

BOARD OF REGENTS MEETING

ADOPTED 6/13/2019Approve Fiscal Year 2020 Operating BudgetRECOMMENDED ACTION

It is the recommendation of the administration that the Board of Regents—pursuant to its authority under RCW 28B.20.130, the Bylaws of the Board of Regents, and Chapter 1 of the Board’s Standing Orders—consider and confirm the proposed fiscal year 2020 (FY20) operating budget for the University of Washington. The proposed FY20 operating budget is presented in the attached document, which includes final tuition rate recommendations for FY20. It is also the recommendation of the administration that the Board of Regents, pursuant to requirements in RCW 28B.15.120, approve the annual budget for the University of Washington (UW) Department of Intercollegiate Athletics.

In this item, the Board of Regents, in its sole and independent discretion:

1. Adopts the proposed FY20 operating budget;
2. Establishes tuition rates for the 2019-20 academic year for all tuition categories;
3. Approves the FY20 budget for the UW Department of Intercollegiate Athletics;
4. Affirms that the Board of Regents has delegated authority to the President and Provost to implement certain academic fee increases that are consistent with limitations that the Board has specified, are reasonable and necessary; and,
5. Considers proposed changes to tuition and fee rates in the context of a cost of attendance appendix item.

BACKGROUND

This item presents the University’s proposed operating budget for FY20, which begins on July 1, 2019 and ends of June 30, 2020. The FY20 operating budget includes final proposed tuition rates and is presented as one comprehensive document for final approval.

In response to feedback from Regents in recent years regarding the University’s operating budget, the University’s FY18 and FY19 operating budgets each provided more information and context than previous versions for every area of the budget, including budget oversight and policies. This proposed FY20 operating budget builds on the improvements made in the FY19 budget by further refining the presentation of information and the methodology used to make budget projections. The proposed FY20 operating budget includes:

BOARD OF REGENTS MEETING

Approve Fiscal Year 2020 Operating Budget (continued p. 2)

- An introduction from the Provost;
- An overview of the University's mission and commonly-cited facts;
- An executive summary of the University's overall proposed FY20 operating budget;
- Background information to provide context for the University's current budget challenges and proposals;
- An overview of the processes and policies that guide the University's careful management and distribution of resources;
- Details regarding expected revenue and proposed expenditures and fund uses for the General Operating Fund and Designated Operating Fund, which are known together as the University's "Core Operating Budget;"
- Final proposed tuition and financial aid recommendations for the 2019-20 academic year; and,
- Projected budget information for:
 - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY20;
 - UW Medicine, including updated FY19 financial results and target operating margins for FY20;
 - Gift income and endowment distribution projections for FY20; and,
 - Sponsored research activity, including expense projections for FY19 and FY20.

The University's proposed FY20 operating budget was modified, based on feedback and updated information, and changes to the information item presented to Regents in May are highlighted for this action item.

Attachments

1. Proposed Operating Budget, Fiscal Year 2020
2. UW Department of Intercollegiate Athletics FY20 Budget
3. [2019-20 Cost of Attendance for First-Year UW Undergraduate Students](#)

UNIVERSITY *of* WASHINGTON
OFFICE OF PLANNING & BUDGETING

OPERATING BUDGET

Fiscal Year 2020



INTRODUCTION FROM THE PROVOST

During my first year as Provost, I've been impressed by the University of Washington's (UW's) innovative spirit, strong academic mission, and commitment to public service. As a researcher and an academic, I've been proud to take part in that great work and, as the institution's chief academic officer, I've been enthusiastic to help address some of the challenging realities from a budgetary standpoint.

The University is large and complex and, as we all know, it operates in an environment of scarce resources. While there are many financial needs and gaps to address, there is thankfully no shortage of creative minds to help address those issues.

The University of Washington's fiscal year 2020 (FY20) operating budget represents months of purposeful collaboration among deans, faculty, students, staff, and executive leadership. President Ana Mari Cauce and I worked closely together to identify priorities, and this budget reflects our cooperative vision. I believe that achievements are most meaningful and valuable when we work toward them with others. This budget is no exception.

PRIORITIES AND KEY FOCUS AREAS

President Cauce's and my top priority is academic excellence. In this year's Annual Review process, President Cauce and I asked units to explain how they are aligning their unit-level resources with this top University priority and with their own strategic plans. With the UW's academic excellence in mind, our legislative efforts have continued to focus on increasing state support for the UW, and particularly for compensation and core educational expenses.

Another top priority is ensuring that we are living well within our means. To that end, the Annual Review process has allowed us to identify potential deficits further in advance, analyze with greater nuance the deficits that already exist, work more closely with unit leadership to proactively resolve any overspending of available resources, and carefully manage unexpended (carryover) funds.

Further, it is clear that we must give renewed attention to restoring our infrastructure and facilities; to promoting diversity across all aspects of the University community; to enhancing graduate student support; to rewarding faculty excellence; and to improving affordability for not only low-income students, but also those in middle-income brackets. I look forward to working with my colleagues across the UW to make additional strides in these areas over the coming year.

CONSIDERATIONS

Addressing these priorities often requires resources—sometimes significant ones—and available resources generally fall short of meeting all of our high-priority needs. This legislative session concluded on time and marked a significant and, hopefully, consistent shift in state support for the University. However, while modest increases for salaries may be more fully covered by state funding, other key revenues are restricted and constrained.

We know that market pressures and the high cost of living in the Seattle area continue to be at the forefront of campus unit concerns. Many units are reaching limits on their ability to “stretch the dollar” and we feel that strain at the University-level, too.

The UW's budget revenue is certainly large, but we have to remember that the part that can be put to general unrestricted use is relatively small.

THE BUDGET ITSELF

This document is the vehicle through which the UW Board of Regents reviews, and ultimately approves, the University's operating budget for the next fiscal year. We publish this document in the interest of promoting a greater understanding of the University's operating budget and the processes through which it is annually determined.

This operating budget incorporates state budget information and revenue estimates for tuition and fees, auxiliary/self-sustaining activities, clinical operations, research grants and contracts, and gifts and endowment distributions. The budget is meant to give both the Regents and the public a sense of scale for total revenue projections and context for the broad budget of the University as a whole. The primary focus, though, is on the sources and uses of the Core Operating Budget.

Not included are carryover fund balances from prior fiscal years, or unit-level expenditures related to grants and contracts. Auxiliary, self-sustaining, and other University units worked closely with the Office of Planning & Budgeting to prepare and submit the information that is included in this publication. Overall, we have made every effort to ensure that the information in this document is as thorough, accurate, and current as possible. By necessity, though, this document represents projections at a given moment in time.

Following my introduction, you will find an overview of the University and its activities, an executive summary of the FY20 budget, and a short guide on “how to read” the remainder of this budget document.

In this FY20 budget, the Board has taken action on tuition rates, the delegation of fee setting authority, and the general use of core operating revenues.

Sincerely yours,



Mark Richards
Provost and Executive Vice President
Professor, Department of Earth and Space Sciences

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OVERVIEW OF THE UNIVERSITY

Founded in Seattle in 1861, the University of Washington (UW) is a public research university with campuses in Seattle, Tacoma, and Bothell. The UW is the largest university in the northwestern United States and is one of the oldest universities on the west coast. The University's adopted fiscal year 2020 (FY20) operating budget totals \$8.25 billion, and its Consolidated Endowment Fund is approximately \$3.4 billion (as of June 2018). The University employs approximately 34,000 faculty and staff and 4,000 graduate student employees. The UW's three campuses occupy 440 buildings on 792 acres, with more than 22 million gross square feet of space. When counting all UW-owned buildings such as clinics, hospitals, and research centers, the University's total footprint is more than 26.4 million gross square feet.

As the state's flagship university, the UW enrolled more than 59,000 undergraduate, graduate, and professional students in fall 2018. The UW Continuum College, formerly UW Educational Outreach, educates more than 50,000 students annually via in-person and online degree and certificate programs and continuing professional education programs. The three UW campuses offer a broad range of graduate and undergraduate degrees, and collectively support more than 613 degree options across 312 programs, more than 1,100 student organizations, and undergraduate research opportunities for more than 9,000 students. In 2017-18, the UW awarded nearly 17,000 bachelors, masters, doctoral, and professional degrees.

UW MISSION

The primary mission of the UW is the preservation, advancement, and dissemination of knowledge. The University preserves and advances knowledge through its libraries and collections, its courses, the scholarship of its faculty and students, and the support of its staff. It advances new knowledge through many forms of research, scholarship, inquiry, and discussion, and disseminates knowledge through the classroom and the laboratory, scholarly exchanges, creative practice, international education, and public service. As one of the nation's outstanding research and teaching institutions, the University is committed to maintaining an environment for robust and imaginative inquiry, and for the original scholarship and research that ensure the production of new knowledge in the free exchange of facts, theories, and ideas.

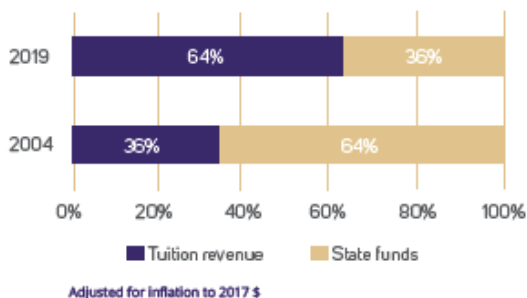
For the full UW mission statement, please see [Regent Policy No. 5, Role and Mission of the University](#).

2019 UW FAST FACTS

PROFILE

- The University of Washington's three campuses offer more than 613 degree options across 312 programs.
- The UW's FY2019 budget is \$7.84 billion, including \$1.03 billion in the general operating fund, which supports the University's academic mission.
- Tuition revenue makes up 64 percent of the UW's general operating fund;** the remainder comes from state funds. Fifteen years ago, the proportions were reversed — 36 percent came from tuition and 64 percent from the state. These amounts have changed due to the ongoing effects of state funding cuts during and after the Great Recession.

GENERAL OPERATING FUND: TUITION REVENUE AND STATE FUNDING



- UW undergraduate tuition and fees for Washington residents in 2018-19 is \$11,207 — which is **below the mean and median among the UW's peers in U.S. News & World Report's list of the Top 25 Public Research Universities.**

ENROLLMENT AND DEGREES

FALL 2018 TOTAL ENROLLMENT				
	SEATTLE	BOTHELL	TACOMA	TOTAL
UNDERGRAD	32,594	5,411	4,573	42,578
GRAD/PROF	15,305	578	802	16,685
TOTAL	47,899	5,989	5,375	59,263

The UW's average time to degree is four years, and 81 percent of entering freshmen graduate within six years — the highest percentage of any public university in the state.

The UW educates Washington's most promising students:

- 73 percent** of UW undergraduate students are residents of Washington.
- 1.9 percent** increase this year in the number of freshman applications to all three campuses.
- All 39** Washington counties have students at the UW.

In fall 2018, 41 percent of UW students were pursuing at least one science, technology, engineering and mathematics (STEM) major. In 2017-18, **the UW awarded 6,507 STEM degrees, 4.9 percent more than in 2016-17.** Overall, 42 percent of students who have declared STEM majors are women.

DEGREES AWARDED 2017-18				
	SEATTLE	BOTHELL	TACOMA	TOTAL
BACHELOR'S	7,968	1,714	1,413	11,095
MASTER'S	3,947	259	323	4,529
DOCTORAL	820	N/A	1	821
PROFESSIONAL	551	N/A	N/A	551
TOTAL	13,286	1,973	1,737	16,996

UW Continuum College (formerly Educational Outreach) educates more than 50,000 students annually through UW Professional & Continuing Education, International & English Language Programs, Summer Youth, Summer Quarter, UW in the High School, and the Osher Lifelong Learning Institute.

AFFORDABILITY AND ACCESS

- Since before the recession, **the number and proportion of underrepresented-minority students at the UW have increased**; underrepresented-minority students now make up 19.3 percent of the 2018–19 domestic freshman class.
- **Over 32 percent of incoming freshman from the U.S. will be the first in their families to attain a bachelor's degree.** Half of UW Bothell students and 59 percent of UW Tacoma students are first generation.
- **Approximately 60 percent of all UW undergraduates graduate with no known debt**, and those who borrow still graduate with less debt than the national average.
- **In 2018–19, 26 percent of undergraduates are eligible for Federal Pell Grant funding.** As of the most recent data (2016–17), more than 11,000 UW undergraduates received Pell Grants — more than at all the Ivy League schools combined.
- In 2018–19, **32 percent of UW undergraduates from Washington (nearly 10,000) are eligible for the Husky Promise**, which covers the tuition and fees* of students with financial need.
- Since the start of the Husky Promise program in 2007, **more than 40,000 students across the UW's three campuses** have received support from the program.
- In 2018–19, about **53 percent of UW undergraduates are receiving some form of financial aid**, totaling more than \$420 million.
- In 2018–19, the UW is **awarding roughly \$100 million in institutional grants and scholarships to Washington residents.**
- In 2018–19, **approximately 9,300 UW students will receive funds from the Washington State Need Grant**, 3,300 from the College Bound Scholarship and 2,000 from the Washington State Opportunity Scholarship.

**Through a combination of state, federal and UW local funds.*

AWARDS AND HONORS

- **The UW is one of the best universities in the world, ranked No. 10 globally and No. 2 among U.S. public institutions by U.S. News & World Report**, No. 14 globally by the Academic Ranking of World Universities and No. 15 nationally by Washington Monthly.
- **The UW has 21 graduate programs that are in the U.S. News & World Report top five for their fields**, and more than 40 UW graduate programs (including 27 STEM programs) are among the nation's top 10 in their fields.
- **The Wall Street Journal ranks the UW as the No. 3 best value in the nation.** Washington Monthly ranks UW Bothell No. 20 and UW Tacoma No. 4 in its "Best Bang for the Buck — West" rankings.
- **The UW has been home to 7 Nobel Prize winners**; 17 MacArthur Fellows; 175 members of the National Academies of Sciences, Engineering and Medicine; and 181 fellows in the American Association for the Advancement of Science.

RESEARCH AND SERVICE

- **The UW receives more federal research dollars than any other public university in the nation** — and in FY18, the UW received \$1.35 billion in total research awards (federal and non-federal sources).
- **The UW is ranked the No. 1 U.S. public university for scientific papers by National Taiwan University.**
- According to the 2014 UW Economic Impact Report, **the UW is one of the top five largest employers in Washington**, supporting more than 79,000 jobs, with an annual economic impact of \$12.5 billion.
- In the past five years, CoMotion, the UW's innovation hub, has launched more than 79 startups — **and the UW was recently rated the No. 1 most innovative public university in the world by Reuters**, which examined scholarly articles and patent applications.
- Over the past 10 years, **the UW has produced more Peace Corps volunteers than any other U.S. university.**
- In 2017, Entrepreneur found that **the UW appeared as the alma mater on the most résumés of employees at the top 100 tech companies.**

EXECUTIVE SUMMARY: ADOPTED FY20 BUDGET

This document describes the UW's adopted operating budget for the period of July 1, 2019, through June 30, 2020, which is known as fiscal year 2020 (FY20). **The focus of this document is on the University's core operating budget**, which is composed of:

- The University's General Operating Fund (GOF), which is the combination of state operating appropriations and tuition revenue; and
- The University's Designated Operating Fund (DOF), which is made of other, local revenues that support operations across all University units.

In an effort to provide comprehensive budget information, **this document also includes summarized and contextualized financial projections for other major areas of the University's operating budget:**

- Auxiliary activities;
- UW Medicine;
- Annual gift and endowment funds; and
- The University's research enterprise.

The Board of Regents will receive additional updates on the financial performance of these areas throughout the year via standalone, detailed items.

Figure 1, below, shows each major source of the UW's adopted FY20 budget and the share of the total that each source represents.

Figure 1: FY20 Budget Sources by Major Area

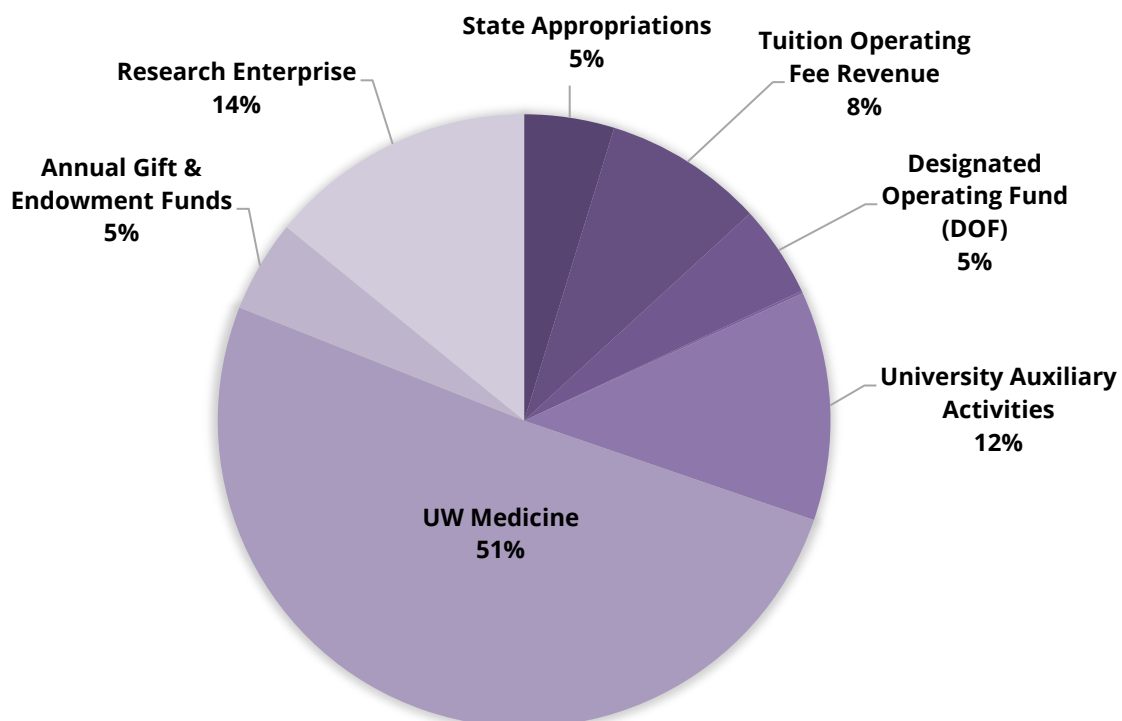


Figure 2, below, shows a breakdown of how projected FY20 operating resources must be used. State or federal laws dictate some of these uses, while University policies and donor requests determine others. **Overall, a relatively small portion of the University's total operating resources is available to fund academic and academic support activities.**

Figure 2: FY20 Designated Uses of Funds by Activity

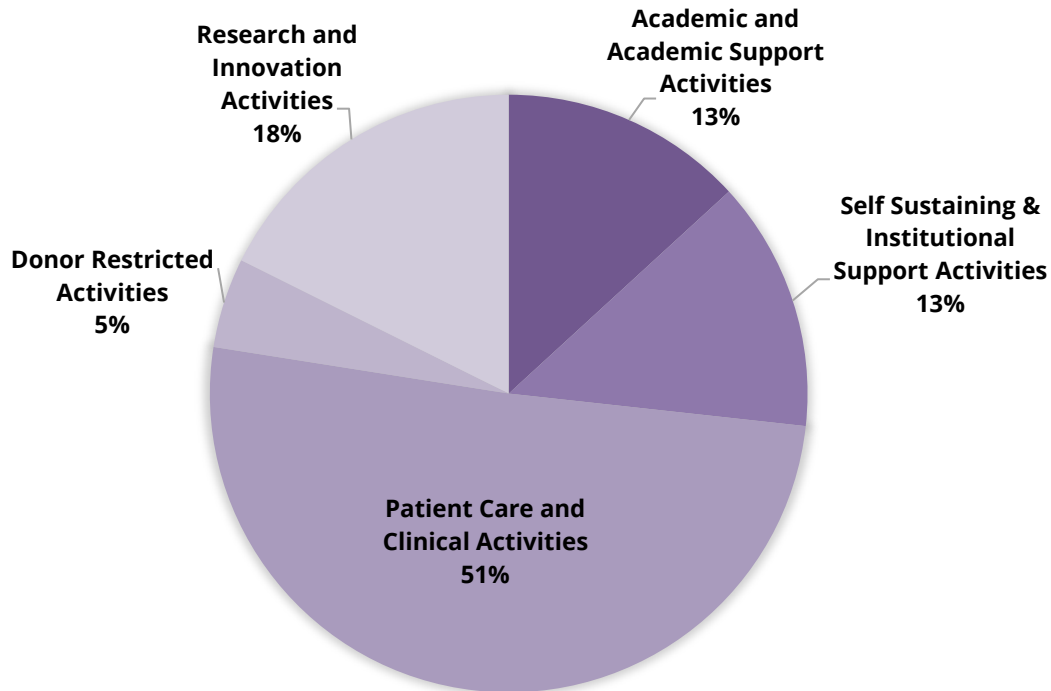


Table 1, on the next page, shows the FY20 budget compared to the FY19 budget that was approved by the Board of Regents, and the incremental change between the two.

The UW's adopted FY20 budget is projected to total \$8.25 billion. Of that total, the University's core operating budget is projected to be \$1.48 billion. As mentioned, the sources and uses of the University's core operating budget are the primary focus of this document.

Table 1: Adopted FY20 Operating Budget Sources by Area

Budget by Fund and Category	FY19 Adopted	Incremental Change	FY20 Adopted
Core Operating Budget	1,407,984,000	74,076,000	1,482,061,000
General Operating Fund (GOF)	1,027,505,000	57,905,000	1,085,410,000
State Appropriations	369,271,000	28,281,000	397,552,000
Tuition Operating Fee Revenue	658,234,000	29,624,000	687,858,000
Designated Operating Fund (DOF)	380,479,000	16,171,000	396,650,000
Indirect Cost Recovery	267,224,000	10,194,000	277,418,000
Institutional Overhead	26,130,000	2,870,000	29,000,000
Remaining DOF	87,125,000	3,107,000	90,232,000
State Restricted Funds	10,334,000	430,000	10,764,000
University Auxiliary Activities	984,656,000	4,338,000	988,994,000
Seattle	957,280,000	(3,024,000)	954,256,000
UW Bothell	17,526,000	4,769,000	22,295,000
UW Tacoma	9,850,000	2,593,000	12,443,000
UW Medicine	3,874,000,000	294,000,000	4,168,000,000
UW Medical Center	1,328,000,000	167,000,000	1,495,000,000
Harborview Medical Center*	1,035,000,000	37,000,000	1,072,000,000
Valley Medical Center	673,000,000	66,000,000	739,000,000
NW Hospital	396,000,000	(15,000,000)	381,000,000
UW Physicians	324,000,000	33,000,000	357,000,000
Airlift NW	59,000,000	4,000,000	63,000,000
UW Neighborhood Clinics	59,000,000	2,000,000	61,000,000
Annual Gift & Endowment Funds	419,498,000	22,502,000	442,000,000
Gift Income	291,498,000	18,502,000	310,000,000
Endowment Distributions	128,000,000	4,000,000	132,000,000
Research Enterprise	1,409,886,000	22,509,000	1,432,395,000
Federal	811,355,000	11,837,000	823,192,000
State and local grants	94,461,000	7,940,000	102,401,000
Nongovernmental	236,846,000	(7,462,000)	229,384,000
Indirect Expenditures**	267,224,000	10,194,000	277,418,000
TOTAL UNIVERSITY OPERATING BUDGET	7,839,134,000	407,661,000	8,246,796,000

Some discrepancies may exist due to rounding.

* Harborview Medical Center is managed by UW Medical Center, but appears on King County's financial statement.

** The estimates for "Indirect Expenditures" are included in the "Research Enterprise" totals, but are **not** included in the University totals, as doing so would double-count the budget for Indirect Cost Recovery, which is part of the "Designated Operating Fund."

How To Read This Document

Staying true to the research and academic mission of the University, the structure of this document is similar to a research paper:

- First, we explore the University's budget **background**, including the challenges and trends that have led us to where we are today.
- Second, we review the University's budget **methodology** (titled "Ensuring Sound Budget Management"), which discusses the processes and policies that guide the University's careful management and distribution of resources.
- Lastly, we present the budgetary **results** for each area of the University's adopted FY20 budget:
 - Our Core Operating Budget
 - University Auxiliary Activities
 - UW Medicine
 - Annual Gifts & Endowment Funds
 - Research Enterprise

The full story would be incomplete without an understanding of how we got to where we are, so we recommend that you take a few moments to review the background and methodology. **However, since the results are often the most interesting aspect, you may wish to go straight to page 34, which is where we dive into "Our Core Operating Budget," the first major area of the UW's adopted FY20 budget.**

Please note, **a glossary is available at the very end of the document** to provide a quick reference for acronym definitions.

BACKGROUND

This section articulates the funding challenges that continue to shape our University's budget going into FY20. Such challenges include:

- Limitations on enrollment growth and changes in the overall mix of enrollment;
- Per student funding levels that remain low compared to peers and pre-recession funding levels;
- Tuition-setting constraints, particularly for resident undergraduate tuition;
- Rising expenses for compensation, due to salary competition, cost of living increases, and mandatory cost increases for benefits;
- Mandatory cost increases for state central services, compliance, utilities, and infrastructure, which require new investments of limited funds; and
- Federal funding and policy uncertainties.

This section concludes with a review of budget trends over the last three biennia.

CHALLENGE 1: ENROLLMENT LIMITATIONS AND CHANGES

Student enrollment growth is constrained by space and funding issues. Over the past 10 years:

- The University has experienced an annual 2 percent per year tuition-based enrollment growth;
- The bulk of that growth has occurred at UW Bothell and UW Tacoma;
- The growth rate of undergraduate student enrollment has exceeded that of graduate and professional student enrollment across all three campuses.

Changes in the composition of the student body accompany this enrollment growth, which makes it incumbent on the University to ensure that student support services adjust accordingly.

Looking ahead, we anticipate Seattle enrollments will continue to remain stable as Bothell and Tacoma enrollments level off. More efficient class scheduling, or changes in course delivery, may add some capacity at Seattle, but any overall growth will be minimal.

In particular, a growing number of students are seeking to enter capacity-constrained majors. These majors tend to be the most expensive to teach and the most research intensive, which requires additional space and high-cost equipment. In response, the University is developing an enrollment strategy that better balances enrollment demands and capacities.

The primary areas of enrollment growth at the UW are in science, technology, engineering, and math (STEM) fields. Nearly all majors within these STEM areas at the UW are capacity-constrained. STEM degrees cost the University more than non-STEM degrees due to higher market salaries, specialized equipment, and technologically advanced learning spaces, labs, and classrooms.

As Figures 3 and 4 show, over the last decade, **STEM enrollment has grown 54.5 percent between our three campuses** (over 450 percent at Bothell and over 180 percent at Tacoma), while **non-STEM enrollment has grown only 5.2 percent** (even decreasing by 6 percent at Seattle). While this aligns with market forces, it means that **almost all of the UW's recent enrollment growth has come in the form of our most expensive and capacity-constrained majors.**

Figure 3: Student STEM Enrollment by UW Campus

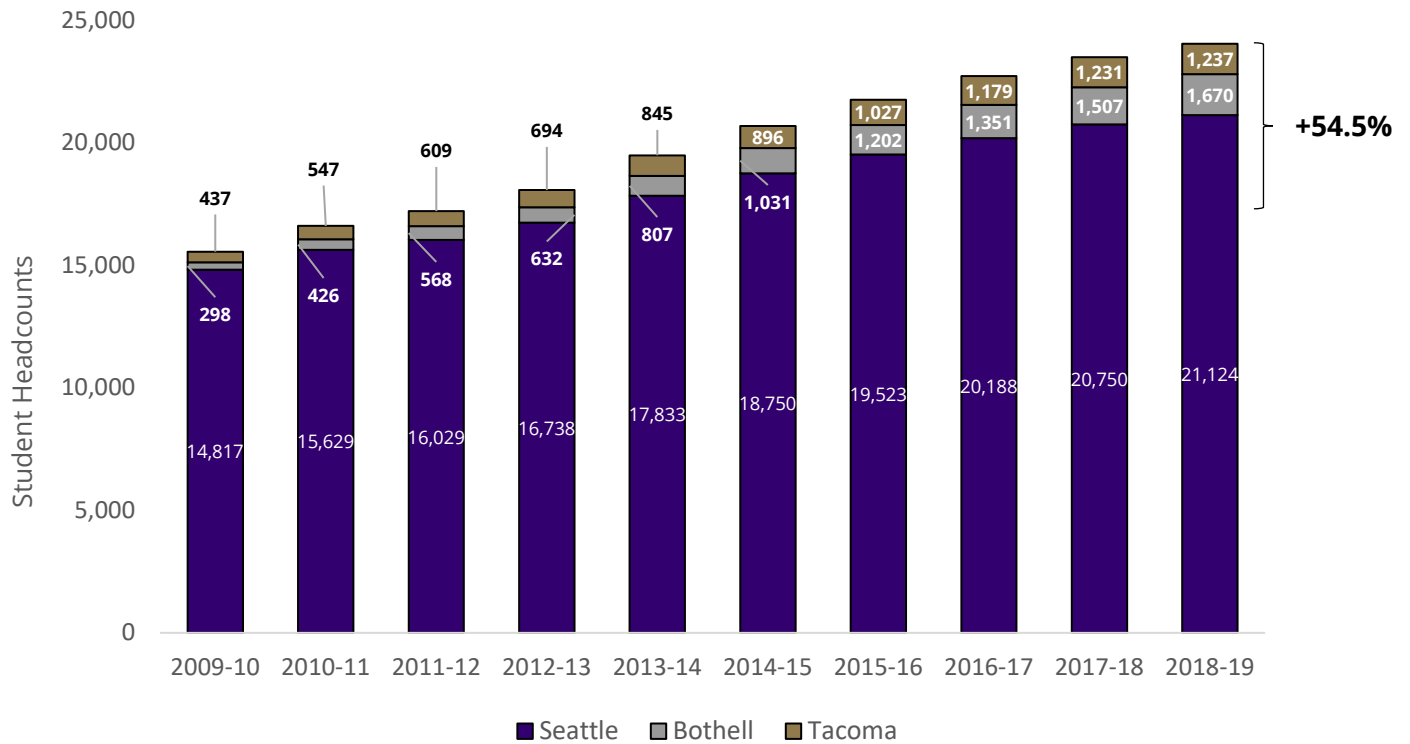
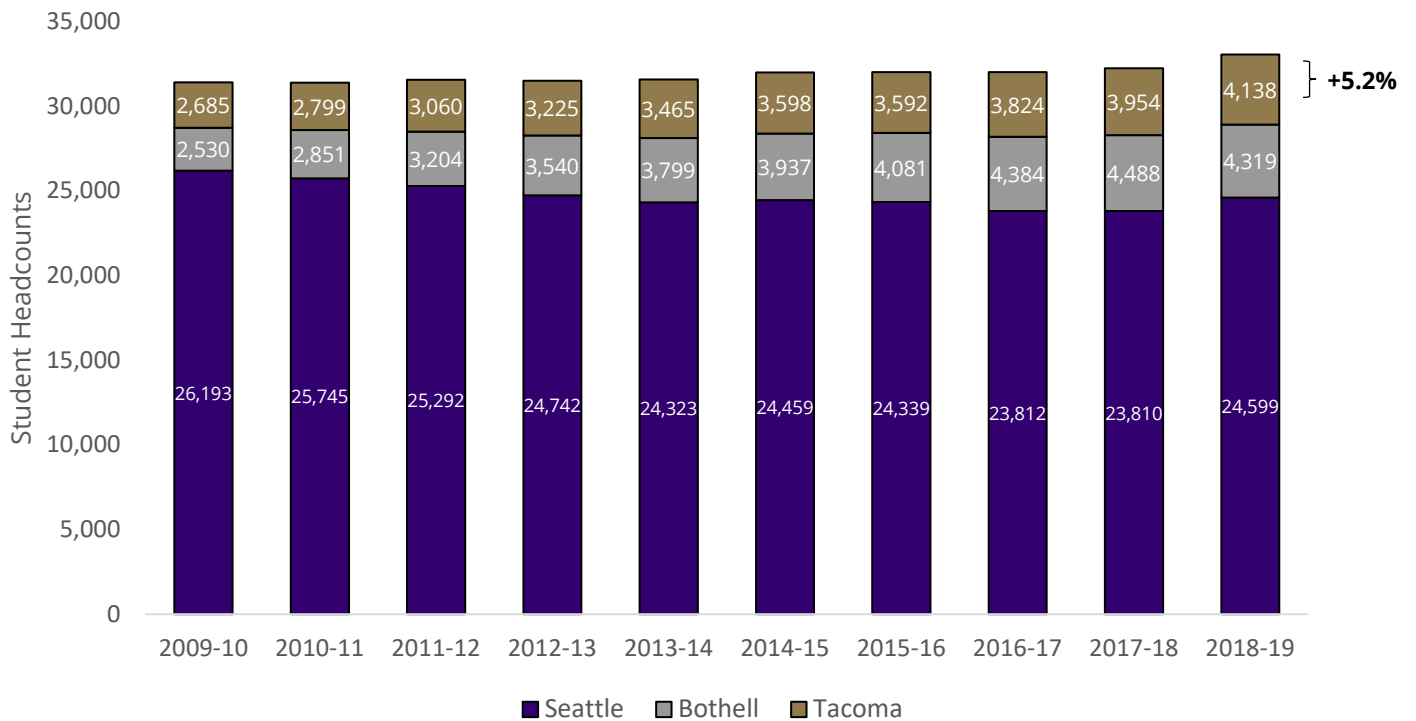


Figure 4: Student Non-STEM Enrollment by UW Campus



CHALLENGE 2: STATE APPROPRIATIONS AND TUITION FUNDING PER STUDENT

Like many other state institutions, the UW has endured significant state funding cuts in the past decade. Consequently, the majority of core education funding formerly provided by the state is now borne by students and families. The University must carefully balance its desire to invest in excellence and compete in international, national, and local markets, with the reality that many cost increases are outpacing inflation, while revenue increases are at or below inflation.

Important trends appear when examining the UW's core instructional funding (from state appropriations and tuition revenue) per full-time equivalent (FTE) student.¹ Namely, that **tuition increases at public institutions are due, in large part, to a decades-long trend of state budget cuts:**

- In 1991 (FY91), the state provided 82 percent of total funding per student FTE, with students and families responsible for the remaining 18 percent from tuition.
- FY09 was the last year in which the majority of funding per student FTE was provided by the state.
- Between FY09 and FY12, the UW lost approximately half its state funding, while enrolling more students than ever.
- Projected funding per FTE for FY20 is \$21,895, with 37 percent covered by state funding.

Recently, the downward trend in state funding per student has slightly reversed due to limitations on resident undergraduate tuition rates (see the "Resident Undergraduate Tuition Policy" section below), as well as additional state investments to backfill forgone resident undergraduate tuition revenue and to improve the share of state support for compensation and central service expenses.

Please note that this analysis leaves out other revenue sources that the UW increasingly relies on to support core educational operations, including: endowment returns, philanthropic gifts, and more. Thus, tuition and state funding per FTE student is **not** equivalent to the total amount of expenditures needed to educate each FTE student.

The UW in Seattle often compares itself to other U.S. News & World Report (U.S. News) Top Public Research Institutions in order to benchmark and check progress. According to FY17 data (the most recent year available) from the Integrated Postsecondary Education Data System (IPEDS), the UW received less state funding per student than all but three of our 22 other U.S. News peer institutions.²

While lawmakers were able to provide some new funding for higher education in FY18 and FY19, the majority of the new funding was earmarked for specific purposes and could not be applied broadly to the UW's core educational operations. Lawmakers also maintained resident undergraduate tuition policy (described in the next section) in FY18 and FY19, which allowed for modest, inflationary increases. The 2019 legislature maintained this policy in FY20, as well.

Now that the state has addressed a backlog of K-12 education funding obligations under the *McCleary v. State of Washington* court ruling, **higher education has become more of a priority for the state.** The 2019-21 state budget includes new appropriations to improve the share of state funding for core operations. This

¹ Adjusting for inflation and considering tuition revenue from **all** tuition-based students, not just resident undergraduates.

² University of Illinois' data appear to be erroneous and they have been excluded from this analysis.

and other investments are funded by a new designated revenue stream for higher education, which could help public institutions weather future economic downturns.

CHALLENGE 3: TUITION-SETTING AUTHORITY AND PREDICTABILITY

As illustrated in the previous section, the University relies heavily on tuition revenue to support its core academic mission. However, the University is not necessarily able to raise tuition rates whenever state funding (and other revenue sources) are insufficient. This is particularly true for resident undergraduate (RUG) tuition rates, which the state controls and, in recent years, have been frozen or reduced. In addition, although tuition rates for non-resident undergraduate, graduate, and professional students are under the control of the University, our ability to increase these rates in response to funding needs is limited by a variety of constraints and considerations. These challenges are explored in more detail, below.

Resident Undergraduate Tuition

As with direct state appropriations to the University, state decisions regarding RUG tuition rates can be unpredictable. For the two biennia prior to the recession, RUG tuition rates were allowed to increase by up to 7 percent per year. Here is an overview of recent biennia:

- For the 2013-15 biennium, the state froze RUG tuition at 2012-13 levels. In exchange for the freeze, the state provided \$20 million per year in new funding, acknowledging that operating costs would continue to rise.
- In 2015, the legislature passed [2ESSB 5954](#), which made the following changes for the 2015-17 biennium:
 - For 2015-16, the bill reduced the RUG **operating fee** to 5 percent below 2014-15 levels;
 - For 2016-17, the bill reduced RUG **operating fee** to 15 percent below 2014-15 levels;
 - In accordance with the bill, the legislature provided funds to “backfill” the forgone tuition revenue associated with the RUG tuition reductions.
- For the 2017-19 biennium, the state legislature maintained the tuition policy of 2ESSB 5954 (2015), which limits RUG tuition increases to the 14-year rolling average of Washington’s median hourly wage (roughly 2.2 percent per year). The policy also requires annual, inflationary adjustments to the previously provided backfill funds.
- In the 2019-21 biennium, the state is continuing to hold this tuition policy, barring any changes in the 2020 legislative session.

Unfortunately, RUG tuition freezes and inflationary backfill adjustments do not provide sufficient revenue to address rising costs and fill resource gaps left over from the Great Recession.

The constraints on RUG tuition-setting are reflected in comparisons with peer universities. As previously mentioned, the University uses the 2019 U.S. News “Top 25 Public Universities” as a peer comparison group when analyzing tuition costs and program rankings. Due largely to the legislatively mandated RUG tuition freeze and RUG tuition reductions, detailed above, the UW’s RUG tuition rates remain low compared to its peers, many of whom increased tuition significantly over the same period. For the 2018-19 academic year, the UW in Seattle’s RUG tuition and fee rate of \$11,207 is \$1,833 *below* the peer average (see Table 2 below).

Table 2: Peer Comparison – 2018-19 Resident Undergraduate Tuition & Fees

U.S. News Top 25 Public Universities	2018-19 Tuition & Fees
Pennsylvania State University-University Park	18,454
University of Virginia	17,641
University of Illinois at Urbana-Champaign	16,004
University of Connecticut	15,730
The University of Michigan-Ann Arbor	15,262
Rutgers, The State University of New Jersey	14,974
Clemson University	14,970
University of California-Davis	14,402
University of California-Santa Barbara	14,391
University of California-Berkeley	14,184
University of California-San Diego	13,961
University of California-Irvine	13,678
University of California-Los Angeles	13,201
Georgia Institute of Technology	12,424
University of Georgia	11,830
University of Washington-Seattle Campus	11,207
Texas A&M University	10,968
The Ohio State University	10,726
The University of Texas at Austin	10,606
University of Maryland	10,595
University of Wisconsin-Madison	10,556
Purdue University	9,992
North Carolina-Chapel Hill	8,987
University of Florida	6,381
U.S. News Top 25 Publics Group Average	13,040

Sources: 2018-19 American Association of University Data Exchange, and institution websites. UW tuition and fees are excluded from the peer average.

Other Tuition Categories

RUG tuition is not the only category with tuition-setting constraints. When setting tuition rates for nonresident undergraduates and the many graduate and professional program categories, the University must carefully consider peer comparisons and, especially for graduate students, competitive recruitment and funding for teaching assistant (TA) and research assistant (RA) positions.

The UW's nonresident undergraduate tuition rate increased by 2.2 and 3.0 percent in the last two academic years, compared to the peer mean of 4.2 percent and 2.3 percent in the 2017-18 and 2018-19 academic years, respectively. In 2018-19, the UW in Seattle's nonresident undergraduate tuition and fee rate of \$36,588 is still \$916 *below* the peer mean. A peer comparison is shown in Table 3. It is important to note, however, that student fees vary by institution. The UW generally has lower student fees than other institutions, which lowers our tuition and fee rate relative to peers.

Table 3: Peer Comparison – 2018-19 Nonresident Undergraduate Tuition & Fees

U.S. News Top 25 Public Universities	2018-19 Tuition & Fees
The University of Michigan-Ann Arbor	49,350
University of Virginia	49,020
University of California-Davis	43,394
University of California-Santa Barbara	43,383
University of California-Berkeley	43,176
University of California-San Diego	42,953
University of California-Irvine	42,670
University of California-Los Angeles	42,193
University of Connecticut	38,098
The University of Texas at Austin	37,480
University of Wisconsin-Madison	36,805
Clemson University	36,724
Texas A&M University	36,636
University of Washington-Seattle Campus	36,588
University of Maryland	35,216
North Carolina-Chapel Hill	35,170
Pennsylvania State University-University Park	34,858
Georgia Institute of Technology	33,020
University of Georgia	30,404
University of Illinois at Urbana-Champaign	32,574
Rutgers, The State University of New Jersey	31,282
The Ohio State University	30,742
Purdue University	28,794
University of Florida	28,658
U.S. News Top 25 Publics Group Average	37,504

Sources: 2018-19 American Association of University Data Exchange, and institution websites.
 UW tuition and fees are excluded from the peer average

Similar to nonresident undergraduate tuition, increases to graduate and professional tuition rates must be considered alongside peer comparisons. A variety of peer analyses are available on the Office of Planning & Budgeting (OPB) [Tuition & Fees Peer Comparison webpage](#), under U.S. News “Top 25.” When a UW academic unit makes a recommendation to increase certain graduate and professional tuition rates, it must also provide market analyses and additional justification for the adopted rate changes.

The University collects these tuition recommendations and justifications each year through the annual unit budget submission process. Submissions for FY20 and prior years can be found on the [Annual Budgets tab](#) of the OPB website, and FY20 tuition recommendations are summarized on page 40 of this document.

Graduate and professional tuition rates must also contemplate competitive recruitment and funding for TA and RA positions. Many students, primarily PhD students who serve as TAs or RAs, have their tuition waived or funded by the University as part of their compensation. Therefore, raising tuition in these categories affects our ability to recruit high quality graduate students in a competitive market, and affects academic units’ ability to offer TA and RA positions because units often cover the cost of tuition for these students

through general funding and research grants. Given the ongoing uncertainty regarding federal funding (which is explored in more detail later on page 22, it is especially critical for the UW to be mindful of these issues.

CHALLENGE 4: COMPETITIVE COMPENSATION

Although the UW has been able to provide modest salary increases for faculty and staff during the past few years, the state imposed a four-year salary freeze during the Great Recession and the fact remains that many UW faculty and staff are compensated below their counterparts at peer institutions.

During the 2019 legislative session, our top priority was more funding for compensation to align with the other state universities and colleges. For context, following the recession, the legislature provided only approximately one-third of the permanent funds needed to support the state's authorized compensation increases for faculty and staff paid via General Operating Fund (GOF) revenue. As a result, the UW has had to rely disproportionately on new, incremental **tuition** revenue to cover the remaining two-thirds of the cost. As this document has described, the UW's ability to generate new, incremental tuition revenue is highly constrained. Thus, this funding model is unsustainable.

In FY19, the state provided one-time funds to temporarily increase the state's share of support for GOF compensation changes from 34 percent to 50 percent. The state required that the UW use the one-time funds to cover the new, ongoing compensation costs, and the UW complied despite the inherent risks associated with using one-time money for ongoing expenses.

The state's 2019-21 biennial operating budget provides "foundational support" to increase the share of state funding for new GOF compensation and central service changes in FY20 and FY21. This funding is also sufficient to make permanent the one-time compensation funding provided last year (see pages 34 and 39 for details).

It is important to note that for staff funded through self-sustaining, clinical, or other business-type activities, revenues must increase sufficiently to offset salary and benefit increases. In other words, the state provides no funding to implement its compensation assumptions for employees paid on non-GOF sources. Because of this, **it is critical for the University to consider compensation decisions in the broad context of the University.**

Table 4 compares the UW's compensation increases for faculty and professional staff with the general wage increases authorized by the state for those employees. In line with other public universities, the UW has provided salary increases since the Great Recession in an effort to address salary gaps created by the recession and the state's salary freezes. Every salary increase that has exceeded the state's assumptions has been funded entirely by local, non-state sources. The financial challenges associated with this lack of state funding will compound in future years, as new increases come on top of those previously underfunded increases. As Table 4 shows, in FY19, the UW was unable to meet the state's salary assumptions for faculty and professional staff, even though the state temporarily provided additional compensation funding. Consequently, the UW provided lower increases than the state had assumed in FY19.

Please note that in FY14 and FY15, no state agencies received state-funded wage increases.

Table 4: Recent Salary Increases for UW Faculty and Professional Staff

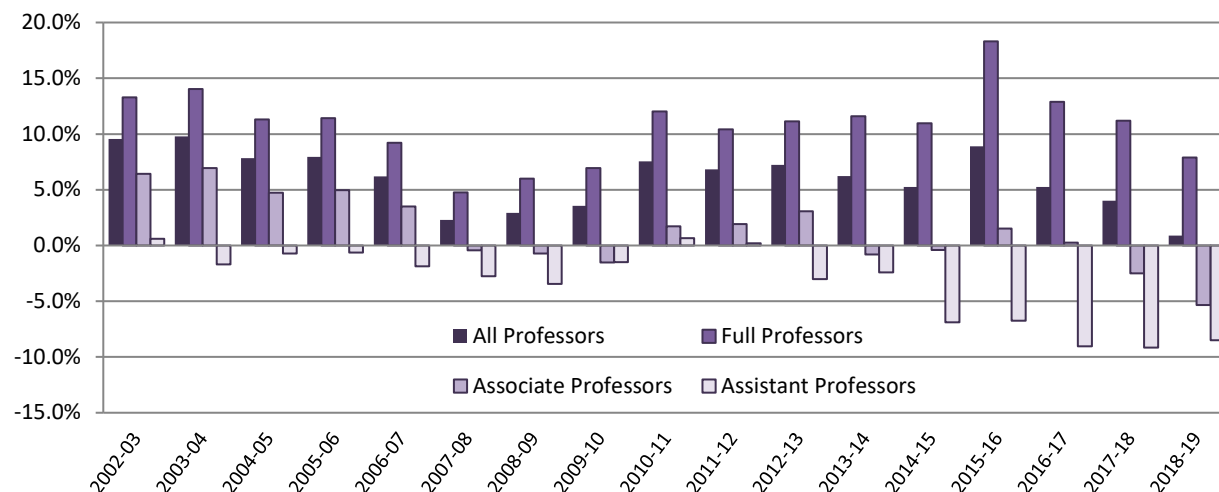
Fiscal Year	State Authorized Salary Increase	State Funded Proportion of State Authorized ¹	UW Implemented Salary Increase	Locally Funded Salary Increase ² (between state authorization and UW implemented)
FY10	State-mandated salary freeze (no increases were authorized or implemented)			
FY11				
FY12				
FY13				
FY14	0%	0%	4%	4%
FY15	0%	0%	4%	4%
FY16	3%	38%	3%	0%
FY17	1.8%	38%	4%	2.2%
FY18	2%	34%	2%	0%
FY19	4.04% (2% + 2%)	50%	2%	N/A

¹ Approximate portion funded with *ongoing* state dollars for non-represented employees paid via GOF. In FY19, the percentage reflects the 2019-21 biennial budget, which provided sufficient funding to make one-time funds permanent.

² The state provided no funding for salary increases that exceeded state authorization.

Despite implementing smaller compensation increases over the past two years than in prior years, Figure 5 shows that the UW has made strides relative to peers. In 2018-19, UW faculty salaries across *all* professorial ranks would need to increase by 0.9 percent in order to reach the average faculty salary at our U.S. News Top Public Research Institution peers. This is a much smaller gap than in recent years.

Importantly, the gap differs by year and rank. Specifically, assistant and associate faculty salaries no longer lag behind peer averages, though salaries for full professors are 7.9 percent behind the peer average. Although the average salary for assistant professors is above the peer average, hiring for these positions has become increasingly competitive and has primarily occurred in the most expensive fields of study. In order to hire new assistant professors in fields like engineering, the University must make offers that acknowledge the high local cost of living and the number of other universities competing for such faculty.

Figure 5: Percent Change Required for Average UW Seattle Faculty Salaries to Meet Peer Averages for U.S. News Top Public Research Universities

For professional staff, the UW's employee-weighted average salary is 6.0 percent below the 50th percentile of the market, and particular job categories such as information technology staff, research scientists, graphic designers, and others lag substantially behind the market. With increases of 2 percent in FY18 and FY19, and at a time of record unemployment and overall pay increases for the Seattle metro area above 3 percent in each year, it is likely that the UW has fallen farther behind the market.

The high and rising cost of living in the Puget Sound region is also a complicating factor for faculty and staff as they find it increasingly expensive to live and commute in the area. The Seattle region is considerably more expensive than the average among peer university locations, and has become increasingly more expensive in recent years. This creates retention and recruitment challenges for the University as we try to compete for hiring faculty and staff with other research universities and local private businesses.

CHALLENGE 5: MANDATORY COST INCREASES

Despite concerns about funding levels, some cost increases are mandatory. For example:

- **Compensation changes** for classified staff are required to enact collectively bargained agreements. In addition, as described above, adjustments for faculty and professional staff are necessary to address recruitment, retention, and compression needs—all in a competitive regional, national and, in some cases, international market.
- **New and rising benefits expenses** are largely the byproduct of fully subsidized UPASS benefits, and state benefits assumptions, including health benefit per employee premiums and the proportion of those costs borne by employees versus employers (approximately 15 and 85 percent, respectively). The state's current healthcare benefits make up the majority of these benefits expenses, and the state's paid family & medical leave law has added to benefits expenses in FY19 and beyond. Overall, benefits costs continue to increase with each new state budget, though a temporary use of state reserves may artificially maintain rates in the upcoming biennium.
- **New and rising state central service charges** require that the UW divert incremental tuition revenue and other resources away from core needs, such as compensation. Central service charges are intended to reimburse other state agencies for services they provide to the University, including audit services, legal services, and archives management. Unfortunately, the state is increasingly relying on these charges to supplement agency budgets. As an example, in the 2017 session, the state instated a new central service charge to support the Governor's Office of Financial Management (OFM), which required the UW to redirect \$1.5 million of student tuition revenue away from our core academic mission starting in FY18. This amount is increasing in FY20, with further increases expected in future years.
- Upward pressures on **utility costs** continue to challenge the UW. Although conservation and building efficiency enhancement efforts will offset a portion of the cost increases, the savings will not be sufficient to cover the anticipated FY20 expense. Thus, the administration believes an increase to the utility fixed cost budget is necessary.
- Based on recent claims history, we are planning for a notable rise in **insurance premium** expenditures in this budget.

- This budget reflects active redeployment of budget authority for **critical compliance** areas.
- **System infrastructure upgrades**, such as replacing payroll software that dated back to the 1980s, were, and continue to be, a necessity. The next critical upgrade, currently in the “readiness” phase, is the replacement of the UW’s legacy finance and budgeting systems. This update is necessary to increase operational efficiency, maintain regulatory compliance and build on the existing “early warning” processes of identifying developing budget problems. These key infrastructure upgrades are extremely expensive and require significant, multi-year, investment of accumulated local reserves in combination with other financing strategies.

Wherever possible, the UW administration has asked that units redeploy funds or cut budgets to affect service changes or new investments in areas of critical importance. For example, though real estate costs are increasing, the UW is looking to maximize the capacity of its centrally funded real estate portfolio. We are also looking at removing subsidies for self-sustaining or grant-funded units, in order to provide funds for cost increases. New classroom scheduling policies have been implemented that have led to increases in efficiency and improved certainty of classroom schedules. For example, in spring 2018, every course in the time schedule had an assigned classroom before registration, the first time this has occurred in over 17 years.

CHALLENGE 6: FEDERAL OUTLOOK

FY19 Wrap Up

The FY19 federal appropriations process concluded six months late in mid-February, as President Trump signed into law a large spending package that re-opened a significant portion of the federal government after a 35-day shutdown. Initially, the FY19 appropriations cycle started strong as Congress passed and the President signed bills to fund the Departments of Defense (DoD), Energy, Education, and Health, among others with robust increases. The FY19 cycle was the first time in over 30 years that the Departments of Labor, Health and Human Services, and Education were funded prior to the start of the federal fiscal year, on October 1. However, given conflicting political priorities, an agreement was not reached until January 25, 2019, when a continuing resolution was passed and the government was reopened.

The final FY19 spending package included favorable results for the UW, given the size and composition of the UW’s research portfolio and the UW’s commitment to financial aid and affordability. The spending package included a \$2 billion increase for the National Institutes of Health, as well as an increase of \$308 million for the National Science Foundation. Basic research supported by DoD saw a modest increase of \$276 million, and the Department of Energy Office of Science received an increase of \$325 million. The maximum Pell Grant award increased to \$6,195, up from the current award level of \$6,095.

The funding levels ultimately signed into law demonstrated Congress’ unwillingness to go along with the Administration’s proposed cuts in almost all areas of the federal budget. The Congressional opposition to many of the proposals was bipartisan and bicameral.

Looking Ahead to FY20

In the absence of a spending agreement between Congress and the White House, drastic cuts to spending levels are scheduled to return for FY20 and FY21. While there is bipartisan consensus in Congress that the spending caps—which were imposed in 2011 to control spending—will need to be adjusted, the federal House and Senate do not have an agreement regarding the amount and distribution between defense and nondefense discretionary spending. The White House is currently unwilling to discuss any adjustments.

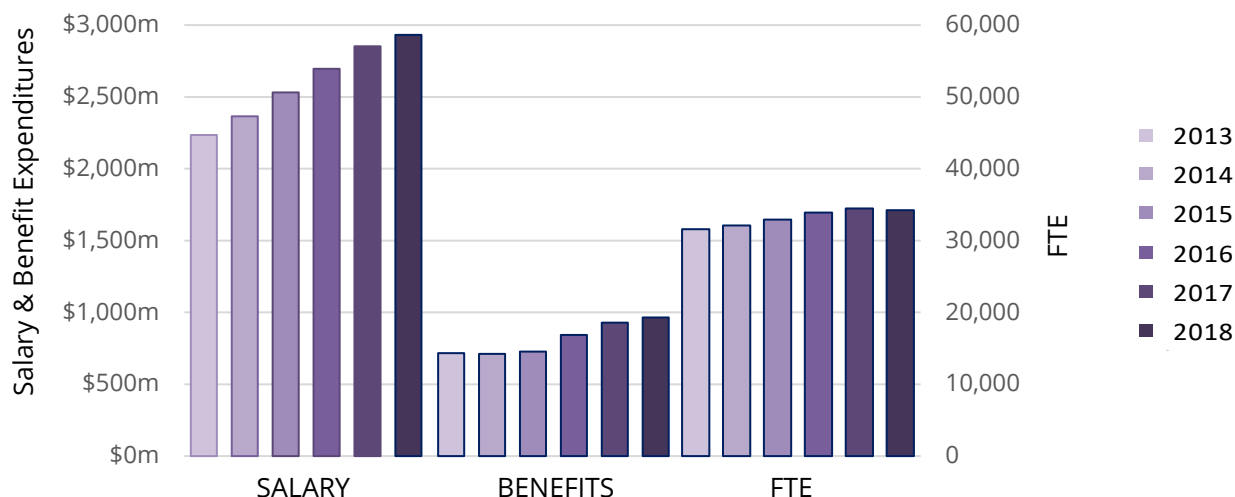
The Trump Administration's budget request, which was delivered in March, largely seeks to cut domestic programs or allow sequester cuts to effectuate, while proposing significantly defense spending increases. In most areas of interest to the UW and the wider academic community, there is widespread recognition that the White House budget request is not acceptable to either chamber or political party in Congress.

Further complicating the spending cap issue is that two different political parties control the chambers in Congress. In the 2018 election, Democrats gained control of the House, while Republicans gained more seats in the Senate. This division means that the two chambers are likely to have markedly different spending priorities, which will require greater compromises. This year, there will likely be three distinct entities trying to shape priorities: the House, the Senate, and the White House. This is compared to last year, when there was a somewhat unified Congress. Going forward in FY20, the various players will need to agree, as a first step, on how much overall funding is available.

BUDGET TRENDS OVER THE LAST THREE BIENNIA

As shown in Figure 6 below, salary and benefit expenditures have continued to climb over the past six years, although there has been little increase in total full-time equivalent (FTE) employees. Growth in salary and benefit expenditures are mainly due to the continual increase in health benefit rates and the fact that the University has provided moderate salary increases in recent years. Despite the moderate salary increases, however, competitive compensation continues to be a significant challenge for the UW. This is partially because Washington state imposed a four-year salary freeze between FY10 and FY13.

Figure 6: Trends in Compensation Expenditures and FTEs Over Six Years (from all fund types)



Sources: FTE numbers come from the "Budget Activity Detail" table in the ODS database in EDW. Salary and benefit information was obtained from the Financial database expenditure data.

Over the last six years, the implementation of Activity Based Budgeting (ABB) has driven other budget trends. From FY12 to FY19, Seattle academic units have continued to experience more budget growth than administrative units, both in terms of real dollars (\$228.4 million versus \$87.9 million) and in terms of proportionate growth (48 percent versus 29 percent). In FY19, Seattle academic units received 64 percent of the permanent Core Operating Resources going to Seattle, while Seattle administrative units received 36 percent.³

These data illustrate the UW's sustained prioritization of academic activities over administrative functions. Further, this clear differentiation is not an artifact of one year's budget process, but rather, sustained investments in the UW's academic mission. Data suggest that this trend will continue with the adoption of the FY20 budget; however, it is important to note that this trend will eventually become unsustainable.

Further, please note that administrative functions include many student- and research-facing units. Administrative units include the Libraries, the Graduate School, Undergraduate Academic Affairs, Student Life, Minority Affairs and Diversity—which have clear obligations to students, faculty, and staff—and central administrative units that focus on compliance, operating and capital planning, finance, and human resource functions, to name a few.

Every year, we continue to refine the ABB model, which includes reviewing how base, permanent budget allocations are distributed to all units. Such efforts aim to minimize financial duress to individual units and recognize circumstantial changes in tuition revenue distribution and program delivery, while ensuring that the University as a whole is financially stable.

³ Please note, this ratio is different from the ratio of distributed net tuition revenue, under which 70 percent of net operating fee revenue is distributed to academic units and 30 percent is held centrally.

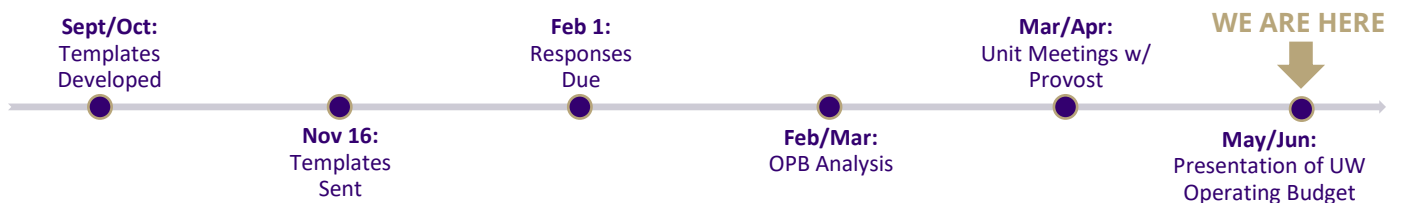
ENSURING SOUND BUDGET MANAGEMENT

As a public institution, it is essential that the University manage its resources to most effectively serve our students, faculty, staff, and the citizens of our state and region. This involves careful consideration of revenues and expenditures including budget oversight and informed distribution of resources. This section outlines central budget oversight strengths, as well as limitations, and concludes with an overview of budget policies and Activity Based Budgeting (ABB) distribution rules.

ADMINISTRATIVE DUE DILIGENCE

STRENGTH 1: ANNUAL REVIEW AND BUDGET DEVELOPMENT PROCESS

The Annual Review process is a nine-month budget development and holistic assessment effort that involves deans, faculty, staff, and students. Through this process, the Provost and President work to identify and fund institutional and unit-specific strategic goals and address resource constraints. This process also serves as an early warning system to identify and address potential deficits within units (i.e. schools, colleges, campuses, and major Seattle administrative offices). The first step is for all units to complete a suite of materials in preparation for annual review meetings. These submissions were due February 1 and are publicly available at the Office of Planning & Budgeting's [Annual Budgets website](#). Meetings between units and the Provost were held in late March and early April. The end result is a new University operating budget for the Board of Regents' consideration.



In the February 1 submissions, units were asked to provide:

- **Quantitative and qualitative information in connection with strategic plans and goals**, such as how those goals could result in material changes to revenues or expenditures, faculty or staff workload, student experience, and space assignments.
- Three years of actual budget authority, revenue, and expenditure data and **five years of detailed financial plans**, accompanied by questions about overall financial health and efforts to improve financial position.
- **Student and employee growth or contraction summaries**, along with employee hiring trends, strategies, and recruitment or retention challenges.
- **Updated carryover (reserve) spending plans** with new estimates, and an explanation of changes.
- **Tuition rate recommendations**, justified by the use of incremental revenue, peer comparisons, considerations for student debt, and a “no increase” scenario.

- **Confirmation of student and faculty consultation** regarding tuition increases and the overall annual review submission.

Improvements to this year's process included:

- **Moving the submissions to an online survey tool**, in order to leverage technology to perform thematic analysis of narratives, maintain stronger version control, and accommodate updates.
- **Providing enhanced technical and nontechnical process guides**, making questions clearer and conducting more outreach in order to limit the number of follow-up questions by units and the Office of Planning & Budgeting (OPB).
- **Streamlining many aspects of the fiscal reports**, so unit administrators could spend less time on data confirmation and OPB could spend less time performing data entry and manipulation and more time analyzing the data.

During the FY20 Annual Review process, OPB received over 31,000 data points. These data fed an interactive model that was driven by over 70 variables and used to:

- **Forecast** compensation and other expense increases against estimated net new revenue.
- **Inform** decisions about salary increases and allocation of limited central resources for strategic needs.
- **Support** efforts to proactively assess how fiscal pressures and assumptions affect unit-level budgets and to proactively identify and resolve potential overspending of available resources.

In summary, robust information and data are combined with forecasting tools and consultative processes to ensure sound programmatic and fiscal vitality for units and the University as a whole. The Annual Review process allows the Provost and President to ask units how they are aligning their unit-level use of resources with strategic plans and the University's priorities. It also allows the Provost and OPB to review the interplay between ABB, each unit's long-range financial plans, and institutional-level goals. Throughout this process, OPB has continued its work to identify, analyze, and resolve existing and forecasted deficits within the funds it monitors, as part of the Provost's overall efforts to ensure that all units are operating within the available budget.⁴

Simultaneously, elected faculty councils, deans, and administrators have worked in partnership with the Faculty Senate Committee on Planning & Budgeting to develop multi-year, comprehensive faculty salary plans. Merit was the guiding principle for these plans, but considerations of faculty size, peer competition, compression, and inversion were also brought to bear. Faculty salary plans informed fiscal vitality reports and forecasts in an even more streamlined and intentional process than last year.

Future budget cycles will continue to be managed with the goal of continuous improvement.

STRENGTH 2: AUXILIARY BUDGET OVERSIGHT

The University's large, self-sustaining auxiliary business enterprises include UW Continuum College, Housing and Food Services, Lab Medicine (within the School of Medicine), Intercollegiate Athletics, and Parking and Transportation Services. UW Medicine is also an auxiliary, but, given its size and unique mission, it is

⁴ The University's deficit resolution policy is available here: <http://www.washington.edu/opb/uw-budget/budget-policies/>

typically identified separately and it has additional oversight and budget controls beyond those described below.

Chancellors, Deans, Vice Presidents, Vice Provosts, Vice Chancellors, and Directors are delegated authority to manage revenues and expenses associated with each auxiliary unit or unit with self-sustaining activities. In addition, **various central and external controls provide support to unit-level auxiliary budget oversight:**

- Supporting the Provost and President, OPB monitors all self-sustaining, general, and local operating fund budgets for deficits. Units must clear any deficits by either the close of the biennium or the close of the fiscal year. Some deficits may carry over into the subsequent year or biennium, but only with consent of senior leadership and approval of a deficit mitigation plan. This policy was put in place in FY10.
- For units that have not met debt covenants associated with an internal loan, a Financial Stability Plan is required and must be shared with the Board of Regents, in accordance with policy.
- Many of the University's major auxiliary units are audited annually. In addition, many smaller auxiliary programs conduct annual audits or other external reviews with outside firms.
- UW Finance conducts annual reviews of large, non-externally audited self-sustaining or recharge units with more than \$10 million in revenue.
- Some of these auxiliary units, such as Continuum College and Housing & Food Services, charge fees. Where Regents have reserved fee-setting authority, rate approvals and/or fee change requests are brought to Regents for action. See "Tuition and Fee Setting Authority," below, for more details.
- UW Finance reviews initial rate proposals to establish both service and recharge centers, and reviews rates annually thereafter. Deans, Vice Presidents, and Vice Provosts are expected to review recharge center rates annually.

For more information about University Auxiliary Activities, see page 48.

STRENGTH 3: TUITION AND FEE-SETTING AUTHORITY

State law gives the Board of Regents broad authority to set fees necessary to run the University, but also requires that certain fee impositions and increases be approved by the legislature. Legislative approval is achieved through disclosures of possible and known fee increases.

Regents retain tuition-setting authority for all categories, but must comply with the state legislature's resident undergraduate tuition policy. Every June, the administration brings tuition recommendations to the Board for approval. These recommendations are the result of staff, faculty, student, and academic leadership collaboration. Note that the University's ability to increase tuition rates is constrained by a variety of factors, as described in the "Background" section.

As a general policy, **other academic fees that apply to all students on a given campus require the review and approval of the Board of Regents.** These include:

- New Student Enrollment & Orientation Fee
- Student Technology Fee
- Services and Activities Fee

- Dedicated fees for transportation and bond payments on student-funded capital projects and sports facilities
- Housing and dining fees, as applicable

In spring 2016, OPB began providing cost of attendance information to the Board of Regents to help the Board make informed decisions about changes to these fees. The “Cost of Attendance” document, which now accompanies all fee proposals going to the Board, lists all mandatory fees paid by undergraduate students at each campus and shows five years of trend data for each fee. At the Board’s request, most fee proposals also include information about the effects of a “no increase” scenario. The Cost of Attendance document has also been updated to accompany the budget item.

The Board of Regents has delegated the approval of other academic fees to the President and Provost. These include:

- Application fees
- Transcript fees
- Course fees⁵
- Study abroad fees

Finally, **the Board has delegated approval of fee-based program rates (for programs that charge fees in lieu of tuition) to the Provost**, who sets rates after consulting with campus advisory bodies such as the Faculty Senate Committee on Planning & Budgeting and the Provost Advisory Committee for Students. An example of a large auxiliary unit that charges fees for programs is UW Continuum College, which offers a wide variety of fee-based instructional programs. In recent years, the Provost brought new rigor to the review of fee-based rate proposals and adjusted the approval timeline to provide students with more notice and to align decisions with other unit-level budget discussions.

Fee setting delegation is guided by [Executive Order No. 44, User Fee Approval Policy](#).

STRENGTH 4: OTHER BUDGET CONTROLS

Unit leaders (e.g. Chancellors, Deans, Vice Presidents, and Vice Provosts) are responsible for the financial performance of all departments or offices within their organization. Each unit leader has a financial administrator or chief financial officer who is responsible for providing the leader with necessary information on a regular basis.

Other central controls, beyond those noted previously, serve to ensure that programs are sound in terms of quality, consistency, and financial health:

- **Internal Audit** seeks to provide audit coverage across the entirety of the University, deploying its resources in areas of increased risk or operations they have not audited in the recent past. In addition, the UW’s Internal Audit office focuses its annual audit plan on areas of highest risk across the University’s units and within its departments.

⁵ Academic departments, with the approval of the respective Dean or Vice President, may add course fees to specific course sections. New course fees in excess of \$50 and course fee increases in excess of 10 percent of the prior approved fee amount must also be approved by the Provost’s Office.

- **Training and outreach** is provided or required for certain expenditure types or programs. For example, Principal Investigators (researchers responsible for specific sponsored grants and contracts) are required to attend fiscal training and purchasing cardholders must attend training prior to taking card possession.
- **Workflow approvals** are incorporated into newer technology applications (e.g. procurement and travel and the new payroll system).
- The UW is also **accredited** by Northwest Commission on Colleges and Universities (NWCCU) and is a member of the Association of American Universities. NWCCU conducted a mid-cycle visit to the UW in May 2017.

BUDGET POLICIES AND ABB DISTRIBUTION

In 2013, **the University fully implemented ABB with the goal of bringing more transparency and predictability into the budget process.** ABB is a resource allocation methodology under which budget allocations are associated with expected activity levels. ABB allocates net tuition revenue to the unit(s) that conduct the teaching activity and generate the revenue, providing greater alignment between activities and costs, business practice improvement, and budget process transparency. This model has been in use at the UW since FY10, with a soft launch in FY12 and full implementation in FY13.

The UW's ABB model was developed during a time of enrollment growth, tuition increases, and flat compensation. Since then, the UW has experienced relatively flat enrollments, expenditures growing faster than revenues, and undergraduate shifts in major of study area and class level. Because of these changes, revisiting and adjusting the model is key for our shared successes across the University.

When ABB was fully adopted, a commitment was made to leave the basic elements in place for five years to provide an opportunity to understand the impacts of ABB as it was initially structured. In the meantime, an ABB review committee was formed to monitor and review the model and to provide recommendations about possible changes. Recommendations from the ABB Phase II Committee, which examined and sought to remedy concerns that had been expressed by stakeholders, were approved by the Provost in December 2016 and went into effect in FY18. The next formal review process, ABB Phase III, will take place in FY20. Preparations, scoping, and planning for this effort began in January 2019.

Below are brief descriptions of the budget policies that guide our distribution of incremental operating resources throughout the University.

PROVOST REINVESTMENT FUNDS

The UW's Provost Reinvestment Fund (PRF) was adopted concurrently with the implementation of ABB in FY13. PRF is primarily comprised of formulaic allocations of tuition revenues, indirect cost recovery, and institutional overhead. Under ABB, these central resources are allocated directly to the unit responsible for the activity; but first, a tax is taken to fund central administrative operations, strategic investments in student and faculty experience, and critical compliance efforts—shared expenses that would otherwise have no direct source of funds. The tax is part of the funds that the administration uses to address the President's and Provost's priorities for the University. Deployment of these funds is the result of a lengthy and highly consultative budget development cycle.

The sources of PRF are as follows:

- 30 percent of net tuition operating fee revenue generated by Seattle units
- 30 percent of miscellaneous fees
- 65 percent of indirect cost recovery
- 100 percent of interest income, after fees and distributions of basis points to specific units
- 100 percent of administrative overhead
- 100 percent of institutional overhead
- 100 percent of debt service recapture

These allocations are pooled by source fund type. State support for compensation, benefits, and tuition backfills are also included in PRF, but they are distributed out to units in line with other policies.

This year, OPB further refined the process by which campus business units request funds from the PRF, by implementing an online request portal and enhancing the types of information collected from campus units. This provided a greater level of detail covering things such as alignment with business unit strategic plans, matching funds provided by business units, and further detail on the intended use of funds by the business unit.

Uses of PRF are described in the “Uses of Core Operating Funds” section on page 35.

GENERAL OPERATING FUND (GOF) DISTRIBUTION

State Appropriations: The University distributes state appropriations to campuses, schools, colleges, and administrative units, in accordance with state policies and directions. While most state funding comes to the UW in the form of “provisos,” which are directed to specific programs or efforts, some funding (e.g. funding for compensation) is available for broader distribution. *Distribution under ABB: State funds with **no** legislative directive, though rare, are available to support the strategic priorities of the University and are distributed by the Provost, in consultation with academic and administrative leadership.*

Tuition Operating Fee Revenue: The University allocates new, *net* tuition revenue to the unit(s) that conduct the activity generating the new revenue. Net tuition revenue is the total of all operating fees charged to students, after subtracting waivers, grants, and certain fees. By statute, the “building fee” portion of tuition is credited to the UW Building Account and is to be used exclusively for constructing, altering, and maintaining buildings; these funds are appropriated by the legislature. *Distribution under ABB: 70 percent of the net tuition operating fee revenue generated at UW Seattle is distributed to Seattle schools and colleges, and 30 percent is retained by the Provost for basic university functions and strategic investments. Increasingly, the amount retained centrally is used to fund compensation expenses in units. Tuition revenue generated at UW Bothell and UW Tacoma is distributed to those campuses.*

For more information about the University’s general operating fund (GOF), which is composed of state general fund appropriations and tuition revenue, please see page 39.

DESIGNATED OPERATING FUND (DOF) DISTRIBUTION

Indirect Cost Recovery: Several negotiated rates of allowable facilities and administrative overhead fees govern the receipt of indirect cost recovery (ICR) revenue collected on federal grants and contracts.

Distribution under ABB: Units receive 35 percent of ICR they generate from the 12-month period ending March 31, 2019. In this case, a large portion of the funds retained by the central administration are used for debt service, building operations and maintenance, and utilities costs. UW Bothell and UW Tacoma receive the ICR revenue generated by each campus.

Institutional Overhead: A percentage of self-sustaining units' revenue from the sale of goods and services is charged to recover costs for building use, physical plant operations and maintenance, and institutional support at the Seattle campus. The institutional overhead rate is applied to revenues associated with these activities. The UW has two main institutional overhead rate categories: on-campus and off-campus, determined by the location of the preponderance of effort by each entity. FY19 rates continued at 15.60 percent for on-campus and 6.85 percent for off-campus activities. We anticipate FY20 rates to remain constant at these levels. *Distribution under ABB:* Institutional overhead charges are received as revenue into the DOF pool of funds and is allocated back out to units via the Provost Reinvestment Fund process.

Remaining DOF: This includes investment income, Seattle summer quarter tuition, the Internal Lending Program risk fund, and administrative overhead charges to UW Bothell and UW Tacoma.

- *Seattle summer quarter:* Most summer quarter programs are operated by Continuum College. There is no state support for summer quarter activities and, historically, it has not been part of the ABB model. FY20 marks the first year that a "net revenue share" program will be piloted with the College of Arts & Sciences, which is the largest participant by measure of student credit hours generated. Distribution of incremental summer quarter tuition revenue to the School of Medicine and the School of Dentistry (which are run outside of Continuum College) will continue in FY20 and we anticipate distributing an additional \$1 million in DOF funding between the schools, along with the calculated new incremental revenue.

For programs operated by Continuum College, a revenue and expenditure budget is developed and proposed to the Provost by the Vice Provost of Continuum College. Upon approval of this budget, revenue is transferred from DOF fund balance to cover the budgeted expenses. After the quarter is over, the fund balance is adjusted to reconcile with actual summer quarter tuition revenue and expenses. The net budget becomes part of the DOF pool of funds and is allocated back out to campus units via the Provost Reinvestment Fund process.

- *Administrative overhead:* These charges reflect a share of centralized administrative services provided by Seattle to UW Bothell and UW Tacoma, and are calculated as 10 percent of GOF revenue for each campus, excluding funds for salary increases and funds for operations and maintenance.

Distribution: Remaining DOF revenues are distributed back to units as part of the budget process, via the Provost Reinvestment Fund process.

For more information about DOF, please see page 43.

SUPPLEMENT DISTRIBUTION

When ABB was fully implemented, a “hold harmless” agreement was struck with leadership on the Seattle campus. For the transition year, no unit was to receive less permanent GOF and DOF than it had the previous year. The difference between the GOF and DOF base from the prior year and the calculated tuition (after financial aid and tax) and indirect cost recovery (after tax) was distributed to units as “supplement.”

Each year since, investments in unit supplements have been spelled out in annual allocation tables. Investments were categorized as “supplement” because they were not formula-driven tuition or indirect cost recovery. This includes funding from the state to tuition backfill, compensation, and provisos, and allocations from PRF.

In December 2017, upon recommendation of the ABB Oversight Committee, the Provost charged a Joint Taskforce on Supplement Distribution with reviewing and reconsidering how “supplement” funds are distributed to units through ABB. Upon recommendations by the taskforce, the Provost implemented a growth cap based on undergraduate student credit hour (SCH) revenue for FY19. Growth, calculated during the spring 2019 ABB true-up process, exceeding 5 percent of a baseline calculation will result in a supplement reduction of the excess amount. Though no unit is slated to grow its share of SCH higher than 5 percent this fiscal year, supplement funding levels will be a key topic of conversation, analysis and ultimately, change for the FY21 budget cycle.

GIFT INCOME AND ENDOWMENT DISTRIBUTION

Prior to February 2019, policy approved by the Board of Regents allowed 5 percent, or 500 basis points, of the endowment’s average trailing 20-quarter market value⁶ to be distributed. In February 2019, the Board of Regents approved an amendment to the policy to reduce the total distribution rate to 4.5 percent, or 450 basis points, over a three-year period. The three-year phased reduction, outlined in Table 5 below, was developed with the intent of cushioning the impact of the spending policy reduction on campus units.

Table 5: Implementation Schedule for Endowment Distribution and Spending Policy

	Total Spending	Program Distributions	Administrative Fee
FY19	5.00%	4.00%	1.00%
FY20	4.90%	3.92%	.98%
FY21	4.70%	3.76%	.94%
FY22 & thereafter	4.50%	3.60%	.90%

Of the total payout, individual endowment shareholders are allocated 400 basis points—stepping down to 360 basis points by FY22. The remaining 100 basis points—stepping down to 90 basis points by FY22—are allocated to support endowment-related expenses. Of these 100 basis points, 80 basis points support Advancement activities—stepping down to 72 basis points by FY22—and 20 basis points support UW

⁶ The average quarter market value is based on a trailing 20-quarter, or 5-year, average.

Investment Management Company (UWINCO) activities—stepping down to 18 basis points by FY22. The UW administration continues to monitor endowment performance and spending changes that result from this policy.

In FY19, the administration implemented a 5 percent gift assessment on current use gifts between \$1,001 and \$5 million. The gift assessment generates funds that are reinvested back into the University to primarily support administrative costs associated with UW Advancement activities at the direction of the Provost.

It is important to note, that while the UW possesses a sizable endowment, endowment funds and gift income can only be used for the purposes specified by the granting agency or donors, and are distributed to campus units in accordance with these specified purposes.

For more information about Gift Income and Endowment Distribution, please see page 58.

OUR UW CORE OPERATING BUDGET

Critical to the academic and research mission of the University, our core operating budget is composed of state appropriations, net tuition revenue, cost recovery from grants and contracts, overhead from self-sustaining activities, summer quarter tuition and other, local resources. "Core funds" are essentially the University's general operating fund (GOF) and designated operating fund (DOF).

Importantly, state appropriations include "foundational support," which improves the share of state support for compensation and central service charges. See page 39 for details.

Table 6, below, shows adopted FY20 core operating revenues, expenditures, and use of funds, alongside those adopted for FY19.

Table 6: FY20 Sources and Uses of Core Operating Funds¹

Sources and Uses of Funds by Type	FY19 Adopted	Incremental Change	FY20 Adopted
Sources of Funds:	1,407,984,000	74,076,000	1,482,061,000
General Operating Fund:	1,027,505,000	57,905,000	1,085,410,000
State Appropriations	369,271,000	28,281,000	397,552,000
Tuition Operating Fee Revenue	658,234,000	29,624,000	687,858,000
Designated Operating Fund:	380,479,000	16,171,000	396,650,000
Indirect Cost Recovery	267,224,000	10,194,000	277,418,000
Institutional Overhead	26,130,000	2,870,000	29,000,000
Administrative Overhead	9,193,000	636,000	9,829,000
Summer Quarter Tuition	58,231,000	2,471,000	60,702,000
Investment Income	9,000,000	0	9,000,000
Provost Internal Lending Program Risk Fund	2,100,000	0	2,100,000
Miscellaneous Fees	8,601,000	0	8,601,000
Uses of Funds:	1,407,984,000	74,076,000	1,482,061,000
FY19 Base	1,407,984,000		
State Adjustment to Prior Fiscal Year		(3,510,000)	
Incremental Uses and Adjustments			
Legislative Directives		17,399,000	
ICR Distributions to Units		2,242,000	
Tuition Distributions to Units		22,100,000	
Compensation Distributions to Units		13,144,000	
Reinvestment Funds		14,315,000	
Targeted Investments Include:			
Student Experience		3,670,000	
Central Operations		3,181,000	
Compliance & Risk Mitigation		1,286,000	
Academic Unit Supplementary Support		250,000	

¹ Due to rounding, there may be discrepancies between total sources of funds and total uses of funds.

USES OF CORE OPERATING FUNDS

This section describes how the University uses its core operating resources. The use of these funds follows an “order of operations” that is driven by restrictions on the funds and internal policies, such as those noted in the Budget Policies and ABB Distribution section on page 29. That order of operation is generally as follows:

- First, some of the core operating resources must be used in accordance with legislative directives, which are described in more detail in the State Appropriations section on page 39.
- Second, two distributions are made back to units:
 - A portion of indirect cost recovery (ICR) revenue from research activities is distributed back to provide unit-level support for those research activities. More information about ICR is available in the “Designated Operating Fund (DOF) Distribution” section on page 31 and the “Designated Operating Fund (DOF) Budget” section on page 43.
 - A portion of tuition revenue is distributed back to units to support core academic functions, including faculty compensation. Please see the “Tuition Revenue & Recommendations” section on page 39 for more information.
- Third, the Provost distributes to units any funding that the state provides to support compensation.
- Fourth, the Provost reinvests any remaining funding to support the priorities of UW leadership, in consultation with the President and student and faculty leaders.

The following section focuses on compensation expenditures, general operations expenditures, and Provost investments. This is for two reasons: (1) across all these fund allocations, not just “Compensation Distributions,” the largest expense is compensation, followed by expenses for general operations; and (2) legislative directives and the policies surrounding tuition and ICR are described elsewhere in this document, and, thus, are not reiterated here.

COMPENSATION

The University and its business units primarily use core operating resources to fund employee compensation. In Table 6, above, compensation distributions to units reflect the budget authority distributed out to Seattle units and other campuses under ABB for compensation related costs. Note that in addition, compensation is a major use of tuition distributions, ICR distributions, and Provost investments.

Improving compensation for the UW’s dedicated faculty and staff continues to be the President’s and Provost’s highest priority, but it must be weighed against the financial forecasts of our operating units. The Provost has continued to engage Deans and Chancellors in salary planning conversations to proactively contemplate salary equity, as well as salary levels for highly meritorious faculty. That said, compensation discussions and solutions are not just about salary; a dynamic set of factors must be weighed, including meritorious work, staffing mix, faculty workload, salary policy goals and objectives, market pressures, and program and curriculum design. Understanding the links between these elements is critical to sustaining long-term institutional success.

In this budget cycle, the Provost and the Office of Planning & Budgeting analyzed multi-fund, multi-year financial forecasts for every unit on all three campuses. This work was instructive and clarified that funding 2 percent merit pools in perpetuity, without additional incremental funding from the state or tuition, will prove challenging in the years ahead. As a result, the Provost is prioritizing compensation again this cycle, and redeploying resources to meet this need.

The UW's ability to address this priority, however, continues to depend on the state's investment of additional permanent resources for compensation. As a reminder, the 2018 state legislature provided one-time funds to temporarily increase the state's share

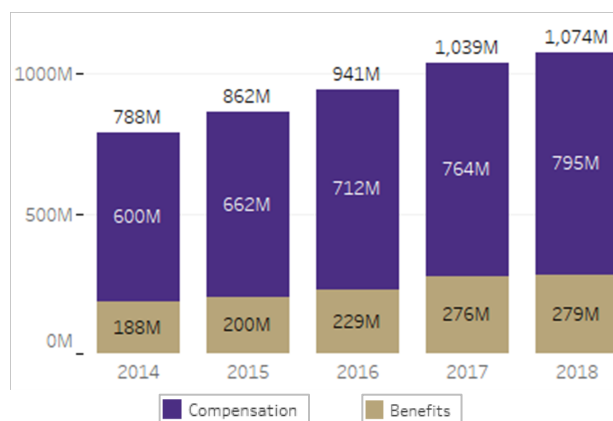
of support for GOF compensation changes from 34 percent to 50 percent. The 2019-21 state budget contains sufficient foundational support and compensation funding to make that one-time funding permanent and to achieve a higher share of state support for a 2 percent increase for GOF-paid faculty and staff in the 2019-21 biennium. The UW will continue to rely on new, incremental tuition revenue to cover the remaining incremental cost of compensation increases.

Based on the state legislature's assumption of a 2 percent general wage increase for UW employees, and based on the Provost's and President's discussions with each UW unit, the UW's administration plans to authorize a 2 percent merit-based salary increase for faculty, librarians, and professional staff in FY20. The calculations in this adopted FY20 budget include a 2 percent merit pool for non-represented employees (faculty, professional staff, librarians, and classified non-union employees), as well as the approval of base contracts for represented staff covered by collective bargaining agreements. In addition, and subject to faculty consultation, the President and Provost will authorize a pool of unit adjustment funding for meritorious faculty.

Benefits expenditures are largely driven by legislative decisions regarding employer contributions to employee benefits and higher education retirement plans. This adopted FY20 budget incorporates preliminary changes in marginal benefits rates compared to FY19.

In general, higher legislative limits on benefits contributions result in higher University fringe load rates, which, in turn, result in higher costs to schools, colleges, administrative units, and campuses. Although the state provides some funding to offset the increased benefits expenditures, that funding only defrays part of the cost for GOF-funded employees.

Figure 7: Compensation & Benefit Expenditures on Core Funds



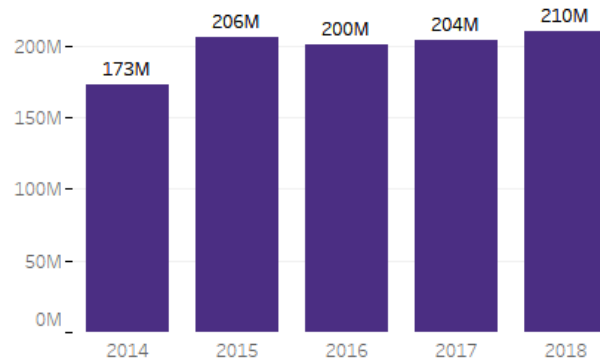
Over the trailing five-year period (FY14 to FY18), compensation on core funds grew at a 7.3 percent compound annual growth rate (CAGR), from \$600 million to \$795 million and benefit expenditures on core funds grew at a 10.4 percent CAGR, from \$188 million to \$279 million.

GENERAL OPERATIONS

Goods & Services

To support the general operations of the University, units use core funding for a variety of purposes, including: to procure materials and supplies, contracts for services, facility and equipment rentals, business travel expenses and general costs related to the execution of the UW's mission. **The growth of these expenditures against core funds have been relatively flat over the last several years**, just keeping pace with inflation on a five-year compound annual growth rate (CAGR) basis. **This signals responsible spending and expense management.** As noted previously, the majority of budget authority distributed out to Seattle units under ABB has been used to cover compensation related costs, requiring units to reduce other expenditures against their core funds incrementally over time, as a percentage of total core operating budget utilization.

Figure 8: Goods & Services Expenditures on Core Funds



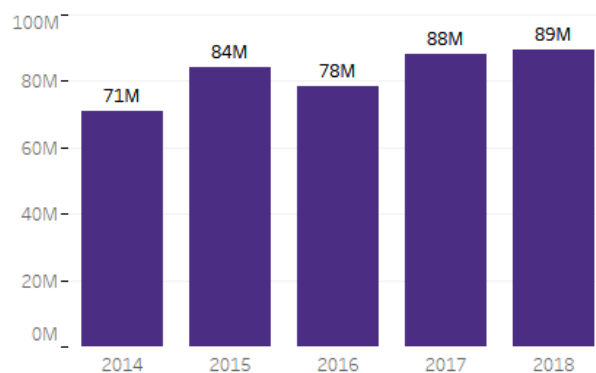
Over the trailing five-year period (FY14 to FY18), other expenditures on core funds grew at a 5.0 percent CAGR, from \$173 million to \$210 million.

Fixed Costs

"Fixed costs" is a term used to refer to those costs incurred by the University that are necessary or unavoidable, but are not costs generated by a particular unit. In some cases, these costs are truly "fixed," but in others, costs are variable and dependent on certain activities occurring or consumption levels. The largest fixed cost budget items are for utilities, such as electricity, fuel, power plant, sewer, etc. Other fixed costs include property rentals, back-up childcare and eldercare support, student and employee disability accommodations, University risk financing, a legal services revolving fund, and many others.

Although managed by units around campus, the funding is provided from central resources. If over-expended at the end of a fiscal period, central funds cover the overages. Conversely, if the budgeted levels are under-expended, the savings accrue centrally.

Figure 9: Fixed Cost Expenditures on Core Funds



Over the trailing five-year period (FY14 to FY18), fixed cost expenditures on core funds grew at a 5.8 percent CAGR, from \$71 million to \$89 million.

Due to the nature of these budgets, cost projections can be difficult. Many fixed costs are driven by economic factors and legislative decisions outside our control. In the utility sector, changes to rates are not always known at the time a budget is constructed. In addition to rate changes, utility expenditures are also affected by new buildings coming online.

Further, the final 2019-21 state budget provides less funding than is needed for building maintenance and operations and increases state 'central service' charges. As a result, incremental permanent funding that is meant to support the University's core academic mission must be redeployed.

PROVOST INVESTMENTS

As described in the "Budget Policies" section on page 29, a tax is taken from new, incremental GOF and DOF resources to support strategic efforts and to offset central costs that would otherwise have no source of funding. Increases in ABB revenue that are held centrally constitute Provost Reinvestment Funds (PRF).

Costs funded through PRF include:

- Critical compliance efforts;
- Utilities, facilities and maintenance, grounds and landscaping;
- Central operations, including student support services, human resources, student fiscal services, and more;
- Libraries;
- Strategic investments in student and faculty experience; and
- Support for academic units that cannot be self-supporting on the basis of tuition alone.

Continuing the historical trend, we expect the bulk of FY20 PRF to be spent on operating expenses (goods, services, etc.). Further investments will be made as the result of a rigorous budget review and continuing consultation process involving students, faculty, staff, and executive leadership. Those decisions will contemplate Provost and President strategic priorities, including:

- Compliance and safety;
- Academic excellence;
- Graduate student support;
- Infrastructure improvements; and
- Access and equity.

SOURCES OF CORE OPERATING FUNDS

The University's core operating funds are derived from state appropriations, net tuition revenue, indirect cost recovery from grants and contracts, institutional overhead charged to self-sustaining budgets and auxiliary units of the University, administrative overhead charged to Bothell and Tacoma, and summer quarter tuition revenue. These revenues are combined into two major budget categories: the GOF and the DOF.

GENERAL OPERATING FUND (GOF)

GOF is composed of state appropriations and tuition operating fee revenue (net of financial aid). Each entity is described in more detail below.

State Appropriations

Lawmakers have approved, and the Governor has signed, the state's 2019-21 operating budget. Details regarding the final state budget can be found on the [OPB Briefs](#) webpage.

Here is an overview of the major state funding decisions that influenced the UW's FY20 operating budget:

- **Continuation of current tuition policy** ([2ESSB 5954](#), 2015), which allows resident undergraduate tuition to increase by approximately 2 percent each year, depending on growth in the state median hourly wage. The allowable increase for FY20 is 2.4 percent.
- **Partial funding for compensation and central service increases:**
 - Permanent incremental compensation funding of \$4.3 million in FY20 to partially fund a 2 percent salary increase for faculty and professional staff.
 - Approval and partial funding of collective bargaining agreements, with \$1.1 million in FY20.
 - Partial funding for changes to employee healthcare benefit rates for represented and non-represented employees.
 - Partial funding for rising central service charges, which the UW is required to pay to other state agencies for things such as audit services, legal services, and archives management.
- **Foundational support** of \$9.6 million in FY20 to recognize that operating costs exceed estimated increases in undergraduate operating fee revenue, given the state's current resident undergraduate tuition policy. The funding will essentially improve the share of state support for incremental compensation and central service charges and will make permanent the one-time compensation funding that last year's legislature provided. Starting in FY21, the state's foundational support will increase to a total of \$15.4 million per year, assuming no changes are made by the 2020 legislature.
- **Funding for several provisos**, including:
 - \$5.0 million per year to support the continued treatment of uninsured and underinsured patients at Harborview Medical Center and UW Medical Center, as well as training activities at both hospitals;
 - \$1.0 million per year to help the UW's School of Dentistry continue treating uninsured and underinsured patients; and
 - \$2.8 million in FY20, with \$7.5 per year after that, to increase STEM enrollments across all three campuses and maintain the Washington State Academic RedShirt program (STARS).

The legislature's budget had included efficiencies cuts to state agencies, but in signing the budget bill, the Governor vetoed those cuts. As a result, the \$457,000 per year cut that had been assumed for the UW in the preliminary FY20 operating budget is removed from the adopted FY20 budget.

Tuition Revenue & Recommendations

Current resident undergraduate tuition policy ([2ESSB 5954](#), 2015) allows institutions to increase operating fees by up to the 14-year rolling average of Washington’s median hourly wage. In FY20, this policy will allow resident undergraduate tuition to increase by 2.4 percent. The Board of Regents has the authority to set tuition rates for nonresident undergraduate and all graduate and professional tuition categories.

The tuition rate recommendations in Table 7, below, are the result of **many months of collaboration** between chancellors, deans, faculty, students, and staff along with executive and academic leadership. The administration solicited recommendations from deans and chancellors, but required that each dean and chancellor consult with students and elected faculty councils. **All tuition rate proposals were accompanied by a narrative justification, market analyses, enrollment changes, waiver implications, student debt impact, and information regarding the use of incremental revenue.**

The tuition rates in Table 7 include the operating fee and the building fee, and the percentage change applies to both fees. For example, the rate for nonresident undergraduate students assumes that the building fee will increase by the same percentage as the operating fee in FY20—4.4 percent. Please note students must pay other mandatory fees in addition to the operating and building fee. Please see OPB’s [“Cost of Attendance”](#) page for more detail.

Projected tuition revenue—net of building fee, required financial aid set-aside, and, of course, waivers—is shown in Tables 1 and 6 as “Tuition Operating Fee” revenue. Tuition revenue projections reflect the tuition rate recommendations shown in Table 7, as well as approved enrollment increases, which were discussed in light of a four-year financial forecast for each campus.

Table 7: Adopted Tuition Rates for FY20

Unit	Tuition Category		FY19 (Current Annual Rate)	FY20	
				% Change	Adopted Tuition Rate
University- Wide	Undergraduate	Resident	\$10,127	2.4%	\$10,370
		Non-Res	\$35,508	4.4%	\$37,071
	Graduate Tier I	Resident	\$15,510	2.4%	\$15,882
		Non-Res	\$27,801	2.4%	\$28,467
	Graduate Tier II	Resident	\$15,906	2.4%	\$16,287
		Non-Res	\$28,395	2.4%	\$29,076
	Graduate Tier III	Resident	\$17,772	2.4%	\$18,198
		Non-Res	\$31,680	2.4%	\$32,439
Seattle Campus					
Built Environments, College of	Masters - Construction Mgmt. Landscape Architecture, Urban Design & Planning	Resident	\$16,434	0.0%	\$16,434
		Non-Res	\$29,265	0.0%	\$29,265
	Masters - March and MSRE (Real Estate)	Resident	\$17,382	0.0%	\$17,382
		Non-Res	\$36,600	0.0%	\$36,600
Dentistry, School of	Dental Professional (DDS) Year 1	Resident	\$47,190	0.0%	\$47,190
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 2	Resident	\$47,190	0.0%	\$47,190
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 3	Resident	\$47,184	0.0%	\$47,184
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 4	Resident	\$43,617	0.0%	\$43,617
		Non-Res	\$72,762	0.0%	\$72,762
	Graduate Dental - Oral Biology	Resident	\$16,110	2.0%	\$16,431
		Non-Res	\$31,113	2.0%	\$31,734
	Graduate Dental - Oral Medicine, Pediatric Dentistry, Periodontics, and Prosthodontics	Resident	\$17,892	2.0%	\$18,249
		Non-Res	\$33,912	2.0%	\$34,590
	Graduate Dental - Endodontics	Resident	\$19,680	2.0%	\$20,073
		Non-Res	\$33,912	2.0%	\$34,590
Graduate Dental - Orthodontics	Resident	\$25,062	2.0%	\$25,563	
	Non-Res	\$33,912	2.0%	\$34,590	
Education, College of	Master of Education and Master in Teaching	Resident	\$16,899	3.0%	\$17,406
		Non-Res	\$31,329	3.0%	\$32,268
	Doctor of Education and Education PhD	Resident	\$16,899	3.0%	\$17,406
		Non-Res	\$31,329	3.0%	\$32,268
Engineering, College of	Master of Chemical Engineering	Resident	\$21,990	3.0%	\$22,650
		Non-Res	\$34,671	3.0%	\$35,712
	Masters of Industrial and Systems Engineering	Resident	\$21,990	3.0%	\$22,650
		Non-Res	\$34,671	3.0%	\$35,712

Engineering, College of (continued)	Master of Material Science and Engineering (Applied)	Resident	\$21,990	3.0%	\$22,650
		Non-Res	\$34,671	3.0%	\$35,712
	Master of Applied Bioengineering ¹	Resident	\$23,639	25.4%	\$29,640
		Non-Res	\$28,366	25.4%	\$35,568
Environment, College of the	College of the Environment Graduate Programs	Resident	\$15,906	2.4%	\$16,287
		Non-Res	\$28,395	2.4%	\$29,076
	Masters in Earth Space Science: Applied Geosciences	Resident	\$18,132	2.4%	\$18,567
		Non-Res	\$32,367	0.0%	\$32,367
Evans School	Master of Public Administration (MPA) - Incoming	Resident	\$23,571	3.0%	\$24,279
		Non-Res	\$40,389	3.0%	\$41,601
	Master of Public Administration (MPA) - Continuing	Resident	\$22,500	2.5%	\$23,064
		Non-Res	\$40,389	2.5%	\$41,400
Foster School	Master of Business Administration - Incoming	Resident	\$33,243	3.0%	\$34,239
		Non-Res	\$48,966	3.0%	\$50,436
	Master of Business Administration - Continuing	Resident	\$32,274	3.0%	\$33,243
		Non-Res	\$47,541	3.0%	\$48,966
Graduate School	Graduate School Interdisciplinary Programs Tier I ²	Resident	\$15,510	2.4%	\$15,882
		Non-Res	\$27,801	2.4%	\$28,467
	Graduate School Interdisciplinary Programs Tier III ²	Resident	\$17,772	2.4%	\$18,198
		Non-Res	\$31,680	2.4%	\$32,439
Law, School of	Law (JD) 1L	Resident	\$34,908	3.0%	\$35,955
		Non-Res	\$46,110	3.0%	\$47,493
	Law (JD) 2L	Resident	\$32,928	3.0%	\$33,915
		Non-Res	\$44,775	3.0%	\$46,119
	Law (JD) 3L	Resident	\$32,127	3.0%	\$33,090
		Non-Res	\$43,881	3.0%	\$45,198
	Master of Laws (LLM)	Resident	\$23,862	3.0%	\$24,579
		Non-Res	\$39,978	3.0%	\$41,178
	Law PhD	Resident	\$20,922	3.0%	\$21,549
		Non-Res	\$39,978	3.0%	\$41,178
Medicine, School of	Medical Doctor (MD)	Resident	\$35,721	3.0%	\$36,792
		Non-Res	\$65,673	2.0%	\$66,987
Nursing, School of	Nursing Master and Doctor of Nursing Practice	Resident	\$26,226	3.0%	\$27,012
		Non-Res	\$38,934	0.0%	\$38,934
Pharmacy, School of	Doctor of Pharmacy	Resident	\$30,402	4.0%	\$31,617
		Non-Res	\$51,183	4.0%	\$53,229
	PharmD/MBA dual program with UW Bothell	Resident	\$32,967	4.0%	\$34,287
		Non-Res	\$51,183	4.0%	\$53,229

¹ Applied Bioengineering is a one-year program. Currently, students are required to take ten credits in summer, but under the adopted rate change, some credits would shift to F/W/S quarters, leaving only two required credits in summer. Because the table shows tuition rates for the regular academic year (F/W/S quarters) only, it shows a 25.4 percent increase. Students will experience only a 3 percent increase, though, since the total rate for the one-year program will go from \$31,518 to \$32,462 for residents and from \$37,821 to \$38,956 for non-residents.

² Although these tuition categories follow Tier I and Tier III rates, respectively, the revenue from interdisciplinary programs is distributed under a different formula than other tuition revenue, hence the need for separate tuition categories.

Public Health, School of	Master of Public Health	Resident	\$20,757	3.0%	\$21,381
		Non-Res	\$36,138	3.0%	\$37,221
	Public Health Graduate Programs - Other than MPH	Resident	\$17,760	3.0%	\$18,294
		Non-Res	\$30,756	3.0%	\$31,680
	Public Health Graduate Programs - PhD Program	Resident	\$17,760	3.0%	\$18,294
		Non-Res	\$30,756	3.0%	\$31,680
Social Work, School of	Master of Social Work - Incoming ³	Resident	\$18,717	3.5%	\$19,371
		Non-Res	\$32,154	3.5%	\$33,279
	Master of Social Work - Continuing ³	Resident	\$18,717	0.0%	\$18,717
		Non-Res	\$32,154	0.0%	\$32,154
Bothell Campus					
UW Bothell	Nursing - Incoming ⁴	Resident	\$16,062	2.0%	\$16,383
		Non-Res	\$28,671	2.0%	\$29,244
	Nursing - Continuing ⁴	Resident	\$16,062	0.0%	\$16,062
		Non-Res	\$28,671	0.0%	\$28,671
	Master of Business Administration - Incoming	Resident	\$23,274	2.0%	\$23,739
		Non-Res	\$29,178	2.0%	\$29,763
	Master of Business Administration - Continuing	Resident	\$22,371	4.0%	\$23,265
		Non-Res	\$28,329	3.0%	\$29,178
Tacoma Campus					
UW Tacoma	Master of Business Administration - Incoming	Resident	\$18,699	0.0%	\$18,699
		Non-Res	\$31,122	-10.8%	\$27,765
	Master of Business Administration - Continuing	Resident	\$18,699	0.0%	\$18,699
		Non-Res	\$31,122	-10.8%	\$27,765
	Master in Business Analytics	Resident	\$15,774	0.0%	\$15,774
		Non-Res	\$19,866	0.0%	\$19,866

3 The School of Social Work will move to a new tuition structure and split the MSW rate into incoming and continuing rates. Students in one-year programs (accelerated or Advanced Standing) will be subject to the incoming rate.

4 UW Bothell will move to a new tuition structure and split the Nursing rate into incoming and continuing rates.

The University mitigates increases in tuition rates in a multitude of ways. Please see the “Ensuring Access and Completion” section on page 45 for information regarding financial aid available at the UW.

DESIGNATED OPERATING FUND (DOF)

Other, local sources of revenue that support operations for all University units are referred to, collectively, as the Designated Operating Fund (DOF). DOF includes the following local sources of revenue, but please review “Budget Policies and ABB Distribution” on page 29 for more information regarding distribution methodology:

- Indirect Cost Recovery:** The UW's receipt of indirect cost recovery (ICR) from grants and contracts is the largest component of DOF. ICR provides reimbursement for prior institutional expenses associated with the UW's research activity. Based on historical trends and current year-to-date actuals, and the fact that a significant reforecasting effort last year brought the UW's ICR budget into better alignment with actual recoveries, a modest increase to the ICR budget is adopted, which will bring the total budget to \$277 million. Despite continued political uncertainty, ICR is on track to

slightly exceed initial projections for FY19 and, while we monitor federal policy toward research funding, the UW has exhibited and is projected to continue to exhibit strong performance in this area.

- **Institutional Overhead:** A percentage of self-sustaining units' revenue from the sale of goods and services is charged to recover costs for building use, physical plant operations and maintenance, and institutional support at the Seattle campus. Given the growth in self-sustaining activities, including the growth of fee-based programs operated by UW Continuum College, the FY20 institutional overhead budget will increase by \$2.9 million to \$29 million.
- **Administrative Overhead:** This is equivalent to institutional overhead, but is charged to UW Bothell and UW Tacoma. This overhead reflects a share of centralized administrative services provided to those campuses by the UW in Seattle. Administrative overhead is calculated as 10 percent of GOF for each campus, excluding funds for operations and maintenance. Projections are calculated based on the year-end budget at each campus, incorporating known allocations for the coming year, and are estimated to increase by \$636,000 in FY20.
- **Summer Quarter Tuition:** Continuum College manages the summer quarter program for the University. The approved budget dictates the incremental increase or decrease over prior year. In FY20, a budget increase of \$2.47 million was proposed for review by the Provost in May. This increase is partially offset by upward pressure on expenditures resulting in an incremental net increase to central balances of approximately \$1 million. A small pilot "net revenue" share program will be launched in summer 2019 as a strategy to incentivize departments to increase their course offerings during the summer quarter.
- **Investment Income:** This is DOF revenue derived from invested funds after distributions to campus units. Treasury bases its projections for anticipated returns on market conditions for the upcoming fiscal year. The value of this fund can be inconsistent, depending on market forces and performance of the Diversified Investment Pool, and is currently projected to exceed the initial FY19 projection of \$9.0 million. As the underlying securities in the invested funds programs are sensitive to interest rates, and given the federal reserve outlook at this time, we will conservatively carryforward the FY19 budget of \$9.0 million unchanged.
- **ILP Risk Fund:** Beginning in FY17, Treasury started allocating a portion of the ILP rate charged to borrowers to compensate central administration for incurring incremental risk and providing credit support. Based on year to date information, FY20 revenues are estimated to hold flat at \$2.1 million.
- **Miscellaneous Fees:** This is a group of fees that contribute to the DOF revenue. Some of the fees are charged directly to students such as application fees, library fines, late registration fees and others. Other fees are for such items as trademarks and licensing, insufficient funds for returned check fees, staff registration fees, etc. We expect the anticipated decreases in certain categories to be offset by minor revenue growth in other fee categories and, thus, are projecting no incremental increase in FY20.

ENSURING ACCESS AND COMPLETION: FINANCIAL AID

The UW is committed to providing educational access and opportunity, regardless of a student's ability to pay. By providing financial assistance programs, the UW promotes participation in higher education and bridges the gap between students' resources and the cost of attendance.

The UW's commitment to financial aid helps students not only access the University, but also successfully complete a degree. Such resources include programs such as Husky Promise, which guarantees full tuition and standard fees, will be covered by grant or scholarship support for eligible Washington state students.

The UW also offers a variety of tuition waivers authorized or required by the state, such as those to veterans and surviving spouses and dependents of fallen police officers and firefighters.

Due to legislation and prior Regental actions, tuition revenue is used to provide student aid in three ways:

1. **State-Mandated Aid:** The state of Washington requires that the UW put an amount equal to 4 percent of total collected tuition revenue toward financial aid.
2. **Institutional Aid:** In an effort to ensure access, UW uses incremental tuition revenue to provide additional funds for need-based grants. UW policy stipulates that an amount equal to 4 percent of the total resident portion of tuition charged to all students be used for financial aid. Three-quarters of this aid is awarded on the basis of need and one-quarter on the basis of merit.
3. **Waivers - Forgone Revenue:** Waivers that represent forgone tuition revenue help many students pay for tuition. Waivers are usually awarded automatically to students who fit certain criteria. The largest group of such automatic waivers are to students with graduate student service appointments. Certain veterans also receive waivers. In our student system, the non-resident differential for students in the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) regional medical education program also shows up as a "waiver," even though the states from which these students originate are compensating the University.

Table 8, below, shows both the amount of operating fee revenue generated by students and the amount of financial aid funded by tuition revenue. As was the case last year, the recommendation reflected in Table 8 is that the UW adjust its contribution to need-based institutional aid for tuition changes (increases or decreases) and for expected changes in resident undergraduate enrollment.

Please note, the UW uses tuition revenue (roughly \$7.2 million in FY19) to compensate for the state's underfunded State Need Grant program, which was recently renamed the "Washington College Grant" program. The 2019-21 state budget includes significant funding to reduce the program's waitlist in FY20 and to eliminate the waitlist in FY21. While new funds will continue to reduce the UW's offset to the unfunded portion of the program, the magnitude of the effect is not yet known. Further, the state is expanding the program's eligibility in FY21 and the effects of this must be analyzed alongside possible savings.

Please note also that a great deal of financial aid is provided by gifts and endowments, which is not shown here. Further, support for graduate students comes from grants and contracts (for RAs) and from GOF (for TAs). Table 8 shows only the projected portion of aid that is derived from tuition revenue.

Further, the table and figures on the next pages are representative of **all three UW campuses**.

Table 8: 2019-20 Net Operating Fee Revenue and Tuition-Based Aid¹

	Undergraduate			Graduate/Professional			Total
	Resident	Nonres. ²	Total	Resident	Nonres.	Total	
Full-Time Equivalent (FTE)	27,758	9,413	37,171	6,018	6,385	12,403	49,574
Gross Operating Fee Revenue	282,519,000	331,323,000	613,842,000	108,792,000	175,693,000	284,485,000	898,327,000
State-Mandated Aid	10,621,000	12,990,000	23,611,000	3,622,000	3,614,000	7,236,000	30,847,000
UW Institutional Aid	30,605,000	17,287,000	47,892,000	4,007,000	3,695,000	7,702,000	55,594,000
Waivers - Foregone Revenue³	5,691,000	2,911,000	8,602,000	13,897,000	81,302,000	95,199,000	103,801,000
Faculty and Student Reinvestment Pool⁴	4,633,000	2,617,000	7,250,000	1,250,000	1,250,000	2,500,000	9,750,000
Risk Pool⁵	3,465,000	4,433,000	7,898,000	1,290,000	1,287,000	2,577,000	10,475,000
Net Operating Fee Revenue	227,504,000	291,085,000	518,589,000	84,726,000	84,545,000	169,271,000	687,860,000
Total Aid from Group	46,917,000	33,188,000	80,105,000	21,526,000	88,611,000	110,137,000	190,242,000
Aid from Group as % of Gross Op	17%	10%	13%	20%	50%	39%	21%
Total Aid to Group	72,896,000	13,295,000	86,191,000	24,000,000	80,052,000	104,052,000	190,243,000
Aid to Group as % of Gross Op	26%	4%	14%	22%	46%	37%	21%

¹ Numbers are rounded to thousands and, therefore, may not match within this table or others in the document.

² Incremental revenue from past nonresident undergraduate tuition increases has been used to fund aid for domestic nonresident undergrads.

³ More than 75 percent of waivers are provided to graduate teaching and research assistants as function of their appointment.

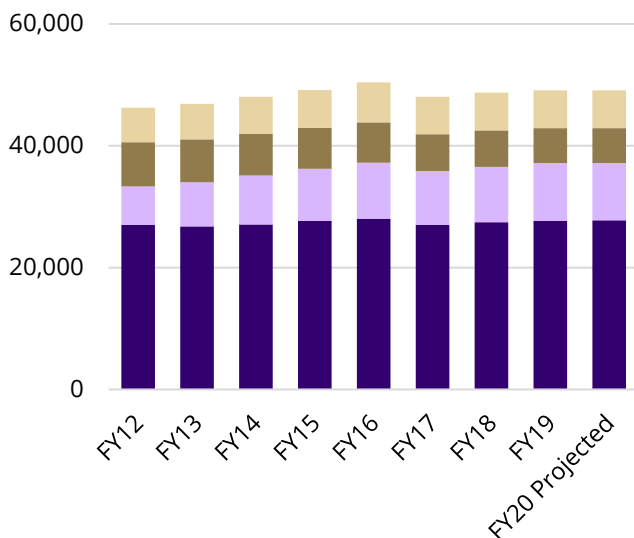
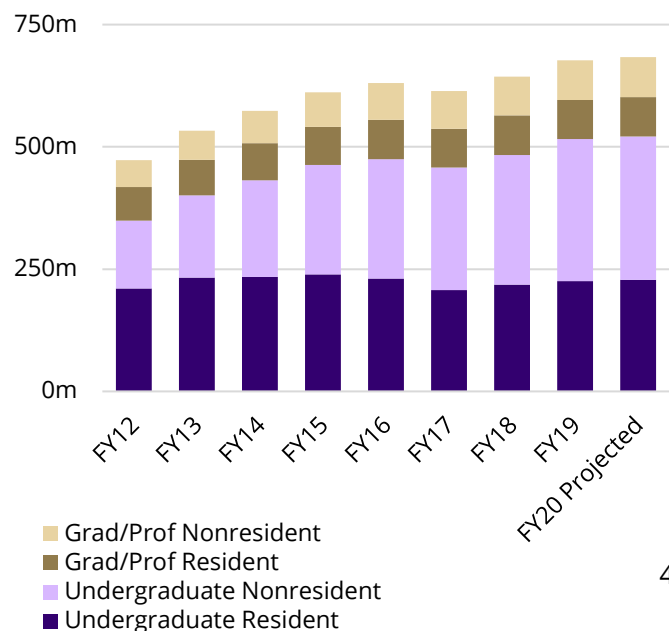
⁴ Please refer to the Compensation section on page 35 for more information.

⁵ To be conservative, a 1.5 percent risk pool has already been subtracted from projected operating fee revenue.

Revenue received through nonresident undergraduate tuition contributes greatly to the financial aid funding pool. While nonresident undergraduate tuition generates \$33.2 million in financial aid funds, these students are awarded in total only \$13.3 million.

Figure 10, below, shows changes in **FTE enrollment** by student level and residency over time, while Figure 11 shows changes in **net revenue** by student level and residency over time. These figures suggest that:

- Net operating fee revenue has been modestly increasing while enrollments have remained fairly flat;
- There has been little increase since FY15 in net operating fee revenue, largely because the pool of revenue from resident undergraduates has shrunk.

Figure 10: FTE Enrollment by Student Category

Figure 11: Net Revenue by Student Category


STATE RESTRICTED FUNDS

Certain state appropriations can only be used for the strategic purposes specified by the Washington state legislature, and are distributed accordingly. Restricted appropriations from the state General Fund, the Education Legacy Trust Account, and the Workforce Education Investment Account are included and described in the “State Appropriations” section, on page 39. Restricted appropriations from all other accounts are described here.

The 2019-21 state budget continues restricted fund allocations from the current biennium, with minor changes to appropriated levels. Table 9, below, shows restricted fund allocations from FY19 and amounts for FY20 and FY21, based on the state compromise budget.

“State restricted funds” are primarily composed of approximately \$7.5 million per year in Accident and Medical Aid account funding, which is allocated to the School of Public Health for specific activities performed by the Department of Environmental and Occupational Health Sciences (DEOHS). An appropriation of \$1.5 million per year from the Economic Development Strategic Reserve account supports the Joint Center for Aerospace Technology Innovation. The budget also includes appropriations from the Biotoxin Account for shellfish biotoxin monitoring, from the Aquatic Lands Enhancement Account for ocean acidification research, from the Geoduck Aquaculture Account for a three-year study (FY19-FY21) to identify best management practices that optimize the value of shellfish farms, and from the Dedicated Marijuana Account for research and education on the effects of marijuana use.

The 2019-21 state budget increases appropriations from the Aquatic Lands Enhancement Account for ocean acidification research, and also adds \$200,000 in each year from the Geoduck Aquaculture Account for the Washington Sea Grant Program to protect against the impacts of invasive European green crab. Funding from the Dedicated Marijuana Account continues to be significantly less than what the UW requested in order to fulfill the legislature’s obligations under [2E2SHB 2136](#) (2015). All budget items would receive slight adjustments to account for changes to employee compensation and benefits in the upcoming biennium, which are reflected below.

Table 9: FY20 and FY21 State Restricted Funds

State Account*	FY19	FY20	FY21
Biotoxin Acct (Shellfish Monitoring)	298,000	303,000	306,000
Aquatic Lands Enhancement Account	675,000	786,000	804,000
Geoduck Aquaculture Acct	200,000	400,000	400,000
Economic Devel. Strategic Reserve Acct (Aerospace Ctr)	1,521,000	1,534,000	1,541,000
Dedicated Marijuana Account	247,000	256,000	263,000
Accident Account (DEOHS)	3,802,000	3,831,000	3,983,000
Medical Aid Account (DEOHS)	3,591,000	3,654,000	3,765,000
Total	10,334,000	10,764,000	11,062,000

*Note that all of these accounts, except Dedicated Marijuana Acct, provide biennial appropriations, and therefore funds can be spent across the biennium.

UNIVERSITY AUXILIARY ACTIVITIES

WHAT YOU NEED TO KNOW ABOUT AUXILIARY ACTIVITIES

The University has large, self-sustaining auxiliary business enterprises. These activities are different from those supported by tuition, state appropriations, and federal and state grants or contracts in that they generate operating revenue, not budget authority. Some of these large business enterprises include:

- UW Parking and Transportation Services;
- Housing and Dining;
- Intercollegiate Athletics (ICA);
- Continuum College;
- Graduate Medical Education (GME); and
- Lab Medicine.

Due to the nature of their business and, in some cases, the debt covenants associated with their participation in the UW's Internal Lending Program (ILP), these auxiliaries tend to carry sizable balances. Although UW Medicine is considered an auxiliary, it is identified separately within this document, due to its size relative to the other UW auxiliary business enterprises.

Any school, college, campus, or administrative unit may have several types of auxiliary budgets. Excluding UW Medicine, **there are approximately 2,900 auxiliary budgets owned and managed by over 500 departments across the University** (386 of which are part of the Continuum College).

Ultimately, unit leads (e.g. Chancellors, Deans, and Vice Presidents or Vice Provosts) are responsible for the financial performance of self-sustaining programs within their units. However, **a variety of central and external controls exist to support unit-level auxiliary oversight**. For example, the Office of Planning & Budgeting monitors auxiliary budgets for deficits, external entities audit a number of the large auxiliary units on an annual basis, and Financial Stability Plans are required of auxiliaries that have not met debt covenants. Please see "Auxiliary Budget Oversight" on page 26 for more details. To check assumptions and further assess financial health, the administration discretely reports larger auxiliary units' revenue and expenditure projections.

Auxiliary budgets are defined by two different categories: (1) Auxiliary Educational Activities, and (2) Auxiliary Enterprises and Internal Services:

- **Auxiliary Educational Activities** are typically referred to as departmental revenue budgets. Their major source of revenue is external (general public, students, etc.) and includes:
 - Activities relating to the educational mission of the UW;
 - Activities providing an educational or academic service;
 - Course fees;
 - Extension credit fees; and
 - Visitor Fees.

- **Auxiliary Enterprises and Internal Services** are non-academic in nature, though they may indirectly support the academic mission of the UW. Their major source of revenue is internal—often a recharge center or service center—though many provide ancillary support or shared administrative services to Principal Investigators working on research grant or contract activity:
 - **Recharge Center** budgets charge less than \$175,000 per year to federally sponsored programs and generate less than \$1 million per year in revenue.
 - **Service Center** budgets charge more than \$175,000 per year to federally sponsored programs or generate more than \$1 million per year in revenue.

REVENUES AND EXPENSES

Projection Methodology and Process Enhancements

The FY20 Annual Review process represented the second year in which unit-level, multi-year financial forecasts were collected across the UW. This provided business unit-specific insight into material auxiliary activities across the enterprise. Deans, Vice Presidents, and Vice Provosts were required to submit five-year revenue and expenditure projections, on a consolidated basis, for all self-sustaining business units under their purview to OPB for evaluation of the use of assumptions and to identify trends that needed to be explored further. These areas were explored over the course of two months of budget discussions with unit leaders and were further supported by the additional information gathered through this year's expanded narrative submission component of the budget development process. These qualitative and quantitative factors serve as the underlying basis for the enterprise revenue and expense projections for the balance of the current and all of the next fiscal year.

Business units continue to anticipate moderate revenue growth in FY20, with the aggregate average of 2.6 percent. Expense growth is projected to outpace revenue growth, at 5 percent. This is predominately due to one-time investments in operations by several large auxiliary units, the continued pressure of compensation adjustments, and an expected net increase to benefit expenses. Although revenue projections may show growth overall, some business units carry structural deficits when expenses are taken into account. As noted in the "Auxiliary Budget Oversight" on page 26 of this document, OPB develops and analyzes fiscal health reports for auxiliary activities on a quarterly basis, and works with unit administrators to ascertain areas of concern and begin course correction before deficits arise. Units generating or projecting deficits in self-sustaining activities are required to take action to resolve actual or forecasted fund balance deficits as well as file formal deficit reduction plans.

Revenues and Expenses

Revenue in Tables 10 and 11, below, is net revenue for the fiscal year, which includes ILP debt service and any funds transferred into or from the self-sustaining program(s). Expenses include any expense transfers or Cost Transfer Invoices that post to the program, as well as the normal operations, salary, and benefit costs. As a reminder, most self-sustaining budgets are charged an institutional overhead tax (per Administrative Policy Statement 33.2), which helps cover utilities, maintenance, and other costs incurred by the operation of these activities.

Table 10: FY19 Self-Sustaining Projected Revenue, Expenses, and Ending Balances*

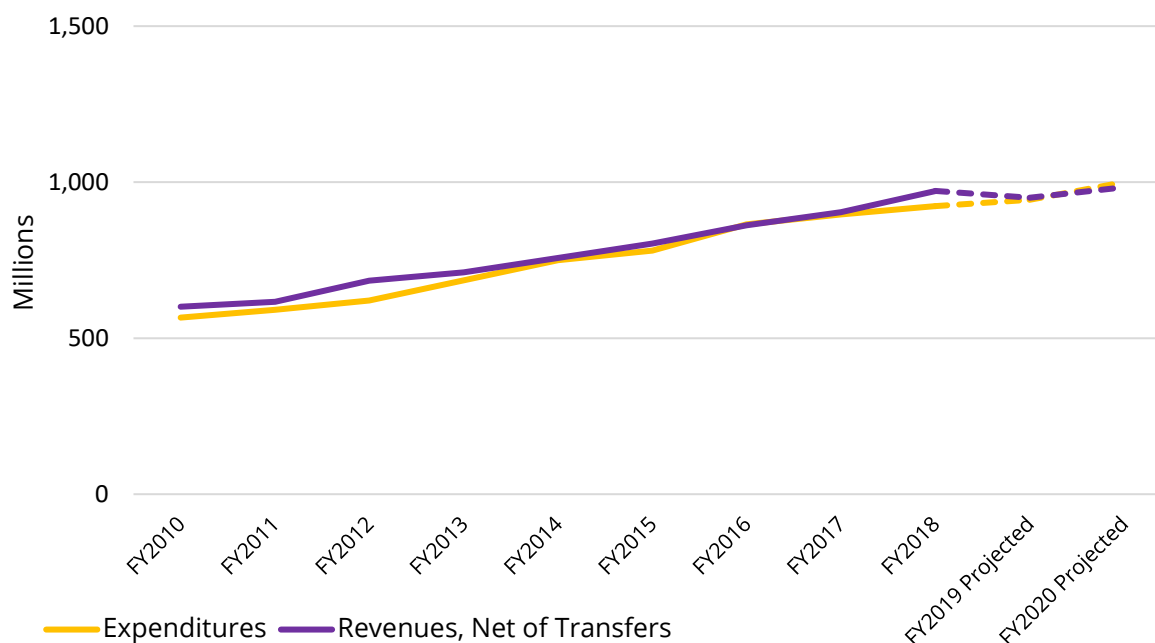
Unit Group	Beginning Balance	Total Projected Revenue	Total Projected Expenses	Projected Ending FY19 Balance
Seattle	412,170,000	930,062,000	928,755,000	413,477,000
UW Bothell	6,449,000	21,858,000	16,690,000	11,617,000
UW Tacoma	4,606,000	12,080,000	12,318,000	4,368,000
Total	423,225,000	964,000,000	957,763,000	429,462,000

Table 11: FY20 Self-Sustaining Projected Revenue, Expenses, and Ending Balances*

Unit Group	Projected Beginning FY20 Balance	Total Projected Revenue	Total Projected Expenses	Projected Ending FY20 Balance
Seattle	413,477,000	954,256,000	975,544,000	392,189,000
UW Bothell	11,617,000	22,295,000	17,358,000	16,554,000
UW Tacoma	4,368,000	12,443,000	12,587,000	4,224,000
Total	429,462,000	988,994,000	1,005,489,000	412,967,000

*Figures may not tie due to rounding

To provide context for these data relative to historical activity, Figure 12 depicts consolidated revenues and expenses from FY10 through FY18, and projections for FY19 and FY20.

Figure 12: Auxiliary Revenue and Expense Trends (excluding UW Medicine)


As noted last year, primary drivers of continued expansion include fee based academic programs and growth in the size and complexity of School of Medicine's self-sustaining programs and recharge centers, namely graduate medical education and lab medicine. While the size of the UW's auxiliary activities have grown significantly in size and scope over time, we continue to forecast tightening margins in many, if not all, business areas.

We project that FY20 will see expenditures exceeding revenues. This is due to large, planned investments of accumulated fund balances to support major initiatives, both capital and operational enhancement, by several auxiliary units. Examples of such FY20 investments include (a) the use of fund balance by Housing & Food Services to continue progress on the UW Housing Master Plan, and (b) continued investment in new faculty startup, recruitment packages, and space renovations. Fund balances are currently healthy in most UW self-sustaining enterprises, but tightening margins limit the abilities of these business enterprises to accumulate or re-accumulate sufficient fund balances over time and to reinvest in major new initiatives or opportunities. Further, thin margins require that service prices regularly increase in order to keep up with basic inflationary pressures, which must be carefully balanced to avoid pricing the service out of market.

UW MEDICINE

UW Medicine includes UW Medical Center (UWMC), Northwest Hospital (NWH), Harborview Medical Center (HMC), Valley Medical Center (VMC), UW Physicians (UWP), Airlift NW (ALNW), UW Neighborhood Clinics (UWNC), UW Medicine Shared Services, and the School of Medicine (SOM). UW Medicine is managed under the leadership of the CEO of UW Medicine who also serves as Executive Vice President for Medical Affairs for the UW and Dean of the School of Medicine. Environmental factors, industry trends, and operating challenges are considered carefully in developing the budget for UW Medicine.

FY18 was the first year of the UW Medicine Financial Improvement & Transformation Project (Project FIT), the multi-year effort to improve UW Medicine's financial performance while supporting its mission to improve the health of the public. FIT continues to be the number one strategic priority for UW Medicine. While UW Medicine met its Project FIT goals overall in FY18, some UW Medicine organizations did not meet individual budget targets, demonstrating the importance of continuing to identify and deliver on the FIT initiatives. FY18's overall success was due to the efforts and commitment of approximately 30,000 talented staff, faculty, students, trainees, and volunteers. Consistent with the goals established for the year, UW Medicine focused on delivering world class clinical care, research, education, and training, continuing to implement its evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals.

CHALLENGE 1: ENSURING SUCCESS OF SIGNIFICANT FIT INITIATIVES IN FY20

There are many FIT initiatives underway at UW Medicine in FY19 that will carry over into FY20, but the most significant are the integration of UWMC and NWH, and Destination: One (described below). These projects are foundational for UW Medicine and it will be crucial to stay focused on these key initiatives to ensure success.

In February 2018, the Board of Regents approved the integration of NWH and UWMC into one hospital, UWMC, which will provide high quality care on two campuses. Numerous operational teams are currently engaged in extensive work to ensure a successful integration will occur on January 1, 2020 (six months into FY20). This integration will result in improved access for patients, better alignment of clinical services, improved financial performance, and administrative simplification.

In July 2018, the Board of Regents approved the plan to proceed with the UW Medicine Clinical Transformation Program (now called Destination: One). This multi-year program will allow UW Medicine to improve patient engagement, as well as physician and practitioner experience, and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. UW Medicine will achieve business and operating efficiencies through simplification and standardization across all clinical operations. Total program costs including backfill are estimated at \$180 million, of which \$129 million will be financed through the internal lending program, and the remaining portion will be funded by HMC, UWMC, NWH, and Seattle Cancer Care Alliance.

CHALLENGE 2: MANDATORY INCREASING COSTS, INCLUDING SALARIES AND BENEFITS

UW Medicine's staff is its most valuable resource, as well as its single largest expense. Year-over-year increases in salaries and benefits are factored into UW Medicine's budget projections. It is anticipated that this inflationary growth will continue to create pressure on margins. Benefit expenses continue to rise, due to increased health insurance premiums and retirement benefits. In an environment where reimbursement is flat or declining, the need to find ways to be more efficient is paramount.

Included in the audited performance for FY18 was the unbudgeted impact of the implementation of Governmental Account Standards Board (GASB) 75, which requires the recognition of costs associated with other post-employment benefits as they are earned, rather than based on cash funding. The expense recorded under this pronouncement was more than \$25 million in FY18.

Additionally, UW Medicine recorded benefit expense increases of more than \$7 million, related to UWMC's portion of the University's net post-retirement obligations. The UW records its GASB 75 actuarial expense and funded status based on information provided annually by the state of Washington. As a result, the University records the actuarial expense during its year-end close process, as does UW Medicine. Separately, the University records as expense the amount funded to the state through the benefit load rate paid to the state of Washington. UW Medicine records its allocated portion of this benefit load rate as an expense each month in its financial statements. UW Medicine also includes the expense as part of the benefit load in its annual budget. Increasing core benefit expenses, coupled with new expense recognition requirements, continue to put pressure on UW Medicine's ability to improve financial performance. The four-year compound annual growth rate of benefit expenses for the two academic medical centers is approximately 5.85 percent.

CHALLENGE 3: CONTINUED PRESSURE ON REIMBURSEMENT

Consistent with the regional and national healthcare environment, UW Medicine continues to experience reimbursement rates that are not keeping pace with inflation, a shifting payer mix from commercial to governmental payers, as well as a shift from fee-for-service payments to value-based reimbursement. This shift creates a strong impetus for transformation. UW Medicine's work with its Accountable Care Network and its Clinical Integrated Network is to ensure that we are able to remain competitive while striving to provide care at a reasonable cost. UW Medicine continues to work to ensure it is collecting every dollar due for the services it provides.

CHALLENGE 4: COMPETITIVE LANDSCAPE

The Pacific Northwest healthcare market has been impacted by continued consolidations, affiliations, and integration, as well as by new market entrants and the introduction of disruptive technologies. Self-insured employers continue to seek alternative contractual relationships with health systems in order to improve the health of employees and their family members, to increase satisfaction with the care that is provided, and to reduce overall cost.

Innovative health care delivery options are becoming a demand of the region, as technology is integral to new entrants in the workforce. Attracting these patients by providing new ways to access care is a strategic focus. The evaluation of these technologies will be a part of UW Medicine's clinical strategic planning efforts.

CHALLENGE 5: LIMITED ACCESS TO CAPITAL FOR STRATEGIC INVESTMENTS

The lack of access to capital has created challenges in being able to fund deferred maintenance, investments in infrastructure, and strategic priorities. UW Medicine capital and strategic investments historically have been primarily funded through cash. This, coupled with recent operating losses and modest investment earnings, has resulted in cash levels significantly below our targeted levels and our peers. Although there are a number of significant projects currently being funded through a combination of cash and borrowings from the internal lending program, there is a need for more consistent access to capital to fund key initiatives. Greater access to capital will directly and positively impact the speed at which we can meet other key challenges.

CURRENT FINANCIAL PERFORMANCE

Table 12, below, depicts the FY19 year-to-date (YTD) margins recorded at all of the UW Medicine entities through April 2019. A subtotal has been incorporated to highlight the results specific to the Consolidated Clinical Enterprise (CCE). The CCE represents the entities that are part of the borrowing entity for UW Medicine, which includes all UW Medicine organizations other than HMC, VMC, and the SoM. When debt requirements are reestablished for the CCE—which is currently planned to occur in October of 2019—they will be measured only on the results of the CCE.

Table 12: FY19 financial results as of April 2019 by UW Medicine Entity (in \$000's)

FY19 YTD April	YTD Actual	YTD Margin %	YTD Budget	Variance To Budget	YTD Prior Yr Actual
UWMC	26,507	2%	13,753	12,754	(16,309)
NWH	(28,051)	-9%	(2,096)	(25,955)	(14,661)
UWP*	-	0%	-	-	-
UWNC	202	0%	(1,438)	1,640	(1,189)
ALNW	(661)	-1%	1,298	(1,959)	(4,869)
SUBTOTAL CCE	(2,003)	0%	11,517	(13,520)	(37,028)
HMC	17,436	2%	2,811	14,625	(12,933)
VMC	12,128	2%	4,488	7,640	35,356
SoM	12,842	1%	(10,060)	22,902	1,632
TOTAL	40,403	1%	8,756	31,647	(12,973)

*Results for UWP are shown after amounts available to the School of Medicine.

Please Note: Impacts of OPEB have not yet been recorded in FY19 and will be recorded in audited results.

UW Medicine's financial performance in FY19 compared to its FY19 budget has been favorable at six of the eight entities. Total margin is favorable by approximately \$32 million on a combined basis. Year-over-year performance has seen significant betterment as FIT initiatives have been implemented.

ENTITY SPECIFIC PERFORMANCE

UWMC's better than budget financial performance is due to high acuity, strong surgical volumes, and strong contract pharmacy performance. Expense control has been a priority and despite increases in volume and acuity, UWMC has performed well compared to labor targets. It is anticipated that UWMC will meet or exceed FY19 budgeted margin targets by year-end.

NWH's unfavorable to budget performance is due to lower than expected volumes and higher than anticipated expenses related to physician transitions. As part of the integration, UW Medicine is working to transition NWH physicians into UWP and increase the number of UWP physicians practicing at the NWH campus. These physician transitions have resulted in higher than expected expenses, as well as the unanticipated loss of a number of experienced physicians. In addition to lower than expected volumes, NWH has a higher than expected shift in payer mix from commercial insurers to Medicare, resulting in lower reimbursement. Higher than anticipated employee health insurance expenses have also contributed to the unfavorable variance on a year to date basis. NWH will not meet FY19 budgeted margin targets.

UWP has experienced strong volumes compared to budgeted levels. Expenses are also favorable compared to budget and it is anticipated that UWP will end the year close to target levels.

UWNC has not met volume targets YTD in FY19. The February inclement weather had a significant negative impact on volumes throughout UW Medicine, but was particularly impactful to primary care volumes. In March, UWNC launched a program to offer more telehealth visits to patients in an effort to improve access to patients. UWNC's operating expenses are favorable to budget, which helps to mitigate lower than expected volumes, and results in favorable to budget net results on a year to date basis.

ALNW is currently not meeting budget, although the variance is not significant. Increased competition in Alaska has put pressure on flight volumes in that region, which is a significant driver of performance at ALNW. Rotary wing flights were grounded in February due to the snow, which also impacted volumes. Expense control has been strong and continued efforts are being made to mitigate the negative variance by year end.

HMC's better than budget financial performance is due to high acuity, surgical volumes, and stronger than expected reimbursement levels on a year to date basis. Expense control has been a leadership priority and HMC is very close to budgeted expense levels. Contract pharmacy performance has also contributed to the positive margin variance. It is anticipated that HMC will meet budgeted margin targets in FY19.

VMC is running close to budgeted levels for volumes and expenses, with favorable contract pharmacy performance driving a favorable margin on a YTD basis. Significant investments have been made to increase outpatient surgical capacity and enhance the campus infrastructure. It is anticipated that VMC will meet budgeted margin targets in FY19.

SoM continues to experience a very strong philanthropic revenue stream in FY19. Unbudgeted gifts are exceeding budget and non-labor expenses through March are favorable as well. Salary and benefit expenses are unfavorable to budget. On a YTD basis, the SoM is favorable overall compared to budget.

LOOKING AHEAD: PERFORMANCE, BUDGET, CLINICAL STRATEGIC PLANNING AND LONG RANGE PLANNING

Projected revenues and total margins for FY18, FY19, and FY20 are in Table 13, below. The FY20 budget for UW Medicine is now finalized. UW Medicine's work over the last few months focused on identifying FIT initiatives to eliminate significant budget gaps. FY20 budget targets for NWH have been reduced to a level close to current performance, due to the impact of lower than expected FY19 volumes and higher than expected integration costs. It is important to note that NWH is anticipated to experience losses in the six months prior to integration with anticipated positive impacts from the integration occurring subsequent to January 1, 2020. The remaining entities within UW Medicine brought forward balanced budgets at margin levels close to the initial FIT plan targets, which reflect increases over FY19 targets. The total UW Medicine budget for FY20 is \$5.9 billion, including the School of Medicine.

Table 13: FY18 and FY19 Actual Revenues and Margins and Preliminary FY20 Budget Targets

UW Medicine ¹	FY18 Actual Revenues	FY19 Budget Revenues	FY20 Preliminary Revenues	FY18 Actual Total Margins ²	FY19 Budget Total Margins ²	FY20 FIT Plan Total Margin ²	FY20 Budget Margins	Budget Risk
UWMC ³	1,216,000,000	1,328,000,000	1,495,000,000	(1,319,000)	19,700,000	39,800,000	38,902,000	
NWH ³	376,000,000	396,000,000	381,000,000	(21,010,000)	(3,200,000)	5,700,000	(32,700,000)	
UWP	294,000,000	324,000,000	357,000,000	-	-	-	-	
Airlift NW	59,000,000	59,000,000	63,000,000	(4,138,000)	2,300,000	2,100,000	2,214,000	
UWNC	55,000,000	59,000,000	61,000,000	(2,414,000)	-	-	(531,000)	
Shared Svcs	-	-	-	7,380,000	-	-	-	
Subtotal CCE	2,000,000,000	2,166,000,000	2,357,000,000	(21,501,000)	18,800,000	47,600,000	7,885,000	
HMC	1,017,000,000	1,035,000,000	1,072,000,000	(6,590,000)	7,200,000	10,500,000	10,715,000	
VMC	632,000,000	673,000,000	739,000,000	39,994,000	6,600,000	7,500,000	7,253,000	
UW Medicine (excluding SoM)	3,649,000,000	3,874,000,000	4,168,000,000	11,903,000	32,600,000	65,600,000	25,853,000	

¹ UW School of Medicine projections are included within the Auxiliary/Self-Sustaining and Core Operating Budget areas of the University budget, so are excluded here. The total UW Medicine budget for FY20 is \$5.9 billion, including the School of Medicine.

² Total margin does not include OPEB expenses in any year presented.

³ UWMC and NWH amounts are standalone, but will be combined effective January 1, 2020.

BUDGET PRIORITIES

Improved financial performance continues to be UW Medicine's top strategic priority. Pressure on reimbursement from all UW Medicine payers has resulted in overall insignificant inflationary increases. This creates budget challenges due to the significant inflationary expense increases that are projected every year. Salary and benefit inflation ranging from 2 to 4 percent, pharmaceutical inflation of 5 to 8 percent, and supply inflation of approximately 2 percent are all included within the budgets. Clinical faculty funding for physicians continues to grow at an unsustainable rate each year. Additional cost savings or revenue producing initiatives were identified in order to offset these increases and thereby meet targets. In FY19, a number of initiatives proved successful at controlling costs, as is evidenced by a number of the facilities meeting budgeted expense targets. Additionally, each organization is focused on achieving a "budgeted total

cost per case mix index adjusted admission” through the budget process. This provides leadership with a singular efficiency metric to measure against on a monthly and YTD basis. Executive leadership has developed a three-year goal to further reduce costs per case mix index adjusted admission. Achievement of this goal will require transformation in the way UW Medicine does its work.

Another key focus in the current year and into FY20 is the integration work to move NWH onto UWMC’s license. Effective January 1, 2020, NWH will be operated as an additional campus of UWMC. The major impetus for the integration of NWH into UWMC is to provide improvements in many areas and it is anticipated that the integration will generate clinical, administrative, and financial benefits. NWH has experienced sustained operating losses over the years and those losses have resulted in pressure on liquidity. To ensure NWH has had the ability to meet its working capital requirements, payment has been delayed to the University for supplies and services provided. The expenses for these services have all been fully recorded and disclosed within the applicable UW Medicine audited financial statements. The amount due to the University on April 30 is approximately \$91 million. NWH continues to make monthly minimum payments annualizing to \$5 million each year on the payable, and additional payments are made when cash flow allows. Upon integration, the payable will be recorded on the balance sheet of UWMC, along with the assets and other liabilities of NWH.

CLINICAL STRATEGIC PLANNING AND LONG RANGE FINANCIAL PLANNING FOR 2025

In the fall of 2018, the decision was made to embark on a comprehensive, refreshed clinical strategic planning process across UW Medicine that will inform the long range planning process. Recognizing the effort required to produce a meaningful, refreshed strategic plan, the long-range financial planning process was postponed until the fall of 2019. This will allow UW Medicine to evaluate capacity at each site, as well as develop a roadmap for its ambulatory care strategy. The clinical strategic planning process has begun and is anticipated to last into the fall of 2019. It will be completed in time to incorporate the results into the long-range financial plan that will be delivered to UW Medicine’s board committees in December 2019.

POWER OF PHILANTHROPY: GIFTS & ENDOWMENT DISTRIBUTIONS

The UW is fortunate to benefit from an incredible legacy of private support. In October 2016, the University publicly launched the most expansive campaign in our history: **Be Boundless — For Washington, For the World**, scheduled to conclude in FY20. This campaign has increased momentum for fundraising and giving, with private support continuing to climb at a steady, sustainable rate, year over year. Post-campaign, gift revenue is expected to exceed \$550 million annually (including private grants, which, for this report are included within the Research Enterprise section), an annual increase of \$200 million from the baseline prior to Be Boundless.

Table 14, below, shows changes between the FY19 adopted budget, revised projections for FY19, and the proposed FY20 budget. The gift income figure—defined as current-use support—is a subset of total annual private support, which Advancement projects will again exceed \$700 million in FY19. It does not include new endowment gifts or revenue from private grants (approximately \$240 million per year). Gift income for FY19 is tracking in line with projections.

Table 14: FY19 Annual Gift & Endowment Distributions

	FY19 Projected	FY19 Revised	FY19 Variance (FY19 Projected to FY19 Revised)	FY20 Projected	Percent Change (Revised FY19 to FY20)
Gift Income	291,498,000	290,000,000	(0.6%)	310,000,000	6.9%
Endowment Distributions	128,000,000	130,000,000	1.6%	132,000,000	1.5%
Total	419,498,000	420,000,000	0.1%	442,000,000	5.2%

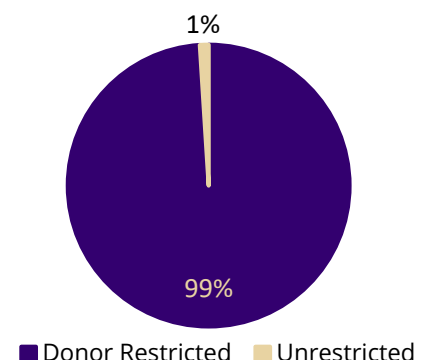
GIFT INCOME

The \$310 million gift income projection, shown in Table 14, reflects both the overall trajectory of UW's fundraising growth (3 percent CAGR) through the Be Boundless Campaign, and the results of efforts focused on securing gifts for key academic facilities. The FY20 projection includes the final pledge payment for the Population Health Building, as well as continued inflows on pledges for the Parrington Hall and Founders Hall projects.

ENDOWMENT DISTRIBUTIONS

The UW's endowment is composed of over 5,000 individual endowments, each with its own unique purpose. Individual endowments are commingled for investment purposes. As Figure 13 shows, of the UW's total endowment, **99 percent is restricted to donor-directed purposes**, leaving only 1 percent for the UW to use at its discretion for items such as general University operations and University-wide compensation increases.

Figure 13: Composition of UW Endowment

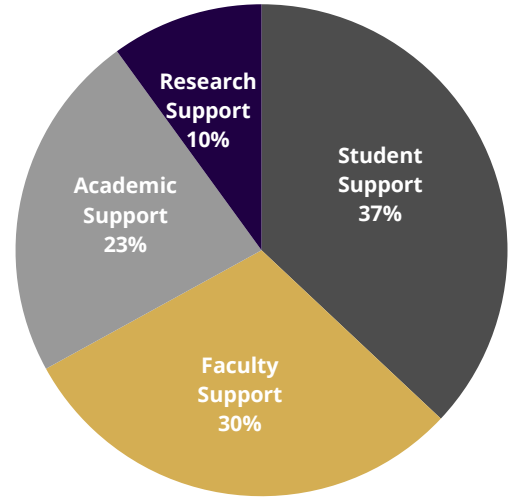


As seen in Figure 14, below, the UW's endowment serves core academic programs, with more than two-thirds directly supporting students and faculty.

The UW Board of Regents considers long-term inflation-adjusted returns and risk levels to establish sustainable investment and spending policies. In times of strong market performance, the UW builds reserves so that in bad markets, the UW can sustain spending and limit disruption to essential academic programs.

Annually, donors endow gifts of \$50 million to \$100 million, as well as fund current initiatives and priorities that allow the UW to meet today's greatest challenges. Endowments provide a quarterly income stream to the donors' designated purpose in perpetuity. Distributions from the Consolidated Endowment Fund (CEF) are governed by the UW's spending policy set by the Board of Regents. As noted earlier in this document, the endowment distribution policy was changed in FY19, to step down from 4 percent to 3.6 percent by FY22.

Figure 14: Endowment Support by Purpose*



*Excludes operating funds and non-University endowments

STRENGTH OF IDEAS: RESEARCH ENTERPRISE

The UW's record securing research funding is truly exceptional—it is one of the few universities in the United States with total research expenditures exceeding \$1 billion. In 2017 (the most recent national data available), the UW had more externally-sponsored research and development (R&D) funding than any other university in the nation, with the exception of Johns Hopkins University. The UW's success in securing research grants and contracts translates to consistently high scores in national and international rankings. The National Taiwan University ranks the UW 6th overall (4th nationally) and 1st in public universities worldwide for the quality and impact of research endeavors, and 2018 U.S. News ranked UW 10th among world universities in the "Best Global University Rankings."

Another measure of research competitiveness can be demonstrated through UW's share of externally-sponsored R&D expenditures, compared to other higher education institutions. As Table 15 shows, the UW has maintained its share of total federal and non-federal research expenditures over the last five years despite fluctuations in funding.

Table 15: UW R&D Expenditures - Federal and Non-federal Market Share

	2013	2014	2015	2016	2017
Total USA	52,029,298,000	51,411,893,000	51,956,071,000	53,858,346,000	56,290,643,000
Total UW	1,120,658,000	1,111,147,000	1,121,373,000	1,182,611,000	1,220,260,000
Market share	2.15%	2.16%	2.16%	2.20%	2.17%

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2017.

Research awards totaled \$1.35 billion in FY18, a 17 percent decrease from FY17. The decrease in FY18 was expected due to the \$280 million 10-year award from the Bill & Melinda Gates Foundation received in FY17. That award pushed FY17's total to \$1.6 billion.

Examples of **major awards** in FY18 include:

- \$10 million from the Paul G. Allen Frontiers Group to develop and apply technologies for globally mapping the cell lineage tree of vertebrate development.
- \$6.4 million from the Defense Advanced Research Projects Agency to develop new ways to store digital information in DNA in an ultra-dense way (imagine data that would fill a whole data center fitting in the size of a sugar cube).
- \$4.3 million from the Simons Foundation to create the Ocean Atlas, a data portal for dynamically retrieving, integrating, and visualizing ocean data sets of vastly different dimensions and resolutions.
- \$2.3 million from the National Institute on Aging Alzheimer's Disease initiative to understand the role of air pollutants and the neighborhood social environment in the evolution of dementia and Alzheimer's disease.

More than 8,400 students worked under the guidance of UW faculty mentors devoted to research. Sponsored projects supported close to 14,000 employees during FY18, including over 2,400 graduate students and roughly 1,100 postdocs. In FY18 5,600 FTE employees were paid on sponsored research funding.

FEDERAL OUTLOOK

While the UW continues efforts to diversify its research portfolio, federal funding still represents 78 percent of sponsored research expenditures. President Trump's FY20 budget proposal calls for a significant decrease in federal R&D funding. Although many FY20 funding details for specific federal agencies are not yet available, the President's previous proposals requested decreased funding to the R&D budgets of almost every federal agency. The FY18 and FY19 decreases were both ultimately rejected by Congress, but the politicized nature of the federal appropriations process will continue to fuel uncertainty in FY20.

The UW administration will continue to monitor the situation and develop plans to quickly respond to any changes in federal funding. Due to high levels of bipartisan support, the UW administration believes the National Institutes of Health (NIH) funding will not be cut significantly in FY20. However, the UW is monitoring developments closely, as NIH funding represents half of our total federal research funding.

ESTIMATED SPONSORED PROJECTS EXPENSES

Table 16, below, shows a breakdown of projected sponsored research expenses in FY19 (original and revised projections) and FY20. The University is currently projecting a modest increase of expenditures in FY20. While this may be a conservative figure, it is too early to tell how the federal appropriations process will ultimately impact expenditures in FY20. Additionally, please note that these numbers represent not only all R&D and non-R&D sponsored projects at the UW, but also certain Washington state financial aid that is included in research totals for accounting purposes. Lastly, please note that direct and indirect expenditures do not necessarily align when comparing them to research awards. This is mainly due to two reasons: 1) some research awards are multi-year awards received in a single year, and 2) awards are received throughout the state fiscal year and are not spent on the state fiscal year time frame.

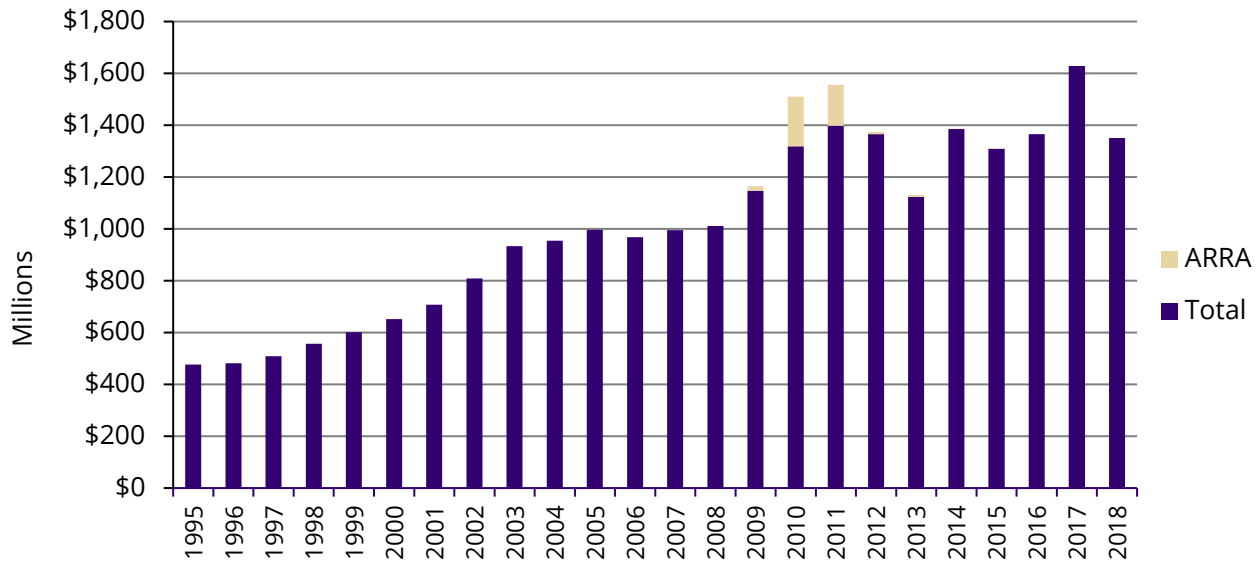
Table 16: Projected Sponsored Research Expenses with Breakout of Indirect Costs

	FY19 Projected	FY19 Revised	FY20 Projected	Percent Change (Revised FY19 to FY20)
Federal	811,355,000	798,916,000	823,192,000	3.0%
State & local grants	94,461,000	102,401,000	102,401,000	0.0%
Nongovernmental	236,846,000	225,543,000	229,384,000	1.7%
Indirect Research Expenses	267,224,000	268,059,000	277,418,000	3.5%
Total	1,409,886,000	1,394,919,000	1,432,395,000	2.7%

AWARD TRENDS

Figure 15, below, provides a historical look at the UW's total grant and contract awards by year, with a breakout for American Recovery and Reinvestment Act (ARRA) grants. As the figure shows, the UW's grant and contract awards have steadily increased with time, and are now roughly flat. Note that FY13 numbers are artificially low due to award delays caused by sequestration and that FY17 numbers spiked due to the 10-year, \$280 million award from the Bill and Melinda Gates Foundation.

Figure 15: Total Grant and Contract Awards by Year (1995-2018)



CONCLUSION: A LOOK BACK AND AHEAD

The University continues to face challenges that limit the use of new resources to the most critical activities. It will always be important to effectively manage and deploy funding in a way that best serves our students, state, and region.

Thankfully, the passage of the state's 2019-21 biennial operating budget will have a substantial impact on the UW's ability to fulfill and advance its public service mission. The new budget will provide foundational funding for the UW so that we can better support our talented faculty and staff. It also increases our capacity in high-demand fields on all three campuses and includes critical support for the UW's hospitals and clinics.

However, while moderate compensation increases for salaries may be more fully covered by state funding this biennium, other key revenues are restricted and constrained. The state provides no funding to implement compensation increases for employees paid on non-GOF sources. Thus, it is critical for the University to consider compensation decisions in the broad context of the University's overall revenues.

The University's administration will continue to be vigilant and holistic in its financial decisions. It is as important as ever to monitor and mitigate the financial performance of each operating unit, and the University as a whole. We will continue to analyze and contemplate the effects of investments, such as salary increases, on each unit, as well as the financial health of the whole enterprise.

As we plan for the future, the University will continue to be thoughtful in forecasting and managing unknowns.

ACRONYM GLOSSARY

AAU	Association of American Universities
ABB	Activity Based Budgeting
ALNW	Airlift Northwest
ARRA	American Recovery and Reinvestment Act
CAGR	Compound Annual Growth Rate
DOF	Designated Operating Fund
FTE	Full-Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GOF	General Operating Fund
HMC	Harborview Medical Center
HR	Human Resources
ICA	Intercollegiate Athletics
ICR	Indirect Cost Recovery from Research
ILP	Internal Lending Program
IPEDS	Integrated Postsecondary Education Data System
NIH	National Institutes of Health
NWCCU	Northwest Commission on Colleges and Universities
NWH	Northwest Hospital & Medical Center
OPB	Office of Planning & Budgeting
RA	Research Assistant
RUG	Resident Undergraduate
SCH	Student Credit Hour
SoM	School of Medicine
STEM	Science, Technology, Engineering, and Mathematics
TA	Teaching Assistant
UW	University of Washington
UWINCO	University of Washington Investment Management Company
UWMC	University of Washington Medical Center
UWNC	UW Neighborhood Clinics
UWP	UW Physicians
VMC	Valley Medical Center
WWAMI	Washington, Wyoming, Alaska, Montana, and Idaho Regional Medical Education Program

UW Department of Intercollegiate Athletics FY20 Budget

Revenue notes:

- Reflects home games against Oregon and WSU in football, increase in season ticket sales in men's basketball.
- Year one of Adidas apparel partnership; increase of \$3.45 million in products, \$3.65 million in cash, and \$3 million signing bonus.
- Assumes modest revenue growth related to fan experience enhancements in arena, baseball and softball.

Expense notes:

- Reflects recent contract negotiations for revenue sports.
- Includes \$3.45 million increase in products related to the Adidas partnership.
- University Institutional Overhead will increase related to increases in gate revenue and cash associated with Adidas partnership described in note b) above.
- Debt service reflects post Financial Stability Plan temporary debt restructuring.
- Major maintenance projects planned for FY20: \$1.5 million for Softball Performance Center (donor funding came in prior year), \$650,000 for replacement of east football field, \$550,000 for miscellaneous stadium updates (repairs, fixing leaks, etc.), \$500,000 for security related projects, \$370,000 for ADA updates.

	2019-20 Budget
BEGINNING BALANCE	\$31,734,000
REVENUE	
Gate Revenue ^a	\$34,423,000
Contributions	\$26,079,000
NCAA / Conference	\$37,942,000
Royalties, Adv & Sponsorships ^b	\$27,090,000
Tuition Waivers	\$4,546,000
Other Revenue ^c	\$11,245,000
TOTAL REVENUE	\$141,325,000
EXPENSE	
Salaries ^d	\$40,392,000
Benefits ^d	\$10,034,000
Athletics Student Aid	\$15,034,000
Sport Operational Expense ^e	\$32,261,000
Direct Facilities, Maintenance & Utilities	\$5,224,000
Misc. Marketing / Promotion Expense	\$4,348,000
UW Institutional Overhead ^f	\$3,500,000
Misc. Expenses	\$10,887,000
TOTAL EXPENSE	\$121,680,000
NET OPERATING INCOME	\$19,645,000
Debt Service ^g	\$14,760,000
NET OPERATING INCOME LESS DEBT SERVICE	\$4,885,000
DEBT SERVICE COVERAGE	1.33
Minor CapEx / Deferred Maint / Capitalized Equipment ^h	\$4,377,000
Cash Flow after Investment in Capital	\$508,000
June 30 Cash Balance	\$32,242,000