

Activity Based Budgeting (ABB) Decision Summaries

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Undergraduate Tuition

Current

Operating fee revenue (tuition) now constitutes a larger contribution to the University's GOF funds than state appropriations. GOF funds have historically been allocated to units through a central, largely incremental, University budgeting process.

ABB Approach

Under ABB, operating fee revenue will be distributed to schools and colleges based on their generation of revenue, as measured by student credit hours and enrollments.

ABB Principles

- Support, not determine, University missions and goals
- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Assign revenues to the units responsible for the activity that generates those revenues
- Clearly identify cross subsidization
- Recognize the importance of maintaining current funding levels or phasing-in funding reductions

Decision Statement

- Net operating fee revenue from undergraduates will be distributed to a school or college (or any unit that generates undergraduate operating fee revenue), with 40 percent distributed based on degrees awarded in the academic year two years prior to the year for which revenue is distributed and 60 percent based on student credit hours (SCH) taught in the previous academic year
- The total amount distributed will correspond to the revenue projections provided in the budget adopted by the Regents
- Net operating fee revenue will be projected using a specified methodology; net revenue is equivalent to the total amount charged less waivers and the return to financial aid.
- Operating fees distributed to units will be taxed at a rate of 30%; this tax revenue will be used by the Provost to fund administrative units, provide supplemental funding for Activity-Generating Units, and support central initiatives.
- The difference between budgeted and actual tuition will be calculated and each unit's budget for the next fiscal year will be "trued-up" to reflect such differences.

Rationale

Connecting the distribution of operating fees to the effort of matriculating and teaching students is a centerpiece of ABB. This proposal:

- Makes sure that support flows to where teaching effort occurs. As enrollments grow and/or shift, these formulae will make funds more immediately available to provide the necessary instructional resources.
- Supports the schools' associated costs of recruiting and supporting the students in their programs¹. Provides funds through the tax for the Provost to support central administrative services and to maintain current relative funding levels and cross subsidies while making them explicit.

Supporting documents

<http://opb.washington.edu/sites/default/files/opb/Budget/ABB-Manual.pdf>

¹ Since many undergraduates have not declared a major for a portion of their academic career, degrees rather than majors are used as a measure of the number of students each school or college is serving.

Graduate Tuition

Current

Operating fee revenue (tuition) now constitutes a larger contribution to the University's GOF funds than state appropriations. GOF funds have historically been allocated to units through a central, largely incremental, University budgeting process.

ABB Approach

Under ABB, operating fee revenue will be distributed to schools and colleges based on their generation of revenue, as measured by student credit hours and enrollments.

ABB Principles

- Support, not determine, university missions and goals
- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Assign revenues to the units responsible for the activity that generates those revenues
- Clearly identify cross subsidization
- Recognize the importance of maintaining current funding levels or phasing-in funding reductions

Decision Statement

- Net operating fee revenue from graduate and professional students will be distributed to a school or college (or any unit that generates graduate or professional operating fee revenue), with 80 percent distributed based on the number of enrollments (as indicated by major) and 20 percent based on student credit hours (SCH) taught. Both enrollments and SCH will be measured as of the prior academic year.
 - This calculation will be done separately for each graduate tuition category.
- The total amount distributed will correspond to the revenue projections presented in the Regents' proposed budget. Net operating fee revenue will be projected using a specified methodology; net revenue is equivalent to the total amount charged less waivers and the return to financial aid.
- Operating fee revenue distributed to units will be taxed at a rate of 30%; this tax revenue will be used by the Provost to fund administrative units, provide supplemental funding for Activity-Generating Units, and support central initiatives.
- The difference between budgeted and actual tuition will be calculated and each unit's budget for next fiscal year will be "trued-up" to reflect such differences.

Rationale

Connecting the distribution of operating fees to the effort of matriculating and teaching students is a centerpiece of ABB. This proposal:

- Makes sure that schools retain the bulk of the operating fees generated by students in their graduate or professional programs.
- Distributes a portion of graduate and professional operating fee revenue on the basis of teaching effort to reflect interdisciplinary course-taking; while this does not account for a large percentage of graduate enrollment, it does occur in some programs more than other.
- Provides funds through the tax for the Provost to support central administrative services and to maintain current relative funding levels and cross subsidies while making them explicit.

Supporting documents

<http://opb.washington.edu/sites/default/files/opb/Budget/ABB-Manual.pdf>

Research funding

Current

External research funding consists of two elements:

- Direct research expenditures from contracts and grants, and
- Indirect Cost Recovery (ICR - also referred to as Facilities and Administrative Recovery or F&A Recovery).

Direct research funding goes toward the documented costs of conducting the research supported by external sponsors—it is restricted by the terms of the sponsored research agreement. Indirect Cost Recovery rates are negotiated or specified by the awarding agency. These rates acknowledge and represent reimbursement to the University for infrastructure costs associated with the conduct of sponsored research.

The Federal ICR or F&A rate is divided in two portions, Facilities and Administrative. The University currently returns a portion of the F&A rate as RCR (Research Cost Recovery) to the units that generate the research activity. In the latest year, approximately 34% of total F&A recovery was returned to the units under RCR.

ABB Approach

Under ABB, 100% of ICR will be distributed to the units that generate it; ICR will also be subject to a central tax, which reflects the centrally funded share of general administrative and facilities cost.

ABB Principles

- Support, not determine, University missions and goals
- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Assign revenues to the units responsible for the activity that generates those revenues
- Account for all central revenues
- Recognize the importance of maintaining current funding levels or phasing-in funding reductions

Decision Statement

- All indirect cost recoveries will be taxed at a rate of 65%.
- Distribution of ICR will be calculated in the April before the budget year begins based on the most recent 12 months of actual ICR receipts.
- The calculation will be based on the negotiated rate—that is, the F&A recovery actually received on the unit's grants.
- Any unit that generates Indirect Cost Recovery (including central units) will receive the portion of ICR under this formula.

- ICR related to the American Recovery and Reinvestment Act (ARRA) will be separately allocated using the ABB distribution model.

Rationale

- Returns a portion of the ICR to units that corresponds to the general level of departmental support cost, but uses a simpler methodology.
- Reflects the fact that under the ABB initially, central administrative units will continue to have responsibility for facilities costs and as well as other institutional-wide administrative services such as institutional pre- and post-award support, payroll, and purchasing. As a result, a tax on ICR is needed to cover these centrally supported costs.
- Does not create excessive burdens on programs like training grants which are important to the University's mission but receive low rates of indirect cost recovery.

Supporting documents

<http://www.washington.edu/research/osp/gim/gim22a18.html>

Centrally allocated funds

Current

Unit GOF and DOF budgets, which have historically been adjusted by the Provost on an incremental basis, provide the basic support for all academic and administrative functions.

ABB Approach

Tuition revenue, Indirect Cost Recovery (ICR), and other locally-generated funds will be allocated to the units generating the revenue. Tuition and ICR will be subject to a central tax; other revenue sources may be taxed or have overhead charged. Tax revenue plus State appropriations and other central revenues will wholly fund central administrative functions of the University (including facilities and utilities). They will also be used as necessary to supplement the revenue units generate under ABB to ensure that University missions and goals are met *and* that the transition to ABB does not entail any sudden, dramatic funding shifts. Finally, to the extent funds are available, they will be used to fund new strategic initiatives.

ABB Principles

- Support, not determine, University missions and goals
- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Enable the administration to effectively lead the institution
- Clearly identify cross subsidization.
- Support “common good” services, programs and operations
- Facilitate planning
- Encourage optimal redirection of investments, even during financially distressed periods
- Recognize the importance of maintaining current funding levels or phasing-in funding reductions

Decision Statement

- The Provost will have a pool of funds comprising State appropriations, ABB tax revenue from units, Institutional Overhead, and any other central revenue sources.
- This pool will be used to fund University obligations such as debt service and central administrative functions, provide supplemental funding to the Activity-Generating Units when warranted, and fund new initiatives.
- In the initial year of ABB (starting July 2012), the centrally allocated funds will also be used to make up the difference between budgets in the Activity-Generating Units (net of budget cuts) and the funding they are able to generate under ABB.
 - Some Activity-Generating Units may generate a “negative supplement” if their funding from Operating Fees and ICR is sufficient to cover their budget. Those negative supplements are necessary to maintain current relative funding—i.e., cross-subsidies.

- Cross subsidies are natural in a university and reflect the need to provide instruction and research in a large number of disciplines to meet the needs of the State of Washington and create a university of world-class stature. They also reflect, to some degree, differences in the cost of instruction. ABB will make these cross-subsidies transparent. Going forward, the Provost will make decisions on maintaining, increasing, or decreasing subsidies based on a continuing evaluation of the University's mission and the reasonableness of demands on units (and their students) that self-generate the largest percent of funds under ABB as currently defined to cover their costs.
- The Provost will allocate a portion of funds from these sources to units in order to:
 - Fund central units and services
 - Maintain or incrementally adjust current patterns of cross subsidization
 - Support institutional objectives and initiatives
 - Honor specific State appropriation instructions such as provisos (which direct funds to specific purposes or goals), salary bills, or appropriations for benefits costs
 - Incorporate current agreements to apply ICRs to specific costs such as debt service
- These funds will be allocated through an annual process led by the Provost. The exact timing and steps in the process will be determined by the Provost and may change depending on the funding environment, the legislative process, and internal planning considerations.
 - The University Budget Committee will assist the Provost in identifying priorities and addressing issues such as changes in cross-subsidies.

Rationale

- Ensures that budget mechanisms do not supplant leadership judgment in resource allocation.
- Provides Provost with funds to continue support for those units that generate little or no revenue (that is, most administrative units).
- Continues (and makes visible) current patterns of cross subsidies, avoiding windfalls and sudden shocks in funding due to ABB. Over time, the Provost may decide to adjust these subsidies, consistent with the University's missions.
- This approach also recognizes that some academic units have historically received state appropriations for new or expanded programs and the University needs to continue to honor the stipulations of those appropriations.

Miscellaneous fees

Current

In addition to the tuition and mandatory fees all students are charged, some students and applicants pay fees initiated by various schools and offices (see below for a complete list of items currently classified as Miscellaneous Fees). Those fees are collected centrally and reflected in the DOF budget of the relevant unit.

ABB Approach

Under ABB, the revenue from many of these fees will increasingly be distributed to the units that manage the process the fee is meant to pay for. The Office of Planning and Budget may designate other fee types as Miscellaneous Fees in consultation with units affected.

ABB Principles

- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Assign revenues to the units responsible for the activity that generates those revenues
- Account for all central revenues

Decision Statement

- Transfer miscellaneous fees to non-central units (proposed assignments shown below).
 - They will be established as self-sustaining budgets in the unit
- Apply the Institutional Overhead charge to Miscellaneous Fee revenue transferred to non-central units.
- Central allocations to units will be adjusted to reflect the net impact of receiving the fee income directly.
- Additional fees may be added to this list and handled in the same manner
- Course and class fees currently charged by units directly are not considered Miscellaneous Fees under ABB. There will be no change in how they are handled and they will not be subject to a tax.
- Will retain the Building Fee centrally since this helps fund facilities costs for which central units retain responsibility.

Rationale

- Consistent with the ABB concept, revenues should reside in the units that manage the process and have the most control over the revenue stream.
- These sources of revenue represent activity that requires support from central units, so these streams should support institutional overhead. The exception comes with revenues controlled by central units, which are already a form of overhead.

Miscellaneous Fees

Budget	Budget Name	Proposed Owner
50-1250	Graduate Student on Leave Inc.	Retain Centrally
50-1373	Undergraduate Application Fee	Student Life
50-1374	Graduate School Application Fee	Grad School
50-1375	Law School Application Fee	Law School
50-1378	Pharmacy School Application Fee	Pharmacy
50-1380	WAMI Fee	SOM
50-1396	Returning Student Application Fee	Student Life
50-2428	Interstate Compact	Dentistry/Pharmacy
50-2591	Dental School Application Fee	Dentistry
50-2592	Medical School Application Fee	SOM
51-1138	Building & Equipment Rental	F2
51-1160	Change of Registration	Student Life
51-1492	Late Registration	Student Life
51-1495	Late Payment Fee	F2
51-1497	Re-Registration Fee	Student Life
51-1510	Library Fines	Library
51-1520	NSF Check Fine	F2
51-1614	Misc Receipts	Retain Centrally
51-1616	Jury Duty Ind. Ins. Pay.	F2
51-1710	Trademarks/License	UW External Relations
51-1730	Registration Transcript Fee	Student Life
51-1881	Staff Registration Fee	Student Life
51-1888	Enrollment Service Fee Forfeit	Student Life

Fee-based degrees

Current

In addition to state-supported degree programs, the University offers fee-based degree and certificate programs. Most are offered through UW Educational Outreach (UWEO), with a few exceptions. All fee-based programs are charged UW institutional overhead; those administered by UWEO also pay program and infrastructure costs charged by UWEO.

ABB Approach

An effort will be made to align overhead charges for fee-based programs more closely with the taxes imposed on tuition-based programs so that no unintended financial incentives guide the choice to determine whether a program becomes fee-based.

ABB Principles

- Provide an incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Allocate revenues to the centers that incur costs
- Account for all central revenues

Decision Statement

- Degree programs will be established in or transferred to UWEO only if they have some of the following characteristics
 - Offered in an alternative format from an existing campus-based, daytime, full-time degree program
 - Serve primarily non-traditionally aged students in undergraduate programs, professionals in masters-level programs, part-time students, or international students
 - New interdisciplinary programs in which departmental faculty as whole do not participate in offering the coursework, core coursework has been developed specifically for the program, the degree does not form the core of a sponsoring academic unit, or it is difficult to identify the home academic unit

All programs currently offered through UWEO can remain in UWEO at the discretion of the Dean for the program's home department even if they do not strictly meet these criteria.

- The Institutional Overhead rate will be reviewed and revised. This rate (with variant rates for on-campus and off-campus programs) will be applied to revenues from fee-based degree and certificate programs.
- UWEO program and infrastructure costs will be taken from this Institutional Overhead payment.
- Fee-based programs run by the units themselves will also be subject to the Institutional Overhead rate.
- The University Budget Committee will monitor activity in fee-based programs and evaluate the need for changes in policies or rates under ABB.

Rationale

- Fee-based status is intended for programs that stand apart from regular academic offerings and require more specialized support. Although self-supporting in many ways, fee-based programs require general institutional support and should bear a portion of the cost of that support.

Summer quarter

Current

Summer Quarter courses are administered by UW Educational Outreach. The University maintains a separate budget for instructional costs for these classes, and any program fee revenue remaining after costs is held centrally.

ABB Approach

Under ABB, the UW will move to a system in which 100 percent of net operating fee revenue is distributed based on SCH to the units responsible for instruction.

ABB Principles

- Provide incentive for positive behaviors, innovation and operational efficiencies
- Be transparent
- Be as simple as possible to understand, administer and implement
- Assign revenues to the units responsible for the activity that generates those revenues
- Account for all central revenues

Decision Statement

- Distribute Summer Quarter revenues to the units that teach the class, 100% on the basis of SCH taught.
 - Implementation of this provision of ABB may take place after the FY13 budget; in the meantime, it will continue to be handled as currently.
- Schools and colleges will be responsible for their own Summer Quarter teaching budget.
- The same tax rate (30%) applied to net operating fee revenue during the regular academic year (Fall, Winter, and Spring) will be applied to net Summer Quarter operating fee revenue.
- Unit baseline budgets will be adjusted to reflect the transfer of net Summer Quarter operating fees and the associated instructional costs.

Rationale

- At the activity level, there are no fundamental differences between Summer quarter classes and courses during Fall, Winter and Spring quarters.
- Revenues should be distributed based only on SCH because many Summer quarter students are not enrolled in degree programs.

Off campus study

Current

UW students enroll in a variety of off-campus programs such as the Art Spain program in Leon and the Classics Seminar in Rome. Students in these programs pay Program Fees rather than Operating Fees.

ABB Approach

Treat these programs consistently with other programs that fall outside of Operating Fees, particularly fee-based programs.

ABB Principles

- Be transparent
- Be as simple as possible to understand, administer and implement
- Account for all central revenues
- Support “common good” services, programs and operations

Decision Statement

- Make no changes in responsibility for and distribution of revenue from off-campus programs of study.
- Apply the off campus Institutional Overhead rate to the Program Fees collected.
- Central allocations will be adjusted to reflect the impact of applying the Institutional Overhead charge.

Rationale

- These sources of revenue represent activity that requires support from central units, so these revenue streams should help support institutional overhead.

Taxes

Current

Operating Fees and State Appropriations, the General Operating Fund, along with the Designated Operating Fund form the basis for permanent budgets for academic and administrative units. Incremental changes in these funds are allocated in the annual budget cycle. Indirect cost recovery funds are allocated through the Research Cost Recovery (RCR) process.

ABB Approach

In order to provide funds for central administration, cross subsidies between units, and University initiatives, the University will establish taxes that direct a share of these revenues into a pool of funds that will be allocated centrally. In general, all forms of revenue need to be treated comparably and the system needs to avoid setting up unintended perverse incentives. Tax rates also need to be set to keep initial budgets in line with the baseline. In many cases the Institutional Overhead system will be considered to take the place of ABB taxes, and in other cases taxes are not appropriate because of restrictions on the form of revenue.

The initial tax rates established for ABB may be changed as the University evaluates the system in operation, although any change will have to be evaluated against the value of keeping these rates stable to facilitate long-range planning by the units.

ABB Principles

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- Be transparent
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- Enable the administration to effectively lead the institution
- Clearly identify cross subsidization.
- Support “common good” services, programs and operations
- Facilitate planning
- Encourage optimal redirection of investments, even during financially distressed periods
- Recognize the importance of maintaining current funding levels or phasing-in funding reductions

Decision Statement

- Operating fees (net of waivers and return to aid) will be subject to a 30% tax rate
- Summer quarter fees will also be subject to a 30% tax
- Miscellaneous fees (a specific set of fees designated by OPB) transferred to Activity-Generating Units will be subject to a 30% tax
 - Miscellaneous fees held by administrative units will not be taxed

- All indirect cost recoveries will be taxed. The calculation will be based on the negotiated rate – that is, the F&A recovery actually received on the unit’s grants
- The following will continue to be subject to the Institutional Overhead rate
 - Auxiliary enterprises
 - Certificate and fee-based degrees in UWEO
 - Fee-based degrees external to UWEO
- In addition, program fees for off campus study will be subject to Institutional Overhead
- Bothell and Tacoma will pay Administrative Overhead payments on their revenues
- The following types of income will not be taxed
 - Gifts for endowment, endowment payout, and expendable gifts
 - Endowment already pays a tax of 100 basis points on payout and the interest on payments... is held centrally, and goes to support endowment management and advancement.
 - Direct research expenditures
 - Course and program fees
- The University Budget Committee will review taxes and overhead rates and policies on an ongoing basis to ensure appropriate parity and to avoid unintended incentives.

Rationale

- To the extent possible, revenues will be treated in an equivalent manner in terms of their distribution to unit responsible for the activity that generates the revenue. Part of that equivalent treatment is equivalent treatment in application of taxes or overhead.
- Consistent patterns of taxation also reflect the fact that these activities all need support from central services funded through these taxes.
- For instructional activity, Institutional Overhead will be applied to programs that stand apart from the core instructional activities of the schools and colleges. This also allows the University to apply a lower rate for off-campus programs that draw less on some central services like operations and maintenance of plant.

Additional Topics

Common Goods

Under ABB, if something is a “common good,” a unit should not have to pay for it on a usage basis.

Definition of a common good:

- Non-excludability:
 - Nearly impossible to exclude others from obtaining benefits from its use,
 - Usage by any individual or group is difficult and costly to measure,
 - No benefits in measuring usage, and
 - Broad representation.

- Non-replication by individuals or groups:
 - Cost prohibitive for individuals and/or groups to facilitate similar services independently,
 - Economies of scale,
 - Greater benefits are realized when resources are pooled, resulting in more services and efficiencies (e.g. payroll, purchasing, admissions, financial services, etc.), and
 - Central provision ensures consistent experience or service.

- Services inherently provided at the institutional level:
 - Leadership: mission, vision, cohesiveness, unity
 - Safety, compliance, legal, institutional risk management

Internal recharges

Internal recharges and rebillings will not be considered revenue under ABB. These funds will not, as a result, be taxable under ABB. It should be noted that the Implementation Team reviewed recharges and found no obvious cases where recharges involved paying for common goods.

The UW-IT Technology Recharge Fee (TRF) should be maintained as currently configured for the time being. Much work went into creating this structure and transitioning to it, and it is designed to add much more transparency to these charges and to show stewardship for related resources. In the future, the University should revisit the decision of whether to integrate and fund these costs and services through the tax base.

- Governance. The Office of Planning and Budgeting (OPB) and Management Accounting and Analysis (MAA) will meet regularly to determine whether requests for recharges and rates are appropriate.

Accountability for service from administrative units

The Administrative Program Evaluation process will lay the groundwork for accountability in the use of resources by administrative functions funded primarily through central allocations.

Gifts and endowment

Gifts and endowment are already subject to revenue-sharing mechanisms equivalent to ABB taxes in purpose. The funds from those mechanisms are used to support the Advancement function. While those revenue sharing mechanisms may be adjusted to support new fund-raising efforts, gifts and endowments will not be subject to further taxation under ABB at this time.

Cost responsibility

The responsibility for most costs initially will remain with the units currently responsible for providing the service (e.g., basic facilities services will remain a central cost and will not be transferred to the units). Over time, OPB and the University Budget Committee will assess costs currently covered by the center. Where there is a clear argument that these costs can best be managed locally, those costs and any associated revenue will be transferred to the units

Salary increases

- The cost of faculty promotion salary increases will be covered by the units, subject to institutional policies.
- Units will fund salary increases, based on available revenues or state allocated funds provided for that purpose and subject to University salary policies.
 - State funds allocated for salary increases will be transferred to the units responsible for the salaries.

Auxiliary Enterprises

Except for adjustments to the Institutional Overhead rates, auxiliary enterprises will not be affected by ABB. Institutional Overhead rates applied to auxiliary enterprises periodically will be reassessed to ensure they are appropriately recovering centrally provided administrative and facilities costs.

Bothell and Tacoma

Bothell and Tacoma will not be affected by ABB; they will continue to be charged the Administrative Overhead charge. The administrative overhead rate may be reassessed as needed.

Governance

Ongoing oversight and management of ABB will be the responsibility of the Provost and the Office of Planning and Budget, advised by the University Budget Committee, Board of Deans and Chancellors, Senate Committee on Planning and Budgeting, and other governing bodies as appropriate. The UBC will monitor ABB overall and provide input on details such as waiver policies, distribution of costs or revenues when units share in teaching a course, inclusion of minor revenue sources in ABB, and parity between different types of costs, revenues, and units.

Central Provost Reserves

Currently, there are several reserves funded by Operating Fees which are used to allocated funds to the academic units for specific purposes. With the implementation of Activity Based Budgeting, funding and distributing these allocations will become the responsibility of the academic units. Items such as academic promotions, emeritus faculty or retention of faculty will be managed by the academic units. The reserve which has funded the administrative supplements for Deans and VPs will continue to reside centrally and allocation decisions will be determined by the Provost.

Aligning Student Credit Hours (SCH) with the appropriate School or College

ABB is an institutional budget model that more directly aligns revenue allocations and attribution of expenditures for academic units. Towards that end, in the event that a majority of the coursework in a major would be taught by a School or College that is not the home School or College in which the major resides, alternate provisions about how to divide up SCH's may be negotiated with the Provost's office.