

Activities Based Costing in the University of California

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The **UC Student Association** is the official voice of over 240,000 undergraduate, graduate, and professional students from all ten UC campuses. It is our mission to advocate on behalf of current and future students for the accessibility, affordability, and quality of the UC system. Learn more about our work at www.ucsa.org.



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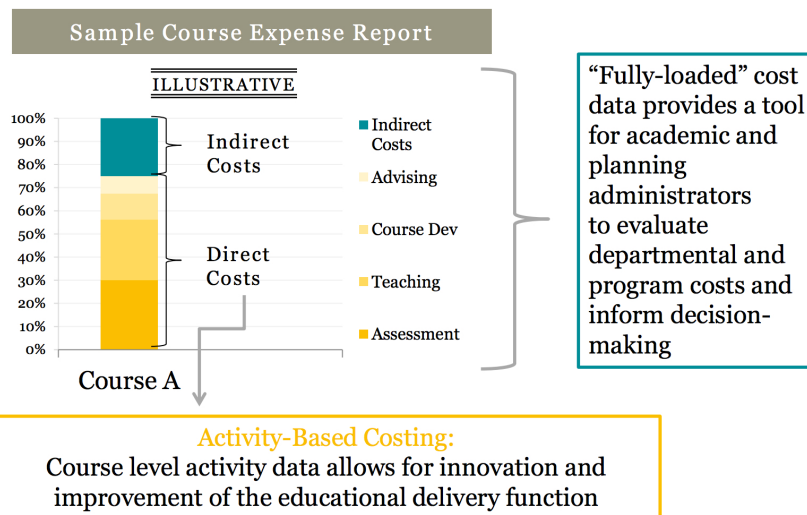
What is Activities Based Costing?

Higher education institutions must report costs by function. The functional categories have a common definition across the higher education industry and include broad categories such as instruction, research, and student services. Although accounting systems are set up to broadly categorize costs, institutions rarely assign costs to activities that comprise the function or break down the function into smaller units within the institution to allow internal decision makers to easily see how resources are used. As an example, spending on instruction is reported as a whole, by departments. The department reports spending X dollars on instruction, in order to teach Y number of course sections and Z total students. This method of costing ignores the reality that instruction encompasses a number of different activities, including course development, tutoring, advising, teaching, and assessment such as grading. Current methods do not provide necessary data for decision makers to answer strategic questions about effectiveness and efficiency as it relates to student success. Activities Based Costing provides a method for allocating resources more efficiently, and can help colleges determine the best way to meet their goals around student success by monitoring the use of resources in particular activities.

What will ABC look like?

Proposed methodology combines cost allocation with activity-based costing

Captures both the fully loaded class cost and the cost of discrete educational activities



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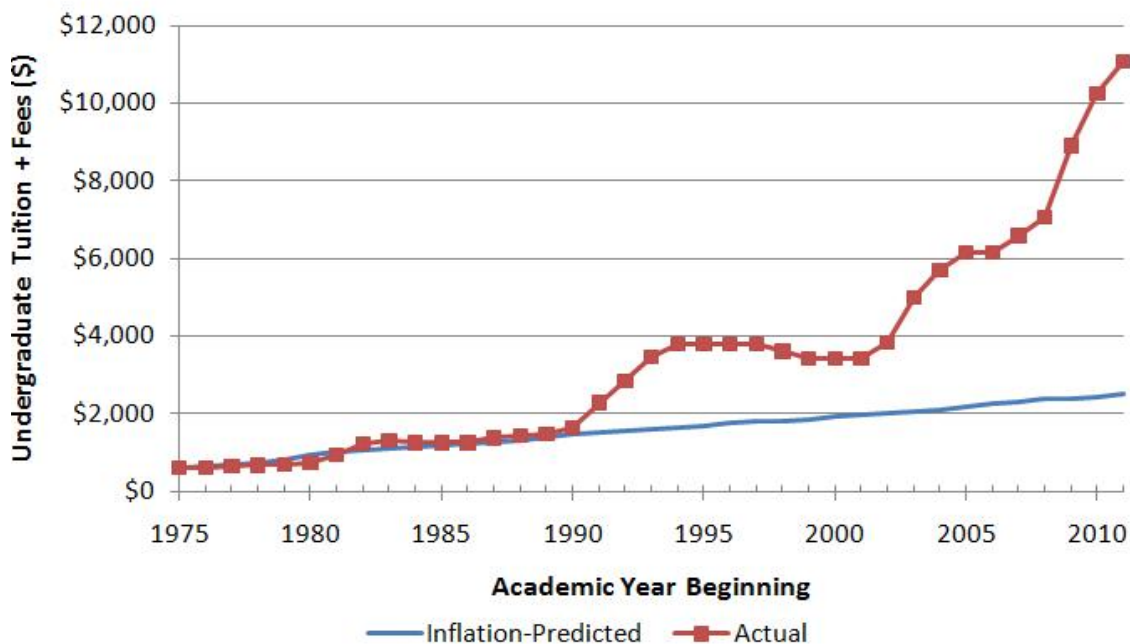


Above is an example of an ABC breakdown for a single course; the expense report is broken down to show both the direct and indirect cost of providing the course. Note that these percentages are not based on an actual course.

Why are Universities moving towards ABC?

The stated purpose of UC Riverside's ABC project is to "Empower academic leaders, deans, department chairs and faculty members with the analytical tools required to innovate and redesign individual courses and/or to optimize college course portfolios to improve student success." Administrators hope to use ABC harness better data that allows everyone to make well-informed decisions about course offerings, and create a budgeting structure that allows innovative methods to grow to scale. Of course, there are other forces at play. Tuition at the University of California has risen dramatically in the past 10+ years, far outpacing inflation.

Hyperinflation of Tuition & Fees in the UC System from 1975 to 2011



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In the 2015 UC budget negotiations, administrators at the UC were called to answer for these rising costs. Due, in part, to the traditional academic costing method, leaders struggle to justify the runaway costs of providing a college education¹. The ABC model may allow for better transparency around how funds are being used to meet the goals of the University of California, with focus being placed mainly on the desired outcome of students receiving undergraduate degrees.

What are the major challenges of ABC?

The first major challenge of ABC is implementation; While Faculty are only one piece of the larger ABC plan, this work to collect accurate data is vital to the success of such an initiative. Departments and the Faculty within them are likely to resist this change, as it will require new methods of recording their activities in order to collect better data for administrators. In the current UC funding model, incremental increases are awarded to departments on an annual basis, based upon need. ABC will move Faculty towards an incentive based model that rewards Student Success and efficiency; values which may not align with the current academic ethos of the UC. Faculty may perceive the risk of having their department budgets reduced or having their courses revamped for efficiency, and thus resist the implementation of the model altogether. Will UC Riverside be able to produce the right incentives to combat this academic inertia? This is yet to be seen.

The second major concern with ABC is administrative accountability. Under ABC, course provision activities are broken down and evaluated for opportunities for efficiency, yet the same break down is not expected from Administrators. Rather, in the model presented by UC Riverside, Administrative costs are lumped together as overhead costs and this expense is distributed across course expense reports as "Indirect Costs". This seems troublesome, as Faculty will be asked to spend additional time and resources to track and report their activities, but the same will not be asked of administrators. Given the level of administrative bloat in the UC over the past 10 years, it stands to reason that the same rigorous activities based costing should be applied to all administrative activities as well.

How will ABC affect Students?

Moving towards activities based costing signals several things for students; it is important to note that the architects of ABC have centered student success as the main mission and purpose of the costing model shift, with a focus on degree completion. Completion and production can be used interchangeably; ABC is a managerial accounting model that focuses on the true cost of producing a product. It seems important for students to ask if the UC is

¹ <http://www.sacbee.com/news/politics-government/capitol-alert/article16110284.html>



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concerned with producing more degrees, or more successful students, and if those are indeed the same product under this costing model.

Students stand to benefit from the scaling up of innovative approaches to course provision; one example used by UC Riverside is the desire to make introductory level courses in the STEM fields more hands-on in order to retain new students interest in these subjects. ABC creates incentives for effective modes of course delivery, which the current costing model does not allow for. In fact, currently Faculty have no incentive to develop more effective courses; they are not paid for course development, and there is no great incentive for student success in any one course. While student outcomes are measured and evaluated as part of the tenure process, in terms of weight these metrics rank well below the Faculty members publications and research grants. ABC may produce the right incentives for Faculty to develop more effective and engaging courses. Further, the transparency created by the ABC funding model may reinforce the value of the UC system in the eyes of the Legislature and Governor; entities who are desperate to understand what the UC has been doing with tax payer dollars, and why they are always asking for more.

What's next?

UC Riverside has a short timeline for implementing the first phase of their ABC project, set to launch in Spring 2016. Their timeline includes the development of a Point of View paper, which will outline their justification for the project. UCSA will continue to closely monitor the progress of this project.



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