Overview of ABB Trends at the University of Washington in Seattle – FY21 Update

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. Scoping and planning for ABB Phase III, the next formal review process, began in January 2019, and a final report was sent to the Provost in April 2020.

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 revenue\(^1\) 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

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1. Net operating fee revenue represents the total of all operating fees charged to students, after subtracting waivers, grants, and certain fees.
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, as well as 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 (i.e. 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 was the first year that the new distribution parameters were in effect without making compensatory changes to unit supplements. The temporary measure of a cap was removed after FY19 when the formal ABB Phase III review began. The Phase III steering committee has recommended, and leadership has approved, an allocation of a small fraction of the cutover funding in the supplement category to centrally support academic program development and subvention of cross-disciplinary initiatives, effective in FY22.

**ABB Distribution Trends**

The attached table shows that the total FY21 ABB budget for Seattle is about $1.2 billion. The majority (63 percent) continues to be held by academic units, while the remainder (37 percent) is held by administrative units. This ratio has been very consistent. 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 (almost $273 million versus $122 million) and proportionate growth (58 percent versus 40 percent).
- Of the 51 percent total combined ABB budget growth for Seattle academic and administrative units, 69 percent of the growth occurred in academic units, while the remaining 31 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** (2015) 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, the 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 $26.3 million between FY12 and FY21, 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 would

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6 The Seattle academic and administrative ABB budget total does not include central administrative funding, debt service, or transfers.
result in a supplement reduction of the excess amount. During this process, no academic unit exceeded the 5 percent threshold. In FY20, the ABB Phase III committees reviewed the base supplement and recommended an across the board cut. This recommendation was approved and will be implemented in FY22.

Finally, in January 2019 OPB began leading efforts to scope and plan for the FY20 ABB Phase III formal review. In early FY20, three subcommittees reviewed specific areas of the budget model:
- Tuition Taxation and Formulae
- Research ICR
- Supplement

Reports from the subcommittees were submitted to a steering committee for consideration. The steering committee reviewed these reports and made recommendations to the Provost in early spring 2020. Recommendations included a request for more self-service dashboards and reporting; a full review of taxation and overhead at the University; and a modest change to the cutover portion of the supplement. The Provost accepted these recommendations in a letter to campus, but delayed implementation of the supplement changes until FY22. Currently, work is underway for the first two recommendations and in FY22, OPB will implement the third recommendation of this review.
### Overall Trends in Seattle ABB Allocations

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### Overall Trends in Seattle ABB Allocations by Percentage

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**Note:** Figures follow on second page.
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 FY12 and FY13, the negative true-ups for Undergrad Academic Affairs (UGAA) and the Grad School (GS) 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 $27.1 million between FY12 and FY20, as shown in the "Total Change - Supplement" column.
  • The negative change in the School of Public Health’s supplement between FY12 and FY13 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 $65,596,685 in budgeted GOF/DOF fixed costs. As explained below, this is now included in the total for Finance & Administration.
  • Beginning in FY18, Planning & Management, UW Finance & Facilities, Human Resources, and UW IT Info Tech were combined into a new unit called Finance & Administration. UW Medicine C& 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 $200k split between SoD and SoM. For FY19, we allocated based on incremental revenue projections. These are new columns in the ABB table.
  • In FY20, Finance & Administration was split into UW Finance, UW Facilities, UWHR, and UW IT.