

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 methodology 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.

Overall Trends in Seattle ABB Allocations

Note: footnotes follow on second page

SEATTLE ACADEMIC UNITS	FY12 ¹		FY13 ²		FY14 ²		FY15		FY16		FY17		FY18		Total Change			
	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement		Total ABB Allocation	
															\$	%	\$	%
BUILT ENVIRONMENTS	1,215,005	8,663,754	1,046,856	9,147,009	1,090,050	8,203,526	1,089,935	10,331,413	1,294,657	11,016,332	1,881,766	12,058,525	1,782,617	11,778,813	567,612	47%	3,115,059	36%
COLL ARTS & SCIENCES*	(8,559,782)	151,526,837	(10,857,946)	162,550,107	(9,659,035)	175,180,750	(7,515,043)	190,890,517	993,744	198,086,258	14,222,615	195,756,926	14,265,026	195,523,171	22,824,808	-267%	43,996,334	29%
FOSTER BUSINESS SCHOOL	2,697,471	22,808,100	2,349,813	24,346,572	2,569,660	26,053,564	2,783,791	28,227,134	4,309,130	32,335,388	6,356,242	33,647,914	8,617,399	33,431,740	5,919,928	219%	10,623,640	47%
COLLEGE OF EDUCATION	4,992,595	10,472,387	4,800,424	11,585,784	4,924,975	12,944,466	5,057,189	14,390,708	5,456,495	15,209,513	6,213,699	16,673,672	6,297,229	17,084,655	1,304,634	26%	6,612,268	63%
COLLEGE OF ENGINEERING	20,533,997	52,908,351	24,709,475	58,262,288	25,310,848	61,573,854	26,585,996	68,212,223	29,150,852	75,450,508	40,438,479	88,527,560	44,052,634	91,900,920	23,518,637	115%	38,992,569	74%
COLLEGE OF ENVIRONMENT	18,604,087	34,898,203	18,145,120	36,571,037	18,821,754	38,974,636	19,815,262	41,677,129	21,587,548	43,709,406	23,361,761	44,947,351	22,356,686	45,958,413	3,752,599	20%	11,060,210	32%
INFORMATION SCHOOL	1,879,717	4,204,453	1,991,440	4,412,023	2,039,888	4,848,237	2,052,872	5,711,877	2,224,540	6,327,775	2,556,678	7,512,992	2,205,391	8,383,232	325,674	17%	4,178,779	99%
SCHOOL OF LAW	4,114,288	14,119,797	3,801,791	15,029,605	3,802,319	15,660,809	3,660,670	15,472,466	4,111,954	15,687,853	4,532,493	16,049,383	4,540,846	16,348,553	426,558	10%	2,228,756	16%
EVANS SCH PUBPOL & GOV	1,295,690	4,266,373	1,214,982	4,830,436	1,125,146	5,281,329	1,380,489	5,737,177	1,524,961	5,806,998	1,701,848	6,223,954	1,674,005	6,987,613	378,315	29%	2,721,240	64%
SCHOOL OF SOCIAL WORK	3,228,123	7,483,346	2,995,541	7,775,477	3,131,081	7,954,676	3,192,648	8,204,633	3,552,840	8,864,363	3,794,589	9,218,458	4,030,079	9,450,478	801,956	25%	1,967,132	26%
SCHOOL OF DENTISTRY	9,597,311	14,455,383	9,532,403	15,540,940	9,621,454	15,959,562	9,335,841	16,275,715	9,737,348	17,200,744	10,180,032	18,427,985	10,206,673	18,484,613	609,362	6%	4,029,230	28%
SCHOOL OF MEDICINE*	38,545,714	111,978,838	39,535,023	119,111,818	41,156,208	121,451,470	41,669,057	127,557,570	66,446,762	139,126,747	76,144,232	151,608,182	82,751,366	160,699,082	44,205,652	11%	48,720,244	44%
UW MEDICINE CB*	909,188	909,188	896,023	896,023	896,024	896,024	904,122	904,122	922,615	922,615	968,890	968,890	0	0	(909,188)	n/a	(909,188)	n/a
SCHOOL OF NURSING	5,607,443	10,242,985	5,754,389	10,782,827	5,785,466	11,102,386	6,128,509	11,719,270	6,546,915	12,260,739	7,049,359	12,755,924	7,934,604	13,386,942	2,327,161	42%	3,143,957	31%
SCHOOL OF PHARMACY	2,736,803	8,447,824	2,524,977	9,784,103	2,583,993	10,045,910	2,593,672	11,244,599	3,062,647	11,801,165	3,358,618	12,581,395	3,672,786	12,587,329	935,983	34%	4,139,505	49%
SCHOOL OF PUBLIC HEALTH*	5,838,944	16,885,185	5,623,750	18,346,416	4,856,711	18,523,776	3,979,198	17,106,458	4,237,823	18,406,705	4,737,500	20,229,268	5,091,085	22,551,964	(747,859)	-13%	5,666,779	34%
ACADEMIC TOTAL	113,236,594	474,271,004	114,064,061	508,972,465	118,056,543	534,654,974	122,714,209	573,663,012	165,160,871	612,213,109	207,498,801	647,188,379	219,478,427	664,557,520	106,241,833	94%	190,286,516	40%
% change over prior year	-	-	1%	7%	4%	5%	4%	7%	35%	7%	26%	6%	6%	3%	n/a	n/a	n/a	n/a
% of Seattle Total	28%	61%	27%	62%	28%	62%	28%	63%	33%	64%	37%	64%	37%	64%	59%	n/a	73%	n/a

SEATTLE ADMINISTRATIVE UNITS	FY12 ¹		FY13 ²		FY14 ²		FY15		FY16		FY17		FY18		Total Change ³			
	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement	Total ABB Allocation	Supplement		Total ABB Allocation	
															\$	%	\$	%
Institutional Infrastructure	210,310,053	210,903,303	212,292,998	212,837,567	217,545,443	218,090,012	236,526,825	237,071,394	243,700,492	246,158,262	259,056,186	261,555,253	264,011,916	266,842,800	53,701,863	26%	55,939,497	27%
PRESIDENT	2,423,272	2,423,272	2,470,513	2,470,513	2,714,987	2,714,987	2,862,138	2,862,138	3,035,421	3,035,421	3,319,796	3,319,796	3,447,377	3,447,377	1,024,105	42%	1,024,105	42%
ATTORNEY GENERAL	3,287,279	3,287,279	3,293,779	3,293,779	3,303,875	3,303,875	3,311,287	3,311,287	3,377,774	3,377,774	3,619,169	3,619,169	4,068,424	4,068,424	781,145	24%	781,145	24%
PROVOST	5,983,233	5,983,233	6,483,906	6,483,906	6,145,991	6,145,991	16,320,491	16,320,491	15,471,589	17,332,805	26,987,289	28,932,604	35,203,230	37,717,563	29,219,997	488%	31,734,330	530%
FINANCE & ADMINISTRATION*													189,828,776	190,145,327	189,828,776	n/a	190,145,327	n/a
PLANNING & MANAGEMENT*	4,279,915	4,279,915	4,207,728	4,207,728	4,385,345	4,385,345	4,711,891	4,711,891	5,376,500	5,376,500	25,904,987	25,904,987	0	0	(4,279,915)	n/a	(4,279,915)	n/a
UW FINANCE & FACILITIES*	118,994,819	119,383,319	119,528,474	119,893,556	118,570,038	118,935,120	119,387,418	119,752,500	124,901,326	125,192,979	104,599,152	104,872,746	0	0	(118,994,819)	n/a	(119,383,319)	n/a
HUMAN RESOURCES*	9,277,437	9,277,437	9,150,106	9,150,106	9,844,535	9,844,535	10,313,736	10,313,736	10,895,347	10,895,347	11,242,093	11,242,093	0	0	(9,277,437)	n/a	(9,277,437)	n/a
UW INFO TECH*	42,781,180	42,781,180	42,116,339	42,116,339	46,244,688	46,244,688	50,475,377	50,475,377	50,783,142	50,835,005	52,528,895	52,556,015	0	0	(42,781,180)	n/a	(42,781,180)	n/a
EXTERNAL AFFAIRS	5,035,176	5,239,926	4,792,775	4,972,262	5,152,776	5,332,263	4,396,955	4,576,442	2,943,222	2,943,222	2,422,028	2,422,028	2,658,672	2,658,672	(2,376,504)	-47%	(2,581,254)	-49%
VP FOR DEVELOPMENT/ADVANCEMENT	5,797,857	5,797,857	7,799,493	7,799,493	8,743,172	8,743,172	12,145,344	12,145,344	14,143,327	14,396,365	15,761,044	16,014,082	15,766,740	15,766,740	9,968,883	172%	9,968,883	172%
MEDICAL CENTERS	12,449,885	12,449,885	12,449,885	12,449,885	12,440,036	12,440,036	12,602,188	12,602,188	12,772,844	12,772,844	12,671,733	12,671,733	13,038,697	13,038,697	588,812	5%	588,812	5%
Instructional & Student Support	34,681,681	43,653,964	34,061,746	43,278,072	34,361,818	43,687,452	26,141,706	36,136,421	31,956,229	38,250,115	34,185,888	40,559,812	35,082,556	42,778,963	400,875	1%	(875,001)	-2%
VP MINORITY AFFAIRS	6,897,419	7,061,164	6,793,078	6,927,349	6,810,115	6,964,170	7,097,941	7,267,887	7,427,208	7,557,279	7,722,437	7,862,071	8,049,811	8,195,706	1,152,392	17%	1,134,542	16%
VP STUDENT LIFE	17,673,911	19,880,661	17,850,408	19,926,844	18,107,306	20,183,742	9,984,583	12,061,019	12,404,191	12,840,995	13,179,730	13,665,754	13,779,991	14,415,011	(3,893,920)	-22%	(5,465,650)	-27%
CONTINUUM COLLEGE	2,167,522	2,167,522	2,193,242	2,193,242	2,193,242	2,193,242	2,210,942	2,210,942	2,214,683	2,225,363	2,380,064	2,384,275	2,412,118	2,417,135	244,596	11%	249,613	12%
GRADUATE SCHOOL	3,305,226	6,815,158	2,705,762	6,559,949	2,683,193	6,609,334	3,545,780	8,011,011	5,295,370	8,554,042	5,827,365	9,167,687	6,003,934	9,851,772	2,698,708	82%	3,036,614	45%
UNDERGRAD ACAD AFFAIRS	4,637,603	4,519,459	4,519,256	7,736,688	4,567,962	7,736,964	3,302,460	6,585,562	4,614,777	7,072,436	5,076,292	7,480,025	4,836,702	7,899,340	199,099	4%	169,881	2%
Research & Innovation	48,404,889	53,574,759	54,511,251	59,888,254	56,051,163	61,848,685	58,035,848	63,280,072	60,289,377	65,185,393	63,291,445	68,207,673	66,710,823	70,656,226	18,305,934	38%	17,081,467	32%
DEAN OF LIBRARIES	30,252,229	30,527,120	32,477,248	32,756,991	33,315,000	33,579,439	34,396,659	34,656,287	35,793,244	35,969,066	37,398,414	37,562,690	38,942,512	39,131,408	8,690,283	29%	8,604,288	28%
VICE PROVOST-RESEARCH	7,973,153	10,102,332	9,395,052	11,658,546	10,079,004	12,482,886	10,793,778	13,294,700	11,367,658	13,719,900	11,935,128	14,163,670	12,817,367	14,659,388	4,844,214	61%	4,557,056	45%
COMOTION	772,733	772,733	759,997	759,997	765,939	765,939	789,096	789,096	839,521	841,632	655,103	655,344	679,116	679,461	(93,617)	-12%	(93,272)	-12%
HEALTH SCIENCES ADMIN	9,406,774	12,172,574	11,878,954	14,712,720	11,891,220</													

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.