

Date: November 14, 2017

Subject: Overview of ABB Trends at the University of Washington in Seattle

Activity Based Budgeting (ABB) is a budget model that has been in use at the University of Washington since fiscal year 2010 (FY10), with full implementation occurring in FY12. This model allocates net tuition revenue to the unit(s) that conduct the activity and generate the revenue, which provides opportunities to align activities with objectives, streamline costs, and improve business practices. See the [ABB website](#) for more information.

The 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 activity shifts between schools/colleges. Thus, revisiting the model has been imperative. When ABB was fully adopted in 2012, a commitment was made to leave the basic elements in place for five years to provide an opportunity to understand the consequences of ABB as it was initially structured. In the meantime, an ABB review committee was formed to monitor and review the current model and to provide recommendations about possible changes that might be considered.

In February 2016, the Provost charged the “ABB Phase II Committee” with conducting a formal review of the ABB process and model and with addressing the questions and concerns raised by the review committee. That group presented its [final report](#), with recommendations, to the Provost in July of 2016. In December of 2016, the Provost chose to approve the committee’s recommendations, effective in FY18. Among the approved recommendations was a change in the distribution methodology of net tuition operating fee revenue (more information below).

ABB Distribution Principles

Tuition Revenue: 70 percent of net tuition operating fee revenue¹ is distributed to schools and colleges at the UW in Seattle;² 30 percent is retained by the Provost and is used to support basic University functions, including employee compensation, utility costs, strategic investments in academic initiatives, administrative activities and other shared services. In FY18, changes took effect for the methods that governs the distribution of the 70 percent of net operating fee revenue to units. The new policies are outlined below. It was recommended and accepted that units be “held harmless” to this change at the beginning of FY18 by making compensatory changes in the units’ supplements. In other words, 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.

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) 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

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.

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.

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.

ABB Distribution Trends

As can be seen in the attached table, the *total* FY18 ABB budget for Seattle academic and administrative units is \$1.04 billion⁵. 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. Other noteworthy trends described in the table include:

- Every academic unit’s ABB budget has increased since FY12.
- From FY13 to FY17, undergraduate tuition revenue increased by 10 percent. Arts & Sciences received roughly the same undergraduate revenue in FY17 as in FY13. During the same period, the undergraduate revenue for other schools and colleges increased by 75 to 180 percent.
- Academic units continue to experience more budget growth than administrative units, both in terms of real dollars (\$190 million versus \$72 million) and in terms of proportionate growth (40 percent versus 23 percent).
- Of the 34 percent total combined ABB budget *growth* for Seattle academic and administrative units, 73 percent of the growth occurred in academic units, while the remaining 27 percent occurred in administrative units.
- For administrative units, unit-level ABB budget changes are due, in many cases, to the movement of offices from one administrative unit into another. For example, four units (Planning and Management, UW Finance & Facilities, Human Resources and UW Info Tech) were combined into a new unit titled “Finance and Administration,” effective in FY18.

Please note, the College Affordability Act ([2ESSB 5954](#)) reduced resident undergraduate (RUG) tuition in FY16 and FY17, and the state provided funding to backfill the forgone tuition revenue. 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. These backfill 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 and marginally in FY18.

Please also note, when ABB was launched, the amount of tuition revenue generated by the College of Arts & Sciences was larger than Arts & Sciences’ total ABB budget. This “negative supplement” to Arts & Sciences was finally eliminated in FY16. In the attached table, Arts & Sciences’ supplement shows a negative change because their supplement went from a negative number to a positive number. It is important to note that their supplement in fact *increased* by \$22.8 million between FY12 and FY18, as shown in the table.

Further, please note that the negative change in the School of Public Health’s supplement is due to mid-year budget revisions that were associated with organizational changes between the School of Public Health and the School of Medicine's Department of Global Health.

ABB’s Future at UW

In addition to the change in the distribution methodology, OPB is working with stakeholders to address other emergent issues identified in the ABB Phase II Committee report, such as potentially duplicative courses and degrees, the distribution of supplement funds (e.g. permanent base budgets), and summer quarter revenue from programs run by Continuum College. In addition, in January of 2017, the [Provost charged a new committee](#) (the ABB Oversight Committee) with addressing ABB-related issues until a third full-scale review is completed in FY20.

⁵ 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 \$22.8 million between FY12 and FY18, as shown in the "Total Change - Supplement" column.
- The negative change in 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 2017-18, Planning and Management, UW Finance & Facilities, Human Resources, and UW Info Tech were combined into a new unit, Finance and Administration. UW Medicine CB was combined into School of Medicine.