

HR/P Costing Task Force Summary

April through June 2014

Costing Task Force Members

Co-Chairs:

- **Barbara Wingerson**
Executive Director, Finance & Administration
Finance & Facilities (F2)
- **Ann Anderson**
Associate Vice President and Controller, Financial Management
Finance & Facilities (F2)

Members:

- Dave Green, UWSOM
- Leann Dawson, UW Medicine
- Linda Rose Nelson, College of Arts & Sciences
- Tom Sparks, College of Engineering
- Bill Ferris, UW-IT
- Sarah Hall, OPB
- Lisa McDonald, OPB
- Mary Clark, The Information School
- Kate Bouchard Cullen, Foster School of Business
- Danel Phelps, Management Accounting & Analysis
- F2 Staff Analysts: Sean Kennedy and Porsha Hunger

Purpose/Charge

1. Review HR/P Cost Allocation Model (including FSE) and assumptions in-depth
2. Identify alternatives, if any, that conform to recharge methodology
3. Finalize recommendations to Provost for HR/P Cost Allocation Model
4. Finalize recommendations for administration of the fee

Timeline

- Meeting #1 April 18, 2014
- Meeting #2 May 14, 2014
- Meeting #3 June 5, 2014
- June 30, 2014: Recommendations from the Task Force to the Provost

Summary

The HR/Payroll Costing Task Force reviewed all aspects related to allocating the costs of HR/Payroll to campus. The parameters for this review included:

- All costs related to the HR/Payroll system will be passed on to campus

- The allocation methodology selected should be simple and transparent
- Allocations to campus will begin July 1, 2016
- The Medical Centers and Housing and Food Services will receive a discount due to using Kronos

A summary of the work from the Task Force is documented below.

1. Workday Contract Terms

Review

The terms of the signed Workday (WD) contract were reviewed to provide full understanding of the methodology WD will use to charge UW on an on-going basis. WD will use full time service equivalent (FSE) and time tracker (TT) methodology for the pricing methodology.

Please refer to Attachment A for information on FSE and TT methodologies.

2. Allocation Methods

Review

The Task Force reviewed and contrasted the following methods for allocating the costs of HR/Payroll to campus.

- FSE—methodology used by WD
- FTE—by home department
- Headcount—by home department

Please refer to Attachment B for comparisons of these three methodologies.

Recommendation

Based on review of the three methodologies listed above, the Task Force recommends using FTE by home department as the method for charging campus units, at the Dean/Chancellor/Vice Provost/Vice President levels.

Basis for Recommended Method

The Task Force is recommending the use of FTE by home department for two primary reasons:

1. While allocating based on FTE and WD's FSE method resulted in similar allocation results to the units, using FTE for the internally focused allocation method is both familiar to UW units (i.e., used in other allocation models) and can also be replicated at the unit level, thus, it is a more transparent methodology and simpler to administer.
2. Allocating by headcount created wide variability between units, depending on the mix of hourly, part-time and student employees. Using FTE creates an appropriate level of "smoothing" that does not penalize units with more part-time employees.

3. Allocation Cost Components

Review

The costs that will be allocated to campus beginning July 2016 are summarized below.

- Debt service principle: the amount that will be issued by the UW Treasury in General Revenue Bonds to pay for the HR/Payroll implementation costs. The debt service principle will be paid back over ten years beginning in July 2016.
- Debt service interest: based on the debt service principle
- Workday solution fees: these fees will be charged on an annual basis.
- Ongoing operating model: the identified cost to operate the system after go-live
- Provost repayment: The Provost will fund the non-capital costs of the project from March 2014 through June 2016. The Provost will retire one-half of this amount and the other half will be collected from campus over ten years beginning July 2016.

Please refer to Attachment C for an *estimate* of the average annual costs that will be allocated to campus units beginning July 2016. The average annual cost is estimated at \$12.1 M per year and the ten year cost is estimated at \$121M.

4. Option to Prepay Debt

Review

The opportunity for individual units to prepay the debt service principle was explored. It is possible for an individual unit to prepay, either in part or entirely, its portion of the debt service in advance of issuance of General Revenue Bonds (GRBs). It is estimated that a unit will save approximately \$200,000 over 10 years for every \$1M paid before GRBs are issued. Additionally, a unit may choose to prepay its portion of the Provost repayment.

Recommendation

Any unit meeting the following criteria should be offered the option to prepay, either partially or in total, its portion of the debt service principle and its share of the Provost repayment:

- By January 2015: Each unit must confirm the amount of its portion of the debt service principle and the Provost repayment that it will prepay, along with funding source [specific budget number(s)].
- Debt prepayments will be transferred from the identified funding source(s) by May 2015.

5. Future Reviews of the Methodology

Recommendation

The Task Force suggests that it reconvene annually to review the methodology and recommend changes that would make administering the allocation easier or improve alignment with system configuration.

The Task Force also suggests conducting the Hackett study three or four years after go live to review potential soft savings in central units.