Date: March 9, 2012
Subject: Activity Based Budgeting

The University started developing an Activity Based Budgeting (ABB) model in 2009. While ABB was partially implemented at the UW in FY2011 and FY2012, the budgeting process for FY2013 will be the first to reflect full implementation. As previously reported, the key elements of the full ABB launch are described below.

**ABB full implementation July 1, 2012 –Overview**

- **Tuition Revenue Distributions:** Two different tuition revenue distribution calculations affect unit budgets for the upcoming fiscal year:
  - **True-Up:** True-up tuition revenue distribution for the current year will be added to the budget for the upcoming fiscal year. The amount of true-up revenue to be distributed in the next fiscal year will be published within two weeks of Spring census day.
  - **Incremental Tuition:** Initial projected incremental tuition distributions for the coming fiscal year will be published on the basis of recommended tuition rate changes in the draft budget presented to Regents in May. Tuition revenue distributions will be finalized when the Regents approve tuition rates in June. In addition, an updated model allowing units to look at the potential effect of various tuition rate changes will be made available after Spring census day.

  The same SCH, major enrollment, and degree major distribution information is used for the true-up and the incremental calculations. As an example, in Spring 2012, true-up information for 2011-12 and projections for 2012-13 will both be based on:

  - SCH from 2011-12
  - Major enrollments from 2011-12
  - Degree majors from 2010-11

- **Miscellaneous Fees:** There are several units that have miscellaneous fee revenue (e.g. application fees) in their budgets. Meetings will be set up with units that use fee revenue for operations to determine how such fees will be calculated and treated within the ABB model. We anticipate that these meetings will take place during spring of 2012.

- **Indirect Cost Recovery (ICR):** Funds from ICR have historically been distributed to units as RCR (research cost recovery). ICR will be allocated to units directly under ABB. While ICR is now considered to flow to the unit that generates it, we have not changed responsibility for costs, so we have set tax rates so that the split of income between units and the center remains comparable, allowing the center to continue to cover costs associated with our research enterprise. Therefore, ICR will be directly allocated to units and taxed at 65 percent (the unit retains 35 percent of ICR). As with RCR in the past, ICR allocations will be incremental to the unit’s base as established in the baseline budget shared in ABB meetings and on page three of the ABB document ‘FY12 Setting the Baseline,’ available at [opb.washington.edu/sites/default/files/opb/Budget/Baseline.pdf](http://opb.washington.edu/sites/default/files/opb/Budget/Baseline.pdf). The funding
for these budgets will become DOF-LFA, and the period for which the calculations are done will be reset to the 12 month period from April 1 through March 30 of each year, allowing us to set ICR budgets before the beginning of the fiscal year. The reset means this first year will reuse the last 3 months of FY2011 as part of the 12 month period-- April 1, 2011 through March 30, 2012.

- **Budget Type/Class 01/32 eliminated**: Because RCR is being redefined as ICR and will become DOF-LFA, budget type and class 01/32 will be eliminated and become 01/31. The budget prefix 75 can be retained, but it is recommended that the value be reset to the new base.

- **Cost Increases**: Under the previous budget model the Provost used incremental tuition increases and any augmentation to our state funding in allocating funds to academic units for specific purposes including promotions, merit salary increases, emeritus faculty (40% retire and rehire) and changes to benefits rates. As of July 1, 2012 the academic units will be responsible for funding and distributing these allocations. In the event that state funding is provided to the University for these purposes, the Provost will allocate these new state funds to units based on pro rate distribution of the relevant costs.

- **Oversight Committee**: An Activity Based Budgeting oversight committee is being established to be in place for the new fiscal year. Conversations about the committee’s charge and membership are ongoing.

- **Summer Quarter**: An analysis of summer quarter will be conducted to determine how or if the quarter should be rolled into Activity Based Budgeting. This analysis will be completed this calendar year so that the summer quarter of calendar 2013 can adhere to any new policies and procedures developed.

- **Modeling Available**: A model that enables Deans and Administrators to explore the potential effect of tuition and enrollment changes on tuition revenue under ABB is now available on our website at [http://opb.washington.edu/content/activity-based-budgeting-project](http://opb.washington.edu/content/activity-based-budgeting-project) under the heading “Modeling FY13 Tuition Revenue to Schools and Colleges.” Because the Regents still approve tuition rates and the distribution to a school or college will be affected by the activity of other schools and colleges as well as by student enrollment choices, this model can only provide estimates of the marginal revenue effects of changes you might consider.

*Please contact Amy Floit or Carol Diem if you have any questions about elements of the full ABB launch.*