

VII. STANDING COMMITTEES

A. Academic and Student Affairs Committee

Activity Based Budgeting Update

For information only.

*Attachments*

Initial Charge to Working Group, June 24, 2009

Working Group Report, October 6, 2009

Charge to Sub-Committees, October 21, 2009

Working Groups Primary Issues



June 24, 2009

***Working Group on Activity-Based Budgeting***

Paul Jenny, Vice Provost, Office of Planning & Budgeting, ***Co-chair***

Doug Wadden, Executive Vice Provost for Academic Affairs, ***Co-chair***

Ann Anderson, Associate Vice President and Controller, Office of Financial Management

Tom Baillie, Dean, School of Pharmacy

Ana Mari Cauce, Dean, College of Arts & Sciences

Paul Hopkins, Chair, Department of Chemistry

Matt O'Donnell, Dean, College of Engineering

Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting

Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs

Dear Colleagues:

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

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

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

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

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

Working Group on Activity-Based Budgeting

June 24, 2009

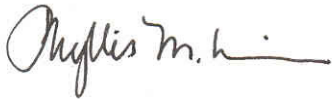
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groups are working to address the issues associated with data collection, defining, and reporting. I do not expect you to replicate their efforts. Rather I would like a list of the data points necessary to implement any proposed changes to the budget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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Phyllis M. Wise". The signature is written in dark ink and is positioned above the typed name.

Phyllis M. Wise  
Provost and Executive Vice President

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
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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

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Gary Quarfoth, Associate Vice Provost, Office of Planning & Budgeting

Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs

Dear Colleagues:

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

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

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

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

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June 24, 2009

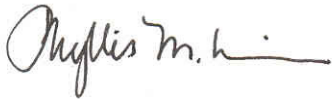
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Please provide a final report by October 1, 2009. This report will serve as the basis for significant conversation at the Board of Deans and Chancellors' retreat and at the Senate Committee for Planning and Budgeting. Following the release of your 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,

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Phyllis M. Wise  
Provost and Executive Vice President

October 21, 2009

***Steering Committee on Activity-Based Budgeting***

Paul Jenny, Vice Provost, Office of Planning & Budgeting, ***Co-chair***

Doug Wadden, Executive Vice Provost for Academic Affairs, ***Co-chair***

Ann Anderson, Associate Vice President and Controller, Office of Financial Management

Tom Baillie, Dean, School of Pharmacy

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 Quarforth, Associate Vice Provost, Office of Planning & Budgeting

Ed Taylor, Vice Provost and Dean, Undergraduate Academic Affairs

V'Ella Warren, Senior Vice President, Finance & Facilities

Dear Colleagues:

As you know, the University of Washington has been engaged in an ongoing conversation about the need to transition to a more transparent and functional budget model. This past summer I asked a Working Group to explore and make preliminary recommendations on the possible change to a new activity based budget (ABB) model. On October 6, 2009, the Working Group submitted a report (see attached) that recommended the campus fully develop an ABB model at the University of Washington which can then be presented to the campus community for feedback and acted upon by the Provost and President.

To further our conversation on activity based budgeting at the University of Washington, I am writing to ask you to join a Steering Committee that will meet throughout the fall and winter. Executive Vice Provost Doug Wadden and Vice Provost Paul Jenny will co-chair the Steering Committee. The Office of Planning and Budgeting will provide staffing. Building on the final report from the Working Group, there are three primary goals for this Steering Committee:

First, please engage immediately in the formation of five smaller sub-committees that will examine specific aspects of implementing ABB at the University of Washington. The Steering Committee should provide guidance and coordination to the five sub-committees as they examine the structure and detail of ABB. A sub-committee should be created for each of the following subject areas:

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 Steering Committee should define the charge for each sub-committee. Each sub-committee's charge should include indentifying a list of challenges concerning the implementation of ABB relative to their assigned subject area, as well as recommendations to resolve these issues.

Further, in an effort to ensure adequate technical expertise and to facilitate broader campus participation, membership on each sub-committee should include a combination of Steering Committee members and additional campus representatives. The Steering Committee shall submit a proposed list of participants for each of the sub-committees to the Provost for approval and appointment.

Second, I ask that you synthesize the work of the sub-committees to develop a detailed implementation plan and schedule that would enable implementation of a new ABB model to begin on July 1<sup>st</sup>, 2010. Please incorporate the findings of the sub-committees and any other technical or process changes that would be necessary for successful implementation.

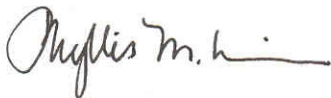
Finally, I ask that you provide a final recommendation to the Provost and President on the viability and prudence of implementing ABB at the University of Washington. In addition to the technical aspects of implementing a new budget model, please also consider the potential impact of ABB on our institutional goals and culture. This final recommendation should take into account the recent report of the Working Group, the work of the sub-committees and the perspective of the Steering Committee.

Given that this effort is entering a more detailed phase of examination, please structure your work to provide reports as follows:

February 24, 2010	Progress report to my office, the Board of Deans and Chancellors and the Senate Committee on Planning and Budgeting
April 1, 2010	Recommendations for implementation that will impact Fiscal Year 2011
May 15, 2010	Final Report

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

Sincerely,



Phyllis M. Wise  
Provost and Executive Vice President

Enclosure

c: Mark A. Emmert



## Activity Based Budgeting Working Groups Primary Issues

The primary issues outlined below include those that need to be addressed by each Working Group in order to begin construction of the budget model.

**Note:** There are several areas of overlap in the questions for each group.

**Note:** In addition to the identified primary issues developed by the steering committee, each working group is asked to develop a list of secondary issues for consideration following development of recommendations on the primary issues.

**Note:** It is important to undertake review of these issues with respect to the principles developed by the ABB working group that met over the summer and endorsed by the Provost and Board of Deans and Chancellors. An overriding principle is that this is a prospective approach to incremental revenue changes and that at the start of this model there would be no consideration of changing the existing allocation of base budgets.

**Note:** In general, the consideration of an ABB model is to understand the funding of Activity Based Units and Non Activity Based Units. In general, Activity Based Units include Schools and Colleges with their funding derived directly from their activities, primarily through tuition and research and a central supplement. Non activity based units include central academic and administrative units with funding derived from a system of indirect cost recovery and a centralized tax model.

### Academic Impact

1. How should we allocate tuition between school of instruction and school of enrollment?
  - a. Should instruction be defined by SCH attributable to course of record?
  - b. Should enrollment be defined by number of majors, number of degree, or both?
    - i. What unique concerns are there with respect to pre-majors?
  - c. Is the distribution between instruction/enrollment constant for undergrads, graduate and professional students?
    - i. If a different distribution is applied, what is it, and why?
2. What ABB approach should be taken with respect to course offering through UW Educational Outreach?
  - a. Should summer quarter be part of the model?
    - i. If so, how should tuition revenue be distributed?
  - b. Should self-supporting fee-based programs be part of the model?

3. How should tuition revenue be distributed with respect to 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?
4. How should funding of tuition waivers for graduate students be incorporated into the model?
5. How should the building fee portion of tuition be considered in an ABB model?

### **Research and Indirect Cost Recovery**

1. How should Indirect Cost Recovery be distributed?
2. How do we fund current debt obligations funded by F-ICR at the central level?
3. How do we ensure adequate funding for central services (Sponsored Project Office, Extramural Grant Accounting, etc.) as research expands?
  - a. Should there be a unique tax levied based on a unit's direct research expenditures?
4. How should "matching funds" be handled?
5. How should "faculty startups" be handled?

### **Central Academic and Administrative Units**

1. What Units are considered "central"?
2. What activities currently funded from the center need to be reallocated (cost and supporting revenues) to units?
  - a. GOF/DOF fringe benefits?
  - b. Centrally funded debt service on FICR, building fees, etc?
3. How do we ensure funding for planned but not budgeted administrative strategic needs such as replacement of IT student and financial systems?
4. How should we distribute central/miscellaneous fees (application fees, transcript fees, etc?)
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 the services provided?
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?

### **Structure and Delivery of a Tax Model**

1. What is the purpose of a tax?
  - a. Funding of central academic and administrative units?
  - b. New academic and administrative strategic initiatives?

- c. Contingency for unanticipated cost increases (i.e. utility costs?)
2. If expenditures serve as the proxy for a tax, what expended funding sources should be included in the tax rate?
  - a. GOF/DOF/ICR?
  - b. Gifts and Endowment Income?
  - c. Unit generated revenue sources?
  - d. If any funding group is excluded, why?
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?

### **Definitions and Data Points**

1. What data points are needed to populate an Activity Based Budget Model based on the primary issues being developed in the other four working groups?
  - a. Confirm existing institutional definitions and where necessary propose new ones for missing or incomplete definitions
    - i. Definitions should include both a descriptive summary and the detailed protocols for extracting data from existing systems and databases
2. What time periods should be considered in the definition of data and distribution of revenues?
  - a. As example, should tuition be allocated in arrears or prospectively based on projected results with reconciliation between actual and projected?
3. What time period should the tax be based on?
4. What standard reports do we need to develop and distribute the budget model?
5. What reports do we need that already exist or need to be developed for units to manage their budgets during the fiscal year?

### **Steering Group**

1. How should we consider the allocation, assignment and use of space and the funding of existing and planned new space needs?
2. What potential behavior changes are of concern and how do these get mitigated?
3. What conversation should there be around impacts of a new budget model on the faculty code and salary policies?
4. What is the realistic implementation schedule?
5. When, by whom, and by what measures should the performance of the new system be assessed?