

Strategic Resource Management 101

Faculty Senate Meeting

December 3, 2020



**WESTERN
MICHIGAN**
UNIVERSITY

Outline

Current Budget Model vs. RCM/SRM

Objectives of SRM

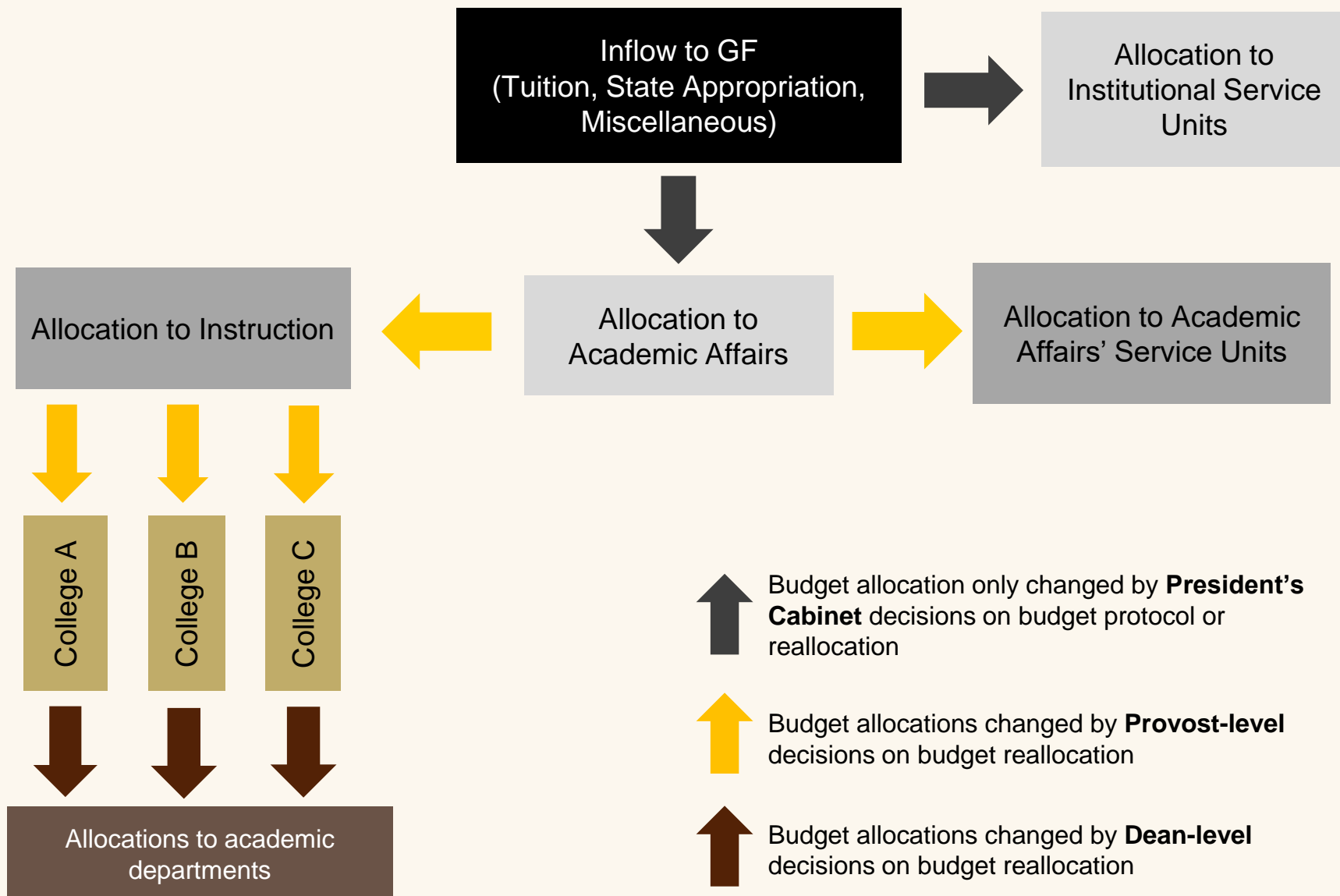
Timeline

Overview of Approved Rules

Current Budget Model

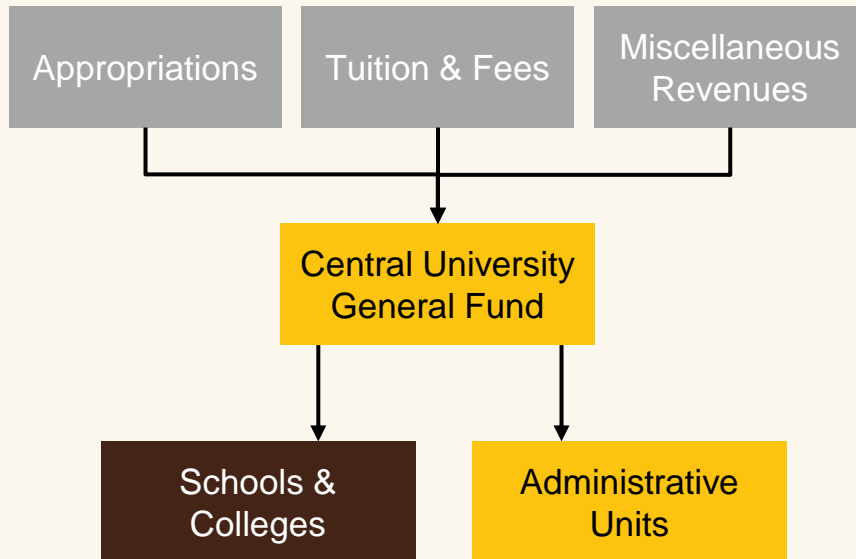
WMU currently has an incremental budget model. This is a traditional budget model where budgets are based on the funding levels of the previous year and are not linked to performance metrics such as enrollment, research or cost efficiencies. Only new revenue is allocated and budget cuts are typically made across-the-board.

Conceptual View of Current General Fund Allocations

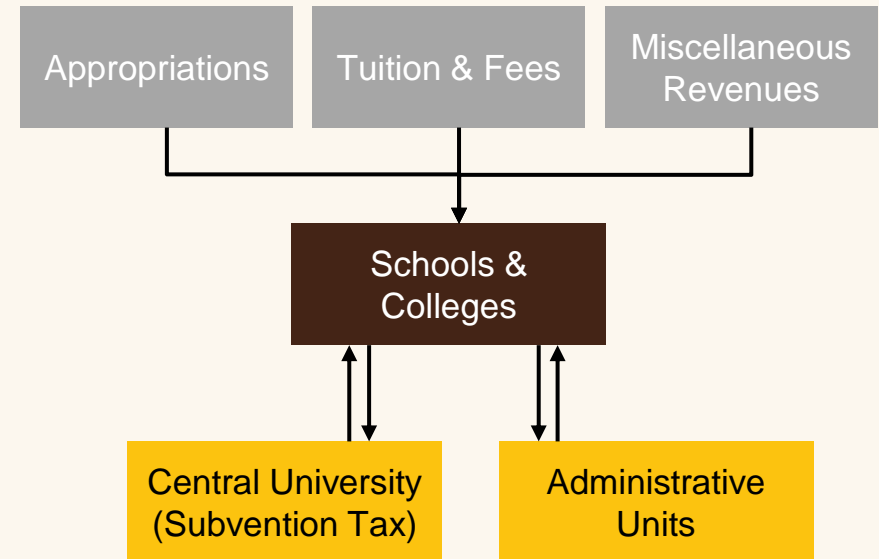


Responsibility Center Management

Traditional Budget Model Funds Flow



RCM Model Funds Flow



Adapted from Curry, JR, Laws, AL, Strauss JC. Responsibility Center Management, 2013.

Objectives of SRM

Resource allocation has become a significant topic across campus. Budgets are not aligned with success in enrollment, research, or giving. We need a more **strategic and comprehensive approach to resource allocation** which better aligns all resources to address revenue growth, operating efficiencies and to achieve our **success metrics**. The new budget model should meet the following objectives:

- 1) **Increase accountability** of decisions at executive and college levels by linking strategic decisions with financial decisions.
- 2) **Enhance transparency** through use of formulas to determine revenue and cost allocation in a way that is objective and easy to understand.
- 3) **Incentivize revenue generation and cost-effective practices** at all levels of the university.

Timeline

MARCH 2018

1

Initial 3-year plan presented to President for approval

JULY 2019 TO SEPTEMBER 2019

3

Work groups finalize recommendations to steering committee

2

SEPTEMBER 2018 TO APRIL 2019

Work groups receive changes and work to develop draft recommendations

4

NOVEMBER 2019 TO FEBRUARY 2020

Core project team develops new budget model based on recommendations

5

JULY 2020 TO APRIL 2021

Run "Would Be" model, follow-up on feedback during test/learn period, finalize policy changes

6

JULY 2021

Implement new budget model for Fiscal Year 2022

Revenue Allocation Rules

- **State appropriation, tuition and course fees to be allocated to the college responsibility units (RU's) as follows:**
 - State appropriation allocated by college of primary program based on head count
 - Undergraduate tuition excluding differential tuition will be pooled and netted with institutional financial aid and allocated 100% to college of instruction based on student credit hours
 - Graduate tuition allocated to college of program of study based on head count
 - Differential tuition allocated to college assessing the tuition
 - Allocations will be determined by using a two-year smoothing average
- **Facilities and administrative cost recoveries will be allocated based on the current administration approved guidelines recommended by the Research Policy Council:**
 - Colleges –90% (College 70%, Department 10% and Primary Investigator 10%)
 - OVPR research initiatives –10%
- **Assigned Revenues (i.e.: course fees, departmental revenues and auxiliaries) allocated directly to unit**

Cost Allocation Rules

- Direct Operating Expenses, including responsibility unit specific service and support (i.e. dean's office, advising), will be allocated directly to each responsibility unit
- Costs for space including maintenance, custodial services, utilities purchased and debt service will be allocated based on net assignable square footage unless it is included as a direct expense to a unit
 - Shared business resource space and unassigned space will be included in the central pool but shown as separate categories of space
- General fund service unit expenses (indirect expenses allocation) will be allocated to the college RU's and auxiliary units as part of the University participation assessment.
 - College RU's will be assessed on revenues at a rate to cover 97.5% of general fund service unit expenses
 - Auxiliary units will be assessed on revenues at a rate that will be sufficient to cover 2.5% of general fund service unit expenses

UPA, Strategic Initiatives, Renewal Reserves

- College RU's will be assessed a University Participation Assessment (UPA) on total general fund revenue and will be sufficient to cover:
 - General fund service unit expenses
 - Strategic initiatives
 - Renewal/replacement reserves
 - Auxiliary unit subventions
- University strategic initiatives will be held harmless in times of declining revenues (establishing a \$3M target) but will be increased as revenue growth occurs in proportionate share of the central pool increase.
- Academic Affairs strategic initiatives (under the discretion of the provost) will be a separate account from the University strategic initiatives and will be established with a tax increase over 3 to 5 years to build the reserve (\$2M target).
- Renewal/replacement reserve will be a separate account from strategic initiatives and will be established with a tax increase over 3 to 5 years to build the reserve (\$4M target). This reserve will be held harmless in times of declining revenues and will be used for both deferred maintenance and technology infrastructure needs.

Subventions

- Year 1 subventions (transition year)—all units (RU's and Service units) are held harmless from impacts of SRM. This includes auxiliary units that may result in a deficit due to space cost allocations that currently are not assessed.
- Year 2 and after:
 - Provost to determine method to use to allocate subventions to the colleges within college pool resources
 - The president, with input from the cabinet after the provost has consulted with the deans, will decide how to strategically determine the method to use to distribute to service units any revenue growth or revenue decline allocations to the central pool
 - Auxiliary units that need subvention due to space cost allocations will need to determine a financial plan to cover those costs or submit a request for consideration of on-going subventions. The president and cabinet will determine whether it is a priority for WMU to maintain the auxiliary activity and if the subvention is to be provided.