

Adopted Fiscal Year 2021 Operating Budget – September UpdateINFORMATION

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 the Board of Regents Standing Order No. 1—consider and confirm updates to the Adopted Fiscal Year 2021 (FY21) Operating Budget (https://www.washington.edu/opb/adopted_fy21_operating_budget/) for the University of Washington. This includes final approval of the Fiscal Year 2021 Operating Budget for UW Medicine, an update to the budget for Intercollegiate Athletics (ICA) compared to what was approved in June, and other mitigating budget actions relating to the FY21 Operating Budget. With the exception of UW Medicine and ICA, all areas of the FY21 Operating Budget approved in June stand because changes fall within the approved ranges, so the overall budget does not require blanket re-approval.

The proposed budget for UW Medicine and updated budget for ICA are presented here as an information item, and are contingent on four separate items on the agenda today:

1. Approval of Fiscal Year 2021 Operating Budget for UW Medicine (B–4);
2. Approval of UW Medicine Debt Funded Small-Works Budget (B–5);
3. Review of the information item providing an update to the Fiscal Year 2021 Operating Budget for Intercollegiate Athletics (B–6); and
4. Approval of Intercollegiate Athletics Internal Loan Program (ILP) Loan Payment Deferral (B–7).

BACKGROUND

This information item presents updates to the University’s adopted operating budget for FY21, which began on July 1, 2020 and ends on June 30, 2021.

In contrast to previous years, the May preliminary budget was instead presented as an “outlook” due to the significant and ongoing uncertainties related to the COVID-19 pandemic. The pandemic and associated economic repercussions have profoundly impacted both the state in general and the University specifically, and affect almost every facet of our community. To the extent possible, the budget approved in June provided an update to the outlook presented in May, with forecasts and supporting information at that point in time. As indicated at the May and June meetings, items presented in September provide relevant updates and mitigating budget actions regarding UW Medicine and Intercollegiate Athletics, both which have been subject to a great deal of uncertainty in previous months.

BOARD OF REGENTS MEETING

Adopted Fiscal Year 2021 Operating Budget – September Update (continued p. 2)

The University's Adopted FY21 operating budget will be updated to include UW Medicine's budget, and Intercollegiate Athletics' revised budget, based on updates and actions taken. The administration will continue to provide updates to major areas of the budget during its monthly Budget, Finance, and Capital reports.

Attachment

Adopted FY2021 Operating Budget – September Update

Approve Fiscal Year 2021 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 Board of Regents, Standing Orders, Chapter 1—consider and confirm the proposed fiscal year 2021 (FY21) operating budget for the University of Washington. The proposed FY21 operating budget is presented in the attached document, which includes proposed tuition rate recommendations for FY21. 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 FY21 operating budget with the stipulation that the administration will return to the Board of Regents to secure final approval of the FY21 operating budget for UW Medicine in September 2020;
2. Incorporates the FY 2020-21 Recommended Faculty Salary Distribution Plan as outlined in Board Resolution (Item number);
3. Establishes tuition rates for the 2020-21 academic year for all tuition categories;
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;
5. Considers proposed changes to tuition and fee rates in the context of a Cost of Attendance appendix item;
6. Approves the FY21 budget for the UW Department of Intercollegiate Athletics; and
7. Establishes that the administration will provide updates to major areas of the budget during its monthly Budget, Finance, and Capital reports.

BOARD OF REGENTS MEETING

Approve Fiscal Year 2021 Operating Budget (continued p. 2)

BACKGROUND

This action item presents the University's proposed operating budget for FY21, which begins on July 1, 2020 and ends on June 30, 2021. The FY21 operating budget includes proposed tuition rates and is presented as one comprehensive draft for discussion.

In contrast to previous years, the May preliminary budget was instead presented as an "outlook" due to the significant and ongoing uncertainties related to the COVID-19 pandemic. The pandemic and associated economic repercussions have profoundly impacted both the state in general and the University specifically, and affect almost every facet of our community. To the extent possible, this proposed budget is an update to the outlook presented in May, with forecasts and supporting information at this point in time. However, significant uncertainty still exists, particularly in state funding amounts for FY21. Further financial information and updates will be provided to the Board on a monthly basis during standing budget updates.

In response to feedback from Regents in recent years regarding the University's operating budget, the University's FY18-FY20 operating budgets each provided more information and context than previous versions for every area of the budget, including budget oversight and policies. The FY21 budget builds on the improvements made in FY18-FY20 budgets by further refining the presentation of information and the methodology used to make budget projections. The proposed FY21 operating budget includes:

- An introduction from the Provost;
- An overview of the University's mission and commonly-cited facts;
- An executive summary of the University's proposed FY21 operating budget;
- Background information to provide context for the University's current budget challenges and proposals;
- Details, where sufficient information is known, to provide a reasonable estimate under current business conditions, regarding expected revenue for the General Operating Fund and Designated Operating Fund, which are known together as the University's "Core Operating Budget;"
- Final tuition and financial aid recommendations for the 2020-21 academic year;
- A proposed budget for:
 - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY20 and FY21;

BOARD OF REGENTS MEETING

Approve Fiscal Year 2021 Operating Budget (continued p. 3)

- o UW Medicine, including preliminary FY20 financial results and information related to ongoing development of target operating margins for FY21;
 - o Gift income and endowment distribution projections for FY21; and,
 - o Sponsored research activity, including expense projections for FY20 and FY21; and,
- An overview of the processes and policies that guide the University's careful management and distribution of resources.

The University's proposed FY21 operating budget was modified, based on feedback and updated information. Major changes to the information item presented to Regents in the May budget outlook are highlighted for this action item.

Attachments

1. Proposed Operating Budget – Fiscal Year 2021
2. UW Intercollegiate Athletics FY21 Proposed Budget – Base Case
3. FY2021 Proposed Operating Budget (slides)
4. [Proposed 2020-21 Cost of Attendance for First-Year UW Undergraduates](#)

UNIVERSITY *of* WASHINGTON
OFFICE OF PLANNING & BUDGETING

OPERATING BUDGET

Fiscal Year 2021

INTRODUCTION FROM THE PROVOST

During my second year as Provost, I have seen a great public university tested in unanticipated ways. While much has changed on and off our three campuses, our values are unwavering. Included among these is our steadfast commitment to quality academic experiences for our students, emergent and evolving public service across many domains, and the health and safety of our faculty, staff and students. The UW's dedicated response to protect the health and well-being of the community in which we live and work is our guiding light. Our budget reflects our best effort to be true to the essentials of our work as a great public university, despite the significant uncertainties we face.

The University of Washington's fiscal year 2021 (FY21) operating budget is evolving in real time. While the process to get to this point was marked by months of collaboration among deans, faculty, students, staff, and executive leadership, the budgets submitted to President Ana Mari Cauce and me before the COVID-19 pandemic crisis took hold in our region are no longer entirely relevant. Our revenues, particularly in our auxiliary and self-sustaining units, but also in other areas of the budget, are shifting quickly and in profound ways. This document represents the best information we have at this point for the Board to take action on the University's FY21 operating budget, and we will return to the Board in September 2020 for additional action where necessary. Monthly budget updates will be provided to the Board as usual.

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. We asked all units to respond to a 5 percent reduction in budget exercise, seeking to ensure appropriate planning in the event of a recession. Though we posed this question in fall of 2019, we were clearly unaware of how important this exercise would be as a means to prioritize our most essential activities.

Another top priority is ensuring that we are **living within our means as the COVID-19 crisis unfolds**. While the Annual Review process has allowed us to identify potential deficits further in advance, our attention will need to shift to the areas hardest hit by revenue losses, while minding those areas that faced operational deficits prior this crisis. We continue to work closely with unit leadership to proactively resolve any overspending of available resources, and carefully manage unexpended (carryover) funds. In addition, we have instituted additional limitations and reviews for all hiring, in anticipation of significant revenue challenges in the coming year.

Further, it is clear that **we must devote attention to** areas that will position us well to respond to evolving disciplines while minding foundational assets, such as restoring our infrastructure and facilities. While the current crisis requires an "all hands on deck" response, we will continue to promote diversity across all aspects of the University community; to enhance graduate student support; to recognize faculty excellence; and to keep our students' well-being, academic experience, and financial needs top of mind. I look forward to working with my colleagues across the UW to make additional strides in these areas over the coming year, despite the challenges we face together.

CONSIDERATIONS

Addressing these priorities often requires resources—sometimes significant ones—and this year, more than most, we anticipate that available resources will fall significantly short of meeting our high-priority needs. The 2020 legislative session has concluded, but there remains significant and undeniable uncertainty in state revenue forecasts given the ongoing COVID pandemic. State revenue losses, already assumed to be significant, could culminate in drastic reductions to the University's state support in FY21. We have also spent significant time modeling enrollment projections and other areas of financial risk to the University given these developments. Importantly, given these uncertainties, this document represents a current-state view of the University's budget for FY21, and notes where uncertainty exists or information is incomplete.

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 revenue projections, planned uses of our funds, and context for the broad budget of the University as a whole. 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 FY21 budget, and a short guide on "how to read" the remainder of this budget document.

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 totaled \$8.25 billion, and its Consolidated Endowment Fund is approximately \$3.6 billion (as of June 2019). The University employs approximately 36,000 faculty and staff, and 3,700 graduate student employees. The UW's three campuses occupy 339 buildings on 792 acres, with approximately 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 approximately 27.2 million gross square feet.

As the state's flagship university, the UW enrolled more than 59,000 undergraduate, graduate, and professional students in fall 2019. The UW Continuum College 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 636 degree options across 312 programs, more than 1,000 student organizations, and undergraduate research opportunities for more than 9,000 students. In 2018-19, the UW awarded more than 17,800 bachelors, masters, doctoral, and professional degrees.

UW MISSION

The primary mission of the University of Washington is the preservation, advancement, and dissemination of knowledge. The University preserves knowledge through its libraries and collections, its courses, and the scholarship of its faculty. It advances new knowledge through many forms of research, inquiry and discussion; and disseminates it through the classroom and the laboratory, scholarly exchanges, creative practice, international education, and public service. As one of the nation's outstanding teaching and research institutions, the University is committed to maintaining an environment for objectivity 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.

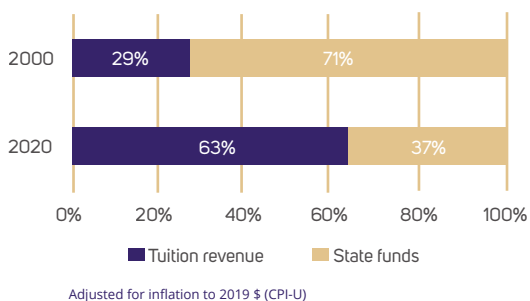
For the full UW mission statement, please see [Regent Policy No. 1, Role and Mission of the University](#).

FAST FACTS 2020

PROFILE

- The University of Washington's three campuses offer more than 636 degree options across 312 programs.
- The UW's FY2020 budget is \$8.25 billion, including \$1.09 billion in the General Operating Fund, which supports the University's academic mission.
- Tuition revenue makes up 63% of the UW's General Operating Fund;** the remainder comes from state funds. Twenty years ago, the proportions were the reverse — 29% from tuition and 71% from the state. These amounts have changed due to the ongoing effects of state funding cuts during and after the Great Recession.

TUITION REVENUE AND STATE FUNDS
AS PERCENT OF TOTAL



- UW undergraduate tuition and fees for Washington residents in 2019–20 is \$11,465 — which is **below the mean and median among the UW's peers in U.S. News & World Report's Top 25 Public Research Universities.**

ENROLLMENT AND DEGREES

FALL 2019 TOTAL ENROLLMENT

	SEATTLE	BOTHELL	TACOMA	TOTAL
UNDERGRAD	32,570	5,364	4,610	42,544
GRAD/PROF	15,533	572	742	16,847
TOTAL	48,103	5,936	5,352	59,391

The UW's **average time to degree is just under four years**, and 81% 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%** of UW undergraduate students are residents of Washington.
- Freshman applications to all three campuses increased by **1.7%** this year.
- All 39 Washington counties** have students at the UW.

In fall 2019, 41% of UW students were pursuing at least one science, technology, engineering & mathematics (STEM) major. In 2018–19, **the UW awarded 7,223 STEM degrees, 11% more than in 2017–18.** Overall, 44% of students who have declared STEM majors are women.

DEGREES AWARDED 2018–19

	SEATTLE	BOTHELL	TACOMA	TOTAL
BACHELOR'S	8,329	1,818	1,482	11,629
MASTER'S	4,094	231	375	4,700
DOCTORAL	904	N/A	11	915
PROFESSIONAL	565	N/A	N/A	565
TOTAL	13,892	2,049	1,868	17,809

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 21% of the 2019–20 domestic freshman class.
- **Over 32% of incoming UW freshmen from the U.S. will be the first in their families to attain a bachelor's degree**; 41% of UW Bothell students and 60% of UW Tacoma students are first generation.
- **Approximately 60% of all UW undergraduates graduate with no known debt**, and those who borrow still graduate with less debt than the national average.
- In 2019–20, **26% of UW undergraduates are eligible for Federal Pell Grant funding**. As of the most recent data (2017–18), more than 11,000 UW undergraduates received Pell Grants — more than at all the Ivy League schools combined.
- In 2019–20, **32% of UW undergraduates from Washington (approximately 10,100) are eligible for the Husky Promise**, which covers the tuition and fees* of students with financial need.
- Since the Husky Promise began in 2007, **more than 40,000 students across the UW's three campuses** have received support from the program.
- In 2019–20, about **55% of UW undergraduates are receiving some form of financial aid**, totaling more than \$424 million.
- In 2019–20, the UW is **awarding more than \$102 million in institutional grants and scholarships to Washington residents**.
- In 2019–20, **approximately 10,200 UW students will receive funds from the Washington College Grant**, 3,800 from the College Bound Scholarship and 2,200 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**, and No. 14 globally by the Academic Ranking of World Universities.
- **The UW has 18 graduate programs that are in the U.S. News & World Report top five for their fields**, and more than 40 UW graduate programs (including more than 20 STEM programs) among the nation's top 10 in their fields.
- **The UW's Seattle campus is ranked the No. 1 public university in the country on CNBC Make It's list of schools that "pay off the most."** UW Bothell is **No. 2**. Washington Monthly ranks 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; 177 members of the National Academies of Sciences, Engineering and Medicine; and 183 fellows in the American Association for the Advancement of Science.
- In 2018–19, **15 UW graduate and undergraduate students were awarded Fulbright grants**.

RESEARCH AND SERVICE

- **The UW receives more federal research dollars than any other U.S. public university**; in FY19 it received \$1.58 billion in total research awards (federal and nonfederal sources).
- The UW is ranked by National Taiwan University as the **No. 1 U.S. public university for scientific papers**.
- According to the 2019 UW Economic Impact Report, **the UW supports or sustains a total of 100,520 jobs** — one out of every 37 jobs in the state, **with an annual economic impact of \$15.7 billion**.
- Over the last five years, CoMotion (the UW's innovation hub) launched 77 new startups and spinoffs — **and the UW is ranked the No. 1 most innovative public university in the world by Reuters**, which examines scholarly articles and patent applications.
- Since the Peace Corps' founding, **more than 3,000 UW alumni have volunteered for service — the third highest rate in the U.S.**
- In 2017, Entrepreneur reported **the UW as the most common alma mater on résumés of employees at the top 100 tech companies**.

BE BOUNDLESS

FOR WASHINGTON

FOR THE WORLD

EXECUTIVE SUMMARY: ADOPTED FY21 BUDGET

This document describes the UW's adopted operating budget for the period of July 1, 2020, through June 30, 2021, which is known as fiscal year 2021 (FY21).

This budget item is presented differently than years past and has been reconstructed given the uncertainties we face as a result of the COVID-19 pandemic. This adopted FY21 operating budget item provides the best information available for a baseline FY21 projection at a point in time. Conversely, the budget specifies where information is still unknown as of the date items were due for publication, which was June 1, 2020. Thus, this budget is much more volatile than those adopted in previous years.

This document does not include a rollup of projected budgets across the University that has been included in previous years. Rather, we include specific budget projections within each functional area throughout the document and have aligned Board of Regent action items with the functional areas that are known at this stage.

The focus of this document is on the University's core operating budget, which is composed of:

- The University's General Operating Fund (GOF), composed of state operating appropriations and tuition revenue; and
- The University's Designated Operating Fund (DOF), composed 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, with the best available data and information, 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.

For a sense of scale, Figure 1, below, provides a high-level view of each major source of the UW's adopted FY20 resource base, and the share of the total that each source represented. We expect that FY21 will be a similar picture, though a change in state appropriations from the currently adopted state budget would potentially affect these ratios.

Figure 1: FY20 Budget Sources by Major Area

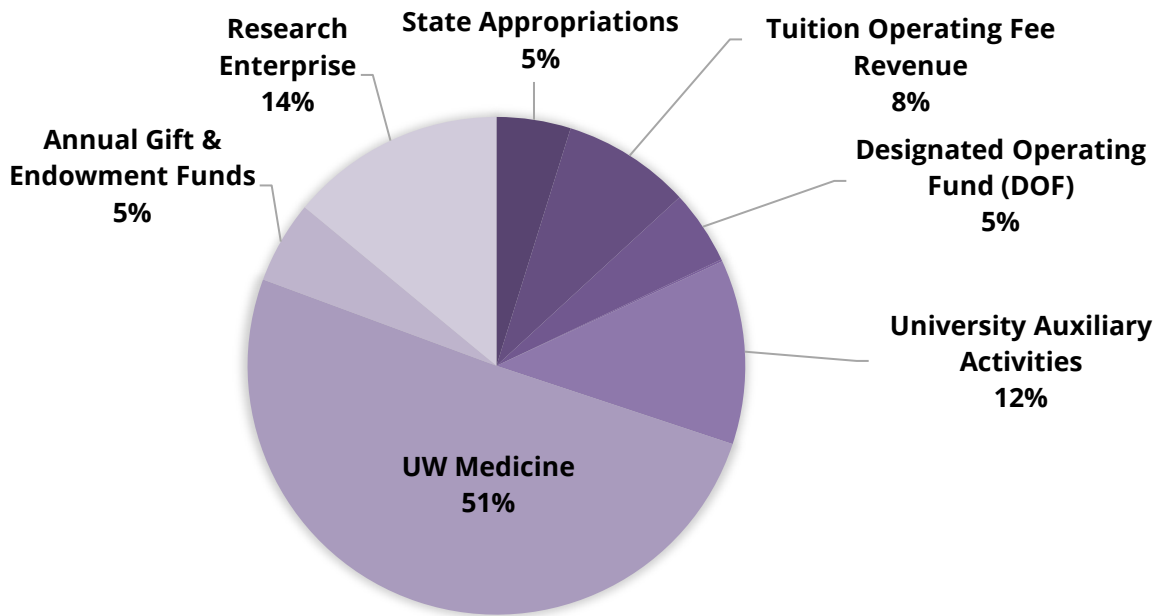
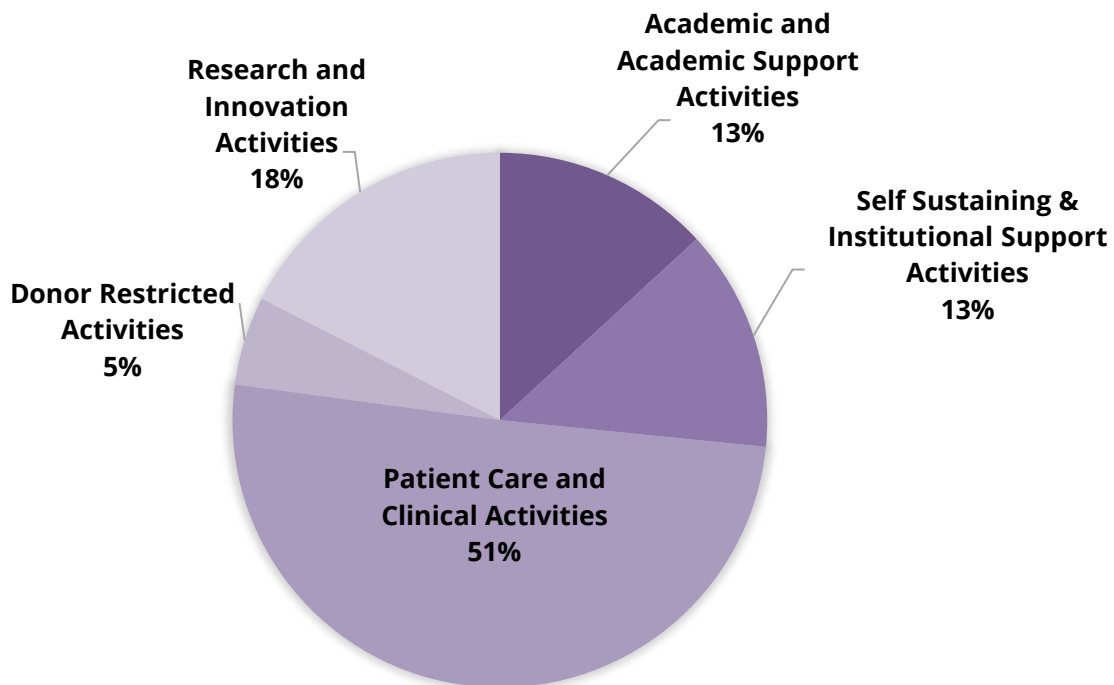


Figure 2, below, shows a breakdown of how adopted FY20 operating resources are used. State or federal laws dictate some of these uses, while University policies and donor requests determine others. **Overall, a relatively small portion of the University's total operating resources is available to fund academic and academic support activities. We do not anticipate a significant change in FY21.**

Figure 2: FY20 Designated Uses of Funds by Activity



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, but **unlike previous budgets, this document makes clear where data insufficiencies or risks are known, with projections based on the available information at this point in time:**

- First, we explore the University's budget **background**, including the challenges and trends that have led us to where we are today.
- Second, we present current projections for budgetary **results** for each area of the University's FY21 budget:
 - Our Core Operating Budget
 - University Auxiliary Activities
 - UW Medicine
 - Annual Gifts & Endowment Funds
 - Research Enterprise
- Following the conclusion is a review of 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.

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 24, which is where we dive into "Our Core Operating Budget," the first major area of the UW's adopted FY21 budget.**

Please note that **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 FY21. Such challenges include:

- Significant and swift revenue declines in self-sustaining operations due to the ongoing social distancing requirements related to our state's COVID-19 response;
- General limitations on enrollment growth and risks related to potential enrollment declines;
- Per student funding levels that remain low compared to peers and pre-recession funding levels;
- Tuition-setting constraints, particularly for resident undergraduate tuition;
- Mandatory cost increases for state central services, compliance, utilities, and infrastructure, which require new investments of limited funds; and
- Significant and yet unknown state and federal funding and policy uncertainties.

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

CHALLENGE 1: COVID-19

University leadership continues to monitor the spread of COVID-19 both in our region and worldwide. While the duration of the virus is unknown, the human and economic impact of the virus is projected to be staggering. While final statewide economic estimates are not yet available, it is likely that revenue collections have been severely impacted, and early estimates are showing an approximately \$7 billion revenue shortfall over the next three years.

The effect that this crisis will have on the University is significant, but the nature of the impact is likely to evolve over the next several years. Significant losses to auxiliary and self-sustaining enterprises have occurred and will worsen, and the University will brace itself for significant losses in state appropriations. As state and local sales tax revenues and Business and Occupation (B&O) tax revenues decline, we anticipate that available funding for the UW is likely to be limited in the coming biennium and may be affected for FY21. The effect of this crisis on students is also multifaceted. Our graduating students will transition from the academy into the most challenging job market in a generation or more. Continuing students will face difficult decisions as family and personal incomes are threatened. These conditions may stack and present truly grave financial decisions.

Though this situation is rapidly changing, we remain committed to both protecting our University community as well as working diligently to further diagnostic and treatment options in Washington state. To this end, the following is a summary of actions taken by the administration and the status of various emergency funding allocations at the time this document was drafted:

- University classes will remain online through the end of spring quarter and for at least the summer quarter A term.
- We have instituted additional limitations and reviews for all hiring, and we have asked that all unit leaders limit discretionary spending, as the Governor's Stay Home, Stay Healthy order has meant a reduction in travel, food, and other expenses. The Governor also recently adopted similar hiring measures throughout state government.

- UW Medicine has played a crucial role in testing individuals who may have been exposed to the virus, including developing the diagnostic test used statewide and implementing innovative measures to ensure affected individuals have been tested. To support this goal, UW Medicine received initial disbursements totaling \$35 million, out of the \$175 million allocated by the state for state and local agency response to the virus.
- The University has received \$39 million from the federal CARES Act to provide financial assistance to students and for institutional support.
- The state received an allocation from the CARES Act, known as the Coronavirus Relief Fund (CRF). The University has submitted several requests for reimbursement and emergency funding across the enterprise.
- An application to FEMA is in process for additional emergency funding of \$87 million, of which the non-federal cost share, 25 percent of this amount, has been provided to the University by the state.
- Other emergency funding at the state and federal level is being considered and applied for. We will continue to work with state and federal partners to leverage emergency funding to reimburse the University for the significant costs and revenue losses incurred during the pandemic, and to prepare for a safe emergence from the crisis.

The COVID-19 pandemic is proving to exacerbate and complicate many of the University's ongoing challenges, outlined below.

CHALLENGE 2: 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 46.6 percent between our three campuses** (over 320 percent at Bothell and almost 140 percent at Tacoma), while **non-STEM enrollment has grown only 5.2 percent** (even decreasing by 3 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.**

As noted above, we are unsure what, if any, impact COVID-19 will have on University enrollments. We are monitoring this situation closely.

Figure 3: Student STEM Enrollment by UW Campus

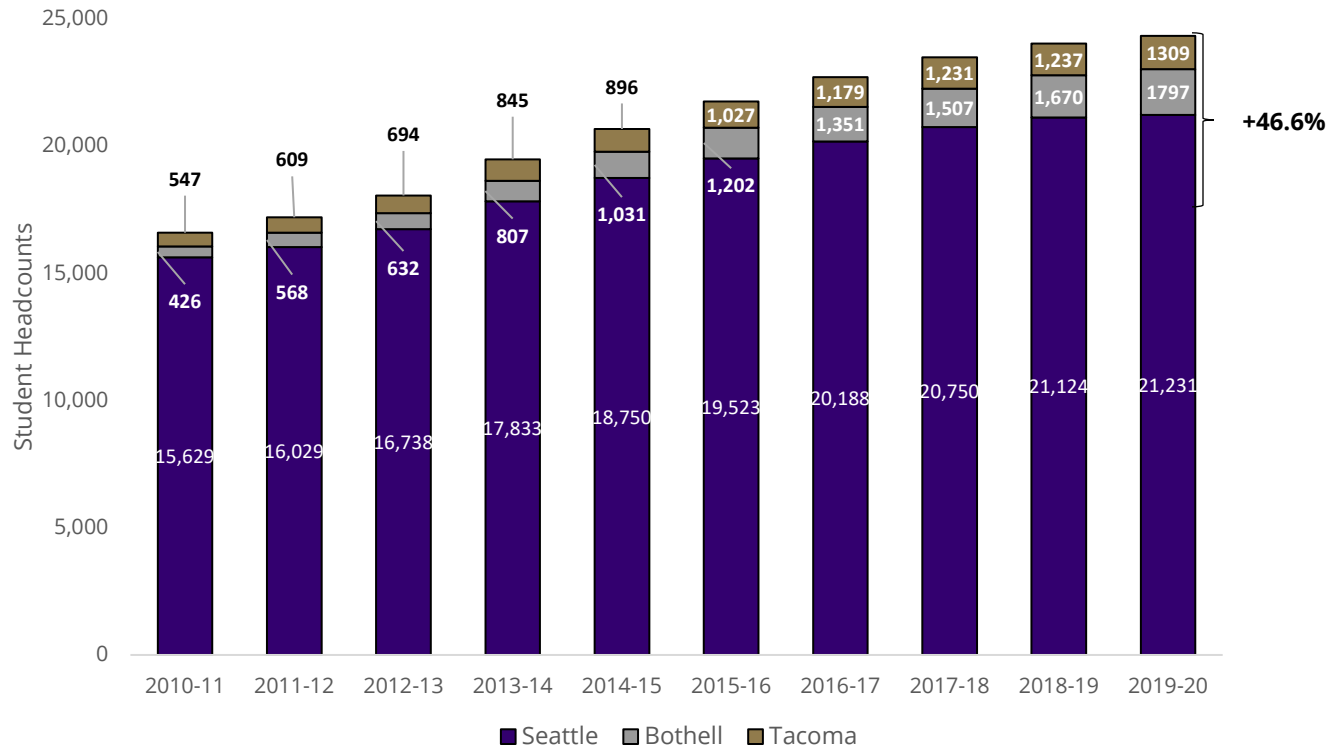
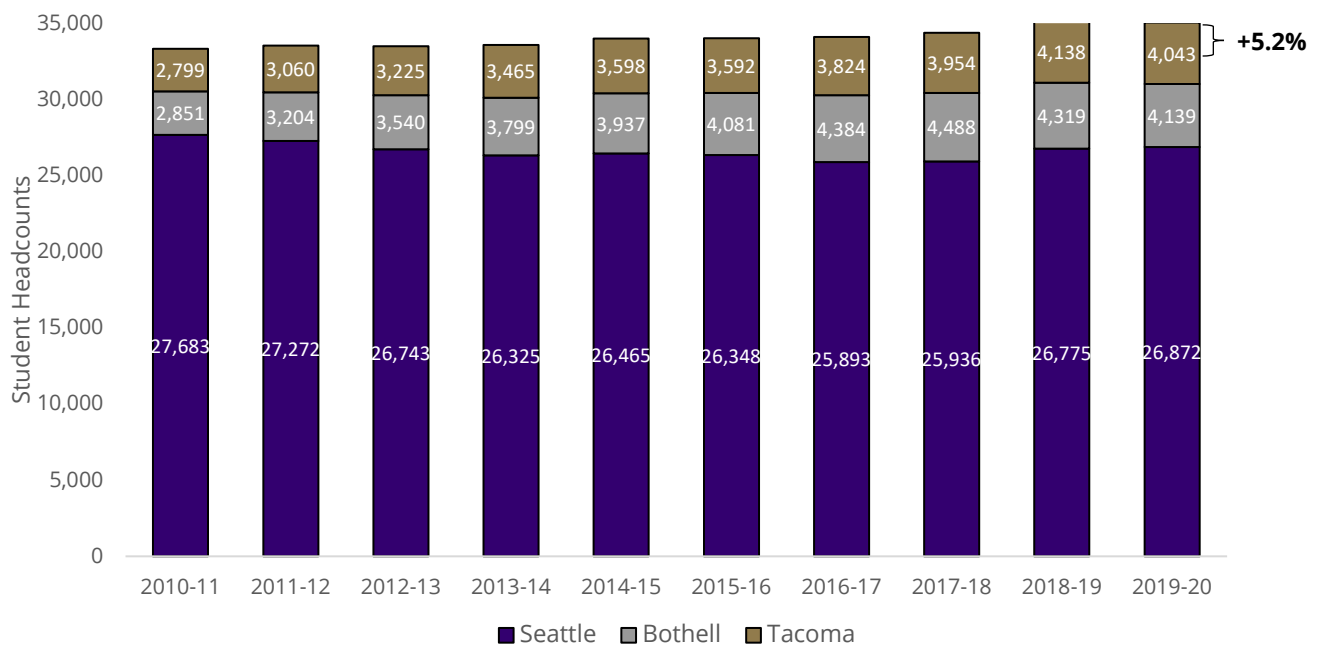


Figure 4: Student Non-STEM Enrollment by UW Campus

CHALLENGE 3: STATE APPROPRIATIONS AND TUITION FUNDING PER STUDENT

Like many other state institutions, the UW endured significant state funding cuts in the past decade. We expect that looming state funding cuts could have a far worse effect on the UW in the future, given the extent to which the COVID-19 pandemic has affected state revenue collections. Due primarily to state funding cuts during the “Great Recession,” 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 revenues will be constrained over the next several years.

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.

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

- Assuming no changes to FY21 appropriations, projected funding per FTE for FY21 is \$22,700, with 38 percent covered by state funding, **leaving 62 percent to be covered by students and families, among the lowest distribution of our peer institutions, before any COVID-related reductions to currently enacted state funding in FY21.**

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 FY18 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 four of our 29 other U.S. News peer institutions.**²

While lawmakers were able to provide some new funding for higher education in the 2017-19 biennium, the majority of the new funding was earmarked for specific purposes and could not be applied broadly to the UW’s core educational operations.

The 2019-21 state budget included new appropriations to improve the share of state funding for core operations. This and other investments are funded by a new designated revenue stream for higher education, which could help public institutions weather future economic downturns. However, the final 2020 supplemental budget, which amended the biennial budget, requires UW to contribute a larger portion of incremental tuition revenue towards central service charges for the Governor’s Office of Financial Management (OFM) in FY21; this significantly undermines the additional funding provided. This, combined with the economic impact of COVID-19, will lead to significantly more uncertainty in future state funding for the UW. See the “State Appropriations” section on page 29 for more information.

Lawmakers continue to maintain resident undergraduate tuition policy (described in the next section) which allows for modest, inflationary increases to that rate. Given that state funding and tuition revenue are the primary sources of funding for the University’s academic mission, and due to increasing legislative commitments of tuition revenue, these challenges are significant constraints.

² UW in Seattle’s most commonly used peer list was derived from the U.S. News Top 25 Public Research institutions over a five-year period. Last updated in 2020, this peer list is updated on a three-year cycle.

CHALLENGE 4: 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.
 - In subsequent years, the policy limits RUG tuition increases to the 14-year rolling average of Washington’s median hourly wage (roughly 2 percent per year). The policy also requires annual, inflationary adjustments to the previously provided backfill funds.
- The state has maintained the tuition policy of 2ESSB 5954 (2015) in the 2017-19 and 2019-21 biennia.

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 U.S. News “Top 25 Public Research 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 rate remains low compared to its peers, many of whom increased tuition significantly over the same period. For the 2019-20 academic year, the UW in Seattle’s RUG tuition and fee rate of \$11,465 is \$1,988 *below* the peer average (see Table 1 below).

Table 1: Resident Undergraduate (RUG) Tuition & Fees

U.S. News Top 25 Public Universities	2019-20 Tuition & Fees
U Pittsburgh	\$19,718
Penn State	\$18,450
U Virginia	\$17,641
UConn	\$17,226
UMass - Amherst	\$16,389
U Illinois - Urbana-Champaign	\$16,210
U Michigan - Ann Arbor	\$15,558
Clemson	\$15,558
Rutgers	\$15,407
U Minnesota - Twin Cities	\$15,027
UC - Davis	\$14,495
UC - San Diego	\$14,415
UC - Santa Barbara	\$14,391
UC - Berkeley	\$14,253
UC - Irvine	\$13,727
Virginia Polytechnic	\$13,691
UC - Los Angeles	\$13,240
Georgia Tech	\$12,682
U Georgia	\$12,080
UW - Seattle	\$11,465
Texas A&M	\$11,232
Ohio State	\$11,084
U Texas - Austin	\$10,818
U Maryland - College Park	\$10,779
U Wisconsin - Madison	\$10,725
Purdue University	\$ 9,992
UNC - Chapel Hill	\$ 8,986
Florida State	\$ 6,516
U Florida	\$ 6,381
Peer Average	\$ 13,453

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 3.0 and 4.4 percent in the last two academic years, compared to the peer mean of 2.3 percent and 3.0 percent in the 2018-19 and 2019-20 academic years, respectively. A peer comparison is shown in Table 2. It is important to note, however, that student

fees vary by institution. The UW is currently slightly above the peer mean for non-resident undergraduate tuition rates.

Table 2: Nonresident Undergraduate Tuition & Fees

U.S. News Top 25 Public Universities	2019-20 Tuition & Fees
U Michigan - Ann Arbor	\$51,200
U Virginia	\$49,020
UC - Davis	\$44,249
UC - San Diego	\$44,169
UC - Santa Barbara	\$44,145
UC - Berkeley	\$44,007
UC - Irvine	\$43,481
UC - Los Angeles	\$42,994
UConn	\$39,894
Clemson	\$38,550
U Texas - Austin	\$38,228
UW - Seattle	\$38,166
U Wisconsin - Madison	\$37,785
Texas A&M	\$37,725
U Maryland - College Park	\$36,891
UNC - Chapel Hill	\$36,165
UMass - Amherst	\$35,710
Penn State	\$35,514
Georgia Tech	\$33,794
U Pittsburgh	\$33,746
U Illinois - Urbana-Champaign	\$33,352
U Minnesota - Twin Cities	\$33,325
Virginia Polytechnic	\$32,835
Rutgers	\$32,189
Ohio State	\$32,061
U Georgia	\$31,120
Purdue University	\$28,797
U Florida	\$28,658
Florida State	\$21,683
Peer Average	\$37,189

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 proposed rate changes.

The University collects these tuition recommendations and justifications each year through the annual unit budget submission process. Submissions for FY21 and prior years can be found on the [Annual Budgets tab](#) of the OPB website, and FY21 tuition recommendations are summarized on page 31 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 5: COMPENSATION

During the 2019 biennial 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.

The state's 2019-21 biennial operating budget provided "foundational support" to increase the share of state funding for new GOF compensation and central service changes in FY20 and FY21. However, state revenues are expected to be significantly down due to the COVID-19 situation, which could affect appropriations for FY21 and threaten baseline funding for existing compensation outlays. See the "State Appropriations" section on page 29 for more information.

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's overall financial condition.**

Furthermore, because of the state funding, tuition revenue, and Designated Operating Fund risks we face, the administration began a consultative process with the Board of Deans and Chancellors (BODC), and the Faculty Senate Committee on Planning & Budgeting (SCPB). During April and May, the Provost engaged both bodies in the process of formulating a recommendation for a salary distribution plan, including opportunities for input into the criteria to consider in formulating the plan. After these consultations, and emphatic, consistent recommendations from both SCPB and BODC, the President recommended a faculty salary distribution plan for FY20-21 that acknowledges that our current budget situation does not support any allocation for regular merit increases (see full board item, "FY 2020-21 Recommended Faculty Salary Distribution Plan").

While the FY20-21 Faculty Salary Distribution Plan pertains to faculty specifically, it was acknowledged by SCPB and BODC that professional staff merit increases should align with faculty merit increases. Thus, this budget does not include incremental merit increases for professional staff.

Classified staff compensation will follow from our collectively bargained contracts with each of our unions.

CHALLENGE 6: MANDATORY COST INCREASES

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

- **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. In the 2017-19 biennium, the state began charging the UW and other state agencies to support the budget of the Governor's Office of Financial Management (OFM). The original cost of \$4.5 million per biennium has increased significantly over time. The 2020 supplemental budget added approximately \$2.5 million per year in new charges that will be diverted from tuition revenue to support One Washington, the state's new core financial system, instead of the University's academic mission. If unchanged, these amounts would increase significantly over time into the next biennium as the effort to implement One Washington ramps up.
- Upward pressures on **utility costs** continue to challenge the UW. Several large rate increases recently occurred or are scheduled to occur during FY21. Coupling these increases with the expansion of campus square footage compound the anticipated increases to utility costs that will not be fully offset by conservation and building efficiency enhancement efforts in the coming fiscal year.
- Based on recent claims, judgments and settlements history, we are again planning for a rise in **insurance premium** expenditures in this budget.
- **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 "architect" 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 had occurred in over 17 years.

CHALLENGE 7: FEDERAL OUTLOOK

FY20 Wrap Up

Federal FY20 both started and ended in very unusual ways. Scheduled to start on October 1, 2019, the federal government was operating under a series of short-term spending plans running at FY19 levels. Eventually, Congress passed, and the President signed, two large spending packages that increased the top-level discretionary budget amounts for FY20 and FY21, with a larger increase for FY20 compared to FY19 than FY21 compared to FY20. The packages were generous to the agencies and programs of most interest to the university, including increases of \$2.7 billion for the National Institute of Health (NIH) and \$210 million for the National Science Foundation (NSF). As soon as the spending packages were adopted, the House moved to impeach the President in late December and the Senate trial began in January.

Since March, the entire federal government has been preoccupied with COVID-19. The federal response has thus far included four legislative packages, which exceed \$3 trillion in total. Each package is aimed at addressing various parts of the pandemic. The spending packages provide emergency FY20 funds to a host of federal agencies as well as targeted funding for hospitals and institutions of higher education. As part of the approved higher education package, the University of Washington expects to receive approximately \$39 million to help address both institutional and student needs in FY20. Discussions are currently underway for additional relief measures, which could contain additional funds for hospitals, colleges and universities, as well as state and local governments.

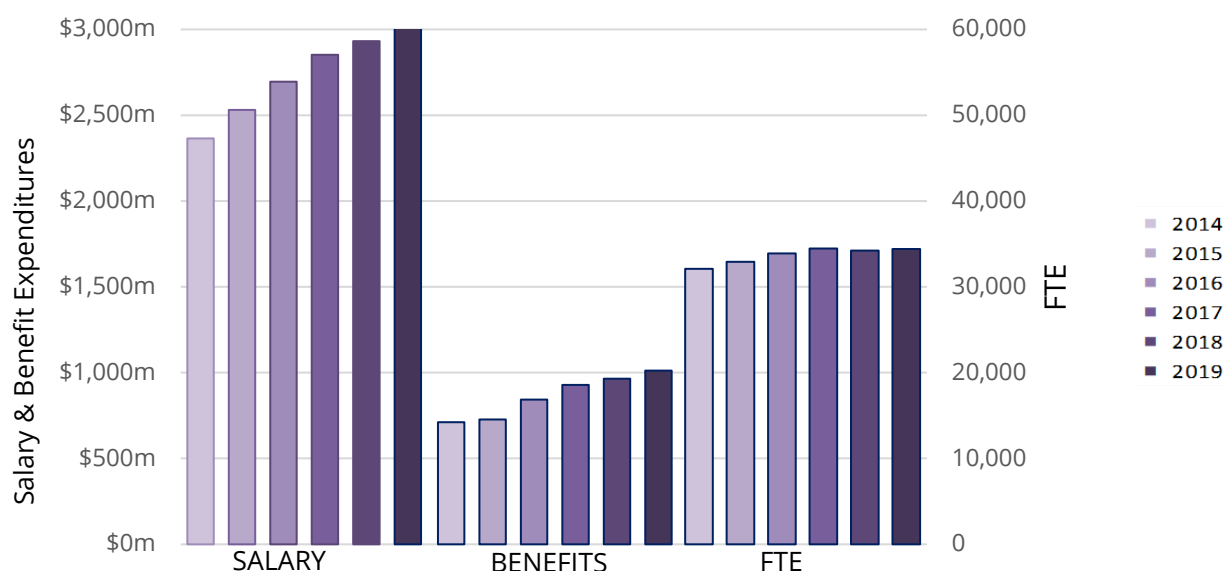
Looking Ahead to FY21

COVID-19 continues to dominate federal activities going into FY21, in more ways than one. The two-year budget deal that ended the shutdown at the beginning of FY20 was more generous to FY20 than FY21 (FY20 had a bigger increase than FY21). A low spending level was going to make the FY21 appropriations process difficult to start with. As a result of the pandemic, discussions are now taking place about possibly increasing the top-line budget number for FY21.

At the same time, COVID-19 has made the physical mechanics of reaching agreements difficult. While subcommittees and committees originally met to hold hearings in February, all in-person activities were put on hold, and Congress returned to Washington on May 4. With discussions underway for additional stimulus packages, it remains to be seen how Congress will go about voting into the future. For example, will Members and staff need to return to the Capitol in-person to approve all measures? If so, what steps will be taken to ensure safety? For those who are not within driving distance, can they even get back to Washington? These logistical challenges may prove to be dominant concerns for FY21.

BUDGET TRENDS OVER THE LAST THREE BIENNIA

As shown in Figure 5 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 primarily 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.

Figure 5: 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.

Since its implementation, Activity Based Budgeting (ABB) has driven other budget trends. From FY12 to FY20, Seattle academic units have continued to experience more budget growth than administrative units, both in terms of real dollars (\$260.9 million versus \$117.4 million) and in terms of proportionate growth (55 percent versus 38 percent). In FY20, Seattle academic units received 63 percent of the permanent Core Operating Resources going to Seattle, while Seattle administrative units received 37 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.

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.

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 the University's General Operating Fund (GOF) and Designated Operating Fund (DOF).

In May, the Governor's Office of Financial Management (OFM) asked all state agencies to model a 15 percent operating budget savings for appropriations from Near General Fund- State (NGF-S) accounts. The tables below show FY21 core operating revenues with both the currently enacted FY21 state budget and reductions under a 15 percent cut scenario. Table 3, below, shows FY21 core operating revenues, as estimates currently stand, alongside the University's adopted budget for FY20.

Table 3: FY21 Projected Sources of Core Operating Funds as of June 1, 2020

	FY20 Adopted	Incremental Change	FY21 Adopted
Total Core Funds:	1,482,061,000	(16,494,000) to 39,717,000	1,465,566,000 to 1,521,777,000
General Operating Fund:	1,085,410,000	(12,174,000) to 44,037,000	1,073,236,000 to 1,129,447,000
State Appropriations ²	397,552,000	(30,670,000) to 25,541,000	366,882,000 to 423,093,000
Tuition Operating Fee Revenue	687,858,000	18,496,000	706,354,000
Designated Operating Fund:	396,650,000	(4,320,000)	392,330,000
Indirect Cost Recovery	277,418,000	4,752,000	282,170,000
Institutional Overhead	29,000,000	(8,201,000)	20,799,000
Administrative Overhead	9,829,000	0	9,829,000
Summer Quarter Tuition	60,702,000	(720,000)	59,982,000
Investment Income	9,000,000	0	9,000,000
Provost ILP Risk Fund	2,100,000	0	2,100,000
Miscellaneous Fees	8,601,000	(151,000)	8,450,000

¹ Due to rounding, there may be discrepancies reflected above

² At the time this document was produced, the Governor's OFM engaged state agencies in a hypothetical 15 percent reduction to NGF-S appropriations, though no formal notification of reductions had been announced. Ranges shown represent the FY21 supplemental budget, as passed, and the 15 percent reduction value, as provided to the University by OFM. The University is actively planning for a range of potential outcomes to occur during FY21. The adopted budget on July 1, 2020 will reflect the currently enacted state allocation at that time.

Table 4, below, offers a different view of incremental resources projected to be available to the University in FY21, comparing FY19 actuals, FY20 projected and the increments between FY20 projected and FY21 adopted. This view is intended to provide a more nuanced approach to truly expected incremental resources as opposed to Table 3, which reflects budget increments over the FY20 adopted budget. Note that the FY20 figures presented in Table 4 represent projected activity, rather than budgeted, as represented in Table 3.

Table 4: FY21 Projected Sources of Core Operating Funds as of June 1, 2020

	FY19 Actual	Increment	FY20 Revised Forecast	Increment	FY21 Adopted
Total Core Funds:	1,454,581,000	44,054,000	1,498,634,000	(33,068,000) to 23,143,000	1,465,566,000 to 1,521,777,000
General Operating Fund:	1,049,197,000	50,908,000	1,100,105,000	(26,869,000) to 29,342,000	1,073,236,000 to 1,129,447,000
State Appropriations ^{1,2}	369,271,000	27,527,000	396,798,000	(29,916,000) to 26,295,000	366,882,000 to 423,093,000
Tuition Operating Fee Revenue	679,926,000	23,381,000	703,307,000	3,047,000	706,354,000
Designated Operating Fund:	405,383,000	(6,854,000)	398,529,000	(6,199,000)	392,330,000
Indirect Cost Recovery	269,627,000	9,749,000	279,376,000	2,794,000	282,170,000
Institutional Overhead	30,303,000	(4,678,000)	25,626,000	(4,826,000)	20,799,000
Administrative Overhead	9,843,000	69,000	9,912,000	(83,000)	9,829,000
Summer Quarter Tuition	60,990,000	(289,000)	60,702,000	(720,000)	59,982,000
Investment Income	24,052,000	(11,702,000)	12,350,000	(3,350,000)	9,000,000
Provost ILP Risk Fund	2,100,000	0	2,100,000	0	2,100,000
Miscellaneous Fees	8,469,000	(5,000)	8,464,000	(14,000)	8,450,000

¹ FY20 and FY21 state funding amounts are as approved in the 2020 state supplemental budget, and are subject to change. Out of the total state funding increment in FY21, nearly \$7 million is one-time funding for payments to represented employees. Of the remaining amount, the vast majority (over \$11 million) is required to be spent on specific purposes including state budget provisos for STEM enrollments and other specific items (\$5.68 million), new central services charges (\$4.03 million), and maintenance and operations (\$446,000). See the "State Appropriations" section on page 29 for more information.

² At the time this document was produced, the Governor's OFM engaged state agencies in a hypothetical 15 percent reduction to NGF-S appropriations, though no formal notification of reductions had been announced. Ranges shown represent the FY21 supplemental budget, as passed, and the 15 percent reduction value, as provided to the University by OFM. The University is actively planning for a range of potential outcomes to occur during FY21. The adopted budget on July 1, 2020 will reflect the currently enacted state allocation at that time.

Given that state funding and tuition revenue are inextricably linked, it is likely that a state funding reduction scenario of this magnitude would result in a reconsideration of the tuition-funded aid we assume as a foundation for this document.

PLANNED DISTRIBUTION 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 64. 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 29.
- 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 65 and the “Designated Operating Fund (DOF) Budget” section on page 34.
 - 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 31 for more information.
- It is important to emphasize that our ABB method formulaically corrects for over/under budget to actuals for the majority of our core operating budget. Thus, reductions in funding will follow formulae, and additional adjustments will be needed to correct for changes in state appropriations.

The following section focuses on summarized uses of core funds; particularly, trends related to uses before the COVID-19 crisis. While these trends may not hold to the same extent in FY21, it is important to contextualize constraints that existed before the crisis across all these fund allocations.

COMPENSATION

Compensating the UW’s dedicated faculty and staff is a priority of the administration, and this priority must follow from a consultative process with the Board of Deans and Chancellors (BODC) and the Faculty Senate Committee on Planning & Budgeting (SCPB). During April and May, the Provost engaged both bodies in the process of formulating a recommendation for a salary distribution plan, including opportunities for input into the criteria to consider in formulating the plan.

Leading up to formulating the proposed FY21 budget, the President, Provost, and the Office of Planning & Budgeting continued the established process of analyzing multi-fund, multi-year financial forecasts for every unit on all three campuses. See Figure 6 for compensation and benefit trends. This work reinforced the historical stance that compensation expenditures exceeded incremental budget authority in some units. The significant shift in unit fiscal vitality associated with COVID-19, including revenue loss, COVID-related expenditures, a bleak state funding outlook, and other unknowns with regard to 2020-21 required careful consultation with BODC and SCPB. After these consultations, and emphatic, consistent recommendations from both SCPB and BODC, the President recommended a faculty salary distribution plan for FY20-21 that acknowledges that our current budget situation does not support any allocation for regular merit increases (see full board item, "FY 2020-21 Recommended Faculty Salary Distribution Plan").

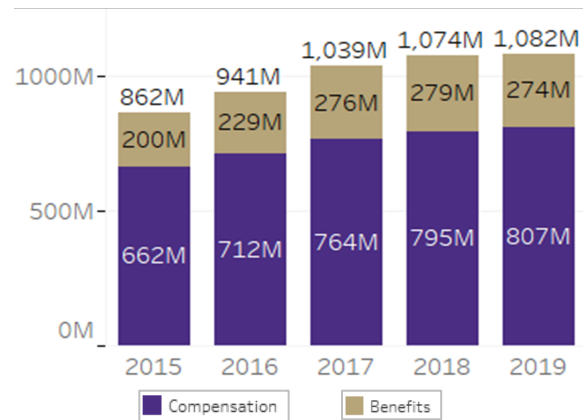
While the FY20-21 Faculty Salary Distribution Plan pertains to faculty specifically, it was acknowledged by SCPB and BODC that professional staff merit increases should align with faculty merit increases. Thus, this budget does not include incremental merit increases for professional staff. Classified staff compensation will follow from our collectively bargained contracts with each of our unions.

GENERAL OPERATIONS

Goods & Services

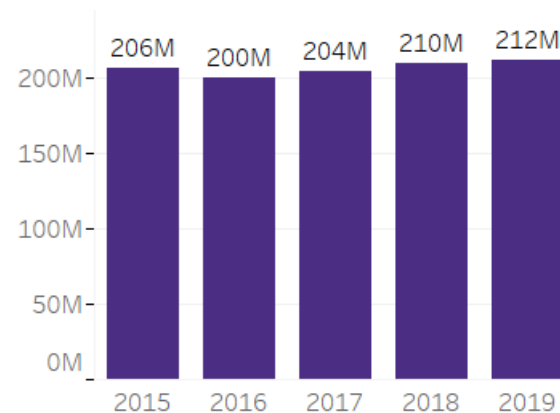
To support the general operations of the University, units use core funding for a variety of purposes, including: to procure materials and supplies, contracts for services, facility and equipment rentals, business travel expenses, and general costs related to the execution of the UW's mission. As seen in Figure 7, **the growth of these expenditures against core funds have been relatively flat over the last several years**, well below inflation on a five-year compound annual growth rate (CAGR) basis. **This signals responsible spending and expense management.** As noted previously, the

Figure 6: Compensation & Benefit Expenditures on Core Funds



Over the trailing five-year period (FY15 to FY19), compensation on core funds grew at a 5.1 percent compound annual growth rate (CAGR), from \$662 million to \$807 million and benefit expenditures on core funds grew at a 8.2 percent CAGR, from \$200 million to \$274 million.

Figure 7: Goods & Services Expenditures on Core Funds



Over the trailing five-year period (FY15 to FY19), other expenditures on core funds grew at a 0.72 percent CAGR, from \$206 million to \$212 million.

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.

Fixed Costs

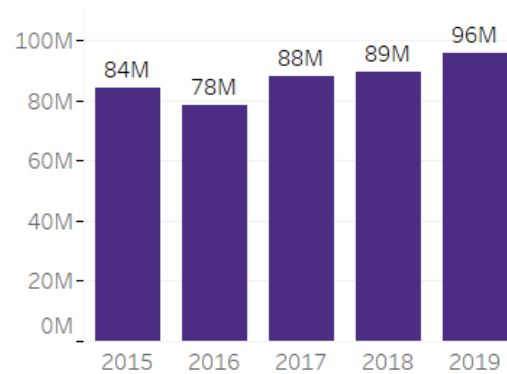
“Fixed costs” is a term used to refer to those costs incurred by the University that are necessary or unavoidable, but are not costs generated by a particular unit. In some cases, these costs are truly “fixed,” but in others, costs are variable and dependent on certain activities occurring or consumption 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, OFM and other central service charges from the state, 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.

Due to the nature of these budgets, cost projections can be difficult. See Figure 8 for fixed cost expenditure trends. 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 and efficiency measures implemented across the institution.

Further, the final 2019-21 state budget (as amended by the 2020 supplemental budget) provides significantly less funding than is needed for building maintenance and operations and increases state central service charges. As a result, incremental permanent funding that is intended to support the University's core academic mission must be redeployed.

Figure 8: Fixed Cost Expenditures on Core Funds



Over the trailing five-year period (FY15 to FY19), fixed cost expenditures on core funds grew at a 3.4 percent CAGR, from \$84 million to \$96 million.

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 activities 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. At the time of this document, significant uncertainty still surrounds the fiscal outlook of these revenue sources given the COVID-19 pandemic. More information can be found in other sections in this document relating to each of these revenue sources.

GENERAL OPERATING FUND (GOF) – As of JUNE 1, 2020

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

State Appropriations – As of June 1, 2020

In the 2020 legislative session, lawmakers approved a 2020 supplemental operating budget, which amended the underlying 2019-21 biennial budget. Given significant unknowns and the rapidly evolving COVID-19 situation, Governor Inslee took significant action to veto most new funding items approved by the legislature in the supplemental budget just one month prior. Details regarding the supplemental budget can be found on the [OPB Briefs](#) webpage.

As noted previously, state revenue collections are expected to be significantly lower than the revenue forecasts assumed in the current state budget. A preliminary forecast provided to the legislature in May predicted a shortfall of \$7 billion over the next three years. Depending on the outcome of upcoming official state revenue forecast in June, the Governor or legislature could take action to reduce the overall budget through use of emergency powers or a special legislative session, respectively.

For context, the state reduced the University's budget allocation by approximately half during the "Great Recession" because higher education institutions are considered a discretionary part of the budget, as opposed to K-12 education as well as health and social service agencies. Unfortunately, the state Office of Financial Management (OFM) has already asked state agencies and institutions of higher education to respond to a 15 percent budget cut exercise in advance of a potential special session and instructions for 2021-23 budget requests to the state. Any significant reduction to the University's state appropriations will have a drastic effect on our core instructional operations and adversely affect the quality and breadth of our instructional, research, and public service missions.

The 2020 supplemental budget also added significant new charges for OFM Central Services and under-funded critical building maintenance needs, both of which effectively reduce the University's ability to use funds in the underlying budget for compensation and jeopardize future incremental revenue. These developments represent significant risk to both the University's base budget allocations, but also to the policy decisions made during the 2019 legislative session to increase the state's share of compensation and central service expenses. As such, we are monitoring the situation closely.

Here is an overview of the major state decisions for FY21 that were affected by the supplemental budget as it stands. These appropriations come with the significant caveat that the legislature could still take action in this fiscal year to modify the University's appropriated funds:

- **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 FY21 is 2.5 percent.
- **One-time payments for represented employees:** The enacted 2019-21 compromise budget included an additional \$7.2 million intended to partially fund 1 percent increases in each year for all General Operating Fund (GOF)-paid employees, contingent on the University implementing increases for represented employees. However, these increases were not financially feasible for the University, and funding was returned to the state. The University bargained with represented

employee unions, and requested redirection of these funds to provide one-time payments in FY21 to employees in those bargaining units that reached an agreement with the University. The supplemental operating budget fulfilled this request and redirected those funds.

- **Foundational support** to recognize that operating costs exceed estimated increases in undergraduate operating fee revenue, given the state's current resident undergraduate tuition policy. The funding, provided through the Workforce Education Investment Act ([HB 2158](#), 2019), was intended to improve the share of state support for incremental compensation and central service charges. Starting in FY21, the state's foundational support will increase to a total of \$15.4 million per year (\$5.8 million in incremental funding compared to FY20). This is unchanged from the biennial budget as of the date of this budget document, however, these funds could be reduced given that revenue into the new Workforce Education Investment Account is expected to fall far short of the amount needed to pay for investments in the Act, such as the UW's foundational support and engineering enrollment expansion funding.
- **OFM Central Service Charges** are slated to increase significantly in FY21. The supplemental budget added \$3.9 million in new OFM central service charges in FY21, \$2.5 million of which is expected to be paid by student tuition revenue that will need to be redirected to support OFM instead of the University's academic mission. This also represents a significant reduction to the amount of incremental foundational support available in FY21 for compensation needs. If unchanged, these amounts would also increase over time into the next biennium as the effort to implement One Washington, the state's new financial system, ramps up.
- **The state supplemental budget did not fund** maintenance & operations for the Hans Rosling Center for Population Health, which was the University's highest priority for the 2020 legislative session. This will require that other funding sources, including reserves, are diverted to maintain this state asset.
- **COVID-19 response emergency funding** of \$35 million has been provided so far for virus testing at UW Medicine. This is part of the \$200 million funding package passed to support state and local agency responses to COVID-19, which included \$175 million to support the state's public health response, and \$25 million for increased unemployment insurance. The University's research and medical systems are already proving to be an integral part of the state's and nation's response to the virus. This amount is not included in state funding totals. The UW is continuing to apply for additional emergency funding that has been made available to the state through the federal CARES Act, known as the Coronavirus Relief Fund.
- **The University received additional funding for a small number of provisos in the supplemental budget**, including one-time training for telemedicine and sexual assault nurse examiners, and ongoing funding for new contracting and background check requirements for higher education institutions.

More information regarding state budgets can be found in relevant documents on the [OPB Briefs](#) webpage.

Tuition Revenue & Recommendations – As of June 1, 2020

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 FY21, this policy will allow resident undergraduate tuition to increase by 2.5 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 5, 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 analysis, enrollment changes, waiver implications, student debt impact, and information regarding the use of incremental revenue. Deans, chancellors, and academic leaders considered rates up until final projections of tuition operating fee revenue were due to be calculated.

The tuition rates in Table 5 include the operating fee and the building fee, and the percentage change that 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 FY21—2.5 percent. Please note students must pay other mandatory fees in addition to the operating and building fee. Please see OPB’s [Cost of Attendance](#) webpage for more detail.

Projected tuition revenue—net of building fee, required financial aid set-aside, and, of course, waivers—is shown in Tables 3 and 4 as “Tuition Operating Fee Revenue.” Tuition revenue projections reflect the tuition rate recommendations shown in Table 5, as well as approved enrollment increases, which were discussed in light of a four-year financial forecast for each campus.

Table 5: Adopted Tuition Rates for FY21

Unit	Tuition Category		FY20 (Current Annual Rate)	FY21	
				% Change	Adopted Tuition Rate
University- Wide	Undergraduate	Resident	\$10,370	2.5%	\$10,629
		Non-Res	\$37,071	2.5%	\$37,998
	Graduate Tier I	Resident	\$15,882	2.5%	\$16,278
		Non-Res	\$28,467	2.5%	\$29,178
	Graduate Tier II	Resident	\$16,287	2.5%	\$16,695
		Non-Res	\$29,076	2.5%	\$29,802
	Graduate Tier III	Resident	\$18,198	2.5%	\$18,654
		Non-Res	\$32,439	2.5%	\$33,249
Seattle Campus					
Built Environments, College of	Masters - Constr. Mgmt., Landscape Arch, 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	\$16,431	2.0%	\$16,761
		Non-Res	\$31,734	2.0%	\$32,370
	Graduate Dental - Oral Med, Pediatric Dent., Periodontics, & Prosthodontics	Resident	\$18,249	2.0%	\$18,615
		Non-Res	\$34,590	2.0%	\$35,283
	Graduate Dental - Endodontics	Resident	\$20,073	2.0%	\$20,475
		Non-Res	\$34,590	2.0%	\$35,283
	Graduate Dental - Orthodontics	Resident	\$25,563	2.0%	\$26,073
		Non-Res	\$34,590	2.0%	\$35,283
Education, College of	Master of Education and Master in Teaching	Resident	\$17,406	0.0%	\$17,406
		Non-Res	\$32,268	0.0%	\$32,268
	Doctor of Education and Education PhD	Resident	\$17,406	0.0%	\$17,406
		Non-Res	\$32,268	0.0%	\$32,268
Engineering, College of	Master of Chemical Engineering	Resident	\$22,650	2.5%	\$23,217
		Non-Res	\$35,712	2.5%	\$36,606
	Masters of Industrial and Systems Engineering	Resident	\$22,650	2.5%	\$23,217
		Non-Res	\$35,712	2.5%	\$36,606

Engineering, College of (continued)	Master of Material Science and Engineering (Applied)	Resident	\$22,650	2.5%	\$23,217
		Non-Res	\$35,712	2.5%	\$36,606
	Master of Applied Bioengineering	Resident	\$29,640	3.0%	\$30,528
		Non-Res	\$35,568	3.0%	\$36,636
Environment, College of the	College of the Environment Graduate Programs ¹	Resident	\$16,287	2.5%	\$16,695
		Non-Res	\$29,076	2.5%	\$29,802
	Masters in Earth Space Science: Applied Geosciences	Resident	\$18,567	0.0%	\$18,567
		Non-Res	\$32,367	0.0%	\$32,367
Evans School	Master of Public Administration (MPA) – Incoming ²	Resident	\$24,279	2.5%	\$24,885
		Non-Res	\$41,601	2.5%	\$42,642
	Master of Public Administration (MPA) – Continuing ²	Resident	\$23,064	0.0%	\$23,064
		Non-Res	\$41,400	0.0%	\$41,400
Foster School	Master of Business Administration - Incoming	Resident	\$34,239	4.0%	\$35,610
		Non-Res	\$50,436	4.0%	\$52,452
	Master of Business Administration - Continuing	Resident	\$33,243	3.0%	\$34,239
		Non-Res	\$48,966	3.0%	\$50,436
Graduate School	Graduate School Interdisciplinary Programs Tier I ³	Resident	\$15,882	2.5%	\$16,278
		Non-Res	\$28,467	2.5%	\$29,178
	Graduate School Interdisciplinary Programs Tier III ³	Resident	\$18,198	2.5%	\$18,654
		Non-Res	\$32,439	2.5%	\$33,249
Law, School of	Law (JD) 1L	Resident	\$35,955	5.0%	\$37,752
		Non-Res	\$47,493	3.5%	\$49,155
	Law (JD) 2L	Resident	\$33,915	5.0%	\$35,610
		Non-Res	\$46,119	3.5%	\$47,733
	Law (JD) 3L	Resident	\$33,090	5.0%	\$34,746
		Non-Res	\$45,198	3.5%	\$46,779
	Master of Laws (LLM)	Resident	\$24,579	4.0%	\$25,563
		Non-Res	\$41,178	4.0%	\$42,825
	Law PhD	Resident	\$21,549	4.0%	\$22,410
		Non-Res	\$41,178	4.0%	\$42,825
Medicine, School of	Medical Doctor (MD)	Resident	\$36,792	3.0%	\$37,896
		Non-Res	\$66,987	2.0%	\$68,328
Nursing, School of	Nursing Master and Doctor of Nursing Practice	Resident	\$27,012	4.0%	\$28,092
		Non-Res	\$38,934	4.0%	\$40,491
Pharmacy, School of	Doctor of Pharmacy	Resident	\$31,617	2.9%	\$32,535
		Non-Res	\$53,229	2.9%	\$54,774
	PharmD/MBA dual program with UW Bothell	Resident	\$34,287	2.9%	\$35,280
		Non-Res	\$53,229	2.9%	\$54,774

¹ The Quantitative Ecology and Resource Management (QERM) graduate program is moving from Graduate Tier I to College of the Environment Graduate Programs.

² The Evans School is moving back to a single rate for their MPA program. Tuition for continuing students was lower than incoming tuition in FY20, so there are a small number of concurrent students who are currently in their second year who will see a larger increase than noted.

³ 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	\$21,381	3.0%	\$22,023
		Non-Res	\$37,221	3.0%	\$38,337
	Public Health Graduate Programs - Other than MPH	Resident	\$18,294	3.0%	\$18,843
		Non-Res	\$31,680	3.0%	\$32,631
	Public Health Graduate Programs - PhD Program	Resident	\$18,294	3.0%	\$18,843
		Non-Res	\$31,680	3.0%	\$32,631
Social Work, School of	Master of Social Work - Incoming	Resident	\$19,371	3.5%	\$20,049
		Non-Res	\$33,279	3.5%	\$34,443
	Master of Social Work - Continuing	Resident	\$18,717	3.5%	\$19,371
		Non-Res	\$32,154	3.5%	\$33,279
Bothell Campus					
UW Bothell	Nursing - Incoming	Resident	\$16,383	0.0%	\$16,383
		Non-Res	\$29,244	0.0%	\$29,244
	Nursing - Continuing	Resident	\$16,062	2.0%	\$16,383
		Non-Res	\$28,671	2.0%	\$29,244
	Master of Business Administration - Incoming	Resident	\$23,739	3.0%	\$24,450
		Non-Res	\$29,763	3.0%	\$30,657
	Master of Business Administration - Continuing	Resident	\$23,265	2.0%	\$23,739
		Non-Res	\$29,178	2.0%	\$29,763
Tacoma Campus					
UW Tacoma	Master of Business Administration - Incoming	Resident	\$18,699	0.0%	\$18,699
		Non-Res	\$27,765	0.0%	\$27,765
	Master of Business Administration - Continuing	Resident	\$18,699	0.0%	\$18,699
		Non-Res	\$27,765	0.0%	\$27,765
	Master in Business Analytics	Resident	\$15,774	0.0%	\$15,774
		Non-Res	\$19,866	0.0%	\$19,866

The University mitigates increases in tuition rates in a multitude of ways. Please see the “Ensuring Access and Completion” section on page 36 for information regarding financial aid available at the UW.

DESIGNATED OPERATING FUND (DOF) – As of JUNE 1, 2020

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 the “Budget Policies and ABB Distribution” section on page 64 for more information regarding distribution methodology:

- **Indirect Cost Recovery (ICR):** 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. While the UW has experienced year over year growth in award volume during FY20, COVID-19 has the potential to cause significant impacts to the UW’s research enterprise should the economic fallout translate into less funding available from private, state, or federal sources. As of June 1, 2020, despite the impacts of COVID-19 and continued political uncertainty, ICR is on track to slightly exceed initial projections for FY20. If the year over year award volume increases continue to hold, sponsors continue to fulfil their award obligations in

uncertain economic times, and we see social distancing guidelines tapering off, the UW is positioned to experience a modest increase to indirect cost recovery during FY21.

- **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 UW in Seattle. Institutional overhead recovery rates, in aggregate, have remained at roughly 3 percent of gross self-sustaining revenues. Given the impacts of COVID-19 on the self-sustaining enterprise, and the uncertainty present in the future business environment, we expect to see a decline in the institutional overhead recovery during FY21.
- **Administrative Overhead:** 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. The recovery rate is highly dependent on the state and tuition funding available to each campus.
- **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. Given the known business conditions as of June 1, 2020, we expect to see a decline of \$720,000 to the revenue budget in FY21. While summer quarter student credit hour enrollments are up year over year, more than half of registered students are scheduled to take between eleven to eighteen credit hours and will pay a flat tuition rate for credits taken between that credit range. We have also factored into our projection the risk of late withdrawals, as employment or internship opportunities may expand as quarantine restrictions ease over the summer. Thus, we believe it is prudent to maintain the revenue forecast of just under \$60 million for FY21.
- **Investment Income:** 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 FY20 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 FY20 budget of \$9.0 million unchanged.
- **Internal Lending Program (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, FY21 revenues are estimated to hold flat at \$2.1 million.
- **Miscellaneous Fees:** Other fees that contribute to the DOF revenue pool. 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 partially offset by minor revenue growth in other fee categories and, thus, are projecting a small decrease in FY21 based on the known business conditions as of June 1, 2020.

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 that 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. The institutional aid projection displayed in Table 6 also includes a non-mandated component that may be impacted should state funding cuts come to pass.
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 6, 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 6 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 also that a great deal of financial aid is provided by gifts and endowments, which is not shown here. No funding from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act related to student aid is included in the information below, since the grants were provided in FY20. Further, support for graduate students comes from grants and contracts (for RAs) and from GOF (for TAs). Table 6 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 6: 2020-21 Net Operating Fee Revenue and Tuition-Based Aid¹

	Undergraduate			Graduate/Professional			Total
	Resident	Nonresident ²	Total	Resident	Nonresident	Total	
Full-Time Equivalent (FTE)	27,806	9,627	37,433	5,838	6,395	12,233	49,666
Gross Operating Fee Revenue	289,177,000	345,505,000	634,682,000	108,525,000	180,266,000	288,791,000	923,473,000
State-Mandated Aid	10,859,000	13,571,000	24,430,000	3,604,000	3,645,000	7,249,000	31,679,000
UW Institutional Aid³	31,525,000	17,988,000	49,513,000	3,992,000	3,828,000	7,820,000	57,333,000
Waivers - Foregone Revenue⁴	6,130,000	2,415,000	8,545,000	14,082,000	84,972,000	99,054,000	107,599,000
Faculty and Student Reinvestment Pool⁵	4,633,000	2,617,000	7,250,000	1,250,000	1,250,000	2,500,000	9,750,000
Risk Pool⁶	3,540,000	4,634,000	8,174,000	1,284,000	1,299,000	2,583,000	10,757,000
Net Operating Fee Revenue	232,490,000	304,280,000	536,770,000	84,313,000	85,272,000	169,585,000	706,355,000
Total Aid from Group	48,514,000	33,974,000	82,488,000	21,678,000	92,445,000	114,123,000	196,611,000
Total Aid to Group	75,800,000	13,198,000	88,998,000	23,892,000	83,722,000	107,614,000	196,612,000
Aid to Group as % of Gross	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 undergraduates.

³ The Governor's Office of Financial Management asked state agencies to participate in an exercise to model a 15 percent cut to state appropriations. As part of that exercise, the University modeled a 10 percent reduction to non-mandated institutional aid to demonstrate the impact of state funding cuts on our ability to fund financial aid. If implemented, that reduction to institutional aid would be approximately \$2.2 million.

⁴ More than 75 percent of waivers are provided to graduate teaching and research assistants as function of their appointment.

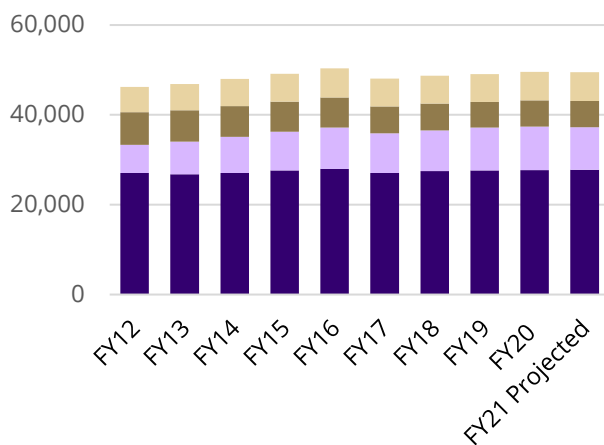
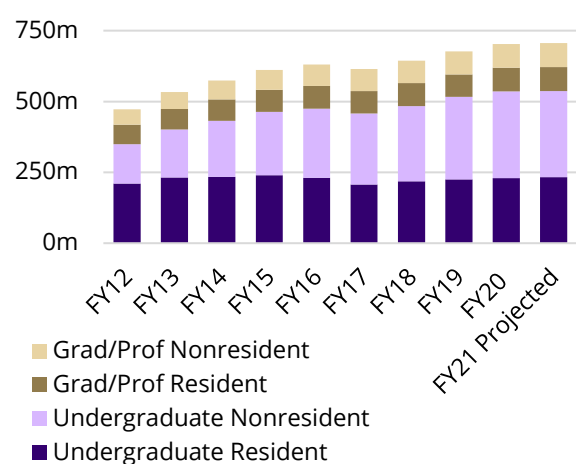
⁵ Please refer to the "Compensation" section on page 26 for more information.

⁶ 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 \$33.97 million in financial aid funds, these students are awarded \$13.2 million.

Figure 9, below, shows changes in **FTE enrollment** by student level and residency over time, while Figure 10 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.
- Given the uncertainty with COVID-19, we continue to project FTE and net revenue conservatively as we anticipate higher than average number of students rescinding enrollment confirmations.

Figure 9: FTE Enrollment by Student Category

Figure 10: Net Revenue by Student Category


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 described in the “State Appropriations” section, on page 29. Given the ongoing COVID-19 pandemic, the University received emergency aid funding from federal and state governments for FY20. More information about this funding can be found in the “Federal Outlook” section on page 22, the “State Appropriations” section on page 29, and the “UW Medicine” section on page 43.

“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), and roughly \$1.5 million annually from the Economic Development Strategic Reserve account to support the Joint Center for Aerospace Technology Innovation. The base budget also includes funding for the following purposes:

- Shellfish biotoxin monitoring, from the Biotoxin Account;
- Ocean acidification research, from the Aquatic Lands Enhancement Account;
- A three-year study (FY19-21) to identify best management practices that optimize the value of shellfish farms, from the Geoduck Aquaculture Account; and
- Research and education on the effects of marijuana use, from the Dedicated Marijuana Account, which continues to be significantly less than what the UW requested in order to fulfill the legislature’s obligations under [2E2SHB 2136](#) (2015).

The enacted 2019-21 state budget increased appropriations from both the Aquatic Lands Enhancement Account for ocean acidification research, as well as from the Geoduck Aquaculture Account for the Washington Sea Grant Program, to protect against the impacts of invasive European green crab.

The 2020 supplemental transportation budget added \$250,000 in additional funding from the Motor Vehicle Account for a study by the School of Business to investigate workforce development needs for Washington State Ferries. All budget items received slight adjustments to account for changes to employee compensation and benefits over the biennium. Table 7 shows restricted funds by fiscal year.

Table 7: FY19 and FY20 State Restricted Funds

State Account*	FY19	FY20	FY21
Biotoxin Acct (Shellfish Monitoring)	298,000	303,000	309,000
Aquatic Lands Enhancement Account	675,000	786,000	820,000
Geoduck Aquaculture Account	200,000	400,000	400,000
Economic Devel. Strategic Reserve Acct (Aerospace Ctr)	1,521,000	1,534,000	1,553,000
Dedicated Marijuana Account	247,000	256,000	272,000
Accident Account (DEOHS)	3,802,000	3,831,000	4,076,000
Medical Aid Account (DEOHS)	3,591,000	3,654,000	3,853,000
Motor Vehicle Account (Transportation Budget)			250,000
Total	10,334,000	10,764,000	11,533,000

*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 3,030 auxiliary budgets owned and managed by over 470 departments across the University.**

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 the "Auxiliary Budget Oversight" section on page 61 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 – As of JUNE 1, 2020

Projection Methodology

The FY21 Annual Review process represented the third year in which unit-level, multi-year financial forecasts were collected across the UW. 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. This provided business unit-specific insight into material auxiliary activities across the enterprise and submitted data incorporated known business conditions **prior to the global impact of COVID-19**.

At the time this document was drafted, significant uncertainty continued to surround the fiscal outlook and future business operating conditions of nearly all of the UW's self-sustaining and auxiliary educational enterprises. Prior to the direct impact of COVID-19 on the local region, we saw signs of softening revenues in small sections of the auxiliary with activities concentrated abroad (largely study abroad programs) which has since broadened to impact nearly all auxiliary enterprises.

Given the many unknowns associated with future business conditions that may disproportionately affect certain areas of the auxiliary more than others, providing consolidated revenue and expenditure outlooks for the remainder of FY20 and for all of FY21 is a challenging exercise in this environment. For FY21, pre-COVID-19, the outlook for our auxiliary enterprise was strong. Business units projected, in aggregate, an 8.19 percent increase in revenues and a 4.24 percent increase to expenditures, resulting in positive operating margins in aggregate. Given the high degree of business condition uncertainty, particularly within several of the large self-sustaining auxiliary units such as Intercollegiate Athletics, Parking and Transportation Services, and Housing and Food Services, we expect to realize a material decline in revenues and a subsequent decline in expenditures as business units grapple with incredibly difficult decisions in the coming months.

While we expect there to be relative stability in the auxiliary educational enterprise due to the comparatively more mature distance delivery models in place, we expect many self-sustaining units to experience significant difficulty achieving productivity levels and customer bases on par with recent history. We do not expect a return to “business as usual” within the next fiscal year, and believe our adjusted projections represent this reality with the best information known at the time of publication.

Revenue in Tables 8 and 9, below, is net revenue for the fiscal year, which includes Internal Lending Program (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 8: FY20 Self-Sustaining Projected Revenue, Expenses, and Balances¹

Auxiliary Group	Unit Group	Actual Beginning Balance	Projected Revenue	Projected Expense	Projected Ending Balance ²
Auxiliary Educational	All Locations	69,116,000	130,988,000	128,608,000	71,496,000
Subtotal - Aux Education		69,116,000	130,988,000	128,608,000	71,496,000
Other Auxiliary Enterprises	UW Seattle	327,386,000	715,773,000	782,080,000	261,080,000
	UW Bothell	14,849,000	14,101,000	13,677,000	15,273,000
	UW Tacoma	4,983,000	12,340,000	10,318,000	7,005,000
Subtotal Other Aux Enterprises		347,219,000	742,214,000	806,075,000	283,358,000
Total Auxiliary		416,335,000	873,201,000	934,683,000	354,854,000

Table 9: Preliminary FY21 Self-Sustaining Projected Revenue, Expenses, and Balances¹

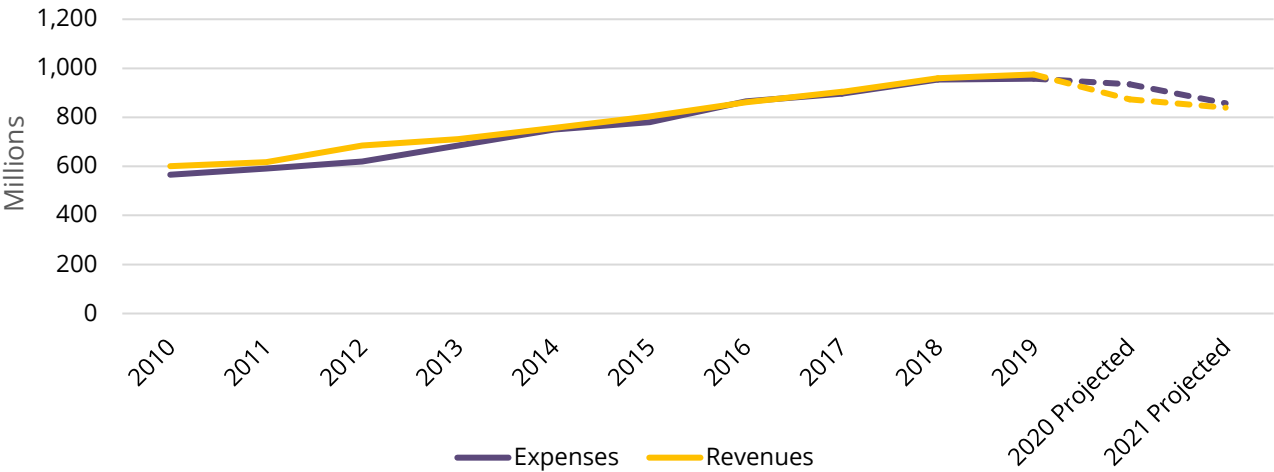
Auxiliary Group	Unit Group	Projected Beginning Balance	Projected Revenue	Projected Expense	Projected Ending Balance ²
Auxiliary Educational	All Locations	71,496,000	128,988,000	127,808,000	72,676,000
Subtotal - Aux Education		71,496,000	128,988,000	127,808,000	72,676,000
Other Auxiliary Enterprises	UW Seattle	261,080,000	683,373,000	705,155,000	239,298,000
	UW Bothell	15,273,000	14,381,000	13,677,000	15,977,000
	UW Tacoma	7,005,000	10,983,000	10,602,000	7,385,000
Subtotal Other Aux Enterprises		283,358,000	708,737,000	729,434,000	262,660,000
Total Auxiliary		354,854,000	837,724,000	857,242,000	335,336,000

¹ Preliminary estimates represent our best projection as of June 1, 2020. Revenue losses will be updated as more information is collected and validated. Monthly reports of revenues and expenditures for self-sustaining activities will continue to be provided to the Board of Regents on a monthly basis. Figures may not tie due to rounding

² Balances include service and recharge center working capital, stabilization/risk mitigation funds, and committed/uncommitted reserves

To provide context for these data relative to historical activity, Figure 11 depicts consolidated revenues and expenses from FY10 through FY19, and projections for FY20 and FY21.

Figure 11: Auxiliary Revenue and Expense Trends (excluding UW Medicine)



UW MEDICINE

UW Medicine includes the two campuses of UW Medical Center at Montlake and Northwest (UWMC), 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 led by 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.

Through focused work on enhancing revenues, reducing costs and standardizing the way work is approached across the system, prior to the COVID-19 pandemic, significant financial improvement had been achieved. While the pandemic slowed our progress, further improvements are anticipated through continued work on the UW Medicine Financial Improvement & Transformation Project (Project FIT), as well as through the deployment of the initiatives developed during the Clinical Strategic Refresh process. FY20 was the third year of Project FIT, the multi-year effort to improve UW Medicine's financial performance while supporting its mission to improve the health of the public. The Clinical Strategic Refresh work commenced in FY19 and continued into FY20 with the help of consultants and hundreds of leaders across UW Medicine, including UW Medicine physicians and clinicians. The objective of this work was to develop a comprehensive road map for the next five years and beyond. Focused work was done related to which key service lines should be prioritized, how capacity could be maximized across the system and what additional investments were required to build the foundation for future success.

FY20 performance was significantly impacted beginning in March with the onset of the COVID-19 pandemic. While UW Medicine was making strong progress toward the Project FIT goals overall through February 2020, March brought circumstances that drove a need for UW Medicine leadership to change focus. After the integration of Northwest Hospital and prior to the challenges that came with COVID-19, UW Medicine was ahead of budget and experiencing strong overall financial performance which 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, while continuing to implement its evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals. As of March 1, 2020, leadership focus was directed to leading the COVID-19 response for our community as well as the country.

COVID-19 PANDEMIC AND IMPACTS BY ENTITY

The first case of COVID-19 in the United States was identified in Washington in January, several weeks earlier than the rest of the country, putting UW Medicine on the front lines of the pandemic. In addition to our research, education and clinical functions, UW Medicine has taken a leadership role in collaboration with public health officials to address the pandemic, by building needed clinical and epidemiological testing capacity in the region; modeling surge volumes and supply constraints nationally; providing publicly-accessible clinical protocols, procedures, and guidelines; and providing outreach to populations with unique needs, such as first responders, healthcare workers, nursing home patients and staff, and homeless populations.

Key UW Medicine initiatives include:

- The Institute for Health Metrics and Evaluations (IHME) is producing COVID-19 estimates for every state in the country. These estimates are widely used by hospitals, state and local governments as well as the federal government to guide public health decisions and to estimate needed medical resources and supplies. Current IHME projections are guiding plans for recovery from the COVID-19 pandemic.
- The UW Medicine Reference Lab provides the main testing capacity for Washington, performing over half of all tests done in the state to date. The lab, which can perform more than 6,000 tests per day, is the only laboratory in the WWAMI region that can provide real-time results to aid clinical decision making. As a result of UW Medicine's efforts, Washington is among the top states in per capita COVID-19 testing.
- UW Medicine hospitals were the first in our area to develop drive-through testing sites for our healthcare workers and have now expanded to five sites serving our patients, first responders, the homeless, and other vulnerable populations.
- The Brotman Baty Institute based Seattle Coronavirus Assessment Network (SCAN) is collecting population-based surveillance that is providing important data to guide public health planning for recovery from the COVID-19 pandemic. SCAN will also provide population-based monitoring for early identification of coronavirus in the late summer/early fall.
- UW Medicine clinicians are translating research into practice in real time, using the latest COVID-19 findings to create policies and best practices to address the pandemic. These clinical guidelines are made publicly available and have been widely used by other hospitals across the country. As an example, UW Medicine recently published research establishing that symptom-based screening may not sufficiently identify infections in independent and assisted living facility residents. Based on these findings, UW clinicians have created protocols to more effectively screen and segregate residents, improving outcomes and preventing hospitalizations. UW Medicine also works closely with the Centers for Disease Control and Prevention (CDC) and other public health agencies to assist with patient triage, testing and infection prevention in nursing homes, and epidemiological surveillance.
- Despite the national shortages, our UW Medicine team has maintained adequate supplies of PPE needed for direct patient care, including surgical masks, face shields, gowns, and gloves.

UW Medicine is facing substantial financial challenges as a result of our efforts dedicated to the COVID-19 pandemic. While we are committed to fighting COVID-19, we experienced dramatically reduced revenues due to the cancellation of elective procedures as mandated by Governor Inslee from March 19 through May 19. At the same time our expenses remained at close to historic levels due to higher supply costs related to personal protective equipment and the inability to adjust our staffing levels to volumes. Our early estimates indicated that UW Medicine would experience lost revenue of \$327 million between March and August of this year due to our COVID-19 response efforts and would incur \$54 million in additional expenses over the same period. Our estimates continue to be refined but remain relatively consistent with our initial projections. Lost revenue is primarily attributed to the cancellation of non-emergent and elective procedures, a policy that was implemented first in the nation in Washington state on March 19. Responding to the COVID-19 pandemic has required significant additional resources to provide care and protect the workforce. We retained our workforce in order to maintain capacity for a surge, despite shutting down many of our typical clinical operations. Staffing costs increased on top of this as our hospitals during certain

times of the pandemic expanded overtime and brought on additional personnel. In late May we implemented furloughs in areas with decreased volumes and certain administrative functions in an effort to reduce labor costs in the short term. Capitals spending reduction or delays, as well as executive pay cuts, were instituted.

Additionally, our need for personal protective equipment (PPE) has increased as has the unit price for these supplies. Our hospitals have made significant adjustments to existing clinical space, for example, constructing new negative-pressure rooms and units for COVID-19 patients. UW Medicine continues to prioritize adequate levels of PPE in an effort to ensure the safety of our patients and our staff and is now warehousing these supplies to prepare for a potential fall surge. The financial impact of COVID-19 related lost revenue and increased expense will significantly pressure cash flow. Recovery hinges on UW Medicine's ability to secure timely recovery funding as well as the ability to bring back into our facilities and maintain the elective procedures that were cancelled and are needed by our patients ongoing.

To date, the avenues for cost recovery funding include cost recovery through FEMA and the CARES Act, state funding and philanthropy. We are working to ensure we access all available funding for which we are eligible. To date, we have applied for and received approval for accelerated Medicare Advance Payments for each of our facilities. These advance funding payments provide up to six months funding of Medicare claims to assist with cash flow. The repayment, which will be made against future Medicare claims is scheduled to begin at any time with repayment over a period of six to nine months. UW Medicine has received close to \$200 million in CARES relief funds across the enterprise. Pursuit of FEMA funding is in process with a comprehensive effort to identify and submit qualified expenditures for FEMA reimbursement underway. The University received approval of an expedited funding request from FEMA for projected eligible costs incurred during the pandemic. Critical state funds were allocated to UW Medicine to support testing costs. Philanthropic funds pledged by various donor organizations provide invaluable relief for incurred expenses related to a number of key Covid-19 initiatives.

As with other disasters across the country, we expect it will take years of focused work to fully realize the funding recoveries available. COVID-19 will have lasting impacts on our financial performance and specifically our cash position. We have evaluated the short-term impacts related to our margin targets and liquidity as we developed our budget for FY21. The budget that is being brought forward for approval assumes net positive cash flow, but for all three hospitals includes a reduction to the target margins from original margin goals that were developed during our long range planning process. One significant driver of the margin target reduction is due to the delayed launch of planned strategic refresh initiatives due to enterprise-wide focus on responding to the pandemic as well as significantly reduced access to capital due to the reduced debt capacity of the University which has limited the capital allocated to UW Medicine in FY21. A reassessment process to evaluate our strategic initiatives in light of the pandemic has been completed for our FY20 and FY21 capital plans and adjustments have been made. For example, prior to COVID-19, UW Medicine was planning certain brick and mortar capital investments. After assessment of the impact of the pandemic, decisions were made to instead move toward a more remote or telehealth platform. Where we were able to reduce or delay our planned capital spending we have done so. As UW Medicine moves into the long range planning cycle in the fall, future access to capital will dictate our ability to invest in our return on investment focused strategic initiatives and projections will be revised accordingly for the next planning period.

COVID-19 Impacts by Entity

UWMC integrated Northwest Hospital and Medical Center on January 1, 2020, becoming one hospital with two campuses. During the first two months post integration and prior to COVID-19, UWMC performed favorable to budget. The cash position of the medical center is currently well below benchmark levels. In the long range financial plan, it is projected to slowly improve from a low of 38 days of cash on hand in FY20, to 67 days in FY25 as margins improve and the impacts of the strategic initiatives are realized. Timely access to capital and efficient deployment of the strategic initiatives will be crucial success drivers in the ability to achieve these financial targets. Volumes are improving at UWMC and surgical volumes are reaching historical levels.

UWP works closely with the medical centers during the development of the budget and the long range plan to ensure the volume and reimbursement assumptions are consistent. UWP experienced reduced volumes as a result of COVID-19 and as a result reduced physician incentive payments and had to draw down reserves slightly. Volumes post May have been trending toward historical levels and UWP has prepared a budget that anticipates growth in key areas, consistent with the prioritized strategies of UW Medicine overall. Cash reserves at UWP were impacted due to COVID-19 but not to the negative extent initially anticipated.

UWNC expects continued growth in outpatient primary care volumes. UWNC has experienced a successful transition toward a more robust telehealth environment. Two clinics will be transitioned to local management with partner organizations in FY21 allowing for leadership to focus on advancing work on telehealth and ensuring goals in market growth are focused on key areas of the region.

ALNW has experienced declining volumes due to increased competition, which has resulted in pressure on financial performance over the last few years. These declining volumes were further pronounced with COVID-19. The FY21 budget includes little growth in flight volumes in fixed wing, turbo-propeller and rotary wing flights, continued efforts at strategic outreach to referring facilities and emergency services providers throughout the WWAMI region and continued focus on investments in flight safety and management of expenses. ALNW is currently undergoing a strategic plan update to determine the best course of action to improve financial performance. The results of that strategic planning have not been included in the FY21 budget, but are intended to inform FY22 budget planning as well as the next annual update of the long range financial plan.

HMC runs close to 100 percent occupancy on a regular basis, predicated the need for continued work to maximize throughput and efficiencies that can help reduce length of stay. Some limited inpatient volume growth is projected due to this work and will allow for additional volumes expected to be generated from population growth as well as continued growth in HMC centers of emphasis.

The medical center will prioritize funding for converting double patient rooms to single patient rooms. This will be accomplished by a multi-year plan to move existing administrative functions off campus to allow for clinical space needs.

UW Medicine is committed to managing Harborview in a fiscally responsible manner to provide and teach exemplary patient care and to provide health care to a mission population of the underserved as defined by King County as well as serving patients from all walks of life through the Centers of Excellence based there. While COVID-19 had negative impacts at HMC due to the cancellation of electives, a large portion of services provided at HMC are deemed emergent in nature, so the lost revenue while impactful was less significant

than our other facilities. Federal stimulus money through the CARES Act helped to provide necessary cash flow for HMC to weather the impacts.

VMC is well positioned to continue to provide excellent care to the south King County region in 2021 and beyond. Hospital District #1, in the south King County region has experienced significant population growth and VMC has seen corresponding growth in its volumes, specifically in the outpatient areas. Management continues to focus on strategic growth in primary care, urgent care, and specifically targeted specialty growth.

COVID-19 had significant impacts on VMC operations. Specifically, the cancellation of electives resulted in reductions in net revenue. VMC experienced COVID-19 admission volumes that required the opening of an additional inpatient unit in order to care for the patients.

Major capital initiatives include continued campus enhancements, increasing primary care capacity in the service area in order to accommodate the population growth, continued investments in IT infrastructure, as well as continued prioritized replacement of the existing infrastructure. VMC has constrained capital spending for FY21 to preserve cash flow.

Days of cash on hand are projected to decrease to 100 days in FY22 due to continued capital investment and completed spend of bond proceeds. Thereafter, corresponding with positive margins, the cash position is projected to slowly improve, reaching 120 days by FY25.

SoM opened South Lake Union (SLU) 3.2 in the spring of 2018. Increases in the SoM research portfolio are expected as research capacity increases. The School of Medicine has made assumptions consistent with the other entities where appropriate. Included in the forecast is the higher than previously anticipated escalation of ground lease expenses for SLU. Also included beginning in FY23 is the SoM funding of the Finance Transformation project, which is planned to be allocated to all schools, colleges and self-sustaining units based on FTEs. This represents a significant financial impact for the SoM and is a driver of future anticipated losses. The SoM has also assumed improved performance around efficiency but additional unanticipated expenses exceed the impacts of these assumptions, driving forecasted losses.

COVID-19 POTENTIAL FALL SURGE ANTICIPATED IMPACTS AND MITIGATIONS

It is difficult to know the future of COVID-19 and how it may impact financial performance in FY21. Current projections reveal a very wide range of COVID-19 fall surge cases – on the low-end projecting current levels to slightly increase to a high end that would exceed our April high point of COVID-19 positive patients. This wide range of potential COVID cases coupled with our demonstrated ability over the past three months to care for COVID-19 patients and maintain our elective services resulted in our decision to bring forward budgets for FY21 that do not factor in additional declines in financial performance from elective cancellation and resulting lower volumes. UW Medicine has learned from our COVID experience to date and has developed extensive plans to address a fall surge in COVID-19.

Leadership is focused on the development of a mitigation plan that would ensure swift action to mitigate potential impacts of volume declines that may occur due to a surge of COVID-19 in the community. Indicators/metrics are being used actively that we believe will serve as warning of a significant fall surge which will in turn trigger management to launch identified mitigation tactics. UW Medicine will be monitoring these indicators, which include the following:

- Increasing COVID-19 admissions (7-10 percent of total)
- Monitoring hospital occupancy levels (for >95 percent)
- IHME Projections (frequency: goal of every two weeks)
- Changes in levels of surgical volumes being scheduled (monitored weekly)
- Cancellations signaling unwillingness of patients to seek services (monitored weekly)
- Personal Protection Equipment (PPE) quantity on hand is lower than targeted levels (60 days on hand)
- Percent of patients testing positive for COVID-19 via UWM Reference Lab testing
- State-wide admissions, occupancy and PPE inventory
- WSHA observation based on interaction with the state of a potential new Governor mandate to cease or reduce elective procedures

A significant portion of UW Medicine operating costs are fixed. The ability to mitigate the full impact of a complete cancellation of elective services similar to what happened under Governor Inslee's mandate in March is unlikely. UW Medicine has worked to develop plans to mitigate losses to the extent possible through several different actions. These immediate triggers that will be activated to ensure UW Medicine is able to mitigate as much of the impact as possible include:

- Immediate reduction of agency labor
- Temporary and/or permanent program closures will be evaluated
- Short term IP Unit consolidation – anticipate ability to reduce labor expenses
- Expense reductions are expected in medical supplies, pharmaceuticals and clinical department funding in line with volume declines
- MOU for emergent short-term furlough language with labor unions. Furloughs for areas with volume declines expected primarily in outpatient clinic settings as well as administrative where possible across the system
- FEMA recovery strategy for incremental expenses (e.g. PPE, tents, additional testing sites, and labor)
- Preservation of cash prioritized through evaluation of capital investments and discretionary spending
- Continued work on federal and state funding streams

FUTURE CHALLENGES FOR UW MEDICINE (IN ADDITION TO COVID-19)

CHALLENGE 1: ENSURING SUCCESS OF STRATEGIC INITIATIVES AND PROJECT FIT

Active identification and implementation of FIT initiatives from FY20 that will carry over into FY21. The most significant are realizing the full impact of integration of UWMC and Northwest Hospital (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 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 experience, 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, 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. Due to the pandemic, increases for FY21 have been eliminated for professional staff and faculty and future increases for our classified staff are being evaluated as part of ongoing labor negotiations. It is anticipated that this inflationary growth will create pressure on margins in the future as we recover from the current financial situation. 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 financial results starting in 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 reduction recorded under this pronouncement was more than \$32 million in FY19. The impact that will be recorded in FY20 is unknown at this point, but will be recorded in the audited financials prior to finalization.

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. Our benefits as a percentage of salary exceed our peers when measured against other Puget Sound and national providers.

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 continuing evaluation of these technologies and investments in digital health are a part of UW Medicine's clinical strategic planning efforts.

CHALLENGE 5: LIMITED ACCESS TO CAPITAL FOR STRATEGIC INVESTMENTS

Limited 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, significant levels of uncompensated care, very modest investment earnings returned to UW Medicine, and ILP interest rates well above investment return and actual cost, 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 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 10, below, depicts the FY20 margins recorded at all of the UW Medicine entities through June 2020, but is preliminary and subject to audit. 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 they will be measured only on the results of the CCE.

Table 10: FY20 Financial Results by UW Medicine Entity, as of June 2020 (in \$000's)

FY20	June YTD Actual without Stimulus	June YTD Actual Stimulus	June YTD Actual with Stimulus**	June YTD Budget	Variance to Budget
UWMC	(73,175)	58,923	(14,252)	24,015	(38,267)
NWH	(33,761)	-	(33,761)	(17,812)	(15,949)
UWP*	-	-	-	-	-
UWNC	(577)	-	(577)	(531)	(46)
ALNW	(8,724)	1,090	(7,634)	2,214	(9,848)
SUBTOTAL CCE	(116,237)	60,013	(56,224)	7,886	(64,110)
HMC	(13,479)	19,178	5,699	10,715	(5,016)
VMC	(26,108)	26,786	678	7,254	(6,576)
SoM	32,699	-	32,699	5,232	27,467
TOTAL	(123,125)	105,977	(17,148)	31,087	(48,235)

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

OPEB actuarial adjustments have not yet been recorded in FY20 and will be recorded in audited results.

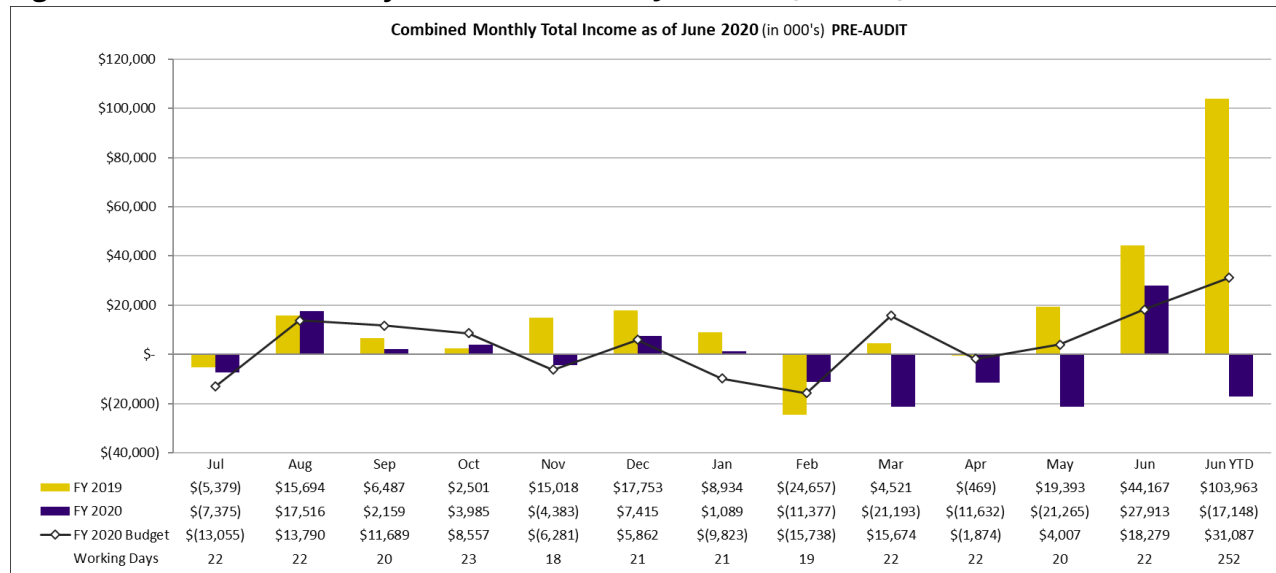
Stimulus funding represents lump sum tranche funding from CARES Act. Additional funding of \$78 million is pending.

** June YTD Results are pre-audit

Subsequent to the integration of NWH into UWMC and prior to COVID-19, UWMC had improving financial performance. The favorable variance of UWMC post-integration when compared to budget was \$9.7 million for the months of January and February alone and is reflective of intensive performance improvement efforts.

The graph below, Figure 12, depicts the month-to-month comparison of actual results to budget. March, April and May results reflect the impacts of COVID-19 and the impact that the cancellation of elective services has had on financial performance.

Figure 12: Combined Monthly Total Income as of June 2020 (in 000's) Pre-audit



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

Projected revenues and total margins for FY19, FY20, and FY21 are in Table 11, below. UW Medicine's work prior to the COVID-19 disaster was focused on identifying FIT initiatives designed to improve financial performance. Prior to the COVID-19 response, UW Medicine was working on bringing forward balanced budgets at margin levels close to the FIT plan targets. The total UW Medicine budget for FY21 was targeted at \$5.8 billion, including the School of Medicine. The target margins for FY21 have been reevaluated and reduced as a result of the ongoing impacts of COVID-19 and are displayed on the chart below.

Table 11: FY19 and FY20 YTD Actual Revenues and Margins and FY21 Budget compared to Long Range Financial Plan

UW Medicine ¹	FY19 Actual Revenues	FY20 Budget Revenues ²	FY21 LRFP Revenues	FY19 Actual Total Margins ³	FY20 Budget Total Margins ³	FY21 LRFP Total Margin ³	FY21 Budget Margins	FY21 Budget Compared to LRFP
UWMC ⁴	1,413,000,000	1,867,000,000	1,980,000,000	44,582,000	6,202,000	19,826,000	5,565,000	(14,261,000)
NWH ⁴	375,000,000			(39,994,000)				
UWP	310,000,000	357,000,000	391,000,000	-	-	-	-	-
Airlift NW	56,000,000	63,000,000	60,000,000	1,599,000	2,214,000	138,000	138,000	-
UWNC	55,000,000	61,000,000	63,000,000	(1,896,000)	(1,780,000)	(2,282,000)	(1,717,000)	565,000
Subtotal CCE⁵	2,277,000,000	2,348,000,000	2,494,000,000	1,302,000	6,636,000	17,682,000	3,986,000	(13,696,000)
HMC	1,070,000,000	1,089,000,000	1,110,000,000	27,339,000	10,715,000	10,905,000	5,467,000	(5,438,000)
VMC	685,000,000	725,000,000	793,000,000	11,895,000	7,253,000	11,989,000	(7,533,000)	(19,522,000)
UW Medicine	4,032,000,000	4,162,000,000	4,397,000,000	40,536,000	24,604,000	40,576,000	1,920,000	(38,656,000)

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.

² The revenue amounts differ slightly from the amounts approved in the FY20 budget due to final budget refinements.

³ Total margin does not include OPEB year-end actuarial adjustments in any year presented.

⁴ UWMC and NWH amounts are combined effective January 1, 2020.

⁵ Consolidated Clinical Enterprise subtotals do not include Shared Services, ITS, and eliminating entries in FY20 or FY21.

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 less than inflationary increases. In FY20, the pandemic presented a new set of challenges. Our primary goal remains providing world class safe care to our patients, providing a safe working environment for our staff, focusing on improving our work as it relates to diversity, equity and inclusion while at the same time remaining focused on improving financial performance.

UW Medicine budget challenges have always existed due to the significant inflationary expense increases that are projected every year. Salary and benefit inflation for portions of our workforce ranging from two to four percent, pharmaceutical inflation of five to eight percent, and supply inflation of approximately two percent are all included within the FY21 budgets. Additional cost savings or revenue-producing initiatives are required in order to offset these increases and thereby meet targets. Additionally, each organization is focused on achieving a "budgeted total cost per case mix index adjusted admission." 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 continued transformation in the way UW Medicine does its work.

Effective January 1, 2020, NWH integrated into UWMC and is now operated as the northwest campus of UWMC. The major impetus for the integration of NWH into UWMC was to provide improvements in many areas and it is anticipated that the integration will generate clinical, administrative, and improved financial performance. 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 June 30, 2020 is approximately \$124 million. Upon integration, UWMC assumed the monthly minimum payments annualizing to \$5 million each year on the payable. These payments have been put on hold for FY21 through an agreement between the Office of the President of the University and the CEO of UW Medicine.

CLINICAL STRATEGIC PLANNING AND LONG RANGE FINANCIAL PLANNING: FY21-FY35

The trend in healthcare has been shrinking operating margins, large capital expenditures to keep current with advances in technology, and a high reliance on government payments. The industry is in a period of consolidation and destabilization. The operating, clinical, and financial aspects of our business will be challenging over the next year as we navigate our way through the COVID-19 pandemic as well as over the following years with the transition from fee for service to a value-based reimbursement system. The development of a strong philanthropic revenue stream to support UW Medicine's hospitals and clinic priorities will be a key focus for our leaders going forward. UW Medicine will continue to focus on the strategic directives of the organization, prioritizing the following:

- Project FIT, with a focus on continuing our work on maximizing revenues and lowering costs on a volume adjusted basis
- Strategic Refresh initiative reprioritization and deployment across the enterprise
- Focus on key service line growth initiatives
- Investments in campus infrastructure at each site
- Length of stay and other efficiency improvements
- Philanthropic support

UW Medicine's ability to be successful requires that it has strong, effective, and visionary leadership; makes well-informed strategic choices; recruits and retains excellent staff and faculty; implements best practices in all aspects of its business; and strengthens its financial health to be able to invest in the future. UW Medicine must continue to change in a sustainable manner. Improving the efficiency of care delivery across the continuum and reducing costs while maintaining quality, safety, service, and access for our patients will be crucial to financial success and our ability to achieve our goals.

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 at the end of June 2020. This campaign has increased momentum for fundraising and giving, with private support continuing to climb at a steady, sustainable rate, year over year. Fundraising will continue post-campaign, with gift revenue expected to exceed \$550 million annually (including private grants, which, for this report, are included within the Research Enterprise section), an annual increase of almost \$200 million from the baseline prior to Be Boundless.

Table 12, below, shows changes between the FY20 adopted budget, revised projections for FY20, and the adopted FY21 budget. The gift income figure—defined as current-use support—is a subset of total annual private support, which Advancement projects will again approach \$700 million in FY20. It does not include new endowment gifts or revenue from private grants (approximately \$250 million per year). Gift income for FY20 is tracking in line with revised projections.

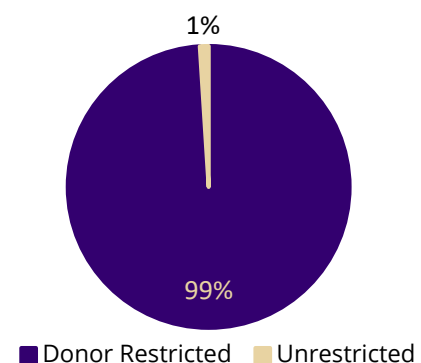
Table 12: FY21 Annual Gift & Endowment Distributions

	FY20 Projected	FY20 Revised	FY20 Variance (FY20 Projected to FY20 Revised)	FY21 Projected	Percent Change (Revised FY20 to FY21)
Gift Income	310,000,000	349,000,000	12.6%	302,000,000	(13.5%)
Endowment Distributions	132,000,000	134,000,000	1.5%	129,000,000	(3.7%)
Total	442,000,000	483,000,000	9.3%	431,000,000	(10.8%)

GIFT INCOME

The \$302 million FY21 gift income projection, shown in Table 12, reflects continued fundraising for current initiatives and long-term priorities, including support for students, faculty, programs, and key academic facilities. The FY21 projection is lower than the previous year due to two large (and final) pledge payments received in FY20 for the Hans Rosling Center for Population Health. Additionally, we believe uncertainty related to COVID-19 may impact giving. For comparison, during the Great Recession, the UW experienced a two-year decline in giving before rebounding to pre-recession levels and higher.

Figure 13: Composition of UW Endowment



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.

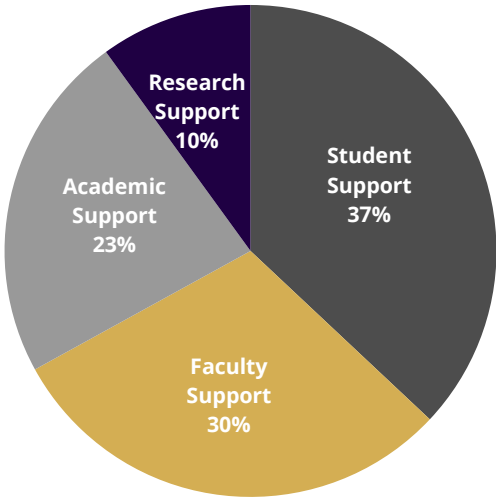
As seen in Figure 14, below, the UW's endowment serves core academic programs, with more than two-thirds directly supporting students and faculty.

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. During the Be Boundless campaign, endowed gifts have increased from a pre-campaign average of \$40 million per year to a current average of \$80 million per year.

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. The endowment distribution policy was changed in FY19 to step down from 4.0 percent to 3.6 percent by FY22, which is explained on page 67.

Figure 14: Endowment Support by Purpose



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 2018 (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 and the research productivity associated with that success translates to consistently high scores in national and international rankings. The National Taiwan University ranks the UW 7th overall internationally, 4th nationally, and 1st among domestic public universities for the quality and impact of research endeavors, and in 2020 U.S. News ranked the UW 10th among world universities in the "Best Global University Rankings."

Another measure of research competitiveness can be demonstrated through the UW's share of externally-sponsored R&D expenditures, compared to other higher education institutions. As Table 13 shows, the UW has maintained its share of total federal and non-federal research expenditures over the last five years as the total pool of funding has increased.

Table 13: UW R&D Expenditures - Federal and Non-Federal Market Share

	2014	2015	2016	2017	2018
Total USA	51,411,893,000	51,956,071,000	53,858,346,000	56,290,643,000	58,890,441,000
Total UW	1,111,147,000	1,121,373,000	1,182,611,000	1,220,260,000	1,269,570,000
Market share	2.16%	2.16%	2.20%	2.17%	2.16%

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2018.

Research awards totaled \$1.58 billion in FY19, a 17 percent increase from FY18 (\$228 million). While much of this increase was concentrated in the SoM (\$153 million increase), there were over 47 different units/departments that saw an increase of \$1 million or more.

Examples of **major awards** in FY19 include:

- \$16 million from the Bezos Family Foundation to fund the Institute for Learning and Brain Sciences.
- \$17 million from the Health Resources and Services Administration to improve worldwide health outcomes for people living with HIV.
- \$10 million from the Patient-Centered Outcomes Research Institute (PCORI) to fund a clinical trial to compare the impacts of surgery and medicine on diverticulitis.
- \$4 million from the US Department of Education to develop the Rural Initiative STEM Education and Undergraduate Preparation (RISE UP) partnership to address the needs of low-income, at-risk students in the Yakima and Skagit Valleys.
- \$4 million from the National Science Foundation to fund the Center for Neurotechnology in the Paul G. Allen School of Computer Science and Engineering.

Sponsored projects supported over 14,000 employees during FY19, including over 2,500 graduate students and over 1,000 postdocs. Over 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 approximately 78 percent of sponsored research expenditures. Although President Trump consistently requests significant reductions to federal agencies that fund research and development at the UW, bipartisan support for those agencies remains strong in both chambers of congress. As a result, the UW administration expects the National Institutes of Health (NIH) funding will not be cut significantly in FY21. However, the UW is monitoring developments closely, as NIH funding represents half of our total federal research funding.

The UW administration will continue to monitor the situation and develop plans to quickly respond to any changes in federal funding, including changes as a result of the COVID-19 pandemic, or federal funding constraints that may result from tightening federal fiscal policy in subsequent fiscal years.

ESTIMATED SPONSORED PROJECTS EXPENSES

Table 14, below, shows a breakdown of projected sponsored research expenses in FY20 (original and revised projections) and FY21. The University is currently projecting a modest increase of expenditures in FY21. 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.

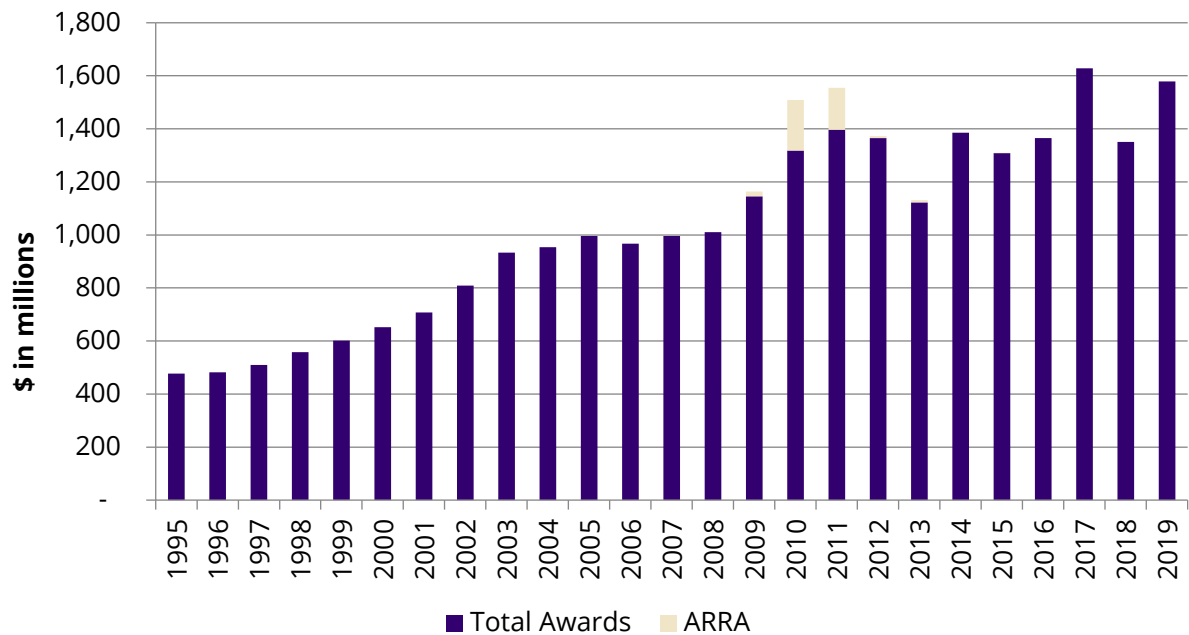
Table 14: Projected Sponsored Research Expenses with Breakout of Indirect Costs

	FY20 Projected	FY20 Revised	FY21 Projected	Percent Change (Revised FY20 to FY21)
Federal	823,192,000	843,355,000	859,379,000	1.9%
State & Local Grants	102,401,000	109,687,000	111,113,000	1.3%
Nongovernmental	229,384,000	241,127,000	254,148,000	5.4%
Indirect Research Expenses	277,418,000	279,376,000	282,170,000	1.0%
Total	1,432,395,000	1,473,545,000	1,506,810,000	2.3%

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. Note that FY13 numbers are artificially low due to award delays caused by sequestration and that FY17 numbers spiked due a single 10-year, \$280 million award from the Bill and Melinda Gates Foundation. The increase in FY19 was not due to a small number of large grants, and was distributed more widely across multiple schools/colleges and departments.

Figure 15: Total Grant and Contract Awards by Year (1995-2019)



CONCLUSION: A LOOK BACK AND AHEAD

The University faces unprecedented and unknown challenges that limit new investments at this time. It will always be important to effectively manage and deploy funding in a way that best serves our students, state, and region, and with the best information we have at our disposal.

Thankfully, our FY21 budget development process required that units consider how they would react to budget reductions, and many nuanced responses to that prompt assured the administration that this leadership team is prepared for the difficulties that lie ahead.

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. Importantly, we will engage our community, especially our faculty and academic leadership, in a transparent, values-driven process as the scale and impact of state funding reductions becomes clearer. The vitality of our community, its resilience and toughness, will be crucial as we manage our way together through the COVID-19 crisis.

As we plan for the future, the University will continue to be thoughtful in forecasting and managing unknowns, relying upon its foundation as a place of discovery, inquiry, and community during the tough financial times ahead.

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

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 (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](#) webpage. 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:

- **Expanded the breadth of our qualitative data collection**, to include an (at the time) hypothetical 5 percent budget reduction exercise.
- **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).
- **Developed standardized executive dashboards**, so executive leadership could spend more time focused on areas of impact unique to each university business unit

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

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

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 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 support unit-level auxiliary budget oversight:**

- Supporting the Provost and President, OPB monitors all self-sustaining, general, and local operating fund budgets for deficits. APS 37.1 Monitoring, Mitigating and Resolving Fiscal Deficits, was implemented with the broad support and input from the university community. This policy is a comprehensive update and formalization of the deficit policy first put into place in FY10 and clearly outlines roles, responsibilities and corrective actions that must be taken to mitigate a forecasted deficit or resolve an existing deficit.
- 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.

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

- 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 39.

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 Fees;
- Dedicated fees for transportation and bond payments on student-funded capital projects and sports facilities; and
- 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. A “Proposed 2020-21 Cost of Attendance for First-Year UW Undergraduate Students” document has been updated to accompany this budget item, reflecting proposed changes to tuition and mandatory fees for the upcoming academic year. At the Board’s request, most fee proposals now include information about the effects of a “no increase” scenario.

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, and 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](#).

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.
- **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.

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.

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 most recent formal review process, ABB Phase III, began in January 2019. In February 2020, the Phase III steering committee completed a preliminary report summarizing the findings and recommendations from each subcommittee. The Provost and President accepted the Steering Committee recommendations in April, but will delay implementation of a change to the supplement due to the budgetary uncertainty related to COVID-19. Related documents are posted on OPB's [ABB Committees and Reports](#) webpage.

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

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 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; and
- 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.

At this time, we are not planning on making commitments of new Reinvestment Funds unless driven to do so by compliance or truly critical needs.

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 incremental 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 29.

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. 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, less a component of the rate for services centrally supported on the Seattle 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. FY20 rates continued at 15.60 percent for on-campus and 6.85 percent for off-campus activities. We anticipate FY21 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. A "net revenue share" program was piloted with the College of Arts & Sciences, which is the largest participant by measure of student credit hours generated. A future state incentive model was developed by Continuum College, but the implementation was paused due to the uncertain impacts of COVID-19. 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 34.

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.

As part of the ABB Phase III formal review, a subcommittee was tasked with analyzing and recommending changes to the calculated cutover portion of the supplement (the original "hold harmless"). The subcommittee reported back on proposed changes and justification, and the ABB Steering Committee put

forth a final recommendation to set aside a small percentage of cutover funding over a three year period. These funds will be redistributed to units in order to support academic program development and the subvention of cross-disciplinary initiatives. This recommendation was accepted by the Provost, but will be delayed until the FY22 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 value to be distributed.⁶ 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 15 below, was developed with the intent of cushioning the impact of the spending policy reduction on campus units. FY21 will be the second year of the three-year phased reduction.

Table 15: 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 392 basis points—stepping down to 360 basis points by FY22. The remaining 98 basis points—stepping down to 90 basis points by FY22—are allocated to support endowment-related expenses. Of these 98 basis points, 78.4 basis points support Advancement activities—stepping down to 72 basis points by FY22—and 19.6 basis points support UW 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.

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 54.

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

ACRONYM GLOSSARY

AAU	Association of American Universities
ABB	Activity Based Budgeting
ALNW	Airlift Northwest
ARRA	American Recovery and Reinvestment Act
BODC	Board of Deans & Chancellors
CAGR	Compound Annual Growth Rate
CARES	Coronavirus Aid, Relief, and Economic Security Act
CCE	Consolidated Clinical Enterprise
DOF	Designated Operating Fund
FTE	Full-Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GOF	General Operating Fund
HMC	Harborview Medical Center
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, now called UW Medical Center (UWMC) - Northwest
OFM	Governor's Office of Financial Management
OPB	Office of Planning & Budgeting
RA	Research Assistant
RUG	Resident Undergraduate
SCPB	Faculty Senate Committee on Planning & Budgeting
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 Intercollegiate Athletics | FY21 Proposed Budget - Base Case

**based on information available as of May 27, 2020*

	w/ Mitigations	Assumptions & Deficit Mitigation Plans
REVENUE		
Gate Revenue	\$29,869,000	10-12% cut in <u>all</u> gate revenue
Contributions	\$24,956,000	\$1M in additional gifts to support returning seniors
NCAA / Conference	\$38,878,000	
Royalties, Adv & Sponsorships	\$23,199,000	
Tuition Waivers	\$4,447,000	
Other Revenue	\$10,848,000	10% cut in FB gameday categories, less outside facilities rentals
TOTAL REVENUE	\$132,197,000	
EXPENSE		
Salaries	\$37,267,000	5% overall reduction through voluntary salary cuts, hiring freeze, reduction in OT/hourly employees, other reductions
Benefits	\$9,273,000	includes increase of \$700K for seniors
Athletics Student Aid	\$16,325,000	
Operating Expenses	\$51,368,696	10% operating budgets cuts
UW Institutional Overhead	\$2,650,000	
TOTAL EXPENSE	\$116,883,696	
NET OPERATING INCOME	\$15,313,304	
Debt Service	\$14,345,000	reflects interest rate decrease from 4.5% to 4.25% effective 7/1/20
NET OPERATING INCOME LESS DEBT SERVICE	\$968,304	
DEBT SERVICE COVERAGE	1.07	DSC covenant of 1.0x and 3-year DSC average of 1.25x or greater (additional reserves required if 1.25x average is not met)
DEBT SERVICE COVERAGE 3 YR AVERAGE	1.23	
Minor Capital Expenditures / Deferred Maint	\$2,571,000	includes investment in hygiene related projects throughout the village
CASH FLOW AFTER INVESTMENT IN CAPITAL	(\$1,602,696)	
June 30, 2021 Cash Balance	\$32,366,000	meets ILP covenant of 1 year debt service + additional for DSC average of 1.25x

UW Intercollegiate Athletics | FY21 Budget Update

**based on information available as of August 21, 2020*

	FY21 June 2020 BOR Base-Case	FY21 Sept 2020 BOR Update	FY21 Sept 2020 BOR Update w/ add'l fundraising	September Assumptions
JULY 1, 2020 BEGINNING RESERVE BALANCE	\$38,981,000	\$38,981,000	\$38,981,000	
REVENUE				
Gate Revenue	\$29,869,000	\$0	\$0	Too early to assume fans at events in Spring 2021
Contributions	\$24,956,000	\$17,095,000	\$32,095,000	Reflects Huskies All In gifts and credits from FB 2020; add'l \$15M fundraising goal to maintain reserves
NCAA / Conference	\$38,878,000	\$20,128,000	\$20,128,000	TV rights from spring FB, lower NCAA distributions
Royalties, Adv & Sponsorships	\$15,099,000	\$9,958,000	\$9,958,000	Decrease in MMR and other third party sponsorships
Tuition Waivers	\$4,447,000	\$4,501,000	\$4,501,000	
Other Revenue	\$10,848,000	\$6,842,000	\$6,842,000	Loss of game-day revenue (concessions, parking, etc.)
TOTAL REVENUE	\$124,097,000	\$58,524,000	\$73,524,000	
EXPENSE				
Salaries	\$37,267,000	\$33,868,000	\$33,868,000	Voluntary contract reductions, department-wide furloughs, other staffing cuts (note: June base-case included 5% reductions; 12% additional have been made since then for 17% total)
Benefits	\$9,273,000	\$8,447,000	\$8,447,000	
Athletics Student Aid	\$16,325,000	\$16,405,000	\$16,405,000	
Sport Operational Expenses	\$43,268,000	\$28,207,000	\$28,207,000	Shorter sport seasons and no fans at events (40% cut compared to normal operating activity) 1 year exemption approved by President
UW Institutional Overhead	\$2,650,000	\$0	\$0	
TOTAL OPERATING EXPENSES	\$108,783,000	\$86,927,000	\$86,927,000	
NET OPERATING INCOME	\$15,314,000	(\$28,403,000)	(\$13,403,000)	
Debt Service	\$14,345,000	\$14,345,000	\$14,345,000	
NET OPERATING INCOME LESS DEBT SERVICE	\$969,000	(\$42,748,000)	(\$27,748,000)	
DEBT SERVICE COVERAGE (based on full payment)	1.07	(1.98)	(0.93)	
Minor Capital Exp / Deferred Maint	\$2,571,000	\$2,571,000	\$2,571,000	Softball project (funded by gift in PY)
CASH FLOW AFTER INVESTMENT IN CAPITAL	(\$1,602,000)	(\$45,319,000)	(\$30,319,000)	
Reserve adjustment: refunds for Football 2020		(\$6,390,000)	(\$6,390,000)	Collected prior to July 1, 2020; refunded in fall 2020
Adjustment for 1 year of debt deferral		\$13,345,000	\$13,345,000	Pending Board approval in Sept 2020
JUNE 30, 2021 RESERVE BALANCE	\$37,379,000	\$617,000	\$15,617,000	