

Western Kentucky University Resource Allocation, Management, and Planning Statement of Work

Huron Consulting Services LLC (“Huron”, “we”, or “our”) is pleased to propose this statement of work for our engagement with Western Kentucky University (“WKU” or “the University”, or “you”).

Our Understanding of Your Needs

Huron understands that WKU desires a consulting partner to assist with the development of a new sustainable and performance-based resource allocation, management, and planning (“RAMP”) model and proposed implementation schedule. Further, Huron understands that WKU would like to create a model that supports the following objectives:

- Aligns with the State’s funding formula to better position WKU to increase State funding
- Addresses current financial trends, which include declines in student enrollment and sponsored programs
- Allocates funds in a way that will support the University’s new strategic plan
- Rewards performance and invests in strategic priorities in an equitable manner
- Increases transparency and simplicity in resource allocation

Project Approach

Huron recommends that WKU establish a Steering Committee (“the Committee”) as a decision-making resource that can speak and act on behalf of the campus. The primary role of the Committee is to provide guidance for this initiative, to review project status reports, and to validate the opportunities presented. In Huron’s experience, these types of committees tend to be most effective when they include a broad representation of academic and administrative stakeholders, and when members possess a strong knowledge of the organization as well as collegial and forward-looking institutional perspectives. Huron anticipates that it will meet 6 to 7 times with the Committee over the course of the engagement.

Prior to the start of the engagement, Huron will submit a data request list and an interview request list to the University. Huron’s data request will include financial, activity-level, and other operating data (e.g., budget call letters and organization charts). This information will support future stakeholder conversations and provide insight into the current RAMP process and data environment. Huron’s interview request will include stakeholders involved in budgeting and financial management. We anticipate speaking to 15 to 20 individuals over the first two weeks. Through these interviews, we will learn more about WKU’s current culture, identify the strengths and weaknesses of existing budgetary approaches, and assess stakeholder appetite for change.

Before our arrival on campus, we will conduct a conference call with the project sponsor to confirm project scope, methodology, work plan, and deliverables. We will also discuss our data and interview requests. During this same call, we will seek to understand the University’s philosophy for the RAMP process and how it supports WKU’s mission and strategic priorities. To accomplish our objectives within the proposed timeline, it will be imperative that we hold the conference call, confirm our interview schedule, and receive all requested data prior to our arrival on campus.

Financial Modeling (10 weeks)

Huron anticipates a 10-week effort on the build-out of a pro forma RAMP model. Huron will build the initial model in Excel using actuals financial data from WKU’s most recently audited financial statement. By using historical data, we will have a true accounting as to how resources are distributed to subsidize units, enabling us to focus on embedded allocation rules and incentives, as opposed to the validity of budgets. In addition to financial data, Huron will incorporate the use of activity level data, such as student headcounts, employee headcounts, credit hours, and square footage.

The model’s design will provide a platform to test various alternatives and scenarios. We anticipate that alternatives will vary with respect to several model characteristics, including: revenue allocation methodologies, cost pool structures, taxation policies, etc. We will test the model’s sensitivities to changes in revenue and cost allocations as a way of predicting the issues that might arise. For different scenarios, we will create something akin to a profit-and-loss statement for all schools, colleges, and auxiliaries that aligns direct and indirect costs with the revenues that they generate. These statements will illustrate to stakeholders how various assumptions and allocation methodologies impact each entity, using that information to identify any unintended consequences.

Huron will inventory each of the rules and assumptions used within the model, and will work with WKU to identify the most critical/sensitive decision points. As the University modifies assumptions and addresses the decision points, we will refine the model, interpreting the anticipated benefits and considerations associated with each modification. We will continue to refine the model throughout stakeholder engagement, after which, we will be left with a model that best reflects the University's culture and strategic priorities.

As part of our financial modeling efforts, we will meet regularly with staff from WKU's Budget Office, the Accounting Office, and relevant staff in other departments to discuss the calculation and interpretation of various data, and its treatment within University reports and information systems. Separately, Huron will host a RAMP model overview session with staff from the Budget Office to present a preliminary overview of the model structure and framework. A primary focus of this session will be to engage WKU stakeholders with respect to the present state of model development to ensure that it aligns with stakeholder's general understanding of University operations.

Stakeholder Engagement (10 weeks)

Huron expects a 10-week effort to engage various stakeholders with the objective of securing buy-in on the new RAMP model. Huron's approach to address this change management initiative is through clear communication, constituency involvement, and methodical, data-driven conversations. When a university begins to roll-out a new model to stakeholders, it is critical that the institution has intellectual champions who can articulate the overall design and mechanics of the model, address questions, and respond to critics. Huron will work closely with the University's model redesign champion(s), and expects that they will be highly involved in our conversations with college-level leadership to support knowledge transfer so that WKU can take ownership of the model. Huron's stakeholder engagement efforts comprise four elements:

Element #1: Engage Academic Deans and Business Officers

For the first element, we propose a set of individual dean meetings, followed by a dean's retreat. Anticipated meetings include:

- **Model Orientation Meeting:** Huron will meet separately with each dean, and their respective business manager, to review the model framework and to examine college-specific financials prior to revenue and cost allocations. The purpose of this meeting is to orient the deans to the layout of the income statement, to explain the information presented through the context of the current approach to budgeting, and to verify the accuracy of financial figures sourced directly from WKU's system of record. As a result of these meetings, Huron may need to involve the central budget office in follow up conversations to validate data.
- **Model Review Meeting:** Huron will meet separately with each dean, and their respective business manager, to examine their college-specific income statement that reflects the revenue and expense allocations as decided by the project steering committee. Huron will use specific examples to explain how allocations are calculated. The primary purpose of this meeting is to review the new funds flows and to illustrate the impact of proposed incentives. During these meetings, Huron will solicit feedback for the upcoming dean's retreat and prepare deans to actively engage and participate in retreat discussions. As a result of these meetings, Huron may need to involve the central budget office staff in follow up conversations to validate data.
- **Dean's Retreat:** Huron will facilitate a retreat with all academic deans to review the current state assessment, the case for change, and the baseline (market-driven) version of the model. From there, we will shift the focus to the customizations made to create a "WKU Model." Huron will review the model's critical decision points, encourage participation and feedback, and drive to secure buy-in for the model's adoption. In addition to the deans, it is anticipated that Steering Committee members attend and participate in the retreat.

Element #2: Engage Additional Stakeholders

Huron will work with the model redesign champions to engage a broader group of campus stakeholders. Efforts to engage a broader stakeholder group will include:

- **Department Chair Meetings:** Huron will work with each of the college/school deans to host a department chair meeting to discuss the University's redesign efforts. While we will encourage each dean to tailor the meetings to their leadership style, we anticipate the sessions will include general project updates, college/school-specific information, and question and answer periods.

- **Campus Open Forum:** Huron recommends that the Provost & Vice President for Academic Affairs and the Senior Vice President for Finance and Administration host an Open Forum to update the campus on the RAMP redesign effort and to answer stakeholder questions. Huron recommends that the forum be open to faculty, staff, students, and other interested parties. Huron will work with WKU to set the forum agenda, but anticipates it would include an introduction by the hosts, followed by a joint presentation from Huron and the WKU model redesign champions. The majority of time allocated to the Open Forum should be reserved for questions and answers.
- **Budget Panel Discussion:** Huron recommends that the Provost & Vice President for Academic Affairs and the Senior Vice President for Finance and Administration host a Budget Panel Discussion. Huron will work with WKU to recruit panelists from institutions that have adopted incentive-based models. We will work to secure both academic and administrative stakeholders to serve on the panel. Panelists will share lessons learned from their own model redesign initiative, offer recommendations for WKU, and answer stakeholder questions. While Huron plays an integral role in planning for the panel and recruiting panelists, any required panelist honorarium or travel expenditure is out of scope and the obligation of WKU.

As we progress through the stakeholder meetings described in this section, we will catalog relevant questions. After the meetings have been completed, we will create and distribute a document containing an aggregation of questions posed, and corresponding answers, to provide transparency into the array of stakeholder concerns.

Element #3: Refine Pro Forma Budget Model

As an outcome of conversations with Steering Committee members, academic deans, and other stakeholders, it is likely that the model will need to be refined. Huron will facilitate a discussion with the Steering Committee to review, discuss, and reach agreement on what refinements are needed.

Element #4: Conduct Model Training

With refinements in place, Huron will deliver training to staff in WKU's Budget Office. This training will be high-level and includes a review of the model framework, design, functionality, and calculations. Further, it will explain how the model can be revised in the future. In addition, Huron will create reference materials that can be used to train future WKU users on the model.

Project Resources

Andrew Laws will provide leadership and guidance for this project. Andrew will be joined by Matt Smith who will assist in maintaining the overall client relationship and project responsibility. Andrew and Matt will be on-site on an as-needed basis, participate in key meetings, and lead the project team. Huron will also utilize Doug Priest, a retired higher education administrator and faculty member from Indiana University as a subject matter expert. In addition to this leadership team, Victor Canestrini will serve as the Project Manager, leading the day-to-day site work and developing project deliverables. Huron will also leverage other internal team members as needed to ensure that the collective expertise and experiences of our dedicated higher education consulting team are brought to bear on this project.

Your Responsibilities

The successful delivery of our services, and the fees charged, are dependent on (i) your timely and effective completion of your responsibilities, (ii) the accuracy and completeness of the assumptions, and (iii) timely decisions and approvals by your management. You will be responsible for any delays, additional costs, or other liabilities caused by or associated with any deficiencies in the assumptions or in carrying out your responsibilities.

Fees and Expenses

Our professional fees for this project will reflect a fixed-fee amount of \$367,000. In addition, out-of-pocket expenses (including transportation, lodging, per diems/meals, supplies, communications fee, etc.) will be billed as incurred and are capped at 19% of professional fees for a total not-to-exceed amount of \$437,000. Huron will invoice for professional fees and expenses on a monthly basis (applying pro rata percentages to the fixed fee totals) with invoices due upon presentation.