BOARD OF REGENTS MEETING

ADOPTED JUNE 9, 2022

Approve Fiscal Year 2023 Operating Budget

RECOMMENDED 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 the Board of Regents Standing Order No. 1— consider and confirm the proposed fiscal year 2023 (FY23) operating budget for the University of Washington. The proposed FY23 operating budget is presented in the attached document, which includes proposed tuition rate recommendations for FY23. 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 action item, the Board of Regents, in its sole and independent discretion:

1. Adopts the proposed FY23 operating budget;
2. Affirms the proposed FY23 salary plan for exempt faculty and professional staff as outlined in the FY23 operating budget;
3. Establishes tuition rates for the 2022-23 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 FY23 budget for UW Medicine; and,
7. Approves the FY23 budget for Intercollegiate Athletics, including the following actions:
    - A waiver of Institutional Overhead (IO) for FY23,
    - Release of Provost Internal Lending Program (ILP) funds for FY23, and
    - Restructure ICA's ILP debt service so that fiscal years 2023 – 2025 are $3.1 million lower per year, leaving ICA to pay interest only during these years. The principal amounts will be amortized over the life of the loans.

Approve Fiscal Year 2023 Operating Budget (continued p. 2)

BACKGROUND

This action item presents the University's proposed operating budget for FY23, which begins on July 1, 2022 and ends on June 30, 2023. The FY23 operating budget includes proposed tuition rates and is presented as one comprehensive draft for discussion. While the most recent state revenue forecast has shown strong economic recovery in Washington state, significant risks and uncertainties remain in regard to the ongoing pandemic, rising inflation, and geopolitical instability. As a result, we will continue to provide updated financial information to the Board on a monthly basis.

The FY23 proposed operating budget builds on annual improvements made to this budget document by further refining the presentation of information and the methodology used to make budget projections. Importantly, this will be the last budget document developed prior to the release of Workday Adaptive Insights, which will be leveraged to develop the FY24 budget for all entities except UW Medicine, which will implement Adaptive when the Workday Financials goes live in July 2023. The FY23 proposed 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 overall FY23 proposed operating budget;
- Background information to provide context for the University's current budget challenges and mitigating actions;
- Details regarding expected revenue for the General Operating Fund and Designated Operating Fund, which are known together as the University's "Core Academic Operating Budget;"
- Proposed tuition and financial aid recommendations for the 2022-23 academic year;
- A proposed budget for:
    - UW Medicine, including preliminary FY22 financial results and information related to ongoing development of target operating margins for FY23;
    - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY22 and FY23;
    - Gift income and endowment distribution projections for FY23; and
    - Sponsored research activity, including expense projections for FY22 and FY23.

Following the operating budget is an overview of the processes and policies that guide the University's careful management and distribution of resources.

Approve Fiscal Year 2023 Operating Budget (continued p. 3)

The University's proposed FY23 operating budget was modified, based on feedback and updated information. Major changes to the information item presented to the Regents in May are highlighted for this action item.

Attachments

1. Proposed Operating Budget – Fiscal Year 2023
2. FY23 Proposed Operating Budget (slides)
3. UW Intercollegiate Athletics – FY23 Proposed Budget
4. 2022-23 Cost of Attendance for First-Year UW Undergraduate Students (proposed)

UNIVERSITY of WASHINGTON

OFFICE OF PLANNING & BUDGETING

OPERATING BUDGET

Fiscal Year 2023

INTRODUCTION FROM THE PROVOST

As I close out my fourth year as Provost, I have taken this opportunity to reflect on the many obstacles and challenges the University has faced in just a few short years. Over the past two budget cycles this letter has reflected many of those challenges, and much has changed over this time. We have experienced a largely remote learning, working, and research environment for almost two years, and witnessed significant disruption to University operations and our community. No UW student, faculty, or staff member has been untouched by the COVID-19 pandemic, which has also served to highlight the many social and economic inequities that already existed. Last year I wrote about how the University had never experienced a year like we had just had, and yet here we find ourselves again in uncertain and unprecedented times. However, as we take our first steps towards our lives post-pandemic, we remain hopeful and optimistic about the future of our great institution.

While the COVID-19 pandemic has presented significant challenges, it has also taught us how to embrace alternative modalities. It is important that we do not seek merely to return to a pre-pandemic normal, but that we work to ensure that our future embraces what we have learned from this time, while still delivering the full Husky experience. This includes hybrid work and study models, embracing digital tools for accessibility, and viewing this time as an opportunity to reorient our institution in a way that better centers the needs of our students, faculty, and staff. Our annual budget supports these diverse needs, while investing in continuing the critical services our institution has provided during these challenging times.

The University of Washington's Fiscal Year 2023 (FY23) Operating Budget is a reflection of collaboration and collective stewardship across the University's three campuses and our medical enterprise. Through collaboration with faculty, staff, students, and administrators, the budget development process has allowed us to see the full effect of the pandemic on our revenues. Revenues in our auxiliary and self-sustaining units, and in other areas of the budget, have been especially hard-hit, and while we see recovery on the horizon, our current position requires careful planning and difficult decisions to ensure our future as a premier institution.

This document represents the best information we have at this point to take action on the University's FY23 Operating Budget. Monthly budget performance updates will be provided to the Board of Regents as usual.

PRIORITIES AND KEY FOCUS AREAS

Along with the pandemic, social events have also shifted our lives over the past two years. The continued growth of the Black Lives Matter movement, and violence against our Asian & Pacific Islander community members have laid bare the structural inequities and injustices in every facet of our society. It has also made clear just how much work we must do, and this has shifted our institutional priorities. Our leadership team believes that inclusion and anti-racism must be a priority for all of us. We are committed to a long-term effort to align around a shared vision and responsibility to work collaboratively across all three campuses and in our community.

This year, all units were asked to respond to questions on diversity, equity, and inclusion initiatives currently underway, and identify areas where additional progress is needed. This will provide the foundation for future priorities, as we continue to build on and retain the gains we have made in a more diverse faculty

and staff. Diversity and academic excellence are inseparable, and we continue to advance work aligned with the University's Diversity Blueprint. The hiring of new faculty whose scholarship advances diversity across academic units and our three campuses has been an institutional priority. Maintaining our fidelity to our public mission is dependent on BIPOC scholars joining, staying, and leading our academic community. We still have significant work to do in this space, but we remain committed to our progress on advancing diversity, equity, and inclusion across our institution, and the deployment of additional resources to support this work.

Our leadership team's top priorities continue to be academic excellence and access for students from all backgrounds – "access to excellence" as we like to say. In this year's Annual Review process, we again asked units to explain how they are aligning their unit-level resources with these priorities and with their own strategic plans.

Another top priority is ensuring that we are responsibly planning and living within our means as we emerge from the COVID-19 crisis. 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 already faced operational deficits prior to this crisis. We continue to work closely with unit leadership to proactively resolve any overspending, and carefully manage unexpended carryover funds.

While significant uncertainties remain, we are cautiously optimistic about our ability to shift from responding to the pandemic, to rebuilding and reimagining our institution going forward. We must continue to be guided by our values, and the lessons we have learned over the course of the past two years. We now have an opportunity to use digital tools and the lessons and skills we have learned over the course of the past two years to increase equity, access, and excellence going forward.

We will continue to promote diversity across all aspects of the University community; to recognize faculty excellence; to keep our students' well-being, academic experience, and financial needs top of mind; and continue to tackle deferred maintenance as a top priority. I look forward to working with my colleagues across the UW to make additional strides in these areas, despite the challenges we have faced, and may continue to face, in the year ahead.

Considerations

Addressing these priorities requires significant resources, and we anticipate that available resources may again fall short of meeting our high-priority needs. While the most recent state revenue forecast remains optimistic, significant risks and uncertainty remain including the effects of the COVID-19 pandemic, geopolitical instability, and rising inflation. We have also spent significant time modeling enrollment projections and other areas of financial risk to the University given these developments. Importantly, given significant uncertainties, this document represents a current-state view of the University's budget for FY23, and notes where uncertainties exist, 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. It is also important to note that this will be the last budget document prior to the University's Finance Transformation, which is currently underway, and will be partially implemented by this time next year. In many ways, Finance Transformation will change the way we view and present the University's budget next year and beyond.

Following this introduction, you will find an overview of the University and its activities, an executive summary of the FY23 budget, and a short guide on "how to read" the remainder of this budget document.

Sincerely yours,

Mark A. Richards

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

TABLE OF CONTENTS

Introduction from the Provost 2

Priorities and Key Focus Areas 2

Considerations 3

The Budget Itself 3

Overview of the University 7

UW Mission 7

UW Fast Facts 2021-22 8

Executive Summary: FY23 Budget 10

How To Read This Document 13

Background 14

Challenge 1: Emerging and Rebuilding from COVID-19 16

Challenge 2: Societal and Campus Climate 17

Challenge 3: Building on Investments in Deferred Maintenance and Aging Facilities 20

Challenge 4: Enrollment Capacity Planning 22

Challenge 5: Persistent Core Funding Constraints 23

Budget Trends Over the Last Three Biennia 28

Our UW Core Operating Budget 30

Planned Distribution of Core Operating Funds 31

Compensation 32

General Operating Expenditures 33

Planned Core Operating Fund Investments 33

Sources of Core Operating Funds 34

General Operating Fund (GOF) – As of May 27, 2022 34

Designated Operating Fund (DOF) – As of May 27, 2022 41

Ensuring Access and Completion: Financial Aid 43

Restricted Funds 45

UW Medicine 46

COVID-19 Pandemic and Impacts by Entity 47

Future Challenges for UW Medicine (in addition to COVID-19) 50

Current Financial Performance 51

Federal and State Funding for COVID-19 52
Looking Ahead: Performance, Budget, Clinical Strategic Planning and Long-Range Planning 53
Budget Priorities 54
Clinical Strategic Planning and Long-Range Financial Planning: FY23-FY36 55

University Auxiliary Activities 57

What You Need To Know About Auxiliary Activities 57
Revenues and Expenses – As of May 27, 2022 58

Power of Philanthropy: Gifts & Endowment Distributions 61

Gift Income 61
Endowment Distributions 62

From Ideas to Impact: Research Enterprise 63

Federal Outlook 64
Estimated Sponsored Projects Expenses 64
Award Trends 65

Conclusion: The Work Ahead 66

Ensuring Sound Budget Management 67

Administrative Due Diligence 67
Annual Review and Budget Development Process 67
Auxiliary Budget Oversight 68
Tuition and Fee-Setting Authority 69
Other Budget Controls 70
Budget Policies and ABB Distribution 71
Reinvestment Funds 71
General Operating Fund (GOF) Distribution 72
Designated Operating Fund (DOF) Distribution 72
Supplement Distribution 73
Gift Income and Endowment Distribution 74

Acronym Glossary 75

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 2022 (FY22) Operating Budget totaled approximately $8.8 billion, and its Consolidated Endowment Fund was approximately $4.7 billion (as of June 2021). The University employs approximately 41,600 faculty and staff, and 3,900 graduate student employees. The UW's three campuses occupy 344 buildings on 792 acres, with approximately 22.9 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 29.3 million gross square feet.

As the state's flagship university, the UW enrolled more than 60,100 undergraduate, graduate, and professional students in fall 2021. The UW Continuum College educates nearly 57,000 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 836 degree options across 469 programs.

As of 2019-20, the University supported more than 1,000 student-led organizations and provided undergraduate research opportunities for more than 8,200 students. In addition, nearly 5,000 students participated in University-sponsored public service, contributing over 560,000 hours of service to our local, regional, and global communities. In 2020-21, the UW awarded more than 18,200 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.

UNIVERSITY of WASHINGTON

FAST FACTS 2021–2022

uw.edu

PROFILE

The University of Washington's three campuses offer more than:

469 programs

836 degree options

Average time to degree is 3.8 years.

83% of entering freshmen graduate within six years.

11.2% change in freshman applications to all three campuses.

28% of entering freshmen are first generation four-year degree seeking students.

7661 (18%) of undergraduate students transferred from a Washington State community college.

TUITION

Washington resident undergraduate tuition and fees $12,076

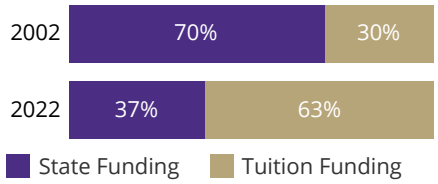
BUDGET

Annual budget: $8.82 Billion

$1.17 Billion General Operating Fund: supporting the University's academic mission.

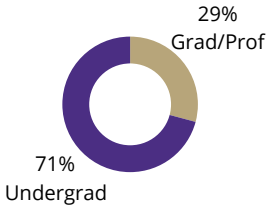
FUNDING

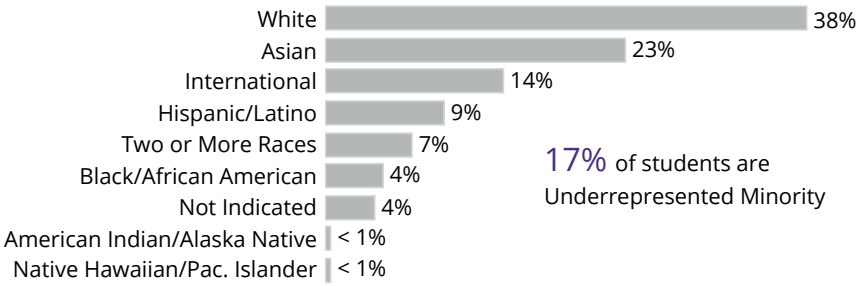
Tuition Revenue & State Funds (% of Total):



FALL 2021 TOTAL ENROLLMENT

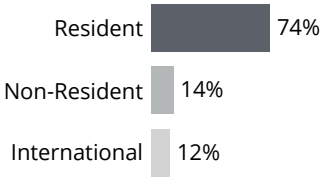
	Seattle	Bothell	Tacoma	TOTAL
Undergraduate	32,779	5,471	4,339	42,589
Grad/Prof	16,246	598	700	17,544
TOTAL	49,025	6,069	5,039	60,133





17% of students are Underrepresented Minority

UNDERGRADUATE RESIDENCY



50 states are represented at the UW.

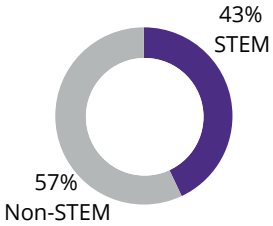
39 of 39 Washington counties are represented at the UW.

DEGREES AWARDED 2020-21

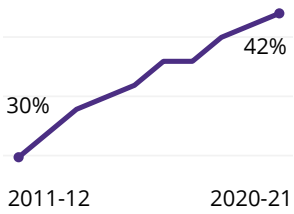
	Seattle	Bothell	Tacoma	TOTAL
Bachelor	8,385	1,865	1,571	11,821
Master	4,293	211	416	4,920
Doctorate	851		19	870
Professional	628			628
TOTAL	14,157	2,076	2,006	18,239

STEM STUDENTS

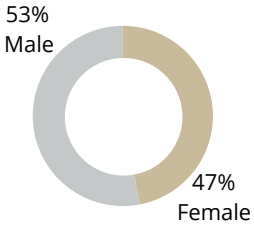
MAJORS



DEGREES



SEX



UNIVERSITY of WASHINGTON

PRIDE POINTS 2021–2022

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AFFORDABILITY AND ACCESS

• **66% of all UW undergraduates graduate with no known debt**, and those who borrow still graduate with less debt than the national average.

• In 2020–21, **24% of UW undergraduates were eligible for Federal Pell Grant funding**. As of the most recent data (2020–21), more than 10,900 UW undergraduates received Pell Grants.

• In 2020–21, **28% of UW undergraduates from Washington (approximately 8,900) were 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 2020–21, about **54% of UW undergraduates received some form of financial aid**, totaling more than $467 million.

• In 2021–20, the UW is **awarding more than $149 million in institutional grants and scholarships to Washington residents**.

• In 2020–21, **approximately 14,400 UW students will receive funds from the Washington College Grant**.

AWARDS AND HONORS

• **The UW is one of the best universities in the world, ranked No. 7 globally and No. 2 among U.S. public institutions by U.S. News & World Report**, and No. 19 globally by the Academic Ranking of World Universities.

• The UW's graduate and professional degree programs were widely recognized as **among the best** in the nation, according to U.S. News & World Report's 2022 Best Graduate School rankings, and 8 subjects placed in the top 10 in subject rankings.

• **The UW has been home to 7 Nobel Prize winners**; 17 MacArthur Fellows; 189 members of the National Academies of Sciences, Engineering, and Medicine; and 193 fellows in the American Association for the Advancement of Science.

• For the 2021-22 academic year, **4 UW graduate and undergraduate students received Fulbright awards.**

RESEARCH AND SERVICE

• **The UW receives more federal research dollars than any other U.S. public university;** in FY21, the UW received $1.77 billion in total research awards (federal and non-federal sources, not including $120 million in COVID relief funding).

• 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**

• Since 1990, CoMotion at the UW has helped launch **258 companies**. These spinoffs have raised over $7.9 billion in funding, with $4.7 billion secured over the past five years alone.

• According to TechRepublic**, more graduates of the UW than any other U.S. university now work for the world's largest tech companies.**

• The UW is ranked the **No. 1 most innovative public university in the world by Reuters**, which examines scholarly articles and patent applications.

• **Nearly 50 UW-affiliated experts** are included in **the Highly Cited Researchers** 2021 list**.**

EXECUTIVE SUMMARY: FY23 BUDGET

This document describes the UW's operating budget for the period of July 1, 2022, through June 30, 2023, which is known as fiscal year 2023 (FY23).

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**:

- UW Medicine;
- Auxiliary activities;
- 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 projected FY23 resource base, and the share of the total that each source represents.

Figure 1: FY23 Budget Sources by Major Area

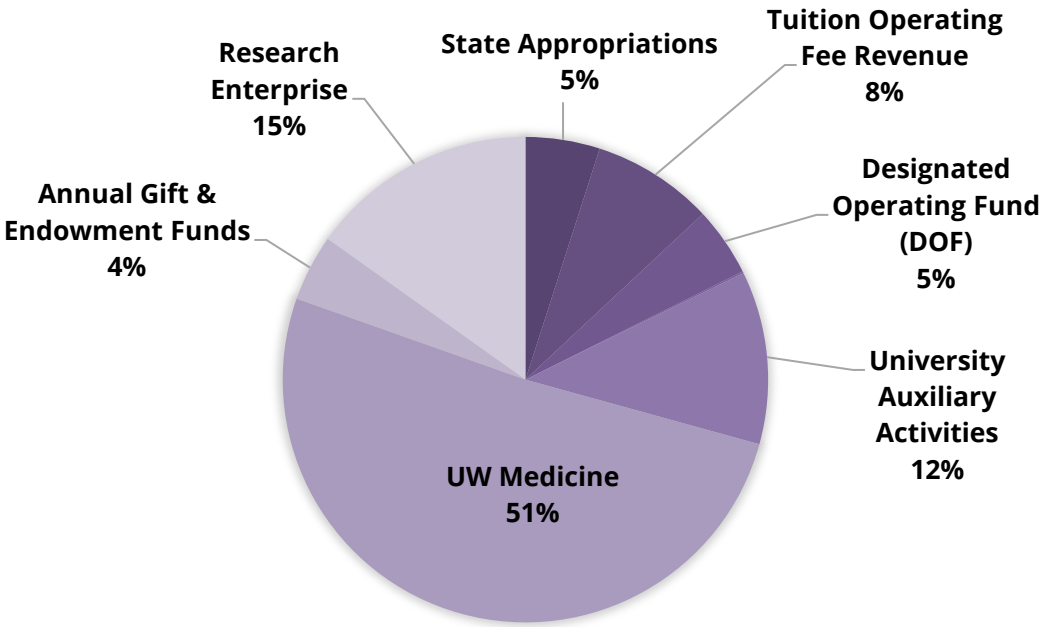
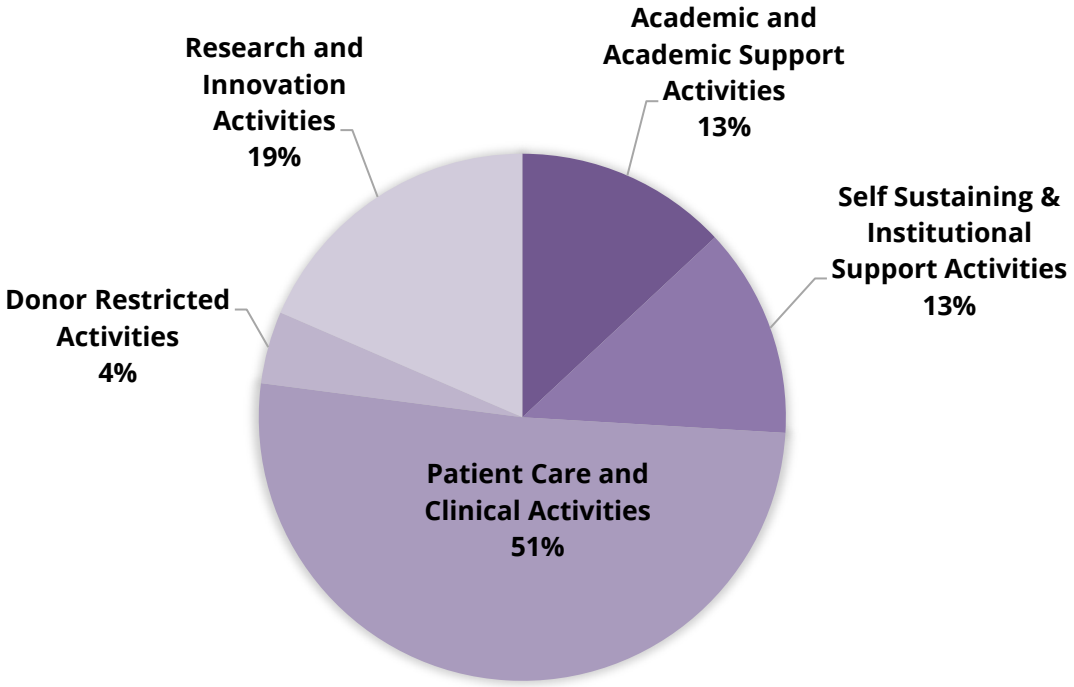


Figure 2, below, shows a breakdown of how FY23 operating resources will be used. State or federal laws dictate some of these uses, while University policies and donor requests determine others. **Overall, a relatively small portion of the University's total operating resources is available to fund academic and academic support activities.**

Figure 2: FY23 Designated Uses of Funds by Activity



The UW's FY23 Operating Budget is projected to total $9.49 billion, as seen in Table 1 below. Of that total, the University's Core Operating Budget is projected to be nearly $1.68 billion. As mentioned, the sources and uses of the Core Operating Budget are the primary focus of this document.

Table 1: Full FY23 Operating Budget Sources by Area

Budget by Fund and Category	FY22 Adopted	Incremental Change	FY23 Adopted
Core Operating Budget	**1,579,957,000**	**94,652,000**	**1,674,609,000**
General Operating Fund (GOF)	**1,167,336,000**	**70,707,000**	**1,238,043,000**
State Appropriations	437,371,000	32,481,000	469,852,000
Tuition Operating Fee Revenue	729,965,000	38,226,000	768,191,000
Designated Operating Fund (DOF)	**412,621,000**	**23,945,000**	**436,566,000**
Indirect Cost Recovery	289,221,000	17,304,000	306,525,000
Institutional Overhead	25,305,000	6,801,000	32,106,000
Remaining DOF	98,095,000	(160,000)	97,935,000
State Restricted Funds	**10,472,000**	**558,000**	**11,030,000**
University Auxiliary Activities	**1,033,249,000**	**61,051,000**	**1,094,300,000**
Auxiliary Educational Activities	146,367,000	(367,000)	146,000,000
Other Auxiliary - Seattle	860,727,000	63,273,000	924,000,000
Other Auxiliary - Bothell	14,655,000	145,000	14,800,000
Other Auxiliary - Tacoma	11,500,000	(2,000,000)	9,500,000
UW Medicine	**4,486,811,000**	**365,589,000**	**4,852,400,000**
UW Medical Center	1,992,107,000	155,093,000	2,147,200,000
Harborview Medical Center*	1,111,166,000	147,234,000	1,258,400,000
Valley Medical Center	842,680,000	2,620,000	845,300,000
UW Physicians	400,000,000	45,800,000	445,800,000
Airlift NW	60,858,000	14,742,000	75,600,000
UW Primary Care Clinics	80,000,000	100,000	80,100,000
Annual Gift & Endowment Funds	**467,000,000**	**(46,000,000)**	**421,000,000**
Gift Income**	333,000,000	(36,000,000)	297,000,000
Endowment Distributions***	134,000,000	(10,000,000)	124,000,000
Research Enterprise	**1,532,039,000**	**212,563,000**	**1,744,602,000**
Federal	871,833,000	173,718,000	1,045,551,000
State and local grants	129,385,000	(15,621,000)	113,764,000
Nongovernmental	241,600,000	37,161,000	278,761,000
Indirect Expenditures****	289,221,000	17,304,000	306,525,000
TOTAL UNIVERSITY OPERATING BUDGET	**8,820,307,000**	**671,109,000**	**9,491,416,000**

Some discrepancies may exist due to rounding.

* HMC is managed by UWMC but appears on King County's financial statement.

**Over a twenty-year period, a five-year cash moving average and time-series forecast modeling are used to forecast current-use gifts. In FY18, a significant grant was accounted for as a gift and included in the moving-average projections. The FY22 adopted budget was based on these projections, and this error resulted in an overstated value for current-use gifts of $45M in FY22. The FY22 correct budgeted value should have been $288M. The FY22 revised value and the FY23 value of $297M correctly account for this prior period error.

*** The FY22 adopted budget value included endowment returns on operating cash available for distribution, which is included as a component of the Designated Operating Fund under "Investment Income". This error resulted in an overstated budget value for endowment programmatic distributions of $21M in FY22. The correct budgeted value for FY22 should have been reflected as $113M. The FY23 value of $124M correctly accounts for this prior period error and is reflective of the anticipated endowment programmatic distributions to units.

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

How To Read This Document

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

- First, we explore the University's budget **background**, including the challenges and trends that have led us to where we are today.
- Second, we present current projections for budgetary **results** for each area of the University's budget:
    - Our Core Operating Budget
    - UW Medicine
    - University Auxiliary Activities
    - Annual Gifts & Endowment Funds
    - Research Enterprise
- Following the conclusion of the budget document 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 30, which is where we dive into "Our Core Operating Budget," the first major area of the UW's FY23 budget.**

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

BACKGROUND

This section articulates the challenges that continue to shape our University's budget going into FY23. Below is an overview summarizing the most pressing challenges and the University's response to each, in no particular order.

Challenge	Summary and University Response
1) Emerging and Rebuilding from the COVID-19 Pandemic	• As we rebuild and re-imagine how we do our work, we are mindful of the need for more meaningful investments in people, including community building and resilience, and continued flexibility in how we work, study, and conduct research. • As we start to emerge from the COVID-19 pandemic, we face continued budgetary challenges including recruitment, retention, and record inflation. • The University has sustained considerable losses as a result of the pandemic, and the operating environment is expected to remain challenging. • We remain hopeful that we are turning a corner, however significant risk and uncertainty remain that provide challenges to long-term planning and institutional priority-setting. We hope to build upon where we were as an institution before the pandemic, while allowing ourselves to grow from the many lessons we learned in the process.
2) Societal and Campus Climate, and articulation of Diversity Blueprint Goals	• In recent years, there has been a robust national conversation around social and racial justice that has laid bare deep racial and ethnic inequities in our country. During this time, the University has reevaluated current practices and made key investments in students, faculty, and staff. • The University is updating the diversity, equity, and inclusion framework for the 2022-26 Diversity Blueprint. The framework builds upon existing goals and adds a new goal focused on place-based education and engagement. • At a high-level, administration is implementing an equity lens to analyze and distribute resources to align with these goals. • The Husky Prevention & Response training, which addresses sex- and gender-based violence and harassment, launched in October 2021 and is required for new students and new employees.

3) Building on Investments in Deferred Maintenance and Aging Facilities	• The University's deferred maintenance backlog continues to grow and is significantly higher than what is generally considered manageable risk. • In early 2020, the administration developed a long-term capital strategy to guide the formation and prioritization of capital project investment needs. The first tenet of this strategy is to direct roughly half of our total capital resources to renovation and replacement projects. • Consequently, most of the planned future state capital requests will be for renewal projects, including seismic improvements, utility repairs, ADA compliance, and historic building renovations. Funding for new buildings will help remedy some of the deferred maintenance backlog by creating space that existing functions can be funneled into, allowing facilities in need of substantial renovation to be renewed, repurposed, or demolished. • To prevent new construction from adding to the burden, capital funding guidelines now require all new construction projects to have a fully committed source of continuing maintenance, operating, and facility renewal funding.
4) Enrollment Capacity Planning	• After years of steady enrollments, some trends have begun to shift. Average enrollments in the past three years have leveled off and even declined at UW Bothell and UW Tacoma. Some of this can be attributed to the impact of COVID-19 and the state-wide decline in transfer enrollments from community and technical colleges. • Though leveling off in the past few years, the University continues to see student demand in capacity-constrained majors. Units have reported insufficient resources to meet the demand and a need for additional funding to hire faculty and staff. • The University is taking steps to align capacity planning with sound resource allocation strategies. • We continue to monitor shifts and adjust enrollment strategy accordingly.

5) Persistent Core Funding Constraints	• State revenue collections continue to improve. However, despite some recent state investments, per student funding levels remain lower than they were before the Great Recession. • The 2022 supplemental budget authorized a 3.25 percent compensation increase for non-represented faculty and staff FY23 on a 58 percent state, 42 percent assumed tuition revenue "fund split," but for state-funded employees only. This is an improvement and matches the University's request that at least 50 percent of the salary increase be covered by state funding. • However, future investments are still needed to return to sustainable funding levels, and the UW still lags behind the funding split provided to other state institutions of higher education. • In addition to the high cost of living in our region, unusually high inflation rates coming out of the COVID-19 pandemic put additional pressure on our compensation policies and further increase the cost of doing business for the University.

In the following pages, each challenge is explored in greater detail. This section concludes with a review of budget trends over the last three biennia.

Challenge 1: Emerging and Rebuilding from COVID-19

For the past two budget cycles, the COVID-19 pandemic has been highlighted as the first and perhaps most pressing challenge in our annual budget document. In addition to the toll this has taken on our community and across the globe, the pandemic also caused significant disruption to our University and its mission including revenue losses and unprecedented expenses across many areas of our operations. Now that the vast majority of our University community has been vaccinated, case counts are down, and we have started to resume a largely in-person Husky experience, we are lifting our gaze towards what this pandemic and its effects mean for the future of our institution.

There is a lot we have learned over the course of the past two years, including the resilience of our students, faculty, and staff. This has been demonstrated by the ability of the University community to quickly adapt to remote learning and working environments, and the many ways we have embraced the use of technology to not only meet emergent needs, but also increase access to and collaboration with prospective students, peer institutions, and colleagues across the globe.

The University is exploring ways in which remote learning and working options have increased access and flexibility for members of our community with familial, work, and other outside obligations, with the goal of continuing to meet those needs moving forward. University leadership is cautiously optimistic about the ability to continue operating in a largely in-person learning and working environment, while recognizing the need to remain flexible. We hope to find a path that embraces flexibility and meeting the diverse needs of students, faculty, and staff, while building on and preserving all that makes the in-person experience at our

institution so valuable. Reimagining the Husky experience as we emerge from the COVID-19 pandemic will be both an opportunity for progress and a continued challenge over the coming budget cycle. Importantly, as we rebuild and re-imagine the future of our work, we are mindful of the need for investments in people, including community building and resilience. This year, we will provide funding for professional development grants for staff and faculty across the University, as well as continuing support for recruitment and retention programs for our workforce.

It is also important to highlight the full impact of two full years of largely online education, isolation, and dealing with personal or family illnesses and loss on our student body in particular. Many of our students are less academically prepared than before the pandemic and are experiencing anxiety and depression at significantly higher rates. In addition, the number of UW students qualifying for Disability Resources for Students (DRS) accommodations has also risen dramatically. Many of these students will require more support, both inside and outside of the classroom in order to achieve academic and personal success, which will require additional student support staff and resourcing.

As we start to emerge from the height of the pandemic, we must be nimble in responding to shifting priorities, rectifying the delayed investment in mission-critical areas such as deferred maintenance, and planning for living within our means as we experience continued budget challenges, which are highlighted throughout this document. The pandemic has also highlighted other institutional challenges, including cyber security and data privacy risks that have only increased as our community has moved more online for aspects of our work, studies, and research.

The operating environment is expected to remain challenging well after the pandemic ends. We have already seen the compounding impacts of inflation and geopolitical instability on our ability to recover economically as a country, and financially as an institution. The duration of the COVID-19 pandemic is still unknown, and the extent of long-lasting societal effects is unclear. We are planning for lasting impacts on the way we live, learn, and work, and are developing longer term strategies to adapt and remain flexible. However, The University remains hopeful that we will be able to return to and build upon where we were as an institution before the pandemic, while allowing ourselves to grow from the many lessons we have learned in this process.

Challenge 2: Societal and Campus Climate

In recent years, there has been a robust national conversation around social and racial justice that has laid bare deep racial and ethnic inequities in our country. As examples, there has been continued growth of the Black Lives Matter movement following the shootings of unarmed individuals, a rise in anti-Asian violence exacerbated by the COVID-19 pandemic, and continued disproportionate economic and health effects on communities of color. In addition, communities of color comprise a significant portion of the frontline workforce which put them at greater risk of infection and serious illness and were also more likely to be laid off due to their roles not being conducive to remote work during the pandemic.

Many have called upon organizations, including the University of Washington, to reckon with past histories and current practices that have served to unfairly exclude certain populations and limit their ability to realize their full potential. Importantly, students, faculty, and staff have helped to illuminate opportunities to improve the overall climate on each campus. Grounded in this feedback, the University of Washington is

committed to advancing diversity, equity, and inclusion (DEI) initiatives that are based in anti-racist practices, promote a safe and healthy working environment, and ensure equal opportunity and accessibility.

Diversity, Equity, & Inclusion

The University recently launched its updated DEI framework, "The University of Washington Diversity Blueprint 2022 –2026: Actions toward Access, Inclusion, and Equity" and will continue to build upon its five existing goals plus a new goal focused on place-based education and engagement. The framework catalyzes support for University-wide initiatives and unit-level strategies. Those University-wide initiatives include the President's Race and Equity Initiative, the Faculty Diversity Initiative announced by the Provost in fall 2021, the campus climate survey, and grants to seed diversity efforts in academic and administrative units (Diversity Seed Grants).

As a University, we are making several investments in this area, including:

- The Faculty Diversity Initiative, which designates funds to recruit faculty to the Seattle campus whose research, teaching, mentoring service, and outreach will advance the University's diversity goals. Also, a subgroup of the Race and Equity Steering Committee will recommend ways to improve the onboarding process for new faculty, enhance the depth and availability of faculty demographic data, and develop a systematic exit interview process to identify climate issues that have prompted some faculty to leave.
- The Office of Minority Affairs & Diversity (OMA&D) has repurposed a position to hire an Education and Training manager who will develop and deliver DEI education and training and work with others to coordinate existing efforts taking place across the Seattle campus. This position will help the UW realize its goal of expanded DEI education that builds on required and entry-level offerings.
- All three UW campuses now have a dedicated office for DEI specific to the unique needs of their campus and community.

The University also supports unit-level strategies. Units in charge of resource distribution, including the Office of Planning & Budgeting (OPB), are centering equity into procedures, such as funding request forms, and the analysis and distribution of resources. This year all units were asked to provide responses through the 2023 Annual Review Process on the ongoing work they are doing to support the themes and goals of the UW Diversity Blueprint. Academic units reported revising hiring and recruitment practices, the formation of DEI working groups, working more closely with student affinity groups, and the addition of new DEI focused staff and faculty roles within their academic units. Administrative units reported similar initiatives, but also noted some of the hurdles that existed towards advancing their DEI strategic goals and initiatives. Notable challenges included limited access to training, the need for more transparency and accountability in measuring DEI outcomes, and the need for more competitive salary and benefits to attract, support, and retain a more diverse staff.

Gender Equity

The Title IX Steering Committee, appointed by President Cauce, provides strategic oversight and leadership for the University's work in responding to and preventing sex- and gender-based discrimination, violence, and harassment. The shared objectives of creating and maintaining academic, living, and workplace environments free from harassment and violence are directly connected to the UW's broader diversity,

equity, and inclusion work. With the guidance and oversight of the Steering Committee, two key gender equity initiatives were launched this year at UW.

The Husky Prevention & Response courses launched for new students and new employees in October 2021. The online courses provide content on sex- and gender-based violence and harassment, bystander intervention strategies, support resources, responding with care, options for reporting or submitting formal complaints, and UW policies. The course was developed with and by UW staff, faculty, and students and emphasizes everyone's role in creating and maintaining inclusive environments and how to both prevent and respond to harmful conduct. The Title IX Coordination Office is now working to ensure that every existing employee completes the course in 2022.

The second key initiative is University of Washington's Title IX Annual Report on Sex- and Gender-Based Violence & Harassment which includes information from two years—July 1, 2019, through July 30, 2021. The inaugural report was published in spring 2022. The report focused on student experiences and investigations and includes information about four primary areas:

- Support and resources
- Investigations and adjudications
- Prevention and education
- Leadership and policy

The University anticipates that future reports will integrate information regarding employee investigations and any related corrective action.

Disability Access

The ADA (Americans with Disabilities Act) & Accessibility Steering Committee, appointed by President Cauce, provides ongoing leadership and strategic oversight with regard to the University's efforts to ensure equal opportunity and full participation for all individuals with disabilities. The Steering Committee's essential objective is to ensure all University's programs, services, and activities are accessible for members with disabilities, which provides a foundation to connect to the broader diversity, equity, and inclusion work. The Steering Committee established five strategic priorities this past year that guided the launch of two projects:

- Creation of a University website that centralizes information on accessibility resources to demonstrate an enterprise-wide commitment to access and inclusion.
- Prepare current state reports on 1) access to IT systems, applications, resources, and 2) processes and practices for accommodating members of the UW community in learning, working, and healthcare environments

In addition, the University published campus summaries of work completed towards each ADA Transition Plan for the built environment. UW Medicine collaborated with the Office of the ADA Coordinator on positions designed to improve access and accessibility across their healthcare systems. UW HR published a DEI tool that included accessibility essentials, which departments can use to review and assess the effectiveness of their DEI initiatives and strategies.

Lastly, it is important to highlight the lasting impacts of the pandemic on our student body in this space. As noted previously, there has been a marked increase in the number of students qualifying for and accessing Disability Resources for Students (DRS) accommodations. The pandemic has also further emphasized long-

standing issues of educational impediments for students already accessing DRS accommodations, and their needs, in many cases, have increased over the course of the pandemic. However, the switch to remote learning has also provided us the opportunity to identify and develop tools and approaches to teaching that have the potential to serve students better as we emerge from the pandemic. Many units are making an effort to incorporate accessibility features learned during the pandemic on a permanent basis. Addressing these unique and sometimes complex issues and needs will require both additional staffing in student support services, as well as additional resources and longer-term planning to ensure students are provided the support they need to excel both inside and outside the classroom.

Conclusion

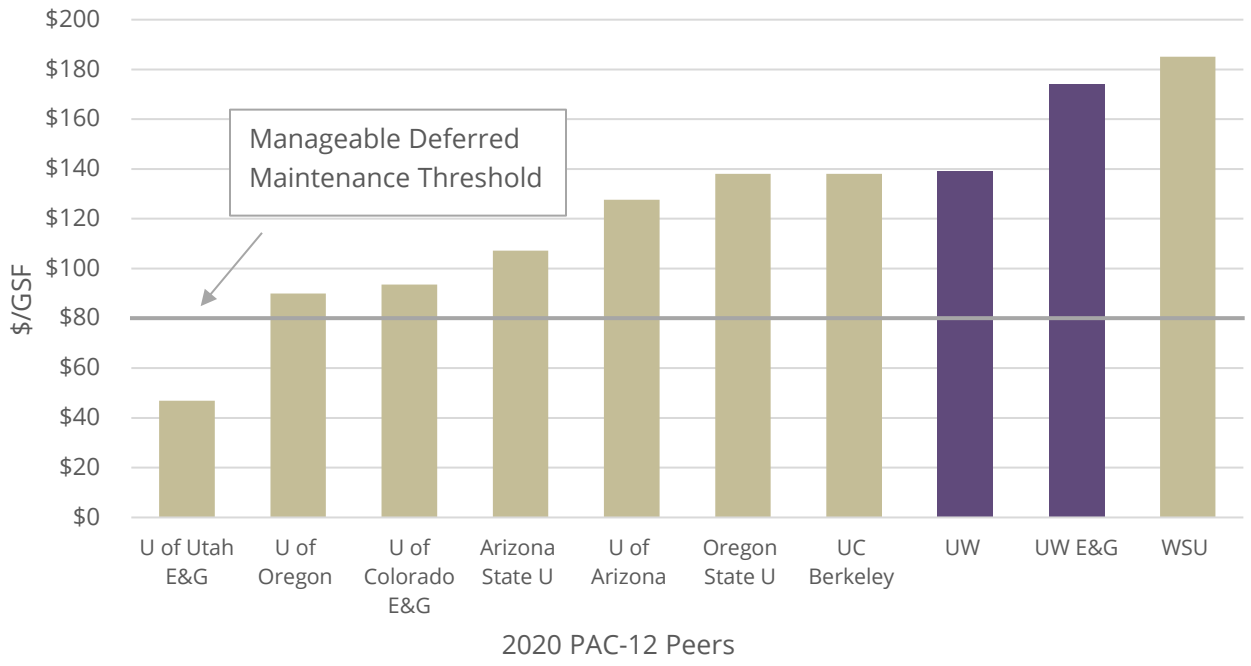
While the University has made key investments, we realize that it takes time, resources, and persistence to make meaningful change, and we still have a lot of work to do. We will continue to address gaps as opportunities present themselves, and proactively look for opportunities to advance initiatives that improve access, inclusion, and equity across the University.

Equity and anti-racism work continued to be a focus in state legislative sessions, and the University looks forward to complying with and expanding upon relevant legislation passed in Olympia on this topic. Major subject areas have included the expansion of diversity, equity, and inclusion curricula at institutions of higher education and medical schools, and reforms to undo bias in health care and law enforcement systems. Throughout recent legislative sessions, experts from around the UW have served as trusted sources for information by leadership in Olympia.

Challenge 3: Building on Investments in Deferred Maintenance and Aging Facilities

Many of our facilities have building systems, such as mechanical, electrical, and plumbing systems, building envelopes, and elevators, that have passed key age thresholds and need to be renewed/renovated. Like many higher education institutions across the nation, the University of Washington is finding its day-to-day operations hampered by a lack of capital investment in its physical infrastructure. While some level of deferred maintenance is manageable ($80 per gross square foot (GSF) is considered acceptable) the UW's backlog is significantly higher (see Figure 3 below). With such a substantial backlog, there is increasing risk of catastrophic failures to building systems and campus infrastructure, including loss of power to critical hospital and research enterprise operations. UW Facilities maintenance operations remain in a perpetual reactive mode, responding daily to more costly corrective maintenance activities, at the expense of efforts on planned maintenance activities which would extend the life and reduce the life cycle costs of building systems. Without additional investment, this backlog will grow as deferred maintenance is continually added to the backlog. The widening gap between our deferred maintenance backlog and a deferred maintenance level that is manageable has the potential to severely impact the University's ability to deliver on its mission.

Figure 3: Peer Comparison – Asset Reinvestment Need



Source: Sightline Institute. Note: not all institutions delineate between "E&G" (Education & General) use buildings and "All," which includes Housing and Athletics in addition to E&G buildings. In addition, the data presented for the UW does not include the University's medical enterprise.

The size of the deferred maintenance backlog exposes the University to risk of failure across many building systems and results in inefficient use of resources. Most critical among these risks is in our utility infrastructure. Most of the Seattle campus and the UW Medical Center are heated from an outdated gas-fired boiler plant that delivers steam to buildings across campus. During the winter of 2020-21, two of the five boilers failed simultaneously during cold weather; this was a major reliability risk and near-crisis for the campus and the medical center. To prevent similar occurrences, the UW has redirected $27 million in capital funds to renew critical components of the power plant, allowing us to focus on a much larger multi-phase recapitalization of the entire system.

The UW has estimated that over $5 million of recurring yearly utility costs could be avoided with an infusion of $25-30 million to address specific outdated systems. Most of this work is small "system by system" replacements, but, when done in a coordinated way, could create savings in operating expenses and reduce our greenhouse gas emissions by as much as 30 percent.

Building systems in need of renewal are typically not very energy efficient. The intent is to renew systems with highly efficient, newer technology, while shifting from carbon-based fuels to clean energy, resulting in a reliable, resilient, and nearly carbon-free utility system.

Another infrastructure issue the UW faces is the need for seismic upgrades throughout its building stock. The Puget Sound area is one of significant, and only recently recognized, seismic risk – we live along a geologically-active plate boundary that harbors the potential for a magnitude 9 earthquake offshore, and smaller (magnitude 6-8) but potentially damaging earthquakes onshore. Consequently, the UW must accelerate addressing its seismic upgrade plans in a comprehensive and thoughtful way. Several years ago,

the UW initiated a multi-year program focused specifically on its greatest seismic risk: unreinforced masonry. These targeted improvements are the first phase. The UW will then need to turn to the next highest risk: non-ductile concrete framed buildings (buildings with unreinforced concrete). This work will require intensive and invasive renovations of our buildings and a significant investment over the next decade. While this work is driven by the City of Seattle's expected enactment of seismic upgrade requirements for all unreinforced masonry buildings, the University is pre-emptively addressing that expected requirement on a more gradual schedule. Finally, a newly formed University Risk Committee is reviewing options to transfer risk through insurance over the coming year.

To address these issues, the University has developed a long-term capital strategy that relies on a five-pronged approach:

1. **Increase annual capital spending on renewal**: Over the past decade, the UW's capital resources have been directed toward new buildings or complete renovations. We must now attend to the need for annual investment in renewal to prevent the growth of our deferred maintenance backlog. Part of our current strategy has been to revisit the University's capital planning policies and approval process with a goal of a more comprehensive review of proposals and priorities and greater stakeholder involvement in the process. We aim to reinvest in existing facilities at roughly the same rate as they are deteriorating, curtailing the growth of the backlog.
2. **Continue to limit state supported space growth and improve space utilization**: The FY23 Five-Year Capital Budget will continue to help stem the tide against our previous higher growth figures. Our "new" Education & General gross square footage moving average has now fallen below the 0.5 percent target for the foreseeable future.
3. **Fully fund annual maintenance and operations (M&O) and renewal needs for new buildings**: When new buildings are added to the campus, M&O costs increase, yet full funding for these costs is seldom provided by the state. This quickly results in increased deferred maintenance as resources are diverted. Capital funding guidelines now require that full funding for annual M&O and renewal be committed *before* beginning any new building project.
4. **Increase preventive maintenance**: Effective preventive maintenance can extend the useful life of building components, thus slowing the need to replace those components, such as air handling units, pumps, and fans. Increasing preventative maintenance will slow the growth of the deferred maintenance backlog and reduce unplanned outages.
5. **Develop a Campus Utility Master Plan:** This must be done to address immediate and long-term needs that will prioritize and coordinate capital renewal, seismic remediation, and a transition from carbon-based fuels to clean energy to meet state and University environmental targets and goals.

Through sustained adherence to these strategies, the University will be able to reduce its deferred maintenance backlog to a manageable level in the next 20-30 years. This will improve the quality of the campus, reduce the risk of catastrophic failures, extend the life of the buildings, enhance health and safety, contribute to meeting sustainability goals, and increase the academic quality through the modernization of deteriorating facilities.

Challenge 4: Enrollment Capacity Planning

Student enrollment growth is constrained by space and funding issues, particularly where there is misalignment of capacity and student demand. After years of steady enrollments in Seattle and growth at the Bothell and Tacoma campuses, trends have begun to shift. Average enrollments in the past three years

have leveled off and even declined at UW Bothell and UW Tacoma. Some of this can be attributed to the impact of COVID-19 and the state-wide decline in transfer enrollments from the state's community and technical college system. Both Bothell and Tacoma campuses have been developing strategies to address the shifts while continuing to address capacity constraints in specific areas.

UW Seattle has continued to experience steady demand and enrollment growth even throughout the pandemic. As student demand in Science, Technology, Engineering, and Mathematics (STEM) fields continues to dominate, particularly in computer science, UW Seattle's strategies for sustaining steady enrollments shifts to better alignment of capacity, demand, and resource allocation. Changes in the composition of the student body accompany these shifts, which makes it incumbent on the University to ensure that student support services adjust accordingly. More efficient class scheduling, or changes in course delivery, may add some capacity at Seattle, but any overall growth will be limited.

UW Bothell, UW Tacoma, and UW Seattle schools and colleges are reporting high and increasing demand for STEM majors, particularly in Math (College of Arts and Sciences), Engineering (Engineering, Environment, Bothell, Tacoma), Computer and Information Sciences (Computer Science, Information School, Bothell, and Tacoma), and health-related fields (Nursing, Public Health). Additionally, there is increasing student demand for Psychology on the Seattle campus.

- This high demand is, for many units, exacerbated by capacity limits on enrollment.
- Units report insufficient resources to meet demand and a need for additional funding, particularly to hire faculty and staff positions to support these programs.

Absent additional funding, many colleges report an interest in growing their interdisciplinary course and major offerings. This strategy has been highlighted by both colleges experiencing stagnant or declining enrollments as well as colleges with growing programs and capacity constraints. Interdisciplinary programs are identified as offering an important avenue for attracting students with majors outside their own college as well as to pool resources across units to develop cost-effective and collaborative programs.

Challenge 5: Persistent Core Funding Constraints

The University's General Operating Fund (GOF), which is comprised of state appropriations and tuition revenue, provides most of the support for core educational activity at the University. As such, it is essential to the University's primary functions. Unfortunately, it is also highly dependent on the state economy, decisions made by the state legislature, and other outside forces. In addition, while state funding comprises a large portion of GOF, the state does not provide significant support for many of the University's activities (e.g., salary increases and other costs related to research, medicine, self-sustaining activity, etc.). In short, there is a sizeable gap between available revenue (state, tuition, patient revenue, research grants, self-sustaining revenue, etc.) and what is needed to keep up with current inflation rates, competitive salaries, and other costs of doing business as a top public research institution. In the following sections, we summarize some of the primary constraints and considerations.

Resource Constraint - State Funding

Like many other state institutions, the UW endured significant state funding cuts in the past decade. Due primarily to state funding cuts during the "Great Recession," the majority of core education funding formerly provided by the state is now provided 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 likely continue to be constrained unless there are major changes to the structure of state funding.

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.
- With updates to FY23 state appropriations and enrollment projections, projected funding per FTE for FY23 is $24,868, 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.**

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" section below), additional state investments to backfill foregone resident undergraduate tuition revenue, and funding in the 2019-21 and 2021-23 biennia 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, the **tuition and state funding per FTE student are 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 FY21 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 seven of our 27 other U.S. News peer institutions**.[2]

While lawmakers were able to provide some new funding for higher education in recent biennia, 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 2022 supplemental state budget approved recently by state lawmakers continues this trend. See the "State Appropriations" section on page 34 for more information.

Lawmakers continue to maintain resident undergraduate tuition policy (described next) 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.

Resource Constraint - Resident Undergraduate Tuition (RUG)

As mentioned previously, 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 or to keep up with King County Metro inflationary pressures. This is particularly true for resident undergraduate (RUG) tuition rates, which the state controls.

As with direct state appropriations to the University, state decisions regarding RUG tuition rates can be unpredictable. For the two biennia prior to the Great 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 foregone 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 as reported by the Bureau of Labor Statistics (BLS), which has resulted in increases of 2.2 percent to 2.8 percent each year. The policy continues to require annual, inflationary adjustments to the previously provided backfill funds.
- The state has maintained the tuition policy of 2ESSB 5954 since its inception.
- Likely due to a methodology change in the way that BLS calculates the median hourly wage, the number calculated for the 2021 year was lower than the 2020 estimate, and significantly impacted the 14-year rolling average. This has resulted in the allowable increase to RUG tuition to dropping from 2.8 percent in 2021-22 to 2.4 percent in 2022-23. We will continue to work with the state to analyze the impact of this change and options for revising the formula in future years.
- Unfortunately, these RUG tuition freezes, backfill adjustments, and modest allowable increases 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 2021-22 academic year, the UW in Seattle's RUG tuition and fee rate of $12,076 is $1,401 *below* the peer average and is the 11th lowest of our 28 peers.

Resource Constraint - Other Tuition Categories

In addition, although tuition rates for nonresident 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. When setting tuition rates for nonresident undergraduates and the many graduate and professional program categories, the University must carefully consider peer comparisons and, especially for graduate students, competitive recruitment and funding for teaching assistant (TA) and research assistant (RA) positions.

The UW's nonresident undergraduate tuition rate increased by 2.0 and 2.5 percent in the last two academic years, compared to the peer mean of 1.2 percent and 1.1 percent in the 2020-21 and 2021-22 academic years, respectively. It is important to note, however, that student fees vary by institution. The UW is currently above the peer mean for nonresident undergraduate tuition rates. For the 2021-22 academic year, the UW in Seattle's non-resident tuition and fee rate of $39,906 is $2,592 above the peer average. This also presents

a challenge because, like many peer institutions, the UW is experiencing a decline in international student enrollments and increasing competition for domestic non-resident students.

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 FY23 and prior years can be found on the Annual Budgets tab of the OPB website, and FY23 tuition recommendations are summarized on page 37 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 research funding, it is especially critical for the UW to be mindful of these issues.

Pressure on Expenditures - Inflation & Global Economic Forces

Inflation rose over the past year at its highest rate in four decades. According to the Bureau of Labor Statistics[3], the nationwide Consumer Price Index rose 8.5 percent from March 2021 to March 2022 before seasonal adjustment (the largest 12-month increase since the period ending December 1981). In that year (March 2021 to March 2022), food prices increased 8.8 percent, energy prices rose 32.0 percent, and prices for all other items rose 6.5 percent. Unprecedented in recent times, this high of an inflation rate is a challenge for the University in multiple ways:

- **Wide gap between inflation rate and tuition rate increases:** Given the constraints outlined above regarding how much the University is able to raise tuition each year, tuition increases are often below inflation even in normal economic times. During times of unusually high inflation, that gap widens significantly, meaning that the full cost per student for the University grows much more than the tuition we can generate to cover costs to support that student. For example, while inflation nears 8 percent, tuition rates for resident undergraduates will rise only 2.4 percent for this upcoming academic year.
- **High inflation increases the cost of doing business:** Inflation impacts all aspects of running a university: keeping classrooms warm and office lights on, purchasing lab equipment and library books, paying student workers (whose wages are tied to inflation in Seattle), and so much more. In addition to operating expenses, inflation also impacts our capital projects through escalating construction costs (both labor and material), which has been making the final cost of a new building or a building renovation cost significantly more than it was funded or planned to cost. Since the institution is not a private business, it cannot simply raise revenue in lock step with rising costs of doing business and has few levers under its control.
- **State authorized salary increases land well below inflation, putting pressure on our workers:** Our faculty and staff are the driving force behind our institution's ability to provide a world-class education and learning environment. Our area's high cost of living already puts pressure on the

University's ability to offer compensation that allows faculty and staff to live and thrive in the area. Salaries that stagnate and rise well below inflation mean that our faculty and staff lose purchasing power, and our job offers have a harder and harder time competing against the private sector.

Pressure on Expenditures - Compensation

In recent years, our top priority was to secure more state funding for compensation to align with the other public state colleges and universities. 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. This is especially difficult given that salaries and wages represent the largest expense of the University's core operating funds. As this document has described, the UW's ability to generate new, incremental tuition revenue is highly constrained, making this funding model unsustainable. Fortunately, the recent state budgets have improved upon this ratio.

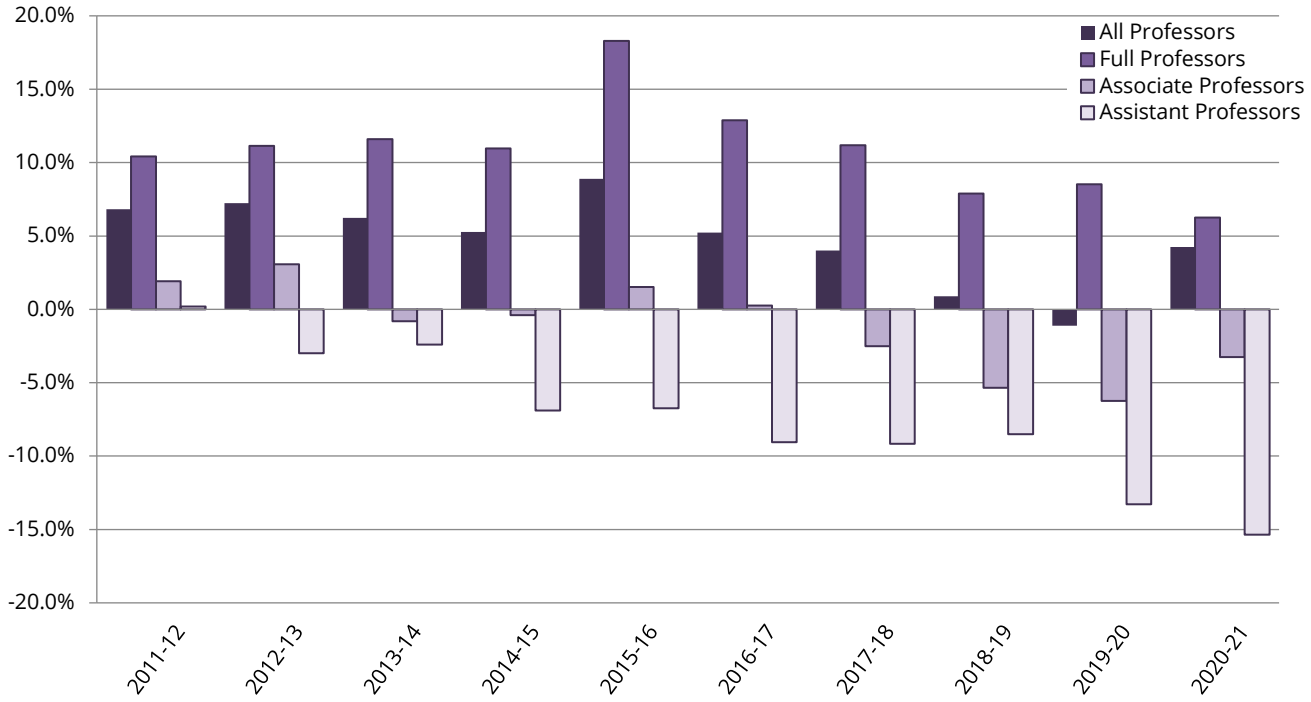
While the state's 2019-21 biennial operating budget provided "foundational support" to increase the share of state funding for new GOF compensation and central service changes, state revenues were severely impacted by the COVID-19 pandemic and some of that funding in FY21 was returned to the state by request of the Governor. However, in the 2021-23 biennial operating budget, the state permitted the increases originally intended for FY21 to be instituted in FY22. The recently approved 2022 supplemental budget authorized a 3.25 percent salary increase for non-represented faculty and staff in FY23, for which 58 percent of the total incremental cost is funded by the state and the remaining 42 percent would be covered by assumed tuition revenue. This year's ratio thus improves the compensation portion of the University's fund split, but **the UW still lags behind the funding split provided to every other state institution of higher education.** See "State Appropriations" section on page 34 for more information about outcomes of the 2022 legislative session.

In addition, state assumptions regarding employee benefits rates and monthly health care employer contribution caps continue to put pressure on the University. The 2022 supplemental budget updates FY23 monthly employer contribution caps from $1,091 in the underlying biennial budget (which was already an increase over $926 in FY22) to $1,130. In real terms, these benefits changes have caused a significant increase in the University's benefit load rates (BLR), the cost of which will be equivalent to providing an approximately 2 percent salary increase for all employees. **These benefit assumptions represent significant costs across all UW activities, which is problematic given how large of an employer the University is and how limited the University is in increasing revenue due to the tuition increase constraints discussed above.**

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.**

Faculty salaries have long been a topic of analysis. Figure 4, below, provides Seattle tenured/tenure-track salary average compared to the US News peer average over the past ten years.

Figure 4: UW Seattle Faculty Salary Average Gap to US News Top Public Research University Peer Average



In the past ten years, the University's gap to peer salaries for assistant, associate, and full professor faculty has been reduced. According to data from the American Association of University Professors (AAUP), in 2011-12, the University's average tenure/tenure-track salaries were 6.8 percent behind the comparison group. These comparisons, however, differ significantly by rank. At that time, assistant, associate, and full professors were behind the comparison group by 0.2 percent, 1.9 percent, and 10.4 percent, respectively. As of 2020-21, the University's average salaries are 4.2 percent below the comparison group, with assistant and associate professors ahead of the comparison group (by 15.3 percent and 3.2 percent, respectively), but full professors remaining behind the comparison group by 6.3 percent. As our junior faculty move into the full professor ranks, this balance will become unsustainable unless our GOF revenue trends improve.

While retention of our top faculty has been a long-standing problem, we are now experiencing heightened difficulties in retaining our top staff in a wide range of areas. Bidding wars are now part of the landscape and the cost of losing top staff members in key areas, and who are familiar with our state and UW specific systems and practices is extremely high. This also places an additional burden on existing staff, who experience added stress and burnout covering for these losses. When we lack the capacity to retain our top faculty and staff, it has unexpected impacts across units and on our community as a whole.

The FY23 salary plan is covered in the "Compensation" section on page 32.

Budget Trends Over the Last Three Biennia

As shown in Figure 5 below, benefit expenditures have continued to climb over the past six years, with salary leveling off through the pandemic and marginal increases 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.

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 operating fee 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).

The tables below show FY23 core operating budget reflecting the current state legislative budget for the 2021-23 biennium (affecting FY22 and FY23), including changes in the recent 2022 supplemental budget. Table 2, below, shows the FY23 core operating budget, as estimates currently stand, compared to the University's adopted budget for FY22.

Table 2: FY23 Projected Sources and Uses of Core Operating Funds as of May 27, 2022[1]

	FY22 Adopted	Incremental Change	FY23 Adopted
Total Core Funds	**1,579,957,000**	**94,652,000**	**1,674,609,000**
General Operating Fund:	**1,167,336,000**	**70,707,000**	**1,238,043,000**
State Appropriations	437,371,000	32,481,000	469,852,000
Tuition Operating Fee Revenue[2]	729,965,000	38,226,000	768,191,000
Designated Operating Fund:	**412,621,000**	**23,945,000**	**436,566,000**
Indirect Cost Recovery	289,221,000	17,304,000	306,525,000
Institutional Overhead	25,305,000	6,801,000	32,106,000
Administrative Overhead	10,290,000	(148,000)	10,142,000
Summer Quarter Tuition	63,519,000	360,000	63,879,000
Investment Income	12,900,000	(150,000)	12,750,000
Provost ILP Risk Fund	2,100,000	0	2,100,000
Miscellaneous Fees	9,286,000	(223,000)	9,063,000
Uses of Funds:	**1,579,957,000**	**94,652,000**	**1,674,609,000**
FY22 Base	**1,579,957,000**		
State Adjustments to Prior Fiscal Year		(3,305,000)	
Incremental Uses and Adjustments			
Tuition Distributions to Units		25,755,000	
State Support for Compensation		18,678,000	
Provost Reinvestment Pool		14,059,000	
Legislative Directives		14,025,000	
Indirect Cost Recovery Distribution to Units		8,207,000	
Targeted Investments:		17,232,000	
Compliance & Risk Mitigation		*6,836,000*	
Utilities & Plant Operations		*5,836,000*	
Student Experience & Academic Support		*1,746,000*	
Safety & Emergency Management		*1,248,000*	
CoMotion Ongoing Support		*1,000,000*	
Central Operations		*565,000*	

1 Due to rounding, there may be discrepancies reflected above

2 Prior to FY23, the Tuition Operating Fee Revenue budgeted value was displayed net of the effect of a 1.5% "tuition risk pool" hold back incorporated into the University's Activity Based Budgeting model. For FY23 going forward, the Tuition Operating Fee Revenue budgeted value will be presented prior to the effect of the 1.5% "tuition risk pool". Table 3, below, provides a basis conversion for the FY22 Adopted Tuition Operation Fee Revenue value from net of the 1.5% "tuition risk pool" to a gross value, before application of the "tuition risk pool" holdback. The purpose of this administrative display change is to provide the public a more transparent understanding of the University's anticipated Tuition Operating Fee Revenue.
This administrative display change has no impact on the University's distributions of Tuition Operating Fee Revenue under Activity Based Budgeting. For further information, please contact the Office of Planning and Budgeting.

Table 3: FY23 Administrative Display Change - Tuition Operating Fee Revenue

	FY22 Adopted	FY22 Adopted Tuition Risk Pool	FY22 Adopted, *Inclusive of Risk Pool*	Incremental Change	FY23 Adopted, *Inclusive of Risk Pool*
Tuition Operating Fee Revenue	729,965,000	11,116,000	741,081,000	27,110,000	768,191,000

Table 4, below, offers a different view of incremental resources projected to be available to the University in FY23, comparing FY21 actuals, FY22 forecasts, and FY23 adopted budgeted values. This view is intended to provide a more nuanced approach to truly expected incremental resources as opposed to Table 2, which reflects budget increments over the FY22 budget.

Table 4: FY23 Projected Sources of Core Operating Funds as of May 27, 2022

	FY21 Actual	Increment	FY22 Forecast	Increment	FY23 Adopted
Total:	**1,578,496,000**	**36,033,000**	**1,614,530,000**	**60,080,000**	**1,674,609,000**
General Operating Fund:	**1,146,104,000**	**38,105,000**	**1,184,209,000**	**53,834,000**	**1,238,043,000**
State Appropriations	421,204,000	13,723,000	434,927,000	34,925,000	469,852,000
Tuition Operating Fee Revenue	724,900,000	24,382,000	749,282,000	18,909,000	768,191,000
Designated Operating Fund:	**432,392,000**	**(2,072,000)**	**430,320,000**	**6,246,000**	**436,566,000**
Indirect Cost Recovery	287,742,000	15,749,000	303,490,000	3,035,000	306,525,000
Institutional Overhead	29,798,000	1,664,000	31,462,000	644,000	32,106,000
Administrative Overhead	9,797,000	418,000	10,216,000	(73,000)	10,142,000
Summer Quarter Tuition	76,375,000	(12,856,000)	63,519,000	360,000	63,879,000
Investment Income	17,446,000	(6,976,000)	10,470,000	2,280,000	12,750,000
Provost ILP Risk Fund	2,100,000	0	2,100,000	0	2,100,000
Miscellaneous Fees	9,134,000	(70,000)	9,063,000	0	9,063,000

[1] *Due to rounding, there may be discrepancies reflected above.*

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 Activity Based Budgeting (ABB) Distribution" section on page 71. That order of operation is generally as follows:

- First, many 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 34.
- 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 72 and the "Designated Operating Fund (DOF) Budget" section on page 41.

- 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 37 for more information.

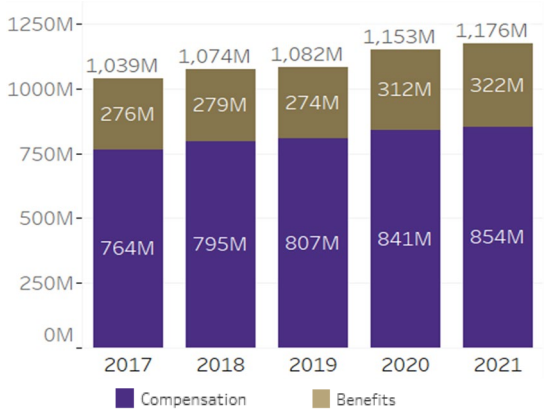
- It is important to emphasize that our ABB method formulaically corrects for over/under budget to actuals for the majority of our core operating budget. Thus, reductions in funding will follow formulae, and additional adjustments will be needed to correct for changes in state appropriations.

COMPENSATION

Compensating the UW's dedicated faculty and staff is a priority of the administration, and this priority follows from a consultative process with the Board of Deans and Chancellors (BODC) and the Faculty Senate Committee on Planning & Budgeting (SCPB).

Leading up to formulating the FY23 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 Based on the state legislature's assumption that general wage increases for UW employees would be 3.25 percent in FY23, and after the consultations that occurred in April and May, this budget authorizes a 3.25 percent merit pool for certain non-represented employees (faculty, professional staff, academic staff, and classified non-union employees) in FY23. It is important to note, while the state supplemental budget has authorized a 3.25 percent merit for non-represented employees, only a fraction of total UW employees are paid with state funds.

Figure 6: Compensation & Benefit Expenditures on Core Funds



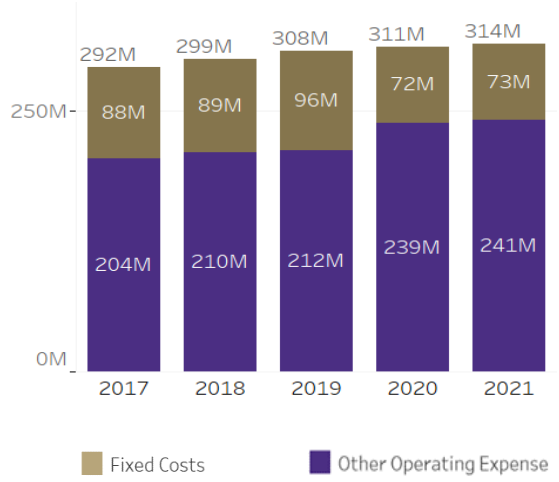
Over the trailing five-year period (FY17 to FY21), compensation on core funds grew at a 2.85 percent compound annual growth rate (CAGR), from $764 million to $8454 million and benefit expenditures on core funds grew at a 3.96 percent CAGR, from $276 million to $322 million.

General Operating Expenditures

To support the general operations of the University, units use core funding for a variety of purposes. This includes:

- Procuring materials and supplies;
- Contracting for services, facility, and equipment rentals;
- Business travel expenses; and
- General costs related to the execution of the UW's mission.

Figure 7: General Operating Expenditures on Core Funds



Over the trailing five-year period (FY17 to FY21), non-compensation expenditures on core funds grew at a 1.82 percent CAGR, from $292 million to $314 million.

In addition, the University utilizes core funding to support "fixed costs," which refer to costs incurred by the University that are necessary or unavoidable but are not 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 back-up childcare and eldercare support, student and employee disability accommodations, University risk financing, Office of Financial Management (OFM) and other central service charges from the state, and many others. 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.

In FY20, the University reclassified certain categories of expenditures from the "fixed cost" grouping (reflected in gold in Figure 7) to non-fixed costs (reflected in purple in Figure 7), hence the apparent decline in fixed cost expenditures and growth in non-fixed cost expenditures. As noted previously, the majority of budget authority distributed out to Seattle units under ABB has been used to cover compensation related costs, requiring units to reduce other expenditures against their core funds incrementally over time, as a percentage of total core operating budget utilization.

PLANNED CORE OPERATING FUND INVESTMENTS

Contemplated in the FY23 core academic operating budget are permanent allocations to UW administrative and academic units to carry out activities ranging from legislatively mandated projects, to activities that broadly support the tri-campus community, and to compensation funding for our employees.

Compared to FY22, the core academic operating budget *base* for FY23, prior to consideration of new incremental resources, is expected to be reduced by approximately $3.3 million as a result of certain legislative actions.

After contemplating this adjustment to the budget base for FY23, roughly $14 million of the new funding is associated with legislatively mandated activities and are included in the FY23 budget as state provisos, with the balance of state funding supporting compensation and general operations of the University. The next largest distribution of core academic operating funds is the allocation of budget authority to University units on an Activity Based Budgeting basis, as described on page 71 (approximately $34 million to academic units, UW Bothell and UW Tacoma, with the balance, approximately $14 million, available for distribution in the Provost Reinvestment Pool). Other permanent distributions, such as investments in the student experience and academic support, include funding for the Disability Resource Center, expansion of instructional support services associated with the Health Sciences Education Building, funding for the Parent and Family Program and additional resources for the New Faculty program.

Further uses include permanent investments necessary to sustain key University operations, including:

- $6.8 million to support ongoing compliance and risk mitigation activities, including expanding administrative capacity to support required research and human resource compliance activities activity;
- $5.8 million to support the anticipated impacts of new state supported capital facilities coming online, utility rate inflationary pressures and utilization increases; and
- $565,000 to support anticipated increases to centrally managed costs, such as banking and management fees charged by external vendors.

SOURCES OF CORE OPERATING FUNDS

The University's core operating funds are derived from state appropriations, net tuition operating fee revenue, cost recovery from grants and contracts, overhead from self-sustaining activities, summer quarter tuition, and other local resources. These revenues are combined into two major budget categories: the GOF and the DOF. More information can be found in other sections in this document relating to each of these revenue sources.

GENERAL OPERATING FUND (GOF) – AS OF MAY 27, 2022

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 May 27, 2022

In the 2022 legislative session, state lawmakers approved a 2022 supplemental operating budget, which amended the underlying 2021-23 biennial budget. Changes in the supplemental budget largely affect the second year of the biennium, or FY23. The Governor approved the budget after vetoing one provision that affected the University. Details regarding legislative outcomes can be found on the OPB Briefs webpage.

In stark contrast to the end of the 2020 legislative session, this year's budget discussions followed several promising state revenue forecasts, which indicated that state revenue collections more than returned to pre-pandemic levels. Total Near GF-S funding over the biennium in the final 2022 supplemental operating budget is $904.8 million. This reflects an increase of $20.8 million over the 2021-23 biennial budget.

Increases in the operating budget are highly restricted and are largely attributed to funding for compensation in FY23.

Below is an overview of the major state decisions in the 2022 supplemental budget that influenced the UW's FY23 operating budget. State decisions in the underlying state biennial budget are outlined in the University's FY22 budget as well as OPB briefs from 2021.

UW budget requests:

- **Compensation and Benefits**
    - Salary increases for faculty and staff were the University's highest priority requests for the 2022 supplemental budget.
    - For represented staff, the supplemental operating budget approved amendments to the 2021-23 collective bargaining agreements (CBAs) submitted by the University for the supplemental session. These updated agreements included a 3 percent increase, one-time payments, and other provisions for represented staff in those unions that reached agreements (SEIU 925, WFSE, and SEIU 1199 Research/Hall Health).
    - For non-represented faculty and staff, the supplemental operating budget authorized a 3.25 percent salary increase in FY23 in alignment with most other state employees.
    - The state provided a separate allocation to increase the state "funding split" so that 58 percent of the total cost is funded by the state, and the remaining 42 percent is assumed to be covered by incremental tuition revenue. This funding split is an improvement over the current funding split and fulfills the University's request that at least half of the cost be covered by the state.
    - It is important to note that the state only funds compensation increases for a small portion of UW employees. The funding that is provided only covers a portion of what is needed to cover the cost of increases for faculty and professional staff paid by state funding and tuition revenue (our General Operating Fund). Salary increases for all other employees need to be covered by other sources of revenue.
    - The supplemental operating budget updated monthly employer contribution caps to $936 in FY22 and $1,130 in FY23 (compared to $936 and $1,091 in the biennial budget, so a $39 increase in FY23). Monthly health benefit increases represent significant cost escalation across all UW activities.
- **Maintenance & Operations for Milgard Hall at UW Tacoma**: The supplemental budget provided $621,000 in FY23 to fully fund the University's requests in the first year. Funding is expected to ramp up into FY24 and will be ongoing.
- **Computer Science & Engineering Expansion**: An additional $2 million in FY23 from the Workforce Education Investment Account was provided and enables the University to expand computer science and engineering enrollments by the degree targets assumed in the biennial budget.
- **Pharmacy Behavioral Health Residencies**: This request was fully funded at $505,000 in FY23 and was a joint effort between the UW School of Pharmacy and Washington State University College of Pharmacy to create new residency positions to address mental and behavioral health across Washington state. The amount that the UW received will support two residency training positions and 1.0 FTE behavioral health faculty.
- **Institute for Health Metrics and Evaluation (IHME)**: The University requested funding for an intensive study of community health metrics, disparities, and drivers in rural and Eastern

Washington through IHME. However, this request was **not funded** in the final compromise, despite being included in proposals from the Governor and Senate leadership.

Other Major Provisos:

- **HMC Fund Transfer from HCA**: The supplemental budget pulls back $4 million per year that was transferred from the Health Care Authority (HCA) to Harborview Medical Center (HMC) in the underlying 2021-23 biennial budget (affecting both FY22 and FY23).
- **Clean Energy Institute**: The supplemental budget provided $3.25 million in FY23 for the UW Clean Energy Institute (CEI) to build a community resource for creating, testing, and validating technologies, while developing the resources and partnerships needed to accelerate a scalable clean energy future.
- **Nursing Education**: $1.2 million was provided in FY23 for additional nursing slots and graduates in the existing accelerated BSN program at the Seattle campus. Of the amount provided, $273,000 in FY23 is intended for the School of Nursing and Healthcare Leadership at the Tacoma campus. This funding is expected to ramp up into the upcoming biennium.
- In addition to these major items, the supplemental operating budget adds **more than 20 new proviso allocations** to units across the University including research projects and other public service efforts.

More information regarding state budgets, including a comprehensive summary of decisions and provisos in the 2022 supplemental operating and capital budgets, can be found in relevant documents on the OPB Briefs webpage.

Tuition Revenue & Recommendations – As of May 27, 2022

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 as reported by the Bureau of Labor Statistics (BLS). BLS recently changed their methodology for calculating wage data, which has resulted in a lower than expected median hourly wage for the most recent year of data, which reduced the allowable increase from 2.8 percent last year to 2.4 percent for the coming year. We will continue to work with BLS and the Governor's office to contemplate the long-term impact of this change. Regardless, in FY23, this policy will allow resident undergraduate tuition to increase by up to 2.4 percent. The Board of Regents has the authority to set tuition rates for nonresident undergraduate and all graduate and professional tuition categories.

The tuition rate recommendations in Table 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, impact on low-income students, 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 resident undergraduate students assumes that the building fee will increase by the same percentage as the operating fee in FY23—2.4 percent. Please note students must pay other mandatory fees in addition to the operating and building fee. Please see OPB's Cost of Attendance webpage for more detail. It should also be noted that Table 5 presents the annual rate charged to students who meet the full-time credit threshold set by the University in each program. These thresholds vary by category, but, generally speaking, undergraduate students pay full-time tuition when taking 10-18 credits, and most graduate students pay full-time tuition when taking 7-18 credits (though some specific programs have full-time threshold beginning at 13 and 14 credits). Importantly, these full-time credit thresholds are not the same as those set at the federal and state level for financial aid purposes. More information can be found on OPB's Current Tuition and Fees Dashboards.

Projected tuition revenue—net of building fee, required financial aid set-aside, and, of course, waivers—is shown in Tables 2 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 FY23

Unit	Tuition Category		FY22 (Current Annual Rate)	FY23	
				% Change	Adopted Tuition Rate
University-Wide	Undergraduate	Resident	$10,927	2.4%	$11,189
		Non-Res	$38,757	2.4%	$39,687
	Graduate Tier I	Resident	$16,605	2.4%	$17,004
		Non-Res	$29,763	2.4%	$30,477
	Graduate Tier II	Resident	$17,028	2.4%	$17,436
		Non-Res	$30,399	2.4%	$31,128
	Graduate Tier III	Resident	$19,026	2.4%	$19,482
		Non-Res	$33,915	2.4%	$34,728
Seattle Campus					
Built Environments, College of	Master of Construction Mgmt., Landscape Architecture, Urban Design & Planning	Resident	$16,797	1.0%	$16,965
		Non-Res	$29,910	1.0%	$30,210
	Master of Architecture and MSRE (Real Estate)	Resident	$17,763	1.0%	$17,940
		Non-Res	$37,404	1.0%	$37,779
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	$16,761	2.0%	$17,097
		Non-Res	$32,370	2.0%	$33,018
	Graduate Dental – Oral Medicine, Pediatric Dentistry, Periodontics, and Prosthodontics	Resident	$18,615	2.0%	$18,987
		Non-Res	$35,283	2.0%	$35,988
	Graduate Dental – Endodontics	Resident	$20,475	2.0%	$20,886
		Non-Res	$35,283	2.0%	$35,988
	Graduate Dental – Orthodontics	Resident	$26,073	2.0%	$26,595
		Non-Res	$35,283	2.0%	$35,988
Education, College of	Master of Education and Master in Teaching	Resident	$17,406	3.0%	$17,928
		Non-Res	$32,268	3.0%	$33,237
	Doctor of Education and Education PhD	Resident	$17,406	3.0%	$17,928
		Non-Res	$32,268	3.0%	$33,237

Engineering, College of	Master of Chemical Engineering	Resident	$23,751	3.0%	$24,465
		Non-Res	$37,449	3.0%	$38,571
	Master of Industrial and Systems Engineering	Resident	$23,751	3.0%	$24,465
		Non-Res	$37,449	3.0%	$38,571
	Master of Material Science and Engineering (Applied)	Resident	$23,751	3.0%	$24,465
		Non-Res	$37,449	3.0%	$38,571
	Master of Applied Bioengineering	Resident	$30,834	3.0%	$31,758
		Non-Res	$37,002	3.0%	$38,112
Environment, College of the	College of the Environment Graduate Programs	Resident	$17,028	2.4%	$17,436
		Non-Res	$30,399	2.4%	$31,128
	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)	Resident	$25,257	2.5%	$25,887
		Non-Res	$43,281	2.5%	$44,364
Foster School	Master of Business Administration – Incoming	Resident	$35,610	5.0%	$37,392
		Non-Res	$52,452	5.0%	$55,074
	Master of Business Administration – Continuing	Resident	$35,610	0.0%	$35,610
		Non-Res	$52,452	0.0%	$52,452
Graduate School	Graduate School Interdisciplinary Programs Tier I[1]	Resident	$16,605	2.4%	$17,004
		Non-Res	$29,763	2.4%	$30,477
	Graduate School Interdisciplinary Programs Tier III[1]	Resident	$19,026	2.4%	$19,482
		Non-Res	$33,915	2.4%	$34,728
Law, School of	Law (JD) 1L	Resident	$38,886	4.5%	$40,635
		Non-Res	$50,385	4.0%	$52,401
	Law (JD) 2L	Resident	$36,678	4.5%	$38,328
		Non-Res	$48,927	4.0%	$50,883
	Law (JD) 3L	Resident	$35,787	4.5%	$37,398
		Non-Res	$47,949	4.0%	$49,866
	Master of Laws (LLM)	Resident	$26,331	5.0%	$27,648
		Non-Res	$43,896	3.5%	$45,432
	Law PhD	Resident	$23,082	5.0%	$24,237
		Non-Res	$43,896	3.5%	$45,432
Medicine, School of	Medical Professional (MD)[2]	Resident	$39,033	0.0%	$39,033
		Non-Res	$69,696	0.0%	$69,696
Nursing, School of	Nursing Master and Doctor of Nursing Practice	Resident	$28,653	3.25%	$29,583
		Non-Res	$41,301	3.25%	$42,642

1 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.

2 Due to a federal financial aid compliance issue, the School of Medicine is adding credits to summer quarter for 1st and 2nd year Medicine students. While this does not change regular academic year tuition (reflected above), the addition of summer quarter tuition for 1st and 2nd year Medicine students will increase overall program costs for 2nd year students by 3.6% ($6,937 increase to a current four-year cost of $192,431) and will increase overall program costs for 1st year students and all future students by 10.3% ($19,817 increase). This will not impact current 3rd and 4th year students.

Pharmacy, School of	Doctor of Pharmacy	Resident	$33,186	3.0%	$34,182
		Non-Res	$55,431	1.8%	$56,430
	PharmD/MBA dual program with UW Bothell	Resident	$35,934	3.0%	$37,011
		Non-Res	$55,431	1.8%	$56,430
Public Health, School of	Master of Public Health	Resident	$22,464	3.0%	$23,139
		Non-Res	$39,105	3.0%	$40,278
	Public Health Graduate Programs – Other than MPH	Resident	$19,221	3.0%	$19,797
		Non-Res	$33,285	3.0%	$34,284
	Public Health Graduate Programs PhD Program	Resident	$19,221	3.0%	$19,797
		Non-Res	$33,285	3.0%	$34,284
Social Work, School of	Master of Social Work – Incoming	Resident	$20,751	3.5%	$21,477
		Non-Res	$35,649	3.5%	$36,897
	Master of Social Work – Continuing	Resident	$20,049	3.5%	$20,751
		Non-Res	$34,443	3.5%	$35,649
Bothell Campus					
UW Bothell	Nursing – Incoming	Resident	$16,794	2.5%	$17,214
		Non-Res	$29,976	2.5%	$30,726
	Nursing – Continuing	Resident	$16,383	2.5%	$16,794
		Non-Res	$29,244	2.5%	$29,976
	Master of Business Administration – Incoming	Resident	$24,450	2.0%	$24,939
		Non-Res	$30,657	2.0%	$31,269
	Master of Business Administration – Continuing	Resident	$24,450	0.0%	$24,450
		Non-Res	$30,657	0.0%	$30,657
Tacoma Campus					
UW Tacoma	Master of Business Administration – Incoming	Resident	$19,074	2.0%	$19,455
		Non-Res	$28,320	2.0%	$28,887
	Master of Business Administration – Continuing	Resident	$19,074	2.0%	$19,455
		Non-Res	$28,320	2.0%	$28,887
	Master of Business Analytics	Resident	$16,089	2.0%	$16,410
		Non-Res	$20,262	2.0%	$20,667

The University mitigates increases in tuition rates in a multitude of ways. Please see the "Ensuring Access and Completion" section on page 43 for information regarding financial aid available at the UW.

DESIGNATED OPERATING FUND (DOF) – AS OF MAY 27, 2022

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 71 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. Despite ongoing COVID-19 related uncertainty going into FY22, the UW's award trends have thus far remained strong and on track to again see year over year growth. As of May 2022, ICR is on track to exceed budget for FY22 by approximately $14.3 million (5 percent). In FY23 the UW is projected to experience a modest ICR increase over projected FY22 ICR due to current award and improving outlook for federal research funding.
- **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, pre-COVID-19 in aggregate, were roughly 3 percent of gross self-sustaining revenues. Due to the outsized impact of lab medicine activities during the pandemic, we anticipate institutional overhead to come in at approximately 2.5 percent of gross self-sustaining revenues, before returning to roughly 3 percent of gross self-sustaining revenues. Lab medicine clinical activities are largely exempt from institutional overhead under UW policy. Year to date FY22 data indicate that institutional overhead is on track to exceed the budget established for the current fiscal year, which is in line with the trends we are seeing within the larger self-sustaining revenue base vs budget as recovery has begun to take hold across many units.
- **Administrative Overhead:** Equivalent to institutional overhead but 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 approximately 10 percent of GOF for each campus and excludes 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 vast majority of summer quarter programming for the University. The approved budget dictates the incremental increase or decrease over prior year. Summer Quarter 2020 resulted in record revenue levels for the UW, as courses transitioned to online delivery and traditional summer activities generally engaged in by society were largely shuttered due to the pandemic. As we continue to trend towards a return to "normal" operations, we expect to see Summer Quarter activities return to pre-pandemic levels, with a marginal credit hour growth rate of roughly 3 percent over Summer Quarter 2019 levels, to reflect optimizations in course delivery methods learned over the last two years.
- **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 reflect an unfavorable variance of approximately $2.4 million from the adopted FY22 budget of $12.9 million. The underlying securities

in the invested funds programs are sensitive to interest rates, which have experienced increasing volatility in recent months, and the balance of funds in this pool, which has grown over the last year. FY23 revenues, net of distributions and fees are expended to decline slightly a budget-to-budget basis vs the FY22 adopted levels.

- **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. The FY23 value for this assumption of risk is expected to remain flat at $2.1 million and be fully allocated to Intercollegiate Athletics this year.
- **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 anticipate a marginal decrease on a budget-to-budget basis vs FY22.

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 actions by the Board of Regents, 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 - Foregone Revenue:** Waivers that represent foregone 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 nonresident 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 (COVID-19) Emergency Grants for Postsecondary Education (CARES (HEERF I), CRRSAA (HEERF II), and ARP (HEERF III) Grants) 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: 2021-22 Net Operating Fee Revenue and Tuition-Based Aid[1]

	Undergraduate			Graduate/Professional			Total
	Resident	Nonresident[2]	Total	Resident	Nonresident	Total	
Full-Time Equivalent (FTE)	27,308	10,093	37,401	5,782	6,602	12,384	49,785
Gross Operating Fee Revenue	301,241,000	380,411,000	681,652,000	110,246,000	193,883,000	304,129,000	985,781,000
State-Mandated Aid	11,321,000	14,887,000	26,208,000	3,689,000	3,954,000	7,643,000	33,851,000
UW Institutional Aid	33,201,000	18,166,000	51,367,000	4,082,000	4,237,000	8,319,000	59,686,000
Waivers - Foregone Revenue[3]	6,157,000	3,997,000	10,154,000	13,617,000	90,530,000	104,147,000	114,301,000
Faculty & Student Reinves. Pool[4]	4,707,000	2,543,000	7,250,000	1,250,000	1,250,000	2,500,000	9,750,000
Net Operating Fee Revenue	245,853,000	340,818,000	586,671,000	87,608,000	93,912,000	181,520,000	768,191,000
Total Aid *from* Group	50,679,000	37,050,000	87,729,000	21,388,000	98,721,000	120,109,000	207,838,000
Total Aid *to* Group	80,247,000	14,210,000	94,457,000	24,102,000	89,280,000	113,382,000	207,839,000
Aid *to* Group as % of Gross	27%	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 More than 85% of waivers are provided to graduate teaching and research assistants as function of their appointment.

4 Please refer to the Compensation section on page 32 for more information.

Revenue received through nonresident undergraduate tuition contributes greatly to the financial aid funding pool. While nonresident undergraduate tuition generates more than $37 million in financial aid funds, these students are awarded approximately $14.2 million.

Figure 8, below, shows changes in **FTE enrollment** by student level and residency over time, while Figure 9 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.
- This is primarily due to modest tuition rate increases and recent growth in the U.S. Non-Resident student population.

Figure 8: FTE Enrollment by Student Category

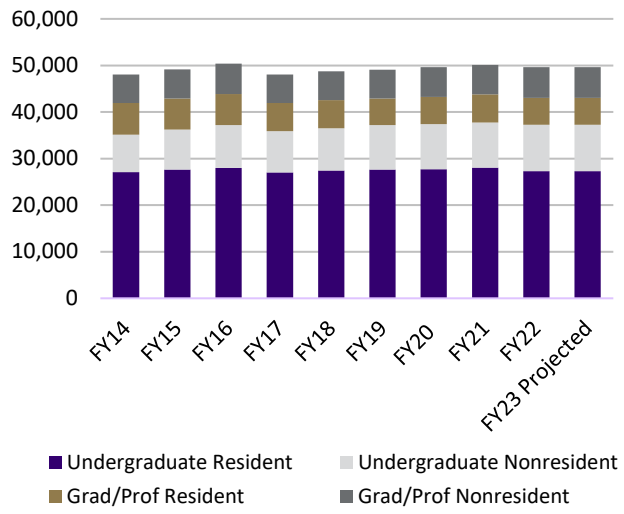
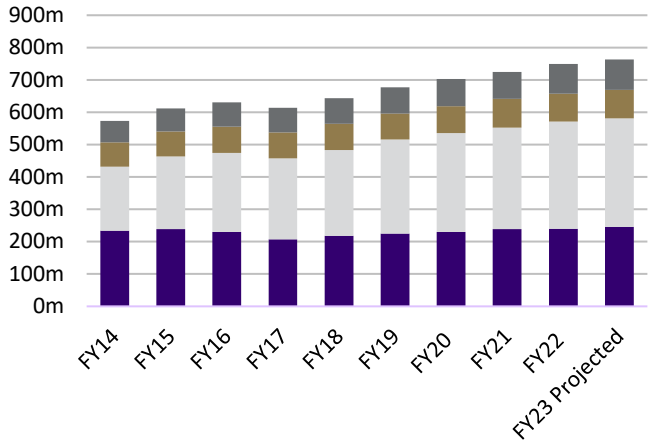


Figure 9: Net Revenue by Student Category



RESTRICTED FUNDS

Certain state appropriations can only be used for the strategic purposes specified by the Washington state legislature and are distributed accordingly. All 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 34. Emergency COVID funding amounts are not included in the table below since they were not direct appropriations from the state through their budget process.

"State restricted funds" are primarily composed of approximately $8 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 $1.6 million annually from the Economic Development Strategic Reserve account to support the Joint Center for Aerospace Technology Innovation (JCATI). The restricted fund budget also includes funding for the following purposes: shellfish biotoxin monitoring, from the Biotoxin Account; ocean acidification research, from the Aquatic Lands Enhancement Account; and research and education on the effects of cannabis use, from the Dedicated Cannabis Account (previously the Dedicated Marijuana Account). While the amount the UW receives from this account was increased in the 2022 supplemental budget as a result of E2SSB 5796, it continues to be significantly less than what the UW requested in order to fulfill the legislature's obligations under 2E2SHB 2136 (2015).

The enacted 2022 supplemental budget makes only minor changes to overall restricted fund amounts. Many budget items would receive slight adjustments to account for changes to employee compensation and benefits in FY22, and only funds from the Dedicated Cannabis Account were increased as a result of new legislation. Table 7 shows expected restricted fund allocations by fiscal year.

Table 7: State Restricted Funds (FY21-FY23)

State Account*	FY21	FY22	FY23
Biotoxin Acct (Shellfish Monitoring)	309,000	301,000	308,000
Aquatic Lands Enhancement Account	820,000	796,000	834,000
Geoduck Aquaculture Acct**	400,000	8,000	14,000
Economic Dev. Strategic Reserve Acct (Aerospace Ctr)	1,553,000	1,540,000	1,561,000
Dedicated Cannabis Account	272,000	263,000	325,000
Accident Account (DEOHS)	4,076,000	3,877,000	4,111,000
Medical Aid Account (DEOHS)	3,853,000	3,687,000	3,877,000
Total	**11,283,000**	**10,472,000**	**11,030,000**

*Note that all of these accounts, except Dedicated Cannabis Acct, provide biennial appropriations. Therefore, funds can be spent across the biennium.
**The state has budgeted but not appropriated funding from the Geoduck Aquaculture Account in FY22 and FY23. Expenditures from the account may only be used by the sea grant program for specified research projects.

UW MEDICINE

The clinically integrated parts of UW Medicine are the UW School of Medicine, the two campuses of UW Medical Center at Montlake and Northwest (UWMC), Fred Hutchinson Cancer Center (effective April 1, 2022), Harborview Medical Center (HMC), Valley Medical Center (VMC), UW Physicians (UWP), Airlift Northwest (ALNW), and UW Medicine Primary Care Clinics (UWMPC). The budget for UW Medicine also includes the UW Medicine Shared Services. 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 and economic trends, and operating challenges are considered carefully in developing the budget for UW Medicine.

UW Medicine's multiple years of focused work to increase revenues, reduce costs, and invest in key infrastructure while standardizing the way work is approached across the system has been extremely beneficial during our pandemic response. The COVID-19 pandemic and the resulting labor market wage and benefit pressure as well as other inflationary pressures have offset the significant financial improvement generated from initiatives successfully deployed over the last 4 years. In addition, the required system-wide focus on pandemic response has delayed our ability to launch some planned revenue generation and cost-saving initiatives or more fully develop existing such initiatives. Importantly, the planned deployment of UW Medicine's Clinical Strategic Refresh initiatives has been partly delayed due to the pandemic. The Clinical Strategic Refresh work which commenced in FY19 has continued to develop and evolve based on learnings during the pandemic. As we complete FY22, we are actively working on the deployment of the identified Clinical Strategic Refresh initiatives. The objective of the Clinical Strategic Refresh work was to develop a comprehensive road map for the next five years and beyond. The roadmap lays out plans related to which key service lines should be prioritized, how capacity can be maximized across the system, and what additional investments are required to build the foundation for future success.

UW Medicine was performing favorably to budget through December 2021 until two flooding incidents at UWMC Montlake and the major Omicron surge resulted in the postponement of non-urgent surgeries and procedures. In addition, the surge subsequently led to a governor-mandated postponement of non-urgent surgeries and procedures from January 17 to February 17, 2022. As soon as the mandate was lifted, all three medical centers began working to schedule and perform the surgeries and procedures that had previously been postponed. This resulted in a partial catchup in the month of March. Leadership is focused on continuing to mitigate the impact of the major Omicron surge through the remainder of the fiscal year.

Over the course of the last year, the labor market has become a major driver of financial performance. UW Medicine has been intensively focused on the recruitment and retention of our faculty and staff. However, reliance on contract labor for staff has grown significantly. During the pandemic, contract labor rates have more than doubled. All three medical centers are experiencing labor expenses significantly higher than budgeted levels. The most recent collective bargaining agreements provided for increases for our represented staff at rates that were not anticipated and in January, our nurses as well as some other represented staff received substantial retention bonuses that were not budgeted. All the work above has been done in an effort to recruit, retain, and support our most important assets, our employees.

Considerable work was devoted during FY21 and FY22 to planning for the launch of the Fred Hutchison Cancer Center (FHCC) on April 1, 2022. FHCC is UW Medicine's cancer program and is a clinically integrated

part of UW Medicine along with the seven other parts of UW Medicine. Active work is ongoing for preparation of the FHCC budget for FY23.

UW Medicine successfully went live with the Destination: One project at the end of FY21. FY22 was spent on stabilization and enhancements of the single Electronic Health Record (EHR) platform. This transformational initiative provides UW Medicine with a standardized and integrated technology platform that supports patient care delivery and executes revenue cycle functions. The enabling technology implemented through this program allows UW Medicine to remain on the cutting edge of healthcare, providing current and meaningful technology for safe and efficient patient care. Through the consolidation of technology and integration of workflows, staff will be able to spend less time working with different legacy technologies and disconnected workflows and focus more on patient care. This is the primary benefit of one unified EHR for hospital and ambulatory care, with integrated access and billing applications that also support more efficient business operations.

Consistent with the goals established for the year, UW Medicine focused on delivering world-class clinical care, research, education, and training while continuing to respond to the demands of the pandemic, implementing its strategic plan where possible and achieving the UW Medicine Patients Are First pillar goals.

COVID-19 Pandemic and Impacts by Entity

The first case of COVID-19 in the United States was identified in Washington in January 2020, 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. UW Medicine built needed clinical and epidemiological testing capacity in the region; modeled surge volumes and supply constraints nationally; provided publicly accessible clinical protocols, including vaccination efforts, procedures, and guidelines; and continues to provide outreach to first responders, healthcare workers, nursing home patients and staff, communities of color, homeless populations, and other vulnerable populations with unique needs.

It is difficult to know the future of COVID-19 and how it may impact financial performance in FY23. As we move into the next fiscal year, our focus is on recovery and advancing our strategic plan. We continue to prioritize the execution of our key strategic initiatives as well as focus on rebuilding our clinical volumes to historic levels. We must do this through the lens of an environment that still has some prevalence of COVID-19.

Additionally, financial recovery must continue. Our disaster recovery work with the Federal Emergency Management Agency (FEMA) will continue for a number of years as we work to identify and substantiate all eligible expenses that have been incurred since early 2020 that we can claim for FEMA reimbursement.

We are confident in our ability to safely care for COVID-19 patients alongside our non-COVID-19 patients who continue to require care. Our focus is continuing to do so while also prioritizing execution of our clinical strategy and re-engaging in our strategic initiatives.

UW Medicine continues to face substantial financial challenges as a result of the COVID-19 pandemic. Responding to the COVID-19 pandemic has required significant additional resources to provide care and protect the workforce. Staffing costs increased on top of this as our hospitals, during certain times of the pandemic, expanded overtime and brought on additional personnel, particularly RN contract labor at high

rates due to national demand. This is anticipated to be an ongoing expense. Additionally, our need for personal protective equipment (PPE) has increased as has the unit price for these supplies. UW Medicine continues to prioritize adequate levels of PPE to ensure the safety of our patients and our staff and now warehouses these supplies to prepare for potential future surges. The financial impact of COVID-19-related lost revenue and increased expense has and will continue to pressure cash flow. Recovery hinges on UW Medicine's ability to secure timely recovery funding as well as the ability to recover elective procedures that were delayed or cancelled and are needed by our patients.

FY22 has brought with it the impacts of an economy struggling with high levels of inflation. These inflationary increases are being felt at all UW Medicine facilities, and we are expecting increases not only to labor costs, but also in medical and non-medical supplies and pharmaceuticals.

FY22 Performance Summary by Entity

UWMC integrated Northwest Hospital and Medical Center on January 1, 2020, becoming one hospital with two campuses. The integration has provided a crucial platform to coordinate patient care across the two campuses of UWMC more efficiently. Utilization of facilities on the Northwest campus has improved substantially since the integration. Financial performance for UWMC, pandemic notwithstanding, has also improved substantially since integration. Despite this improvement, the cash position of the medical center remains well below benchmark levels. Days of cash on hand in FY21 was 73 days (55 days without Medicare Advance Payments). As margins improve and the impacts of the strategic initiatives are realized, days cash on hand is expected to slowly improve. During the 2021 legislative session, $35 million of one-time funding was approved to provide a partial offset to UWMC for lost revenues due to the pandemic. The levels of lost revenues in FY21 at UWMC were partially recovered through CARES funding, but this funding did not cover the deficit that was generated due to the cancellation of non-urgent surgeries and procedures in FY22.

Timely access to capital and efficient deployment of the strategic initiatives will be crucial success drivers in the ability to achieve financial targets. Volumes, while continuing to improve at UWMC, have not yet reached pre-pandemic levels on a sustained basis. Additionally, the inability to discharge certain patients no longer needing acute levels of care has created challenges in managing throughput.

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. Volumes prior to the postponement of non-urgent surgeries and procedures with the Omicron surge were 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 temporarily impacted due to COVID-19 and Destination: One but have recovered to pre-pandemic levels.

UWMPC expects continued growth in outpatient primary care volumes. Current volumes on a comparable basis are back to pre-pandemic levels. UWMPC has experienced a successful transition toward a more robust telehealth environment and telehealth visit volumes have remained a significant portion of UWMPC volumes. The UWMC-NW Primary Care Clinic in Lake Forest Park was successfully transitioned to UWMPC local management oversight in March 2022 and re-opened as UW Medicine Primary Care at Mountlake Terrace Clinic.

ALNW has experienced improved financial performance throughout FY22 due to higher than anticipated volumes which is the result of implementing our strategic plan that was developed in 2020. In addition to opening the Pasco, WA base which went live in August 2021, Airlift will open a new helicopter base in Davenport, WA in June 2022. The new base at Davenport Municipal Airport will enable helicopter transports to more quickly service hospitals in Lincoln County, as well as the greater Northeast Tri-County area.

HMC during the pandemic ran at more than 100 percent occupancy on a regular basis, requiring focused work to safely manage length of stay. Some 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 inability to discharge certain patients no longer needing acute levels of care has created challenges in managing throughput. HMC has filed a Certificate of Need Application with the Department of Health to increase its licensed beds in order to be able to accommodate the volumes that have been experienced over the last couple of years.

In the fall of 2020, the voters of King County approved a $1.7 billion bond measure to enhance and expand the HMC campus. The multi-year planning process is in early stages of development in partnership with King County and UW Medicine. Enhancements are expected to include inpatient, emergency, and operating room capacity as well as replacements to aged infrastructure and extensive seismic upgrades.

UW Medicine is committed to managing Harborview in a fiscally responsible manner in order 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 Emphasis based there. Although COVID-19 has negatively impacted HMC due to the cancellation of non-urgent surgeries and procedures, a large portion of services provided at HMC are deemed emergent in nature as a level I trauma center.

VMC is well positioned to continue to provide excellent care to the southeast King County region in 2022 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 selected strategic growth in some outpatient areas, but emphasis for FY23 will be on stabilization post-COVID.

COVID-19 had significant impacts on VMC operations. Specifically, the high volumes of COVID cases in South King County and the cancellation of non-urgent surgeries and procedures necessary to create capacity resulted in reductions in net revenue. In FY22 VMC has experienced high COVID-19 patient volumes as well as significant pressure from ongoing labor rate increases and staffing shortages.

In FY22, in partnership with Proliance Physicians, VMC transitioned much of their orthopedic outpatient surgery volumes to an ambulatory surgery center that was recently completed on their campus. This joint venture will provide additional surgical capacity within the VMC surgical space, but, until volumes are backfilled, it will have a negative financial impact. VMC has constrained capital spending to preserve cash flow.

SoM experienced positive financial results in FY21 due primarily to strong performance from Lab Medicine related to COVID-19 testing, increased research grants and better than anticipated philanthropic revenues. A number of sizable donor gifts as well as continued support for the COVID-19 response has resulted in significant favorability compared to budgeted margins in the current year. FY22 has seen a continuation of high levels of COVID-19 testing volumes beyond what was included in the budget.

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

CHALLENGE 1: ENSURING SUCCESSFUL IMPLEMENTATION AND EXECUTION OF STRATEGIC INITIATIVES AND PROJECT FIT

As UW Medicine moves into FY23, management focus on execution of our strategic initiatives will be a top priority. These initiatives have been designed to support growth in key clinical areas as well as maximize capacity among our various hospital campuses. The FY23 budget has assumed a level of spending and access to capital that will help to support investments that are planned over the course of the year.

Additionally, there will be continued active identification and implementation of initiatives that will help to improve financial performance both in the short and the long term. The most significant are executing on our strategic plan and maximizing the use of our existing capacity. These projects are foundational for UW Medicine, and it will be crucial to stay focused on these key initiatives to ensure success.

CHALLENGE 2: RETENTION AND RECRUITMENT OF STAFF AND THE 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. Current pressures on financial performance due to increasing salary inflation and reliance on high-cost contract labor has resulted in a challenging budget cycle. Increases for professional staff and faculty have been included in our FY23 budget and are pending final University leadership approval. The impact of the finalization of our collective bargaining discussions with our unions including the ratable recognition of retention payments made is also included. Benefit expenses are estimated to rise substantially and have been included. Covering increases in salaries and benefits absent new funding sources is very challenging. Hospital benefits as a percentage of salary exceed our peers when measured against other Puget Sound and national healthcare organizations.

Included in the audited financial results each year is the unbudgeted impact of Governmental Accounting Standards Board (GASB) 75 and 68. This requires the recognition of costs associated with other post-employment benefits and pension expense as they are earned using actuarial estimates rather than cash funding. The actuarial adjustments may result in increases or decreases in expense and may be material. The actuarial impact that will be recorded in FY22 is not known until the end of the fiscal year but will be recorded in the audited financials prior to finalization.

CHALLENGE 3: 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 until recently been primarily funded through cash. This, coupled with modest margins impacted by the pandemic, significant levels of uncompensated care, very modest investment earnings returned to UW Medicine, and Internal Lending Program (ILP) interest rates well above investment return and actual borrowing cost over time, has resulted in cash levels significantly below our targeted levels and our peers. Although there have been a number of significant projects that have been or are planned to be funded

through a combination of cash and borrowings from the ILP, for UW Medicine to execute on its strategic priorities there is a need for consistent and adequate access to capital. Adequate access to capital will directly and positively impact the speed at which we can meet other key challenges and being able to do so without negative arbitrage would also greatly assist.

CHALLENGE 4: 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 historical or current higher levels of 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 continued shift requires transformation in how we do our work, with constant focus on workflow improvement and efficiency. UW Medicine's work with its Accountable Care Network, the Access Initiative 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 reimbursement due for the services it provides as efficiently as possible.

CHALLENGE 5: 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. The region's largest employers are self-insured and continue to seek alternatives in order to improve the health of employees and their family members, and provide satisfaction with the care that is provided, while reducing 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.

CURRENT FINANCIAL PERFORMANCE

Table 8, below, depicts the FY22 margins recorded at all the UW Medicine entities through April 2022, 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 unit for UW Medicine, which includes all UW Medicine organizations other than HMC, VMC, and the SoM. When UW ILP debt requirements are re-established for the CCE they will be measured only on the results of the CCE.

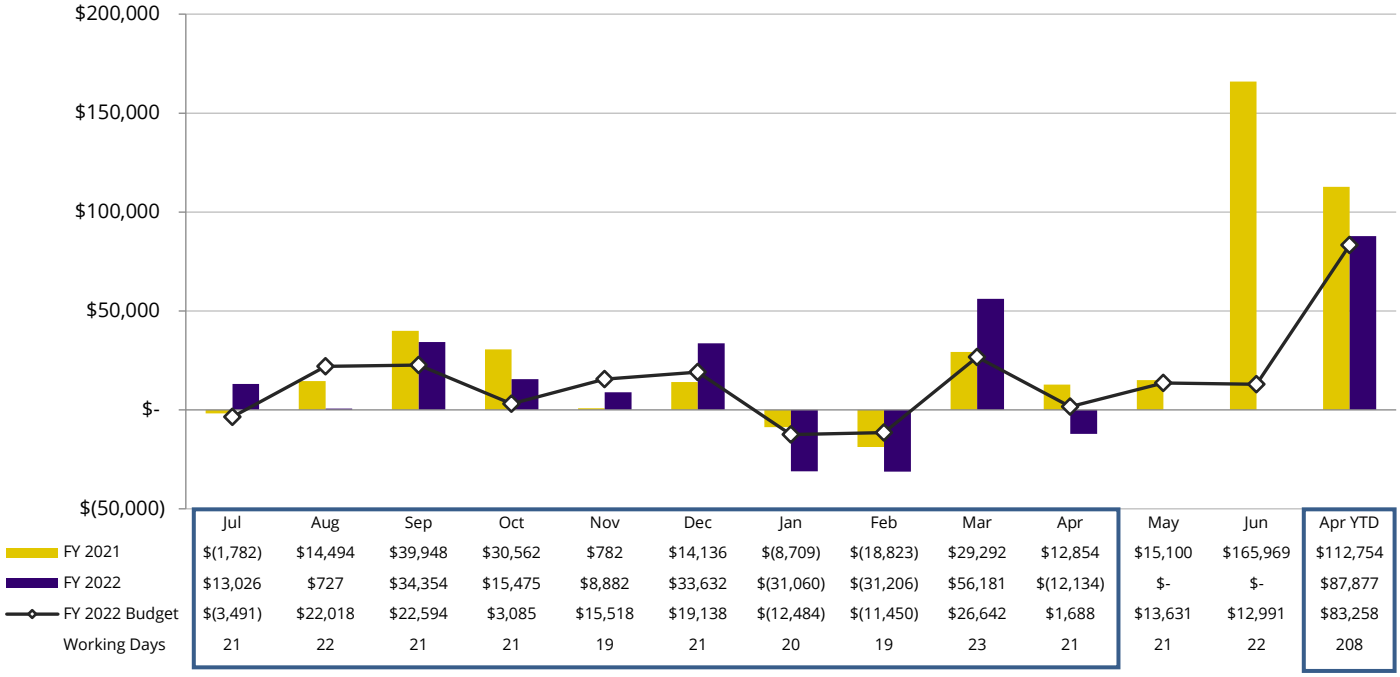
Table 8: FY21 Financial Results by UW Medicine Entity, as of April 2022 (in $000's)

	YTD Actual	YTD Budget	Variance to Budget
UWMC	(23,779)	12,299	**(36,078)**
ALNW	1,544	(1,157)	**2,701**
UWMPC	7,375	(2,061)	**9,436**
UWP[1]	-	-	**-**
SUBTOTAL CCE	**(14,860)**	**9,081**	**(23,941)**
HMC	1,816	6,242	**(4,426)**
VMC	(41,505)	(5,611)	**(35,894)**
SoM	142,426	73,546	**68,880**
TOTAL	**87,877**	**83,258**	**4,620**

1 Results for UWP are shown after amounts available to the School of Medicine. OPEB actuarial adjustments have not yet been recorded in FY22 and will be recorded in audited results.

Figure 10, below, depicts the month-to-month comparison of actual results to budget.

Figure 10: Combined Monthly Total Income as of April 2022 (in $000's)



Federal and State Funding for COVID-19

As has been the case with other disasters experienced in various parts of the country, we expect it will take years of focused work to fully realize disaster recovery funding available. COVID-19 will have lasting impact on our financial performance and cash position. In our FY20 and FY21 audited financial statements, we recognized most of the Provider Relief Funds (PRF) that were received due to evolving guidance from Health and Human Services on eligibility requirements. We have been closely evaluating the most recent guidance and based on current requirements believe we will recognize remaining PRF funds by the end of FY22. In

addition to PRF funding, UW Medicine has other recoveries received and recognized or in process of recovery within our FY22 financial statements as depicted in the Table 9 below, of which additional amounts are expected to be received in FY23 as well as future years. In addition to the amounts displayed within the table below, liquidity support was provided in the form of Medicare Advance Payments, which are anticipated to be repaid in full before the end of calendar-year 2022.

Table 9: UW Medicine Federal and State COVID-19 Recovery Funding *(as of April 18, 2022)*

Funding Source	Cash Received	Recognized in FY20	Recognized in FY21	Recognized in FY22	Remaining Balance to be Recognized
State Allocation of Federal Funds	48,342,000	3,885,356	4,300,970	-	40,155,674
State Allocation of State Funds	10,000,000	8,148,087	1,851,913	-	-
State Appropriation: Fiscal Recovery Funds	35,000,000	-	35,000,000	-	-
FEMA Public Assistance	33,000,000	-	-	32,300,000	1,000,000
CARES Provider Relief Funds	207,394,000	126,610,000	71,901,000	8,883,000	-
Total	334,036,000	138,643,443	113,053,883	41,183,000	41,155,674

Looking Ahead: Performance, Budget, Clinical Strategic Planning and Long-Range Planning

In light of the pandemic, a reassessment process to evaluate our strategic initiatives was completed for our 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 and the increased use and acceptance of telehealth options, decisions were made to incorporate a more remote or telehealth platform where applicable. Where we were able to reduce or delay our planned capital spending we have done so. As UW Medicine moves into FY23, we are planning for an increased level of capital which will dictate our ability to invest in our return on investment focused strategic initiatives.

Projected revenues and total margins for FY21, FY22, and FY23 are in Table 10, below. UW Medicine's work prior to the COVID-19 disaster was focused on launching Clinical Strategic Refresh initiatives and identifying initiatives designed to improve financial performance. Prior to the COVID-19 response, UW Medicine was working on bringing forward balanced budgets at margin levels below the long-range plan targets, specifically, for our medical centers. The total UW Medicine revenue budget for FY23 is targeted at $4.85 billion, excluding the School of Medicine. While the UW Medicine FY23 budget does not include FHCC, it will be included in the University's FY23 financial results as a discreetly presented component unit. The target margins for FY23 are displayed on the chart below. During the recent legislative session, charity care levels were expanded on a sliding scale to 400 percent of the Federal Poverty Levels. This expansion of charity care is estimated to be $5 million at HMC, $6 million at UWMC, and $2 million at VMC is included in the projected FY23 revenues.

During the 2021 legislative session, additional state appropriations for UW Medicine were approved. The 2021-23 biennial budget includes $48 million of funding designated specifically to UWMC and HMC in recognition of the importance of the uncompensated care provided and the expenses related to training the physician workforce in the graduate medical education programs. This funding was offset by an expiring appropriation. The net annual incremental funding of $19 million was allocated between the two hospitals

based on the levels of uncompensated care and net patient service revenues. During the 2022 legislative session, the appropriations were reduced by $4 million, and the budgets for the two hospitals were adjusted for FY23.

Table 10: FY21 and FY22 YTD Actual Revenues and Margins and FY23 Budget compared to Long-Range Financial Plan

UW Medicine	FY21 Actual Total Margins	FY22 Budget Revenues[2]	FY22 March Annualized Revenues	FY22 March Annualized Total Margins[3]	FY23 Budget Revenues	FY23 Budget Expenses	FY23 Budget Margins	FY23 LRFP Total Margin[3]	FY23 Budget Compared to LRFP
UWMC	150,514,000	1,992,107,000	1,968,000,000	(25,000,000)	2,147,200,000	2,182,700,000	(35,500,000)	32,114,000	(67,614,000)
UWP	-	400,000,000	528,000,000	-	445,800,000	445,800,000	-	-	-
Airlift NW	1,500,000	60,858,000	64,000,000	1,000,000	75,600,000	74,500,000	1,100,000	982,000	118,000
UWMPC	(1,848,000)	80,000,000	75,000,000	10,000,000	80,100,000	82,000,000	(1,900,000)	(2,879,000)	979,000
Subtotal CCE [4]	**150,166,000**	**2,532,965,000**	**2,635,000,000**	**(14,000,000)**	**2,748,700,000**	**2,785,000,000**	**(36,300,000)**	**30,217,000**	**(66,517,000)**
HMC	5,982,000	1,111,166,000	1,178,000,000	4,000,000	1,258,400,000	1,258,400,000	-	11,632,000	(11,632,000)
VMC	9,509,000	842,680,000	802,000,000	(41,000,000)	845,300,000	854,100,000	(8,800,000)	9,151,000	(17,951,000)
UW Medicine	**165,657,000**	**4,486,811,000**	**4,615,000,000**	**(51,000,000)**	**4,852,400,000**	**4,897,500,000**	**(45,100,000)**	**51,000,000**	**(96,100,000)**

[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 FY22 budget due to final budget refinements.
[3] Total margin does not include OPEB year-end actuarial adjustments.
[4] Consolidated Clinical Enterprise subtotals do not include Shared Services, ITS, and eliminating entries in FY21, FY22, or FY23.

Budget Priorities

Improved financial performance continues to be a top strategic priority. Pressure on reimbursement from all UW Medicine payers has generally resulted in less than inflationary increases. In FY20 and FY21, the pandemic presented a new set of challenges which we were able to weather despite substantial financial impacts. In FY22 the impacts of inflation along with the impacts from the most recent Omicron surge has resulted in lower than anticipated margins being achieved. As we move into FY23, our primary clinical goals remain to provide world class safe care to our patients, to provide a safe working environment and support the well-being of our staff, to focus on improving our work as it relates to diversity, equity, and inclusion, and to focus on our multi-year plan of improving financial performance.

Our FY23 budgets include strategic capital investments and assume a planned level of access to capital via the Internal Lending Program. A portion of these investments will be made using operating cash, and anticipated debt service has been included in budgets. Detail related to the planned investments is included within the University's capital budget item that will be brought forward for Regent approval.

UW Medicine budget challenges have always existed due to the significant inflationary expense increases that are projected every year. Salary and benefit inflation for our workforce, pharmaceutical inflation, and supply inflation are all included within the FY23 budgets. Additional cost savings or revenue-producing initiatives are required to offset these increases. 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 year-to-date basis. Executive leadership 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. The Integration occurred two months prior to the COVID-19 pandemic, and we have already seen the benefits in more flexibility related to patient placement and location of services across the two campuses. The integration has also generated clinical and administrative efficiencies, and improved financial performance. UW Medicine expects that when coupled with key investments to create updated clinical capacity, the Northwest campus will be an integral factor in providing improved access for our patients.

Prior to integration, NWH experienced sustained operating losses over the years and those losses resulted in pressure on liquidity. To ensure NWH had the ability to meet its working capital requirements, payment was 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, 2021 was approximately $124 million. Upon integration, UWMC assumed the monthly minimum payments annualizing to $5 million each year on the payable. These payments have been resumed in FY22 through an agreement between the University President and the CEO of UW Medicine. Payment will continue in FY23.

Clinical Strategic Planning and Long-Range Financial Planning: FY23-FY36

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 past the COVID-19 pandemic as well as over the following years with the continued 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:

- Focus on continuing our work on maximizing revenues and lowering costs on a volume adjusted basis
- Clinical Strategic Refresh initiative deployment across the enterprise, including
    - Targeted Primary and Specialty care growth
    - Investments in digital innovations, including our Telehealth platform
    - Continued enhancement of our investment in a single EHR platform
- Focus on key service line growth initiatives
- Focus on improving access to care for our patients
- 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 overall provides uncompensated care of more than $700 million on an annual basis, which requires that we continually focus on ways to improve our efficiency while providing top quality care to all our patients. UW Medicine must continue to improve 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.

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:

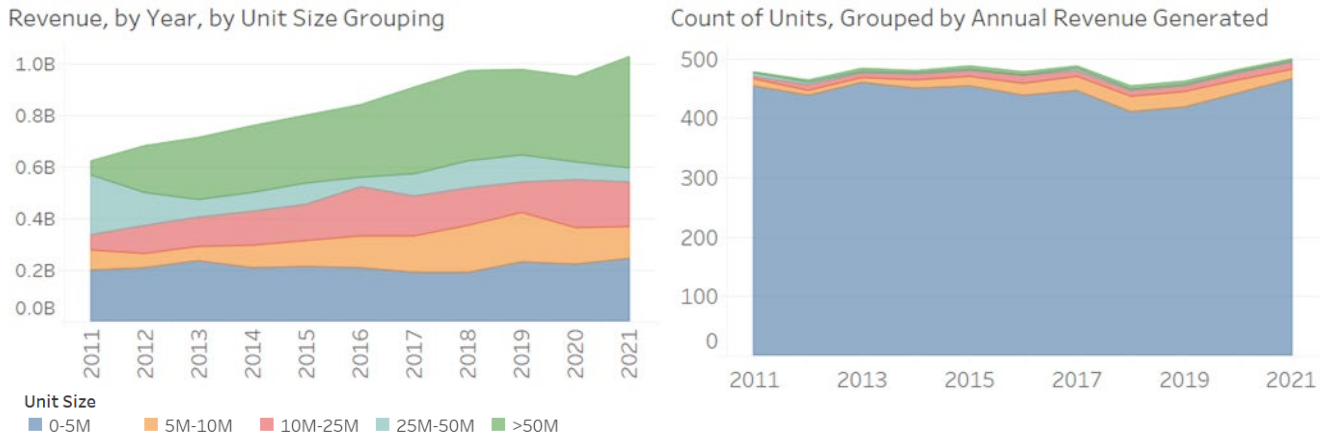
- UW Parking and Transportation Services;
- Housing and Food Services;
- Intercollegiate Athletics (ICA);
- Continuum College;
- Graduate Medical Education (GME); and
- Lab Medicine.

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 in the previous section of 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 3,000 auxiliary budgets owned and managed by over 470 departments across the University**.

Activity is concentrated in the handful of units noted above, with less than 1 percent of all auxiliary units generating more than $50 million per year in revenue and greater than 90 percent of all auxiliary units generating between $0 and $5 million per year in revenue. The 1 percent of auxiliary units each generating greater than $50 million per year in revenue account for greater than a third of total auxiliary revenue, while the 90 percent of auxiliary units that generate between $0 and $5 million per year account for just under a quarter of total auxiliary revenue. Figure 11, below, shows these data over the last ten fiscal years.

Figure 11: Auxiliary Unit Trends (FY11-FY21)



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 68 for more details. To check assumptions and to 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 May 27, 2022

The FY23 Annual Review process represented the fifth year in which unit-level, multi-year financial forecasts were collected across the UW. Deans, vice presidents, and vice provosts were required to submit four-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.

At the time this document was drafted, most units have adapted to either a full return to in-person activity or a hybrid approach, as public health and safety protocols dictate. While uncertainty still looms over the university's self-sustaining activities, there is reason for cautious optimism across the enterprise. Information gathered throughout the annual budget development process suggests the UW is seeing positive financial results in the auxiliary space. The projected revenue and expenditure activity in FY23 is anticipated to decline from historic levels in FY22, predominately a result of the expectation that the Lab Medicine auxiliary unit's COVID-19 related testing volume will decrease. For context, Lab Medicine activity represented more than a quarter of total auxiliary activity at the time this document was drafted.

In as of the drafting of this document, $42.9 million of federal COVID-19 recovery funding was allocated across self-sustaining enterprises to offset revenue losses and additional expenses incurred during periods of restricted operations. The University allocated a preponderance of these funds to support the Housing and Food Service operations on the UW Seattle campus, the single most impacted unit with the Academy's auxiliary portfolio. This support, combined with broader return to in-person activities, has improved the financial stability across many of the Academy's auxiliary units.

While the auxiliary, in aggregate, is trending in a positive direction, challenges remain. Lingering impacts of pandemic induced changes to operating models coupled with inflationary pressures and a challenging employment market are expected to continue to have differential impacts on business units across the auxiliary. Monitoring operating conditions and financial results will continue to be a focus in FY23. Further, monitoring will continue for units that would be most adversely affected by any reduction of in-person activities. The pandemic showed that our largest auxiliary units can quickly and severely be impacted by even short interruptions of in-person offerings. Active management of strategies to mitigate the risk of negative impacts will continue for these units.

Revenue in Tables 11 and 12, 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, many self-sustaining budgets are charged an institutional overhead levy (per Administrative Policy Statement 33.2), which helps cover utilities, maintenance, and other costs incurred by the operation of these activities.

Table 11: FY22 Self-Sustaining Forecasted Revenue, Expenses, and Balances[1]

Auxiliary Group	Unit Group	Actual Beginning Balance	Forecasted Revenue	Forecasted Expense	Forecasted Ending Balance
Auxiliary Educational	All Locations	81,426,000	137,000,000	127,000,000	91,426,000
Subtotal - Aux Education		**81,426,000**	**137,000,000**	**127,000,000**	**91,426,000**
Other Auxiliary Enterprises	UW Seattle	408,253,000	1,130,000,000	945,000,000	593,253,000
	UW Bothell	20,982,000	14,000,000	11,000,000	23,982,000
	UW Tacoma	4,607,000	11,000,000	9,200,000	6,407,000
Subtotal Other Aux Enterprises		**433,842,000**	**1,155,000,000**	**965,200,000**	**623,642,000**
Total Auxiliary		**515,269,000**	**1,292,000,000**	**1,092,200,000**	**715,068,000**

[1] Balances include service and recharge center working capital, stabilization/risk mitigation funds, and committed/uncommitted reserves.

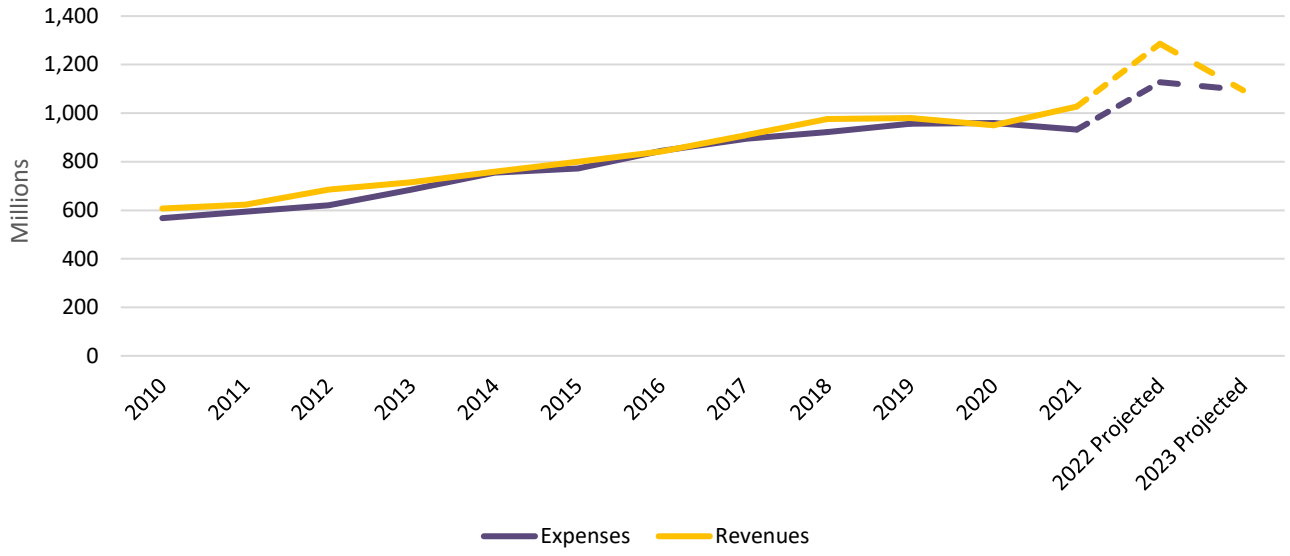
Table 12: FY23 Self-Sustaining Projected Revenue, Expenses, and Balances[1]

Auxiliary Group	Unit Group	Forecasted Beginning Balance	Forecasted Revenue	Forecasted Expense	Forecasted Ending Balance
Auxiliary Educational	All Locations	91,426,000	146,000,000	145,000,000	92,426,000
Subtotal - Aux Education		**91,426,000**	**146,000,000**	**145,000,000**	**92,426,000**
Other Auxiliary Enterprises	UW Seattle	593,253,000	924,000,000	928,000,000	589,253,000
	UW Bothell	23,982,000	14,800,000	13,400,000	25,382,000
	UW Tacoma	6,407,000	9,500,000	9,300,000	6,607,000
Subtotal Other Aux Enterprises		**623,642,000**	**948,300,000**	**950,700,000**	**621,242,000**
Total Auxiliary		**715,068,000**	**1,094,300,000**	**1,095,700,000**	**713,668,000**

[1] 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 12 depicts consolidated revenues and expenses from FY10 through FY21, and projections for FY22 and FY23.

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



POWER OF PHILANTHROPY: GIFTS & ENDOWMENT DISTRIBUTIONS

The UW is fortunate to benefit from an incredible legacy of private support, including the successful execution of three comprehensive campaigns (the most recent—Be Boundless—ended in June 2020). A key goal of all comprehensive campaigns is to increase private support to new sustainable plateaus. Be Boundless did that, enabling a new baseline of $570 million annually (including private grants, which for this report are included within the Research Enterprise section). University Advancement is currently undertaking foundational work in preparation for UW's next campaign.

Table 13 below, shows changes between the FY22 adopted budget, revised projections for FY22, and the projected FY23 budget. The gift income figure—defined as current-use support—is a subset of total annual private support, which Advancement projects will be nearly $570 million in FY22. It does not include new endowment gifts or revenue from private grants (approximately $250 million per year). Gift income for FY22 is tracking in line with revised projections.

Table 13: FY23 Annual Gift & Endowment Distributions

	FY22 Adopted	FY22 Forecasted	FY23 Adopted	Percent Change (Forecasted FY22 to FY23)
Gift Income	333,000,000*	288,000,000	297,000,000	3.1%
Endowment Distributions	134,000,000**	115,000,000	124,000,000	7.8%
Total	**467,000,000**	**403,000,000**	**421,000,000**	**4.5%**

* Over a twenty-year period, a five-year cash moving average and time-series forecast modeling are used to forecast current-use gifts. In FY18, a significant grant was accounted for as a gift and included in the moving-average projections. The FY22 adopted budget was based on these projections, and this error resulted in an overstated value for current-use gifts of $45M in FY22. The FY22 correct budgeted value should have been $288M. The FY22 revised value and the FY23 value of $297M correctly account for this prior period error.
**The FY22 adopted budget value included endowment returns on operating cash available for distribution, which is included as a component of the Designated Operating Fund under "Investment Income." This error resulted in an overstated budget value for endowment programmatic distributions of $21M in FY22. The correct budgeted value for FY22 should have been reflected as $113M. The FY22 revised value of $115M (1.8% positive to corrected FY22 budget) and FY23 value of $124M correctly accounts for this prior period error and is reflective of the anticipated endowment programmatic distributions to units.

GIFT INCOME

The $297 million FY23 gift income projection, shown in Table 13, reflects continued fundraising for current initiatives and long-term priorities, including support for students, faculty, programs, and key academic facilities. The 3.1 percent growth rate is in line with UW historical trends and sector trends.

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, 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 contribute endowment gifts totaling more than $50 million, as well as fund current initiatives and priorities that allow the UW to meet today's greatest challenges.

Endowments provide a quarterly income stream to the donors' designated purpose in perpetuity. Distributions from the Consolidated Endowment Fund (CEF) are governed by the UW's spending policy set by the Board of Regents. The endowment distribution policy was changed in FY19 to step down from 4.0 percent to 3.6 percent in FY22, which was the final year of the Board approved spending policy distribution rate reduction plan.

Figure 13: Composition of UW Endowment

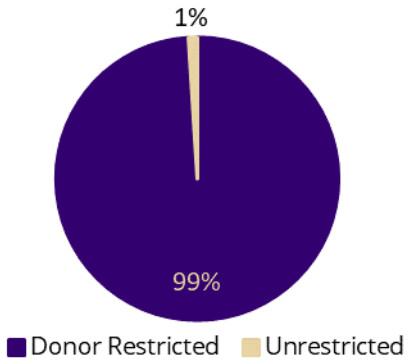
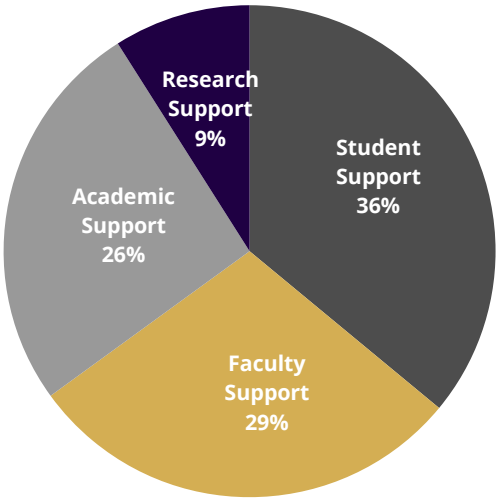


Figure 14: Endowment Support by Purpose



FROM IDEAS TO IMPACT: RESEARCH ENTERPRISE

The UW is a world leader in the full range of research, from basic research that illuminates the origins of the world, to applied research, such as clinical trials, technology advances, and policy analysis. The strength of conducting this broad array of research in an interdisciplinary manner has fueled major breakthroughs in the recent years, from protein structure prediction to quantum computing. Federal and state investments in basic research over time provided the foundation that allowed for the quick development of methodologies that enabled identification of the coronavirus, development of laboratory and at-home tests to help us track and treat it and supported the development of a range of vaccines and treatments in record time. It is this ability to turn ideas to impact that we are committed to accelerating.

As one of the few universities in the United States with total sponsored research expenditures exceeding $1 billion, the UW's record in securing research funding is truly exceptional. In 2020 (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 8th overall internationally, 4th nationally, and 1st among domestic public universities for the quality and impact of research endeavors, and in 2022 U.S. News ranked the UW 7th among world universities, 6th nationally, and 2nd among domestic public universities.

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 14 shows, the UW has maintained a significant share of total federal and non-federal research expenditures over the last five years as the total pool of funding has increased.

Table 14: UW R&D Expenditures - Federal and Non-Federal Market Share

	2016	2017	2018	2019	2020
Total expenditures	53,858,346,000	56,290,643,000	58,890,441,000	62,386,645,000	64,349,388,000
Total UW	1,182,611,000	1,220,260,000	1,269,570,000	1,308,260,000	1,345,761,000
Market share	**2.20%**	**2.17%**	**2.16%**	**2.10%**	**2.09%**

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2020.

Examples of **major awards** in FY21 include:

- $7 million from the Bill and Melinda Gates Foundation to conduct randomized trials to determine the feasibility of interrupting soil-transmitted helminths (a group of intestinal parasites) using new mass drug administration strategies.
- $4 million from the Department of Education to develop the Rural Initiative in STEM Education and Undergraduate Preparation (RISE UP) partnership with Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) to address the needs of low-income, at-risk students in the Yakima and Skagit Valleys.

- $4 million from the National Science Foundation's Mid-Scale Research Infrastructure initiative to establish a global array of oceanic robotic profiling floats to measure ocean temperature, salinity, and pressure.
- $3.5 million from the Department of the Interior that will build on existing collaborations to move ShakeAlert (an earthquake early warning system) towards a full public system and improve system algorithms.
- $3 million from the National Institutes of Health (NIH) to examine the effect of structural and functional changes in the retina and longitudinal severity of ophthalmic diseases on Alzheimer's disease and related neuropathology.
- $2.7 million from NIH to study the correlates, predictors, and progression of subclinical cardiovascular disease in a diverse population-based sample of men and women.
- $2.5 million from the Bill and Melinda Gates Foundation to quantify key drivers of maternal mortality and explore relationships with a variety of factors to reduce maternal mortality.

Sponsored projects supported over 14,000 employees during FY21, including over 2,900 graduate students and 800 postdocs. Over 5,700 FTE employees were paid on sponsored research funding.

Federal Outlook

While the UW continues efforts to diversify its research portfolio, federal awards still represent approximately 76 percent of sponsored research expenditures. Bipartisan support for Federal research and development remains strong in both chambers of Congress and this support has resulted in the passage of an omnibus appropriations bill that includes several federal R&D increases that could have a positive impact on UW's future awards and expenditures.

The UW administration will continue to monitor the situation and develop plans to quickly respond to any changes in federal funding, including changes resulting from the COVID-19 pandemic, or federal funding constraints that may result from tightening federal fiscal policy in subsequent fiscal years. Note that the UW has received approximately $157 million in COVID-related research awards as of March 15th, 2022.

Estimated Sponsored Projects Expenses

Table 15, below, shows a breakdown of projected sponsored research expenses in FY22 (original and revised projections) and FY23. The University is currently projecting an increase of expenditures in FY23 based on expenditure and awards trends through February of FY22. Additionally, please note that these numbers represent not only all sponsored projects at the UW (R&D as well as non-R&D), but also certain financial aid that is included in research totals for accounting purposes (~$100 million) as well as expenditures from certain COVID-relief funding provided by the federal government. 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.

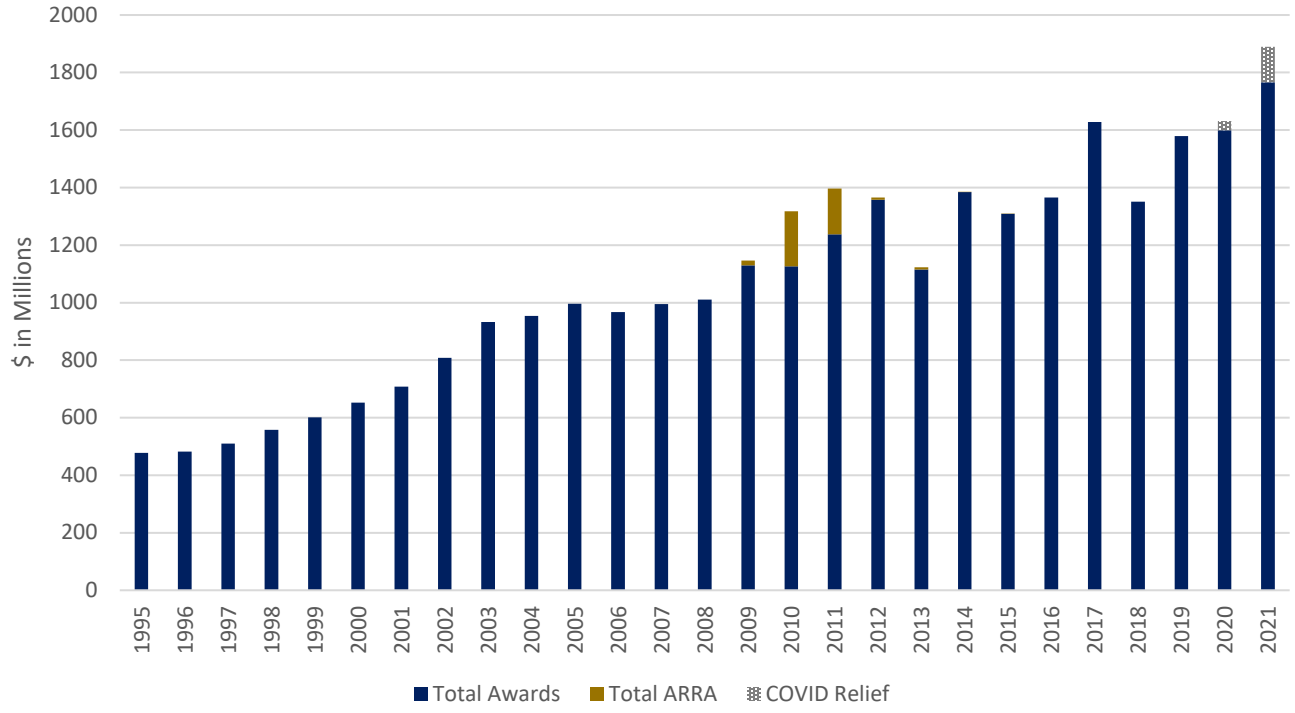
Table 15: Projected Sponsored Research Expenses with Breakout of Indirect Costs

	FY22 Adopted	FY22 Forecasted	FY23 Adopted	Percent Change (Forecasted FY22 to FY23)
Federal	871,833,000	1,035,199,000	1,045,551,000	1.0%
State & local grants	129,385,000	113,764,000	113,764,000	0.0%
Nongovernmental	241,600,000	276,001,000	278,761,000	1.0%
Indirect Research Expenses	289,221,000	303,490,000	306,525,000	1.0%
Total	1,532,039,000	1,728,455,000	1,744,602,000	0.9%

Award Trends

Figure 15, below, provides a historical look at the UW's total grant and contract awards by year, with breakouts for American Recovery and Reinvestment Act (ARRA) grants and COVID relief funding. 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 to the School of Medicine. Increases since FY18 have been distributed across multiple schools/colleges and departments.

Figure 15: Total Grant and Contract Awards by Year (1995-2021)



CONCLUSION: THE WORK AHEAD

The University has weathered unprecedented and significant challenges since March 2020, and the operating environment is expected to remain challenging well after the pandemic ends. Our work to effectively manage and deploy funding in a way that best serves our students, patients, state, and region has been our top priority, and we are proud of our effective management of resources throughout the pandemic. This has provided a strong foundation as we shift our gaze towards our future growth and development as an institution.

The University's administration will remain vigilant and holistic in its financial decisions. It is important that we continue to monitor the financial performance of each operating unit and the University as a whole, as we emerge and rebuild from the pandemic and face new and evolving challenges. The vitality and resilience of our community has been evident throughout the pandemic, and we are confident in our ability to manage and rise to future challenges together. Good financial stewardship becomes even more important in the face of rising inflation and global economic uncertainty, and our care and thoughtfulness over the University's fiscal standing is both steadfast and paramount.

We are now looking towards the future by developing longer term strategies for forecasting and managing unknowns, and by increasing our ability to remain flexible and adapt to future challenges. The challenges we face are profound across all aspects of the University including in our classrooms and labs, the provision of student services, and the retention and compensation of our faculty and staff. However, they are especially severe for our hospitals, which were at the forefront of the battle against the COVID-19 pandemic and had to close down or severely cut back on other aspects of patient care early in the pandemic and again during more recent surges.

We also recognize the need for more meaningful investments in our people and intend to those people, the lifeblood of our institution, a priority as we emerge from the pandemic. We are also working to incorporate the lessons we have learned over the course of the past two years in terms of accessibility and other improvements, while centering the diverse needs of our community. This will have lasting impacts on how we work, study, and conduct research. We are relying upon our foundation as a place of discovery, inquiry, and community as we position our great public university for an even brighter future.

Note: This is the end of the operating budget. The remainder of this document serves as a reference for the budget development process and distribution of resources.

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 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.[1]

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.

[1] 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 57.

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. Each June, a "Proposed Cost of Attendance for First-Year UW Undergraduate Students" document accompanies the annual Proposed Operating 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 fees[2], 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** are 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. The UW submitted the year 7 self-study in February, and the NWCCU conducted a site visit to the UW in April of 2021.

[2] 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% 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 2020 but announced a one-year implementation delay of a change to the supplement due to the budgetary uncertainty related to COVID-19. The approved recommendation to make an allocation of a small fraction of the cutover funding in the supplement category to centrally support academic program development and subvention of cross-disciplinary initiatives went into effect this year (FY22). Related documents are posted on OPB's ABB Committees and Reports webpage. A Phase IV review of the ABB construct will begin in FY23.

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's and Provost's priorities for the University. Deployment of these funds is the result of a lengthy and highly consultative budget development cycle.

The sources of PRF are as follows:

- 30 percent of net tuition operating fee revenue generated by Seattle units;
- 30 percent of miscellaneous fees;

- 65 percent of indirect cost recovery;
- 100 percent of interest income, after fees and distributions of basis points to specific units;
- 100 percent of administrative overhead;
- 100 percent of institutional overhead; 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 34.

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. Rates are continuing at 15.60 percent for on-campus and 6.85 percent for off-campus activities. *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. After a successful "net revenue share" program piloted with the College of Arts & Sciences, a broader roll out of a "net revenue share" model has been deployed. 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 approximately 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 41.

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 preliminary 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. FY23 will represent the second year of the three-year implementation cycle. These funds will be redistributed to units to support academic program development and the subvention of cross-disciplinary initiatives.

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.[3] 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 16 below, was developed with the intent of cushioning the impact of the spending policy reduction on campus units. FY22 was the third and final year of the approved three-year phased reduction, which is now fully implemented.

Table 16: 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%

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 61.

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

ACRONYM GLOSSARY

AAUP	Association of American Universities Professors
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
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
SoM	School of Medicine
STEM	Science, Technology, Engineering, and Mathematics
TA	Teaching Assistant
UW	University of Washington
UWMC	University of Washington Medical Center
UWMPC	UW Medicine Primary Care (previously UW Neighborhood Clinics)
UWP	UW Physicians
VMC	Valley Medical Center
WWAMI	Washington, Wyoming, Alaska, Montana, and Idaho Regional Medical Education Program

ATTACHMENT 3

UW Intercollegiate Athletics | FY23 Proposed Budget

based on information available as of May 20, 2022

	2022-23 Proposed Budget	
Beginning Reserve Balance	$27,435,000	
REVENUE		
Gate Revenue	$28,930,000	*a)*
Contributions	$33,019,000	*b)*
NCAA / Conference	$42,675,000	*c)*
Royalties, Adv & Sponsorships	$15,660,000	*d)*
Tuition Waivers / Other Campus Support	$6,874,000	*e)*
Other Revenue	$11,010,000	
TOTAL REVENUE	**$138,168,000**	
EXPENSE		
Salaries	$41,834,000	*f)*
Benefits	$10,458,000	
Athletics Student Aid	$17,292,000	
Sport Operational Expense	$32,043,000	
Direct Facilities, Maintenance & Utilities	$5,589,000	
Misc. Marketing / Promotion Expense	$1,275,000	
UW Institutional Overhead	$0	*h)*
Misc. Expenses	$15,371,000	*i)*
TOTAL EXPENSE	**$123,862,000**	
NET OPERATING INCOME	**$14,306,000**	
Debt Service	$10,776,000	*j)*
Minor Capital Expenditures / Deferred Maint	$3,959,000	*k)*
CASH FLOW	**($429,000)**	
Reserve Adjustment: Severance for former FB staff	***($4,870,000)***	*l)*
June 30 Cash Balance (excludes capital accounts)	$22,136,000	

Revenue notes:

a) Gate revenue assumes ticket prices and attendance stay flat with 2021-22; $1.1M less in gate revenue in FY23 due to no visiting team guarantees contracted for UW.

b) Contributions include roughly $4.4M from Don James Center seat renewal process in spring.

c) Conference distribution includes $1.5M subsidy to offset bowl game expenses budgeted in Sport Operational Expense (UW was not bowl eligible in FY22).

d) Sponsorship payment from Learfield (multi-media rights partner) will return to contracted guarantee amount in FY23.

e) Reflects estimated value of Title IX tuition waivers plus $2.1M distribution from the Provost Credit Support Fee.

Expense notes:

f) Salaries and benefits reflect investments made in Football coaching pool, as well as merit and market-based adjustments for support staff across ICA.

g) Aid estimation reflects tuition rate increases of approximately 3%, housing increases of 3.59% and dining plans of 1.8%.

h) UWOH exemption approved by the Executive Office in FY23.

i) Misc Expenses includes $2M expense share of Pac-12 office renovation in San Francisco.

j) Reflects interest-only ILP payment.

k) Deferred maintenance expenses include replacement of baseball turf and servicing of grass soccer field.

l) Estimated cash impact of severance expenses through January 2023.

2022-23 COST OF ATTENDANCE FOR FIRST-YEAR UW UNDERGRADUATES

This table shows student budgets for the regular academic year: fall, winter, and spring quarters.

Annual Student Budget Items	Bothell	Seattle	Tacoma
Room & Board [1] (traditional undergraduates)	**$15,282**	**$16,068**	**$14,220**
Books, Personal, Transportation [1]	**$4,890**	**$3,780**	**$4,362**
Annual Student Fees – Total [2]	**$1,385**	**$1,427**	**$1,439**
New Student Enrollment & Orientation Fee (NSEOF) – one time fee [3]	*$350*	*$374*	*$170*
Student Tech Fee	$126	$0	$120
Services and Activities Fee	$312	$471	$474
Student Activities Center	$441		
Student Activities Center Programming	$66		
Sports Field	$90		
Facilities Renovation Fee		$210	
Intramural Activities Building		$96	
U-PASS [4,5]		$276	$135
YMCA [5]			$540
Resident Annual Tuition	**$11,189**	**$11,189**	**$11,189**
Resident Annual Total	**$32,746**	**$32,464**	**$31,210**
Non-Resident Annual Tuition	**$39,687**	**$39,687**	**$39,687**
Non-Resident Annual Total	**$61,244**	**$60,962**	**$59,708**

[1] Annual student budgets for these items are based on the federal "cost of attendance" definition, which is used to determine financial aid eligibility: https://www.washington.edu/financialaid/getting-started/student-budgets/

[2] Student-led committees are responsible for all fees under this header, except NSEOF. For the NSEOF, student representatives provide support recommendations, which campus administrations weigh when developing proposals for Regental approval. Regents approve rate changes for all fees except U-PASS, which is governed by Regent-approved MOUs. Please note that many students pay fees beyond those presented here, such as course fees (which vary by discipline) and student insurance fees.

[3] The effective date of each new NSEOF rate varies by campus. Bothell will begin charging its new rate in Fall 2022 to students entering in Fall 2022. Seattle will begin charging its new rate in Spring 2023 to students entering in Spring 2023. Tacoma will begin charging its new rate in Fall 2022 to students entering in Winter 2023.

[4] Tacoma's U-PASS fee of $45/quarter was first charged in Spring 2019. For UW Tacoma students residing in Thurston County, the U-PASS fee is $20/quarter, or $60 for the regular academic year.

[5] During the COVID-19 pandemic, some fees (e.g., U-PASS, STF, YMCA) were reduced or waived in certain quarters based on action by student committees and/or the Board of Regents. Rates shown are those approved by Regents for each academic year.

COST OF ATTENDANCE TREND DATA BY CAMPUS

BOTHELL	2018-19	2019-20	2020-21	2021-22	2022-23	5yr Change
Room & Board [1] (traditional undergraduates)	**$11,877**	**$12,636**	**$13,191**	**$14,154**	**$15,282**	**$3,405**
Books, Personal, Transportation [1]	**$4,689**	**$4,689**	**$4,773**	**$4,773**	**$4,890**	**$201**
Annual Student Fees - Total [2]	**$1,311**	**$1,350**	**$1,350**	**$1,353**	**$1,385**	**$74**
NSEOF - one time fee [3]	*$300*	*$330*	*$330*	*$330*	*$350*	*$50*
Student Tech Fee	$126	$126	$126	$126	$126	$0
Services and Activities Fee	$288	$297	$297	$300	$312	$24
Student Activities Center	$441	$441	$441	$441	$441	$0
Student Activities Center Programming	$66	$66	$66	$66	$66	$0
Sports Field	$90	$90	$90	$90	$90	$0
Resident Annual Tuition	**$10,127**	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$1,062**
Resident Annual Total	**$28,004**	**$29,045**	**$29,943**	**$31,207**	**$32,746**	**$4,742**
Non-Resident Annual Tuition	**$35,508**	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$4,179**
Non-Resident Annual Total	**$53,385**	**$55,746**	**$57,312**	**$59,037**	**$61,244**	**$7,859**

SEATTLE	2018-19	2019-20	2020-21	2021-22	2022-23	5yr Change
Room & Board [1] (traditional undergraduates)	**$12,798**	**$13,296**	**$13,887**	**$14,871**	**$16,068**	**$3,270**
Books, Personal, Transportation [1]	**$3,633**	**$3,633**	**$3,693**	**$3,693**	**$3,780**	**$147**
Annual Student Fees - Total [2]	**$1,390**	**$1,433**	**$1,463**	**$1,503**	**$1,427**	**$37**
NSEOF - one time fee [3]	*$310*	*$338*	*$347*	*$354*	*$374*	*$64*
Student Tech Fee	$114	$114	$114	$114	$0	-$114
Services and Activities Fee	$408	$423	$438	$453	$471	$63
Facilities Renovation Fee	$210	$210	$210	$210	$210	$0
Intramural Activities Building (IMA)	$96	$96	$96	$96	$96	$0
U-PASS [5]	$252	$252	$258	$276	$276	$24
Resident Annual Tuition	**$10,127**	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$1,062**
Resident Annual Total	**$27,948**	**$28,732**	**$29,672**	**$30,994**	**$32,464**	**$4,516**
Non-Resident Annual Tuition	**$35,508**	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$4,179**
Non-Resident Annual Total	**$53,329**	**$55,433**	**$57,041**	**$58,824**	**$60,962**	**$7,633**

TACOMA	2018-19	2019-20	2020-21	2021-22	2022-23	5yr Change
Room & Board [1] (traditional undergraduates)	**$11,028**	**$11,748**	**$12,258**	**$13,194**	**$14,220**	**$3,192**
Books, Personal, Transportation [1]	**$4,689**	**$4,209**	**$4,260**	**$4,260**	**$4,362**	**-$327**
Annual Student Fees - Total [2]	**$1,279**	**$1,428**	**$1,428**	**$1,431**	**$1,439**	**$160**
NSEOF - one time fee [3]	*$100*	*$159*	*$159*	*$162*	*$170*	*$70*
Student Tech Fee	$120	$120	$120	$120	$120	$0
Services and Activities Fee	$474	$474	$474	$474	$474	$0
U-PASS [4,5]	$45	$135	$135	$135	$135	$90
YMCA [5]	$540	$540	$540	$540	$540	$0
Resident Annual Tuition	**$10,127**	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$1,062**
Resident Annual Total	**$27,123**	**$27,755**	**$28,575**	**$29,812**	**$31,210**	**$4,087**
Non-Resident Annual Tuition	**$35,508**	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$4,179**
Non-Resident Annual Total	**$52,504**	**$54,456**	**$55,944**	**$57,642**	**$59,708**	**$8,734**

Please see previous page for footnotes.