UNIVERSITY of WASHINGTON

Phase IV Activity Based Budgeting Steering Committee

Mid-Term Report

JUNE 2024

TABLE OF CONTENTS

Contents

.....1
TABLE OF CONTENTS.....1
INTRODUCTION.....2
ABB PRIMER.....2
STEERING COMMITTEE CHARGE.....4
STEERING COMMITTEE MEMBERSHIP.....6
PROCESS.....7
Steering Committee and Maximus Work to Date.....8
Progress toward the Charge.....9
Peer Analysis and Benchmarking To Date.....10
SUBCOMMITTEE UPDATES.....11
ENGAGEMENT WITH LEADERSHIP.....13

INTRODUCTION

This report begins with a short primer on Activity Based Budgeting (ABB) at the UW, followed by the Steering Committee charge, process notes and early observations. Finally, each subcommittee will report back on its scope and observations, along with Steering Committee observations if available.

We would like to recognize the enormous effort put forth by the members of each subcommittee, and their leadership, in pursuing their mandates

ABB PRIMER

ABB is a revenue allocation model that dictates allocation of certain revenues according to specific measurable activities (i.e., student credit hours, major enrollments, degrees, indirect cost recovery generation). ABB has brought transparency and clarity to the UW's budget process, as unit leadership can measure, project, and plan activities with some guaranteed formulaic distribution, as well as review allocations and funding decisions for all other units.

The model allocates revenues to Seattle schools and colleges; each dean and vice provost determines how to allocate funds within their unit. ABB was developed during a time of revenue growth and with an assumption of continued growth. ABB does not generate or reduce revenue, and when revenues flag or shrink, it functions to redistribute existing or declining resources. Its formulaic framework is no substitution for human intervention but is the formulaically-driven mechanism by which UW Seattle allocates certain fund sources (tuition, state funds, indirect cost recovery from grants and contracts, miscellaneous fees).

- ABB is limited to a specific set of budget types and dictates distribution, based on activity, to the school/college level
- ABB requires constant upkeep, particularly as student demand evolves and our financial conditions change
- ABB accommodates cross-subsidy, and requires human intervention, since the supplement category is not formulaically driven
- ABB is not our strategic plan
- UW Seattle ABB functions similarly to UW Bothell's RCM model

For more information:

- ABB 101 PowerPoint overview
- Recording of ABB 101 (held in February 2024)
- Additional information on ABB and past reviews: UW OPB ABB Committees and Oversight
- For data and trending information, please see the ABB dashboards (a VPN connection and NetId login needed)

STEERING COMMITTEE CHARGE

January, 2024

Dear ABB Phase IV Steering Committee Members,

I am writing to formally charge the newly constituted Activity Based Budgeting (ABB) Phase IV Steering Committee. Your agreement to serve on this committee is greatly appreciated, and your work will be crucial in ensuring that our budgeting process continues to be as effective and transparent as possible.

Charge and Scope of the Steering Committee:

Your primary charge is to conduct a targeted review of the ABB model with a focus on the following key objectives:

1. Broad Review and Consideration: You are tasked to adopt an integrated approach, considering the diverse needs and perspectives across the university's three campuses, schools, colleges, and administrative units. This review should incorporate insights from administrative leadership, academic leaders, faculty, students, and support staff.
2. Alignment with Institutional Goals: You are to examine how the ABB model can better prepare us for local economic conditions and, fundamentally, how it can enhance our service to students, supporting their experiences and opportunities in alignment with our academic strategic framework.
3. Focused Study on Taxation Methodologies: Given the feedback from stakeholders, a significant part of your review should focus on improving the equity and coherence of taxation methodologies within the ABB model. The scope of this study, particularly as it includes taxation of core academic revenues, applies broadly to the three campuses. The more focused elements of the study outlined below will focus exclusively on UW Seattle-based formulae. Regardless, the potentially duplicative modes of taxation and variety of methodologies is the core work for this effort.
4. Advance a policy framework that acknowledges the risk of our decentralized model, emphasizes the use and efficacy of central planning and forecasting tools, and strengthens our unit-level margin policy framework.
5. Support for Interdisciplinary Programs: Assess the current state of support and resources for interdisciplinary courses and degree programs, addressing concerns about the potential suppression of such initiatives by the current model.

Key Topics in Scope for Review:

Based on survey feedback and stakeholder engagement, please prioritize your review as follows:

I. Taxation methodologies.
II. Support for interdisciplinary initiatives.
III. Alignment with institutional academic strategic framework.

Task Forces:
At your discretion, please establish short-term task forces to leverage expertise and manage workloads effectively. These task forces should report their findings to the steering committee regularly. Please be mindful of both the spirit and intention of this work, as outlined above, and for the current workload that our community takes on during a busy budget season and the first fiscal year close after Workday Financials go-live.

Resources and Timeline:
You will be supported by the Finance, Planning & Budgeting team, including Erin Guthrie, Elise Glassman, and members of our consultant team. Please ensure continuous communication with stakeholders through updates on a public website and document sharing via a secure SharePoint site. Please report to the President's Cabinet regularly to include their perspectives and input. Our consultant will provide facilitation, administrative, and analytical support—please accommodate their requests promptly.

A detailed timeline and work plan will be provided by our consultant after initial meetings with the committee.

Key milestones include:
October 2023: Distribution of survey
December 2023: Analysis of survey results
Winter 2024: Chartering of Steering Committee and meetings with vendor
Spring 2024: Submission of midterm report at Phase I conclusion
Late Summer 2024: Submission of final report by August 31, 2024

Your commitment to this important endeavor is highly valued, and I am confident in your committee's ability to guide us toward a more effective ABB model.

Thank you for your dedication and thoughtful engagement in this vital process. I look forward to reviewing your recommendations.

Sincerely,
Tricia R. Serio
Provost and Executive Vice President for Academic Affairs
Professor, Biochemistry

STEERING COMMITTEE MEMBERSHIP

Executive Sponsor: Tricia R. Serio, Provost, Executive Vice President for Academic Affairs, and Professor, Biochemistry, School of Medicine
Sponsor: **Sarah Norris Hall**, Senior Vice President, Finance, Planning & Budgeting

Project Steering Committee Co-Chairs:
Erin Guthrie, Associate Vice Provost, Finance, Planning & Budgeting and University Data & Analysis Officer and **Michael Spencer**, Dean and Professor, School of Social Work

Steering Committee Membership
Alissa Mahar, Associate Vice President, UW IT
Andy Harris, Vice Chancellor, Academic Affairs, UW Tacoma
Barbara Wingerson, Associate Vice President, Facilities Finance
Dianne Harris, Dean, College of Arts & Sciences, UW Seattle
Gautham Reddy, Chair, Faculty Senate Committee on Planning & Budgeting, Professor, Radiology, School of Medicine, UW Seattle
Gowri Shankar, Vice Chancellor, Associate Professor, School of Business, UW Bothell
Jason Campbell, Vice President, Finance and Budget Strategy, Finance, Planning & Budgeting
Jon Karpoff, Professor, Finance & Business Economics, Foster School of Business, UW Seattle
Julie Reid, Vice Dean for Administration and Finance, School of Medicine, UW Seattle
Santhi Perumal, Assistant Dean for Finance and Administration, College of Education, UW Seattle

Project Support
Maximus US: **Harold Horton, Larry Goldstein, John Stevens, Jack Corby, Maximus US**
Project Manager: **Elise Glassman**

PROCESS

The Steering Committee is meeting monthly between February and August 2024.
In March 2024, consultant Maximus US presented preliminary analysis of UW data, and recommendations of a direction to pursue. The Committee, with direction from Provost Serio, discussed the importance of risk mitigation in terms of operating margins, enhancing cross-unit collaboration, and an empowered culture.

In March and April 2024, the Steering Committee charged three subcommittees to focus on important areas of concentration, and report back with analysis and recommendations:

- Alignment and Framework
    - Charge
    - Membership
    - The subcommittee's charge is to examine how the ABB model can better prepare us for future economic conditions and, fundamentally, how it can enhance our service to students, supporting their experiences and opportunities in alignment with our academic strategic framework**.**
- Incentive Based Budgeting (IBB)
    - Charge
    - Membership
    - The subcommittee's charge is to engage with Maximus, understand the current state, flesh out possible IBB models and what that could look like in a UW model, compare pros and cons, and present those findings to the Steering Committee**.**
- Interdisciplinarity
    - Charge
    - Membership
    - The subcommittee's charge is to assess the current state of support and resources for interdisciplinary courses and degree programs; and to address concerns about the potential suppression of such initiatives by the current model.

Steering Committee and Maximus Work to Date

Maximus US is a key partner in supporting the Steering Committee through meeting participation, initial analysis of both the budget model and UW's financial position, subcommittee facilitation and recommendations on approaching the review.

During an onsite visit in March, Maximus walked the Steering Committee through the preliminary work they'd engaged in over the month and presented key areas of focus, including: an assessment of the current state model; UW's financial health; UW's research standing; paths forward for the budget model; and their recommendations to shift towards incentive-based budgeting (IBB) that moves us closer to our peers.

- **UW's ABB Model**: The University of Washington's current ABB model focuses primarily on tuition revenues and has insufficient attention to expense management
- **UW's Financial Health**: The University of Washington is in very good financial condition, with a solid CFI (composite financial index) of 5.2, but does not enable significant transformation due to insufficient resources
- **UW's Research Standing:** The University of Washington has maintained an enviable position among research universities, but has lost some ground over the period examined, dropping from 9th to 12th nationally
- **Paths Forward:** Three possible paths forward for the University of Washington include implementing full RCM using a phased approach, leaning towards RCM 'Lite', or making changes within the current ABB model
- **Recommendation**: The recommendation was to begin the process of implementing incentive-based budgeting (IBB) using a phased approach, and to collaborate with a focused subcommittee to analyze and select options, and map a path forward for the Steering Committee, executive sponsors, and UW leaders to evaluate.

The Steering Committee, with direction from the Provost and the Senior Vice President, discussed the recommendation and ultimately settled on a middle of the road approach that incrementally leads the university toward adoption of an incentive-based budget model.

This direction provided the foundation for the work plan developed in early April and the charge and kickoff training for the IBB subcommittee. The Steering Committee's work from now until August is to engage with each subcommittee as they contemplate their charges and changes to the model. The IBB subcommittee will be led by the Maximus team and is tasked with identifying key model changes and analyzing the impact of such changes on UW's unit distribution.

Progress toward the Charge

Broad Review and Consideration

This Phase IV review began with a Provost-charged survey in October 2023, and survey results strongly guided the Steering Committee charge. The review has involved stakeholders from various schools, colleges, and central administrative units via the committee and subcommittee membership. Steering Committee members, along with Maximus, held Q&A sessions with UW Administrators in March and May, 2024, with additional deep dive sessions planned for June and July with academic and administrative leadership.

Alignment with Institutional Goals

The Steering Committee charged the Framework and Alignment Subcommittee to evaluate how the current budget model and future versions may be aligned with other strategic planning across the institution. Some subcommittee members also participate in another working group evaluating capacity and demand in academic programs. These two groups will coordinate their work to ensure any suggested changes to academic programming or the budget model are consistent.

Also, considering the wider context of higher education, the Steering Committee is collaborating with Maximus to incorporate cost containment measures into the budget model. The absence of integration and alignment of the revenue model with any measure of controls on the growth of expenditures is a financial risk that the university needs to address. A budget model that does not account for appropriately managed costs is not viable, and the review committee is working towards a recommendation to bring them into balance.

Focused Study on Taxation Methodologies

In the first Steering Committee meeting, members and sponsors agreed that this aspect of the budget model needed a new framing. “Taxation” terminology is problematic and does not reflect a model that takes a university perspective. As part of the shift to an incentive-based model, Maximus and the Steering Committee agreed the naming, definition, and activity of holding funds centrally to cover overhead costs needs a new framework and this work will be integrated into the IBB Subcommittee work with Maximus (link to IBB subcommittee update).

The review is well underway towards making recommendations to advance a policy framework that recognizes the risk of our decentralized model, emphasizes the use and effectiveness of central planning and forecasting tools, and enhances our unit-level margin policy framework. (need to address progress to date)

Support for Interdisciplinary Programs

Proceed to page 12 for the Interdisciplinary Subcommittee update and Steering Committee observations.

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Peer Analysis and Benchmarking To Date

The University of Washington is plateauing while its R1 peers are gaining ground, and even surpassing the Institution:

- TARU data indicate UW is maintaining an enviable position relative to most research universities
    - UW has lost ground over the period examined, dropping from 9th to 12th nationally, albeit recently moving back up to 11th
- Top 50 rank in endowment but slipped from 30th to 36th over last ten years (12th ranked Public R1)
- NSF R&D ranking has fallen from 3rd to 5th over the last ten years
- Median SAT is the only metric ranked outside the top 50 (averages 135 over the last ten years)

SUBCOMMITTEE UPDATES

Framework and Alignment Subcommittee

- The committee meets weekly and has met four times to date.
- To ground discussions, the group reviewed the "Budget 101" slides, the University's statements of mission, vision, and values, and the Sustainable Academic Business Plan framework.
- The group discussed and constructed a definition for a "University Common Good": A continuously offered, non-self-sustaining resource benefiting campus community members substantially beyond the offering of the college. The group also began developing an inventory of different types of common goods, noting opportunities and challenges for inclusion in the ABB framework.
- The group discussed a set of questions around mission and values alignment, e.g., "With what components of the University's mission, values, and strategic priorities does the ABB model align well?" The group discerned that undergraduate education, sponsored research (somewhat), transparency, and decentralization are valued by the current model. The group further discerned that service (of the tripartite "teaching/research/service" mission) is less valued, which reinforces the need to account for common goods.
- Following engagement with IDA regarding some data requests, the group will begin to address the question, "With what components of the University's mission, values, and strategic priorities should the ABB model be better aligned, and how?"

Steering Committee Observations

- Requested a report back in June with what data elements were requested
- Would also like to review the inventory of common goods

Incentive Based Budgeting (IBB) Subcommittee

- The subcommittee has met twice, including the half day sessions with Larry on how to work together, norms
- The group will meet every other week for ninety-minute sessions to dive into the data and tasks in more detail
- Need to come to a common understanding of where we are with the model, then look at the charge, risks inherent in current model, what are the choices
- Would also like to see the same content the Steering Committee did in learning more about IBB, ICLM
- What can they influence, what are parameters? What decisions have already been made?

Steering Committee Observations

- **What has been decided?** The only decision is “we can’t do nothing.” Need to provide campus with more transparency, clarity, and intentions. The direction

from Provost Serio is to come up with an approach to phase in a modified approach over time
- **What can they influence?** This subcommittee is the working group for this model, and should test, poke holes, try to break the options
- A useful metaphor is not just the pot of resources, but how full is the bowl, how much is coming out? Important to keep cost side in mind. We don't know yet how we'll set up cost pools. Fringe load rates are also a good example of how we pool and share in something measurable. Also, the tech recharge fee, WorkDay Fin, HRP, all based on measurable pro rata distribution of cost
- **Why now?** We have a unique opportunity with a new financial system that will allow for level of granularity.
- Think about how we communicate with campus about why we're doing this now, and that the changes we're talking about now won't immediately change current state

Interdisciplinary Subcommittee

- The subcommittee's conversation was focused on whether this topic falls within the scope of ABB review; does not believe that the ABB model is an obstacle to interdisciplinarity
- Will continue this work because the Provost charged the subcommittee to address it, many survey respondents had this concern, and have heard concerns from faculty
- Can it be redefined as a communication problem? Can we focus on what are the obstacles?
- The subcommittee will be reviewing the University Initiatives Committee draft report on obstacles in cross-disciplinary teaching and research
- Will also meet with Dean Renee Cheng, who chaired that committee
- Will be digging into budget education, other ways to communicate

Steering Committee Observations

- Discussion about the current model, interdisciplinarity vs team teaching, how student credit hours (SCH) are assigned: the subcommittee should focus on programming, not team teaching
- Is there a narrow definition of interdisciplinarity at work? Consider broadening to include programming, Research; definitional level-setting
- The fundamental challenge is expenses don't match revenue, tuition is flat and there will be no increase in state support
- Keep in mind the idea of a strong curriculum committee that can implement governance and set policy, where it could sit. The budget model framework should drive policy that makes sense

ENGAGEMENT WITH LEADERSHIP

The Steering Committee has held regular ABB Phase IV updates, overviews and Q&A sessions with UW Leadership, to share progress and ask for input:

- October 18, 2023 update to Board of Deans and Chancellors (BODC)
- October 23, 2023 update to Senate Committee on Planning and Budgeting (SCPB)
- March 13, 2024 update to BODC
- March 27 Administrator's Council drop-in session
- April 17 update to BODC
- May 6 Administrator's Council Q&A with Larry Goldstein
- June 5 deep dive with Academic Affairs Leadership Team (AALT)

Topics noted from these sessions included:

- Difficult to project new programs and interdisciplinary aspects with the lack of governance structure
- Costs are increasing quicker than revenue can come in
- Continuing to tweak the model cycles from 1) Not understanding, 2) understanding, 3) change, repeat
- Prioritize looking at how ICR is spent internally and centrally, as well as waivers and the relationships between schools
- Address questions of equity
- Proceed cautiously with change: many concerns about quick, sweeping changes; need any changes to be clear and transparent

Over the remaining 2 ½ months of focused work, the Steering Committee and subcommittees will work to:

- Connect institutional financial risk and policy framework to the model development more clearly, including better aligning expenses and revenues at any level of activity
- Focus on policy and risk mitigation and the need for governance: values and common goods should be part of the governance framework
- Bring Summer Sessions revenue and expense into the framework
- Identify additional task forces needed, i.e. work to be done but not in scope of this Steering Committee:
    - Fee-based degree/independent fee-based degrees
    - Role of Research
    - Revenue enhancing ideas