1. Call to Order and Approval of Agenda.

Faculty Senate Chair Bruce Balick called the meeting to order at 2:34 p.m. He asked that the agenda be amended to move unfinished business forward to item number six. There were no further changes to the agenda, and the agenda was approved as amended by the Chair.

2. Introductory Comments – Professor Bruce Balick, Chair, Faculty Senate.
   Student Public Service Recognition.

Chair Balick dedicated his introductory comments to the recognition of UW students who participate in public service projects. Undergraduate Academic Affairs (UAA) is dedicated to deepening and extending the undergraduate experience. UAA touches students throughout their UW careers: from orientation programs for new students and families to academic advising, from the Honors program to experiential learning. The structures and people of UAA – including educational assessment and classroom support services – work in collaboration with faculty and departments to make sure that students get the most from the University of Washington.

Dean and Vice Provost Ed Taylor, who is also a faculty member in the College of Education, leads UAA. He was present at the Senate meeting, along with Michaelann Jundt, the Director of the Carlson Leadership and Public Service Center, to give an overview of a specific aspect of the undergraduate experience: community engagement. They brought four students with them, all of whom briefly shared their experiences working in and with the community.

First, Taylor thanked Balick for his outreach and interest in this particular area of the student experience. Much of what the students do in this regard is behind-the-scenes, and he takes every opportunity to showcase those hidden elements of what UW students contribute to the UW and its surrounding community. Taylor then introduced Michaelann Jundt, who in turn introduced the four students. But before that she emphasized that each of these four students represent the work of approximately a thousand of their student colleagues who are also engaged in service learning.

The students who spoke (Julia Hohlbein, Kathryn Phillipps, Norman LaCombe, and Kelsey Tengesdal) were involved in projects including Elder Health Northwest, the Husky Neighborhood Group, AmeriCorps, Carlson Fellowships of various sorts, food banks, the Century Art Center for homeless youth and the Downtown Emergency Service Center. They had career goals that ranged from becoming a physician to providing mental health therapy for at-risk populations, providing art therapy for hospital patients and becoming a public health professional.

Both Balick and President Emmert thanked the students for making time to address the Faculty Senate and acknowledged the importance of their contribution to the UW and the community. They also thanked faculty for the extent to which they are able to provide service learning opportunities for students in their curricula.


The President began his remarks with the announcement that the recipient of the 2010 Annual Faculty Lecture Award would be Buddy Ratner, Professor of Bioengineering, a virtual founder of the field of biomaterials. Emmert applauded the search committee for their recommendation and encouraged Senators to attend the lecture next fall.

He then began his comments on the legislative session. It’s a gloomy scene, having lost another 6% of the state funding base. Within the past twelve months, the UW has lost more than a third of its state funding base. He added that this may not be the largest cut to a state institution of higher education in the country, but it will be near the top of the list.
It would have been worse without some flexibility in tuition setting and had the UW not been shielded by the federal government's requirement that the state retain a certain level of support as a caveat to receiving federal stimulus funds. Another helpful element in the outcome of the session was the result of the UW having argued aggressively against the notion that as the largest institution, the UW, should take a larger percentage of cut in funding. In the end, all institutions of higher education took the same percentage cut. One of the few significant victories during the session, however, was the survival of state financial aid for students.

He reported that the Provost and Faculty Senate leadership had been meeting almost weekly in an attempt to come to grips with the future of the faculty salary policy. Although no final decisions have been made, next week he will be sending a draft proposal to Faculty Senate leadership that extends Executive Order 29, which was instituted last year in order to suspend the faculty salary policy in light of the Governor’s salary freeze. He believes that the draft is consistent with state law and the economic conditions we are facing today. He also believes that the timing of this proposal will provide plenty of time for Senate leadership to distribute this proposal widely and gather feedback in time for the June meeting of the Board of Regents, when endorsement of this proposal, or a version of this proposal, will take place.

He looked forward to discussions later in the meeting concerning Activity Based Budgeting (ABB) and the report of the Faculty Athletic Representative, and with that, he asked if there were any questions.

Questions led to discussions related to the faculty salary policy. The President addressed how long the proposed extension of Executive Order would be in place and gave assurances that the former faculty salary policy would be reinstated once the economy regains some strength and stability.

4. Report from the Senate Committee on Planning and Budgeting (SCPB) – Professor David Lovell, Committee Chair.

Committee Chair David Lovell reported that Activity Based Budgeting (ABB) continues to be a part of most SCPB discussions. With the “soft” roll-out beginning this summer, the assumption is that the process will be fine tuned during these early months, with input on how its working provided by the elected faculty councils of the colleges, schools and campuses, as well as by the SCPB and other Faculty Senate committees.

He then turned his attention to the SEC ruling on the Faculty Code section of the faculty salary policy (see item number ten, Exhibit D). The principle of this policy is that every faculty member should expect a predictable minimal increase in salary over the course of his or her career. The SEC ruling was that there is no set level of increase. Any adjustment in the amount would depend on the economy and on actions taken in this regard at the UW’s peer institutions. That being the case, there’s no reason to consider changes to the Faculty Code. Any adjustments required to deal with current economic conditions will need to be made in the correlative Executive Orders. Senator Christoph Giebel asked Lovell, in Exhibit A, section ‘2009-2010,’ unnumbered fourth and fifth bullet points, what specifically did the original proposed consultation process entail, and what was eliminated from this consultation process after the administration’s objections? David Lovell responded that the original proposal included, in addition to SCPB input, further steps of formal input given by the full Faculty Senate and the Senate Executive Committee about merit increases proposed by the administration. These consultative steps were conceded in favor of written input by the SCPB only.

He encouraged Senators to read the short history of cooperation related to the faculty salary policy over the years that was available at the check in desk (Exhibit A).

5. Legislative Report – Professor Jim Fridley, Faculty Legislative Representative.

With the Faculty Senate having just heard the basic legislative report from the President (above), Faculty Legislative Representative Jim Fridley spoke briefly about how the UW relates to the state legislature in general. He believes that all legislators seek their positions because they care deeply about our State. Usually each of these representatives has one or maybe two issues that he or she is passionate about – e.g., health care, K-12 education, or the environment – but he is quite sure we would not find any
representatives who chose to seek election to the state legislature with the University of Washington as their legislative passion. Additionally, the state is large and diverse, and neither Seattle nor the University of Washington, is universally seen to be as centrally important as we faculty probably do. Representatives are, by constitutional design, from all over the state and many have been very successful without a bachelor's degree; many of their constituents do not have college degrees nor do they value higher education in the same way most of us UW professors probably all do. Thus as the members of the legislature seek to address the many needs of the people of the state it’s not hard to see how they would be inclined to put funding for the University of Washington at a lower priority than we would.

The University of Washington is however seen as a "very good" University and a valuable asset – but it is also seen as being "big and successful" and able to raise funding from sources other than the state’s operating budget – and therefore an entity that can deal with budget cuts better and easier than other agencies or even other colleges and universities. In addition it seems to be assumed that the UW caters to a more affluent student body than other colleges in the state, such as the community colleges -- that are viewed as being focused on serving a people in our state that are currently in need of job re-training.

This past session there were 220 bills “officially” tracked by the University of Washington. (For those interested, the UW Planning and Budgeting website includes the bill tracking system and is accessible to the University community). All of the tracked bills would have had a direct effect on the budget, business practices or operating and/or academic policies and procedures of the University. Virtually all of them received a public hearing, about half were passed out of their policy committee, about half of those were passed by the house in which they originated, and about thirty were eventually passed by both houses of the legislature and delivered to the Governor. All of them were amendable at multiple stages of the legislative process and therefore highly vulnerable to good intentions that could bring extremely undesirable unintended consequences to the UW.

Fridley praised Margaret Shepherd, Director of UW State Relations, and her staff for their diligent tracking of these bills on behalf of the University while at the same time providing a consistent and effective UW presence in Olympia throughout the session. Shepherd is clearly very talented and highly regarded in Olympia, and Fridley feels strongly that we, the UW, are extremely fortunate to have her working on our behalf.

6. Report of the Secretary of the Faculty – Professor Marcia Killien.

Secretary of the Faculty Marcia Killien reported that legislation to change the structure of the Faculty Senate has been approved by the faculty, with 85.6% of those voting in favor of the proposal. One thousand and eighty four voted – just over one quarter of voting faculty – which is a much higher turn-out than usual for Class A legislation. The President has given his final approval and this has now become a part of the Faculty Code.

She expressed her thanks to all who worked so hard, and for so long, to bring this to fruition. She and her staff are well into the process of implementing the new legislation and have completed most elections of new senators under new procedures. A new room for the smaller Senate has been found – a much more suitable room than the one in Gowen Hall – in the newly refurbished Savery Hall.

Class A legislation eliminating the Faculty Council on University Relations, whose duties had been transferred to a Special Committee on Honorary Degrees, was also approved by a vote of the faculty and by the President.

Class B legislation revising and updating Scholastic Regulations was sent to the faculty on March 23, with a deadline of April 13 to submit objections. Only three objections were received (250 objections would have been required to send the proposal back to the Senate for further consideration) and this legislation, too, has been approved and recorded in the University Handbook.

As chair of the nominating committee for the University Faculty Lecture Award, she reported having received a record number of excellent nominees, making the choice of just one faculty member difficult. She will be suggesting the re-nomination of all other nominees in the future. She again expressed her
thanks to members of the review committee and to all who submitted nominations. And she invited Senators to join her in looking forward to honoring their colleague, Professor Ratner, at the Awards Recognition Event this spring and at his lecture next fall.

Finally, her office is now focusing on nominating new members for faculty councils and committees. She will be extending a special invitation to those Senators ending their term of service on the Senate and those nominated but not elected from their respective Schools, Colleges, & Campuses. She encouraged Senators to take time to fill out the "Opportunities" handout available at the check-in desk, and to leave it at the door as they leave or return it to her through campus mail.

Faculty Senate Vice Chair JW Harrington added a note of thanks to the Elected Faculty Councils of the colleges, schools and campuses – and especially the chairs of those councils – for their work and patience as the Senate Office made its way through the first election of Senators under new procedures.

7. Unfinished Business.
   Class A Legislation – Final Consideration.  \{Exhibit B\}
   Marcia Killien, Secretary of the Faculty.
   Title:  Proposed Changes to the Faculty Council Structure – Volume Two, Part IV, Chapter 42.
   Action: Conduct final review of proposal to submit legislation to the faculty for approval or rejection.

   The legislation was approved.

8. Nominations and Appointments.
   a. Remarks from 2010-11 Faculty Senate Vice Chair Nominees.  \{Exhibit C\}
      Both candidates for Faculty Senate Vice Chair delivered remarks as seen in Exhibit C. Chair Balick thanked both for standing for nomination and announced that elections will be held electronically via e-mail and a Catalyst survey beginning the next day.

   b. Action:  Approve Xheni Diko, ASUW representative ex-officio member on the Faculty Council on Tri-campus Policy for a term effective immediately and ending September 15, 2010, with voting rights to be determined by the SEC through the faculty council.
      The nomination was approved.

   c. Action:  Confirm Jim Fridley as 2010-2011 Faculty Legislative Representative, for a term beginning August 1, 2010 and ending July 31, 2011.
      The appointment was confirmed.


Scott Woodward, Director of Athletics, thanked the Senate for the opportunity to speak about his program. He came prepared with the brief overview of the role of the Athletic Department and its accomplishments in the classroom and on the field. He cited several statistics (available at the website above) about the various programs and the numbers of student involved in each one. He explained that the Department is self-sustaining except for scholarship support through the state related to Title IX. He reviewed the budget of the Department including the impact of the economic downturn and the upcoming budget cycle that will include looking for further cost savings. Many cuts have been made, but not across the board. As a self sustaining unit, they continue to invest in programs that provide predictable revenue. Those programs have historically been men’s basketball and football.

Academic statistics continue to improve and Woodward cited more facts about GPAs, the numbers of students on the dean’s list, graduation rates, and APR results (statistics kept by the NCAA based on eligibility and retention). Programs continue to improve on the field as well with several teams, including men’s basketball, progressing to national finals. He noted that when working with individuals in this age
range, problems will occur, but he and his staff are committed to addressing those problems as they arise in a timely and effective manner.

Faculty Athletic Representative (FAR) Patrick Dobel then took the podium and introduced himself as a professor in the Evans School of Public Affairs. The FAR is a faculty position required by Universities participating in NCAA activities. The position is appointed by, and reports to, the University President. The FAR is required to report to the Faculty Senate once a year and to the Senate Executive Committee twice a year. At the UW, an Advisory Committee on Intercollegiate Athletics (ACIA) has been established to help with the oversight and review of major policies concerning the Athletic Department, and the chair of the ACIA is a partner with the FAR in the oversight of academic issues concerning student athletes.

Many checks and balances with regard to reporting lines of staff involved in the oversight of student athletes have helped alleviate concerns about conflict of interest and the exploitation of student athletes.

   a. Minutes of the February 22 SEC meeting and March 11 Faculty Senate meeting were approved; b. a summary of the advisory opinion on the request for a Code interpretation of sections 24.70 and 24.71 was adopted as the interpretation by the Senate Executive Committee. {Exhibit D}

There were no comments or requests for information regarding the Summary of Executive Committee Actions.

11. Announcements.

Chair Balick announced that Professor Ray Hilborn, Aquatic and Fishery Sciences, and Professor Emeritus Benjamin Hall, Genomic Sciences and Biology, have been elected to the American Academy of Arts & Sciences. There were no further announcements.

12. Requests for Information. {Exhibit E}

Activity Based Budgeting – Phyllis Wise, Provost & Executive Vice President; Doug Wadden, Executive Vice Provost for Academic Affairs; Paul Jenny, Vice Provost for Planning & Budgeting.

The Cover Letter, ABB Steering Committee Draft Report and PowerPoint presentation are attached as Exhibit E.

Chair Balick introduced Provost Phyllis Wise, who introduced Paul Jenny, Vice Provost for Planning and Budgeting, and Doug Wadden, Executive Vice Provost for Academic Affairs and Planning, to introduce the ABB Steering Committee Draft Report posted to the website noted above.

After an overview of the history of how ABB came to the attention of administration at the UW – and of how research and planning for possible implementation here got started and progressed – the presentation turned its focus to a PowerPoint Presentation (Exhibit E) which gives a graphic representation of how ABB might work at the UW. Wadden emphasized that after visiting many institutions that use ABB and after inviting several administrators here to speak about their experiences with ABB it was clear that there are many variations on how the model can be implemented depending on the needs and goals of the individual institution. The UW committees charged with exploring ABB are looking for elements of the model that work for and support the University’s vision.

Senators were encouraged to read the report – and to follow the soft roll-out this summer, giving feedback to the Senate Committee on Planning and Budgeting or to the elected faculty councils of the colleges, schools and campuses. They were also encouraged to provide feedback via a Catalyst survey on the Planning and Budgeting Website at http://www.washington.edu/admin/pb/home/opb-abb.htm.

Chair Balick volunteered that he had been a participant by virtue of his Senate position since the early days of this process and although it may seem complicated at the outset, the essential part of the model is that it moves money to where it’s needed in a way that makes sense and is easy to track.

Ensuing discussions touched on how ABB supports the core mission and values of the University. Some fear that those values are taking a back seat to ABB, and that it’s not clear, even with the transparency
ABB promises, that it will support the strategy and goals of the University. Others expressed concern about the circuitous route the money takes to get from the source to the local decision-maker. Why couldn’t that route be more direct? Other concerns included how ABB might impact interdisciplinary programs.

In conclusion Balick reassured Senators that there is little reason for concern at this point. This summer’s roll-out will be very modest. Silos will not be created and the process will be open, transparent and will provide many avenues for input along the way.

13. Memorial Resolution.

Vice Chair JW Harrington presented the motion as follows:

BE IT RESOLVED that the minutes of this meeting record the sorrow of the entire faculty upon its loss by death of these friends and colleagues:

Professor Emeritus Alvin Emerson Creore of Romance Languages who died on February 28, 2010, after having served the University since 1940.

Professor Emeritus Barney Dowdle of Forest Resources who died on March 24, 2010, after having served the University since 1962.

Research Professor ‘Jack’ Fisher Oram Jr., of Medicine who died on March 31, 2010, after having served the University since 1975.

Chair Balick invited the Senate to approve the resolution by a standing vote.


There was no new business.

15. Adjournment.

The meeting was adjourned at 5 p.m.

PREPARED BY: Marcia Killien, Secretary of the Faculty
APPROVED BY: Bruce Balick, Chair, Faculty Senate

NOTE: If a continuation meeting is necessary, it will be held on Thursday, April 29 at 2:30 p.m. in Gowen 301.
Faculty Salary Policy: A Recent History of Shared Governance in Action

22 April 2010
To: Members of the Faculty Senate
From: David Lovell, Chair of SCPB and Bruce Balick, Chair of the Faculty Senate

During the academic year 2008-2009, a severe economic crisis of global scope caused a dramatic decrease in Washington’s state budget and, in turn, in funding for the University of Washington. In response to this crisis, the President and the Faculty together initiated a review of the faculty salary policy. Among our common desired outcomes is the preservation of long-term salary progression for all meritorious faculty, on the one hand, and provision for enough short-term flexibility to maintain the vitality of our faculty during current exigent times, on the other. This document provides an updated record of recent collaborative actions of the faculty representatives.

Collaborative steps taken by the faculty representatives included the following:

2008-09
- A Working Group on Salary Policy, composed of representatives from the Administration and the Faculty conducted a re-evaluation of the current policy (Sections 27-40 and 41) and of the Executive Order (64) implementing that policy; this re-evaluation took account of the procedures laid out in the Executive Order, and the implications of the legal judgment expressed in response to the suit initiated by Professor Storti.
- After substantial joint discussion of strategy, a new Executive Order (#29) was proposed that temporarily suspended the provisions in EO64 awarding an annual 2% salary increase to all meritorious faculty.
- The Senate Chair presented the President’s proposed Executive Order #29 to the Senate for discussion.
- The Senate Chair and Secretary of the Faculty prepared a response to the proposed Executive Order #29 describing the concerns of the Faculty Senators and offering revisions based on those concerns. The Faculty’s suggested revisions were accepted in the final version of Executive Order #29, which was issued on 31 March 2009.
- The President and the Chair of the Board of Regents, after consultation with the Senate Chair, persuaded the Board of Regents to issue a resolution (16 April 2009) that accepted Executive Order #29 and made no further alteration in the Faculty Code or EO64.

2009-2010
- In October 2009, the Provost reconvened a Working Group on Salary Policy which continued to meet during the 2009-2010 academic year to work on effecting a longer-term solution to the continuing difficulties in implementing the current Faculty Salary Policy.
- The Chair of the Senate Committee on Planning and Budgeting (SCPB) asked for and received a Code interpretation by the Senate Executive Committee of “minimum equal-percentage salary increase” (24-70.B.1), taking advice from the Advisory Council on Faculty Code and Regulations. This provided important flexibility by ruling that no specific percentage level (e.g., 2%) was required to satisfy the Code requirement for an initial equal-percentage merit increase.
- The past Senate Chair submitted an affidavit describing the consultation process of 2008-09 that the administration used in its (so far successful) response to a new lawsuit.
- Following the guidance of the previous legal opinion in Storti v. University of Washington, faculty in the Working Group on Salary Policy proposed revisions to Executive Order #64, with specific language describing a consultation process that could, if followed, protect the University in future lawsuits over merit pay increases.
- Faculty in the Working Group on Salary Policy responded to Administration feedback that the proposed consultation process was too onerous by simplifying the procedural requirements to two required steps: 1) the administration would provide to SCPB a written rationale to support its recommendations about merit increases, and 2) SCPB would issue a written advisory response to the administration’s recommendation.

The Faculty’s elected representatives will continue to fulfill our responsibility to provide advice to the President and review of proposed or revised Executive Orders that endeavor to implement the principles in the Faculty Code.
Faculty Senate Proposed Changes
(Additions are underlined, deletions are struck through)
Changes to Volume Two, Part IV, Chapter 42, Section 42-31, Section 42-42, Section 42-43,
and Section 42-45.

Rationale:

A review of Faculty Councils minutes for the past several years, conducted by the Secretary of the Faculty, has shown substantial overlap in the issues currently pursued by three Councils – the Faculty Councils on Educational Outreach, Educational Technology and Instructional Quality. Additionally, the original charges of the existing Councils do not fully reflect the current status and focus of issues related to teaching and learning at the university. After consulting with the Chairs of these three Councils, deliberations were launched on a proposal to combine the three Councils into one Faculty Council on Teaching and Learning, with a proposed structure to allow for subcommittees to address specific issues as needed. A survey of the current members of these three Councils showed strong support for this merger. The merger is proposed as a vehicle for more efficient functioning of the Council and to promote integration of faculty discussions about policies related to teaching and learning.

Chapter 42

FACULTY COUNCILS (THE STANDING COMMITTEES OF THE UNIVERSITY FACULTY) AND THEIR DUTIES

Section 42-31. The Faculty Councils

A. As the principal advisory bodies to the Senate there shall be the following Faculty Councils:
   1. The Faculty Council on Academic Standards;
   2. (The Faculty Council on University Relations;)
   3. The Faculty Council on Faculty Affairs;
   4. The Faculty Council on Research;
   5. The Faculty Council on Student Affairs;
   6. The Faculty Council on University Facilities and Services;
   7. The Faculty Council on Instructional Quality;
   8. The Faculty Council on Educational Outreach;
   9. The Faculty Council on Benefits and Retirement;
   10. The Faculty Council on Educational Technology;
   11. The Faculty Council on Tri-Campus Policy;
   12. The Faculty Council on Women in Academia;

B. Faculty Councils may be abolished and created only by amendment to the Faculty Code.

C. Faculty Councils are responsible to the Executive Committee of the Senate.


Section 42-42. Faculty Council on Instructional Quality

The Faculty Council on Instructional Quality shall be responsible (as described in Section 42-33) for all matters of policy relating to improvement of teaching and learning in the University.

S-A 72, March 1, 1983, with Presidential approval.
Section 42-43. Faculty Council on Educational Outreach

The Faculty Council on Educational Outreach shall be responsible (as described in Section 42-33) for all matters of policy, academic and nonacademic, relating to distance learning, continuing education, UW Extension, and summer school programs.

S-A 78, December 14, 1988; S-A 96, December 4, 1996: both with Presidential approval.

Section 42-45. Faculty Council on Educational Technology

The Faculty Council on Educational Technology shall be responsible (as described in Section 42-33) for all matters of policy, both academic and non-academic, relating to the introduction of educational technology in instruction.


Section 42-49. Faculty Council on Teaching and Learning

The Faculty Council on Teaching and Learning shall be responsible (as described in Section 42-33) for all matters of policy, both academic and non-academic, relating to improvement of teaching and learning in the University; including distance learning, educational outreach and summer quarter, and the use of educational technology in instruction.

Submitted by:
Marcia Killien, Secretary of the Faculty
February 22, 2010

Approved by:
Senate Executive Committee
February 22, 2010

Approved by:
Faculty Senate
March 11, 2010

Approved by:
Senate Executive Committee
April 5, 2010
Senate Vice Chair Candidate Remark for the January 28, 2010 Faculty Senate Meeting
Susan Astley, Professor, Epidemiology
(Presented at the April 22, 2010, Faculty Senate Meeting)

Susan Astley is a Professor of Epidemiology/Pediatrics in the Schools of Public Health and Medicine. She cofounded and directs the Washington State Fetal Alcohol Syndrome Diagnostic & Prevention Network of clinics located at the UW Center on Human Development and Disability. Dr. Astley has been with the University for 29 years. She is joined by her husband, now in his 38th year at the University, and their daughter who recently joined the faculty. She has been actively engaged in shared governance at the University for the past two decades. She is currently serving her third term as a Faculty Senator, second term on the Senate Executive Committee, and first term on the Faculty Council on Faculty Affairs. She also serves on two committees addressing Faculty Effort Certification policies.

There are a breadth of issues currently under consideration by the Faculty Senate and 14 Councils including, but not limited to: 1) restructuring of the Faculty Senate for more efficient and effective governance; 2) assessing the value/feasibility of Activity Based Budgeting: the allocation of revenues generated from instructional/research activities directly to the unit responsible for the activity; 3) Open-Access: the move toward free, online access to scholarly publications; 4) Distance learning as an emerging mode of instruction; 5) tri-campus shared governance; 6) recruitment and retention of faculty (and students) of underrepresented minorities; 7) UW Climate Action Plan: an institutional plan for becoming climate neutral; 8) 2Y2D (2 Years to 2 Decades): development of a sustainable academic business plan for the University for the next 20 years, with progress in 2 years; and 9) preserving the spirit of the Faculty Salary Policy during these exigent times. None of these issues escape the impact of the current recession. With an overall reduction of 16 percent in state support for higher education, Washington State experienced the 4th highest cut in the nation from 2009 to 2010. More specifically, the 2009 state legislature cut the UW’s budget by 26%, a funding level not seen since 1999. While the current recession has brought these fiscal issues to the forefront, it is important to understand that state support of higher education has been declining for decades. State funds for the UW now comprise 45% of the UW’s budget, down from 55% in the last biennium and 80% 30 years ago.

The UW remains a strong, vibrant leader in its core missions of public higher-education, research, and clinical service to the community. The challenge facing us today is to find new, innovative ways to fund the University as we continue in our primary mission as a public University serving the citizens of Washington. The role of the faculty and Senate, in shaping the future of the UW through shared governance, has never been more vital.

Dr. Astley brings with her decades of experience in a leadership role, having built a statewide clinical/research/training program that provides rapid dissemination of clinical discoveries into clinical/public health practice through statewide collaborative partnerships. As a non-tenured professor, she has attracted millions of dollars in State and research funds to build and support her program. But she, like many other UW faculty and programs, has not escaped the impact of the State fiscal crisis. In December 2008, the State terminated their fiscal support of her clinical program, after 14 years of support, with just 5 days notice. She not only lost her salary support, but the salary support for all of her staff. In the absence of University bridge-funding for such cataclysmic events, she personally provided interim funding for her staff, while she and community partners successfully negotiated a Senate bill that fully re-instated the program’s funding three months later. But this did not mark the end of a challenge. Like the University and many programs within the University, Dr. Astley is actively engaged in finding new, innovative sources of funding to supplement declining State support.

The current challenge faced by the University can and must be met. There is no assemblage of individuals more qualified than the University of Washington faculty to help meet this challenge. For Dr. Astley, it would be an honor and privilege to lead the Senate in this effort.
Statement by Mark Haselkorn for the January 28, 2010 Faculty Senate Meeting  
(Presented at the April 22, 2010, Faculty Senate Meeting)

[The] dramatic reduction in state support signals a fundamental change in our relationship with the state. For the first time in our history, tuition revenue will exceed state support. The funding the state of Washington provides to its public universities has fallen to among the lowest levels in the nation. These realities will force us to change the fundamental financial model by which we operate and to reconsider the manner in which we approach our core mission. -- Mark Emmert, UW President, April 28, 2009

RCW 28B.20.200 FACULTY -- COMPOSITION GENERAL POWERS. The faculty of the University of Washington shall consist of the president of the University and the professors and the said faculty shall have charge of the immediate government of the institution under such rules as may be prescribed by the board of regents.

The next three years may well be the most important in the 150-year history of the University of Washington. Largely in response to the ongoing economic situation, the administration has initiated discussions and committee activities that are intended to clarify and modify essential university elements such as our core mission, our budget model, and our processes for resource allocation. This is an extremely complex effort, not only because the university community itself is extremely diverse and complicated, but also because the UW effort must take place in the context of other State efforts and environments that we hopefully can impact but certainly can’t control. Over the next three years, this intricate process will play out with eventual implications for anyone who works at or attends UW.

Of course a far-reaching effort like this is not something that is undertaken lightly. There are compelling reasons why the administration has begun this process. Resource allocation processes need to change because our resource base has changed. State funding is our fourth largest revenue source, surpassed by tuition for the first time. Self-sustaining research and education has grown to well over a billion annual dollars, second largest in the country. It is a myth that State funding pays for the educational component of our efforts and we can no longer sustain a realistic, forward-looking university strategy based on such myths.

With State support at about 8% of our total budget, how do we proceed to establish and manage a predictable enabling revenue base and organizational structure that is aligned with our strategic goals and collective values? Do we, as is currently being advanced, move towards an Activity-based Budgeting (ABB) model that would include, among other things, allocating resources based on student credit hours generated (as is done by many other universities)? How do we support core university elements that cannot be sustained under such a model? One solution, already being explored, is to clearly define those elements that are essential to our core mission and subsidize those elements within an otherwise activity-based resource allocation.

Thus, as the President has rightly identified, any effective long-term solution to what is essentially a budget-driven problem will involve decisions related to fundamental issues such as the university’s mission and character. It is for this reason that the most significant issue facing the Faculty Senate, and more importantly the faculty as a whole, is the role of the faculty and the appropriate and effective channeling of faculty input into this major re-conception of who we are and how we work.

Unfortunately, there is a general perception among faculty that the Faculty Senate does little that significantly impacts their roles and resources. This comes from a long history of communications from the Senate to the faculty on issues that did not rise very high in the priorities of the individual professor. This is about to change as our emails about Class C legislation are joined by emails, websites and meetings that provide the faculty an opportunity for input into a process that will impact them profoundly. It is the Senate’s job to clearly communicate the nature of these critical new communications and then manage an extremely complex conversation involving the faculty as a whole on one side and the administration and other State stakeholders on the other.

There is no simple fix to our problems. To be successful, all elements of the UW must pull together and dynamically manage what is an ever-evolving and complex situation. The essential strengths of our
professors—their great diversity and busy successes—make it extremely difficult to engage and maintain a representative and effective dialog with the faculty as a whole. Nevertheless, it is our job and there has never been a more important time to do it. It is the only way that, as required by RCW 28B.20.200, the President and professors, with the administration, can execute its "charge of the immediate government of the institution."
SEC Code interpretation of Sections 24.70 and 24.71.

1. Section 24.70.B.1 declares that a salary increase “shall be granted to provide an initial minimum equal percentage salary increase to all faculty following a successful merit review.” The implementation of this principle and the specification of an initial minimum percentage increase have been left to an Executive Order, in which procedures and amounts are more readily adapted to changing circumstances. For this reason, no specific percentage is required to meet this provision of the Faculty Code. This provision, however, was designed to support salary progression over the course of a career for meritorious faculty. For this reason, any reconsideration of a minimum percentage in light of current economic conditions should be based on an analysis of what normal salary progression should be over the course of a career and salary conditions at peer institutions.

2. Section 24.71.A states: “The Provost shall consult with the Senate Committee on Planning and Budgeting and, each biennium, shall subsequently recommend to the President the allocation of available funds for salary increases, for distribution among all categories listed in Section 24-70.B.” If there is any reconsideration of a minimum percentage increase amount, the SCPB must be consulted and allowed to give input on what would be a reasonable percentage based on normal salary progression over the course of a career.
April 14, 2010

To: Phyllis Wise, Provost and Executive Vice President

From: Paul Jenny, Vice Provost Planning and Budgeting
Doug Wadden, Executive Vice Provost

Cc: Ann Anderson, Associate Vice President and Controller, Financial Management
Tom Baillie, Dean, School of Pharmacy
Bruce Balick, Professor, Department of Astronomy and Chair, Faculty Senate
Harry Bruce, Dean, The Information School
Ana Mari Cauce, Dean, College of Arts & Sciences
Paul Hopkins, Chair, Department of Chemistry
Jim Jiambalvo, Dean, Foster School of Business
Mary Fran Joseph, Chief Financial Officer, School of Medicine
Mary Lidstrom, Vice Provost for Research
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
V’Ella Warren, Senior Vice President, Finance & Facilities

Re: Activity Based Budgeting Steering Committee Draft Report

In response to your charge letter of October 21, 2009, please find the attached draft report of the Activity Based Budgeting Steering Committee.

We believe it is important to reiterate one of the key values of the draft ABB report: Activity Based Budgeting (ABB) is not the strategic plan of the university, nor does it determine its mission. Rather, it is the process whereby institutional leadership can implement policies that serve the best interests of the university.

We are continuing to refine our recommendations and develop an implementation schedule. We advise that the allocation of FY11 incremental tuition be based on our recommendations concerning tuition allocation, which are included in the report. However, since we are not proposing a full rollout until FY12, we anticipate that we will have the opportunity to modify our recommendations based on feedback from the Board of Deans and Chancellors, the Faculty Senate Committee on Planning and Budgeting, and other formal campus constituency groups.

Finally, it should be noted that while subcommittees made decisions about what metrics to adopt for our ABB model, they did so keeping in mind the values adopted in the UW Vision and Values statement, including a focus on how best to support excellence, collaboration, innovation, diversity, and integrity. We have not yet reviewed our recommendations with respect to existing faculty and administrative codes and policies. We do not anticipate that there will be any conflict with existing policies. In the event that there are conflicts, we will work to resolve these issues. Again, our report is focused on changing the budget model of the university and is not a proposal to change or alter the strategic plans of the university.
DRAFT

Activity Based Budgeting
Steering Committee Report
April 2010

Activity Based Budgeting Steering Committee Members:
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
Bruce Balick, Professor, Department of Astronomy and Chair, Faculty Senate
Harry Bruce, Dean, The Information School
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Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting
Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs
V’Ella Warren, Senior Vice President, Finance & Facilities
Executive Summary of Activity Based Budgeting Recommendations

Values

- Activity based budgeting (ABB) is a general term that describes a highly varied type of institutional budget model that more directly aligns the allocation of revenues and the attribution of expenditures for academic and administrative units. The President, Provost, Vice Presidents, Vice Provosts, Deans, and Chancellors manage the fiscal and academic mission of the university based on strategic plans that reflect the organizational, research, and scholarly ambitions of their areas.

- Activity based budgeting (ABB) is not the strategic plan of the university, nor does it determine its mission. Rather, it is the process whereby institutional leadership can implement policies that serve the best interests of the university.

- The maintenance of quality is crucial in all pursuits of the university. However, the definition of quality cannot be constructed as part of a budget model and needs to be considered within the strategic plans of the University and individual units. We must ensure that, as with any budget model, the recommended approach does not have a negative impact on the quality of our collective mission.

- We recommend a transparent approach to the UW budget model that is clear and easy to understand and follows the basic tenet that revenues generated by the activities of a unit are directly returned to that unit.

- An important concept related to the rolling out any new model such as ABB is that the initial budget of each unit is revenue neutral. That is, the budget model initially assigns funds based on historic or legacy funding levels and only new, incremental revenue increases are assigned based on activity.

- ABB should be focused on the budget relationship between the Provost and the Deans, and the Vice Presidents and Vice Provosts (collectively referred to as VPs).

- There should be no requirement for applying ABB down to the department level.

Basic design

- Activity Generating Units (schools and colleges) and Non-Activity Generating Units (central academic and administrative units, to be referred to as University Units) must be distinguished from one another. While a unit is considered one or the other based on the preponderance of activity, these labels should not be used to limit the distribution of resources. If a non-academic unit has revenue generating activities, it should experience the same allocation approach as an activity-generating unit.

Revenue

- Revenue distribution for tuition will be defined by the unit of instruction and the unit of enrollment. For the purposes of allocating tuition revenue, the group recommends basing instruction on the number of student credit hours (SCH) generated, defined by the course.
of record. The group recommends basing the enrollment portion of revenue distribution on the number of degrees awarded annually.

- The proposed division for undergraduate tuition revenue allocation is 80% SCH taught and 20% degrees awarded.
- Distribution of graduate tuition should also be based on an 80/20 split, but with the allocation ratios reversed--80% of the revenue would be defined by enrollment and 20% based on SCH taught.
- Majors and all sub-sets of majors (such as pre-majors, dual majors, non-declared majors and changed majors) should not be a factor in revenue distribution.
- Undergraduate tuition revenue would be a “blended rate” within each tuition category that reflects the overall institutional mix of resident and non-resident populations and not the specific enrollment of any unit or program.
- Summer quarter would be brought into the ABB model as a normalized fourth quarter and included in the revenue distribution process. Associated expenses would be subject to the tax on expenditures.
- 100% of generated Indirect Cost Recovery (ICR) should revert back to the unit that generates the research expenditures.
- Any revenues generated by central university units should be returned wholly to them, as is proposed for activity-generating units.
- Continue to use recharge rates for variable and/or discretionary usage of service from University Units.

**Taxation**

- Taxes should be levied against appropriate expenditures of activity-generating units with the use of tax revenues directed to the funding of all central activities, from libraries to human resources, from grant support to facilities maintenance, undergraduate and graduate administrative offices, admissions, academic advising, campus police, and more.

- Additionally, the tax revenue will be used for centrally defined and supported cross-subsidization of units, programs that cannot realistically operate on tuition revenue alone, new academic and administrative initiatives, temporary funding for any number of projects or proposals as part of startup or bridge funding, and as a contingency for unanticipated cost increases. The tax is also expected to cover faculty start-ups, retentions, and research matching funds. The Provost should consider the tax stream as a source of funding to mitigate units disproportionately burdened by the tax assessment.

- The discussion of the use of tax revenues should be in conjunction with annual budget reviews between the Provost and Deans, Vice Provosts, and Vice Presidents.
• Tax will be applied to all expended funds of activity-generating units save those that are recommended to be exempted from the tax such as private philanthropy, clinical income, etc. In general, taxable expenditures would focus on General Operating Funds (GOF); Designated Operating Funds (DOF), including Indirect Cost Recovery; and other unit-generated funds.

• Tax will be levied on expenditures based on a two-year lag. Units will be provided the amount of assessed tax prior to the start of the fiscal year to allow sufficient planning at the unit level.

• Taxes should apply to any non-activity units that have expended funds derived from their revenue-generating activities.

• Auxiliary units such as UW Medical Center, Intercollegiate Athletic, and so forth are considered self-supporting units and are not included in the discussion of ABB. However, we expect these units to continue to pay appropriate administrative and institutional overhead assessments.

• The Bothell and Tacoma campuses currently retain all of their generated income and are also excluded from the ABB discussion. As with auxiliary units, we expect them to continue to pay appropriate administrative and institutional overhead assessments.

Expenses

• Benefits should be reallocated to units as an associated cost of salaries.

• Current debt loads held centrally should remain so and should be included in the base calculation for the tax rates.

• Future debt obligations may be the obligation of the Dean, paid out of their revenue, or a central obligation paid from tax revenues, depending on the unique needs represented by a need for additional campus debt.

Implementation Plans

• A soft launch is proposed for July 1, 2010 (FY2011), with allocation of incremental tuition revenue less a hold-back of 25-30%. The majority of budgeted incremental tuition in FY11 will be allocated to activity generating units based on the coefficients used to allocate tuition recommended in this report. Because we will not develop a formal taxation model until FY2012, we further recommend that 25-30% of the incremental tuition (consistent with current GOF and DOF fund distribution) be held centrally to fund activities that would otherwise be funded by a tax.

• Migration of current budgets to ABB-developed budgets should be revenue neutral (units should not experience a negative impact to their permanent or temporary budget as a result of changing to an ABB model).
The launch on July 1, 2011 (FY2012) will reflect two centralized tax rates (one on expenditures, one on direct research costs).

An implementation team comprised of central budget and accounting staff and comparable school and college staff will be formed to develop implementation plans and processes to deliver on the recommended policies and actions developed by the Steering Committee. The role of the implementation team will be technical in nature. The Steering Committee will oversee the effort of the team and ensure that all recommendations are consistent with the policy direction developed by the Steering Committee.

**Secondary Issues to Resolve**

- The utilization and maintenance of campus space has not been fully addressed by the steering committee. Currently the ‘cost’ of maintaining space is assumed to be funded through the tax model, but we believe that overall space management is a major issue that will need to be addressed in a future phase of ABB.
- We will need 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 and assignable square footage.
- Funding and support of TAs and RAs.
- Tuition setting authority at the school/college level.
- Differential tuition rates.
- Direct admission/enrollment of freshmen.
- Strong central curricular oversight is needed to monitor initial behavior of units and programs to avoid gaming of the credit hour system.
- A conversation about how best to handle many of these University units that may exist within academic units should be held outside of the development of an ABB model. This is a conversation regarding strategic mission and not one that should be led by the budget model.
- Inclusion of gift and endowment funds in the taxed expenditure base of units.
- Taxation of research expenditures.

**Continued Governance**

- The Steering Committee and/or a similar oversight committee to be appointed by the Provost will be held responsible for annual reviews of ABB policy.
- Units receiving funds from the tax revenue collected by the Provost should provide accountability measures to ensure that the funds are being utilized consistently with the overall needs of the institution. All units, but especially those funded by tax revenue, should be required to demonstrate accountability and efficiencies with respect to their individual portfolios with performance indicators and benchmark activities.
Report Introduction

Over the last few years, The University of Washington (UW) has been assessing the potential value and feasibility of implementing an activity based budgeting (ABB) system. During this assessment period, the Vice Provost for Planning & Budgeting and others held discussions regarding ABB with the Board of Deans and Chancellors, the Senate Committee on Planning and Budgeting, and at a variety of administrative forums. Provost Wise formalized the assessment period by creating a working group charged to examine the implications of ABB at the UW. The working group met during summer 2009 and submitted a report to the Provost that endorsed the development of an ABB model at the UW, which would be reviewed by the campus community and considered for implementation by Provost and President (Attachment 1). To achieve this, the Provost formed a steering committee that coordinated the efforts of five separate subcommittees. The subcommittees’ policy recommendations are included in this report. It is the steering committee’s recommendation that the UW Seattle campus adopt an ABB approach to resource allocation based on the policy direction contained in this report.

Activity Based Budgeting (ABB): A review

Activity based budgeting (ABB) is a general term that describes a highly varied type of institutional budget model that more directly aligns the allocation of revenues and the attribution of expenditures for academic and administrative units. The President, Provost, Vice Presidents, Vice Provosts, Deans, and Chancellors manage the fiscal and academic mission of the university based on strategic plans that reflect the organizational, research, and scholarly ambitions of their areas.

ABB is not the strategic plan of the university, nor does it determine its mission. Rather, it is the process whereby institutional leadership can implement policies that serve the best interests of the university.

The University of Washington already possesses several attributes of an ABB-like budget model in that our research activity determines the flow of research revenues back to the areas that generate these revenues. Additionally, faculty positions are held locally, not centrally, and are managed by each decanal unit with regard to vacancies, appointments, returns to operating budgets, and the temporary and permanent allocation of resources to departments and programs within schools, colleges and units. Likewise, the two branch campuses of the University (UW Tacoma and UW Bothell) currently receive their own activity based funding (tuition revenue), and pay a tax for centrally provided services. Additionally, some units, including, among others, the UW Medical Center, Student Housing, Intercollegiate Athletics, and Parking are required to be self sufficient and manage their resources with no draw on the core education activities of the University. One could argue that they already are managed from an activity based perspective.

1 We do not recommend that the Bothell and Tacoma campuses adopt an ABB model. As noted above, both campuses retain all of their locally generated resources. Regarding their budgetary process, they are considered independent of the Seattle campus, save an institutional assessment paid to the Seattle campus for core central services. (Note that this is only a budgetary focus and does not exclude the significant leadership that the President, Provost, Faculty Senate and other senior leaders play in the development of the strategic mission of UW Bothell and UW Tacoma.)
How might ABB work? The revenue allocated to units for their instructional activity might be distributed based on student credit hours, the numbers of majors, or the number of degrees awarded. A possible formula could award 80% of tuition based on undergraduate student credit hours and 20% on degrees awarded. At the graduate level, it might be the opposite, with 80% determined by enrollment and 20% based on credit hours taught.

An ABB budget model not only directs revenue back to where an activity, such as instruction or research, occurs, but also uses allocation or tax methods to provide funding for centrally based administrative services. One common method is to apply a tax on expenditures in the units that generate the institution’s revenue, using known expenditure data from a prior period so that the tax can be “known” at the beginning of a fiscal year. The corresponding funds derived from this tax on activity can provide the funding for all centrally based administrative support services, from libraries to human resources, from grant support to facilities maintenance, undergraduate and graduate administrative offices, admissions, academic advising, campus police, and more. Additionally, the tax revenue can support centrally defined and supported cross-subsidization of units, programs that cannot realistically operate on tuition revenue alone, new academic and administrative initiatives, and temporary funding for any number of projects or proposals as part of startup or bridge funding.

It should be noted that, in the typical ABB model, the centrally managed budgetary process usually stops at the unit level (school, college or campus) and is not centrally directed down to the departmental or programmatic level. The focus of the ABB work to date has been on the operating budget, and we have not considered nor recommended applying ABB to the capital budget. We recommend that any consideration of the capital budget follow the implementation of ABB in the operating budget.

ABB type budget models have been a prominent feature for many years at several leading peer institutions such as the University of Michigan, the University of Minnesota, and Indiana University, where the mechanics of the budget process have undergone periodic changes and refinements as the systems that support them have evolved.

At some institutions the tax is a simple flat rate based on expenditures, while at others all the specific local costs associated with many, if not every phase of university operations, are attributed to the source of the expense. Building heat and lighting, or maintenance and support services, are individually assigned to users who can monitor use and control consumption. There can be different tax rates for general expenditures, direct costs on research and self-sustaining or auxiliary activities.

An important concept related to the rolling out any new model such as ABB is that the initial budget of each unit is revenue neutral. That is, the budget model initially assigns funds based on historic or legacy funding levels and only new, incremental revenue increases are assigned based on activity. Changes occur gradually, over time, reflecting shifts in enrollment, expenses, program development, or reductions and strategic initiatives. Most institutions have not “reset budgets to apply the funding formula to a new adjusted base, but rather acknowledged the existing costs and resources of each unit.
So why would the University of Washington consider changing to an ABB budget model at this particular, and perhaps difficult, time? To paraphrase the published goals of the Michigan budget managers, it is precisely because the model encourages units to establish priorities and develop new activities with a clear understanding of the costs and benefits associated with those plans. An ABB budget model can create incentives to make the most efficient use of resources. It can attribute costs and allocate revenues via simple and transparent rules. It can provide the Provost with sufficient discretionary funds to support cross-unit collaborations and invest in new strategic initiatives, while assuring that central administrative support units have sufficient resources to carry out the mission of the university. In short, and compared to our current incremental budget model, it brings a new level of planning insight and provides a greater measure of predictability to all phases of the management of the university.

Are there potential drawbacks to such a budget model? Again, the short answer is yes. If not properly implemented and managed, critics cite the potential for mission creep and duplication of effort, either instructionally or administratively, along with the possibility of “silos” that thwart cross-unit or cross-disciplinary research or enrollments.

This is a highly abbreviated description of a typical activity based budgeting model, and we recognize that many detailed elements remain to be described, such as the handling of waivers and teaching assistantships, gift funds, endowment payouts, and auxiliary activities. Also, other factors can further expand the impact of any new budget model, where some institutions have greater flexibility over tuition setting authority, differential and significantly higher tuition and the ability to manage direct admissions of freshmen to their prospective majors. These are not, however, universal characteristics and do not in and of themselves negate the advantages of migrating to an ABB budget model.

It is important to refer to previous reports such as those contained in the Provost’s Joint Policy Advisory Committee on Tuition, Access, Financial Aid, Enrollment, Retention, and Service Operations as well as the recommendations of the five current ABB subcommittees referenced in this report, in arriving at a fuller understanding of the issues and options before us.

In summary, the recommended focus of ABB should be solely on the central academic mission of the university as defined as the core education budget, restricted operating budget, and auxiliary educational activities. Within the central academic mission there are two types of groups: Activity Generating Units (schools and colleges), and Non-Activity Generating Units (central academic and administrative units). While a unit is considered one or the other based on the preponderance of activity, these labels should not be used to limit the distribution of resources. If a non-academic unit has revenue generating activities, it should experience the same allocation approach as an activity-generating unit.
Recommendations

When examining the implementation of ABB within the central academic mission of the Seattle campus, the steering committee established some primary recommended approaches. To begin, we recommend that the discussion of moving to ABB be focused on the budget relationship between the Provost and the Deans, and the Vice Presidents and Vice Provosts (collectively referred to as VPs). These leaders manage their budgets, in each of their schools, colleges and central administrative units, based on their respective responsibilities, and it is expected that there will be variances in how these leaders allocate their budgets. There should be no direct requirement of allocating ABB down to the department level. That said, we recognize that there will be some expectation within units to have the Dean or VP provide some context when explaining the relationship between internal unit budget decisions and ABB.

Of primary importance is the recommendation that the migration of current budgets to ABB-developed budgets needs to be revenue neutral. This has often been characterized as being “held harmless.” However, we recognize that, irrespective of ABB, all units are facing reductions due to the state’s budget challenges, and no one is being “held harmless.” Rather, our argument of revenue neutrality is a simple philosophy, that at the initial implementation of an ABB model, a unit should not experience a negative impact to their permanent or temporary budget as a result of changing to an ABB model.

In addition to this primary recommendation is the notion of simplicity and clarity. We recommend a transparent approach to the UW budget model that is clear and easy to understand, a model that follows the basic tenet that revenues generated by the activities of a unit are directly returned to that unit. This already exists for several revenue/fund types supporting the central academic mission of the campus. Direct research revenues flow to the unit housing the research; gift and endowment income flow to the unit charged with fulfilling the philanthropic intent of the donor. As such, the primary, but not exclusive, focus of our recommendations has been on the central funds of the campus as defined as GOF and DOF (both local funds and RCR).

As mentioned in the introduction, the steering committee recommended to the Provost the creation of the following subcommittees to examine and make specific recommendations on ABB implementation for the following areas included in the central academic mission of the Seattle campus: (1) Academic Impact, (2) Research and Indirect Cost Recovery, (3) Central Academic and Administrative Units, and (4) Delivery of a Tax Model. A fifth subcommittee was established to review Definitions and Data Points necessary to implement the policies established by the four policy focused groups. (Attachments 2-6). These recommendations, in conjunction with the primary recommendations of the steering committee, represent the policy approach on how an ABB model should be implemented on the Seattle campus.

Academic Impact

There are several facets of the ABB budget model that the Academic Impact subcommittee discussed and that have been debated by the ABB steering committee. They include graduate and undergraduate tuition, enrollment, revenue, graduate tuition waivers, summer quarter, and fee-based programs.
The subcommittee concluded that revenue distribution for undergraduate programs should be defined by the unit of enrollment (defined by the number of degrees awarded annually) and the unit of instruction. For the purposes of allocating undergraduate tuition revenue, the group recommends basing instruction on the number of student credit hours (SCH) generated, initially defined by the course of record. The proposed ratio for tuition revenue allocation is 80% SCH taught and 20% degrees awarded. The subcommittee also felt that the budget model implemented should be one in which resources remain available to the Provost in order to subsidize specific areas, either due to the quality of the program or its need. Regarding graduate tuition revenue, the subcommittee recommends an 80/20 split, where 80% of the revenue is defined by the school of enrollment and 20% is based on SCH taught. (Note that this is the reverse of the ratio used to allocate undergraduate tuition.)

The subcommittee also recommends that majors and all sub-sets of majors (such as pre-majors, dual majors, non-declared majors and changed majors) not be factors 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.

Undergraduate tuition revenue would 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 subcommittee discussed the unique nature of both summer quarter and fee-based programs. It recommends that summer quarter be brought into the ABB model as a normalized fourth quarter and included in the revenue distribution process and its associated expenses subject to the tax on expenditures. Fee-based programs located in UW Educational Outreach would continue as currently structured, with a tax applied to the net revenue after central and departmental direct expenses are accounted for. State funding for programs that move to fee-based status may be held centrally, rather than locally.

Because many academic units remain heavily invested in teaching and research assistants, the subcommittee spent time discussing tuition waivers. In general, the group feels 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 is needed, but the subcommittee considers this a manageable issue with limited immediate impact during a first phase, revenue-neutral rollout.

**Research and Indirect Cost Recovery**

Following the recommendation of the steering committee (that units responsible for the activity generating revenues receive the full allocation of those revenues), the working group recommends that 100% of generated ICR should revert back to the unit that generates the research expenditures. Regardless of collaborative research activities that involve more than one unit, the subcommittee recommends that the primary unit should follow the ABB approach and allocate ICR to the sub-units collaborating with the primary unit coordinating the research effort, with exclusions allowed for small expenditures. A threshold of $25,000 was recommended. While the steering committee
endorses this intent, we continue to support the recommendation that we should not establish a formal requirement that dictates the allocation of funds below that of the Deans and VPs.

To support central units and provide funding to the Provost for new and continuing initiatives, the subcommittee endorses the notion of a taxation system. Specifically, the group recommends that there be a single tax on central funds (GOF/DOF) and an additional smaller tax on direct research expenditures. More specifically, the subcommittee noted that in the current RCR model, approximately 31% of ICR is allocated to units with 69% retained centrally. In the first year of full implementation, one should expect the tax impact on unit-generated ICR to be less than this current derived level, but the combined tax on ICR plus direct costs should be similar to the current rate.

As noted, the tax supported by the working group is expected to be used to fund central units as well as fund new and continuing initiatives. Specifically, we recommend that the initiatives supported through the tax model should include faculty start-ups, retentions, and research matching funds. Additionally, the group recognizes that some units may be disproportionately burdened by the tax assessment and that a simple and transparent allocation of ICR resources may not recognize the inherent quality of effort of the research activity. For both of these circumstances, the group again endorsed the notion that the Provost should consider the tax stream as a source of funding to mitigate these issues as they develop. Finally, the subcommittee was asked to consider the funding of current debt obligations pledged against Facilities ICR. The group recommends that the current debt loads held centrally should remain so and be included in the base calculation for the tax rates. Future debt obligations may be the obligation of the Dean, paid out of their revenue, or a central obligation paid from tax revenues, depending on the unique needs represented by a need for additional campus debt.

Central Academic and Administrative Units

In reviewing the basic definition of a central unit, the subcommittee recommended that the term University units is a more appropriate name and definition, as it correctly implies that the roles of these units are in support of all schools and colleges within the university. The group notes that the definition of these units may include museums and other university-wide activities that are currently wholly contained within a school or college. (For example, the Burke Museum may be considered a university unit but is currently housed within the College of Arts & Sciences.) While this may be an appropriate discussion, the steering committee recommends that this topic (i.e., where units, such as the Burke, should be organizationally housed) be discussed outside of the development of an ABB model. This is a conversation regarding strategic mission and not one that should be led by the budget model.

In reviewing central University units, the group noted that there are a few activities funded at the center that are not part of any unit (university unit, or school or college). For example, all fringe benefits of centrally funded positions are funded centrally. The subcommittee recommends that benefits should be reallocated to units as an associated cost of salaries. They support the recommendation of the Research subcommittee that current central debt obligations should remain central and be funded through the application of a tax against activities.
While the majority of the collective activity of central university units does not directly generate revenue, we recognize that there are minor revenue streams associated with these units. The subcommittee recommends that, in following the basic approach of ABB, the revenues generated by central University units should be returned wholly to them, as is proposed for activity-generating units. Examples of revenues flowing to these units would include ICR on grants within these units, central fees (such as application and transcript fees), and tuition (e.g., Robinson Center for Young Scholars).

Finally, the subcommittee was asked to provide comments and recommendations regarding central University Units that receive a portion of their funding from recharge operations and a portion from central funding. If we move to a tax model, these units would effectively be funded from the central tax as well as from recharge activities. While they recognize the potential confusion associated with the perception of a double tax, the group recommends allowing the continuation of recharge rates for variable and/or discretionary usage of service. For example, it is consistent that the UW Technology budget is supported by central tax revenue for core infrastructure needs and supported by recharge revenue based on the variable population of IT users in each individual school, college, or academic unit.

**Delivery of a Tax Model**

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 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 the Faculty Senate. The discussion of the use of tax revenues should be in conjunction with annual budget reviews between the Provost and Deans, Vice Provosts, and Vice Presidents.

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. For 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 expenditures 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 as other generated funds, since 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 as to 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 impact 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 that are already included in the tax base. We need to ensure that we do not create an instance of double taxation. Furthermore, there is already a “tax” on endowment income for investment expenses and to help support the UW’s advancement efforts. If we decide 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 the single tax discussed above, we recommend 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. For 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 by philanthropic dollars.

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

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 (e.g., the base on which the tax is assessed, the period being taxed) should be closely aligned to the ABB tax model to the extent possible.

**Definitions and Data Points**

We expect that there will be continuing development and refinement of a common data set used in building unit budgets under an ABB budget model. Much of this continuing work will be done through the implementation team as it recommends approaches based on the policy recommendations of the steering committee contained in this report. Above all, it is necessary that all decisions are based on data that can be easily accessed and reproduced at both the central and unit level. As a start, the definition group recommends the following approach to defining the coefficients used in allocating tuition.

To calculate student credit hours the working group recommends 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 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).

Only courses that are categorized in the Student Information System as being on a state sponsored tuition schedule will be included in calculations.

All credits and course registrations for a given course are summed and credited to the college/school that sponsors or supervises the curriculum with which the course is associated.

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.

In addition to student credit hours, the date group reviewed the calculation of degrees awarded. 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.

A student receiving one degree with one major – counts as one degree.

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.

A student receiving one degree with two majors – counts as two degrees (each major is counted as one degree).

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.

**Accountability Measures**

The steering committee and several of the subcommittees noted that as ABB rolls out it will be critical to ensure that units receiving funds from the tax revenue collected by the Provost provide accountability measures to ensure that the funds are being utilized consistent with the overall needs of the institution. It would be difficult, costly, and time consuming to attempt to develop a common set of accountability metrics across all the varied activities supported through the tax structure (both those in activity and non activity units). We recommend as part of the annual budget review process that each unit provide individual accountability measures for their respective areas of activities. We recommend that as part of their charge, the implementation team
develop a consistent approach to development of these measures. Over time, these individual reports may provide a common approach we can implement across the campus.

**Implementation of ABB**

Implementation of ABB will require fairly deep understanding of central budget and accounting systems and processes. The working group recommends that the co chairs of the ABB steering committee (the Executive Vice Provost and the Vice Provost for Planning and Budgeting) form an implementation team comprised of central budget and accounting staff and comparable school and college staff to develop implementation plans and processes to deliver on the recommended policies and actions developed by the steering committee. The role of the implementation team will be technical in nature; the steering committee will oversee the effort of this team and ensure that all recommendations are consistent with the policy direction it developed.

As noted earlier in this report, changing the budget model of the campus is a detailed and complicated process. There are likely several detailed nuances and applications yet to be discovered as we develop an implementation plan based on these recommendations. With this in mind, we recommend a target ABB implementation date of July 1, 2011. We believe that a full transition to ABB at the start of FY 2012 should give the campus sufficient time to review and comment on the actual detailed implementation approach developed over the next several months by the continuing work of the ABB steering committee. (Note that this transition to ABB should be considered a Phase I implementation and that we expect subsequent iterations to develop as we move further into this budgeting approach.)

While we do not recommend introducing a full implementation of ABB until FY2012, we do recommend the introduction of a “soft launch” of ABB at the start of the upcoming FY2011 with a focus on the expected incremental tuition generated on the Seattle campus. We recommend that the majority of budgeted incremental tuition in FY11 be allocated to activity generating units based on the coefficients used to allocate tuition as recommended in the academic impact section. Because we will not develop a formal taxation model until FY2012, we further recommend that 25-30% of the incremental tuition (consistent with current GOF and DOF fund distribution) be held centrally to fund activities that would otherwise be funded by a tax.

**Secondary Issues**

We recognize that changing the University’s budget model is a difficult process, and we need to ensure that the decisions reached centrally, or at the unit level, are not negatively impacted by the steep learning curve that is associated with a change of this magnitude. As such, we realize that in a Phase 1 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 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, and assignable square footage. 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 potentially 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.

**Major Policy Considerations**

The transition to an ABB budget model provides an opportunity to examine several important contributing or controlling factors.

First is tuition setting authority and, within that context, the ability to establish discipline specific, unit specific, or campus specific differential tuition. The ability for some units to establish higher tuition levels reflects several conditions such as student demand, reputation, cost of delivery, and market or employment competition. The outcome of such a policy change could, if desired, minimize the degree to which cross-subsidization is required for disciplines with significantly higher costs, especially if restricted by necessary lower enrollments. Whether in STEM disciplines or lab or studio based programs, the instructional and support costs vary widely, and the ability to determine appropriate tuition and financial aid levels would contribute to a more balanced system of funding.

A related issue is direct admission of freshmen to their intended major. Currently, there are direct admission pilot programs in Business and Engineering (with several hundred students taking advantage of them) that address a number of important concerns. Recruitment of highly qualified students is made easier when students and their families compare offers from competing institutions. Also, students can better understand their status when the likelihood of qualifying for a major is a condition of admission, rather than something uncertain, partially outside their control, or at a later point in their academic career.

The ABB model would allow resources to flow to recruitment, advisory, and instructional efforts delivered by units or programs wishing to engage with students at an earlier stage of their education.

It has the added benefit of directing enrollment to specific majors and fields of study as part of the admissions process, addressing aspects of the state’s strategic master plan, in a more controlled and predictable way.

If such an enrollment option were widely available at the UW, it would require careful oversight to maintain access for undeclared majors, changed majors, and transfer students, who currently make up 30% of our student population.

Additionally, there are a number of oversight and incentive issues that should be included as opportunities and concerns when examining ABB moving forward.

First, the UW’s current decentralized funding environment is further emphasized in an ABB model, which will raise the question of how best to align the concerns of shared governance oversight with the greater responsibility of Deans, Chancellors, Vice Presidents and Vice Provosts.
to manage their units. The history of committees such as SCPB is based on a Provost-centric model of decision-making and authority over positions and funding options. This does not reflect current behavior, let alone a future, more entrepreneurial university.

Secondly, the question of faculty salary policy needs to be reviewed relative to centrally or state defined allocations of merit funds and the possible local application of additional merit or salary adjustments.

Third, many observers feel that ABB can lead to “gaming” of the system relative to credit hour and instructional values and that strong central curricular oversight is needed to monitor initial behavior of units and programs. An analysis of how best to accomplish this for both undergraduate and graduate programs is needed, given that councils like the Faculty Council on Academic Standards are responsible for undergraduate reviews only and may need added participation and support.

Next Steps

Over the next several months, the steering committee will continue to examine and refine the recommendations in this report based on the work of the implementation team. We recognize that significant work remains in order to understand how to incorporate auxiliary educational activities into the model, support graduate instructors, and calculate the actual tax rates, among other needed refinements. Furthermore, the committee will continue to review and develop recommendations regarding the identified secondary issues and other issues yet to arise. We anticipate that our report due in mid to late May will not be a final report and will rather be an update of the progression to date. With the recommendation that ABB not be fully implemented until FY2012, we recommend that the role of the steering committee continue through next year. We anticipate that we will provide subsequent updates with a final detailed action and implementation report not ready until the middle part of the upcoming fiscal year.
ABB Steering Committee Report

ATTACHMENTS:

Attachment 1: The UW Activity Based Budgeting Working Group Report (October, 2009)

Attachment 2: Academic Impact Working Group Report

Attachment 3: Research and Indirect Cost Recovery Working Group Report

Attachment 4: Central Academic and Administrative Units Working Group Report

Attachment 5: Delivery of a Tax Model Working Group Report

Attachment 6: Definitions and Data Points Working Group Report
Attachment 1:

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

\[Signature\]

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 measurable 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?**

**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
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
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.1

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?

1 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.
Overview of ABB Steering Committee Draft Report

April 2010

ABB Goals

1. Allocate costs and revenues using transparent guidelines
2. Provide framework so that leaders may establish priorities and develop new activities with an understanding costs and benefits
3. Create incentives to make the most efficient use of resources
4. Provide the Provost with sufficient discretionary funds to make strategic investments and promote the mission

ABB values

- ABB is a budget model that allocates revenues and expenditures to units where activity occurs
- ABB is not the strategic plan of the University
- Maintenance of quality is crucial
- The model should be clear and easy to understand
- Initial budget of each unit is “revenue neutral”
- ABB focuses on the budget relationship between the Provost and the Deans, and the Vice Presidents and Vice Provosts

Current Budgeting Process

- ABB focuses on the budget relationship between the Provost and the Deans, and the Vice Presidents and Vice Provosts

- ABB is a budget model that allocates revenues and expenditures to units where activity occurs
- ABB is not the strategic plan of the University
- Maintenance of quality is crucial
- The model should be clear and easy to understand
- Initial budget of each unit is “revenue neutral”
- ABB focuses on the budget relationship between the Provost and the Deans, and the Vice Presidents and Vice Provosts

State Appropriations

Central Budget

Tuition Revenue

Locally Generated Funds and ICR

Admin (University Units)

Academic Units (Activity-Generating Units)
**Budgeting under ABB**

- Tuition Revenue
- Activity-Generating (Academic) Units
- University (Admin) Units
- Supplement
- Direct & Indirect Costs
- Tax
- Central Budget
- Budget allocation
- State Appropriations

**Next Steps**

- **Soft launch** for July 1, 2010 (FY2011)
  - Allocate incremental tuition revenue based on ABB minus a hold-back
  - Begin to allocate benefits to unit budgets
- **Full launch** on July 1, 2011 (FY2012)
  - Fully allocate tuition and ICR
  - Tax expenditures to fund University units and central initiatives
- **Steering Committee** continues to meet to resolve longer term policy and design issues
- **Implementation Team** fills in details and works out technical issues

**Proposed Allocation of Tuition Revenue**

- Tuition distributed to the unit of instruction and the unit of enrollment
- Instruction based on the number of SCH generated, defined by the course of record
- Undergraduate enrollment based on the number of degrees awarded annually, basis for graduate enrollment still under discussion
- Undergraduate tuition revenue allocation: 80% SCH taught and 20% degrees awarded
- Graduate tuition allocation: 20% SCH taught and 80% enrollment
- Tuition revenue should be a “blended rate”