UNIVERSITY of WASHINGTON

July 22, 2016

Gerald J. Baldasty
Provost and Executive Vice President
Professor, Department of Communication

Dear Jerry:

Before 2012, the University of Washington employed an incremental budget model under which net, new revenue generated at Seattle was allocated to Seattle schools, colleges, and administrative units after lengthy discussions with the Provost. This model frustrated campus stakeholders as data and general information used to drive these decisions were not available for broad consumption. Another clear frustration was that new or growing programs were not assured new revenue associated with growth in either tuition rates or enrollment. In other words, the model did not align revenue with associated activities. These constraints gave rise to concerns about the lack of transparency and predictability that this model imposed on schools and colleges.

As you know, Activity Based Budgeted (ABB), which was introduced at the UW in 2012, attempted to address these concerns by allocating revenues generated from instructional and research activities directly to the unit responsible for the activity. The hope was that ABB would provide greater transparency into the budget process, and facilitate greater local planning and accountability.

Five years of budgeting within the ABB framework have brought to light unintended consequences of ABB, as well as issues that were not addressed by either the previous or current model. As such, we, the ABB Phase II Committee, strived to examine and address these issues. The structure and focus of our review was shaped entirely by broad feedback and participation from campus stakeholders, especially faculty councils. We attempted to confront and mitigate issues that were not addressed when ABB was implemented. Finally, and perhaps most importantly, we acknowledged the imperfections of our current suite of educational and informational materials and how these imperfections have contributed to a lack of understanding and wealth of frustration with the model; we attempted to improve these for broad use and will continue to do so.

The committee recognizes that the implementation of ABB occurred alongside the worst recession in United States' history, which created confusion about the impetus for the model and the model's intended outcomes, as well as substantive misunderstanding of the model's actual impact.

Although the economy has improved since 2012, current conditions present new constraints: Seattle enrollment continues to level out, rates for major tuition categories are flat or declining, and general revenues are not keeping pace with growing expenses. The UW's ability to change tuition rates is very limited. The legislature reduced resident undergraduate tuition rates for two years (after two years of tuition freezes). In addition, tuition rates for other student and program categories are constrained by market conditions, competition for students, and a growing concern about tuition increases in general.

The fact that less money is coming into the system, despite increasing costs, is often attributed to the ABB model. As the committee observed and discussed with external peers, budget models are often blamed for resource constraints. *However, no budgeting model (ABB or any other) limits or generates revenue; a budgeting model simply distributes available revenue.* One obvious frustration with ABB is that the campus

community has come to expect incremental ABB revenue increases each year. This expectation includes the key assumption of revenue growth, but as with any budget model, if an institution is experiencing financial stasis or decline, its ability to distribute new revenue is similarly constrained.

As noted, the ABB model is intended to align resources and activity in a more meaningful way than our previous budget model. Though some claim that this alignment is too business-like, this committee asserts that this budget model does not commodify our university's educational activities; rather, it aligns resources and activity, limits the growth of central administrative budgets, and provides some framework within which academic planning can be executed.

Thus, the committee's recommendations focus on improving, rather than abandoning, the ABB model. The committee's recommendations are outlined in the following pages and its members are noted on the final page of this report.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

The ABB Phase II Committee submitted its recommendations to faculty, staff, and students on June 1, 2016, and received five responses to the report. These responses have been incorporated into this memo, where appropriate, but did not significantly alter our committee's recommendations. Our recommendations are summarized below; each of these areas is explained in greater detail in the following pages.

I. We recommend that the Office of Planning & Budgeting (OPB) continue to build out a more robust educational environment, both online and in-person, to support broad understanding of the ABB model. Detailed FAQ, models, presentations, and office hours will be provided. We also recommend that OPB continue to provide quarterly estimates of ABB true-up information to school and college administrators in order to monitor changes associated with recommendations III and IV, below.

II. We recommend that the Provost and Faculty Senate collaborate to develop, publicize, and enforce policies and procedures that assure that new courses and degree programs are approved only if they meet both the academic standards of our institution and are in the strategic interest of the institution overall, not just a school or college. We recommend that the ABB committee continue to monitor the creation of potentially duplicative courses, particularly if recommendations III and IV, below, are adopted.

III. We recommend altering the distribution rule for graduate tuition (currently 20 percent student credit hours (SCH)/80 percent major enrollments) be changed to 80 percent SCH/20 percent major enrollments. After careful analysis, it is clear to us that the incentives assumed in this new distribution are correctly aligned with the current structure and delivery of graduate education. However, we also recommend maintaining the current distribution rule for interdisciplinary programs that are run by the Graduate School. The shift from 20/80 to 80/20 would take effect in FY18. If this change is initiated, we would suggest that units be "held harmless" at the beginning of FY18 by making compensatory changes in units' supplements. In other words, if a unit's tuition revenue is reduced by the policy change, then the unit's supplement should be increased by a commensurate amount, and vice versa.

IV. We recommend aligning the distribution of undergraduate tuition with the new formula for distributing graduate tuition (80 percent SCH/20 percent degree majors), as this would help mitigate the disincentives associated with creating new undergraduate programs. The shift from 60/40 to 80/20 would take effect in FY18. If this change is initiated, we would suggest that units be "held

harmless" at the beginning of FY18 by making compensatory changes in units' supplements. In other words, if a unit's tuition revenue is reduced by the policy change, then the unit's supplement should be increased by a commensurate amount, and vice versa.

V. We recommend that the distribution methodology of ICR continue, but that the few large, organized research units (ORUs) that provide resources (space, facilities, administrative support, etc.) to academic units without remuneration (e.g. not as a cost center) be re-examined. In particular, we recommend that the Office of Research negotiate with deans' offices and departments using those ORUs' resources, to develop standard ICR return policies that provide administrative support to those ORUs, in acknowledgement of the resources those ORUs provide to the academic units. In many cases, required matching funds for such ORUs serve this purpose, but for ORUs without matching funds, a negotiation is needed.

VI. We recommend that deans forge partnerships when students enrolled in one college are heavily employed by another, as this results in foregone tuition revenue to the college of enrollment. If such partnerships are not forged, we recommend that the Provost or his appointee resolve these issues on a case-by-case basis.

VII. We recommend that deans continue to work together to consider whether and how graduate education is supported or undermined by the ABB construct and to recommend strategies that ensure ongoing support for graduate education in general, and interdisciplinary graduate education in particular.

VIII. We recommend that the next review of ABB take place in three to five fiscal years, but that during FY17 (2016-17 academic year) we continue to pursue a set of rules or values associated with potentially duplicative courses and degrees. It is clear that we need to examine the distribution of supplement funds (e.g. permanent base budgets) to recognize the changing cost of delivering education and summer quarter revenue from programs run by Professional and Continuing Education and summer tuition from programs typically part of ABB.

RECOMMENDATIONS

ACADEMIC OVERSIGHT ISSUE AREA: Consider the oversight, authority, and structure of current academic reviews, particularly creation of new courses, degrees, and examining joint courses.

Reducing budget-driven creation of duplicative courses and degree programs: The committee recommends that the UW develop and enforce policies and procedures that assure that new courses and degree programs are approved only if they meet both the academic standards of our institution and are in the strategic interest of the institution overall, not just a school or college.

In its report, the Faculty Council on Academic Standards (FCAS) expressed the concern that, "ABB effectively encourages schools and colleges to create new stand-alone degree programs that compete with existing programs elsewhere [within the University]…" FCAS noted an apparent increase in applications to establish such duplicative programs. The BODC has echoed these concerns, noting that the situation exists at both the undergraduate and graduate level. The scale of the problem at the UW is unknown, though one Dean did report the perception that millions of dollars had moved out of his unit as a result of new duplicative academic programs.

The committee made preliminary inquiries at a small number of peer institutions with similar budget systems concerning potential administrative mechanisms to adjudicate such internal competition. Not surprisingly, the same concerns exist at these institutions, but no fully satisfying solution was identified. The University of New Hampshire, which has operated under a responsibility-centered budget system for nearly 20 years, has attempted to address this directly through a permanent committee of its Faculty Senate, which is composed of faculty members elected from all schools and colleges, whose purpose is focused on assuring that academic priorities rather than budget model drive academic decisions.

The question of what entities should assure that our academic decisions are aligned with long-term University-wide interests and strategies, not just those of a school or college, is challenging. Such an entity must necessarily have a University-wide view, and be able to take into account financial realities. FCAS has noted that, according to the faculty code, academic standards are under the oversight of the faculty, not administration. On the other hand, budget related issues are clearly under administration control (with faculty consultation). This issue of duplicative courses/degrees is obviously at the interface of academic standards and budget. The UW has a number of existing committees whose activities relate to varying degrees on this situation, including FCAS, the Faculty Council on Tri-Campus Policy (FCTCP), the University of Washington Curriculum Committee (UWCC), and Senate Committee on Planning & Budgeting (SCPB). The Board of Deans and Chancellors has commented that none of these committees can be expected to play the necessary role, and favor the creation of a "super-committee" charged with reviewing the financial implications of potentially duplicative proposed new courses and degrees.

If we are successful in articulating, publicizing, and enforcing policies that prevent the creation of duplicative courses or degree programs that are not in institution-wide interest, it is reasonable to expect the frequency of such requests to decline.

The committee believes that:

- The UW should develop institution-wide policies and procedures that assure that new courses and degree programs are approved *only* if they meet both the academic standards of our institution and are in the strategic interest of the institution overall, not just a school or college.

- These policies and procedures should be publicized to make schools and colleges aware that the institution will not tolerate duplicative courses or degree programs that do not serve institution-wide interests.
- The Provost and Faculty Senate leadership should work together to determine how best to use the existing committee structure, or to create one or more new committees, to enforce these policies.

REVENUE DISTRIBUTION ISSUE AREA: Revisit current revenue distribution rules, use of course of record rather than instructor of record for SCH distribution, provost reinvestment funds, and distribution of incremental state funds.

Revisiting revenue distribution rules: ***Currently, 60 percent of undergraduate tuition is distributed on the basis of SCH and 40 percent is distributed on the basis of degree majors (i.e. 60/40); for graduate tuition, 20 percent is distributed on the basis of SCH and 80 percent on the basis of major enrollments (i.e. 20/80). The committee recommends simplifying the rules so that both graduate and undergraduate tuition distributions are based on a formula that distributes 80 percent based on SCH, with the additional 20 percent distributed on the basis of degree majors for undergraduates and on major enrollments for graduate students (i.e. 80/20).***

There is a perception on campus that there is a disincentive to teach graduate level courses that attract students in majors outside of a unit (that is, there is a disincentive to interdisciplinary teaching at the graduate level). It has been suggested that if ABB were to weigh SCH much more heavily in the distribution of graduate tuition, the disincentive would be removed. In addition, this committee believes that emphasizing SCH over major enrollments would address the model's inadequate treatment of revenue sharing for dual degree programs.

In order to assess the potential effect of such a shift, the committee reviewed a variety of distribution scenarios, which are available online. In the past, such examinations have simply looked at the effect of changing the distribution parameters on the current year tuition distribution. For a more complete analysis, the group reviewed scenarios in which:

- The distribution parameters were changed.
- It was assumed that any resulting changes in a unit's tuition base would initially be offset by a commensurate change in the supplement, such that only incremental tuition distributions in the future would be affected.
- It was assumed that tuition would increase 2 percent per year for five years.

This analysis demonstrated that the change in revenue distribution to units was minor, even after five years. Looking at current and past distributions of SCH and degree majors/major enrollments, it was noted that the percentage of SCH generated and degree majors/major enrollments in each school as a percent of the total were quite close. This similarity between the SCH distribution and degree major/major enrollment distributions helps to account for the relatively minimal change in distributions.

It seems important to make this change to remove the perceived barrier to offering graduate courses that attract students from across the institution, which affects interdisciplinary programs. Given the small effect on overall distributions, there appears to be low cost to units associated with making the change.

If this recommendation is adopted, however, the committee feels it is essential to recognize that existing[1] and new interdisciplinary graduate degree programs based in the Graduate School depend on the current 20/80

[1] The Graduate School oversees 14 interdisciplinary graduate programs and 9 interdisciplinary certificate programs. Of these, the Graduate School derives ABB enrollment revenue from eight programs that would be affected by a change. The remaining programs are either fee-based or map ABB revenue to a different unit.

distribution for survival. Some accommodation must be made to ensure these programs continue. The committee is concerned that these programs would be financially vulnerable if dependent on temporary funds from the Provost. It was suggested that these programs would remain more financially sound if the current distribution could be maintained for these programs alone.

Thus, the committee recommends that both existing and future interdisciplinary programs in the Graduate School be associated with specific tuition categories and that resulting revenue be distributed on the basis of the current 20/80 model.

In addition, there are a few smaller schools that are heavily graduate degree focused for which the switch from 20/80 to 80/20 would have a significant negative effect on ABB revenues. The committee also recommends that, for these schools, some subsidy from Provost Reinvestment Funds (PRF) be allocated to cover this loss. Because the programs are relatively small, the actual amount of revenue needed is less than 0.2 percent of the ABB tuition revenue, but represents a significant amount of resources to the impacted schools. Additional analysis during FY17 would be furnished to the Provost if this accommodation was amenable.

Given the recommendation that ABB move to an 80 percent SCH/20 percent major enrollment distribution for graduate tuition revenue, the committee also looked at the possible effect of achieving ABB simplicity by using an 80 percent SCH/20 percent degree major formula for undergraduate tuition revenue.

Once again, the committee examined scenarios in which the base was initially reset, looking at the incremental tuition distribution moving forward, assuming a 2 percent increase each year over a five-year time span. The revenue distribution change was minor; the loss or gain relative to the current distribution rules expressed as a percentage of total distributions was zero for 16 of the 18 schools. Based on review of the ABB schedules, it was noted that the underlying metrics (the percent of SCH and degrees earned for each school as a percent of the total) were close. This explains the relatively minor allocation changes. The two remaining schools had loss/gain of -1 or 1 percent. Given this, it seems as if the simplicity achieved by having the same essential distribution rules for undergraduate and graduate tuition is worth the cost of doing so.

More importantly, it was noted that the current distribution approach for undergraduate tuition revenue provides a disincentive to undergraduate program development. When a school or college creates a new degree program, there are costs that must be borne in the initial four years before the degrees have an impact in the revenue distribution (and given that degree data are lagged, this means a five- or six-year lag before revenue is realized). If the 80/20 formula is adopted, as suggested, this lag effect would be reduced. Additionally, the creation of minors (which generally are four to five classes totaling twenty credits) become more attractive for schools. Minors may be a good option for students who want to demonstrate competency in more than one field without double or triple majoring.

As a result, the committee recommends the application of an 80/20 distribution rule for both graduate and undergraduate tuition.

Mapping SCH to "instructor of record" rather than "course of record": *The committee recommends against this change.*

After examining FY15 student credit hours mapped to instructor of record, it was determined that 87 percent of SCH could easily be mapped in such a manner. Of this 87 percent, the instructor of record and the course of record mapped to the same college/school 97.4 percent of the time, on average.

Importantly, 13 percent of the time, SCH did not easily map to an instructor or record; either because the data were 'dirty' (e.g. the instructor of record did not appear in the current payroll system) or because rules would need to be created by academic stakeholders regarding how to map the SCH to one or multiple instructors.

Since 13 percent of SCH do not map well and since improving data quality is desirable, it is not clear that changing the mapping would yield sufficient benefits to justify the effort needed to create the rules, clean the data, and monitor the changes. Thus, we recommend against this change.

In addition to these data-related issues, there are practical considerations worth noting. The instructor of record does not fully represent the cost of delivering a course. For many undergraduate courses, particularly lower division courses, other expenses, including technical staffing, teaching assistants, etc., contribute significantly to the cost of a course offering. Mapping the distribution of funds to the instructor alone could present significant administrative challenges to departments and schools/colleges offering such courses and could undermine vital support for courses.

Altering the PRF to create a special pool to support interdisciplinary teaching (graduate student support): *The committee recommends against altering the PRF to create such a pool.*

The committee investigated different options for funding Teaching Assistants and Research Assistants (TAs/RAs). Currently, units use their own General Operating Fund (GOF) revenue to support salaries for TAs/RAs. As an alternative to this, the committee explored the possibility of "taxing" undergraduate revenue to academic units by an additional 10 percent (over the current 30 percent ABB tax) and using the revenue from that tax to centrally support TAs/RAs. Appendix 2 outlines how spending on TAs/RAs might differ under this alternative approach. To summarize, the committee found that the 10 percent tax would create a $28.4 million pool for graduate education, which is **less than the current GOF spending on TAs/RAs.** The analysis also demonstrated that the 10 percent tax would materially be returned to each academic, meaning that there is not a material subsidy between academic units for graduate student support.

The committee feels strongly that an institutional approach for sustainable graduate education at a public research university is required. Competition for top graduate program applicants is extremely challenging, and we must be able to provide stipend/RA support, tuition, and benefits if we are to successfully compete for the best and brightest graduate students. As federal research dollars become more scarce, the ability of faculty to support graduate students in their research programs is reduced. The rising cost of graduate tuition and RA salaries and benefits over the past 5 years have now made a graduate student cost as much or more than a post-doctoral fellow. These trends have the potential to seriously erode both the quality and size of our graduate programs over time unless additional resources can be identified. Unfortunately, it is not evident where such funds could come from, as ABB tuition revenues are not likely to fill this need.

Clarifying the distribution of incremental state funds: *The committee recommends that this be addressed via FAQ on the OPB website.*

ABB is a fairly complex revenue model with various stakeholders – students, faculty, academic leadership – whose familiarity with the material varies and changes over time (e.g. each year new students join ASUW and GPSS leadership teams). The impact of state incremental funding, whether it be for merit increases or in the form of proviso budgets, cannot be explained with quick answers. The committee recommends that the best way to address the wide array of audiences is to add more information about state funds to the ABB FAQ webpage and include links to additional content allowing readers to drill down into more detail. Other resources could include ABB talking points and presentations.

INDIRECT COST RECOVERY ISSUE AREA: Produce an educational brief regarding the historical and current distribution of ICR, consider altering the distribution of Provost Reinvestment Funds to contemplate a special pool for interdisciplinary research, and examine the distribution of ICR to collaborative research centers.

Producing an educational brief on the distribution of indirect cost recovery (ICR): ***The committee recommends that Appendix 3 and Appendix 4 be posted on an ABB website and that their availability communicated broadly to the UW community.***
See Appendix 3 to review the ICR brief and Appendix 4 for a fact sheet on facilities and administration costs.

Considering the deployment of Provost Reinvestment Funds for collaborative research: ***The committee recommends that the following information be posted on an ABB website and its availability communicated broadly to the UW community.***

The Faculty Council on Research asked the ABB Phase II Committee to consider recommending that a portion of the ABB Provost Reinvestment Funds be set aside for collaborative research funding. Provost Reinvestment Funds from ABB taxes are overcommitted at this time for high priority uses, including compensation and compliance. However, the Office of Research has three programs that either focus on funding for collaborative research, or for which a significant percentage of funds are awarded to collaborative research projects. Each of these is detailed below. The total invested from central funds is $4.4 to 5.1 million per year. We recommend that these investments in collaborative research continue, if funding is available.

1. Matching funds, $3.5-$4 million/year
   These funds are provided for sponsored research when the sponsor either requires or expects cost-sharing from the institution. All of these proposals are large, collaborative projects, some are for shared equipment/facilities. In general, the Provost provides one third of the total matching funds, the rest is provided by the dean(s) and department(s). There are currently 25 supported projects.

2. Innovation Awards, $1-1.5 million/year (with an estimated $0.5-0.7 million to collaborate research)
   These are donor funds for high-risk, high payoff research. Although not specifically targeted to collaborative research, 6 out of the 14 awards so far have gone to collaborative teams.

3. RRF Awards, $2 million/year (with an estimated $0.4 million to collaborative research)
   These small seed grants for new projects are not specifically targeted to collaborative research, but in each round about 20 percent go to collaborative teams. For instance, in the Fall 2015 round, 6 of 31 awards went to collaborative teams.

Total funding for collaborative projects:

Matching	$3.5-4 million/year
Innovation awards	$0.50-0.7 million/year
RRF awards	$0.4 million/year
Total	$4.4-5.1 million/year

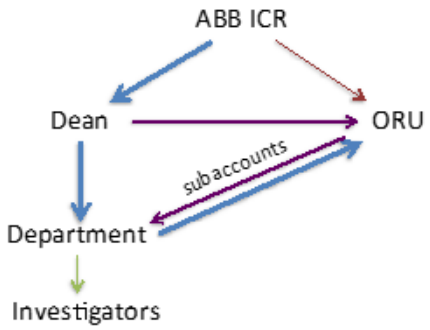
Evaluating and making recommendations to affect the distribution of ICR to organized research units (ORUs): ***We recommend that the current policies remain in place, but that they be upgraded from guidelines to expectations. Thus, the sharing of ICR (either in-kind support or through fund-sharing) would be the default policy and only in unusual circumstances would this not occur.***

When ABB was implemented, the UW implemented a policy that indirect cost recovery (ICR) earned by ORUs should be shared, as part of a broader policy on ORUs, supported by a statement of collaboration endorsed in 2014 by the Board of Deans and Chancellors. The policy persists today and our rationale is threefold: (1) the ability of large ORUs to succeed is often dependent upon the availability of funds beyond those provided as direct costs, (2) such sharing is in keeping with the ABB principle of directing revenue to the unit that generates the activity, and (3) collaborative research is best supported when all investigators and their units share in the credit according to the level of their activity in the collaborative work. Please see Appendix 5 for the ICR sharing section of the ORU policy.

How ICR sharing occurs is flexible, but the guidance suggests that (a) the ORU itself should either receive some ICR or in-kind administrative support, and (b) ICR earned by the ORU should also be shared with all units participating in the ORU, generally through subaccounts. The level of sharing depends on the administrative support provided by the ORU. If the ORU provides most or all administrative support, then a significant share of the ICR should go to the ORU. If the ORU provides little administrative support, then only a small portion of the ICR should go to the ORU. ORUs that receive central matching support are required to adhere to the sharing policy; other ORUs are strongly encouraged to follow the sharing policy.

The Office of Research carried out a survey of ICR sharing for the ten ORUs that receive currently central matching funds, as well as a small sample of other ORUs (five National Institutes of Health (NIH); two non-NIH). Of the 17 ORUs contacted, 15 provided information. In all cases, ICR is either shared directly or through in-kind administrative support. Mechanisms for this sharing are varied (see diagram below for a summary) but the most common is the generation of subaccounts.

Figure 1: Varied mechanisms by which ICR earned by ORUs is shared.



Our conclusion is that, of the ORUs sampled, all of them share ICR-generated resources in some way.

Regarding other collaborative research, a few years after the policy for ICR sharing for ORUs was implemented, a similar policy was implemented with respect to sharing of ICR and credit among all units involved in collaborative research.

The committee supports the principle of ICR sharing for collaborative research as an approach to help such projects succeed and support recruitment and retention of faculty and students interested in collaborative work. As noted, we recommend that the current policies remain in place, but that they be upgraded from guidelines to expectations. In other words, the sharing of ICR (either in-kind support or through fund-sharing) would be the expected (default) policy, and only in unusual circumstances would this not occur.

We further recommend that the Office of Research broadly communicate this policy to researchers, departments, and deans; solicit input; and check back to ensure that the policy is being followed. Existing ORUs

and collaborative projects that do not currently have an ICR sharing policy would be expected to implement the relevant ICR sharing policy at grant renewal dates.

In addition, for the handful of large ORUs that provide resources (space, facilities, administrative support, etc.) to academic units without remuneration (e.g. not as a cost center), we recommend that the Office of Research carry out negotiations with the dean's offices and departments that use those ORUs' resources. The goal of those negotiations would be to develop standard ICR return policies that provide administrative support to ORUs, in acknowledgement of the resources those ORUs provide to the academic units. In many cases, required matching funds for the ORU serve this purpose, but for those ORUs without matching funds, a negotiation is needed. Examples of ICR sharing are included in Appendix 5.

SUMMER QUARTER TUITION ISSUE AREA: Consider the construct and distribution of summer quarter offerings and revenue.

Recommendation: ***Though the Faculty Council on Teaching & Learning determined that this area would not require additional consideration at this time, the committee recommends returning to the topic of summer quarter revenue, whether collected as a fee through Professional and Continuing Education or as tuition through the ABB model, be revisited in two years.***

GRADUATE & PROFESSIONAL EDUCATION ISSUE AREA: Evaluate whether graduate and professional education is harmed by the ABB construct and if so, determine how to mitigate against the erosion of funds available for graduate and professional education.

Though the primary issue area where ABB was believed to affect graduate and professional education funding was in regards to the loss of tuition revenue associated with cross-college hiring, the Graduate School Council did not indicate that this activity was broad and damaging enough across all schools to warrant a significant change in current model.

Recommendation: ***We believe that deans should be encouraged to discuss and negotiate cross-college funding where significant hiring of graduate students occurs and represents a loss of revenue to the school of enrollment. When a written agreement cannot be reached, we recommend that deans approach the Provost or his/her designee for additional consultation and assistance.***

Our committee's work gave rise to a general question about graduate and professional education funding under ABB. Because many graduate and professional programs are facing funding constraints – limits on tuition rate increases and relatively flat enrollment – more subsidy from the center is often requested. Though these challenges were not part of the committee's initial charge, they arose during our investigation. We determined that we could not address this issue within the given time frame, but recommend it be taken up by deans as a focus of conversation going forward.

Sincerely,

Sandra Archibald, Co-chair, ABB Phase II Committee; Dean & Professor, Evans School; Chair, Board of Deans & Chancellors
Sarah Norris Hall, Co-chair, ABB Phase II Committee; Associate Vice Provost, Office of Planning & Budgeting
Abe McClenny, Associated Students of University of Washington Representative
Amy Floit, Budget Director, Office of Planning & Budgeting
Carol Diem, Director of Institutional Analysis, Office of Planning & Budgeting
Charles Kennedy, Associate Vice President, Facilities Services
David M. Anderson, Executive Director, Health Sciences Administration
David Eaton, Dean & Vice Provost, Graduate School; Professor, Environmental & Occupational Health
David C. Green, Chief Financial Officer, School of Medicine
Elizabeth Cherry, Associate Vice Provost, Compliance & Risk Services; Interim Vice President, F2
Kate O'Neill, Professor, School of Law; Chair, Senate Committee on Planning & Budgeting
Kerstin Hudon, Graduate and Professional Student Senate Representative
Linda Rose Nelson, Director of Finance & Administration, Arts & Sciences
Mary Lidstrom, Vice Provost, Research
Norm Beauchamp, Professor and Chair, Radiology; Chair, Faculty Senate
Paul Hopkins, Professor and Department Chair Emeritus, Chemistry
Rovy Branon, Vice Provost, Educational Outreach

cc: ABB Phase II Committee Members
Board of Deans & Chancellors
Senate Committee on Planning & Budgeting
Unit Administrators
Vice Presidents
Vice Provosts

Attachments:
Appendix 1 – ABB Frequently Asked Questions
Appendix 2 – Graduate Student Support Brief
Appendix 3 – Indirect Cost Recovery Brief
Appendix 4 – Facilities and Administration (F&A) Costs Fact Sheet
Appendix 5 – Guidelines for Commitment of Funding ORUs

Subject: **Frequently Asked Questions**

Date: **June 1, 2016**

Activity Based Budgeting (ABB) Frequently Asked Questions

General ABB Questions

1. What is Activity Based Budgeting (ABB)?

ABB is a budgeting model used at UW in Seattle to govern the distribution of a portion of incremental operating revenues to units and is designed to provide greater transparency in the budget process. *Revenues are distributed to schools and colleges using ABB principles. ABB does not distribute funds to the departmental level; each dean determines how to allocate these funds within their school or college.*

Under ABB, central resources, such as tuition revenue and indirect cost recovery (ICR) from research, are allocated directly to the unit responsible for the activity. First, however, a tax is taken to fund central operations and administration, strategic investments in student and faculty experience, and critical compliance efforts – shared expenses that would otherwise have no direct source of funds.

2. What revenue is distributed by ABB?

ABB includes distribution rules for three types of revenue: net tuition (operating fee) revenue, indirect cost recovery (ICR) from grants and contracts, and miscellaneous student fee revenue (e.g., revenue from application fees). The miscellaneous fee category represents only 1 percent of the sum of these three revenue sources, so we will focus here on net operating fee revenue and ICR.

Under ABB, 70 percent of net tuition operating fee revenue is distributed to schools and colleges, and 30 percent is retained by the Provost for basic university functions and strategic investments. ***Indirect cost recovery (ICR)*** has been shared at the dean level for many years prior to ABB, (historically, this sharing was referenced as RSA and, later, RCR). Under ABB, 35 percent of ICR is returned to schools and colleges.

With both tuition revenue and ICR, funds are distributed to deans of schools and colleges.

3. What is the ABB tax and how is this funding used?

The ABB tax is applied to both tuition and research activities (as well as to miscellaneous fees). These funds are kept centrally to help offset the many costs that are incurred centrally rather than locally. These costs include utilities, facilities and maintenance, grounds and landscaping, policing, human resources, central advising, and both research and academic administration. These funds are also used to provide support for academic units that cannot, on the basis of tuition alone, be self-supporting. Any increases in ABB revenue held centrally constitute Provost Reinvestment funds, which are used by the Provost to make strategic investments in both academic and central support units.

4. I hear many of my colleagues blaming our difficult funding situation on ABB. Is that correct?

No. ABB is not the reason why the University has limited funding. The recession required cutbacks in the face of increasing costs, and revenues since then have not increased sufficiently to overcome those previous cuts. It is likely

that we will have limited funding for some time in the future, which makes the planning enabled by ABB even more important.

5. ABB appears to be about self-reliance. What is the recourse of a department if it cannot "make it?"

Imbedded in ABB is the principle that in a modern research university, there will be cross-subsidies. It identifies the existence of subsidies, thereby providing an opportunity for them to be discussed. ABB fosters but does not demand self-reliance. In its most basic form, ABB is a method of budgeting in which revenues generated from instructional and research activities are allocated directly to the unit responsible for the activity. 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.

6. How are core resources protected, such as libraries, when they do not have tuition funding or ICR?

Library expenses are included in the central operating expenses that are funded by the tax on ICR and tuition revenue. The Provost consults with deans, students, and faculty regarding priorities for central funding, including the libraries. This consultation occurs with groups including the Board of Deans and Chancellors (BODC), the Provost Advisory Committee for Students (PACS), the Faculty Senate, the Senate Committee on Planning and Budgeting (SCPB), and Elected Faculty Councils.

7. How can ABB be leveraged to ensure it encourages collaboration between dean-level units?

Deans, chairs and faculty must be diligent in finding ways to participate in and encourage collaboration. Revenue sharing works for everyone if the advantages of collaboration for recruitment and retention of faculty and students are understood and valued. In 2014, the BODC endorsed a Statement of Collaboration, and the concepts noted in the statement need to be supported through actions. The document also provides best practices to foster discussions between faculty, chairs and deans, and between dean-level units.

8. How can I model the ABB revenue effect of generating more student credit hours (SCH) or of starting a new program?

It *is* possible to use the data in the Excel file that provides tuition distribution calculations to model the effect of changes in enrollments, SCH, majors, or tuition rates. Unfortunately, that file is not designed with an interface that easily allows the user to do so. All of the data needed to do ABB calculations will be available in the Enterprise Data Warehouse (EDW) by January, 2017, however, and a variety of dashboards and modeling tools will be made available by the end of FY17.

9. When ABB was introduced, some colleges received supplements. How are supplements determined?

When ABB was implemented there was no change to a unit's total General Operating Funds (GOF) plus Designated Operating Funds (DOF) budget. The total GOF/DOF budget remained the same but it was broken into three new conceptual budget categories. Based on ABB methodologies, the tuition value was calculated, the ICR was determined to be 35 percent of the total grant activity for the prior year and the remaining amount was placed in the category known as the *supplement*. **This meant that each unit's budget was the same before ABB was implemented as it was immediately after implementation.** From this point forward, additional allocations of funds are made each year that can and do change the value of the three ABB budget categories: new tuition dollars, changes in research activity and/or ICR, and a variety of changes to the supplement (for example, state funds for benefit changes, state funds for compensation, or Provost Reinvestment funds for backfilling tuition cuts or any

other initiative). There are a variety of reasons the value of a unit's budget may change. Allocations of incremental tuition revenue and ICR are guided by the principles of ABB, and the Provost decides on the level of the supplement, in consultation with the BODC, SCPB, and PACS.

10. How can ABB be implemented such that it does not disadvantage innovation?

The University's resources have always been limited, and innovative ideas have always outstripped the resources available to support them. In this way, ABB should not change the way innovation is supported. If a particular innovation requires funding, then it must effectively compete with all other funded efforts. Investing in innovation is a strategic decision. An example would be that a new, innovative course might have fewer students initially than another, but the newer course is expected to provide much better preparation for later courses, and enrollment might be predicted to grow. Keeping the old course rather than starting the new course might be financially beneficial in the short run but it is not an ideal strategic decision. Ultimately, ABB is a budget model intended to *support* the strategic plans in dean-level units, not to be the driving force behind the strategic plans. Optimistically, by better understanding and predicting the flow of funds, chairs, deans and the Provost can more confidently invest in innovation.

11. What are the advantages of ABB?

ABB provides transparency and predictability around the budgeting process. Subsidies are deliberate rather than accidental, and they can be strategically managed.

12. One size fits all models tend to fail. If ABB does not work for my unit, department or college, how can we seek accommodations?

Special cases are handled through discussions with the Provost and deans. ABB revenue is dispersed at the dean level. The dean is empowered to respond to units that are challenged and to bring concerns to the Provost when a necessary response is not attainable. Ultimately, ABB provides the transparency and predictability needed to manage a large complex organization, but our core values require us to prioritize sustainability for the key components of our mission.

13. ABB decentralizes authority to the deans. What are the mechanisms available to affect the deans' use of ABB dollars?

Deans are accountable to the Provost, and all budget issues receive input from the faculty (SCPB, the Faculty Senate, or Elected Faculty Councils) and students (PACS).

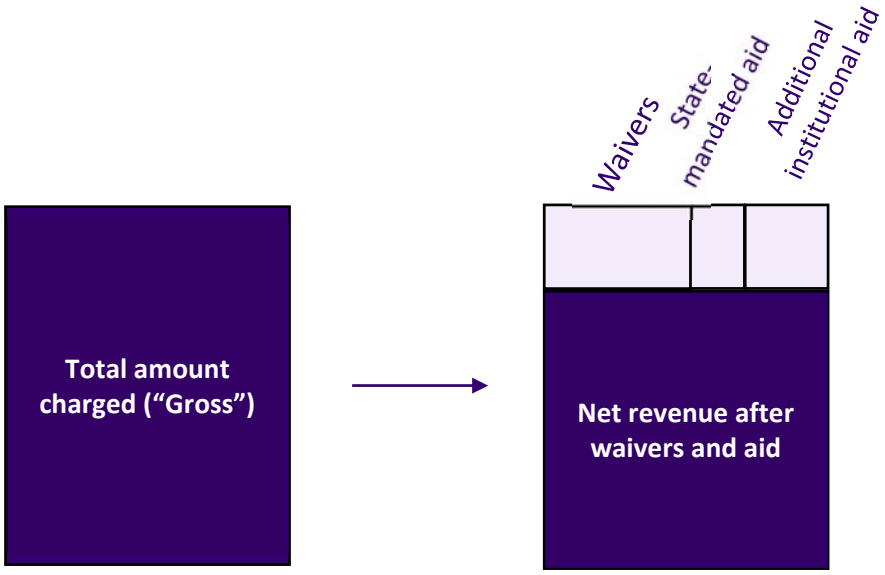
14. I am teaching a new undergraduate course that serves 400 students each year, but I have no new resources at my disposal. Isn't that an indication that ABB isn't working correctly?

Under ABB, incremental tuition revenue is distributed to schools and colleges rather than to departments or individual faculty. If you are responsible for increasing the share of undergraduate student credit hours (SCH), then your school or college will receive additional tuition revenue, and budgeting within the school or college will occur in whatever manner the dean chooses.

15. I have heard that we only receive 40 cents of each dollar of tuition because a lot of financial aid is subtracted and then the 30 percent tax is applied. How does the amount of "gross revenue" get whittled down to the much smaller amount of net revenue (that is then taxed before it is distributed)?

Gross operating fee revenue is the sum of the operating fee that is *charged* to all students, before any exemptions or waivers are taken into account. We waive tuition for many students and we award financial aid to students in order to ensure access and attract the best students. There is no expectation that every student will pay the full tuition "sticker price." In recent years, net operating fee revenue has typically represented 80 percent of the total amount charged ("gross revenue").

Slightly more than half of the difference between "gross" and "net" operating fee revenue is accounted for by tuition waivers – most of which are provided to graduate teaching and research assistants. Please note that tuition waivers represent forgone revenue, rather than an expenditure. The rest of the difference between "gross" and "net" revenue is associated with the portion of tuition revenue that is set aside for financial aid. The UW is required by the state to use 4 percent of total collections for need-based aid. In addition, UW Regents have chosen to devote an additional portion of tuition revenue to aid to ensure access.[1] The bulk of this additional aid is awarded to undergraduates and, therefore, is subtracted from undergraduate revenue. As a result, the main source of the gap between gross and net tuition revenue for units that serve mostly graduate students is the amount of revenue foregone by waiving tuition for graduate assistants. The bulk of the gap for units serving mostly undergraduate students is aid that is employed to ensure access for undergraduates.



Given the different sources of the gap between gross and net tuition for different groups of students, the net to gross ratio varies dramatically. As examples, the net to gross ratio for the Nonresident Graduate Tier I category is 26 percent, whereas the ratio for undergraduate nonresidents is 91 percent.

[1] This amount increased substantially during the recession, when there were four years of double-digit resident undergraduate tuition increases.

ABB ICR Questions:

16. What are indirect cost rates and what is indirect cost recovery?

Indirect costs, also known as Facilities & Administrative costs or F&A costs, are those costs incurred for common or joint objectives that cannot be identified readily and specifically with a particular sponsored project. F&A costs are defined by the Federal Office of Management and Budget in the Federal Uniform Guidance. More information is available at this F&A brief.

The indirect cost **rate** is the rate applied to eligible expenses on a grant or contract budget to track the amount the sponsor will reimburse the University to help cover F&A costs. This rate varies depending on the sponsor and the type of research carried out (see current indirect cost rate chart).

Indirect cost **recovery** is the dollar amount the university receives as reimbursement from a sponsor to help cover F&A costs. It should be noted that this reimbursement does not cover all the F&A costs that support research activity at the University, in part because the administrative portion of the costs is capped at 26 percent.

17. How are indirect cost recovery dollars allocated to campus?

The University receives the indirect cost reimbursement from sponsors and allocates the funds based on ABB principles and guidelines. Dean-level units that generate ICR retain 35 percent to support their portion of administrative costs. The other 65 percent is used by the Provost to fund campus facilities costs, research administration costs and to allocate to units based on initiatives and other criteria. The ICR allocated is based on the grant activity of the prior year.

18. How does ABB impact the return of indirect cost recovery?

35 percent of the indirect cost recovery is returned to the dean level. Depending on local policies and guidelines within the unit, a portion of the indirect cost recovery may be reallocated to departments and/or principal investigators through local campus budgeting procedures, but each unit has its own policy. The PI should not assume they will receive a portion of these funds. In all cases, the intent is to support the research effort within the dean- or vice-president-level unit.

19. Has the implementation of ABB impacted ICR return to colleges and departments?

ABB will provide a somewhat different ICR return to units, but it is difficult to determine the precise difference given the complicated pre-ABB methodology for calculating indirect cost return. Spot-checks have shown that in general, dean-level units have more ICR return post-ABB than pre-ABB. The indirect cost return rate increased for on-campus grants, which are the majority of funding for all units, so we would predict a net increase in indirect cost return after ABB implementation. The number and the types of grants and the mix of on- and off-campus grants within any given unit vary from year to year, which also affects ICR. These factors make it difficult to determine whether, and in what direction, ABB specifically impacted a unit, or if fluctuations in the indirect cost rates and location mixes are the reason for shifts in ICR allocations. It is most likely a combination of factors, not one specific factor.

20. Does indirect cost return change based on whether research is done on campus or off campus?

The indirect cost **rate** of a grant has an impact on the amount of indirect cost **recovery** dollars. The 35 percent return rate is applied to the indirect cost recovery amount, which in turn impacts the allocation to the

school/college. Lower indirect cost rates yield fewer indirect cost recovery dollars and higher indirect cost rates return more indirect cost recovery dollars. So, if a school/college/department/PI has a majority of grants and contracts with low indirect cost rates, then the return of indirect cost recovery is lower to that school/college/department/PI.

Off-campus grants have facilities charges (rent or lease costs) as a direct cost, decreasing the indirect cost rate that is charged. Therefore, the indirect cost recovery per direct cost dollar is less for an off-campus grant than for an on-campus grant. However, off-campus research activities may have increased costs to the administering unit, so the net costs to the unit should be considered when assessing the indirect cost return for on-campus vs. off-campus grants.

21. How have ABB-related changes in ICR impacted collaboration?

The Faculty Council on Research survey of faculty indicated that there has not been a significant change due to ABB related changes.

22. How are ICR returns properly allocated in the setting of inter-unit research collaboration?

The University of Washington has guidelines about sharing of indirect cost return. Because it is difficult to develop a one-size-fits-all policy, flexibility is allowed, but the concept of revenue sharing is the same for all. In general, ICR should be allocated according to where the work is carried out. It should be noted that the reimbursement rate for F&A costs is lower than actual costs, so no unit is fully reimbursed for the indirect costs of supporting research at UW.

23. How can units plan if ICR returns change every year?

A portion of ICR has been returned to units for many years before ABB implementation (as RCR), so the fluctuations in this revenue stream are not new. ICR returns depend on the total grant activity and the ICR rate for each grant. Units can track ICR expenditures through the year, and project revenue returns in that way.

24. After a grant is awarded, does the indirect cost rate change if the grant moves to a new location?

Once a grant is awarded the actual indirect cost rate does not change. If the grant moves to a new location the old rate moves with it. A rate doesn't change until the grant is renewed or when a new grant is established.

25. How is a unit's ICR value tracked following the implementation of ABB?

Prior to ABB, ICR budgets could be summarized by selecting DOF budgets using the correlating budget type/class category. This is no longer possible after the implementation of ABB. The value of each unit's ICR is continuously tracked via ABB tables and allocations, which are published on the web.

These activities are taxed at a rate outlined by ABB. The tax is part of the funds the administration uses to address the President's and Provost's priorities for the University and deployment of these funds is the result of a lengthy and highly consultative budget development cycle.

Subject: **Graduate Student Support**

Date: **May 27, 2016**

The committee investigated different options for funding Teaching Assistants and Research Assistants (TAs/RAs). Currently, units use their own General Operating Fund (GOF) revenue to support salaries for TAs/RAs. As an alternative to this, the committee explored the possibility of "taxing" undergraduate revenue to academic units by an additional 10 percent (over the current 30 percent ABB tax) and using the revenue from that tax to centrally support TAs/RAs.

To summarize, the committee found that the 10 percent tax would create a $28.4 million pool for graduate education, which is **less than the current GOF spending on TAs/RAs.** The analysis also demonstrated that the 10 percent tax would materially be returned to each academic, meaning that there is not a material subsidy between academic units for graduate student support. The table below shows two values for each unit:

- The FY16 GOF expenditures for TA/RA support (salary *and* benefits), and
- The difference between distributing 100 percent and 90 percent of the undergraduate revenue distributed to units in FY16 (an effective 10 percent tax), with the remainder being available for TA/RA support

Table 1. Comparison of TA and RA Salary and Benefit Funding/Spending by Academic Unit

Academic Unit	FY16 GOF Expenditures on TAs/RAs	Alternative Approach: 10% of UG Revenue for TAs/RAs
Built Environments	333,051	525,019
College of Arts & Sciences	25,161,693	18,529,027
Foster School	1,684,710	2,348,458
College Of Education	1,583,461	369,295
College Of Engineering	6,624,485	2,920,618
College Of Environment	2,215,738	1,373,970
The Information School	435,294	369,004
School Of Law	0	10,023
Evans School	405,955	2,953
School Of Social Work	449,200	107,745
School Of Dentistry	7,274	1,008
School Of Medicine	1,449,792	758,925
School Of Nursing	501,621	335,913
School Of Pharmacy	448,219	5,806
School Of Public Health	1,668,197	522,166
Undergrad Academic Affairs	176,199	251,378
Dean-Graduate School	2,352,052	4,103
Academic Unit Total	**45,496,940**	**28,435,411**

Subject: **Indirect Cost Recovery (ICR) under Activity Base Budgeting**

Date: **May 24, 2016**

The UW has a strong profile and presence as a world leader in education and research. The total for all sponsored research exceeds $1 billion. The UW consistently receives more federal research funding than any other public university and places in the top five for total research funding for all public and private universities in the country. The National Taiwan University ranked the UW first in public universities worldwide for the quality and impact of research endeavors and Reuters ranked the UW the most innovative public university in the world in 2015. Conducting this stellar research requires resources, and this brief addresses those costs.

Direct and Indirect Costs (e.g. Finance and Administration Rates)

External research and training funding has two elements: **direct support** for sponsor-approved activities and **indirect cost support** for facilities and administrative costs.

- **Direct funding** goes toward the documented costs of conducting the scope of work approved by the external sponsor. Direct costs are those costs that can be identified specifically with a particular project, an instructional activity, or any other institutional activity that can be directly assigned to the approved activity. Examples of direct costs are salaries and wages, fringe benefits, service contracts, materials, supplies, travel, sub awards, equipment, tuition remission, and rental costs.

- **Indirect cost rates** are intended to compensate the University for costs that generally support the approved project but cannot be specifically allocated to a single project. The Federal Indirect Cost Rate (ICR) is also known as Facilities and Administration (F&A) and is negotiated with the awarding agency every five years. Examples of indirect costs on the facilities side include utilities, routine maintenance and repair, building and equipment depreciation, and library services. On the administrative side indirect costs include proposal preparation and submission, grant administration, accounting, payroll, purchasing, student services, etc. that support many functions of the University, but are not specifically attributable to a singular project.

Although the UW negotiates F&A rates every five years according to a federally-mandated formula, the total collected for F&A costs is always lower than the University's actual costs. A variety of mandated caps on the indirect costs calculations force it lower than the University's real costs. In addition, many federal and private funding agencies do not fully pay the calculated indirect cost rate due to various policy and statutory restrictions. While these restrictions impact the overall financial support for research and teaching activities, they are generally non-negotiable and a requirement for accepting funding from the agencies. F&A costs are charged to individual awards as direct costs are paid. The University does not recover F&A costs from sponsors until direct costs of the awards are incurred. F&A is normally applied to modified total direct costs (MTDC) of awards. The modified total direct costs of awards are all costs excluding equipment, capital expenditures, charges for patient care, tuition remission, rental costs, scholarships, and fellowships as well as the portion of each sub award in excess of $25,000.

The UW Office of Research publishes an Annual Research Report that highlights research proposals, awards and expenditures for each fiscal year. The report shows the direct expenditures from sponsored projects, by type of program and source of funds. The Office of Research also publishes a Monthly Research Award Summary. Both reports are available on the Office of Research website.

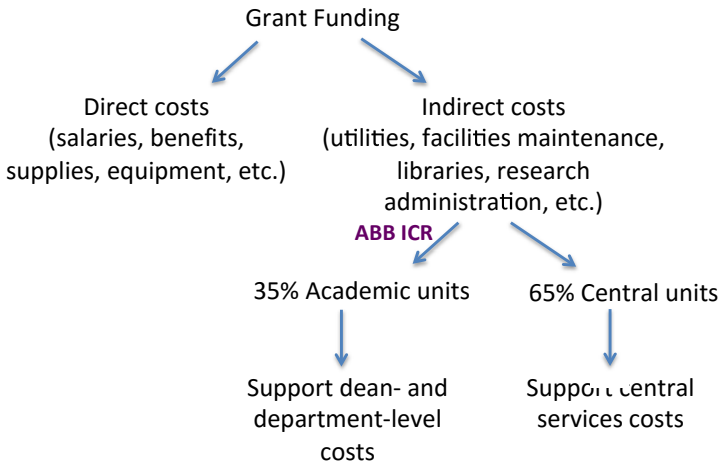
Campus Allocation Process

The intent of the campus allocation policy is to support units performing research and training activities while at the same time offsetting costs paid through central administration. It is recognized that the majority of costs allowed in the indirect cost rate are centrally supported, however some of those activities occur within individual colleges, schools or departments. Given this, the University has established an ICR distribution policy under the **Activity Based Budgeting (ABB)** model. Under this policy, the central administration retains 65 percent of the ICR to cover central costs and returns 35 percent to dean-level units to recognize their own administrative contributions (see Figure 1, below). This closely parallels the percentage returned to dean-level units under the previous ICR model.

Prior to ABB, a portion of the F&A costs was allocated back to dean-level units, and that concept has not changed. However, determining the value of such costs was quite complex, involving a multitude of steps. Each unit's administrative costs were evaluated individually to determine the ICR rate for that unit. This rate was then applied to every expenditure on every grant within that unit. Changes over time were recognized through adjustments to the allocation rate for individual units. Altogether, this process was inefficient, prone to errors, and very difficult to reconcile or manage.

The desire to develop a more efficient, understandable, transparent, and operationally-supportive ICR system resulted in development of the ABB ICR model. With implementation of ABB, ICR allocations have become easier to calculate, distribute, and manage. Expenditures for each grant are recorded and the indirect cost rate applied as agreed with the funding agency. As noted above, of this ICR income, 65 percent is retained centrally to fund campus facilities such as utilities, operations and maintenance, debt service, libraries, and administrative costs such as research administration, central administration, and student services. The remaining 35 percent of the ICR income is returned directly to the dean-level unit housing the grant to support internal operations. Annual adjustments are made to the unit's permanent allocation by comparison to the unit's previous year's allocation. Distributions in the ABB model closely mirror allocations under the previous model but use a much simpler formula to achieve a similar outcome. The ABB model improves transparency allowing dean-level units to incorporate solid ICR calculations into their strategic planning models. It also strengthens connections between research and training activities and ICR income, providing targeted support for active projects and programs.

Figure 1. The chart below illustrates how ICR flows in the university.



It should be noted that ABB returns the ICR funds directly to units at the level of the dean's office. Recognizing the strong desire for dean-level units to control distribution of their own ICR funds, each unit has authority and flexibility to distribute ICR funds according to internal policies. While this may result in slightly different allocation schemes to individual units

compared across dean-level units, the intent is to provide flexibility for units to develop the best internal allocation model to support their own programs.

In the example below, the ABB ICR calculation is compared to the pre-ABB ICR calculation method. When comparing these two methods, the addition of the ABB supplement has to be considered. In this case, the result of the shift to the ABB method is a net increase in ICR to the unit. Note that each fiscal year referenced in the table below is actually a 12-month period from April 1 to March 30.

Table 1. Distribution of ICR under the current and prior budget model

ABB Method

	Base Year FY2013	FY 2014	FY 2015	FY 2016	FY 2017
ABB ICR Base @ 35 percent	4,848,038	4,998,414	4,989,702	5,050,830	5,418,012
Shift to Supplement	755,670				
Value in supplement		755,670	755,670	755,670	755,670
Total ABB ICR	**5,603,708**	**5,754,084**	**5,745,372**	**5,806,500**	**6,173,682**

Pre-ABB ICR Method

ICR Activity Type	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
On-Campus	3,083,681	3,214,097	3,296,936	3,331,885	3,507,331
Off-Campus	2,491,867	2,479,017	2,430,398	2,264,838	2,557,527
Composite Location	28,160	71,555	29,791	0	0
ICR Base	**5,603,708**	**5,764,669**	**5,757,125**	**5,596,723**	**6,064,858**
ABB vs pre-ABB	**0**	**(10,585)**	**(11,753)**	**209,777**	**108,824**

Office of Research

FACILITIES AND ADMINISTRATION (F&A) COSTS FACT SHEET

Facilities and Administrative (F&A) costs represent the infrastructure and operations costs that support the research enterprise at the University of Washington. Similar to the overhead costs of a business, F&A costs are real costs incurred in conducting and running the UW's research program. Because of the administrative burden that would be required to determine such costs for each of the thousands of projects being carried out at each university, the federal government allows us to average the costs by major function and charge a single rate. We, in turn, apply these same rates to non-government research programs.

DIFFERENCES BETWEEN DIRECT COSTS AND F&A COSTS

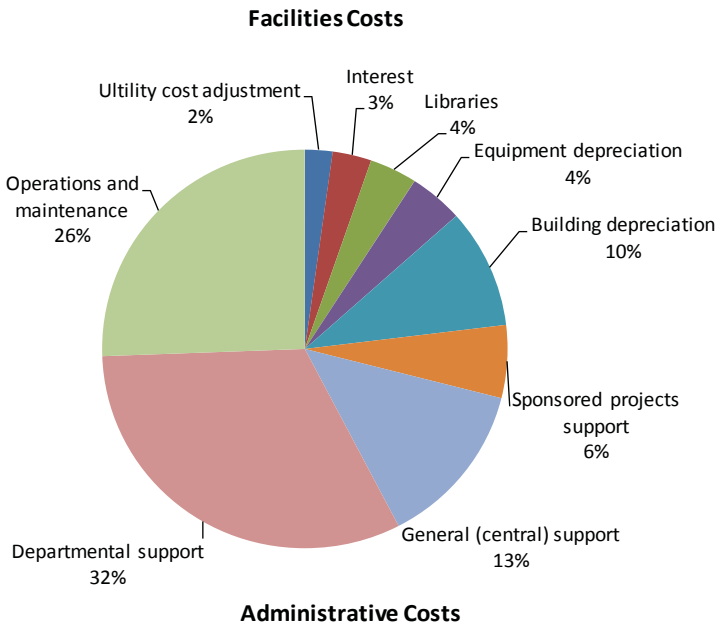
DIRECT COSTS are funds used by the Principal Investigator to pay for the costs of conducting the research including:

- Salaries and benefits for researchers
- Supplies
- Equipment
- Travel to conferences
- Publication costs

F&A COSTS are funds used to maintain the University's research infrastructure, including:

- Facilities maintenance
- Utilities
- Amortized cost of the research facility
- Department/school/college administrative costs
- Research support offices
- Proposal submission and approval
- Purchasing
- Payroll
- Invoicing
- Accounting
- Reporting
- Human Resources
- Compliance (such as approval and monitoring of research involvin human subjects, animals, or toxic chemicals)

BREAKDOWN OF RESEARCH SUPPORT COSTS AMONG CATEGORIES FOR ON-CAMPUS RESEARCH



*Most typical F&A on-campus costs rate distribution; rates may vary depending on the location of the research activitites.

F&A COST RATE CALCULATION

F&A cost rates are based on the UW's actual operating costs. Using guidelines provided by the federal government in OMB Circular A-21 (CFR 2, Part 220), the UW assesses its F&A cost on a regular basis. Once all the F&A costs are determined, the University determines the portion of costs that are related to research (e.g. building costs for research space, sponsored project administration, library and Human Resource cost pools, etc). Every four to five years this information is reviewed by the federal government during F&A rate negotiations.

DETERMINING F&A COSTS

The basic procedures for determining F&A costs are:

1. Calculate Total Direct Costs (TDC) for all direct costs (salaries, supplies, equipment, etc.)
2. Calculate exemptions (capitalized equipment, tuition, etc.)
3. Deduct exemptions from TDC to determine the Modified Total Direct Costs (MTDC)
4. Multiply the MTDC by UW's current F&A rate to determine F&A costs

   $150K TDC - $50K Exemptions = $100K MTDC

   $100K MTDC x 54.5% F&A Rate = $54.5K F&A costs

   $150K TDC + $54.5K F&A costs = $204.5K Total Project Costs

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Subject: **Guidelines for commitment of funding for Organized Research Units (ORUs)**

Date: **May 24, 2016**

ORUs that are supported by federal funds, such as NIH and NSF centers or program project grants are generally funded at the full UW Facilities and Administration rate (F&A, formerly called Indirect Costs) that varies by location (see GIM 13 for guidance). F&A funds are a partial recovery to the university in recognition of its institutional costs associated with research administration and infrastructure. The current activity based budgeting (ABB) policy states that 35% of the total of F&A cost recovery is directed back to the college/school through which the grant was submitted, as 'Indirect Cost Recovery' or ICR return. For example, a center/grant that generated $100,000 of total F&A costs would result in an allocation of $35,000 back to the dean's office to defray the costs of research administration at the college/school and department levels. The distribution of those funds, once they reach the dean's office, depends on college/school policies[1].

There are two distinct issues related to the funding of ORUs and the redistribution of ICR return among units: 1) commitment of funding between the unit dean/chair and the ORU director, and 2) sharing of ICR return between different units, when multiple departments/schools/colleges are involved in the conduct of the research.

Deans often utilize these resources to support the infrastructure costs of research within their units such as the hiring of fiscal specialists to manage budgets, other staff to assist in personnel hiring and purchasing, costs of consumables associated with research that are generally not allowed as direct costs (see Federal Uniform Guidance). Deans may pass a portion of the ICR return received by the school/college on to department chairs to off-set the costs of departmental level research administration.

Centers and institutes may include some charges that are normally indirect costs as direct costs. However, the costs must meet specific requirements which are outlined in the Federal Uniform Guidance (2 CFR 200.413).

However, because there may be additional substantive operating costs beyond what is allowed as direct costs, it is common for an ORU director to inquire through his/her department chair as to whether a commitment of 'in-kind' services or additional funding may be made available to the director of the ORU to offset administrative and infrastructure costs not covered by direct costs in the center grant. Any pre- and post-grant responsibilities that will be managed by the ORU must be clearly outlined by the department. If the ORU is based in leased or rented off-campus space, space costs are generally written into the grant as a direct cost and grants will be charged the lower "off-campus" F&A rate.

a. Commitment of funding between unit heads (deans, chairs) and ORUs

ICR return funds that are returned to units are distributed at the discretion of the dean (or other head) of the unit that has primary administrative responsibility over the sponsoring unit. Deans, chairs and ORU directors should recognize that ICR return funds are a partial recovery to the school/college in recognition of its costs associated with research administrative support. The Office of Research encourages deans, chairs and/or other unit heads to direct a portion of their ICR return, and/or commit 'in-kind' services, such as covering all or a portion of the costs of administrative staff assigned specifically to the ORU, and/or funding to ORU directors. The ability of large grants to succeed is often dependent upon the availability of funds beyond those provided as direct costs. ORU directors

[1] The remaining funds covers the broader costs of university-wide research administration including the Office of Sponsored Programs, the Human Subjects Division, Grant and Contract Accounting, Human Resources, Purchasing, energy costs, facility maintenance, and other research-related activities from the Office of the Provost, such as new faculty start-up packages, and grant matching funds.

should discuss this issue with their chairs and deans prior to submitting large center grant proposals. The commitment to support the ORU may provide a significant competitive advantage in the grant if the funding agency includes the level of 'institutional support' as one of its review criteria, and it may be important to document this commitment at the time of the grant submission.

b. Sharing of ICR return derived from an ORU grant between different units

It is common for multidisciplinary ORUs to involve faculty from different units (departments, programs, schools, and colleges) as key personnel. The current practice is that all of the ICR return funds generated by grants supporting the ORU is returned, by the Office of Planning and Budgeting, to the unit that spent the money in budgets assigned to their organization code. To promote interdisciplinary collaboration in research, the Office of Research expects deans, directors and chairs to negotiate the sharing of a portion of the ICR return among key participating units. Sharing of ICR return is part of the ABB principle of directing revenue to the unit that generates the activity, in this case, the unit carrying out the research effort. In the interests of flexibility and recognizing that different units may have different preferred approaches to accomplishing the goal of directing resources to where the activity occurs, the Office of Research will allow alternative approaches. Examples are shown below.

The most straightforward approach is to establish sub-budgets within the ORU that are administratively managed by a participating unit, and for which a faculty member in the participating unit is identified as the PI of the sub-budget. The Office of Research recommends this approach for two reasons: 1) ICR return funds will automatically be allocated to the college/school in which the budget resides and 2) expenditures on sub-budgets provide a more accurate picture of research activities carried out at the unit level. Sub-budget redistribution of ICR return from the parent unit to a secondary unit recognizes that: the secondary unit is providing space and access to laboratory equipment used in the research; graduate students in the secondary unit are being supported by the ORU grant; professional and/or classified staff in the secondary unit are contributing significant staff time to the ORU grant; or unusual resources (e.g., specialized equipment or facilities) critical to the ORU grant are based in a secondary unit, which provides maintenance and operations costs for the facility.

Alternatively, some units prefer to negotiate net ICR return differentials each year at the dean's office level, and redistribute accordingly to departments or programs within the school or college. In this case, two units with frequent collaborative projects might decrease administrative burden by using this approach, but could use the subaccount approach for units with less frequent collaborations.

In yet another alternative, the primary unit may agree to transfer funds for a specific purpose, for instance to support a portion of the FTE of a staff member in the secondary unit, or to cover part of the costs of equipment maintenance agreements for equipment based in the secondary unit (but utilized by the ORU).

Regardless of the chosen approach, the end result must be to support the goal that revenue is apportioned to the units that carry out the activity. Below are examples of ICR sharing, with multiple possible scenarios noted. Other types of ICR sharing are acceptable, provided all units involved in the collaborative research have a written agreement.

- ***Example 1.*** *All investigators involved in the ORU or collaborative research are in a single department.*

  a) The department receives all of the ICR return and provides administrative support for the collaborative research, and other resources according to standard departmental policy.
  b) The department allocates a portion of the ICR return to the ORU. The ORU provides all or part its own administrative support, funded by the ICR return.

- ***Example 2.*** *The Principal Investigator (PI) is in one department and a Co-investigator is in a different department, either in the same dean-level unit or different dean-level units.*

  A subaccount is generated for the Co-investigator for the research activities of that Co-investigator. As the Co-investigator spends the funds, the ICR return flows to the dean of the Co-investigator, and through to the department and/or Co-investigator according to the standard policy of the dean. Each department provides administrative support for their investigator.

- ***Example 3.*** *The PI of an ORU and some Co-investigators are in one department, other Co-investigators are in other departments, some within the same dean-level unit, some in others. The grant that funds the ORU pays for administrative support as direct costs.*

  The ICR return for the ORU administrative costs is allocated directly to the ORU. The ICR return for each Co-investigator's research project is allocated to the appropriate unit via subaccounts, as in Example 2. Since the majority of the investigators are in the same unit as the PI, the majority of this ICR return stays in that department or dean-level unit.

- ***Example 4.*** *An ORU does not have significant administrative support provided as direct costs.*

  a) The department of the PI receives the ICR return and provides all necessary administrative support and other resources according to standard departmental policy, for all investigators regardless of their academic unit. This approach does not allow credit to other investigators, and is only acceptable if the other investigators are in units that are unable to provide administrative support.
  b) The dean and department of the PI allocate the majority of the ICR return to the ORU to provide direct administrative support to the ORU. A general guideline might be to provide two-thirds to the ORU, and one-third to the department or dean-level unit.
  c) The department and ORU split the administrative support and negotiate an appropriate split for the ICR return. A general guideline might be to provide one-third to the ORU, and two-thirds to the department or dean-level unit, depending on the support provided.

Note that often this ICR sharing is accomplished via matching funds, which is negotiated at the time the proposal is submitted.

In all cases, the ICR return policy of the dean-level unit will be followed. For instance, if the dean retains all ICR and provides all the administrative support, then the ORU would not receive ICR return funds. Alternatively, if the dean retains a portion of the ICR and allocates a portion to the department or other unit, then the ICR shared with the ORU would come out of the departmental portion. In many cases, deans also return some of their share to the ORU as part of the matching funds process. Subaccounts, or some other form of credit, are expected to be a part of the ICR sharing plan.