ABB Steering Committee Report

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Attachment 1:

The UW Activity Based Budgeting Working Group Report (October, 2009)

UNIVERSITY of WASHINGTON

October 6, 2009

To: Phyllis M. Wise, Provost and Executive Vice President

From: Doug Wadden, Executive Vice Provost for Academic Affairs
Paul Jenny, Vice Provost, Office of Planning & Budgeting

Cc: Working Group on Activity Based Budgeting:
Ann Anderson, Associate Vice President and Controller, Office of Financial Management
Tom Baillie, Dean, School of Pharmacy
Ana Mari Cauce, Dean, College of Arts & Sciences
Paul Hopkins, Chair, Department of Chemistry
Matt O'Donnell, Dean, College of Engineering
Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting
Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs

RE: Activity Based Budgeting Report

Provost Wise:

In response to your letter dated June 24, 2009, the Working Group on Activity Based Budgeting (ABB) has met regularly over the past three months to examine limitations of the current budget model and how an ABB model might be implemented at the University of Washington. The attached report is the result of that effort.

Please contact us if you have any questions. Thank you.

Activity Based Budgeting

Working Group Report

October 6, 2009

Activity Based Budgeting Working Group Members:
Ann Anderson, Associate Vice President and Controller, Office of Financial Management
Tom Baillie, Dean, School of Pharmacy
Ana Mari Cauce, Dean, College of Arts & Sciences
Paul Hopkins, Chair, Department of Chemistry
Paul Jenny, Vice Provost, Office of Planning & Budgeting
Matt O'Donnell, Dean, College of Engineering
Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting
Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs
Doug Wadden, Executive Vice Provost for Academic Affairs

Executive Summary

The University of Washington currently uses a modified version of an incremental budget model to plan and develop budgets at the unit level. However, incremental budgeting has limitations that impact the ability of management to effectively manage resources, which may have adverse effects on the institution. Further, the University has recently experienced significant reductions in state general fund appropriations, such that the reliance on tuition and other enterprise revenues have surpassed state appropriations in the existing funding model.

In response to similar challenges, several major public universities have successfully implemented variations of an activity based budget (ABB) system. ABB is a method of budgeting in which the revenues generated from instructional and research activities are allocated directly to the unit responsible for the activity.

In June 2009, the Provost established a working group to examine issues related to the feasibility and implementation of an ABB system at the University of Washington. The working group met regularly over three months to examine these issues. Additionally, the group sought outside counsel from the University of Michigan, which had successfully implemented ABB. This report reflects the findings and recommendations of the working group.

The working group was not specifically charged with making a recommendation to move to an ABB model. We nevertheless report that the group did reach consensus that the ABB approach to resource allocation has merits and should be more thoroughly explored during the current fiscal year. To achieve this we recommend that as a key next step a steering committee be appointed with decanal, faculty senate and senior administration representation. This steering group would be larger than the current working group and would be tasked to form new smaller working groups to examine the structure and detail of ABB with respect to:

1. Academic Impact
2. Research and Indirect Cost Recovery
3. Administration and common good elements
4. Structure and delivery of a tax model
5. Definitions and data points

We recommend that the campus fully develop an ABB model at the University of Washington that can be presented to the campus community for feedback and acted upon by the Provost and President.

Overview

The University of Washington is assessing the potential value and feasibility of implementing a new activity based budgeting (ABB) system. In its most basic definition, ABB is a method of budgeting in which the revenues generated from instructional and research activities are allocated directly to the unit responsible for the activity. This budget model has been successfully implemented at several major public research universities including Michigan, Minnesota, Indiana, etc. While there are local variations in each of the respective budget models, it is generally accepted that an ABB approach is more transparent and stable than a traditional incremental budget model such as that currently in place at the University of Washington. ABB 'empowers' greater local planning and accountability and creates incentives for units to more efficiently manage resources and expenditures. Further, direct control of resources generated from activities creates incentives to set priorities and develop new activities consistent with the overall mission and strategic goals of the institution.

Goals of the Working Group

In the last academic year there has been significant concern that the current budget model employed by the University of Washington is no longer the best approach for resource management. (The University of Washington currently uses a modified incremental budgeting model that bases budget proposals and allocations on the budget from the previous year.) Based on the success of peer institutions in changing their budget models, Provost Wise directed a Working Group to examine ABB as a possible budget model for implementation at the University of Washington. The Working Group met regularly from July through September to consider issues related to transforming our current budgeting process to a new ABB model, including an implementation schedule and data requirements. Provost Wise outlined three primary goals for the working group. (Appendix A)

1. Develop a comprehensive list of issues that need to be addressed in reframing our (existing incremental) budget model to one (an ABB model) that more transparently aligns revenue generation with the activities associated with the revenue. Include *preliminary* recommendations on how they might be resolved. (Note that *final* recommendations will involve more inclusive campus conversations among the Vice Presidents and Vice Provosts, Board of Deans & Chancellors and the Faculty Senate, the Senate Committee on Planning and Budgeting, and other academic and administrative leaders.)

2. Develop an implementation schedule that includes significant changes to our (existing incremental) budget model effective in FY 2010-11. Full implementation in 2010 is NOT likely, but work towards a timely schedule of implementation.

3. Develop a list of information necessary to implement any proposed changes to the budget model and recommend definitions. Work to ensure that data and definitions reflect progress in this arena which has been made during the past few years.

In determining an approach that satisfies the Provost's charge in these goals, the working group focused its efforts on the following areas

1. Limitations of the current University of Washington budget model
2. Working principles of a new budget model
3. Defining the scope of an ABB approach
4. An ABB approach at the University of Washington
    a. Transparency in allocation of resources
    b. Accountability
5. Next steps

Limitations of the Current University of Washington Budget Model

In examining the potential of a new ABB budget model at the University of Washington, the working group first examined the current budget model and we concurred with general campus opinion that the current model has significant demerits that we summarize as follows:

1. The existing incremental budget model does not align revenue generation with the activities associated with the revenue. This factor is of concern given the uncertainty of future revenue streams combined with increasing operating costs.

    Example: *Tuition revenues associated with the student population of a given program are not clearly accounted for or linked to that program, irrespective of whether or not that program is subsidizing other programs or being subsidized itself.*

2. The full cost of university programs—whether instructional, research or service oriented—is unknown, limiting the ability of management to make informed decisions that fully take into account efficacy, value and cost of a given program relative to both the budget and mission of the university.

    Example: *No accounting for the cost of space, utilities, deferred maintenance, etc.*

3. The existing incremental budget model is not sufficiently transparent to our external constituencies, particularly our funders (including taxpayers, tuition payers and the legislature). The lack of transparency limits our ability to account for the use of our current budget or to make a compelling case for increased funding, tuition-setting authority or other management flexibilities and operating efficiencies

4. The existing incremental budget model does not have the flexibility or fluidity required to allow management to effectively reallocate resources in response to workload shifts or changes in the strategic priorities. This factor results in a disincentive for innovations (such as expanded instructional programs) that would require new funding.

    Example: *In the course of a biennium the workload in college A increases while the workload in college B decreases. When this happens the University has very limited ability to make adjustments to*

budget allocations within the existing system to accommodate such changes.

Working Principles of a New Budget Model

The working principles of any new budget model should increase the internal capacity of the University—at both the operational and management levels—to carry out its required duties as directed in state law and the Role and Mission as approved by the Board of Regents. Further, the working principles may help to clarify or address the limitations of the current incremental budget model either directly or indirectly.

With these underlying goals in mind, the Working Group developed a list of principles that would help guide their analysis and inquiry of a new ABB model for the University of Washington. The principles are modeled in part after concepts that were successfully implemented at the University of Michigan and the University of Minnesota.

In addition to the working principles is the strong endorsement by the working group that any change in the UW budget model initially be revenue-neutral for all affected units. The focus of a new ABB model needs to focus on the prospective incremental changes in the revenues generated by activities and not on a retrospective analysis of the current base.

A new budget model ideally would:

1. **Support, not determine, university missions and goals**—including quality aspirations.
2. **Incent positive behaviors, innovation and operational efficiencies** that facilitate improvement in any of the standard performance metrics
3. **Be transparent**.
4. **Be as simple as possible to understand, administer and implement.**
5. **Enable the administration to effectively lead the institution** and reallocate resources when necessary.
6. **Use common data, definitions and information** that are clear and standardized campus wide.
7. **Allocate revenues to the centers that incur costs**, and thus must have some way of explicitly accommodating the differential costs of instruction by school/college.
8. **Include all central revenues** (GOF/DOF, indirect costs from research grants, central scholarship/fellowship funds, etc.), not some subset of these funds.
9. **Clearly identify cross subsidization**.
10. **Support "common good" services, programs and operations** across the entire institution.

11. **Facilitate planning** (based on comprehensive systemic assessment), require acknowledgement of near-term and long-term mission objectives. It should and contain accountability for performance relative to funding decisions (enrollment, retention, outcomes, etc.).

12. **Be fundamentally forward looking in incentives**, coupled with periodic rebalancing of investments.

13. **Encourage how to redirect investments even under financially distressed circumstances**

14. **Recognize the importance of maintaining current funding levels** or phasing-in funding reductions for colleges and schools in the short-term as the ABB model is implemented to minimize the impact on existing programs, including incumbent students, faculty and overall program quality.

Defining the Scope of an ABB Approach

It is important to note that any move to an Activity Based Approach would not be appropriate for all units across the University of Washington. First and foremost, the working group recognizes that this effort is focused on the Seattle Campus. While UW Bothell and UW Tacoma are critical contributors to the mission of the University of Washington, they are separate and distinct budget entities and thus are outside of the scope of this effort. Additionally, we have excluded from consideration in this approach the auxiliary and self supporting units such as the UW Medical Center, Intercollegiate Athletics, Housing and other units which are expected to manage their budgets as standalone, self-sustaining entities.

The focus on ABB at the University of Washington should be on those units driving the instructional, research and service mission of the university and the necessary supporting administrative units. These units can be classified as **Activity Based Units** represented by the schools and colleges and **Non-Activity Based units** that include central academic support units (libraries, undergraduate education, etc.) and administrative support units (finance and facilities, student life, etc.).

The budgets of those units defined as activity based would be based in large part on the revenue generated from the activities of the unit (instruction and research) plus the addition of any supplemental funding. Budgets of non-activity based units would follow the current approach in providing an annual budget request of new funding for consideration by the provost.

An ABB Approach at the University of Washington

Any budget model, and certainly any implementation of a new budget model, needs to be based on the core values of transparency and accountability and consistent with stated principles. The allocation method of the activity-generated revenue needs to be simple and clearly understood. Further, campus activity units and central administration need to be held accountable in ensuring that revenues are clearly tied to unit missions and the overall mission and strategic goals of the University.

If the determination is made to formally move to an ABB model at the University of Washington, the working group endorses that all revenue generated by activities be fully allocated to the units directing the activity. All tuition and research indirect cost recovery (ICR) should flow to the schools and colleges. Indirect Cost Recovery should be fully allocated to the school or college 'housing' the research associated with the generation of ICR. The allocation of tuition should be distributed to both the school of instruction and the school of enrollment.

To both fund central costs and reinvestments into key university initiatives (again, in and out of the schools and colleges) we recommend that an annual tax be charged to schools and colleges. We have not formally endorsed what should serve as the base for taxation but recognize that the base could be either revenues or expenses. (At this juncture we have also not discussed what specific revenues and expenses should be included in the base on which the tax is applied.) Further the tax model and the financial obligation of the tax must be clearly articulated so schools have sufficient ability to develop their respective budget models before the start of a fiscal year.

The working group has not formally recommended what the split between instruction and enrollment should be. Rather we have focused our efforts on defining each of these factors. We believe that the allocation for instruction should be based on the number of Student Credit Hours (SCH) each school produces within each unique tuition category (undergraduate, graduate tier 1, tier 2, etc.)

Since the UW does not have direct admissions to school and colleges for freshman, defining school of enrollment is a much less clear concept. We have not formally determined the best proxy for school of enrollment. We believe that there are really two points of consideration, major and degree, both of which have difficulties. We recognize that determination of a major by an individual student is not a budget determining point. The degree production of schools and colleges is a key outcome for the University of Washington and may serve as a good indicator of school of enrollment. However, a complicating feature is that different degrees with a single tuition category (for example Ph.D. and M.S.) require very different levels of activity. We recognize that defining school of enrollment will require additional analysis.

It is important to note that when discussing tuition by classification (undergrad, grad, professional), that tuition represents a net blended rate of resident/nonresident, waivers, exemptions, etc. The decision of the resident/nonresident mix is determination made by the President and Provost in consultation with the Regents. Further, there are many legislatively mandated exemptions that do not produce actual tuition dollars. To the extent that these decisions are outside of the scope of responsibility of a school or college it is important that allocated tuition needs to be a blend of these considerations.

Beyond tuition and indirect cost recovery, we recognize that there are several other sources of revenue generated by schools and colleges that are in the current allocation of central funds, such as summer quarter enrollment and interest on fund balances that are currently considered part of the Designated Operating Fund of UW (DOF). While we have not examined these funds in depth we recommend that the approach to these funds be consistent with that taken for tuition and ICR.

In addition to the allocation of activity generated revenues to the school and colleges, it is recognized that there are costs associated with these activities outside of the schools and colleges. Further, we recognize that there are significant common good activities both in and out of the schools and colleges that as a university we believe are important to our mission.

To both respect historic commitments and assure maintenance of essential services, it is crucial that any new budget model be at least revenue neutral to all units. This is not to say that the budgets of units (both activity based units and non activity based ones) will not change prospectively. Rather, again at the onset, the new budget for a unit must be equivalent to the current budget (GOF/DOF) of the unit. Peer Institutions that have transitioned to ABB models have reached similar conclusions.

The final primary source of central funds is the investment by the State of Washington. While state funding is in decline and we are unlikely to enjoy investment of new state funds in the near term, it remains a key funding source of the university. This funding source, along with the revenues generated from taxes on activities becomes the supplemental base that at the onset will ensure that the model be rolled out in a revenue neutral fashion.

In addition to the transparent allocation of revenue, it is crucial that an ABB budget model also have a strong commitment to accountability. As with other universities that have adopted an activity based approach it will be crucial that we develop an annual reporting process in which Deans, Vice Provosts and Vice Presidents meet with the Provost to review the financial, academic and administrative metrics of the unit. These annual meetings can also be the base for determining any Provost decisions in the allocation of supplemental (non-formulaic) budget funds.

Next Steps

If the Provost and President make the determination to move to an ABB model, there remains a significant body of work to complete before implementation of an ABB model at the University of Washington. That being said, we are confident that we could see significant progress to allow partial implementation by FY11 (with a focus on tuition) and projected full implementation in FY12. We believe that a more prolonged (multi-year) implementation of a new budget model would be inadvisable, as this would prolong financial uncertainty at the unit level.

To implement ABB, it is critical that we continue our deliberation of this approach.

It is important that we do not find ourselves in a situation of having competing analyses of ABB. We need to ensure that we have one overall approach to our deliberations and any final recommendation. To ensure a thoughtful and complete analysis of the issues that would need to be addressed in moving to ABB we recommend the following implementation approach.

We recommend that as a key next step a steering committee be appointed with decanal, faculty senate and senior administration representation. This steering group, no doubt larger in size than the current working group, would be tasked to form small working groups to examine the structure and detail of ABB with respect to:

1. Academic Impact
2. Research and Indirect Cost Recovery
3. Administration and common good elements
4. Structure and delivery of a tax model
5. Definitions and data points

The newly constituted steering committee should be tasked with defining the deliverables and work product for each working group as well as establishing membership of the groups. It is expected that membership of each working group include a combination of steering committee members and additional campus representatives.

Conclusion

The working group was not specifically charged with making a recommendation to move to an ABB model. We nevertheless report that the group did reach consensus that the ABB approach to resource allocation has merits and should be more thoroughly explored during the current fiscal year. There are many things an ABB model does not do. ABB or any budget model employed by the UW is unlikely to directly impact or reverse the deterioration in state funding for higher education. However, an ABB model may help to improve transparency and articulate more clearly to external constituencies how funding is allocated internally. Further, an ABB model may allow us to invest the resources we do have more responsibly. We thus recommend that the campus fully develop an ABB model at the University of Washington that can be presented to the campus community for feedback and acted upon by the Provost and President.

UNIVERSITY *of* WASHINGTON
OFFICE OF THE PROVOST

June 24, 2009

Working Group on Activity-Based Budgeting
Paul Jenny, Vice Provost, Office of Planning & Budgeting, ***Co-chair***
Doug Wadden, Executive Vice Provost for Academic Affairs, ***Co-chair***
Ann Anderson, Associate Vice President and Controller, Office of Financial Management
Tom Baillie, Dean, School of Pharmacy
Ana Mari Cauce, Dean, College of Arts & Sciences
Paul Hopkins, Chair, Department of Chemistry
Matt O'Donnell, Dean, College of Engineering
Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting
Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs

Dear Colleagues:

Over the last two budget sessions we have increased our discussions about the need to change the current budget model for the University of Washington. Most prominent in our discussions has been the desire to explore an activity-based approach to budgeting and to then to determine if such a model would fit with our institutional goals and culture.

To further our conversation on activity-based budgeting at the University of Washington, I am writing to ask you to join a small working group that will meet throughout the summer. Executive Vice Provost Doug Wadden and Vice Provost Paul Jenny will co-chair the group. The Office of Planning and Budgeting will provide staffing. There are three primary goals for this working group:

First, I ask that you develop a comprehensive list of issues that need to be addressed in reframing our budget model to one that more transparently aligns revenue generation with the activities associated with the revenue. We have already invested significant time in examining some of the issues that will be affected by a change in our budget model and suggest that the *Draft Report of the Joint Policy Advisory Committee on Tuition, Access, Financial Aid, Enrollment Retention and Service Operations* may be a good starting point for your efforts. I expect there are several other issues that need to be addressed that are not included in this report. As you draw up the list of issues to be addressed, please make preliminary recommendations on how they might be resolved. It is important to note, however, that development of final recommendations and agreements will involve more inclusive campus conversations among the Board of Deans & Chancellors and the Faculty Senate during the upcoming academic year.

Second, I would like you to develop an implementation schedule that includes significant changes to our budget model effective in Fiscal Year 2010–11. I understand it is likely that we cannot move to a full implementation by FY10, but assuming we will determine to change our budget model, I would like to have us move forward in the most expedient way possible.

Finally, to be successful in changing our budget model, it is clear that we will need absolute agreement on the data points we use in distributing revenues. I recognize that our current data definitions and supporting systems are less than ideal. The Offices of Information Management, Planning and Budgeting and other

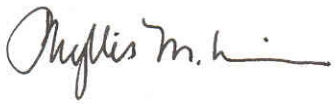
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groups are working to address the issues associated with data collection, defining, and reporting. I do not expect you to replicate their efforts. Rather I would like a list of the data points necessary to implement any proposed changes to the budget model and recommend definitions. As far as possible, your recommendations should mirror those already developed by others working on data issues.

Please provide a final report by October 1, 2009. This report will serve as the basis for significant conversation at the Board of Deans and Chancellors' retreat and at the Senate Committee for Planning and Budgeting. Following the release of your report, I will work with the co chairs on the next steps we need to take to meet my goal of significant changes to our budget model by the start of fiscal year 2010–11.

Thank you for agreeing to assist the University of Washington on this critical endeavor.

Sincerely,



Phyllis M. Wise
Provost and Executive Vice President

Attachment 2:

Academic Impact Working Group Report

Activity Based Budgeting Working Group Report
Academic Impact
March 1, 2010

Primary Issues

How should we allocate tuition between Unit of Instruction and Unit of Enrollment?

For the purposes of allocating undergraduate tuition revenue, the committee recommends basing instruction on the number of student credit hours (SCH) generated, initially depending on the course of record.

The number of degrees awarded annually defines enrollment.

Majors and all sub-sets of majors (such as pre-majors, dual majors, non-declared majors and changed majors) will not be a factor in revenue distribution. This decision is based on the principle of simplicity, of clear indicators of activity, and on the least possible "gaming" of the budget model relative to student registration and course or program participation.

The proposed ratio for tuition allocation is 80% SCH and 20% degrees.

Tuition revenue will be a "blended" rate that reflects the overall institutional mix of resident and non-resident populations and not the specific enrollment of any unit or program.

The committee determined that, at the graduate level, most SCH are taken within the student's unit, with a few notable exceptions, and that overall, the unit of enrollment and the unit of instruction is the same. We feel that initially all actual revenue from course enrollments should be directed 100% to the unit of instruction, which in 95% of cases is the student's unit of enrollment. Actual tuition paid would follow the student, whether resident or non-resident, or as defined by tuition tier.

There are three additional issues for continued consideration:

1) As we initially move forward with a "revenue neutral" budget, we need to recognize the need to capture clinical and instructional activities not accounted for by traditional SCH records, which is something that affects several areas in the Health Sciences. Any gaps in funding and instructional activity would have to be defined at the outset and built into the model.

2) While we currently are only capable of reporting SCH based on the location of the course, many feel that a better approach would be to track the SCH based on the home department of the instructor. We feel that this may be a solution to the fear of silos or restrictive behaviors often associated with early RCM models of resource allocation.

3) Lastly, we feel that individual MOUs between deans will be required where there are distinct and measureable curricular demands for instruction that cross units.

There was no interest in "weighting" SCH generated tuition revenue, other than through existing graduate tuition tiers, such as lower division SCH versus upper division SCH. Additionally, and for a variety of reasons, many members are interested in further discussion of expanding direct freshman admission to majors, along with differential tuition as a way of addressing the wide ranging "costs" of disciplines, thereby making schools and colleges less dependent on cross-subsidization.

What approach should ABB take regarding Summer Quarter and Fee-based Programs?

We feel that summer quarter should be brought in as a fourth quarter and rolled into the ABB budget model.

More analysis is needed regarding fee-based programs. The general principle of a tax for overhead and central services needs to be reviewed vis-à-vis current revenue distribution and perhaps a designated tax rate unique to fee based programs and expenses. One issue to consider regarding programs housed in UWEO is the need to capture the state funding associated with those programs and have it returned centrally, rather than being held locally.

How should "hybrid units" like the Graduate School and Undergraduate Academic Affairs be treated?

Given that they can document some SCH, but in most instances without the cost of instruction, we feel that we need to consider re-directing these revenues to the unit of instruction and treat both the Graduate School and UAA as central academic/administrative services, rather than as instructional or research units. We don't consider this a significant issue for the initial phase of ABB. As the roll-out continues, we will need to determine where these programs are credited as well as how revenues and expenses are determined and attributed.

The fees and other revenues generated by these units appear to be no different than in other administrative units, such as Student Life. Units would recognize the potential for income and accordingly build them into their annual budget allocation, thereby reducing dependence on the distribution of ABB tax revenue.

How are tuition waivers (and exemptions) handled within the budget model?

Tuition waivers vary and reflect various sources of support such as third party funding, to mandated exemptions and support in exchange for teaching. In general we feel that the cost of waivers should be attributed to the home department but should not be taxed. That is, they would "zero out." More data and analysis of this issue is needed, but we

consider it manageable with limited immediate impact in a first phase, revenue-neutral rollout.

How should we consider building fees?
There was no consensus on this issue. Some believe that the fees should be left out of the model, held locally, or held centrally. Comparisons are made to research RCR and parallel policy questions that will require greater examination.

Secondary Issues

There are a variety of academic concerns that need to be addressed, including:

- quality assurance in the face of unwarranted credit inflation
- class size
- increases in part-time faculty
- decentralized decisions on a variety of topics
- impact on shared governance
- scholarship versus revenue generating research
- competition for students
- availability of effective data management
- expanded central curricular oversight
- performance indicators
- transparency
- accountability

Some of these concerns can be allayed through messaging, and some can be managed through administrative oversight. There are some that are based on the desire to retain the status quo, and others reflect the uncertainty of future funding for higher education.

Attachment 3:

Research and Indirect Cost Recovery Working Group Report

ABB - Research & ICR Working Group

Summary of Issues & Recommendations

Principles and Constraints

Recommendations were designed to align with the vision set forth by the Two Years to Two Decades Committee and with the principles outlined by the ABB Steering Committee.

Of the ABB principles, three in particular were emphasized: transparency, neutrality at the transition point, and simplicity.

Given the limitations of our current information systems, simplicity will be crucial. Any model for ICR will by necessity rely on averages until replacement systems are in place.

Question 1. How should Indirect Cost Recovery be distributed?

Overall ABB Approach

ICR should follow activity. Allocate 100% ICR to the units that generate the expenditures (see below for collaborative grants) and tax back for shared costs as a percentage of expenditures. ICR revenue would flow directly to colleges and schools, which would in turn distribute per School or College guidelines to individual departments and accounts.

Tax

Central services would be supported by a tax on MTDC expenditures. A two-tiered system is recommended in which ICR would be part of the general funds, and taxed the same as all other expenditures, but modified total direct costs of externally sponsored research would be taxed at a lower rate. For example, Minnesota taxes general funds (including ICR) at 24% and direct costs at 11%.

Gifts

Agreement was not reached about gifts. One proposal would be to exempt gifts for research from the tax on externally sponsored research and partially recover administrative expenses through direct costing, like the LSDF grants. Another proposal called for taxing corporate gifts but using the direct costing approach with other gifts. The first proposal would encourage donations while recovering some administrative costs, but would need to accommodate the requirements of different donors. The second would lower the overall tax rate but would increase the administrative complexities in the area of taxation. It might also discourage gift giving.

Handling grants with low or no ICR

Grants with ICR less than the tax will cost units money to accept. In most units, such grants are balanced out by grants with full ICR. However, in units in which the main source of funds are grants with ICR less than the tax, research growth (after the transition to ABB) could be prohibitively expensive. In such cases, the Provost would consider a subsidy to make up the difference, funds for which would need to be figured into the central tax rate. Such issues would be part of the regular budget negotiations with the Provost.

Question 2. How do we fund current debt obligations funded by F-ICR at the central level?

Debt service payments on construction bonds are currently covered centrally. The team discussed the possibility of having schools and colleges use their own facilities ICR to pay debt but identified

some key drawbacks to such a plan, most notably the loss of a coordinated strategy for building and maintaining research infrastructure.

Current debt obligations should be centrally funded, through a part of the central general tax. New debt obligations may be the responsibility of the Schools or Colleges, but should be the subject of more intensive discussions.

Question 3. How do we ensure adequate funding for central services (Office of Sponsored Programs, Grant and Contract Accounting, etc.) as research expands? Should there be a unique tax levied based on a unit's direct research expenditures?

Ensuring central funds for research administration are appropriate to the level of research activity: **Measure workload, Apply Set Research Tax**

In the past, central allocations to research support units have not kept pace with the increase in workload.

Approaches:

- Correlate allocations to measures of work load. Ensure central units are accountable for demonstrating particular outcomes of funds provided, with performance criteria taken into account.
- Allocate a set percentage of the central tax – perhaps a part of the tax on research expenditures – to support research administration.
- It is expected that all units supporting research should continually work to obtain gains in efficiency, and such efficiency gains should be taken into account when allocating increased tax revenues to research support units.
- Accountability might include
    - Surveys
    - 360 Degree Assessments
    - Metrics and Benchmarking
    - Replacing non-essential central services with cost centers where appropriate and where it will benefit the university overall

Handling overlaps between research and education: No Change

Most likely not an issue, as mechanisms already exist to assign proportional benefit of such expenditures to research and education.

Question 4. How do we disaggregate funding?

The question is closely related to Question 6, regarding quality and accountability of central units, and to Question 3, regarding funding for central services and how to clearly distinguish research from non-research expenditures if the two are subject to different tax rates.

Much of this question concerns the complexities of DOF. The team opted to shelve the topic.

Question 5. How do we keep from disincentivizing collaborations?

Collaborative research is a priority of the university and is likely to make up a growing share of the university's research portfolio. To encourage such collaborations and in keeping with the principle that dollars and tax should follow activity, subaccounts would be put in place to distribute ICR and to acknowledge contributions of collaborating faculty. It was noted that this change in policy would increase workload in GCA and they would likely require additional funds from the central tax to accommodate it.

Equitable Distribution of ICR and P.I. Project Metrics: Sub-Accounts

Recommendation: Establish sub-budgets for collaborators outside the primary PI's department to distribute proportional direct and indirect costs, and to acknowledge leadership contributions of subproject PIs. Except where there is mutual agreement to dispense with them, sub-budgets would be required for collaborations with direct costs of $25,000 or more. Below that threshold, sub-budgets would be optional. The unit receiving the funds also pays the tax on those expenditures.

Acknowledging Complexities around MTDC & Tuition Revenue: Establish Guidelines for expenditures to allocate to sub-budgets

Different types of expenditures benefit departments to different degrees. For instance, some expenses are exempt from indirect costs, and tuition represents both a cost and a revenue source.

Recommendation: Members of the working group will establish guidelines for the types of expenditures to include in sub-budgets.

Alternatives to sub-budgets

Some departments lack support staff to manage awards. In such cases, a central grant support service may prove helpful, or the unit may choose to opt out of a subaward in return for administrative support from the primary grant department.

Devoting part of the tax on research to cross-cutting initiatives

The team recommended that this be handled the same as currently, using funds from the central tax and awards at the discretion of the Provost and the Vice Provost for Research.

Question 6. How do we support and reward quality?

It should be recognized by the Provost that research dollars may not always correlate directly with quality, since some research is more expensive than others, on an equal impact basis. It was acknowledged that the Provost and the Deans can specifically discuss research quality at their annual meetings. Some members of the team felt that we should state that quality should be a factor in allocating the tax subsidies, others disagreed.

Question 7. When distinguishing between activity-based and non-activity-based units, how do we approach hybrids?

The Office of Research and the Office of Minority Affairs and Diversity are good examples of hybrid units -- central support units that receive direct grant funding. (Note: The trend is toward administrative units increasingly seeking grant funding).

Grant funding for hybrid units does not differ mechanically from funding for academic units, so a single ICR funding and taxation policy will apply to both.

Question 8. How should "matching funds" and "faculty startups" be handled?

Matching funds

Funding agencies see central commitment as important. Part of the central tax should include funding for matching funds for grants, using the same criteria as currently applied.

Faculty startups/retentions

Faculty demographics show that some units will face a large number of replacements in the next 10 years, and in those cases units may not be able to cover all faculty startup fund needs. Part of the central tax for Provost's strategic initiatives should be set aside for such special cases, and for hires that cut across school/college lines.

Funds to help with retentions are also key, and should be part of the central tax for Provost's strategic initiatives.

Secondary Issues (to be discussed in more detail)

- **Correcting for baseline anomalies:** When establishing baseline funding, how do we accommodate temporary bumps in funding, as with ARRA grants?
- **Human Subjects Division**: 30% of their workload is for unfunded projects. How do we pay for this?
- **Bad debts:** how do we pay the central portion of bad debts? [need some figures on how much this has run the past several years]
- **Subaccounts:** What should be included in the $25,000 for subaccounts?
- **Varying ICR rates**: How do we handle taxing indirect costs specifically related to debt service and O&M for all of the various negotiated rate categories (off-campus, APL, SLU, etc.) if the separate rates only include the costs specific to those facilities, ie they do not include the averaging of all campus facilities costs?
- **Gift direct costs**: What should be included? Need a template.
- **Definition of research**: What will be included in the direct cost tax? Will it include internal funds? Is it only externally-sponsored?
- **Accountability for central units**: what are the accountability measures needed for central units?
- **Efficiencies**: how do activity-based units know they are functioning efficiently? Need benchmarks between departments to understand what is considered "efficient workload" in research administration locally..
- **Future debt obligations:** who should ultimately pay, units or central, for capital infrastructure and how would this affect future use of space long term
- **Central Research Administration Service**: What services should be offered (just grant administration or could there be some proposal support functions)? It might be useful to have a consulting service to help groups who are putting together large center proposals. What is the funding mechanism? For example, it may be necessary to have some central subsidy to account for administration of low/no IDC grants where the units may not be able to cover both administrative costs of the recharge center and taxes from the returned IDC.

Attachment 4:

Central Academic and Administrative Units Working Group Report

UNIVERSITY LIBRARIES
UNIVERSITY of WASHINGTON

OFFICE OF THE DEAN

March 1, 2010

TO: Activity Based Budgeting Steering Committee
Paul Jenny, Vice Provost, Co-chair
Doug Wadden, Executive Vice Provost, Co-chair

FROM: AAB Working Group on Central Academic and Administrative Units
Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs, Co-chair
Betsy Wilson, Dean of University Libraries, Co-chair

RE: Central Academic and Administrative Units Document

On behalf of the AAB Working Group on Central and Administrative Units, we are pleased to enclose a document with our answers to the assigned primary issues and a listing of secondary issues.

As requested, we have kept our answers to the six questions crisp and succinct. Needless-to-say, our deliberations and discussions could not be fully represented in the document. Should you desire deeper background on our recommendations you will find it in the working group's minutes and supporting documents found on the AAB Working Groups Catalyst web site.

Our work was greatly aided by Janis Campbell's logistical and organizational support, and we are most appreciative of her fine work. We thank the Office of Budget and Planning for enabling such able assistance.

Please let us know if you need additional information or would like to discuss our recommendations further.

Enclosure

Cc: AAB Working Group on Central Academic and Administrative Units
Kerry Kuenzi, Administrator/Quality Improvement Champion

482 Allen Library Box 352900 Seattle, Washington 98195-2900 USA 206.543.1760 fax 206.685.8727

ACTIVITY BASED BUDGETING WORKING GROUP REPORT
CENTRAL ACADEMIC AND ADMINISTRATIVE UNITS
March 1, 2010

PRIMARY ISSUES

1. **What Units are considered "central"?**

We recommend using the term "University Units" to better reflect the cross-cutting nature of central academic and administrative units. University Units operate across the university and provide support to all colleges and schools. *University Academic Units* might be museums, libraries, the Graduate School, and Undergraduate Academic Affairs that are typically not part of a school, college or other unit. These units do not grant degrees but have academic missions that cut across the various schools and colleges. Their activities are considered essential to the accomplishment of the University's academic mission; however their primary activities are not typically associated with the generation of revenue. *University Administrative Units* range from Finance and Facilities to the President's Office to University Police. For the most part, these units' budgets are not activity-based but rather are set so that they are sufficient to allow the unit to accomplish activities that support the academic enterprise (see Q5 for a discussion of units with both a central and recharge component).

2. **What activities currently funded from the center need to be reallocated (cost and supporting revenues) to units?**

Fringe benefits should be reallocated to the units as an associated cost of salaries. It should be noted that the central benefits account is not budgeted to meet all current GOF/DOF budgeted positions and this will need to be addressed.

Facilities-Indirect Cost Recovery (F-ICR) should remain centralized in most situations. Decentralizing these funds would limit the UW's ability to consolidate debt service and take advantage of economies of scale. Smaller units would not recapture enough funding to pay debt service on capital projects and reserving funds for a future/larger project would potentially lower the future Facilities and Administrative (F&A) rate with the federal government because contributions to a contingency reserve are unallowable and therefore unrecoverable as either a direct or indirect cost.

3. **How do we ensure funding for planned but not budgeted administrative strategic needs such as replacement of IT student financial systems?**

The replacement or acquisition of new enterprise-wide systems should be included in the UW's One Capital Plan, with priorities established relative to other infrastructure needs. The timing of such purchases can be managed by issuance of debt, with the repayment of that debt from appropriate sources, including indirect cost recovery, tuition and fees, patient revenue, and other sources. This debt service should not be included in the overall tax, but rather should be diverted from incoming revenue to form an on-going stream of quarterly payments for debt service on each internal loan.

4. **How should we distribute central/miscellaneous fees (application fees, transcript fees, etc.)?**

Fees should be allocated to the units that generate the revenue and incur pertinent costs. The activities that result in the generation of these fees should be broadly defined to include outreach, recruitment, application review, and transcript data maintenance and processing. The allocation of revenue should be equitable and based on the costs of doing business in each unit. Fees should be set to cover total cost, but may require partial central subsidy when total cost basis would cause the price to increase at such a rate as to be contrary to the UW mission. Fees should be reviewed on a regular basis.

5. **How do we structure funding for units such as UW Technology that have both a centrally funded base and recharge funding based on unit variable usage of services provided?**

Services (as opposed to units as indicated in the Q5) can be either funded through a tax or by recharge or some combination. We recommend that a service is paid by recharge if: (i) a consumer can decide

whether or not to use the service; (ii) only users have to pay the fee; (iii) the payments generally cover the costs.

In an ABB world, the first question should be "why not recharge?" since recharge encourages economical use. However, the disadvantages may outweigh the benefits in particular cases. Some services may be so complex that it is impossible to identify appropriate recharge rates. Other services may support core components of the UW mission, such that the University does not want to allow units to opt out. Activities and services have to be analyzed individually using a set of established criteria (e.g., What behavior do we wish to incentivize? What is more cost-effective for the institution as a whole? Will funding through recharge bring in more money? What is the cost of metering consumption and billing consumers? Would taxation be fair?).

6. **How do we consider the funding of hybrid units (those both generating tuition revenue in the current model and also considered centrally based units) such as Undergraduate Academic Affairs and the Graduate School?**

We recognize that there are hybrid units at the University, that is, units whose activities range from revenue-generating to provision of forms of university-wide support. We need a mechanism that supports these units both as University Units, and as revenue-generating units. Hybrid units can be funded in four ways. We propose the application of ABB principles for those components of hybrid unit activities that are revenue-generating (categories 1, 2, and 3 below). We propose the provision of central funds for the university-wide support functions (category 4 below).

1. From the tuition revenue that is generated within these hybrid units (e.g., UAA: Robinson Center for Young Scholars; Graduate School: Interdisciplinary degree programs).
2. From RCR generated from grants in these hybrid units
3. From revenue earned by these hybrid units (minus the tax on revenue) such as museum admission, classroom rental, performing arts income, various forms of fees, etc.
4. For activity not related to tuition, grants, or other forms of revenue, from central funds (gathered through taxation or other methods).

As is the case with allocation of all resources, we assert the importance of ensuring that allocations are always guided by the contributions of the unit activities to the core UW vision and values. This commitment is of particular importance for category 4, the provision of tax dollars for university support generated in hybrid units. It will also be important to incentivize unit activities for categories 1, 2, and 3, consistent with the entrepreneurial spirit that ABB, at its most constructive, will deepen.[i]

SECONDARY ISSUES

1. There is a need for a meaningful and common set of metrics, data definitions, and tools (e.g., Balanced Score Card, Dash Board, Strategy Maps) to engender transparent accountability among schools, colleges, and University Units.
2. How do we ensure that the mission and goals of the University are being met with ABB, and what mechanism is needed to make necessary ongoing adjustments? Consideration should be given to: creating or repurposing an existing broad-based oversight and monitoring group; the requisite stewardship of the public good; the capacity needed in the Provost's Office and elsewhere to manage the ABB enterprise; and the evolving staff skills and expertise required.
3. Consider how the Institutional Overhead fee needs to be conceptualized to be consistent with the ABB model, and make adjustments accordingly.
4. How do we ensure that there are appropriate incentives for entrepreneurial approaches in University Units?

[i] At the same time, we need to balance the revenue-maximizing behavior of individual units against the collective needs of the institution. In many cases, it's the controlling of costs we want to incentivize, not necessarily the maximization of revenue generated through categories 1 and 3.

Attachment 5:

Delivery of a Tax Model Working Group Report

Activity Based Budgeting Working Group Report
Structure and Delivery of a Tax Model
March 1, 2010, Revision 2

Primary Issues

1. **What is the purpose of a tax?**

Tax revenues should be levied against expenditures of activity generating units with the use of tax revenues directed to the funding of central academic and administrative units, new academic and administrative programs and initiatives, existing academic programs that may need additional supplemental funding, and as a contingency for unanticipated fixed cost increases such as utility increases.

The allocation of the tax revenues should follow an annual budget/allocation process directed by the Provost in consultation with the Deans, Vice Provosts, Vice Presidents and Faculty Senate. The discussion of use of tax revenues should be in conjunction with annual budget reviews between the Provost and Deans/Vice Provosts/Vice Presidents.

2. **If expenditures serve as the proxy for a tax, what expended funding sources should be included in the tax rate?**

In general we believe that in the initial roll-out phase of ABB, a single tax should be levied on all expended funds of activity generating units (schools and colleges) including General Operating Funds (GOF), Designated Operating Funds (DOF) including Indirect Cost Recovery, and other unit generated funds. Further, this single tax should apply to any non-activity units that have expended funds derived from their revenue generating activities. As an example, if Student Life were to retain undergraduate application fees, then the tax should be applied against expenditures associated with the fee revenue. Longer term, it may be appropriate to migrate to a more robust cost attribution model than the recommended single tax model. This is noted in more detail in the secondary issues section of this report.

While there are several concerns regarding the taxation of expenditure on gift and endowment income, it is consistent with the stated principles of simplicity and transparency that expended gift and endowment income should be taxed in a similar manner to other generated funds, as expenditures of these funds are also using central services. However there are several concerns surrounding applying the tax to these expended funds. Since many of these funds have explicit donor restrictions on their use, the source to pay for the tax on many of these individual funds would fall onto more fungible sources such as GOF and DOF, and as a result may have the unintended consequences of limiting a unit's aspirations to expand their philanthropic base. This is of most concern when examining the impacts of taxes on student scholarship and fellowship funds. It may be valid to consider these funds as pass through funding to the student who then expends the funds as tuition dollars which are already included in the tax base. We need to ensure we don't

create an instance of a double taxation consequence. Further, there is already a 'tax' on endowment income for investment expenses and to help support UW advancement efforts If the decision is made to include these funds in the taxed expenditure base of a unit, it will be necessary to revisit the current practices associated with the levies against these funds.

In addition to single tax discussed above, it is recommended that a separate and presumably smaller tax be assessed against direct research expenditures. Recognizing that research support costs are often greater than the actual indirect cost associated with research activity, this tax can provide a predictable source of funds for direct research supporting units such as Health Sciences Administration, the Office of Research, and Grant and Contract Accounting.

If any expenditure base is determined to be exempt from the tax model, it is important that this effective subsidy be clearly articulated. As an example, if gift or endowment income is ultimately exempt from this approach, the foregone tax on these expenditures should be noted as a subsidy to the portion of the UW mission funded on philanthropic dollars.

Finally, it is important that units are provided the amount of assessed tax prior to the start of the fiscal year to allow sufficient planning at the unit level.

3. **How do we tax self-supporting auxiliary units such as Housing or Parking? Do we continue with the institutional overhead tax or something new?**

Auxiliary Units and the Bothell and Tacoma campuses should continue to pay appropriate administrative and institutional overhead assessments. The process surrounding the setting of the individual tax rates (the base in which the tax is assessed, the period being taxed, etc.) should be closely aligned to the ABB tax model to the extent possible.

Secondary Issues

It is recognized that changing the budget model of the University of Washington is a difficult process and we need to ensure that the decisions reached centrally or at a unit level are not negatively impacted by the steep learning curve that is associated with a change of this magnitude. As such, it is recognized that in a Phase 1 type roll-out, a simple tax structure based on expenditures is a fairly easy model to adapt and predict in planning and modeling exercises. However, as the financial acumen of the University adapts to the new model, it may be prudent to revisit the tax structure and migrate to a more robust cost attribution model with taxes based on a variety of factors possibly including faculty/staff headcount, assignable square footage, etc. This would more clearly demonstrate that the central costs incurred by a unit can be more transparently associated with the unique unit activity generating the costs.

In addition to this potential more robust cost model, there should be a process in which all units, but especially those funded by tax revenue, are required to demonstrate accountability and efficiencies with respect to their individual portfolios with performance indicators and benchmark activities.

Attachment 6:

Definitions and Data Points Working Group Report

Activity Based Budgeting Working Group on Definitions and Data Points

Summary of Recommendations

The Activity Based Budgeting Working Group on Academic Impacts made recommendations that tuition should be allocated by a formula that considered both college of instruction (with student credit hours being used to define college of instruction) and college of enrollment (with number of degrees granted being used to define college of enrollment). So the task of the Activity Based Budgeting Working Group on Definitions and Data Points was to outline how both student credit hours and degrees granted should be calculated.

Calculating Student Credit Hours

The working group decided that the basic framework the UW uses to report student credit hours to both the State of Washington and to the U.S. Department of Education should be used for activity based budgeting calculations. The important elements of the calculation framework recommended by the working group include:

1. The official census day for enrollment calculations is the second Friday of each academic term (usually referred to as "10th day enrollment" – despite the fact that academic quarters do not necessarily start on a Monday, and that the second Friday of an academic term may not be the 10th day of instruction).
2. Only courses that are categorized in the Student Information System as being on a state sponsored tuition schedule will be included in calculations.
3. All credits and course registrations for a given course are summed and credited to the college/school that sponsors or supervises the curriculum that the course is associated with.

As is done for various other internal UW reports, if a course/curriculum is jointly owned by more than one college/school, both units will be credited with all of the student credit hours. As a result, the sum of the student credit hours that are used for activity based budgeting calculations will be greater than the number of student credit hours taken by students and reported to the State of Washington and the U.S. Department of Education.

Also, as enrollment patterns can change for a variety of reasons over time, it was decided that student credit hours should be averaged over an appropriate period of time. The sense of the working group was that the time period should be at least over the last three years for which complete data are available but not more than over five years.

Calculating Number of Degrees Granted

There is a standard process under which a student applies for a degree and if that student meets the degree requirements, a "degree record" is created in the Student Information System. Calculating the number of degrees is complicated because students can have either multiple degrees or one degree

with two or more majors. The important elements of the calculation framework recommended by the working group include:

1. A student receiving one degree with one major – counts as one degree.
2. A student receiving two degrees – both degrees should be counted; depending on what the degrees/majors are, this could be either two degrees credited to the same college/school or one degree credited to one college/school and another degree credited to a different college/school.
3. A student receiving one degree with two majors – counts as two degrees (each major is counted as one degree).
4. The calculation of the number of degrees granted should be an average of at least the last three years but not more than the last five years; the working group tentatively settled on a recommendation of using the average of the last four years.

As is done for various other internal UW reports, if a degree is granted by a program that is jointly owned by more than one college/school, both units will be credited with a degree award. As a result, the total number of degrees granted figures that are used for activity based budgeting calculations will be greater than the number of degrees granted that are reported to the State of Washington and the U.S. Department of Education.

There are data fields within the Student Information System that associate both undergraduate and graduate degrees to specific departments and colleges. The working group felt that it would be wise to have appropriate staff in colleges/schools review the current specification for how degrees are associated with colleges/schools, and to propose any suggested changes to the Activity Based Budgeting Steering Committee.

Attachment 7:

Feedback from University Community

Feedback Offered by University of Washington Community Members on the "Activity Based Budgeting Steering Committee Draft Report"

Catalyst Survey Results:

The University of Washington's "Activity Based Budgeting Steering Committee Draft Report" was published to the UW community on April 14, 2010. On April 15, 2010, a Catalyst survey was established to provide a conduit for all members of the UW community to offer feedback about the report. A link to this survey was provided from the Office of Planning & Budgeting's ABB website. The Catalyst survey was available to anyone with UWNetID from April 15 – May 17, 2010, when it was closed at 5:00 p.m.

Survey respondents were invited to respond to the following prompt:

> **We welcome your feedback about the "Activity Based Budgeting Steering Committee Draft Report - April 2010." If you have a comment about a particular passage, please specify the page number and bullet/paragraph. This survey will remain open through Monday, May 17 at 5 p.m.**

In the paragraphs below are the verbatim responses (with minor spacing/spelling corrections) from the 18 individuals who opted to use the Catalyst survey. Respondent identities have been intentionally removed.

Respondent 1

ABB - Research & ICR Working Group, "Handling grants with low or no ICR." This section would apply to several training grants that our Department uses to fund students. These training grants have limited IDC returns to ~8% by federal agreement, but provide tremendous value in terms of funding students and for attracting new students. I would like to see them somehow exempted from the tax, or perhaps given a subsidy. A similar issue applies to the tuition waivers that these grants often get for out of state students. It seems unclear if these waivers would continue.

Respondent 2

For the School of Public Health in terms of research, the KEY ISSUE for our school is the amount of tax on direct research expenditures. The tax will be two tiered: one tax (24% mentioned) on DOF, GOF and ICR and one tax (11% mentioned) on direct research costs. The later tax of course CANNOT be paid from the research direct costs but must come from GOF, DOF and ICR. Our school (particularly Global Health) has a very large number of grants with low indirects (Gates funding and training grants).

For example:

Our $50M grants for I-TECH (SOM+SPH) has $4M indirects (8% because it is considered training))—to be taxed at 24% -- About $3M ICR to units (SPH and SOM) and $1M tax to central.

The $50M in direct cost expenditures would be taxed at 11% -- $5.5 M. That would use up the $3M ICR to SOM and SPH from that grant PLUS require $2.5M from GOF, DOF and ICR from other grants. The Dept of Global Health could not afford that.

SO in terms of implementation, our school needs:

1. Exemption from the tax on direct costs for training grants, OR

2. A rule that says the total tax (from the 2 taxes) on research and training grants cannot be more than the total

indirect costs OR

3. The tax rate on GOF, DOF and ICR to be higher (e.g. 28%) and the tax on direct research costs lower (e.g. 7%) –although I have not computed how that would affect the budget of our school.

4. More direct support of Dept of Global Health from the Provost.

Respondent 3

These are general comments, rather than about any particular passage/section.

I would strongly argue against change to an activity based budgeting process for the following reasons:

1. This will dramatically change the character of the University of Washington from a collegial, substantially cooperative model, to a corporate, competitive culture. The historical identity of the University and its place in the Pacific Northwest are intimately linked with a socially-oriented ethos and process. This is not only part of the heritage of Northern European Socialist-oriented cultures, but the American tradition of progressivism and mutual support. The ABB model will (already is) straightforwardly pit each unit against all others. The student body is finite (indeed close to fixed in size) so with ABB the question for each unit becomes "how do we get more"? Clearly, the more comes from some other unit. So we get a form of Darwinian competition rather than an ecological integration and symbiosis. A corporate culture rather than a collegial, university culture. There are substantial problems that follow from the shift to "each on their own, and each against each": the University's dedication to and international profile for interdisciplinary education will shrink, and become endangered, because the accounting of "whose is whose" drives us to core unit identification and not to sharing or making connections.

2. In addition to discarding our core historical identity, this change from collegial to corporate culture is a fundamental mistake in understanding and implementing what we are and what our mission/approach is: as management guru, Peter Drucker, points out, a university is not a business.

3. The contention that ABB is merely a mode of accounting is false. The mode of accounting is congruent with a larger identity. The assumption (itself incorrect-see below) that income-expenses form a simple causal linkage operates in the accounting system and in the way we do everything. A key point is that "we have no more resources under ABB than we do now or could have otherwise; what changes is the mode of internal allocation." Rather than "we" having the resources to wisely and prudently allocate, again it is "each their own; each against each." The folly of the proposed ABB appears in the proactive argument that this will not endanger "small" or "expensive" units because, "well, there will be special cases, such as nursing and music" that we will take care of." Right, that means that the actual, political process that is legitimate both intellectually and pragmatically, amounts to practical experience and GOOD JUDGMENT. The argument that "we recognize the value of music and nursing" and will adjust to make it work, is the only real basis for political-academic decisions and needs to apply all the time, in all cases--as it does now. When there are problems, the Deans and units deal with them, using actual data and good judgment. What we have is what works--Aristotle's phronesis, or in today's terms practical knowledge, practical wisdom.

4. The claim that ABB provides transparency is not true. The transparency claimed is a rhetorical device that means "so business people can see what goes where, how cost effective it is." But, we are not a business; but, the resources do NOT flow in a direct linear manner from student tuition to dept. x. This is a sham transparency that falsifies the reality it is meant to show. This university is scientifically oriented enough that collectively we understand COMPLEXITY. The university is in fact an open, dissipative system with multiple positive feedback loops. If we have transparency, then let's actually have it: transparency to the university and its resource allocation shows that we are a historically developed ecological system with flows of people, ideas, funds, credits, etc. of amazing complexity. That is why operating from a historical budget makes sense; it is why we do it. Just as with any established ecosystem, modifications take place from what has already developed, where understanding the system requires taking initial conditions into serious consideration and understanding that modeling does not mean "predictability" or reduction of multiple causality to linear causality. If I could attach images of the interactive processes of a nervous system or

complex ecosystem, one would recognize: "yes, that is the kind of entity we are, historically evolved and complex with dense feedback loops." The social, political, budgetary, ecological reality that we are is not made transparent, but obliterated by ABB-- it is falsified, neither intellectually nor pragmatically commendable for an academic institution.

Respondent 4

The proposed 80/20 split of funds for graduate course teaching (page 3, bullet 2 of the draft report), with the lion's share going to the home department and the minority to the teaching department, seem like a recipe for discouraging graduate interdisciplinary education. I am aware that some professional schools are afraid that this will bleed their tuition revenues if their students choose to take courses outside their school, but that is absolutely no ground for instituting a university-wide policy that definitely runs counter to providing tuition revenue to units which do the teaching. A 20/80 split with most revenues going to the teaching department, as for undergrad courses seems much fairer, given that it is the teaching department that is providing the resources to offer the class.

I am personally involved in two units that would be affected by this algorithm. First, I teach in Applied Math, which offers several graduate service classes popular among students in the environmental sciences (in CoEnv) and engineering. There will be no incentive for Amath to keep such courses going unless it recovers most of the revenue for its course enrollment even though the majority of students are coming from other colleges. This will lead to fragmentation of graduate mathematics education, exactly the opposite of what is needed.

Second, I direct UW's Program on Climate Change, part of CoEnv. We are attempting to design our graduate course sequence to attract qualified students from the Evans and Jackson schools, which have many policy-oriented students who want to know more about climate. Again, the proposed resource split is a strong disincentive to this aim that runs counter to what UW is trying to do in creating CoEnv in the first place.

Respondent 5

The proposed distribution of ABB credit does not sufficiently recognize service teaching, or interdisciplinary teaching, especially at the graduate level, and especially across College boundaries. It will cause fragmentation of classes and of interdisciplinary learning, and encourage units to set up their own classes for financial rather than educational reasons.

Respondent 6

This is a question about how to predict the impact of ABB on efforts to encourage interdisciplinary learning and diverse educational programs that require cross discipline course taking at the UW. As a policy analyst I think it very safe to predict that ABB will have a devastating impact on these efforts. What is being done to avoid such impacts?

Respondent 7

There might be activities that does not generate instant income (but important for long-term). I wonder if no budget is allocated to those activities.

Respondent 8

Re: paragraph 2, page 13 “...we recommend that a separate, and presumably smaller, tax will be assessed against direct research expenditures."

What happens if I obtain a grant from a foundation or training grant from the federal government that only pays 8% indirect? If the tax is charged on the expenditure rather than the indirect, this would result in a significant increase in tax costs (probably greater than 100% of the indirects). Furthermore, many of these expenditures, e.g. for pre-doctoral fellowships, are "pass through" amounts to the students that should also be treated differently.

Respondent 9

The focus should be on cutting the amount of time and fuss with completing obligations on budgets, time, etc. This has become a negative to finding extramural support. (The CRBB is an especially egregious example of how to discourage the research activities that most of us came here for.)

Respondent 10

Although I may be missing this, I don't see anything in the report that addresses the full integration of self-supporting graduate programs being offered through UWEO as part of this process. These programs are now a major part of the graduate offerings in many schools on campus, and are currently treated completely separately from state-funded programs. This has major impacts on our students' experience here at the University, ranging from exclusion from tuition waiver programs to inability to apply for some graduate assistantship openings. It also puts a burden on the students in the registration process, since UWEO is not fully integrated into the overall University financial and registration systems. It seems to me that ABB will put one more wedge between these self-supporting programs and the rest of the University if there is not some attention paid to this growing source of students and curriculum in the University system.

Respondent 11

It has been said that there is nothing as powerful as a bad idea whose time has come. This is my impression of ABB. It has the look of inevitability to it. Good luck to us. The pity is that the administration members who impose this will surely be long gone while the working faculty have to live with it. Similarly, the graduate students who imposed the union on us are long gone but the paperwork they created lives on...

Respondent 12

If the tax part of ABB (e.g. space, electricity, tech fees etc) is to be passed directly to the dept, then some substantial part of the revenue (say 80%) needs to be passed directly to the depts as well. This direct pass down to the depts occurs at many AB institutions already. Holding at the Dean's office for redistribution adds an additional layer of complexity and uncertainty in a period where the charges being made against a dept are ever increasing.

Respondent 13

I am concerned particularly about two things: my department teaches way more service courses (for majors from other departments) than majors courses, and I am afraid that there will be a tendency for departments to start teaching their own courses in my field (Statistics). The other concern is about graduate teaching, where the situation is even worse for us: about 2/3 of our students in graduate classes are from other departments, and in fact half the students come from other colleges. Is there a mechanism for this situation? Each college will make their own decisions about ABB, and this can lead to serious difficulties for our department.

Respondent 14

It will be critical to develop a full and useful set of financial reporting tools through the Enterprise Data Warehouse so that everyone is counting the same apples and oranges. It will require a commitment to meet the needs of large departments with complex accounting and reporting needs, as well as smaller departments. Unless these tools are available, implementation next year will be difficult to sell. As long as divisions rely on their own ghost accounting systems, we will never be able to show that costs and revenues are being reported accurately across the university.

Respondent 15

By the way, this is not framed as a question.

Page 3: The Executive Summary is omits a key element of the detail and an issue critical (according to Michigan) to promoting inter-disciplinarity which is the creation of sub-budgets that channel funds to the collaborator (see page 10). It is vital that there be no ambiguity about the need to set at least the $25,000 threshold.

Page 10 - applying a tax against the UWEO net revenues violates the principles of taxing only at the point of expenditure and should be modified.

Page 12 - levy a tax against all expenditures needs to be carefully consider, especially for revenues which are not truly fungible (such as legislative line items for a narrow specific purpose).

Page 12: the timing of the discussion of the tax revenues and other information needed to plan for the next year's revenues and expenses should be pushed back to October rather than the tradition late winter meetings with the Provost.

Page 13: the actual impacts on institutional and unit strategic objectives needs to be assessed in establishing the initial tax system. I think we have to prepare for numerous consequences which will require flexibility and extra resources in the transition from resources being taken off the top to a range of resources being reduced at the point of expense when the tax expense seriously impacts the continuity of current services, deliverables, and meeting external expectations.

Respondent 16

Like many faculty, finding time to review lengthy reports is not easy. After a half hour reading without learning anything substantive I can only report now that the title reminds me of earlier attempts by a recent president of the University to get around tenure.

Respondent 17

(Respondent 17 left no comment, but is reflected here to ensure consistency with the Catalyst results)

Respondent 18

Page 10, first paragraph – The 80% allocation of SCH's taught should be based on the Unit that the instructor of record for the SCH's is paid from, not the Unit offering the course. Instructors with multiple (funded) appointments would have their SCH's distributed according to the proportion of each unit providing the instructor's salary.

As an example – approximately 400 of the 900 SCH's I am responsible for this year are taught for a College other than the one that my full-time appointment is in. That College will still get the 20% credit for the students (who are from that College, not mine) when they graduate, but the SCH-related credit should belong to my College.

Page 14, paragraph 8 – A student receiving one degree with two (or more) majors should NOT count as more than one degree. Since there is no University requirement that multiple majors within the same degree require more than the base 180 credits, counting the multiple majors as multiple degrees is essentially "gaming" the system for Colleges where this is possible as compared to other Colleges in which multiple majors is not possible.

Page 16, paragraphs 4 and 5 – Since the proposed undergraduate ABB formula uses degrees granted rather than enrollment, there is no effect on direct freshman admission, and no effect of direct freshman admission on the ABB formula.

Email Feedback:

From:
Sent: Wednesday, April 28, 2010 11:47 AM
To: Paul E. Jenny; Douglas J. Wadden
Subject:

Paul and Doug:

I have just read your excellent ABB report. Great job! Overall, the report summarized the many and varied discussions over the last year!

I only have a few general questions and then some specific comments. I have attached the document with tracked changes above.

1. You might want to specifically indicate that state operational funds will (or will not) be part of the revenue distribution system in Phase 2 of the roll-out. For example, will Phyllis still control all state operational funding and allocate it as she has done in the past?
2. Will the 7.5% of student tuition for financial aid be part of the 25-30% tax or be an additional charge?
3. You might want to specify that the formula for the distribution of graduate student tuition will also (or not) apply to professional students as well.
4. I have tried to clarify the role of summer quarter in the new budget model. As it stands, "a normalized fourth quarter" may be misleading to some people and may indicate increased faculty salaries, etc.

On a more specific level,

1. I would not try to define ABB, because many people may disagree with your definition. I would simply state your intent: "The UW hopes to institute a new budget model which more accurately attributes revenue to the revenue-generating sources. The first stage of this model will be the allocation of revenue based upon the college/school of instruction and college/school of enrollment for all incremental tuition revenue. The model may be applied to all operating revenue in a second stage."
2. I have corrected several typos in the document.
3. I would not refer to "activity-generating units" but rather label them as "revenue-generating units" to simplify the message.

At any rate, great job on a complex topic.