Washington State University

Executive Budget Council

Update to Faculty Senate
December 9, 2021

Elizabeth Chilton and Stacy Pearson, Co-chairs

Executive Budget Council

- Engage the WSU system community in understanding our current practices in both allocating resources and assessing costs.
- Explore national best practices in resource allocation in higher education.
- Establish guiding principles for desired changes to the management of cost structures and resource allocation.
- Propose specific changes to our resource allocation methodology to support the system strategic plan and priorities.
- Propose a holistic budget model that incentivizes revenue growth and promotes accountability by utilizing success metrics.
- Facilitate transparent and informative budget communications with the WSU community.
- Recommend budget policies to support our strategic priorities, fiscal accountability and inclusive of all university funds.

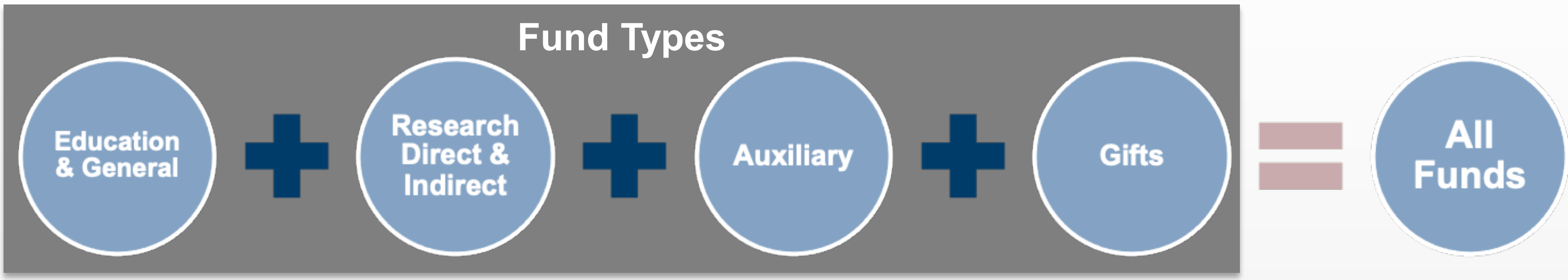
EBC Members

- Elizabeth Chilton and Stacy Pearson (Co-Chairs)
- Marwa Aly, Vice President, Graduate and Professional Student Association
- Celestina Barbosa-Leiker, Associate Professor, College of Nursing and Vice Chancellor for Research, WSU Health Sciences Spokane
- Bryan Blair, Chief Operating Officer, WSU Athletics
- Dave Cillay, Vice President for Academic Outreach and Innovation and Chancellor, Global Campus
- Sandra Haynes, Chancellor, WSU Tri-Cities
- Chip Hunter, Dean, Carson College of Business
- Linda McDermott, Assistant Vice President for Finance, Division of Student Affairs
- Brian Patrick, Student Government Council Representative and President, Associated Students of Washington State University
- Margaret Singbeil, Program Administrative Manager, WSU Seattle
- Don Holbrook, Budget Director, Academic Affairs (Ex-officio)
- Kristina Peterson-Wilson, Chief of Staff, Provost’s Office (Ex-officio)
- Kelley Westhoff, Executive Director for Budget and Planning (Ex-officio)

Clearly articulate budget values and model guiding principles

Budgeting Values	Budget Model Guiding Principles
▪ Predictable basis for planning and introducing new programs ▪ Disciplined, analytics-oriented approach to understanding program investments ▪ Recognition units are at different stages of development and have varied resource needs ▪ Increased transparency and sustainability ▪ Alignment of resource allocation, accountability, and responsibility ▪ Revenue growth, and increased resources to recruit, retain, and develop faculty, balanced with collaboration	▪ Ensure a culture that promotes a balance among research, educational opportunity and public service. ▪ Incentivize activities that align with the strategic plan and focus on campus success areas including quality, student success and innovation. ▪ Enhance visibility, forecasting and planning to promote a culture of evidence, fiscal responsibility, and accountability. ▪ Reinforce the common good in immediate and future University goals by balancing local and central roles and responsibilities when evaluating competing values, needs and resources. ▪ Be transparent and use simple, consistent and fair methodologies to allocate resources to facilitate effective decision making at all appropriate levels. ▪ Demonstrate a deep commitment to inclusiveness through constituent engagement and promote collaboration and a holistic view of the University.

All-funds approach



Advantages

- Shifts focus of budgeting conversations from expenses to both expenses and revenues
- Enhances transparency by showing all sources of revenue and expense
- Aligns best with our guiding principles budgeting
- Eases budget process in down years
- Enables joint program investment

Considerations

- Transition to adjust to both new model and new approach to reporting funds
- Need for additional assumptions for previously non-budgeted fund types
- Additional reporting and administrative efforts

An "all-funds" approach enhances to the current model because of the added transparency and ability to align with revenues and incentives to support the strategic plan.

Typical Model for Budgeting in Higher Education

More Centralized Models			More Decentralized Models	
Incremental	**Formula**	**Performance-Based**	**RCB**	**ETOB**
➢ Current budget acts as "base; " annual budget increments adjust base. ➢ Alignment of revenues and costs is not clear. ➢ Encourages "use-it or lose-it" spending. ➢ Not responsive to change in activity.	➢ Unit-based model focused on providing equitable funding. ➢ Unit rates are input-based and commonly agreed upon. ➢ Majority of revenues are not aligned with costs.	➢ Unit-based model focused on rewarding mission delivery. ➢ Unit rates are output-based and commonly agree upon. ➢ May sacrifice quality of outputs (gaming). ➢ Time-lag between decisions and results.	➢ Incentives tailored to emphasize strategic needs and promote entrepreneurship. ➢ Tax rate on all unrestricted revenues. ➢ Incentives are more "hard-wired" and may inhibit collaboration and/or impede success of institutional priorities. ➢ Aligns revenues with costs.	➢ Extremely de-centralized model. ➢ Academic units effectively operate as their own financial entities. ➢ Very little strategic control held by the central administration.

While RCM budgeting is commonly perceived as an entirely de-centralized budget model, several incentive-based iterations exist.

Responsibility Centered Management (RCM) Budget Model Iterations

Customized RCM Budgeting	Traditional RCM Budgeting	Each Tub on its Own Bottom (ETOB)
▪ A higher degree of central authority ▪ Local units keep a majority of their revenue but give up more through a higher subvention "tax" paid ▪ Through increased tax revenue, central administration has greater ability to subsidize colleges, fund strategic initiatives, and support mission-related programs ▪ This iteration has been the most commonly implemented since 2005	▪ Some centralized authority ▪ Local units keep most of the revenue they generate, but give up some to a central pool through a subvention "tax" paid ▪ Taxes generated can be used by the central administration to subsidize colleges, fund strategic initiatives, and support mission-related programs ▪ Generally low tax rate applied to all unrestricted revenues (in addition to indirect cost recoveries) ▪ These models were most frequently implemented from 1990 to 2004	▪ Extremely de-centralized model ▪ Academic units essentially operate as their own financial entities ▪ Very little strategic control held by the central administration ▪ No ability to smooth schools market forces impacts differentially ▪ Under-performing units must cut costs or generate more revenue to cover any losses incurred ▪ Only three U.S. institutions use this extreme iteration, one of which is shifting away

More centralized ←→ ***Less centralized***

All incentive-based budget models are generally considered within four elements

Benefit	Description of Benefits
Devolution of Revenue	▪ Models define ownership of revenues between central administration and the centers which generate them ▪ In particular: Tuition and fee revenues, direct research revenue, indirect (F&A) research revenues, and endowment and gift revenues ▪ Models also define "ownership" of state appropriations based-on agreed upon methodologies
Allocation of Costs	▪ Optimal decision-making requires that the full costs of activities be understood, not just direct costs, but also those associated with facilities usage and central services provided and used ▪ An understanding of how indirect costs are allocated enables planners to estimate full marginal costs of proposed initiatives ▪ Each center pays for its total costs, direct plus indirect
Use of Subvention Pools	▪ The provision of direct resources for strategic initiatives benefits the whole of the institution ▪ Allocations from central sources to responsibility centers called "subventions" can be used to offset mission-critical units with high operating costs ▪ In part, this can help addresses the economic problem of the commons
Financial Accountability	▪ As units move down the spectrum of revenue ownership, the system requires increased bottom-line responsibility and rewards for strong fiscal performance: – i.e., Centers begin to retain more and more of the positive operating margins and are responsible for repaying negative ones ▪ Financial accountability is a means, not an end in universities, and annual budget plans must still be reviewed and approved by university leaders

Current state and next steps

- EBC has worked through a general methodology for allocating revenues and for assessing costs, plus a subvention process
- Huron team has been meeting with Deans, Chancellors and AFOs to validate data and create the general framework for system and campus level budget modeling
- Early in 2022 we will put this together in general model for system level input using 2020 actuals
- While we continue to update the model itself based on stakeholder feedback, we begin focus on governance for decisions that are informed by the data from the model
- Hope to implement in shadow-system form in July 2022, while running current process in parallel

Questions?