

# **Executive Budget Council**

**Update to Faculty Senate 12/9/21**

**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.

<https://provost.wsu.edu/ebc/>

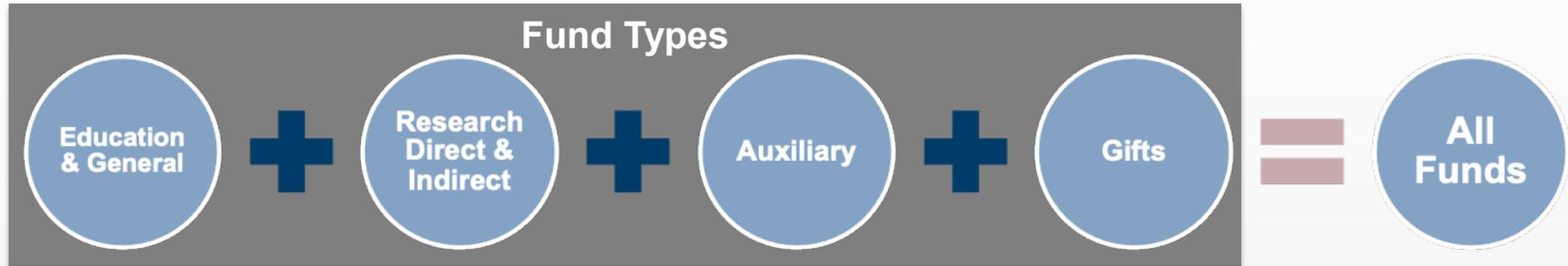
## EBC Members:

- 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
<ul style="list-style-type: none"> <li>▪ Predictable basis for planning and introducing new programs</li> <li>▪ Disciplined, analytics-oriented approach to understanding program investments</li> <li>▪ Recognition units are at different stages of development and have varied resource needs</li> <li>▪ Increased transparency and sustainability</li> <li>▪ Alignment of resource allocation, accountability, and responsibility</li> <li>▪ Revenue growth, and increased resources to recruit, retain, and develop faculty, balanced with collaboration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ensure a culture that promotes a balance among research, educational opportunity and public service.</li> <li>▪ Incentivize activities that align with the strategic plan and focus on campus success areas including quality, student success and innovation.</li> <li>▪ Enhance visibility, forecasting and planning to promote a culture of evidence, fiscal responsibility, and accountability.</li> <li>▪ 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.</li> <li>▪ Be transparent and use simple, consistent and fair methodologies to allocate resources to facilitate effective decision making at all appropriate levels.</li> <li>▪ Demonstrate a deep commitment to inclusiveness through constituent engagement and promote collaboration and a holistic view of the University.</li> </ul>

# 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	Incentive-Based	RCB	ETOB
<ul style="list-style-type: none"> <li>➤ Current budget acts as “base;” annual budget increments adjust base.</li> <li>➤ Alignment of revenues and costs is not clear.</li> <li>➤ Encourages “use-it or lose-it” spending</li> <li>➤ Not responsive to change in activity.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Unit-based model focused on providing equitable funding.</li> <li>➤ Unit rates are input-based and commonly agreed upon.</li> <li>➤ Majority of revenues are not aligned with costs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Unit-based model focused on rewarding mission delivery.</li> <li>➤ Unit rates are output-based and commonly agree upon.</li> <li>➤ May sacrifice quality of outputs (gaming).</li> <li>➤ Time-lag between decisions and results.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Incentives tailored to emphasize strategic needs and promote entrepreneurship.</li> <li>➤ Tax rate on all unrestricted revenues.</li> <li>➤ Incentives are more “hard-wired” and may inhibit collaboration and/or impede success of institutional priorities.</li> <li>➤ Aligns revenues with costs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Extremely de-centralized model.</li> <li>➤ Academic units effectively operate as their own financial entities.</li> <li>➤ Very little strategic control held by the central administration.</li> </ul>

# 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

- 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

### Traditional RCM Budgeting

- 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

### Each Tub on its Own Bottom (ETOB)

- 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 RCB models are generally include four elements

Benefit	Description of Benefits
<p><b>Devolution of Revenue</b></p>	<ul style="list-style-type: none"> <li>▪ Models define ownership of revenues between central administration and the centers which generate them</li> <li>▪ In particular: Tuition and fee revenues, direct research revenue, indirect (F&amp;A) research revenues, and endowment and gift revenues</li> <li>▪ Models also define “ownership” of state appropriations based-on agreed upon methodologies</li> </ul>
<p><b>Allocation of Costs</b></p>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ An understanding of how indirect costs are allocated enables planners to estimate full marginal costs of proposed initiatives</li> <li>▪ Each center pays for its total costs, direct plus indirect</li> </ul>
<p><b>Use of Subvention Pools</b></p>	<ul style="list-style-type: none"> <li>▪ The provision of direct resources for strategic initiatives benefits the whole of the institution</li> <li>▪ Allocations from central sources to responsibility centers called “subventions” can be used to offset mission-critical units with high operating costs</li> <li>▪ In part, this can help addresses the economic problem of the commons</li> </ul>
<p><b>Financial Accountability</b></p>	<ul style="list-style-type: none"> <li>▪ As units move down the spectrum of revenue ownership, the system requires increased bottom-line responsibility and rewards for strong fiscal performance:                             <ul style="list-style-type: none"> <li>– i.e., Centers begin to retain more and more of the positive operating margins and are responsible for repaying negative ones</li> </ul> </li> <li>▪ Financial accountability is a means, not an end in universities, and annual budget plans must still be reviewed and approved by university leaders</li> </ul>

## 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?