ABB Phase III Review

Status Update

January 15, 2020

UNIVERSITY *of* WASHINGTON

Topics

- Background and Current Project Status
- Subcommittee Report Briefings
  - Research Support
  - Tuition & Taxation
  - Supplement
- Next Steps

ABB Background

Year	Activity
2009 -2011	Original ABB Committee Work
2012	ABB Adoption
2012-2015	ABB Review Committee and Faculty Council Reports
2016	ABB Phase II Review
2017-2018	ABB Oversight Committee
2019-2020	ABB Phase III Review

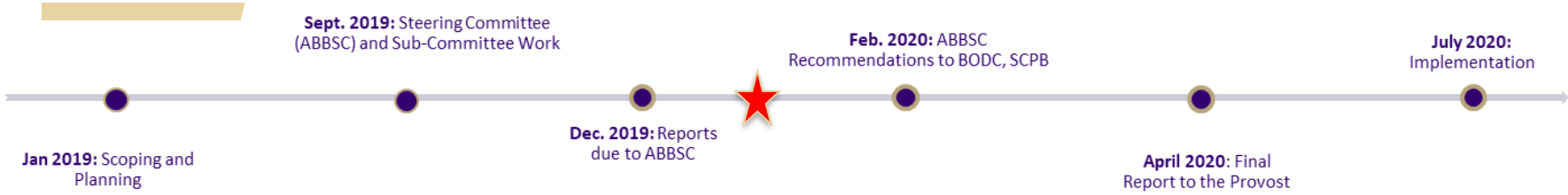
Winter/Spring 2019

OPB worked with the Senate Committee on Planning & Budgeting (SCPB), the Board of Deans and Chancellors (BODC), and School/College Academic Administrators to strategize an approach for the upcoming FY20 ABB Phase III Review

August 2019

The Provost charged a steering committee responsible for the overall work plan, project scope, and deliverables of the ABB Phase III

Current Status



- Reports from the three subcommittees have been submitted and are available on OPB's ABB Committees and Reports webpage
  - Supplement Subcommittee Report to the Steering Committee
  - Tuition Taxation and Formulae Subcommittee Report to the Steering Committee
  - Research Support Subcommittee Report to the Steering Committee

- Steering committee has completed an initial team review of the subcommittee reports

Research Support Subcommittee

Research Support Subcommittee
Membership & Charge Questions

- Membership consists of four faculty and five staff
  - Members of subcommittee and steering committee represented campus units generating 91% or 241M of the UW's total ICR budget (FY20 ABB Year).

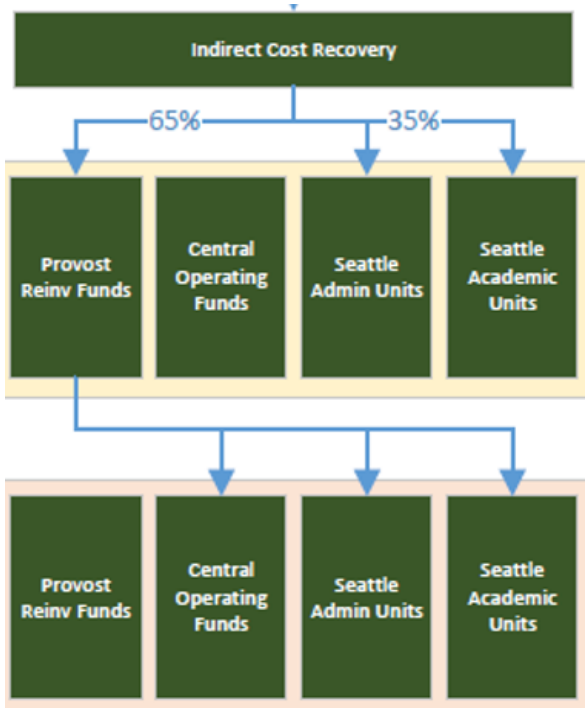
- Questions posed to the subcommittee:
  1. Does the 65 percent tax adequately provide for the costs of the research enterprise?

  2. Should more research related costs be direct-billed to heavy users?

  3. As the University emphasizes cross-disciplinary research organizations and proposals, how might ICR allocations shift to support this evolution?

ICR in Context
Current ICR Distribution under ABB

- Calculate total ICR generated between April 1 – March 31
- Distribute 35% to Dean/Vice President/Vice Provost Unit that generated ICR
- Distribute remaining 65% to Provost Reinvestment Fund
- Provost distributes his/her 65% share back out to campus units & central operating funds

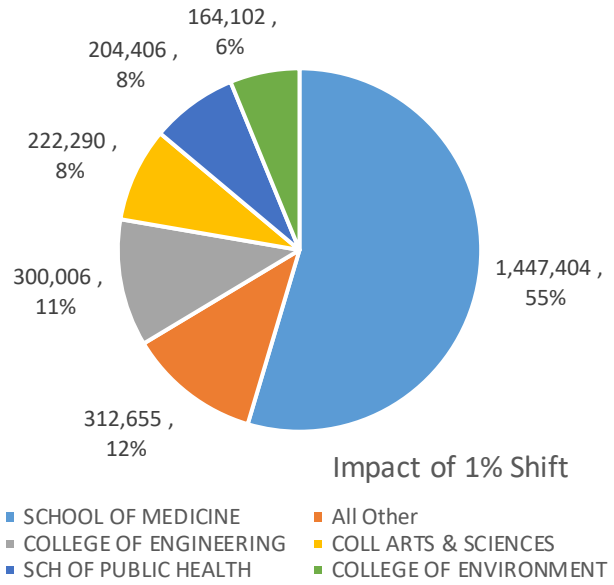


Subcommittee Approach

- Socialize Current State ICR Distribution Parameters
- Data Assembly & Review
  - Develop methodology to segregate ICR funding (35% + 65%) allocated across campus from other DOF sources
  - Develop "what if" data model to understand effects of distribution shift
  - Assemble historical ICR data and overlay that with a variety of metrics (space, rate type, location, applicable vs actual, etc..)
  - Assemble sponsored research metrics (proposal and award volume, grants managed)
  - Market scan – peer distribution methodologies
- Discuss Approach to Answering Questions
  - Do we have the necessary data to answer questions?
    - What's missing and obtainable vs what's missing and not attainable
  - Determine "trickle down" impacts of various scenarios
- Formulate Responses

Key Takeaways

- 1% shift in the ICR distribution formula results in a ~2.6M change (FY20 $)
  - Top 5 ICR generating schools bear 88% of any change impact (good or bad)
    - SoM (55%), CoEng (11%), CAS (8%), SPH 8%), CoEnv (6%)



- Aging UW systems coupled with a lack of consistency in how and when data is fed into or updated within UW systems creates substantial information gaps
  - Resource shortages in key departments result in substantial data entry backlog
  - Lack of historical point-in-time or consistent, current, space data eliminates the ability to conduct longitudinal analysis necessary to inform decisions
  - Data points simply not available - the "what's measured gets improved" concept

- UW is not an outlier amongst peers in our treatment of ICR allocation parameters

Research Support Subcommittee Recommendations

1. Maintain current ICR distribution parameters.

2. Recommend *against* considering direct billing "heavy users" for research costs and *for* further defining the scope of services intended to be covered under the existing centrally retained ICR funding.

3. Align future reviews of ICR distribution parameters with the federal ICR base year

4. Development of institution-wide policies and procedures that ensure that the UW's space management software is updated on, at least, an annual basis

5. Explore opportunities to "optimize" appropriate and allowable indirect cost recovery
   - Review institutional policies and principles associated with waiving, reducing or otherwise forgoing the recovery of indirect costs from externally funded activities.
   - Development of key performance indicators such as indirect cost recovery relative to space and rates

6. Avoid using the ICR distribution parameters to shift funding between central administration and campus units (or vice versa) for purposes of covering costs not borne in proportion to the generation of ICR.

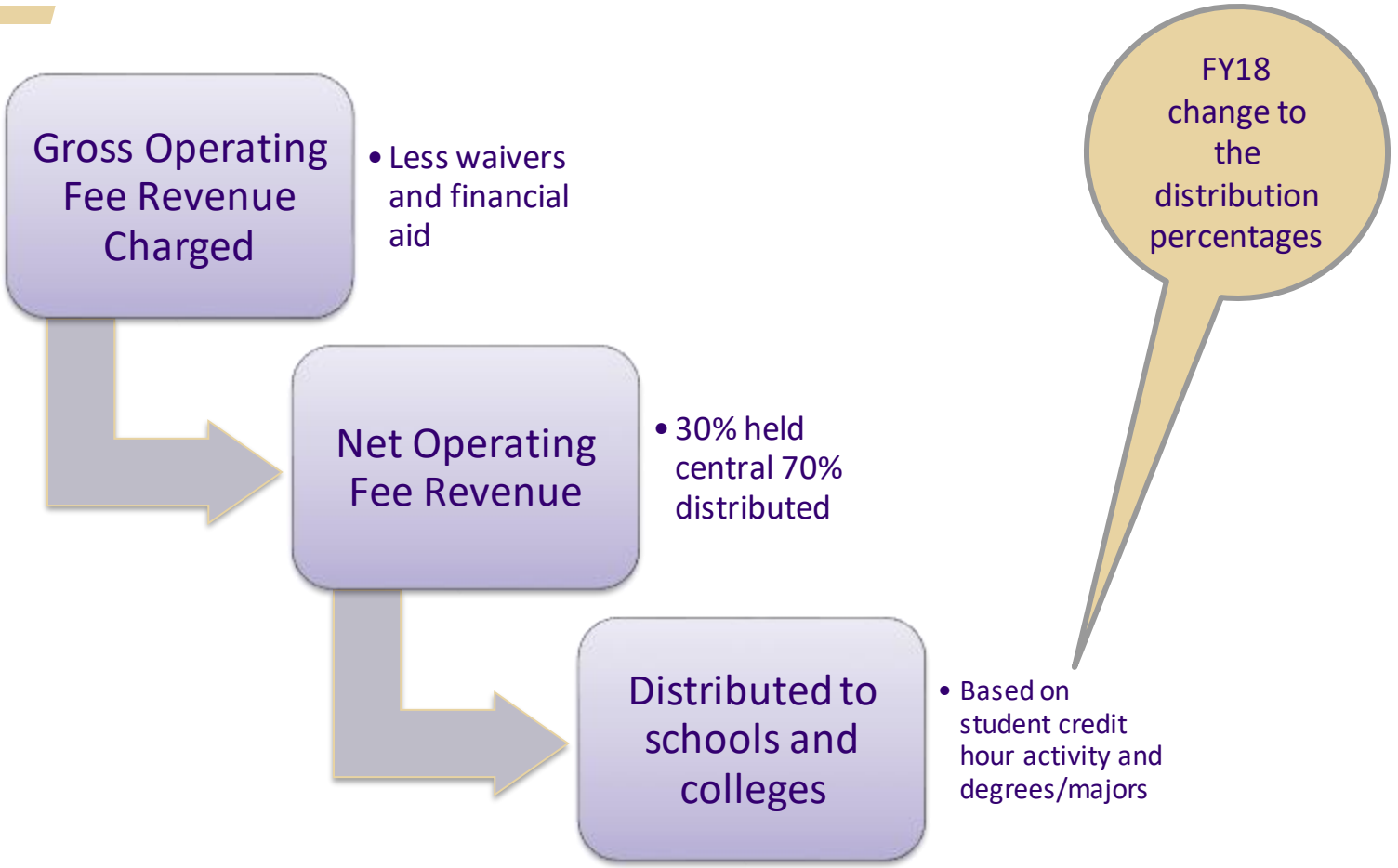
Tuition & Taxation Subcommittee

Tuition & Taxation Subcommittee

- Membership consists of two faculty and four staff

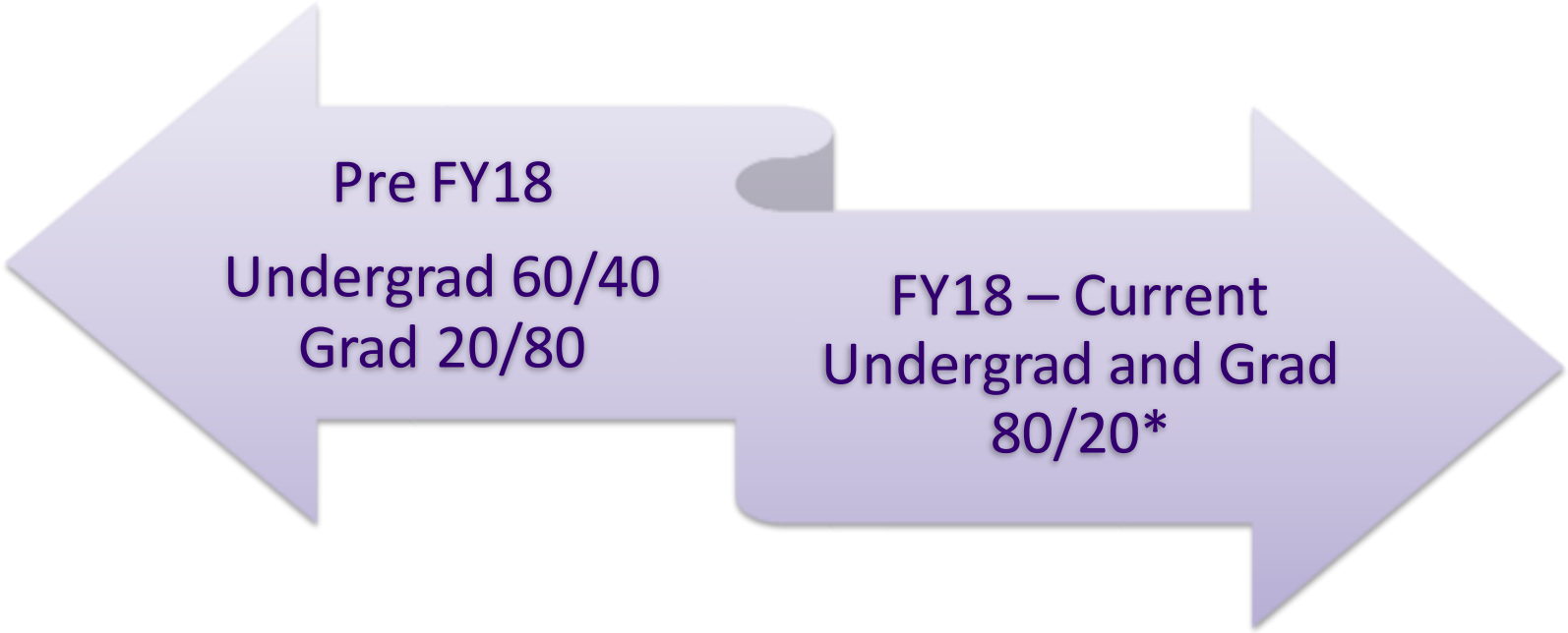
- Questions posed to the subcommittee:
  1. Are we taxing tuition too little, given demands for central coverage of administrative services and compensation funding?
  2. Are our tuition taxation levels prompting a reaction to undergraduate programmatic growth and competition that is unhelpful?
  3. If we shifted to a $/SCH or $/degree model over time, would the administrative efficiency gains outweigh the benefits of our granular, current-state methodology?
  4. Would a change of this sort allow for better cross-university cost comparisons?
  5. Is a formula shift needed to better align the model to the institution's values, vision and mission?
  6. Should we shift the taxation levels and formulae of the current model to modify the incentive structures inherent in its framework?

Tuition Revenue Distribution Under ABB



Tuition Formulae Phase II Change and Current Calculations

Net operating fee revenue distributed to academic units based on student credit hours (SCH) and degrees/majors



**Interdisciplinary Graduate Programs maintain the 20/80 split*

Approach and Resources

> Reviewed the Phase II analysis and recommendations

> Peer Comparison Research

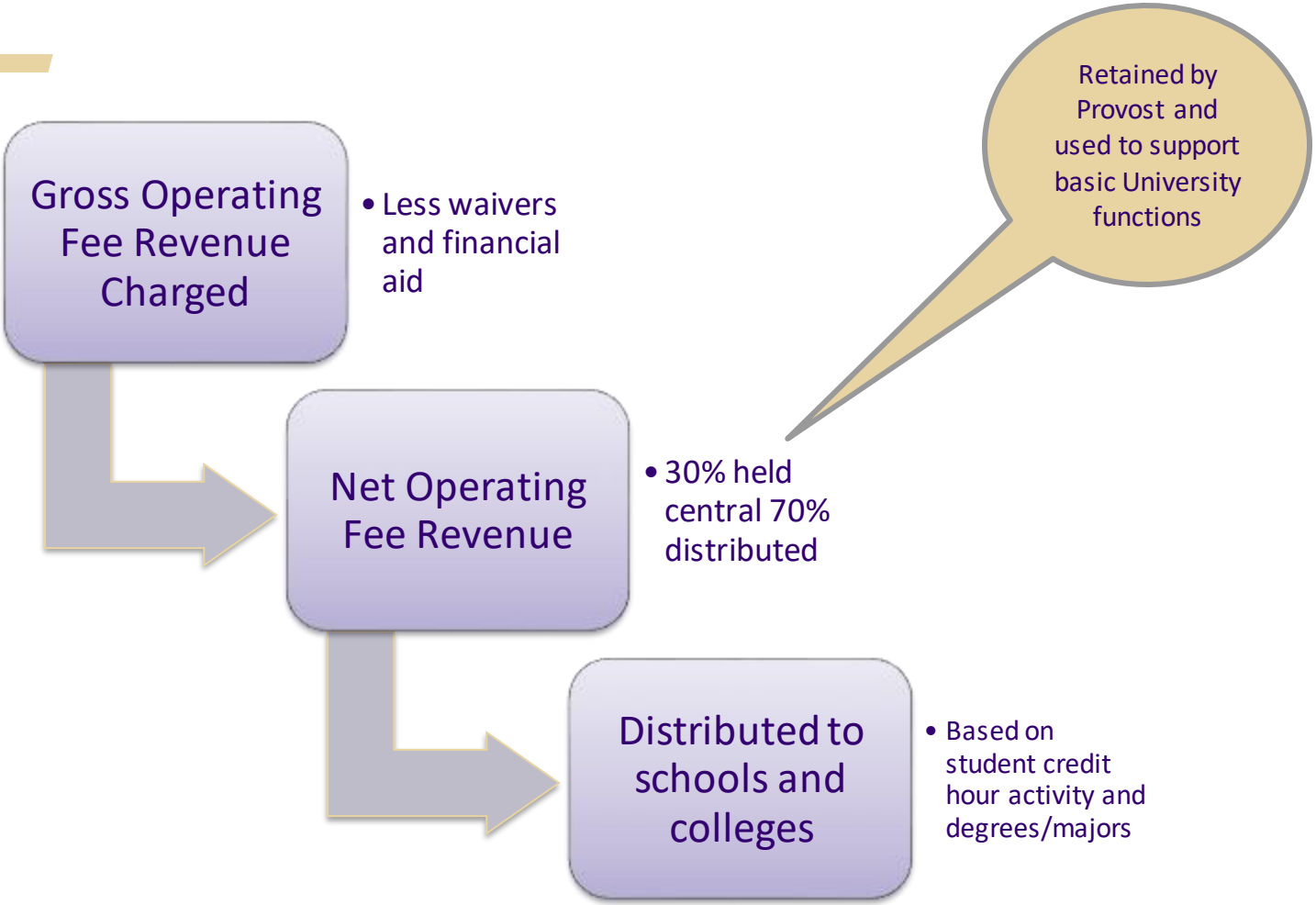
> Pulled FY19 data (first non-hold harmless year) and compared activity, revenue, and final budgets to a pre-change calculation (i.e. old parameters vs. new)

> Assessed the impact of changes at each tuition group level

Impact Assessment

- Total proportions of revenue shifts ranged from .8 to -.7 percentage points
- Total GOF/DOF Budgets changed <2 percent (Grad School and UAA exceptions)
- Undergraduate activity distribution aligned with Phase II projections
  - Shifts between -1 and 1 percent
  - .82 percent increase in College of Arts & Sciences
  - -1 percent decrease in Foster School of Business
- Graduate activity shifts to the activity
  - Professional tuition group categories had larger shifts
  - Totals ranged from -4 to 9 percent (some of the negative shifts for schools or colleges were offset by increases in other tuition categories)
- Potential future analysis for smaller professional programs

ABB Tuition Revenue Model Taxation Change

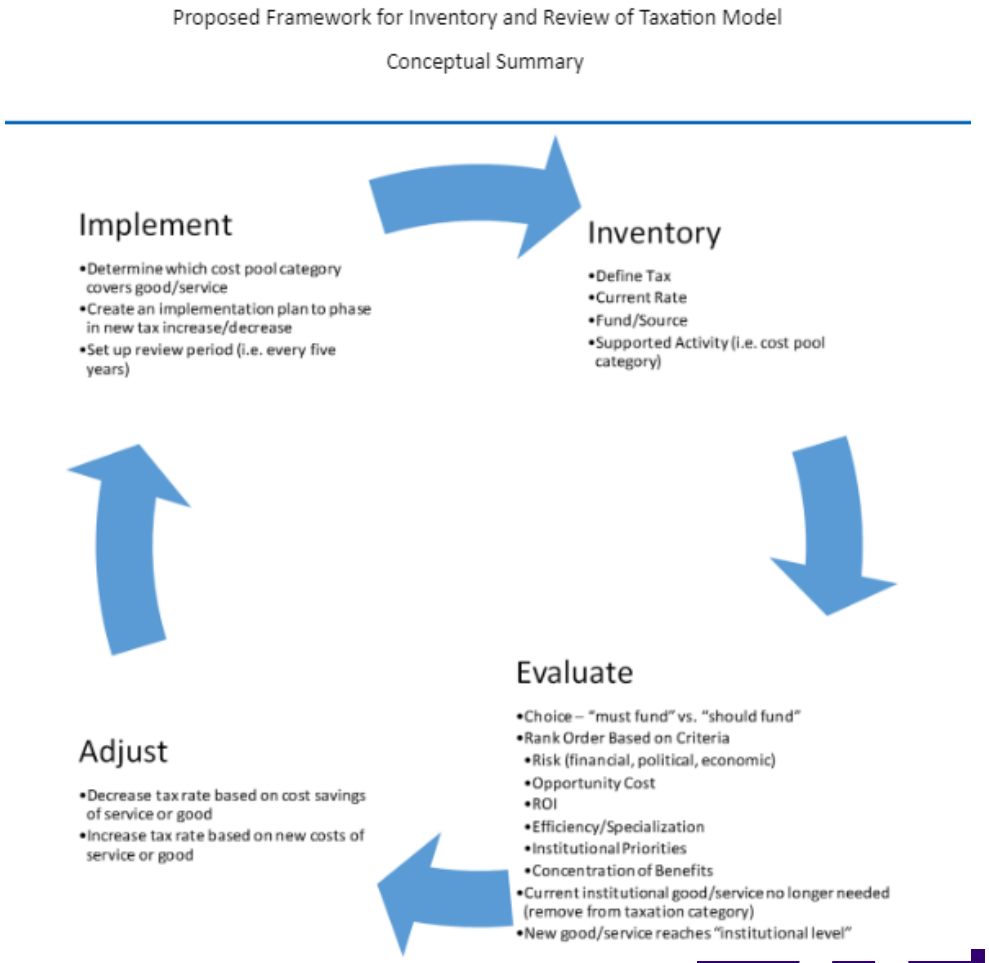


Approach and Resources

> Context setting for the implementation of the 30 percent
> Peer comparison research
> Unit-level analysis of central taxes charged
> Shift to broader conversation regarding taxation
> Development of framework to assess tuition tax rates within the broader context of taxes across the institution

Analysis and Key Takeaways

- Review of tuition tax rate and institutional services supported by tax assessment
- Discussion and consideration for adjusting cost pools and tax rates across tuition model and other revenue streams
- Contemplation of a new taxation review framework
  - Cyclical
  - Built into existing governance structures
  - Aligned with strategic priorities



Recommendations

1. Maintain the current tuition formula distribution parameters and model
    1. Current parameters align with industry best practices
    2. FY18 distribution changes had immaterial negative impact on ABB model
    3. Need more years to identify trends and patterns
    4. Continue to review annually to align with university strategic goals
2. Further analysis looking at small professional schools
3. Maintain the existing 30 percent tuition revenue tax rate
4. Charge a working group to develop and implement a new taxation framework and review process
5. Based on the above, assess the 30 percent tuition revenue tax rate within the context of the larger taxation framework

Supplement Subcommittee

Supplement Subcommittee

- Membership consists of four faculty and three staff (one student invited but did not attend)

- The work of this subcommittee is narrowly focused on assessing the implementation of 2-3 models, and considering shifts in discretionary supplement funding in conjunction with the tuition taxation work of the first subcommittee.

- Questions posed to the subcommittee:
  1. Could we, in setting a shared strategy, tax other units to bring those struggling units to neutral to smooth the distribution of pain or volatility?

  2. Could we set a shared strategy whereby less tuition is distributed on the basis of activity, more universal costs are centrally covered, and volatility is more or less managed centrally?

Resources and Approach

- Provide background and context for establishing, maintaining and changing supplemental funding
- Review the calculated based at cutover portion of the Supplement
- Assess the three models suggested by Provost
- Suggest additional models (2-3)
- Analyze impact of additional models
- Report out on the comparative pros and cons of each of the six models

Summary of Provost Model Options

- **Model one** would levy a small tax (less than 2%) on all units and redistribute those funds to address the funding shortage for Natural Sciences based on its growth since ABB went into effect.

- **Model two** essentially does the same but looks at growth in Natural Sciences over time compared to the Colleges of Engineering and Environment; this would also require a small tax on other units (between 2 and 6 percent)

- **Model three** redistributes baseline supplement funding using a dollar per SCH/FTE measure based on current (FY19) activity. In this scenario, funding is redistributed from most schools and colleges to Arts & Sciences, Foster School of Business, the College of Built Environments and the Information School. This model is clearly not workable, given its relative effect on the professional health sciences schools.

Summary of Subcommittee Alternative Options

- **Subcommittee Alternative Model A** withholds X% of the Cutover and redistributes it to support strategic reinvestment. Reinvestment decisions would be made by the Provost with the advice of the Senate Committee on Planning and Budgeting (SCPB) like the existing Provost Reinvestment Funds process.
- **Subcommittee Alternative Model B** withholds X% of the Cutover and redistributes it to each unit proportional to FY20 activity as measured by the sum of the formulaic components of ABB (Tuition + ICR).
- **Subcommittee Alternative Model C** withholds X% of the Cutover and redistributes a fraction *f* according to alternative model one and (1–*f*) according to alternative model two. The logic used in in this model reflects that a combination of strategic investment and support for current revenue generating activities will enable Cutover funds to support aspects of the entirety of the University's mission.

Key Takeaways

- Reapportioning a small fraction of Cutover each year is a reasonable way to realign spending with current budgetary priorities while minimizing disruption to individual units.
- The Cutover, rather than the entire supplement, should be contemplated for redistribution.
- Redistribution should not exceed 3% in one year and should be phased in over two years.
- A long-term, workable model for redistribution of Cutover funds will be nimble over time and not a technical solution to a current, specific problem.
- Use of funds for Provost Reinvestment should be reviewed and acted upon by the Provost in consultation with the Senate Committee for Planning and Budgeting.

Appendix

Provost Model One

Model one would levy a small tax (less than 2%) on all units and redistribute those funds to address the funding shortage for Natural Sciences based on its growth since ABB went into effect.

The logic used in Model one suggests that the funding disparity between the College of Arts and Sciences Natural Sciences Division and other colleges could be resolved through a small (<2%) tax on the other units to generate the almost $2.2M required to fund growth in Natural Sciences at the average rate across the University.

Pros

- Withholding and redistributing a small percentage of the Cutover is a sensible approach that avoids taxing more recent growth and commitments.
- The overall amount this model takes from units could be implemented on a short (e.g. two-year) timescale.

Cons

- The model presupposes that Natural Sciences/A&S requires a revenue increase without considering if any other (sub)units may have competing needs. The model presupposes that Natural Sciences drives the need for an A&S revenue increase.
- The methodology is based on the assumption that the entire Cutover is related to undergraduate teaching.
- The choice of the initial/final state for calculating SCH grow this somewhat arbitrary.
- This model is a one-time fix for a specific problem, and does not address long-term redistribution of Cutover

Provost Model Two

Model two essentially does the same but looks at growth in Natural Sciences over time compared to the Colleges of Engineering and Environment; this would also require a small tax on other units (between 2 and 6 percent)

Model two functions in the same way as one, but accounts for variation between the College of Arts and Sciences and the College of Engineering and the College of the Environment in terms of relative tuition revenue growth by applying these units' "per student share" to Arts and Sciences' enrollment growth in Natural Sciences.

Pros	Cons
• This model acknowledges that undergraduate instructional costs in Natural Sciences are above average in a way similar to other STEM disciplines on campus.	• The premise of this model is that the share of new Natural Sciences instructional cost supported by Cutover should be the same as in Engineering or Environment. We do not have sufficient information to evaluate these comparisons. • 5.8% of Cutover be adopted, this is larger than can easily be implemented in two years.

Provost Model Three

Model three redistributes baseline supplement funding using a dollar per SCH/FTE measure based on current (FY19) activity. In this scenario, funding is redistributed from most schools and colleges to Arts & Sciences, Foster School of Business, the College of Built Environments and the Information School. This model is clearly not workable, given its relative effect on the professional health sciences schools.

Model three redistributes the entire Cutover based on a "per share of SCH" basis. In this model, the College of Arts & Sciences would yield an additional $81.5m and the School of Medicine would lose $35.7m. THis model was intended to provide an illustration of an entire overhaul of the Cutover.

Pros	Cons
• This model highlights the fraction of unit budgets that continue to be dependent on the original Cutover	• It has already been communicated to us and BODC that this was not a viable proposal due to its dramatic impact on individual units • This model assumes that the entire original purpose of Cutover funds should be replaced by undergraduate SCH activity • This model moves far too much money too quickly

Subcommittee Alternative Model One

Subcommittee Alternative Model One withholds X% of the Cutover and redistributes it to support strategic reinvestment. Reinvestment decisions would be made by the Provost with the advice of the Senate Committee on Planning and Budgeting (SCPB) like the existing Provost Reinvestment Funds process.

Pros

- Withholding and redistributing a small percentage of the Cutover is a sensible approach that avoids taxing more recent growth and commitments.
- The model builds on established processes for faculty input on budget decisions through which faculty should be given useful information for providing guidance.
- The model does not recommend particular recipients of withheld Cutover based on information that is not accessible to the subcommittee.
- The model clarifies that the Provost has the authority to redistribute supplement funds strategically and takes responsibility for those decisions.
- The model allows the Provost discretion to effectively alter the fraction of Cutover withheld from each unit as opposed to imposing a uniform tax.
- The model enables inclusion of information on differential cost of instruction, once it becomes available from the Delaware Study
- The model can be repeated in subsequent years to continue redistributing Cutover funds towards current strategic priorities.

Cons

- The model runs the risk of being seen as a reversion to the pre-ABB "black box" incremental model
- The model does not exhibit a clear connection to current revenue-generating activity or unmet student demand.
- The uniform tax rate across units does not account for ongoing commitments covered by Cutover funds nor specifically consider the financial status of the Schools and Colleges receiving a reduction in their current Cutover funds.

Example: 2% of the (positive) Cutover would yield $2,501,166 available for Provost Reinvestment Funds; If A&S is included, the total is $2,274,007.

Subcommittee Alternative Model Two

Subcommittee Alternative Model Two withholds X% of the Cutover and redistributes it to each unit proportional to FY20 activity as measured by the sum of the formulaic components of ABB (Tuition + ICR).

Example: 2% of the (positive) Cutover would yield redistribution of $2,501,166. The table below illustrates the impact of redistribution at the school or college level. Note the net redistribution is only about half the total due to all units receiving monies back.

Pros

- Withholding and redistributing a small percentage of the Cutover is a sensible approach that avoids taxing more recent growth and commitments.
- The formulaic redistribution of funds is simple to implement and need not be justified by per-unit exceptionalism.
- This model bases redistribution on both primary sources of activity-based income: instruction and research.
- This model accelerates the initial intention that, over time, the fraction of unit budgets from formulaic income would increase while that from the constant-dollar Cutover would decrease.
- Each unit will receive some fraction of the withheld Cutover back as income.
- The model focuses on current revenue generating activity.
- The model can be repeated in subsequent years to continue redistributing Cutover funds towards current revenue-generating activities.

Cons

- As a purely formulaic redistribution, this model does not provide discretionary reinvestment funds.
- The model does not incorporate the inherent distribution of differential costs of instruction or the need for institutional cross-subsidization.
- The model co-mingles education (tuition-based) and research (ICR) funding, which reduces clarity in budget modeling.
- An increase in the fraction of revenue distributed formulaically may counteract or exacerbate changes in tuition or ICR taxation rates, and is thus the purview of the Steering Committee

Subcommittee Alternative Model Three

Subcommittee Alternative Model Three withholds X% of the Cutover and redistributes a fraction *f* according to alternative model one and (1–*f*) according to alternative model two. The logic used in in this model reflects that a combination of strategic investment and support for current revenue generating activities will enable Cutover funds to support aspects of the entirety of the University's mission.

Pros	Cons
• This model avoids the extremes of models SSC A and SSC B while maintaining all 12of the distinct positive aspects of these models. • The ratio of strategic to formulaic investments can be set to balance flexibility with predictability. • This model provides a way to combine any potential changes in taxation formulae for tuition and ICR with increased strategic investment into a single change to the current ABB distributions.	• This model requires a process to choose the appropriate fraction f, the ratio of strategic to formulaic investments, and the appropriate value of X, the percentage of Cutover to be redistributed in a given year. • The model requires a transparent way to determine and communicate strategic reinvestment priorities to avoid being seen as a reversion to the pre-ABB "black box" incremental model. • The model co-mingles education (tuition-based) and research (ICR) funding, which reduces clarity in budget modeling.