UNIVERSITY of WASHINGTON

ABB PHASE IV STEERING COMMITTEE

FINAL PROPOSAL

August 2024

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Executive Summary

The Activity Based Budgeting (ABB) Phase IV Steering Committee was charged with conducting a targeted review of the ABB model. The main objectives included adopting an integrated approach by considering diverse needs across the university's three campuses, schools, colleges, and administrative units. The committee reviewed how the ABB model could enhance service to students in alignment with the academic strategic framework, improve the equity and coherence of taxation methodologies, and support interdisciplinary programs. Additionally, they advanced a policy framework that acknowledged the risks of a decentralized model while emphasizing the efficacy of central planning tools. Subcommittees were established to support the work, and reports from each subcommittee are incorporated into this final report.

This executive summary synthesizes the findings and recommendations from three comprehensive reports examining the transition from the current Activity-Based Budgeting (ABB) model to an Incentive-Based Budgeting (IBB) model at the University of Washington.

The reports focus on the alignment with the university's mission, the challenges and opportunities presented by interdisciplinary teaching, and the overall evaluation of an IBB model's potential benefits and implementation requirements. These reports were submitted to the ABB Phase IV Steering Committee, and the recommendations in this report will be informed by and reflective of the subcommittees' work.

I. Alignment and Framework

The Alignment and Framework Subcommittee emphasized that while the ABB model aligns with the university's mission to a significant extent, especially in undergraduate education, it neglects certain core activities such as research and public service and does not fully reflect the university's stated values like integrity and excellence. The subcommittee highlighted the need for additional metrics beyond student credit hours and degrees to better align the budget model with university values and mission. They proposed prioritizing the funding of common goods—university resources that benefit multiple units—in the new budget framework.

II. Interdisciplinarity

The ABB Review Subcommittee on Interdisciplinarity identified substantial obstacles to interdisciplinary teaching under the ABB model, including complex course planning, start-up costs, and salary differentials. The subcommittee noted that while ABB does not fundamentally block interdisciplinarity, it does not facilitate it either, or interdisciplinary teaching often lacks sufficient incentives. Recommendations include clearer communication about existing mechanisms to support interdisciplinary efforts and potentially creating a pool of funds to incentivize such teaching.

III. Incentive-Based Budgeting (IBB)

The IBB Subcommittee discussed several benefits of transitioning to an IBB model, noting that

such a model provides full revenue to units for the funds they generate, thereby incentivizing revenue growth and promoting greater financial transparency. An IBB model would also enforce units' responsibility for their direct and indirect costs, fostering a holistic view of financial health and promoting long-term planning. However, implementation of an IBB model involves complex financial transactions and requires robust systems to track detailed cost and revenue data. An IBB model would largely impact UW Seattle, but could have implications for UW Bothell and UW Tacoma.

IV. Summary of Recommendations

Aligning Budget Models with Institutional Goals: Develop budget metrics beyond student credit hours and degrees to better reflect the university's comprehensive mission, including research and public service.

Funding Common Goods: Establish clear definitions and mechanisms to ensure common goods are adequately funded prior to other allocations.

Incentivizing Interdisciplinarity: Enhance communication regarding financial planning and budgeting support for interdisciplinary teaching and consider institutional funds to encourage such initiatives.

Implementing IBB Elements: Adopt key features of an IBB model, focusing on transparency, full revenue allocation, and accountability for both direct and indirect costs. Develop appropriate governance structures to ensure successful implementation and oversight.

Transitioning to an IBB model promises improved alignment with the university’s mission, enhanced incentives for revenue generation (through full revenue allocation), and greater financial transparency and accountability. However, this shift requires careful planning, significant administrative resources, and broad institutional support to navigate the complex financial landscape and ensure a smooth implementation. Should any features of this type of model move forward, the Steering Committee recommends a multi-year phased approach. The committee also notes that many of its recommendations around governance and incentivization could benefit the university regardless of parameter changes to budget model itself.

Overview of the Steering Committee Process

The Activity Based Budgeting (ABB) Phase IV Steering Committee was charged by Provost Tricia Serio to review the University of Washington ABB model through five key strategic lenses:

1. Broad Review and Consideration
2. Alignment with Institutional Goals
3. Focused Study on Taxation Methodologies
4. Advance a policy framework
5. Support for interdisciplinary programs

The Committee created three working groups to focus on specific areas of the charge, and invited members of the University of Washington community to serve on these subcommittees:

1. Alignment and Framework
2. Incentive Based Budgeting (IBB)
3. Interdisciplinary

The Steering Committee convened monthly to deliberate on its responsibilities and evaluate the progress of the subcommittees.

Supporting the Steering Committee were external consultants from MaximusUS: Harold Horton, John Stevens, Larry Goldstein, Brendan Leonard, and Jack Corby.

Charge and Scope of the Steering Committee

January 23, 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.

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.

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

Subcommittees and Summaries of Their Charges

Incentive-Based Budgeting (IBB) Subcommittee

The primary charge of the IBB subcommittee was to examine which elements or principles of an incentive-based budget (IBB) model might be included in the University of Washington's Financial Model that also align with the UW's academic mission and other strategic priorities, as well as the Steering Committee's goals and charge.

The major issues discussed by the subcommittee included:

A. The key budget elements or principles that are vital to the culture of the University of Washington and that should remain within a new model, even if they are tweaked and tailored for the new model.
B. The risks that are inherent at the enterprise level due to the current model; and the risks that our schools, colleges, and administrative units assume in the current model.
C. The proposed new model presented by Maximus, and the extent to which that model best supports institutional priorities.
D. The best practices of our peer institutions that we should advance for development at UW.
E. The monitoring/oversight mechanism needed to ensure that the new model is serving the academic needs and strategic priorities of the University; the policies and processes that should be used by this budget monitoring or governance committee; and the composition and structure of this monitoring or governance committee.
F. Caveats, concerns, questions, and opinions offered by subcommittee members on the potential move to a new budgeting and finance model.

Interdisciplinarity Subcommittee

Provost Serio charged this subcommittee with identifying obstacles (if any) that the ABB revenue distribution model may pose to interdisciplinary teaching and research on the University of Washington's Seattle campus. This request arose from her observation—based on feedback from faculty across campus—that they value opportunities for interdisciplinary instruction but believe they cannot engage in it because of obstacles posed by the ABB budget model.

Because collaborative, multi-disciplinary research is a fairly common practice among UW faculty and because research was not believed to be obstructed by the ABB revenue model, the committee members decided to focus on interdisciplinary teaching/instruction.

Alignment and Framework Subcommittee

The subcommittee embraced the assumption that the University is moving in the direction of adapting an IBB model. Therefore, "What are the lessons of an ABB model?" served as an organizing question.

The subcommittee also examined, in response to the final question of its charge, "common goods" and how the UW might do well to think about them differently as it potentially shifts

its budget model. Many colleges and schools offer programs and services to communities well beyond their respective units and do so despite disincentives. The subcommittee considers this discussion of common goods to be our subcommittee's most significant contribution.

Definitions (working definitions generated by the subcommittees)

Common Good

A continuously offered, subsidy-based resource benefiting people substantially beyond the community of the offering college/school.

Note from the subcommittee: despite the specificity of the definition, there remains an "eye of the beholder" element in determining what constitutes a common good. To ascertain what may be representative of the range of common goods currently offered, we developed a survey. Specifically, this survey prompts colleagues in colleges/schools to note activities which they believe ought to be considered common goods and to describe what their functions are, what constituent group(s) they serve (i.e., undergraduate, graduate, faculty, staff, external), what their funding source(s) are (i.e., central, departmental, fees, grants, gifts), and what they articulate as their impact. We have not yet received enough responses to formulate particular points of view so we will have to provide an update in the coming weeks.

Interdisciplinary teaching

For the purposes of this report, "interdisciplinary teaching" refers to a course in which two or more instructors collaborate to teach a single course together and in which the instructors hold different forms of disciplinary expertise that can be productively woven into a single course on a topic that requires diverse forms of expertise and perspective.

It might also refer to teaching that occurs in interdisciplinary programs such as those that reside in the Graduate School.

Incentive-Based Budgeting, or An IBB model:

IBB is a decentralized budgeting model used in higher education that assigns revenue and expense management to individual units, such as colleges or departments, within an institution.

Units are responsible for generating their own revenue through tuition, grants, and other income sources, while also being accountable for their expenses, including salaries, administrative costs, and operational costs. Larger IBB models can also incorporate more indirect costs, such as space allocation.

The core idea behind IBB is to create a more transparent and efficient allocation of resources by linking revenue generation directly to the units that incur the costs. This model incentivizes individual units to be more entrepreneurial and efficient in managing their finances, as they retain the surplus they generate and are also responsible for covering any deficits.

Steering Committee Takeaways and Findings

The Steering Committee, incorporating insights from subcommittees and monthly meetings, has synthesized a cohesive response to the five key areas outlined by the Provost.

1. Broad Review and Consideration

The Steering Committee and subcommittees included members from UW Seattle, Bothell, and Tacoma, plus various administrative departments and schools/colleges such as Social Work, Medicine, Arts & Sciences, Education, Engineering, Environment, Business, and others[1]. This diverse representation ensured a comprehensive review of the model.

Additionally, the committee focused on not only the mechanics of the model itself, but also the principles behind the model and the drivers of behavior (intentional or otherwise) in response to the budget model.

The committee and subcommittees broadly focused on reviewing the model with an eye to the future and the need to ensure the model is flexible and can adapt to macro and micro changes to the University and budgetary environment. Several Steering Committee members also met with peers at University of Minnesota, Rutgers and University of Michigan to understand their experiences with budget models and governance. Further, the committee believes that these recommendations could have tri-campus implications and provide an opportunity for the Tacoma and Bothell campuses to benefit from the modeling exercises and fiscal planning changes.

2. **Alignment with Institutional Goals**

Evaluating the UW's values of integrity, diversity, excellence, collaboration, innovation, and respect, the committee noted that the current ABB budget model emphasizes curricular growth over research. Research, a significant university activity, is not adequately reflected by the budget model. Despite higher spending on instruction and academic support compared to AAU peers, UW's expenditures on student and public services are roughly half. The ABB model supports undergraduate education strongly, aligning with UW's mission, but shows less alignment with graduate and professional education.

The Alignment and Framework subcommittee met ten times over the course of the review period. The focus of most meetings stayed at high-level discussions, with the assumption that the University is moving towards a shift in the current model towards a more holistic model that incorporates both revenues and expenses.

The subcommittees findings are summarized here:

Budget Model's Alignment with Mission and Values

[1] The full list of membership is included in the appendix at the end of this report.

- The current model values undergraduate education strongly; graduate and professional education less so.
- The current model supports knowledge dissemination via the curriculum but inadequately factors in research.
- The University's values conflict with the current model, which prioritizes curricular growth over aspects like excellence.

Metric Consideration for Revenue Distribution

- Current ABB metrics (student credit hours and degrees) may not fully align with the University's mission and values.
- A research metric might be considered alongside curricular metrics for a more holistic alignment.
- Need for further exploration of other metrics like student services and public service.

Common Goods and Resource Allocation

- The current budget model under-accounts for resources benefiting the common good.
- Proposal to fund common goods prior to metrics-driven allocations.
- Defined campus common goods as continuously offered, subsidy-based resources benefiting communities beyond offering units.

Recommendations

- Undertake a robust assessment of common goods informed by a developed survey.
- Define outcome variables for common goods beyond their rendering as inputs.

3. Focused Study on Taxation Methodologies

The Steering Committee reviewed the current taxation formula within the ABB model to determine if the current taxation system, not the specific percentage distributions, is the most equitable way of covering the various central office costs and providing the UW with the financial nimbleness to align with changing strategic priorities. It determined that a shift to a model that incorporates revenue and expenses, such as an IBB budget model, provides more equitable taxation methodologies than the current ABB model because of IBB's flow of revenue and expenses -- direct and indirect costs -- directly to units. An IBB model allows everyone at the institution, from department leaders to senior staff, to align the budget model with the institution's mission and goals by allocating resources where appropriate in a transparent manner. ABB has somewhat enabled the University to pursue this, and IBB will facilitate greater alignment as the institution further develops.

With an IBB model, academic units may receive the entire revenues (tuition, ICR, fees, etc.,) generated by their unit, whereas, under ABB, units receive the net of a "tax" off the top (e.g., 70% of the tuition, 35% of ICR). An IBB model also enhances the UW's budget model in the following ways:

Enhanced incentives for colleges and units to expand specific revenues

- This shift offers academic departments a greater motivation to boost their revenue through strategies like expanding enrollments in programs without capacity limits, opening enrollments in previously capacity constrained areas, expanding summer quarter offerings, or by introducing non-degree and online offerings, as well as optimizing Indirect Cost Recovery (ICR) income through the use of proper allocation bases and methods. Allotting full revenue streams and implementing nuanced cost pools can also grant departments increased independence and promote transparency across the institution.

Transparency on the current Taxation pool

- This new strategy will ensure the visibility of indirect costs and their allocation based on activity-based metrics, enhancing the understanding among Schools and Colleges regarding the services they are funding. Unlike the current model, which applies a blanket tax of 30% on tuition and 65% on ICR, an IBB model promotes better oversight and management of indirect expenses. Since the academic divisions will shoulder these costs, there will be a built-in need to A. Understand the pressures on administrative units to provide services, B. the cost of providing services as the University's research, instruction, and service portfolio expands, and C. Built in motivation to condense potentially duplicative services.

More holistic program management

- An IBB model provides decision-makers with a comprehensive perspective on the revenues and expenditures associated with specific programs. In certain scenarios, academic units may conclude that the incremental costs involved in boosting revenue or Student Credit Hours (SCH) might not justify the effort from an academic or financial standpoint. Programs essential to the institution's mission might not contribute to revenue generation at all. Consequently, this framework can guide enhancements in the economic well-being and sustainability of both individual programs and entire divisions, thus reducing financial risk. Although this approach may influence divisions that are more sensitive to revenue fluctuations, it ultimately enhances transparency concerning the institution's overall fiscal health.

Indirect Cost Recovery / "common good"

- Under an IBB model, all academic units, institutes, and auxiliary units pay a share of the indirect costs of operating the academic enterprise, such as student services, academic support, facilities, central admin offices, and institutional support costs. The current budget model does little to account for college/school resources that serve the common good and how the institution provides common good resources.
    - The subcommittee would like to note that despite the specificity of the definition (See 'Definitions'), there remains an "eye of the beholder" element in determining what constitutes a 'Common Good'.

Aligning the budget with the university's values

- Aligning the budget with the university's values is essential. A case in point is the promotion of "Interdisciplinarity" at UW, which could be encouraged through a designated funds pool under an Incentive-Based Budget (IBB) model, offering clarity and incentivization that the Activity-Based Budget (ABB) lacks. Moreover, integrating varied institutional metrics into the budget model, such as research along with curricular inputs, addresses the mission's alignment though with challenges in measuring diverse outputs

like research activity. We recommend further investigation into incorporating additional institutional metrics and value-based measurements.

4. Advance a policy framework that acknowledges risk of decentralization, emphasizes central planning and forecasting tools, and strengthens margin policy framework.

The current budget model lacks a formal governance structure and oversight framework that acknowledges the risk of decentralization, emphasizes central planning and forecasting tools, and strengthens a margin policy framework. While schools, colleges, and other units have always had access to the institutional support they would need, this support is one a unit must seek out on its own. For instance, if a unit or set of units are contemplating an interdisciplinary offering, the office of Finance, Planning & Budgeting (FPB) offers support and guidance in setting up and mapping activity based on the desired ABB outcomes – but it does not come naturally and requires extra work by the desired unit and FPB.

An established governance should provide strategy and policy development to protect against the risks of decentralization, specifically each unit's margin policy. At the central level, an awareness of unit net margins and their long-term trends will also help FPB to develop long-term plans to assist units that have negative net margins or help units that have large net positions plan for their future developmental needs. Also, the current budget model does little to account for strategic investment in the "common good". With full revenue allocation distributed to units, college/school can strategically integrate the common goods in their respective areas into their overall strategic and financial plans. The governance structure could be designed to ensure that unit plans are integrated with institution-wide plans and supportive of the university's priorities.

The Steering Committee engaged in an exercise to help envision what a formal governance structure would look like by identifying the worst possible outcomes of a newly constituted governing body. From this exercise, the committee identified what a best in class governing structure might look to address. The committee recommends the following considerations when standing up a governance structure in support of the budget model and process.

<u>Board Composition and Purview</u>

- Craft a board with UW leadership support and well-defined purview.
- Staff the board with members who represent the UW, not just their departments.
- Ensure UW schools, colleges, and units are proportionally represented.
- Make sure faculty and students are proportionally represented.

<u>Training and Expertise</u>

- Provide training for board members and leaders.
- Ensure the right expertise is present in the room.

<u>Stakeholder Inclusion and Representation</u>

- Represent stakeholders beyond home units.

Policies, Procedures, and Accountability
- Establish clear policies and procedures.
- Evaluate central administration and school performance as part of budget management.
- Ensure the Provost holds deans and faculty accountable.

Communication and Transparency
- Communicate often and well.
- Make decisions transparent and clear.

Empowerment and Structural Integrity
- Empower board members to do the work.
- Organize the board so that strategic governance and operations are appropriately modeled.

5. Support for Interdisciplinary Programs

Interdisciplinarity, such as classes co-taught by faculty members across disciplines and programs that live across units, is a strategic initiative not supported directly by the ABB Model. While ABB may not be the root cause for barriers to interdisciplinary teaching, colleges or units spending valuable resources, notably faculty teaching hours, are not rewarded or incentivized anywhere within the current ABB model, illustrating a major gap between financial nimbleness and strategic alignment.

One way ABB has addressed strategic priorities, such as Interdisciplinary, has been through the Provosts Reinvestment Fund. While this has been a useful tool to try out different programs or reward certain initiatives taken at the discretion of UW senior leadership, the ABB model lacks any policy mechanism that would review these along a wide range of transparent metrics to provide the unit benefits and review these programs for permanent transition into the UW.

The subcommittee was tasked with reviewing interdisciplinarity as it pertains to the current budget model met frequently over the course of the review. Membership included representatives from various schools and departments at the University of Washington.

The subcommittee was tasked with identifying obstacles posed by the ABB revenue distribution model to interdisciplinary teaching and research.

The subcommittee used a working definition of interdisciplinary teaching that involves collaboration between two or more instructors from different disciplinary backgrounds to teach a single course, aiming to provide a diverse perspective on the subject matter. The summary evaluation and recommendations are outlined below:

Impact of ABB on Interdisciplinary Teaching

- General Rule: ABB model follows the activity, meaning it can support interdisciplinary offerings if units collaborate effectively.

- Potential Barriers: Obstacles arise from course planning, salary differentials, and complex governance structures rather than the ABB model itself.

ABB as an Obstacle to Interdisciplinary Teaching

- The ABB model is not inherently a barrier to interdisciplinary teaching. Obstacles arise due to difficulties in implementing equitable revenue-sharing and collaborative planning among different units.
- The ABB model "follows the activity," meaning revenue follows student enrollment and course activity rather than departmental ownership.

Existing Obstacles

- Questions on how to manage co-teaching credits, tuition distribution, and differential instructor salaries.
- Challenges include startup costs, complex planning schedules, and a lack of incentives.

Recommendations for Improvement

- Avoid disincentivizing interdisciplinary teaching in any changes to the ABB model.
- Provide clearer communication and navigation tools on collaboration and revenue-sharing.
- Consider employing incentives for interdisciplinary teaching, such as a pool of funds specifically for this purpose.

Steering Committee Recommendations

The Steering Committee has integrated recommendations from the subcommittees into a unified proposal. The complete reports from each subcommittee are fully documented in attachment at the end of this document.

"Change is inevitable": This adage was reiterated to us by Provost Serio when our mandate was established, as well as during the March Steering Committee gathering. While not locking in particular modifications at this time and anticipating a Fall 2024 assessment by the university's leadership and interested parties, we present the recommendations of the Steering Committee, including relevant timelines where necessary.

Develop and Charge a Governing Body

- The Provost/President should implement a strong budget governance structure, including a new budget governance committee(s) that is charged with advisory oversight of the budget model. Examples of governing structures at other R1 universities may be leveraged (ex. UT San Antonio[2]) where appropriate.
    - This Governance Structure should comprise campus leaders, financial representatives from various Schools, Colleges, and Units, and at-large employees who collaborate in a governance process to enhance fiscal accountability and resource management.
    - This Governance Structure should:
        - Create, review, and recommend policies governing the model.
        - Review and advise on requests for changes to the model.
        - As needed, advise on improvements to the institution's current data and technical capabilities to recommend changes to how data is tracked, stored, and utilized across the institution.
        - Operate from the understanding that they are advisory, and the Provost and Chief Financial Officer (CFO) retain decision-making authority according to University Policy.

- Charge a Financial Operations Resource Team (FORT) to oversee three main streams of work as the UW continues to evaluate and plan for a shift in the current budget model:
    - Administrative Guidance for FORT:
        - FORT should have balanced representation from BODC, the Administrators Council, the Faculty Senate, and student organizations, and act in the best interests of the University, specifically, in this first phase of work, the Seattle Campus.
    - This committee should meet monthly and hold its first meeting by January 1, 2025.

  Data and Modeling

    - Build on the modeling done in ABB Phase IV, particularly the work done by the IBB Subcommittee, bringing forward considerations and potential impact of any change

[2] https://www.utsa.edu/budget/irm/governance.html

to the current iteration. Work to identify data and enhancement needs to the mechanical operation of the budget model. This modeling can inform what process and policy decisions need to be made to operationalize a more aligned budget model (with revenues and expenses considered). Identifying key elements to prioritize will help drive additional modeling needs.
    - Modeling can begin in Fall 2024 understanding the data are limited and incomplete, with a target goal of data and impact assessments published alongside current (e.g., ABB) model outcomes.
    - Continue modeling either with available data or around theory, for example what effect would moving common goods into central costs have? How might costs be shared? Modeling with current data will facilitate informed decision making around the establishment of cost pools and the timeline for implementation.
    - The modeling should focus on the various metrics/levels that could be used to impact a budget model, and building in metrics beyond student credit hours and degrees is worth thoughtful consideration. For example, as noted above, while the research enterprise generates and operates within its own fiscal ecosystem, it is so mission-centric that it is worth considering how a research metric might factor alongside curricular metrics.
- Consider the state of the institution's current data and technical capabilities to understand how data is tracked, stored, and utilized across the institution.
    - The institution should work to have a single source of data with models broadly available to university administrators and decision-makers. The source should be transparent, accurate, and agreed upon by institution leadership, including BODC, to help formulate the model.
- Assess the institutional systems that facilitate registration for state-based and fee-based students. Prior to Workday, separate registration systems enabled separate revenue flow tracking for fee-based and auxiliary revenue.
    - In support of including fee-based/auxiliary revenue in the induced course load matrix (ICLM) model, determine the timing of when the technology systems can absorb this portfolio, e.g., summer quarter, Student Data Base SDB, and the procedural/staffing impact to central student services units.
- Understand that a realistic timeline puts implementation not prior to FY29; with better modeling, it will take at least a year to consider possible changes to the Foundation Data Model (FDM). The comment period (fall 2024) for university leaders and stakeholders may also impact the timeline.
- There are also intersections between this work with the concurrently charged Capacity/Demand Committee and its forthcoming recommendations on updating the university's enrollment management and admissions processes.

<u>Policy Development</u>

- The committee should provide the ABB Phase IV Report to the Senior Vice President and the office of Finance Planning & Budgeting so that FPB may begin crafting guidelines for policies and practices for the following areas:

    - Margin policies for Schools, Colleges, and Units, specifically the total net position that should be maintained at Resource Hierarchy Level 3 and Cost Center Hierarchy Level 05 for appropriate unit risk and fiscal sustainability.
    - The definition, collection, and distribution of all revenues to the academic units.
        - For example, the committee could recommend that specific revenue sources such as fee-based programs and summer sessions be included or not included in the modeling.
    - The definition of all indirect costs allocated to academic units and the cost drivers or bases used for such allocation.
        - Including items the ABB Phase IV IBB Subcommittee did not include in their modeling, such as space allocations and depreciation.
- The committee should review the current ABB model and its new governance structure to identify gaps that the committee can work towards bridging under an IBB model.

<u>Definitions and Understanding of Key Terms, and Communications</u>

- Administer a community-wide effort to define different terms that will impact the budget model, including but not limited to:
    - 'Common Good'
        - Once defined, undertake a robust assessment of "common goods," informed at least in part from the subcommittee survey and including a classification of common goods (e.g., fully/partially subsidized, UW-serving/beyond-UW-serving, curricular/non-curricular).
    - Strategic Initiatives, such as 'Interdisciplinarity'
        - Could interdisciplinary teaching serve as a potential value upheld as a common good?
- Create additional materials as part of road shows and training, education, and information to campus community partners:
    - What changes have been endorsed, the rationale, and the proposed impact based on these changes?
    - Education around a model shift, including the "from what, to what" and why.
    - Soliciting feedback from units, particularly Deans, Associate Deans and administrators on their concerns and identified knowledge and technical gaps for transiting to an IBB model.

Conclusion

To address the issues identified through this review and improve the existing model, a comprehensive assessment of common goods is necessary. Establishing an advisory governance structure dedicated to defining and classifying these goods for budgetary purposes can ensure that they receive adequate funding before applying other ABB metrics. Outcome variables associated with common goods should be determined to better align the budget model with the university's mission and strategic priorities.

Supporting interdisciplinary teaching and research is another critical area for improvement. Current obstacles include issues with course co-teaching, tuition distribution, instructor compensation, and risk sharing. To mitigate these, the university can incentivize interdisciplinary initiatives through dedicated funds and enhance communication and navigation tools to assist faculty and deans in exploring such opportunities.

A consideration to transition to an Incentive-Based Budgeting (IBB) model that allocates revenues and expenses, as suggested by external consultants such as MaximusUS and Educational Advisory Board, could address many of these concerns. An IBB model promotes fiscal transparency and unit autonomy while encouraging long-term financial planning. Implementing such a model would require careful adjustments to financial systems and governance structures to oversee its operation effectively.

In summary, the current ABB model at the University of Washington, while successful in many respects, has significant areas for improvement. Aligning the budget model more closely with the university's mission and values requires addressing its limitations in supporting research, graduate/professional education, and common goods. Adding qualitative metrics, prioritizing funding for common goods with robust governance and oversight, offers a promising pathway to ensure the university's financial sustainability and alignment with its core priorities.

Appendix A: Charges and Membership

*Indicates Steering Committee Liaison

Steering Committee Sponsors and Co-Chairs

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

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

- Andreas Bohman, Vice President, UW IT and CIO
- Andy Harris, Vice Chancellor, Academic Affairs, UW Tacoma
- Barbara Wingerson, Associate Vice President, Facilities Finance
- Dianne Harris, Dean, College of Arts & Sciences, UW Seattle
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Alignment and Framework Subcommittee Charge

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*The Committee would like to express its appreciation for Jean Hushebeck's dedication and contribution to the IBB subcommittee and extend condolences to her co-workers and colleagues during this time of loss.*

IBB Subcommittee Charge

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Interdisciplinarity Subcommittee Charge