

Subject: Workday Finance Estimated Cost Allocation Update

Date: February 8, 2023

Purpose: The purpose of this brief is to summarize key decisions made on Workday Finance cost allocations and their effects on academy units (UWA) and the UWM clinical enterprise (UWM).

Background: In 2019, a working group was formed to develop options for a cost allocation methodology associated with the implementation and ongoing operation of the Workday Finance platform. In November 2019, the working group presented multiple options and, concurrent with Regental approval of the UWFT program, a cost allocation model was adopted with the following key characteristics:

- FTE as the primary cost allocation driver (unweighted “average FTE” referenced within the [Workday HRP cost allocation model](#))
- Inclusive of both ongoing operation costs and debt service costs
- Two cost allocation modifying factors applied to the FTE pro-rata allocation to UWM:
 - o UWM receives a fixed subsidy of \$1M per year on the pro-rata share of post-go-live operating costs
 - o UWM receives a 20% discount on pro-rata share of debt service

Since 2019, this model has been used as a planning parameter in each subsequent budget development cycle with the expectation that a refresh of the estimated cost would be required prior to go-live.

During the summer of 2022, a focused effort was undertaken (“Sustainment”) to refresh and revise the operating and support models, including the 2019 cost model, with the aim of finalizing the infrastructure necessary for central business units (“sustainment units”) to support the transition to the Workday Finance ecosystem and function in a modern ERP. This work concluded in early January 2023. While specific efforts were made to drive both financial and business efficiency, the end result is a material increase in operating cost estimate vs what was preliminarily estimated in 2019. The cost “gap” between the two estimates is as follows:

	Go Live -1	Go Live	Go Live +1	Go Live +2	Go Live +3	Go Live +4
2019 Cost Estimate	-	19,099,000	29,704,000	30,237,000	30,791,000	31,375,000
2023 Cost Estimate	2,605,000	32,792,000	41,508,000	41,363,000	42,233,000	45,238,000
2023 Estimate Increase Over 2019	2,605,000	13,693,000	11,804,000	11,126,000	11,442,000	13,863,000

** 2019 cost estimate assumed a FY23 go-live and the 2023 estimate assumes a FY24 go-live, the figures above are reflected as # of years from go-live for purposes of aligning the two models to allow for a comparative display.*

The primary drivers of the increases are 1) a significant increase in the number of employees necessary to adequately support the Workday Finance ecosystem, and 2) the inflationary pressures on goods, services and wages that have materialized since 2019.

The results of the revised estimate and options for funding the ongoing centralized operating costs were provided to the Executive Office and resulted in several key decisions, summarized below.

Key Decisions:

- 1) There will be no change to the [formulaic cost allocation approach approved in 2019](#), and consistently communicated as a planning parameter during subsequent budget planning cycles. The only adjustments will be to account for annual unit level (UWA) and UWM FTE growth/contraction, consistent with the HRP recharge model.

- 2) From FY23-FY28, UWA and UWM, collectively, will be “held harmless” from incremental FT sustainment operating costs over the 2019 estimate.
- 3) From FY23-FY28, Central funds, supplemented by any available UWFT program savings, will absorb incremental sustainment operating costs over the 2019 estimate
- 4) Consistent with the 2019 cost allocation methodology, UWA and UWM will be responsible for debt service associated with financed UWFT program expenses.
- 5) Prepayments of Workday Finance debt will be allowed and only in full. It is anticipated that any unit wishing to prepay Workday Finance implementation debt will need to make that decision by summer 2023 (additional information forthcoming late Spring).

Impact Assessment – Academy and Medicine: As UWA and UWM are “held harmless” from incremental FT sustainment operating costs over the 2019 estimate, there is no global impact to the total allocable operating costs to the UWA and UWM. Digging into the unit level details (UWA) and UWM, changes in the number and proportionate share of employee FTE will result in the same operating cost spread differently between UWA and UWM, and between units within the UWA.

Please note, the proportionate share of FTE by each UWA unit and between the UWA and UWM has and will continue to change with time. The values referenced here are static comparisons.

	2019		2023		Δ FTE	Δ % Share of Total FTE
	FY20 HRP Average FTE Values + Estimated Impact of NWH Integration	% of Total	FY23 HRP FTE Values	% of Total		
UWA	24,349	66.4%	23,197	70.6%	(1,152)	4.1%
UWM	12,306	33.6%	9,671	29.4%	(2,635)	-4.1%
	36,656	100.0%	32,868	100.0%	(3,788)	0.0%

Sustainment Operating Cost Allocation Shift Impact (in 000s)

	Go Live	Go Live +1	Go Live +2	Go Live +3	Go Live +4
UWA	1,332	1,348	1,370	1,393	1,417
UWM	(1,332)	(1,348)	(1,370)	(1,393)	(1,418)

Please see **Attachment 1** for a forecast of unit level cost allocations beginning in FY24. A comparison of the FY23 unit/campus level estimate and the FY20 unit/campus level estimate is available upon request to budget@uw.edu.

Status of FY24 Estimate: The operating costs to be allocated in total are final and approved by the President and Provost for the period FY23-FY28. As the underlying allocation driver is FTE, each year there will be shifts in pro-rata share of FTE as units in UWA, and UWM grow and contract, thus shifts in pro-rata cost allocations will occur as well.

At the time of this brief, the UWFT program continues to draw short term debt, as planned, to cover costs, with a targeted conversion to long term debt in late Winter or early Spring 2024. Certain borrowing costs, such as the market interest rate can only be forecasted. Upon conversion to long term amortizing debt, the final debt service schedule will be set and communicated to the community.

Total - FY23 Sustainment Model Forecast

Unit	FY23 HRP Model Average FTE	% of Total FTE	% of UWA FTE	Ramp Up	Go Live	Sustainment ---->			
				FY23	FY24	FY25	FY26	FY27	FY28 ³
200-01 President's Office	170.80	0.52%	0.74%	-	57,042	112,933	115,694	118,573	146,346
200-02 ICA	250.60	0.76%	1.08%	-	83,693	165,697	169,748	173,972	214,721
200 Internal Audit ¹									
200 EVPFA Remainder Pre Reorg ¹									
201 Attorney General	10.00	0.03%	0.04%	-	3,340	6,612	6,774	6,942	8,568
202 Provost	523.77	1.59%	2.26%	-	174,923	346,318	354,783	363,612	448,780
205 UW Facilities	919.84	2.80%	3.97%	-	307,198	608,200	623,067	638,572	788,143
206 Minority Affairs	117.24	0.36%	0.51%	-	39,154	77,519	79,414	81,390	100,454
207 Libraries	270.57	0.82%	1.17%	-	90,362	178,901	183,275	187,835	231,832
208 UW Finance	321.18	0.98%	1.38%	-	107,264	212,365	217,556	222,970	275,196
209 UWHR	194.08	0.59%	0.84%	-	64,817	128,326	131,463	134,734	166,293
210 UWIT	414.91	1.26%	1.79%	-	138,567	274,339	281,045	288,039	355,506
212 Student Life	715.17	2.18%	3.08%	-	238,844	472,872	484,431	496,486	612,777
214 External Affairs	127.56	0.39%	0.55%	-	42,601	84,343	86,405	88,555	109,297
215 Advancement	257.64	0.78%	1.11%	-	86,044	170,352	174,516	178,859	220,753
216 Research	553.59	1.68%	2.39%	-	184,882	366,035	374,982	384,314	474,331
217 Comotion	51.60	0.16%	0.22%	-	17,233	34,118	34,952	35,822	44,212
252 Built Environments	132.70	0.40%	0.57%	-	44,318	87,741	89,886	92,123	113,701
254 Arts & Sciences	2,263.74	6.89%	9.76%	-	756,018	1,496,789	1,533,378	1,571,535	1,939,633
255 Continuum College	248.12	0.75%	1.07%	-	82,864	164,057	168,068	172,250	212,596
256 Foster Business School	370.12	1.13%	1.60%	-	123,608	244,724	250,706	256,945	317,129
258 Education	391.73	1.19%	1.69%	-	130,825	259,013	265,344	271,947	335,645
260 Engineering	1,283.16	3.90%	5.53%	-	428,535	848,428	869,168	890,796	1,099,446
263 Environment	868.17	2.64%	3.74%	-	289,941	574,036	588,068	602,701	743,871
266 Graduate School	116.46	0.35%	0.50%	-	38,894	77,004	78,886	80,849	99,786
267 Information School	163.29	0.50%	0.70%	-	54,534	107,968	110,607	113,359	139,911
268 Law	114.43	0.35%	0.49%	-	38,216	75,661	77,511	79,440	98,047
270 Evans Sch Pubpol & Gov	81.73	0.25%	0.35%	-	27,295	54,040	55,361	56,739	70,028
272 Social Work	277.44	0.84%	1.20%	-	92,656	183,444	187,928	192,605	237,718
280 Summer Quarter	4.15	0.01%	0.02%	-	1,386	2,744	2,811	2,881	3,556
282 Undergrad Acad Affairs	98.45	0.30%	0.42%	-	32,879	65,095	66,687	68,346	84,355
301 Health Sciences Admin ¹									
302 Dentistry	321.08	0.98%	1.38%	-	107,231	212,299	217,488	222,900	275,110
303 Medicine Central Budget ²	216.92	0.66%	0.94%	-	72,444	143,428	146,934	150,590	185,863
304 Medicine	8,998.19	27.38%	38.79%	-	3,005,112	5,949,620	6,095,058	6,246,728	7,709,888
306 Nursing	218.10	0.66%	0.94%	-	72,839	144,208	147,733	151,409	186,874
308 Pharmacy	220.53	0.67%	0.95%	-	73,650	145,815	149,379	153,096	188,956
310 Public Health	643.34	1.96%	2.77%	-	214,855	425,378	435,776	446,620	551,231
500 Uw Bothell (All Bothell Units)	658.26	2.00%	2.84%	-	219,838	435,243	445,882	456,978	564,015
600 Uw Tacoma (All Tacoma Units)	608.33	1.85%	2.62%	-	203,163	402,229	412,061	422,315	521,233
	23,196.99	70.58%	100%	-	7,747,065	15,337,893	15,712,827	16,103,826	19,875,797
312 - MEDICAL CENTERS	9,671.17	29.42%		-	4,595,172	6,961,881	7,118,408	7,281,497	8,487,690
Subtotal, UWA & UWM	32,868.16	100%		-	12,342,236	22,299,773	22,831,235	23,385,323	28,363,487
Central Contributions				-	7,403,000	19,208,000	18,531,000	18,848,000	16,874,000
UWFT Program Savings				2,605,000	13,047,000	-	-	-	-
Total Allocated Costs				2,605,000	32,792,236	41,507,773	41,362,235	42,233,323	45,237,487
Check Cells				-	-	-	-	-	-

¹ Since development of the FY20 FT Operating Model cost estimate, these units underwent structural changes. The FY23 sustainment estimate includes their FTE values within the major organizations these units resided in as of FY23.

² the FY20 FT Operating Model cost estimate combined orgs 303 and 304. These are displayed separately in the FY23 sustainment estimate.

³ Workday Finance debt service is intended to "wrap" around Workday HRP debt service, such that the total debt service cost between HRP and Finance is level at approximately 17.6M for the majority of the Finance amortization term. By FY28, HRP debt will have been repaid and the entirety of the remaining debt service is attributable to Finance.