Planning & Budgeting Brief

Date: October 5, 2015
Subject: Overview of Seattle ABB Trends

ABB is a budget model that allocates net tuition revenue to the unit(s) that conduct the activity and generate the revenue. This allocation is done using a predetermined calculation and model created for just this purpose. In addition to the net operating fee portion of tuition, indirect cost recovery is allocated to units based on an approved formula. ABB provides opportunities to align activities with objectives, streamline costs and improve business practices.

In 2009, the Provost created a working group to investigate the possibility of implementing an ABB model. In July 2010, the University executed a soft launch of the model, completing a fully implemented model in time for FY12.

University leadership will be starting a formal review of ABB during the next fiscal year, with a goal of making any changes effective for FY18.

**ABB Distribution Principles**

**Tuition Revenue:** 70 percent of net tuition operating fee revenue\(^1\) is distributed to schools and colleges on the Seattle campus;\(^2\) 30 percent is retained by the Provost and is used to support basic University functions, including utility costs, strategic investments in academic initiatives, administrative activities and other shared services.

1. Of the 70 percent of **undergraduate** net operating fee revenue that is distributed to units:
   - 60 percent is distributed based on student credit hours.\(^3\)
   - 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:
   - 20 percent is distributed based on student credit hours.\(^3\)
   - 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.

**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, of the total FY16 ABB budget for Seattle academic and administrative units ($962 million)\(^5\), the majority (65 percent) continues to be held by academic units, while the remainder (35 percent) is held by administrative units. This ratio has remained relatively constant since FY12, with a slight increase in the percentage going to academic units. Please note, this ratio is different from the ratio of distributed net tuition revenue (described

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

\(^2\) 100% 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 Seattle academic and administrative ABB budget total does not include central administrative funding, debt service or transfers.

[opb.washington.edu](http://opb.washington.edu)
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.
- Academic units have experienced more budget growth than administrative units, both in terms of real dollars ($138 million versus $41 million) and in terms of proportionate growth (28 percent versus 14 percent).
- Of the total combined ABB budget growth for Seattle academic and administrative units (23 percent), 77 percent of the growth occurred in academic units, while the remainder (23 percent) occurred in administrative units.
- Academic units that have experienced proportionately more ABB budget growth than other academic units include the College of Arts & Sciences, the Information School, the College of Engineering, the College of the Environment, the Foster School of Business and the School of Pharmacy.
- Academic units that have experienced proportionately less growth than other academic units include the School of Public Health, the School of Law and the Medical Centers.\(^6\)
- For administrative units, ABB budget growth (or shrinkage) is largely due to the movement of offices from one administrative unit into another. Examples of this include the Office of the Provost, UW Advancement (i.e. “VP for Development”), and Planning & Management.

Although not shown in the attached table, the tuition component of academic ABB allocations has grown at roughly the same rate as total academic ABB allocations. Thus, overall, the tuition share of total academic ABB allocations is only 2 percent larger now than it was in FY12.

Please note, since ABB was launched, the amount of tuition revenue generated by the College of Arts & Sciences has been larger than Arts & Sciences’ total ABB budget. This “negative supplement” to Arts & Sciences has finally been 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 $9.6 million between FY12 and FY16, 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.

\(^6\) However, it should be noted that the Medical Centers do not receive a share of the net operating fee revenue.
### Overall Trends in Seattle ABB Allocations

<table>
<thead>
<tr>
<th>UNITS</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>Total ABB</th>
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<th>Total ABB</th>
<th>Total Change</th>
<th>Total ABB Allocation</th>
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</thead>
</table>

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1. The values in the "Setting the Baseline" document are 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 matched 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. The "Academic + Administrative" total does not include central administrative funding, debt service or transfers.

4. 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.

5. The College of Arts & Sciences' budget shows a negative change because it went from a negative number to a positive number. Their supplement in fact increased by $9.5 million between FY12 and FY16, as shown in Column X.

6. 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 Global Health department.