Date: August 4, 2016

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

Activity Based Budgeting (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.

In February 2016, the Provost charged a working group, called the ABB Phase 2 Committee, with providing a formal review of ABB. That group presented its final report, with recommendations, to the Provost in July 2016. In fall 2016, the Provost will choose whether to act on the recommendations. Any approved recommendations will be effective for FY18.

ABB Distribution Principles

**Tuition Revenue:** 70 percent of net tuition operating fee revenue\(^1\) 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 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 FY17 ABB budget for Seattle academic and administrative units ($1.02 billion)\(^5\), 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

---

\(^1\) 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.
going to academic units. 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.
- Academic units have experienced more budget growth than administrative units, both in terms of real dollars ($173 million versus $62 million) and in terms of proportionate growth (36 percent versus 21 percent).
- Of the total combined ABB budget growth for Seattle academic and administrative units (30 percent), 74 percent of the growth occurred in academic units, while the remainder (26 percent) occurred in administrative units.
- 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.

Please note, the College Affordability Act (2ESSB 5954) reduced resident undergraduate tuition 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.

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 FY17, 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.
<table>
<thead>
<tr>
<th>SEATTLE ACADEMIC UNITS</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ABB Allocation</td>
<td>$406,633,217</td>
<td>$782,403,030</td>
<td>$414,930,056</td>
<td>$824,976,358</td>
<td>$426,014,967</td>
<td>$501,106,989</td>
</tr>
<tr>
<td>% change over prior year</td>
<td>31%</td>
<td>62%</td>
<td>36%</td>
<td>63%</td>
<td>30%</td>
<td>64%</td>
</tr>
<tr>
<td>% of Seattle Total %</td>
<td>20%</td>
<td>23%</td>
<td>26%</td>
<td>23%</td>
<td>20%</td>
<td>23%</td>
</tr>
</tbody>
</table>

The values in the "Setting the Baseline" document were slightly different from those used for the basis of all previous calculations (incremental revenue and costs). The difference was due to a financial aid decision that occurred prior to the publication of "Setting the Baseline" and the publication of the FY12 Regent's 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.

3 For administrative units, ABB budget changes are largely due to changes in revenue from one administrative unit into another. Examples include the Office of the Provost, UW Advancement (i.e. "VP for Development"), Planning & Management, and the "Academic + Administrative" Total does not include central administrative funding, debt service or transfers.

**Note:**
- The College of Arts & Sciences' supplement shows a negative change because it went from a negative number to a positive number. Its supplement in fact increased by $22.8 million between FY12 and FY17, as shown in the "Total Change - Supplement" column.
- The negative change in 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 FCR was not included in the SoM's supplement prior to FY16; but was included in FY16 onward (over $22m). 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 & facility's total ABB change for FY17 includes $43,248,037 in budgeted GOF/DOF fixed costs.