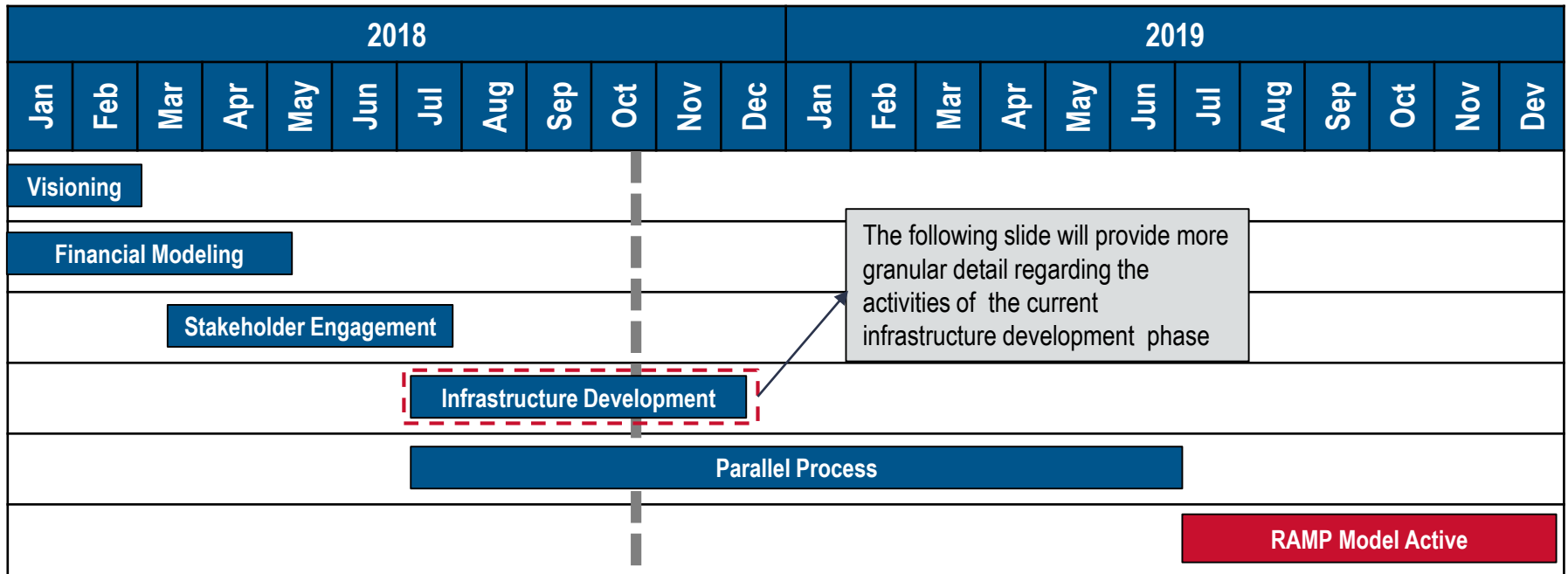
Huron is pleased to partner with WKU on this resource allocation, management, and planning (“RAMP”) initiative.

Our goals for today’s meeting includes:

1. Review project plan and recent efforts
2. Present model updates and year-over-year trend analysis
3. Discuss components of the annual budget process and governance updates
4. Outline next steps and continuing efforts

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 13-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	
		1	2	3	4	5	6	7	8	9	10	11	12	13	
Develop Governance Structures • Develop initial governance structures, charges and membership			[Work Stream]												
Propose New Annual Budget Process • Identify roles, responsibilities, and develop a schedule of activities for each “budget actor”			[Work Stream]												
Engage Auxiliary and Support Unit Leadership • Meet with Auxiliary and Support Unit Leadership to review the model		[Work Stream]											[Work Stream]		
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								[Work Stream]							
Model Training and Expansion • Train WKU Budget Office to build the FY2018 actuals financial model					[Work Stream]										
Steering Committee Meetings						★				★				★	



Recent Efforts: Auxiliary/Support Unit Takeaways

While Huron is in the midst of our second round of meetings with the auxiliary and support units, there has been strong engagement to date. Below are some key takeaways from these conversations:

- There has been robust discussion surrounding the incentives that are present within the model for administrative units
- The parking and transit sub-committee expressed a desire to be consider an operational support team to enhance governance structures surrounding the RAMP model
- Auxiliary Units have requested to present their budgets during the Feb. – Mar. timeframe as they will need to know their allocated costs to construct their budgets
- Units are interested in learning more about policies that will be developed to help support the new model and understanding the process of presenting to the Auxiliary/Support Unit Allocation Committee
- Units have requested additional financial data to help them better understand the model and to facilitate future planning

MODEL UPDATES

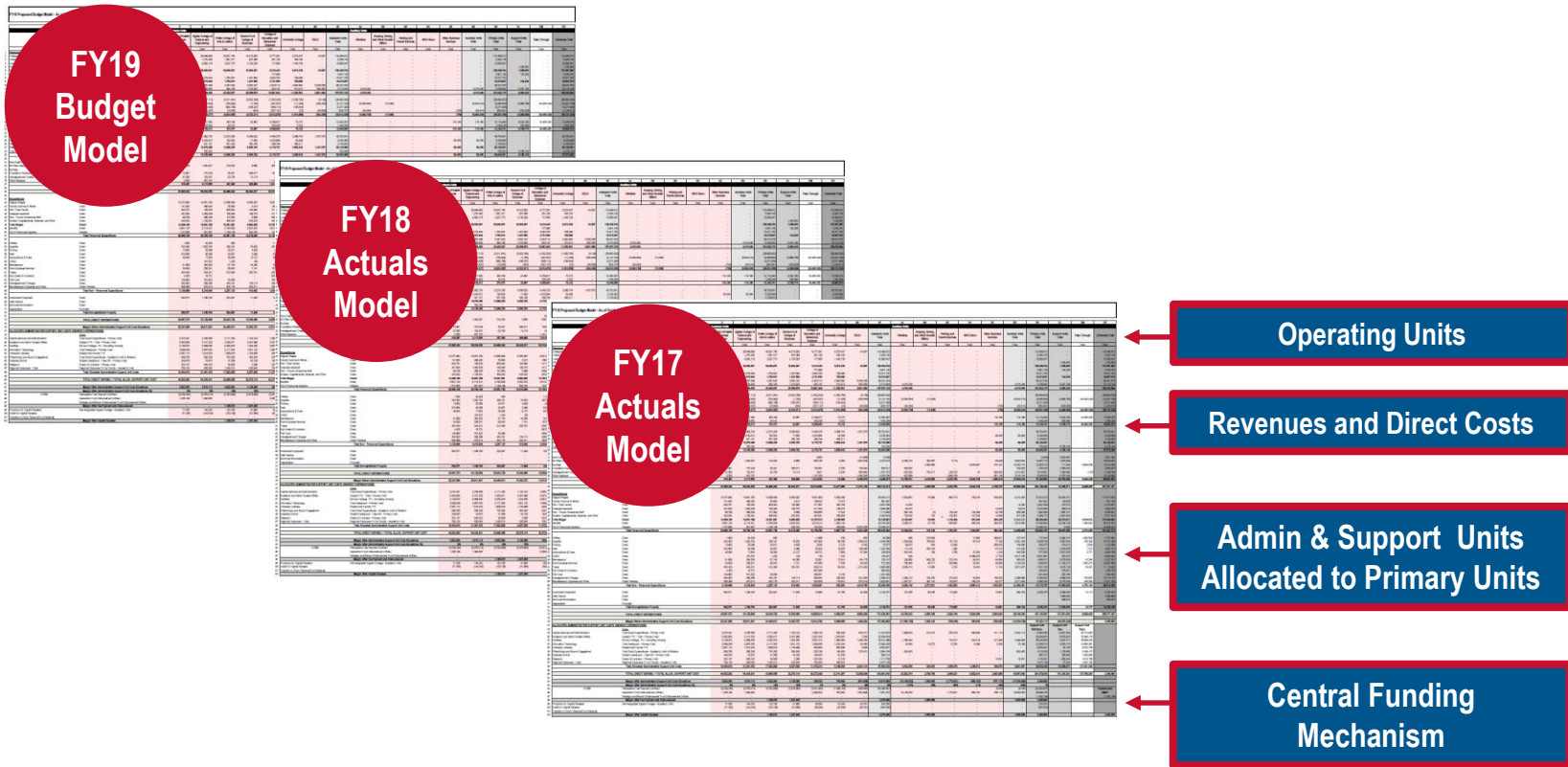
Model Updates

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

- Debt service relating to principal payments of \$8.7MM and \$9.2MM were added into the FY17 and FY18 models. These items were previously excluded as there are no identifiable records of these transactions within the general ledger
- Capital project expenditures financed by operating funds, which were previously categorized as excluded, have been brought within the purview of the model
- As 80% of DELO revenue is now allocated to the academic units, Huron has worked with DELO to identify budgeted DELO expenses that can be directly attributed to the Colleges
- Carryforward amounts have been added below-the-line to the FY17 and FY18 models to better illustrate net asset spending

Model Development

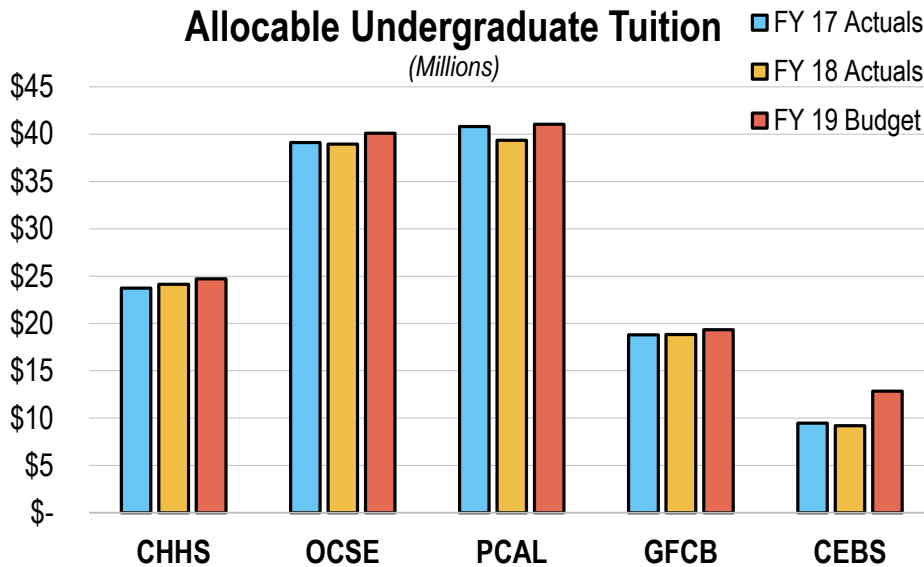
While partnering with WKU, Huron has developed two models relying on actuals data (FY17, FY18) and a model relying on budget information (FY19) in the new model format.



Developing multiple years of model data will allow stakeholders to examine the impact that strategic decisions have on the financial sustainability of the University.

Model Extension – Undergraduate Tuition

The allocable portion of undergraduate tuition was divided by residency type based on the actual tuition distribution reports provided by the Bursar.



Allocable Undergraduate Tuition Breakout			
Tuition Type	FY17 Actuals	FY18 Actuals	FY19 Budget
Resident	\$118,792,789	\$120,148,351	\$119,961,061
Non-Resident	\$5,436,254	\$5,480,324	\$5,471,782
International	\$16,034,294	\$12,654,480	\$12,634,754
Total	\$140,263,337	\$138,283,155	\$138,067,596

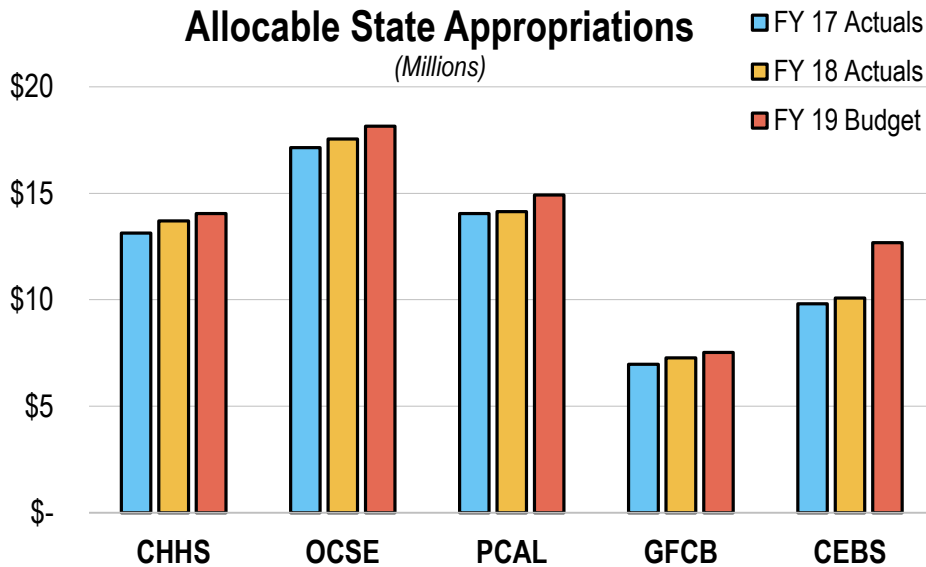
Key Observations

- **Undergraduate tuition decreased** from FY17 by \$2.0MM (1.4%) and \$2.2MM (1.6%) in FY18 and FY19 respectively
- This decline can be largely attributed to **reductions in undergraduate tuition relating to international students** of over 20% in FY18 and FY19
- **Decreases in international undergraduate tuition were partially offset** by modest increase in resident and non-resident tuition revenue
- While changes between the Colleges were largely proportional, **dissolving University College in FY19 led to a 36% increase in undergraduate tuition for CEBS** when compared to FY17

FY18 and FY19 budgeted amounts preliminary numbers based on data provided on 7/31/2018 and are subject to change. Additionally, University College has been dissolved in the FY19 model.

Model Extension – State Appropriations

While the University experienced declining undergraduate revenue year-over-year, this has been partially offset by marginal increases in state appropriation funding.



Key Observations

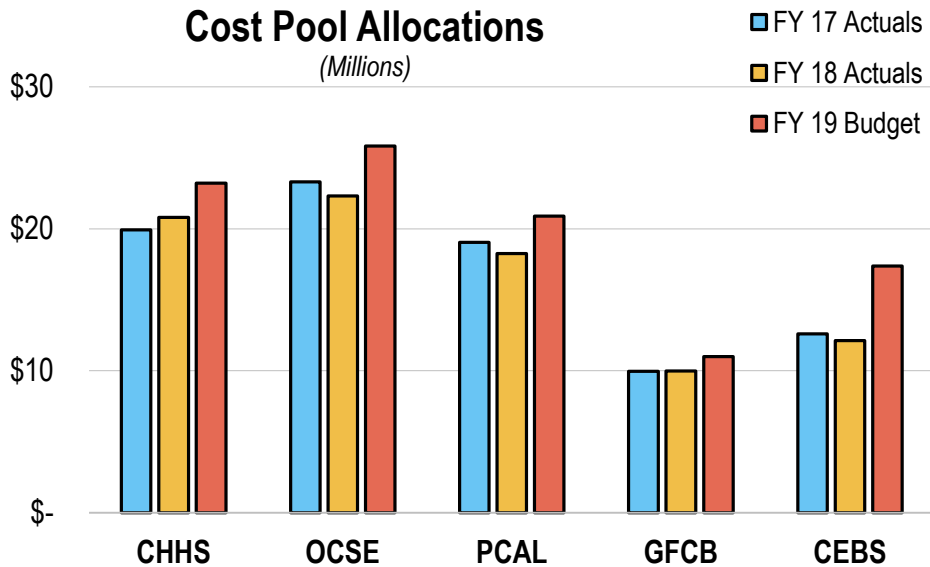
- **State Appropriations grew** from FY17 by \$1.8MM (2.7%) and \$2.4MM (3.6%) in FY18 and FY19 respectively
- While **state appropriations grew at a faster rate year-over-year than tuition**, these revenues are declining nationwide and may not be a sustainable source of funding growth in future years
- While changes between the Colleges were largely proportional, **dissolving University College in FY19 led to a 29% increase in state appropriations revenue for CEBS** when compared to FY17

State Appropriations Breakout			
Allocations	FY17 Actuals	FY18 Actuals	FY19 Budget
Instruction (80%)	\$53,249,641	\$55,667,600	\$55,160,520
Research (15%)	\$9,984,308	\$10,250,175	\$10,342,785
Performance (5%)	\$3,328,103	\$3,416,725	\$3,447,595
Total	\$66,562,051	\$68,334,500	\$68,951,900

FY18 and FY19 budgeted amounts preliminary numbers based on data provided on 7/31/2018 and are subject to change. Additionally, University College has been dissolved in the FY19 model.

Model Extension – Cost Pool Allocation

As WKU continues to operationalize the model, it will be important to monitor central support costs and rationalize spending increases.



Key Observations

- **The central cost pools decreased** from FY17 to FY18 by \$1.3MM (-1.6%); however, in FY19 they increased \$3.7MM (4.5%) from the previous year
- While the original FY19 budget shows increases to the central cost pools, **cost cuts were incurred, which will reduce the FY19 actual administrative expenditures**

Cost Pool Allocations			
Allocations	FY17 Actuals	FY18 Actuals	FY19 Budget
CHHS	\$19,922,935	\$20,789,747	\$23,156,586
OCSE	\$23,294,987	\$22,314,921	\$25,820,728
PCAL	\$19,051,033	\$18,261,514	\$20,873,986
GFCB	\$9,972,626	\$9,993,182	\$10,986,353
CEBS	\$12,592,454	\$12,127,531	\$17,355,133

FY18 and FY19 budgeted amounts preliminary numbers based on data provided on 7/31/2018 and are subject to change. Additionally, University College has been dissolved in the FY19 model.

Key Model Takeaways

The variances seen year-over-year within the model epitomize the evolving nature of higher education and highlight that the University is continuing to adapt to a changing industry with both short-term decisions and long-term strategies.

Key FY18 and FY19 Model Takeaways

1. Budget cuts resulting from declining revenues have caused the University to make tough decisions to improve the financial viability of the institution. While the model is dynamic and accounts for these changes, it does not provide strategic precision to direct where these cuts should occur
2. The multiple iterations of the model help illustrate the importance that planning, mid-year adjustments, and strong decision-making can have on year-end performance. Below are several trends that can be seen from FY17 to FY18:
 - One College saw their revenues grow and their expenditures decline
 - One College saw expenditure growth outpace revenue growth
 - Two Colleges experienced revenue decline and reduced their expenditures, but at a slower rate
 - One College had revenues decline and expenditures grow
3. The amount required to subvene academic units increased by ~26.2% from FY17 to FY19, highlighting opportunities for financial optimization at the University
4. In order for Executive Leadership to strategically invest in academic units, it will be critical for the University to grow the Strategic Mission Enhancement Fund to further incentivize deans and faculty

ANNUAL BUDGET PROCESS & GOVERNANCE UPDATES

Process Illustration: Budget Process Map

Huron has worked with WKU's budget office to identify and enhance key components of the annual budget process to support the operationalization of the new RAMP model.

Budget Process Map												
WKU Annual Budget Process Map	Jan.	Feb.	Mar.	Apr.	May	Jun.	July.	Aug.	Sept.	Oct.	Nov.	Dec.
Board of Regents						21						
President	5 4	9		17								
Executive Budget Committee	3	6	10	16	19	20	27	33	35	40	47	49
Auxiliary/Support Unit Allocation Committee	48		12					29 30	36			48
Space Advisory Committee								34			46	
Provost's Office/Budget Office	1 2	7	13 15		18		22 24 26	31 32 28		37 38	45 42	44
Academic Units			11				23				41	
Auxiliary Units		8	8	12			23				41	
Support Units			14				25				43	

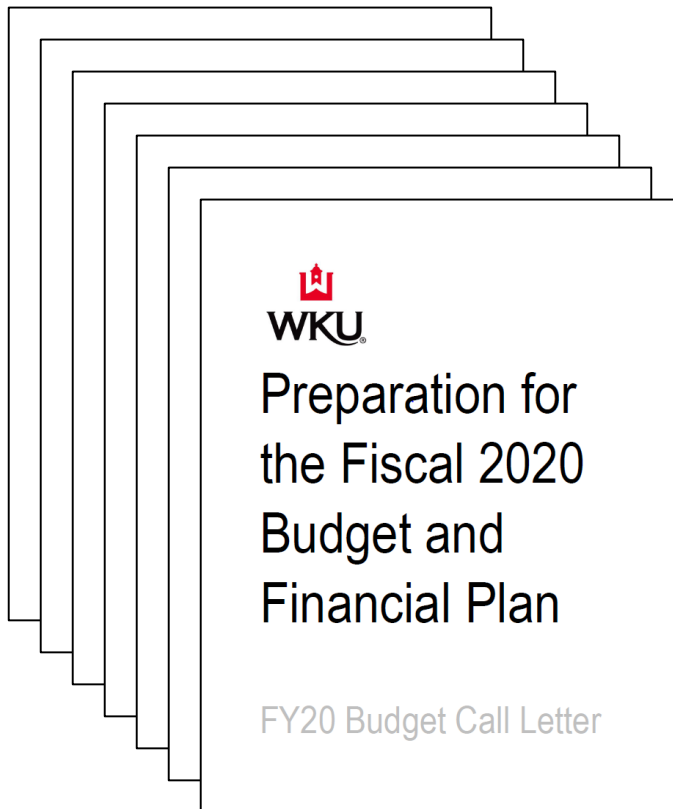
Key Components

- The process map **identifies activities by constituent group on a monthly basis** to illustrate key personnel responsibilities over the course of the annual budget cycle
- **Activities are grouped into five key categories** to highlight the types of actions required by budget actors
- As previously discussed, **activities relating to general revenue forecasting and support unit budget setting will need to happen earlier in the year**
- Additionally, the **designated governance committees will be responsible for meeting throughout the year** to recommend appropriate budgets for their respective stakeholder groups

Process Illustration: Call Letter

The Budget Office will need to distribute Budget Call Letters to the units outlining timing, planning parameters, and key decisions for annual budget development.

Illustrative Budget Call Letter



Key Components

- **Annual updates to general revenue items** such as percentage enrollment growth and state appropriations increases
- **Key budget parameters** such as fringe rate increases, mandatory salary raises, pay cuts, etc.
- **Timing of the budget calendar** and budget setting conversations
- Any **new and revised policies** that have been incorporated to enhance the budget process

Process Illustration: Scenario Planning Tool

Huron has incorporated a high-level scenario planning tool into the budget models, which allows academic units to see the illustrative impacts that new revenue streams and costs could have on their margins.

Illustrative Scenario Planning Tool			
			Scenario
Revenues	Rates	Additional CH's	
Tuition			
Scholarship			
Undergraduate Scholarships	\$ 0.20		\$ -
Graduate Fellowships and Waivers	\$ 0.09		\$ -
State Appropriations			
Instruction Allocation	\$ 0.29	\$ -	\$ -
Research Allocation	\$ 0.83	\$ -	\$ -
Bachelor's Degrees Awarded	\$ 592	0	\$ -
Bachelor's Degrees Awarded to Low- Income URM	\$ 1,035	0	\$ -
Total Revenue			\$ -
Direct Expenditures			
Instructional Expense			\$ -
Central Cost Pools			
	Rates	Rates	
Central Services and Administration	\$ 0.08	\$ -	\$ -
Academic and Admin Student Affairs	\$ 749.92	0.00	\$ -
Facilities	\$ 24.49	0.00	\$ -
Information Technology	\$ 299.56	0.00	\$ -
University Libraries	\$ 272.71	0.00	\$ -
Philanthropy and Alumni Engagement	\$ 0.03	\$ -	\$ -
Graduate School	\$ 103.42	0.00	\$ -
Research	\$ 0.14	\$ -	\$ -
Regional Campuses - Total	\$ 415.79	0.00	\$ -
Central Unit Allocation			\$ -
Direct Expenditures + Central Cost Pools			\$ -
Subvention Fund Participation	10.00%		\$ -
Net Margin			\$ -

Key Components
<ul style="list-style-type: none"> ▪ This is a high-level tool that shows a snap shot in time of the widget rates associated with allocable revenues and costs ▪ It is not dynamic, as it does not account for changing metric proportions that occur as other academic units increase/decrease their shares of a specific metric ▪ The tool is meant to perform high-level planning and scenario analysis and should be used neither to develop an accurate depiction for budgeting purposes nor forecast precise or granular allocation changes year-over-year

Notable Budget Process Changes

The notable proposed changes to the current budget development process can be categorized into four main areas.

Academic Planning

Academic units will need to take into consideration additional funds, revenues, expenses, and activity-level metrics when developing budget forecasts and academic plans

Template Creation & Distribution

New templates will need to be developed and distributed that reflect all the necessary data inputs for building the budget in the RAMP model format

Budget Proposal Cycle

Timelines and content for budget proposals, particularly for administrative support units, will vary from current timelines under the new process

Data Consolidation

The Budget Office will take on a new role in collecting templates and creating the necessary reports based on model information to support budget development

MOVING FORWARD

Next Steps

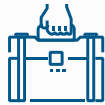
In accordance with the current project plan, Huron proposes the following next steps:

- Develop governance charters for the newly established committees that outlines roles, meeting frequency, and charges
- Continue training the budget office to operate the model and finalize detailed reference materials to facilitate knowledge transfer
- Conduct outstanding auxiliary and support unit meetings to provide further clarification on model decisions
- Provide FAQ document and additional RAMP website materials to be distributed to the larger campus community
- Meet with Faculty Senate to present the proposed RAMP model and answer faculty questions

Continued Efforts

In addition to the outstanding efforts associated with the current project plan, Huron has identified supplemental efforts that may be needed in the future.

- Present an updated model for the Board of Regents to approve in December
- Host a 2nd open forum to provide an additional platform to address campus questions
- Conduct another Steering Committee meeting to ensure alignment surrounding model operationalization
- Meet with the Dean's Council to answer any outstanding model questions



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