

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.

		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
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Current State Assessment Assess strengths and challenges of WKU's current approach to resource allocation																					
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Data ReviewOrganize, interpret, and analyze financial and activity-level data																					
Initial Model Build • Develop guiding principles, model framework, and structure																					
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and determine what refinements are needed																					
Model Training	Model Training																				
Review of the model framework, design, functionality, and calculations																					
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Steering Committee Meeting

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

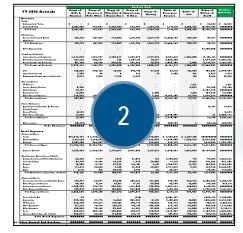
The process to develop a customized model is an iterative one during which Huron and WKU will rely heavily upon community feedback for each model iteration, which culminates in a highly customized model that reflects the unique culture and strengths of the University.

Actuals Model

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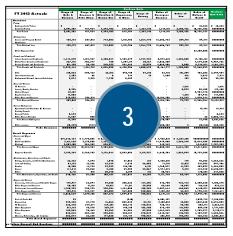
- No use of allocation rules
- Reflects general ledger activity
- Reorganization of transactions to align with unit and account definition

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

During model orientation meetings with the Deans, we have presented the current "Actuals Model". During our next 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	 A centrally-held pool of revenues to address mission-critical needs, the nature of which, are not self-funding 	 A centrally-held pool of revenues to address university-wide priorities and revenue growth strategies
Rationale	 Sum of the parts is not optimal for the whole; WKU needs the ability to act as one entity to achieve University-wide goals 	 In part, the use of the central fund addresses the economic problem of the commons
Illustrative	 Ensure appropriate subsidies to meet major institutional goals 	Provide start-up funding for high priority academic programs
Uses	 Address compliance and regulatory issues as they arise 	 Underwrite new initiatives which do not naturally fall under one unit's care
Funding Formula	 Various funding models are used across institutions, each with pros and cons 	 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	Select revenue(s) are centrally retained	 Fixed amount or percentage of operating surplus is redistributed from outlier(s) to select unit(s) to reflect historical subsidies 	 Participation fee is assessed on specific set revenues for all primary units
Pros	 Provides a direct funding mechanism Relatively simple to implement especially if revenues previously not distributed 	 Promotes neutral starting points for new model implementation Often used to dramatically reduce tax rates, thereby strengthening incentives to grow marginal revenues 	 Considers various revenue sources Potential for increased size as the institution experiences revenue growth
Cons	 Revenue often limited in terms of future growth Funding size can be volatile due to lack of revenue diversification 	 Difficult to determine legacy model adjustment amount; calculation might be considered "as much art as science" 	 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

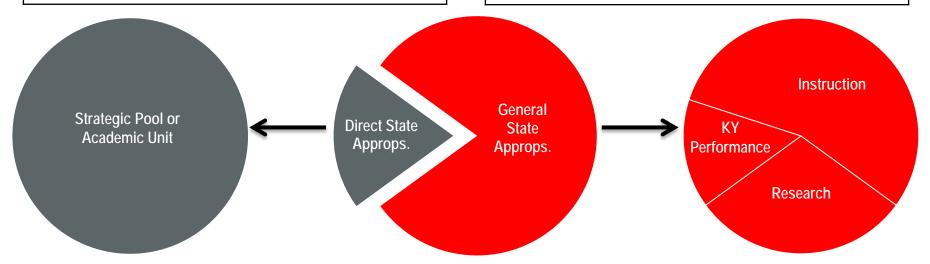
Direct state appropriations are assigned to specific units without any allocation rules, whereas general appropriations provide an opportunity to incentivize research and instruction.

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

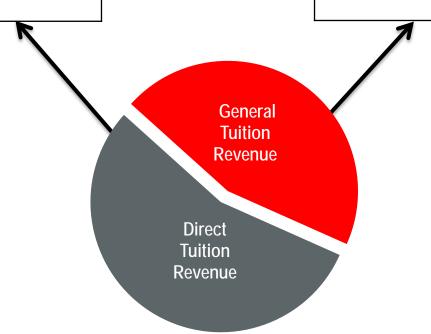
Universities commonly use more than one allocation methodology for tuition revenue to promote behaviors that align with multiple goals.

Direct Tuition Revenue

- Applies to graduate tuition, terminal degree programs, and specific memorandums of agreement
- 100% is allocated to the college of record (i.e., academic unit that awards the degree)

General Tuition Revenue

- Applies to undergraduate tuition
- Allocated according to each academic unit's share of either instructed (college of instruction) or enrolled (college of record) credit hours





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
- Continue to work on "Baseline Model"
- 4. Reconvene at the next steering committee meeting on 4/17



Questions?



