



WESTERN MICHIGAN
UNIVERSITY

Division of Business and Finance

Strategy Update

2018-2019 Budget

New Budget Model

June 8, 2018



Introduction

Dear Reader:

On June 8, 2018, over fifty departmental leaders of Business and Finance met to follow up on last September's strategy workshop. The focus of the September planning session was the University's risk areas of enrollment management and steward of place, two cornerstones of Western Michigan University's strategic Plan *The Gold Standard 2020*.

We developed strategies to address how our efforts in the 2017-18 year could better position Western Michigan University to be the school of choice – as we work collegially and collaboratively with all WMU divisions to achieve our common goals. Out of this conversation emerged what we call "The Three Big Items:"

1. Branding for the Division of Business and Finance;
2. South Neighborhood Master Planning/Capital Projects; and
3. The development of a new budget model.

During the June 8 workshop, documented in this report, we focused on the budget in two ways: First, an in-depth update on the 2018-2019 budget, and a first look at the process for creating WMU's new budget model. Colleen Scarff, Executive Director of the Office of University Budgets and Financial Planning, was my co-presenter.

This report documents the results of our presentation and the dialogue with departmental leaders. This in-depth look at the budget is a first for Business and Finance, and I am encouraged by the dialogue and positive feedback we received during and after the session.

Warmest regards,

Jan Van Der Kley

Vice President for Business and Finance



Budget Update 2018-2019

Colleen Scarff, Executive Director, Office of University Budgets and Financial Planning

Jan Van Der Kley, VP Business and Finance

FY2018/19 Budget Process Timeline

- Initial budget protocol request communication sent to President's cabinet members – mid December 2017
- Budget protocol requests returned to University Budget Office with priority order provided by executive – late January 2018
- Preparation for budget retreat with vice presidents resulting in protocol recommendations at various funding levels and alternative funding mechanisms for important items that were not recommended for protocol dollars – February and March 2018
- Budget retreat (half-day session) – March 26, 2018
- Preparation of proposed FY2018/19 general fund budget – April and May 2018 (dependent on State's timing)
- Seek Board approval – June 27, 2018

This year's budget is breaking new ground in that allocation decisions have been more strategic. Divisions were asked to identify in their budget request priorities, key metrics for achieving those priorities, and how the division is planning to allocate their time, people, and financial resources to achieve their goals. In addition, divisions were asked to rank their priorities.

Business and Finance identified a total of four priorities that reflect a divisional rather than an individual departmental perspective. These priorities are as follows:

1. Revising consolidated dispatch;
2. Student busing needs;
3. Deferred maintenance; and
4. Facility cost dollars needed that are associated with new academic programming space.

WMU's executive leadership reviewed over 60 priority requests totaling over \$100 million. A joint review of budget requests was a first for Western's leadership and reflects the university's effort to become more strategic in its resource allocation.



FY2018/19 General Fund Budget Assumptions

The FY 2019 projected general fund budget reflects an increase of 2.96% in both revenues and expenditures. The following assumptions are being used in the FY2019 projected general fund budget and reflect the state's appropriations status as of June 8, 2018:

- State appropriation increase Governor 2.0%, House 1% and Senate 3% - assuming Governor version which equates to 1.62% for WMU based on performance metrics (\$1.8M)
- State Tuition Restraint 3.8% or \$490 whichever is greater (\$12.5M)
- Estimated enrollment change for 2018-19 -1.1% (-\$2.6M); enrollment forecast has fluctuated from 1% increase to -1.6% decline
- Compensation increases – approximately \$6.7M
- Strategic Initiatives - \$7.7M
- Utility increase 2.5% (\$450K)
- Budget reduction range – April projections -\$5.1M to current projection of -\$3M (B & F reduction -\$750K to -\$450K)

The state of Michigan bases higher education appropriations on several metrics, including each institution's Carnegie Classification and six-year graduation rates. While the state appropriation increase averages 2%, WMU's increase is slightly lower at 1.62%. This is the case because the Carnegie Foundation classifies WMU as a doctoral university with higher level research activity. WMU, therefore, competes against Michigan's flagship schools who often performed better on specific metrics.

Tuition restraint places stiff conditions on universities. Institutions who miss these restraints will see a three-year 50% reduction on performance-based funding and no funding for capital projects.

The estimated enrollment decline of a forecasted -1.1% compares favorably to other universities. The largest decrease is seen in graduate enrollment. However, overall retention increased by 2.8%. This is a key metric for improving Western's six-year graduation rate.

Compensation increases are dictated by existing labor agreements for multiple bargaining groups. It appears that the fringe benefit rate will remain flat.

Funded strategic initiatives include student financial aid increases, hearing and vision impaired accommodations, and VP recommended protocol requests that align with the



strategic plan. Additional initiatives include marketing and branding, fund-raising, and research efforts.

The budget reduction range has been fluctuating over the past months. B & F's reduction of \$450,000 is the latest figure as of June 8 and might be smaller in the final budget. It should be recognized that the detail provided regarding the 18-19 budget can continue to fluctuate before a final budget is adopted.

VP Van Der Kley pointed out that OBF's ongoing efforts to become more cost-effective is rewarded with lower cuts than in the past. Traditionally, B & F absorbed a larger share of cuts to protect instruction and academic support. In this year's budget, each division was held fully accountable.

The New Budget Model

Resource allocation has become a significant topic across campus. Historically, there is not a clear link between resource allocation and strategic initiatives. Budgets are not aligned with success in enrollment, research, or giving. Management of expenses is sporadic. Prior to this year, there has been an ad hoc process for funding protocol requests. It is time for change. We need a more strategic and comprehensive approach to resource allocation which better aligns all resources to address revenue growth and diversification, operating efficiencies and to achieve our success metrics.

The new budget model should meet the following objectives:

1. Increase accountability of decisions at VP 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.

A process is underway to develop the parameters of the new budget model with respect to resource and cost allocation. A wide representation of the campus community ensures a full open-access process. Over seventy faculty and staff have been selected to participate in this process via five work groups: Revenue Allocation, Cost Allocation, Implementation Infrastructure Support, Communications, and Training, Process Documentation and Policy.

Summary

It has become clear that a new budget model is needed to better meet the resource allocation demands placed on institutions of higher learning – all of which operate in an increasingly competitive environment. Universities compete for a shrinking pool of students and state appropriations. To remain relevant in this environment, requires seeking new ways to increase and diversify revenue and find cost-effective practices that deliver services at higher quality and reduced cost to both students and the university.

These expectations bring with them an increased level of transparency. Everyone at B & F is invited to look critically at what the division does, how it's done, and how it can be improved.

In addition, each of us will be more responsible for financial decision-making. This increased accountability will be matched by increased mentoring and collaboration throughout WMU to equip department heads and staff for success, grow professionally, and make decisions whose impacts benefit both B & F and the entire university.

