

Date: December 6, 2018
Subject: Overview of ABB Trends at the University of Washington in Seattle

Activity Based Budgeting ([ABB](#)) is a planning system under which costs are associated with activities, and budgeted expenditures are allocated based on those expected activity levels. ABB allocates net tuition revenue to the unit(s) that conduct that activity and generate the revenue, providing greater alignment between activities and costs, business practice improvement, streamlining of costs, and budget process transparency. This model has been in use at the UW since fiscal year 2010 (FY10), with a soft launch in FY12 and full implementation in FY13.

The UW's ABB model was developed during a time of enrollment growth, tuition increases, and flat compensation. Since then, we have experienced relatively flat enrollments, expenditures growing faster than revenues, and undergraduate shifts in study area and class level. Because of these changes, revisiting and adjusting the model is key for its success. When ABB was fully adopted, a commitment was made to leave the basic elements in place for five years to provide an opportunity to understand the impacts of ABB as it was initially structured. In the meantime, an ABB review committee was formed to monitor and review the model and to provide recommendations about possible changes. Recommendations from the ABB Phase II Committee, which looked into concerns that had been expressed, were approved by the Provost in December 2016 and went into effect in FY18. ABB Phase III, the next formal review process, will take place in FY20, with review preparations, scoping, and planning beginning in January 2019.

This brief describes ABB distribution principles, ABB trends, and next steps. The data illustrates the UW's sustained prioritization of academic activities over administrative functions. However, it is important to note that administrative functions include many student- and research-facing units like Libraries, Student Life, and the Office of Research.

ABB Distribution Principles

Tuition Revenue: 70 percent of net tuition operating fee revenue¹ is distributed to Seattle schools and colleges;² 30 percent is retained by the Provost and used to support basic University functions, such as strategic academic initiatives, utility costs, employee compensation, administrative activities, and other shared services. In FY18, changes became effective for the methods of distributing net operating fee revenue to units. The current policies are outlined below.

1. Of the 70 percent of **undergraduate** net operating fee revenue that is distributed to units:
 - 80 percent (previously 60 percent) is distributed based on student credit hours.³
 - 20 percent (previously 40 percent) is distributed based on degree majors.⁴
2. Of the 70 percent of **graduate and professional** net operating fee revenue that is distributed to units:
 - 80 percent (previously 20 percent) is distributed based on student credit hours.³
 - 20 percent (previously 80 percent) is distributed based on major enrollments.^{4, 5}

Indirect Cost Recovery (ICR): Under ABB, units that generate ICR retain 35 percent of those funds. The other 65 percent is held centrally to reflect the centrally-funded share of general administrative and facilities costs.

Miscellaneous Fees: Under ABB, the revenue from a variety of "miscellaneous fees" is taxed at 30 percent, and the remaining 70 percent is distributed to the units that manage the activities for which the fees are charged.

Supplement: When ABB was fully implemented, a 'hold harmless' agreement was struck with deans. For the transition year, no unit was to receive less permanent general (GOF) and designated (DOF) operating funds than it had the

¹ Net operating fee revenue represents the actual revenue the UW *receives* once discounts (largely waivers and financial aid) are accounted for.

² 100 percent of revenue generated by UW Bothell and UW Tacoma is distributed to those units.

³ Student credit hours are attributed to units *not* on the basis of a faculty member's department, but rather on the basis of the department(s) associated with a course's "responsible curriculum."

⁴ A single major, degree, or curriculum may be attributed to one or more units. For example, a bioengineering major will count as one major for Engineering and one major for Medicine.

⁵ The Graduate School Interdisciplinary tier groups continue to distribute based on 80% major enrollments and 20% student credit hours.

previous year. The difference between the GOF and DOF base from the prior year and the calculated tuition (after financial aid and tax) and indirect cost recovery (after tax) was distributed to units as “supplement.” Each year since, investments in unit supplements have been spelled out in annual allocation tables. Investments that were categorized as “supplement,” because they were not formula-driven tuition or indirect cost recovery, included funding from the state for tuition backfill, compensation, and provisos, and allocations from Provost Reinvestment Funds. Changes to the methods for distributing net operating fee revenues to units became effective in FY18, and units were “held harmless” to the changes by making compensatory changes to supplements (if a unit’s tuition revenue was reduced by the policy change, then the unit’s supplement was increased by a commensurate amount, and vice versa). FY19 is the first year in which the new distribution parameters are in effect without making compensatory changes to the unit supplements.

ABB Distribution Trends

The attached table shows that the *total* FY19 ABB budget for Seattle is almost \$1.1 billion.⁶ The majority (64 percent) continues to be held by academic units, while the remainder (36 percent) is held by administrative units. This ratio has remained constant since FY16. Please note, this ratio is different from the ratio of *distributed* net tuition revenue (described above), under which 70 percent of net operating fee revenue is distributed to academic units and 30 percent is held centrally. Overall, the data illustrate the UW’s sustained prioritization of academic activities:

- Every academic unit’s ABB budget has increased since FY12.
- Academic units continue to experience more budget growth than administrative units, both in terms of real dollars (\$228.4 million versus \$87.9 million) and proportionate growth (48 percent versus 29 percent).
- Of the 40 percent total combined ABB budget *growth* for Seattle academic and administrative units, 72 percent of the growth occurred in academic units, while the remaining 28 percent occurred in administrative units.
- For the administrative units, unit-level ABB budget changes are due, in many cases, to the movement of offices from one administrative unit into another. As a reminder, administrative units include student- and research-facing units like Undergraduate Academic Affairs, Minority Affairs & Diversity, and the Graduate School.

[2ESSB 5954](#) reduced resident undergraduate tuition (RUG) in FY16 and FY17, and the state provided funding to backfill the forgone tuition revenue. These funds were distributed to academic units in the supplement category, which is why the total supplement for academic units increased substantially in FY16 and FY17. For FY18 onward, state policy allows RUG tuition to increase by around 2 percent per year and requires the state to provide inflationary adjustments to the prior backfill funds. Those additional backfill funds are also distributed to academic units through the supplement.

When ABB was launched, the amount of tuition revenue generated by the College of Arts & Sciences (CAS) was larger than the College’s total ABB budget. This “negative supplement” to CAS was finally eliminated in FY16. In the attached table, the CAS supplement shows a negative change because their supplement went from a negative number to a positive number. Their supplement in fact *increased* by \$25.5 million between FY12 and FY19, as shown in the table.

The negative change in the School of Public Health’s supplement is due to mid-year budget revisions due to organizational changes between the School of Public Health and the School of Medicine’s Department of Global Health.

ABB’s Future at UW

In December 2017, upon recommendation of the ABB Oversight Committee, the Provost charged a Joint Taskforce on Supplement Distribution with reviewing and reconsidering how “supplement” funds are distributed to units through ABB. Upon recommendations by the taskforce, the Provost implemented a growth cap based on undergraduate activity for FY19. Growth, calculated during the spring 2019 true-up process, exceeding 5 percent of a baseline calculation will result in a supplement reduction of the excess amount. Additionally, OPB is working with the Continuum College to assess the potential for moving to an incremental revenue distribution model for summer quarter revenue. Finally, beginning in January 2019, OPB will lead efforts to scope and plan for the FY20 ABB Phase III formal review.

⁶ The Seattle academic and administrative ABB budget total does not include central administrative funding, debt service, or transfers.

¹ The values in the "Setting the Baseline" document were slightly different from those used as the basis for all later adjustments (incremental revenue and true-ups). The difference was due to a financial aid decision that occurred between the publication of "Setting the Baseline" and the publication of the FY12 Regents' budget. To ensure that all ABB documents match, a single "reset" has been done. It is revenue neutral for all units; that is, a tuition revenue reduction is associated with a commensurate increase in the supplement.

² In FY13 and FY14, the negative true-ups for Undergrad Academic Affairs (282) and The Grad School (266) were "forgiven", as they resulted from corrections to curricula, majors, and degrees incorrectly mapped to those two colleges (a problem known at the launch of ABB). The calculation of that "forgiveness" is done here in order to make the appropriate change of that amount from tuition revenue to the supplement for those two units.

³ For administrative units, ABB budget changes are largely due to offices moving from one administrative unit into another. Examples include the Office of the Provost, UW Advancement (i.e. "VP for Development"), and Planning & Management.

⁴ The "Academic + Administrative Total" does not include central administrative funding, debt service or transfers.

* **UNIT NOTES:**

- The College of Arts & Sciences' supplement shows a negative change because it went from a negative number to a positive number. Their supplement in fact increased by \$25.5 million between FY12 and FY19, as shown in the "Total Change - Supplement" column.
- The negative change in the School of Public Health's supplement between FY12 and FY15 is due to mid-year budget revisions that were associated with organizational changes between Public Health and the School of Medicine's Global Health program.
- The increase in the School of Medicine's supplement is primarily because FICR was not included in the SoM's supplement prior to FY16, but was included in FY16 onward (~\$22.2m). Also, in FY17, the SoM received \$7.6M in new state funding for the Family Medicine Residency Network and the WWAMI program in Spokane. This funding is included in the supplement.
- Finance & Facilities' total ABB allocation for FY18 included \$62,848,605 in budgeted GOF/DOF fixed costs. As explained below, this is now included in the total for Finance & Administration
- Beginning in FY18, Planning and Management, UW Finance & Facilities, Human Resources, and UW Info Tech were combined into a new unit called Finance & Administration. UW Medicine CB was combined into School of Medicine.
- As of FY18, we have allocated summer quarter revenue to the School of Dentistry and the School of Medicine under ABB. For FY18, we allocated \$500k split between SOD and SOM. For FY19, we allocated based on incremental revenue projections. These are new columns in the ABB table.