BOARD OF REGENTS MEETING

ADOPTED JUNE 8, 2023

Approve Fiscal Year 2024 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 Board of Regents Standing Orders, Chapter 1—approves the proposed Fiscal Year 2024 (FY24) operating budget for the University of Washington. The proposed FY24 operating budget is presented in the attached document, which includes proposed tuition rate recommendations for FY24.

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

1. Adopts the proposed FY24 operating budget for entire University, with a focus on the Academy (Attachment 1);

    - Establishes tuition rates for the 2023-24 academic year for all tuition categories;
    - 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;
    - Considers proposed changes to tuition and fee rates in the context of a Cost of Attendance appendix item (Attachment 4);

2. Approves the FY24 budget for Intercollegiate Athletics; financial forecasts from Intercollegiate Athletics are incorporated within the Auxiliary section of the proposed FY24 operating budget (Attachment 1) but are provided to the Board of Regents as a separate attachment for ease of review (Attachment 2);

3. Approves the FY24 budget for UW Medicine (Attachment 3);

    - Approves the restructure of UW Medicine Select Units - UW Division ILP debt service so that Fiscal Year 2024 debt service reflects an interest only payment. The Fiscal Year 2024 principal amount of $25.8 million will be deferred and amortized over the remaining term of the respective loans beginning in Fiscal Year 2025. Repayment of principal will resume beginning on July 1, 2024. The restructure results in a Fiscal Year 2024 interest payment of approximately $18.3 million and an increase in total payments of roughly $7.4 million over the remaining life of the loans (total increase in payments).

Approve Fiscal Year 2024 Operating Budget (continued p. 2)

BACKGROUND

This action item presents the University's proposed operating budget package for FY24, which begins on July 1, 2023, and ends on June 30, 2024. The FY24 operating budget (Attachment 1) includes proposed tuition rates and is presented as a comprehensive draft for discussion. While recent state investments have been positive, significant economic uncertainty remains, and the University is facing challenges in delivering its core mission activities. As a result, we will continue to provide updated budget performance reports to the Board monthly.

Efforts to pull together the proposed FY24 operating budget marked the first time the University has had an opportunity to leverage its investment in the Workday Finance ecosystem and Finance Transformation effort. Deployed broadly across the Academy during the FY24 budget development cycle, Workday Adaptive Planning was utilized to execute the University's first all funds, "bottoms-up, top-down" resource planning exercise within a consistent, structured platform. While this cycle was impacted by challenges inherent in transforming the institution's planning processes from antiquated tools to a modern ERP platform, tremendous value was achieved by making this shift prior to the "go-live" of the broader Workday Finance platform. Because of this work and the engagement of more than 400 planners across the Academy, we believe the University is well positioned to take advantage of the full capacity of the Adaptive Planning tool across the Academy and Medicine during FY24.

The proposed FY24 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 FY24 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 2023-24 academic year; and
- A proposed budget for:
    - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY23 and FY24;
    - Gift income and endowment distribution projections for FY24; and,
    - Sponsored research activity, including expense projections for FY23 and FY24.

Approve Fiscal Year 2024 Operating Budget (continued p. 3)

Additional budget attachments include:

- A proposed budget for Intercollegiate Athletics (Attachment 2)
- A proposed budget for UW Medicine, including preliminary FY23 financial results and information related to ongoing development of target operating margins for FY24 (Attachment 3)

The University's proposed FY24 operating budget was modified based on updated information. Major changes to the information item presented to the Regents in May are highlighted in yellow for this action item.

Attachments

1. Proposed Operating Budget – Fiscal Year 2024
2. UW Intercollegiate Athletics | FY24 Proposed Budget
3. UW Medicine FY24 Proposed Budget
4. 2023-24 Cost of Attendance for First-Year UW Undergraduate Students (proposed)

UNIVERSITY of WASHINGTON

OFFICE OF PLANNING & BUDGETING

OPERATING BUDGET

Fiscal Year 2024

INTRODUCTION FROM THE PROVOST

As I approach the end of my final year as Provost, I am deeply proud of the work the University community has accomplished despite the many challenges we have faced together over the five years I have had the honor and privilege of serving with this community. Together we have pivoted often to meet new and extremely challenging circumstances, experienced significant disruption not just in our learning and working environments, but in our lives, and have had to overcome many challenges to university operations. While much work remains to be done, it is important to note the incredible dedication, resilience, and ingenuity the university community has demonstrated throughout the last several budget cycles. Despite the challenges we have faced, we have continued to break down barriers to participation, innovate with limited resources, and accomplish great things together. We have continued to deliver on our public mission, which serves as a beacon of hope for what lies ahead.

This year we continued our return to learning, working, and collaborating more together and in person, enabling us to deliver the full on-campus Husky experience. It is vital that we also continue to better integrate digital tools for accessibility, and embrace new ways of learning, working, and engaging as a community. For a high-level view of some of these investments, please refer to the "Planned Core Operating Fund Investments" section on page 31.

The University of Washington's Fiscal Year 2024 (FY24) Operating Budget reflects collaboration and collective stewardship across the University's three campuses and our medical enterprise, including faculty, staff, students, and administrators. The budget development process has allowed us to monitor the areas hardest hit by the economic pressures of the pandemic and rising inflation. Thus, our current position requires careful planning and prudent decision-making.

PRIORITIES AND KEY FOCUS AREAS

Diversity, equity, and inclusion initiatives continue to be a top priority. We are committed to long-term efforts to align around a shared vision, and to work collaboratively across all three campuses and in our broader community to better align our work with the University's Diversity Blueprint 2.0. Like last year, all units were asked to respond to questions on diversity, equity, and inclusion initiatives currently underway, and identify key areas where additional progress is needed. This provides an important foundation for setting future priorities, as we continue to retain and build upon the diversity of our faculty and staff. We still have important work to do to advance these goals and much learning to do together. Our leadership team's top priority is increasing access for students from all backgrounds. In this year's FY24 internal operating budget process, we again asked units to explain how they are aligning their unit-level resources with these priorities and with their own strategic plans, building upon the lessons we have learned over the last several years.

We must also continue to address our deferred maintenance backlog and advance our transition to a clean energy future. The University is finding its day-to-day operations hampered by a lack of capital investment in the renewal of its physical infrastructure. Without careful planning and action, this has the potential to increasingly impact the University's ability to deliver on its mission, particularly in creating an equitable and accessible learning and working environment.

Of critical importance to meeting our shared climate goals, the UW has developed a "campus energy strategy" that includes significant capital and operational investments over the next 10 years. These efforts will modernize our energy infrastructure and better align UW's sustainability values with daily campus operations. This will be an important step forward, which requires substantial and ongoing investment from a wide variety of sources, in concert with careful long-term planning to meet our climate goals.

In addition to the demands of our physical infrastructure, the University continues to face risks from aging IT and cybersecurity infrastructure. Investments in this area are vital to supporting the growth and modernization, as well as risk mitigation, of facilities and spaces across our campuses and requires long-term planning and commitment of resources to ensure we mitigate these risks and transition our institution into the future.

This budget cycle also marks a significant milestone in addressing our IT deferred maintenance thanks to the incredible work across the University and from its Finance Transformation teams, with the "go live" of the Workday Finance suite of tools. This shift will allow us to use a modern enterprise-wide finance platform that will present new opportunities for transparency, coordination, and efficiency in the budget development process, and shift the way we view the budget moving forward.

This year we must begin to better address big and long-term issues such as the renewal of our aging infrastructure, investing in our clean energy future, and modernizing our aging IT and cybersecurity infrastructure, which will happen over many more budget cycles. While we identify and invest in solutions to these issues, we must also continue to promote diversity; recognize faculty excellence; keep our students' well-being, academic experience, and financial needs top of mind; and ensure the long-term fiscal health of our institution. Despite the difficult decisions this budget process requires, we are steadfast in our commitment to academic excellence, equity, access, and centering the needs of our diverse community. I am grateful for the many people who have collaborated in this process and proud of what we have shown we can accomplish when we all work together, guided by our values.

Considerations

Addressing these priorities continues to require substantial resources over many years. Available resources may again fall short of meeting our high-priority needs. With the most recent state revenue forecast showing slower growth than anticipated, and the uncertainties that remain around inflation, interest rates, and the lasting economic impacts of the COVID-19 pandemic, we will need to carefully prioritize our budget decisions. We continue to work closely with unit leadership to proactively resolve any overspending and carefully manage unexpended accumulated net position. We have also modeled enrollment projections and other areas of financial risk to the University to rigorously inform these decisions. Importantly, given the risks that remain, this document represents a current-state view of the University's budget for FY24 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 revenues by fund, and context for the broad budget of the University as a whole. Not included are accumulated net position (e.g., 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. However, this document represents projections at a given moment in time. Monthly budget performance updates will be provided to the Board of Regents as usual.

Finally, this is our first budget document representing the initial implementation of the University's Finance Transformation, after the "go live" of the Adaptive Release 1 financial planning tool. This nascent stage presents a truly exciting prospect for both bottoms-up and top-down budget accountability at the UW, though the views and form of the University's budget will continue to change in the coming year. Our transition will come with challenges and growing pains, but the opportunities are great. For example, Adaptive Release 2 will enable us to consolidate UW Academy and UW Medicine planning and budgeting for the first time.

Following this introduction, you will find an overview of the University and its activities, an executive summary of the FY24 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 2022-23 8

Executive Summary: FY24 Budget 10

How To Read This Document 12

Background 13

Challenge 1: Persistent Risks to Core Mission 15

Challenge 2: Societal and Campus Climate 21

Challenge 3: Building on Investments in Deferred Maintenance, Energy Renewal and Aging Infrastructure 24

Challenge 4: Enrollment Capacity Planning 27

Our UW Core Operating Budget 29

Planned Distribution of Core Operating Funds 30

Compensation 31

General Operating Expenditures 31

Planned Core Operating Fund Investments 31

Sources of Core Operating Funds 32

General Operating Fund (GOF) – As of May 26, 2023 32

Designated Operating Fund (DOF) – As of May 26, 2023 38

Ensuring Access and Completion: Financial Aid 40

Restricted Funds 42

University Auxiliary Activities 43

What You Need To Know About Auxiliary Activities 43

Revenues and Expenses – As of May 26, 2023 44

Power of Philanthropy: Gifts & Endowment Distributions 47

Gift Income 47

Endowment Distributions 47

From Ideas to Impact: Research Enterprise 49

Federal Outlook 50

Estimated Sponsored Projects Expenses 50

Award Trends 51

Conclusion: A Sustainable Path Forward 52

Acronym Glossary 53

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 2023 (FY23) Operating Budget totaled approximately $9.5 billion, and its Consolidated Endowment Fund was approximately $4.7 billion (as of June 2022). The University employs approximately 42,000 faculty and staff, and 4,500 graduate student employees. The UW's three campuses occupy 339 buildings on 792 acres, with approximately 23.1 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 29.5 million gross square feet.

As the state's flagship university, the UW enrolled more than 60,000 undergraduate, graduate, and professional students in fall 2022. The UW Continuum College served nearly 47,000 students via in-person and online degree and certificate programs and continuing professional education programs in the 2022-2023 academic year. The three UW campuses offer a broad range of graduate and undergraduate degrees, and collectively support more than 845 degree options across 474 programs.

As of 2020-21, the University supported more than 1,000 student-led organizations and provided undergraduate research opportunities for more than 7,000 students. In addition, nearly 5,800 students participated in University-sponsored public service, contributing over 664,670 hours of service to our local, regional, and global communities. In 2021-22, the UW awarded 18,460 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 2022–2023

uw.edu

PROFILE

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

474 programs

845 degree options

Average time to degree is 3.8 years.

83% of entering freshmen graduate within six years.

6.3% change in freshman applications to all three campuses.

27% of entering freshmen are first generation four-year degree seeking students.

7,052 (17%) of undergraduate students transferred from a Washington State community college.

TUITION

Washington resident undergraduate tuition and fees $12,242

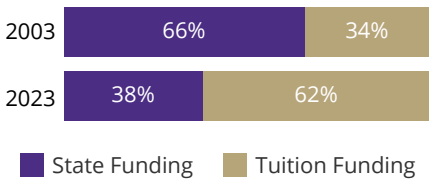
BUDGET

Annual budget: $9.49 Billion

$1.24 Billion General Operating Fund: supporting the University's academic mission.

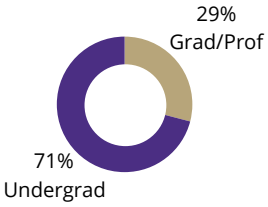
FUNDING

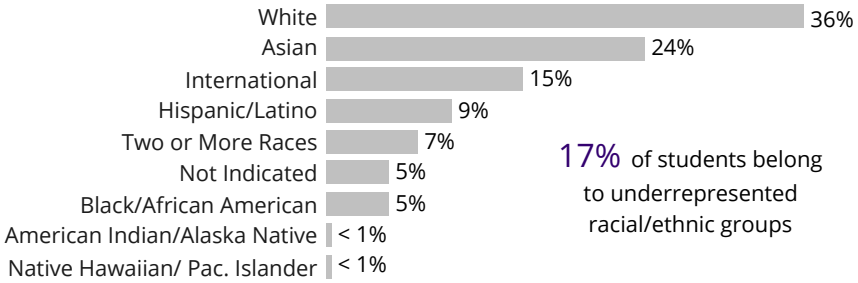
Tuition Revenue & State Funds (% of Total):



FALL 2022 TOTAL ENROLLMENT

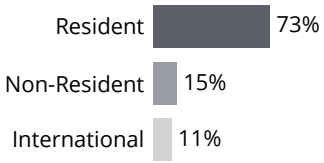
	Seattle	Bothell	Tacoma	TOTAL
Undergrad	33,300	5,213	4,103	42,616
Grad/Prof	16,222	545	711	17,478
TOTAL	49,522	5,758	4,814	60,094





17% of students belong to underrepresented racial/ethnic groups

UNDERGRADUATE RESIDENCY



50 of 50 states are represented at the UW.

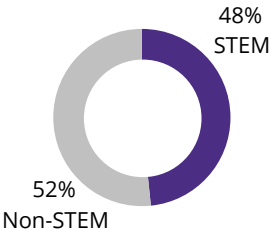
38 of 39 Washington counties are represented at the UW.

DEGREES AWARDED 2021-22

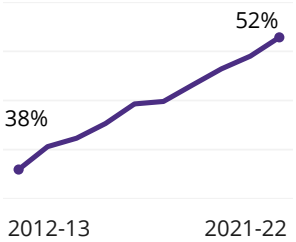
	Seattle	Bothell	Tacoma	TOTAL
Bachelor	8,648	1,794	1,472	11,914
Master	4,576	240	369	5,185
Doctorate	776		1	777
Professional	584			584
TOTAL	14,584	2,034	1,842	18,460

STEM STUDENTS

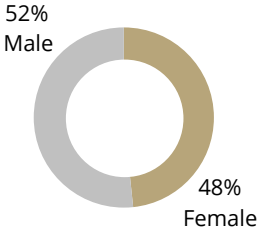
MAJORS



% OF ALL DEGREES



SEX



UNIVERSITY of WASHINGTON

PRIDE POINTS 2022–2023

uw.edu

AFFORDABILITY AND ACCESS

- In 2020–21, **66% of all UW undergraduates graduated with no known debt**, and those who borrowed still graduated with less debt than the national average.
- In 2021–22, **23% of UW undergraduates were eligible for Federal Pell Grant funding**. As of the most recent data (2021–22), more than 10,400 UW undergraduates received Pell Grants.
- In 2021–22, **26% of UW undergraduates from Washington (approximately 8,100) 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 50,000 students across the UW's three campuses** have received support from the program.
- In 2021–22, about **60% of UW undergraduates received some form of financial aid**, approximately $450 million.
- In 2021–22, the UW **awarded more than $110 million in institutional grants and scholarships to Washington residents**.
- In 2021–22, **approximately 14,500 UW students received funds from the Washington College Grant**.

AWARDS AND HONORS

- **The UW is one of the best universities in the world, ranked No. 6 globally and No. 2 among U.S. public institutions by U.S. News & World Report**, and No. 17 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 10 subjects placed in the top 10 in subject rankings.
- **The UW has been home to 7 Nobel Prize winners**; 19 MacArthur Fellows; 196 members of the National Academies of Sciences, Engineering, and Medicine; and 193 fellows in the American Association for the Advancement of Science.
- The UW was recognized by the ALL IN Campus Democracy Challenge as one of the **most engaged** campuses for student voting nationally.

RESEARCH AND SERVICE

- **The UW receives more federal research dollars than any other U.S. public university;** in FY22, the UW received $1.67 billion in total research awards (federal and non-federal sources).
- 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 1991, CoMotion at the UW has helped launch **271 companies**. These spinoffs have raised over $8.6 billion in funding, with $5.2 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** 2022 list**.**

EXECUTIVE SUMMARY: FY24 BUDGET

This document describes the UW's operating budget for the period of July 1, 2023, through June 30, 2024, which is known as fiscal year 2024 (FY24).

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

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

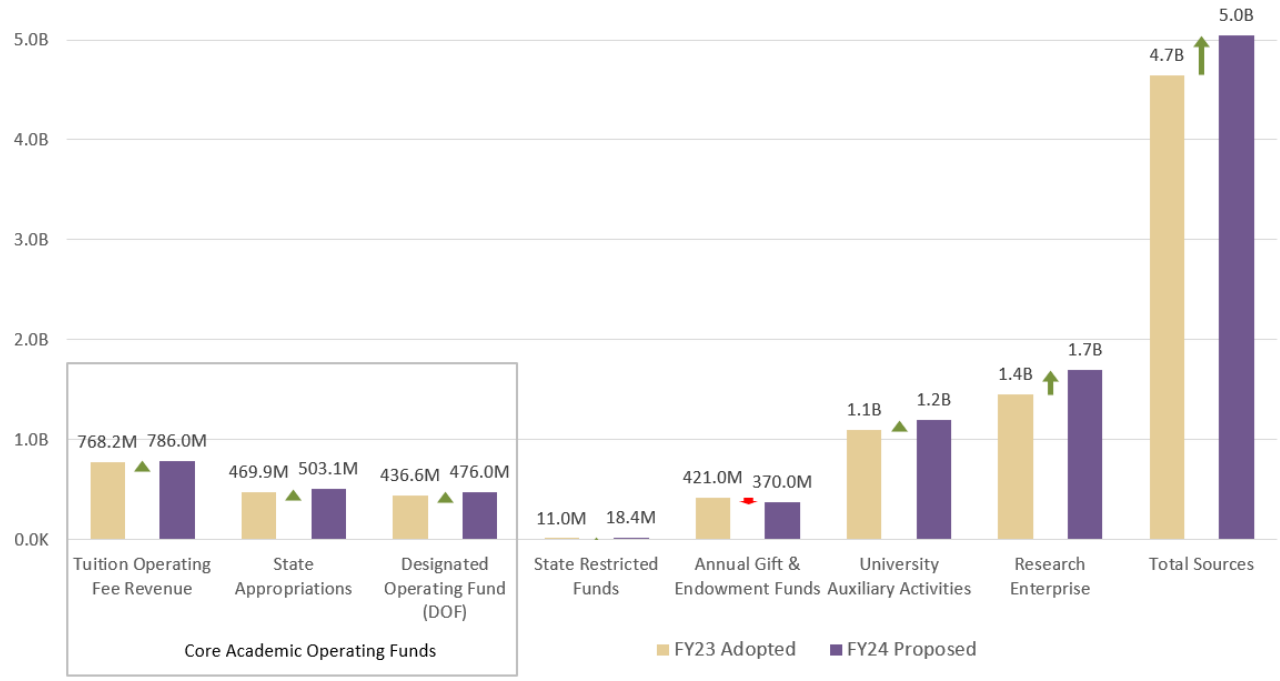
In an effort to provide comprehensive budget information, **this document also includes summarized and contextualized financial projections with the best available data and information for other major areas of the University's operating budget**:

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

In addition to this document, the Board of Regents will also consider budgets for Intercollegiate Athletics (ICA) and UW Medicine, which are included as additional attachments. 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 and to provide a high-level overview of the major changes to the resource streams supporting the Academy, Figure 1, below, provides a comparative view of the FY23 adopted and FY24 adopted operating resources.

Figure 1: FY23 Adopted vs FY24 Adopted Academy Budget Sources



Figures 2 and 3, below contextualize the FY24 revenue budget for purposes of providing a sense of scale associated with each component of the University's resources. As is common across the higher education landscape, many of the University's funding sources are restricted to specific use by internal policy or external factors, which significantly limits flexibility to utilize potential surpluses in one source to offset potential shortfalls in other sources. Within this document and supporting appendices for UW Medicine and ICA, planned uses of the University's diverse resource pools are covered in more detail.

Figure 2: FY24 Academy Budget Sources by Major Area

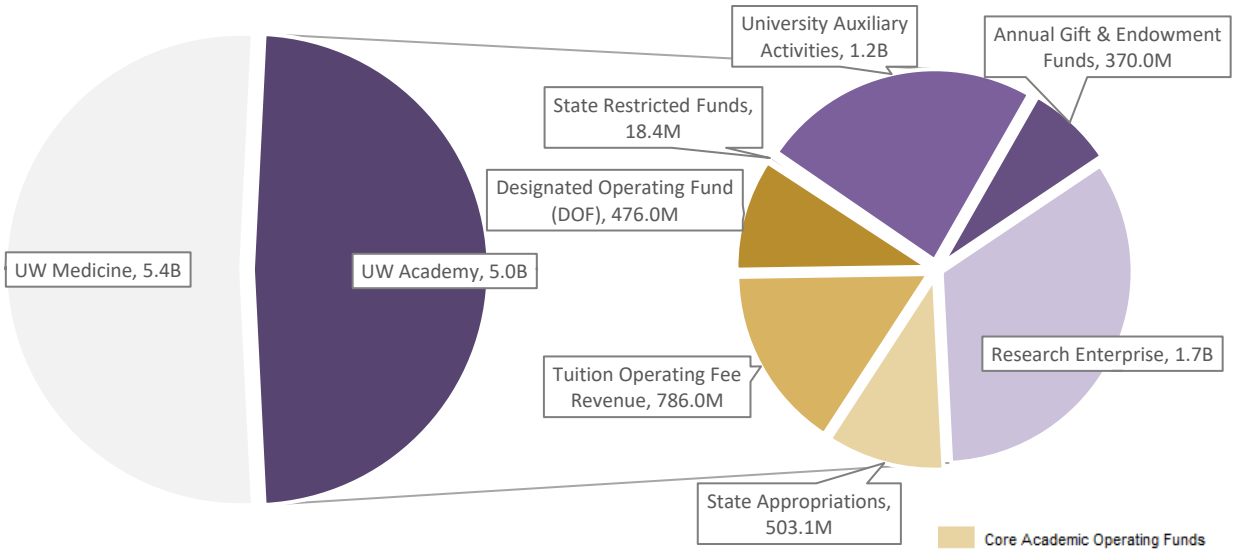
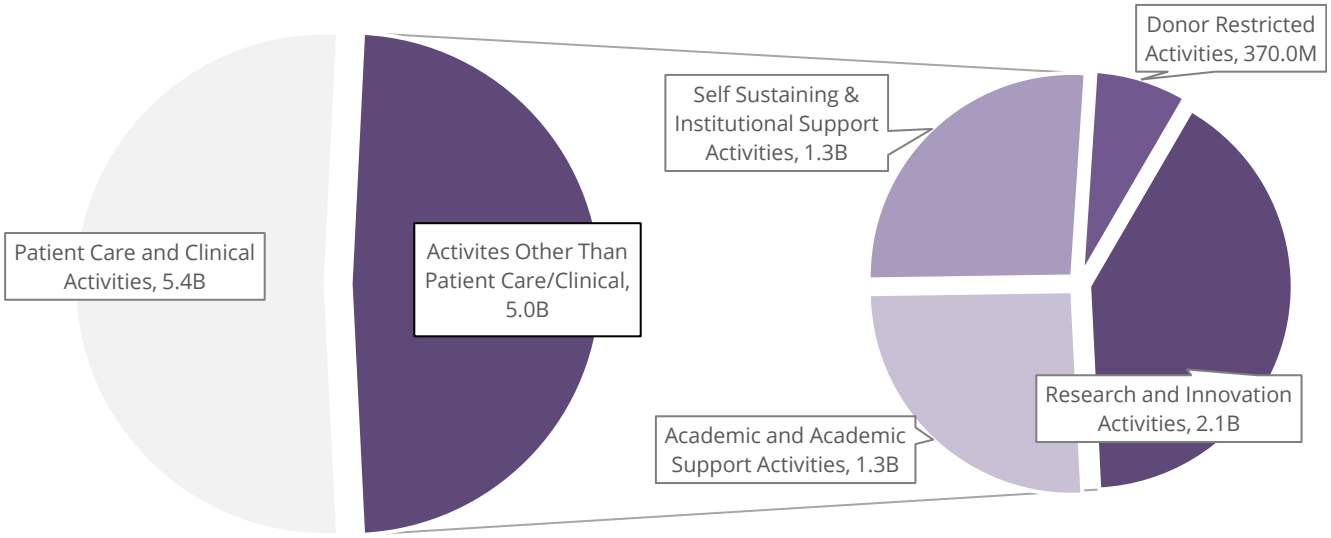


Figure 3, below, shows a breakdown of how FY24 operating resources will be used. State or federal laws dictate some of these uses, while University policies and donor requests determine others. **The organizations included as part of UW Medicine represent over half of the total enterprise.**

Figure 3: FY24 Academy Designated Uses of Funds by Activity



How To Read This Document

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

- 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
    - University Auxiliary Activities
    - Annual Gifts & Endowment Funds
    - Research Enterprise
- Budget details for Intercollegiate Athletics and UW Medicine are included as separate attachments to the budget package and include projections of revenue and expense. Both are considered part of the University's broader auxiliary enterprise but are separately presented due to size (UW Medicine) or compliance with state law (ICA). The financial activity of ICA is incorporated into the Auxiliary section of this document as a component of the Academy.
- Because the methodology of our work greatly influences its outcomes, please review the University's budget **methodology** on OPB's "About the Budget" page (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 29, which is where we dive into "Our Core Operating Budget," the first major area of the UW's 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 FY24. 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) Persistent Risks to Core Mission	• UW Medicine provides safety net care and medical training through UW Medical Center and Harborview Medical Center that are critical to Washington state and the region. • However, the hospitals face significant financial challenges in the wake of the COVID-19 pandemic due to a variety of factors including high rates of uncompensated care, rising labor costs, and chronic challenges associated with discharging patients with medical or behavioral complexity who are no longer in need of acute care. • While UW Medicine will receive additional state support in FY23 and FY24, the financial health of these institutions remains at high risk. • Financial challenges also exist for the University's core academic mission due to limited state support and tuition constraints, which are challenging given high inflation. • State support for compensation has improved in recent years, with state dollars expected to fund 60 percent of incremental salary increases for state funded non-represented faculty and staff during the 2023-25 biennium. However, future improvements are not guaranteed, given the risk of near-term recession.

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 updated the Diversity Blueprint in 2022. The framework builds upon existing goals and adds a new goal focused on place-based education and engagement. • At a high-level, academic and administrative units are implementing an equity lens to analyze and distribute resources to align with these goals. There is also an emphasis to create a better sense of belonging for students, faculty, and staff across the campuses. • The US Department of Education is formalizing Title IX Regulations which will formalize specific and extensive compliance obligations, including a broader definition of discrimination based on sex.
3) Building on Investments in Deferred Maintenance, Energy Renewal, and Aging Infrastructure	• 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, including the formation of the Capital Planning Advisory Team (CPAT). This advisory group will continue to help balance our competing capital needs and improve our ability to direct capital resources where they are most needed. • 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. • Energy transformation and our campus transition to a 100 percent clean energy strategy will require significant investment and long-term planning. • Investment in foundational IT infrastructure and cybersecurity is needed to support UW's growth and modernization of facilities and spaces. • The University's transition to Workday Finance has required significant coordination, investment, and planning across all three campuses to shift to a modern, cloud-based enterprise-wide finance platform.

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.

In the following pages, each challenge is explored in greater detail.

Challenge 1: Persistent Risks to Core Mission

UW MEDICINE AND HOSPITALS

Emerging from the height of the COVID-19 pandemic, the UW faces funding challenges that represent a significant risk to the mission of the University. The most urgent of these is the financial health of UW Medicine.

UW Medicine represents about half of the University's overall budget and serves as an integrated clinical, research, and learning health system for the entire state and region. UW Medicine is a family of organizations (some public and some private nonprofit) that are operated or managed as part of an integrated health system. Among these organizations are UW Medical Center (UWMC), Harborview Medical Center, Valley Medical Center, Fred Hutchinson Cancer Center, Seattle Children's Hospital, and UW Medicine Primary Care. Additionally, part of UW Medicine, the UW School of Medicine stretches into four additional states, with integrated training programs across Alaska, Montana, Idaho, and Wyoming.

UWMC and Harborview, which UW Medicine operates under contract with King County, are experiencing significant financial losses that have resulted in dangerously low cash balances and endanger the hospitals' ability to continue providing a full range of medical services critical to our region.

Role of UWMC and Harborview

UWMC is the state's hospital and is a major referral center for advanced medical services that are not available elsewhere in the state or region. UWMC also plays a critical role in addressing the state's behavioral health workforce shortage and limited psychiatry treatment capacity through its psychiatry training programs and delivery of inpatient psychiatry care. These efforts will be further enhanced with the opening of the Behavioral Health Teaching Facility at UWMC – Northwest in 2024. In FY22, UWMC cared for

patients in over 435,000 clinic visits, over 27,000 inpatient admissions, and more than 60,000 emergency department visits.

Harborview serves as the sole provider of Level I trauma care in the state and serves Alaska, Montana, and Idaho as well. It also has an explicit mission to care for the underserved and provides more charity care than any other hospital in the state. Harborview is also an important provider of secured inpatient mental health care, with 66 beds serving this patient population, the third largest psychiatric care facility in the state. In FY22, Harborview cared for patients in over 260,000 clinic visits, over 15,000 inpatient admissions, and over 50,000 emergency department visits.

UWMC and Harborview also play a central role in health care professional training for Washington state. UW Medicine is responsible for over 65 percent of physician residency training slots in Washington. In total, UW Medicine trains over 1,500 residents and fellows each year, across 200 specialties and subspecialties, with a significant majority based at UWMC and Harborview.

Impacts of Uncompensated Care and Services

UWMC and Harborview provide a disproportionate amount of uncompensated care, which is a key driver of financial challenges at both hospitals. In FY22, UW Medicine provided $810 million in uncompensated care. Uncompensated care accounted for 19 percent of UWMC's and 29 percent of Harborview's net patient service revenue in FY22.

The largest driver of uncompensated care is below-cost reimbursements from government payers, particularly Medicaid. Despite being reimbursed less than the cost of care for many critical services, UWMC and Harborview continue to provide safety net care, without restriction, preserving access for all Washingtonians to highly advanced care unavailable elsewhere.

Another significant driver of uncompensated care is the large number of patients no longer needing acute-level care but who remain hospitalized due to the lack of appropriate post-acute care availability and other factors (difficult-to-discharge). This is true across the state, throughout the UW Medicine system and particularly at Harborview—where approximately 20 percent of patients are no longer in need of acute care. On an average day over recent months, UW Medicine has approximately 175 such patients. Medicaid provides little or no reimbursement for these patients, despite the high costs of providing hospital-level care. All told, UW Medicine estimates that it is losing upwards of $109 million a year due to difficult-to-discharge patients.

Harborview has developed and funded a "bed readiness" program to help transition these patients to a more appropriate level of care, providing care coordination and supplementary payments to skilled nursing facilities—at a cost of over $8 million per year.

A third driver of uncompensated care is support for medical residencies. Because residents are trainees, they add costs in the form of their salaries and benefits, the time required for oversight by attending physicians, and other indirect costs to facilitate and optimize the training environment. Importantly, Medicare only reimburses a portion of these overall costs for a limited number of residents and the remainder of these costs are borne by UWMC and Harborview. UW Medicine's residency programs annually incur over $200 million in unreimbursed direct costs alone.

The Impact of Salaries and Benefits

Salaries and benefits are the single largest expense across the UW Medicine hospitals. UW Medicine's 35,000 staff, faculty, and trainees are critical to the institution and faced unprecedented challenges during the pandemic. As with other hospitals, UWMC and Harborview had to increasingly rely on contract labor to meet demand. In FY22, the two hospitals spent more than $205 million on contract labor combined.

More recently, market-wide salaries for permanent staff are growing to respond to high contract labor rates, which has impacted wages for represented staff at UW Medicine. Ensuring competitive compensation is crucial to UW Medicine's long-term success and will help stabilize the workforce and reduce reliance on contract labor, particularly for registered nurses.

The Path Forward

Despite these ongoing challenges, progress is being made to put UW Medicine on a stronger financial footing. During the 2019-21 biennium, the Washington State Legislature provided $40 million in one-time funding for UWMC and Harborview, in addition to historical funding. UW Medicine sought additional state support this legislative session. The final compromise budgets approved by the Legislature allocate an additional $50 million for the remainder of FY23 and $100 million in FY24 to UWMC and Harborview from a mix of federal and state funding. This funding will be used to support salaries, benefits, supplies, and other operating expenses that current patient care revenue is not funding. UW Medicine is also advocating for a new Medicaid directed payment program, which, if adopted by the state and approved by the federal government, could result in roughly $120 million in additional Medicaid reimbursement for UWMC and Harborview per year, starting in calendar year 2024.

Despite these one-time state payments, as well as internal efforts to improve staff retention, reduce reliance on contract labor, and address difficult-to-discharge challenges, more work is needed. Sustained support from the state and improved reimbursement are required to ensure UW Medicine is on a sustainable financial path moving forward.

RESOURCE CONSTRAINTS AFFECTING UW'S ACADEMIC MISSION

The University also faces critical funding challenges with regards to its academic mission. In the following sections, we summarize some of the primary constraints and considerations impacting this mission.

Core Academic Funding

Most of the support for the core education activity at the UW is provided from the University's General Operating Fund (GOF). The GOF is comprised of state appropriations and tuition revenue. The health of the GOF is essential to the University's primary functions but is also highly dependent on the state economy, decisions made by the Legislature, and other outside forces. In addition, while state funding comprises a large portion of GOF, the state does not provide sufficient support for many of the University's activities (e.g., salary increases, benefits, costs related to research, self-sustaining activity, etc.). This leaves a sizeable gap between available revenue and what is needed to keep up with current inflation rates, competitive salaries, and other costs of doing business. Therefore, the University must carefully balance its desire to invest in excellence and compete in international, national, and local markets with the reality that revenues continue to be constrained.

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

- In 1991 (FY91), the state provided 82 percent of total funding per student FTE, with students and families responsible for the remaining 18 percent through 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. The UW enrolls more resident undergraduate students than any other public 4-year institution, and 38 percent of the statewide total.
- With updates to FY23 state appropriations and enrollment projections, projected funding per FTE for FY23 is $24,643, with 37 percent covered by state funding, **leaving 63 percent to be covered by students and families.**

Recently, the downward trend in state funding per student has slightly reversed due to limitations on resident undergraduate tuition rate increases (see the "Resident Undergraduate Tuition" section below), some additional state investments to backfill foregone resident undergraduate tuition revenue, and funding to improve the share of state support for compensation and central service expenses. However, despite additional state funding, the total revenue available has fallen short, and much of the new funding is earmarked for specific purposes and cannot be applied broadly to core educational operations. See the "State Appropriations" section on page 32 for more information.

The UW in Seattle often compares itself to other U.S. News & World Report (U.S. News) Top Public Research Institutions 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 $800 less state funding per student than the mean of U.S. News peer institutions**.

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. Therefore, the **tuition and state funding per FTE student are not equivalent to the total expenditures needed to educate each FTE student**.

Resource Constraint - Resident Undergraduate (RUG) Tuition

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 new challenges arise. This is particularly true for resident undergraduate (RUG) tuition rates, which the state controls.

For the two biennia prior to the Great Recession, RUG tuition rates were allowed to increase by up to 7 percent per year. However, with the passage of 2ESSSB 5954 in 2015, the Legislature limited RUG tuition increases to the 14-year rolling average of Washington's median hourly wage as reported by the Bureau of Labor Statistics (BLS). This has limited RUG tuition increases to between 2.2 percent to 2.8 percent per year. The BLS data informing the allowable increase was released in April, and the Governor's Office of Financial Management (OFM) confirmed a 3.0 percent allowable increase for FY24. The tuition recommendations in this budget apply the same increase to all University-wide rates.

Even combined with backfill adjustments from the state, this expected increase will not be enough to address rising costs from inflation and resource gaps left from the great recession. Tuition increases are often below inflation even in normal economic times. During times of unusually high inflation, as is currently the case, 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.

The constraints on RUG tuition-setting authority continue to present challenges and are reflected in comparisons with peer universities. **The UW's RUG tuition rate remains low compared to its peers**, many of whom increased tuition significantly in recent years to accommodate inflationary pressures and compensation investments. For the 2022-23 academic year, the UW in Seattle's RUG tuition and fee rate of $12,242 is $1,640 *below* the peer average and is the 9th lowest of our 28 peers.

Resource Constraint - Other Tuition Categories

Unlike RUG tuition, tuition rates for nonresident undergraduate, graduate, and professional students are controlled by the University. However, our ability to increase these rates in response to funding needs is limited by several constraints. When setting tuition rates for these programs, the University must consider peer comparisons. The UW is currently near the peer mean for nonresident undergraduate tuition rates. For the 2022-23 academic year, UW's non-resident tuition and fee rate is $40,740, approximately $200 above the peer average. This is a change over the 2021-22 academic year, when UW was $2,592 above the peer average.

Graduate and professional tuition rates must also contemplate competitive recruitment and funding for teaching assistant (TA) and research assistant (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.

Pressure on Expenditures - Compensation

In recent years, our top priority has been to secure more state funding for compensation to align with the other public state colleges and universities. For context, following the Great 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 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, recent state budgets have improved upon this ratio.

The 2023-25 biennial budget authorizes salary increases for non-represented faculty and staff of 4 percent in FY24 and 3 percent in FY25. During the previous biennium, non-represented employees received a 3.25 percent salary increase of which 58 percent of the total incremental cost was funded by the state. The compensation funding split for the new biennium will improve slightly, with 60 percent of the total incremental cost to be funded by the state. While this is a positive development, **the UW still lags the funding split provided to other state institutions of higher education.** Additionally, the risk of a recession in the near-term could negatively impact state revenues that therefore the fund split for future

salary increases. "State Appropriations" section on page 32 for more information about outcomes of the 2023 legislative session.

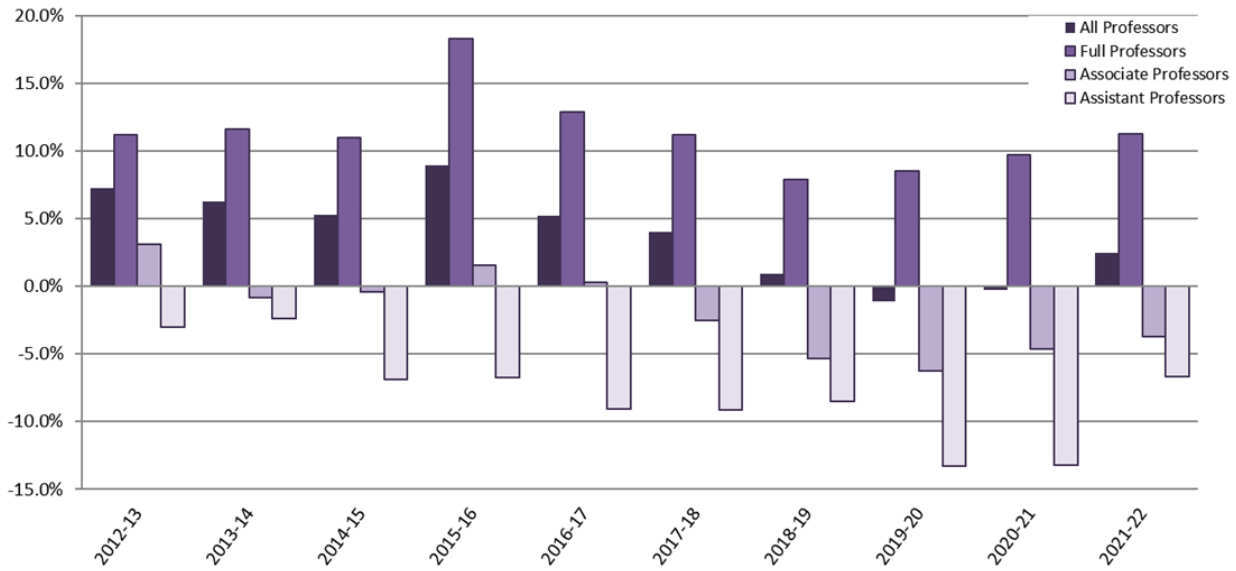
In addition, state assumptions regarding employee benefits rates and monthly health care employer contribution caps continue to put pressure on the University. The 2023-25 operating budget updated monthly employer contribution caps. In real terms, these benefits changes have caused a significant increase in the University's benefit load rates (BLR). **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 across its functions and lines of business.**

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.**

Pressure on Expenditures – Compensation Comparisons

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 according to data from the American Association of University Professors (AAUP). Please note that in 2020, the UW began including in data submissions the salaries of the new teaching track titles in the assistant, associate, and full professor ranks (previously captured as Lecturer titles). For trending purposes, the below figure has teaching track title salaries excluded.

Figure 4: UW Seattle Tenured/Tenure Track 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 tenured and tenure-track assistant and associate professor faculty has been reduced. Meanwhile, the salary gap for full professor faculty was

reduced up until FY20 but has since reemerged. These gaps have made it difficult to form competitive recruitment packages for prospective faculty, which are especially important given the high cost of living in the Seattle region.

In 2012-13, the University's average tenure/tenure-track salaries were 7.2 percent behind the comparison group. At that time, associate and full professors were behind the comparison group by 3.1 percent and 11.1 percent, respectively. Assistant professors were above the mean by 3.0 percent. As of 2021-22, the University's average salaries are 2.4 percent below the comparison group, UW assistant and associate rank average salaries continue to trend above the peer average (6.7 and 3.7 percent, respectively), while full professor salaries are below the peer average by 11.3 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, our most acute retention cases are currently related to 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. Recruiting faculty, academic leadership, and staff from outside of the Pacific Northwest is increasingly challenging due to our high cost of living, and the competitive landscape outside our region.

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. 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

In 2022, the University launched the third iteration of the Diversity Blueprint, which outlines a set of high-level goals for our tri-campus community. These goals provide an overarching framework that seeks to better enable the UW community to take meaningful action and increase accountability and transparency. The framework also 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, most recently these include:

- The Office of Minority Affairs & Diversity (OMA&D) commissioned a book entitled, *Revolution to Evolution*, that was published in February 2023. The book documents the history of OMA&D and tells

the story of the exclusion of certain populations to the University that led to the establishment of the Office.

- In 2021, the Legislature approved SB 5227, which requires institutions of higher education to implement diversity, equity, and inclusion training for faculty, staff, and students. A tri-campus workgroup successfully implemented the faculty and staff training, which is now available and required for new employees. Additional state funding will be provided in the upcoming biennium to support the student training, which will be implemented during the 2024-25 academic year.

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 build upon responses that they provided during the FY23 Annual Review Process. Each unit elaborated on how they have integrated the themes and goals of the Diversity Blueprint into their ongoing work to improve access, inclusion, and equity. Academic units emphasized strategies to recruit and retain diverse students, faculty, and staff. In addition, many units stressed the importance of not only providing targeted funding opportunities for students (e.g., scholarships and grants), but that the culture within their unit should strive to create a sense of belonging. Administrative units reported developing either strategic plans and/or staff-lead committees that are devoted to promoting diversity and inclusion within their unit and the broader UW community. Administrative units also shared their efforts to improve accountability and transparency. These efforts ranged from updating internal/external resources to reviewing exit interview data as a way to better understand the culture within their unit. It should also be noted that both academic and administrative units expressed a need for more competitive salaries 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 discrimination, 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, 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. In 2022-23, UW implemented strategies to ensure that all community members complete the Husky Prevention and Response courses. As of March 2023, over 90 percent of new UW students and 80 percent of all UW employees across all UW locations have completed the course.

Another notable development in the gender equity realm is the proposed Title IX regulations which are expected to be finalized by the U.S. Department of Education in May 2023. The proposed regulations will formalize specific and extensive Title IX compliance obligations, including a broader definition of discrimination based on sex to include sex characteristics, sex stereotypes, gender identity, pregnancy status, and sexual orientation (in addition to current Title IX conduct: sexual assault, stalking, dating violence, and harassment). The regulations will also expand institutions' obligations to support pregnant

students and will increase employee mandatory reporting expectations related to potential Title IX violations. To anticipation of these significant changes, the UW has been preparing for a more streamlined and centralized process for receiving reports as well as working to increase options for formal and informal response to reports. This budget provides additional funding for our Title IX Office, focused on training and additional support for our community.

Disability Access & Accessibility

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.

With the guidance and oversight of the Steering Committee, three projects were engaged this past year, two of which have since initiated additional work to enhance accessibility:

- In May 2023, in alignment with Global Accessibility Awareness Day (GAAD), the University will launch a website that centralizes information on accessibility resources as part of a strategic priority to demonstrate an enterprise-wide commitment to access and inclusion. With this launch there will be opportunities for campus members to engage with campus GAAD activities.
- An IT Accessibility Current State report included short and long-term recommendations to focus the University's work to ensure we are meeting obligations of access in our digital environments. A key short-term recommendation is to review and assess the impacts of the upcoming U.S. Department of Justice's (DOJ) Notice of Proposed Rulemaking for digital accessibility, scheduled for May 2023.

In addition, the University continued to publish campus summaries of work completed towards each ADA Transition Plan for the built environment. UW Facilities and Marketing & Communications began a collaboration to update the Seattle campus map, including ensuring accessibility features and information are prioritized. Enterprise Risk Management projects were engaged with connections to accessibility requirements across various topics including vendor management in partnership with cyber security and ADA access in deferred maintenance planning.

Lastly, it is important to highlight the growth of disability access needs that are reported by students across the University. Specifically, student demand for accommodations in academic programs and for events and other programs managed by the University have continued to grow in recent years. It is evident from these data, that the transition back to in-person educational delivery has generated greater complexity for academic personnel and students. In support of building awareness of this issue, the Office of Student Life, Office of the ADA Coordinator, and the Office of Budget and Planning collaborated to update available data on UW Profiles. This budget provides needed support for ADA related capital projects.

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.

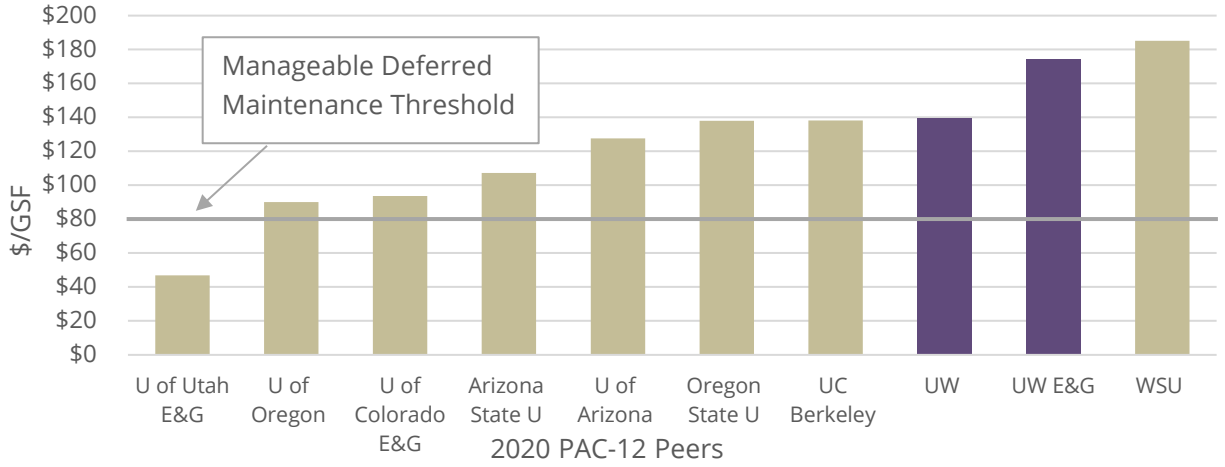
The Washington State Legislature has supported legislation in recent sessions that has addressed racial and gender equity, as well as basic needs and additional support for students (beyond financial aid). The University looks forward to complying with and expanding upon relevant legislation passed in 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, reforms to undo bias in health care, improving diversity in clinical trials, 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, Energy Renewal and Aging Infrastructure

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 5 below).

With such a substantial backlog, there is an 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 5: 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, in early 2020, the administration developed a long-term capital strategy to guide the formation and prioritization of capital project investment needs. This strategy included the formation of the Capital Planning Advisory Team (CPAT). CPAT has since created a policy for Capital Planning and Space Stewardship, published detailed guidelines to put the policy into practice, and is utilizing a review and scoring methodology to sharpen the enterprise focus of strategic capital planning. This advisory group will continue to help balance our competing capital needs and improve our ability to direct capital resources to the highest and best use. CPAT, in collaboration with OPB and Facilities, is working to improve the strategy by relying 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 FY24 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. **Transition UW's Clean Energy Strategy into an implementation plan and initiate implementation of that plan:** This must be done to address immediate needs **(with a long-term vision)** 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 academic quality through the modernization of deteriorating facilities.

Energy Renewal and Clean Energy Strategy

The University of Washington has developed an innovative energy transformation strategy for transitioning the Seattle campus energy infrastructure to 100 percent clean energy. This monumental undertaking will modernize our energy infrastructure and better align UW's sustainability values with daily campus operations. With an aging central power plant and an eight-mile utility tunnel system, the UW operates and maintains a district energy system (DES) that currently serves 174 UW buildings providing steam to 13.4M SF and chilled water to 7.3M SF throughout the UW Seattle campus.

The current UW DES is fueled with natural gas to produce steam, making the UW central plant the largest source (93 percent) of greenhouse gases (GHG) in the UW's carbon emissions inventory, at approximately 85,000 MT CO2e (metric tons of carbon dioxide equivalent emissions) per year. Transitioning the Seattle plant to 100 percent clean energy is a critical next step for UW, and a project that will take significant coordination, planning, and investment over many years.

The UW has developed a "campus energy strategy" that includes capital and operational investments over the next 10 years, planning for the sourcing, production, distribution, consumption, recovery, and re-use of thermal heating/cooling, and electrical power on our Seattle campus. The UW is targeting the development of projects by early 2024, and completion by December 2031. This work will require significant and ongoing investment from a wide variety of sources that will require long-term planning to ensure we meet our climate commitment goals.

IT infrastructure, cybersecurity, and transition to Workday Finance

In addition to physical plant infrastructure, the University, like many of our peers, continues to face significant risk, and requires investment in foundational IT infrastructure and cybersecurity. To support the UW's growth and modernization of facilities and spaces, the University has a need to continue investing significant funds in critical technology infrastructure. This core infrastructure is ultimately supported by two data centers, each with its own unique infrastructure requirements. This includes the availability of space, cooling, and power, which is also in scope for the modernization of aging infrastructure.

Essential multi-year efforts focus on replacing core equipment (e.g., network switches and Wi-Fi routers) as these technologies reach end-of-life, continuing to improve access to and capacity of, critical research support tools, such as the UW's Hyak supercomputer, and investing in more advanced technology to lower the University's cybersecurity risk profile. The University also plans to expand its cloud infrastructure which transitions future investments from capital expenditures to operating expenditures, and this should bring more predictability to multi-year planning.

FY2024 will mark another milestone in the UW's migration away from aging legacy mainframe systems with the "go live" of the Workday Finance suite of tools. Along with the shift to a modern, cloud-based enterprise-wide finance platform, successful remediation or deprecation of hundreds of "side systems" bolted together over the last 50 years remains a key priority in addressing technical deferred maintenance.

These efforts will require significant planning and investment over many budget cycles to address. While they continue to be a top risk and challenge to university operations, careful modeling, planning, and investments are underway to put the University on a sustainable path forward. This budget provides support for additional staff to work on preventative maintenance, significant support for the University's cybersecurity program, as well as support for capital projects addressing our deferred maintenance backlog.

Challenge 4: Enrollment Capacity Planning

Student enrollment growth is constrained by space and funding, particularly where there is a misalignment of instructional capacity and student demand. After years of steady enrollments in Seattle and growth at the Bothell and Tacoma campuses, enrollment trends have changed. 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. As student demand in Science, Technology, Engineering, and Mathematics (STEM) fields continues to grow, particularly in computer science, UW Seattle's strategies for sustaining steady enrollments rely on better alignment of capacity, demand, and resource allocation. Changes in the academic interests of students have necessitated these shifts, which makes it incumbent on the University to ensure that students' academic needs are met while also providing adequate support services.

To date, students are coming in with more participation in dual credit programs (e.g., Running Start, AP/IB), reducing activity in some of the most cost-effective general education courses. Additionally, resident tuition rates (set by the state) have not kept pace with inflation. On the Seattle campus these issues have, to this

point, been somewhat mitigated by increases in US non-resident enrollments. However, this trend is unlikely to continue, prompting Enrollment Management to identify alternative recruitment and admission strategies.

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 program growth.

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 way to attract students pursuing majors outside their own college as well as to pool resources across units to develop cost-effective and collaborative programs.

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).

Table 1 shows projections for the FY24 core operating budget compared to the FY23 adopted budget, including a view of planned uses of incremental funds. Table 2, below, shows the FY24 core operating budget compared to the FY23 adopted budget and a revised forecast for FY23.

Table 1: FY24 Projected Sources and Uses of Core Operating Funds as of May 26, 2023[1]

	FY23 Adopted	Incremental Change	FY24 Adopted
Total Core Funds	**1,674,609,000**	**90,382,000**	**1,764,991,000**
General Operating Fund:	**1,238,043,000**	**50,995,000**	**1,289,038,000**
State Appropriations	469,852,000	33,212,000	503,064,000[2]
Tuition Operating Fee Revenue	768,191,000	17,783,000	785,974,000
Designated Operating Fund:	**436,566,000**	**39,388,000**	**475,954,000**
Indirect Cost Recovery	306,525,000	38,475,000	345,000,000
Institutional Overhead	32,106,000	1,340,000	33,446,000
Administrative Overhead	10,142,000	(783,000)	9,359,000
Summer Quarter Tuition	63,879,000	4,106,000	67,985,000
Investment Income	12,750,000	(3,750,000)	9,000,000
Provost ILP Risk Fund	2,100,000	0	2,100,000
Miscellaneous Fees	9,063,000	0	9,063,000
Uses of Funds:	**1,674,609,000**	**90,382,000**	**1,764,991,000**
FY23 Base	**1,674,609,000**		
State Adjustments to Prior Fiscal Year Base		(23,303,000)	
Incremental Uses and Adjustments			
Legislative Directives - Provisos		28,702,000	
State Support for Compensation		21,014,000	
Tuition Distributions to Units		14,130,000	
Indirect Cost Recovery Distribution to Units		12,023,000	
Provost Reinvestment Pool		11,602,000	
Targeted Ongoing Investments:		26,214,000	
Compliance & Risk Mitigation		*7,938,000*	
Plant Operations & Institutional Support Infrastructure		*6,653,000*	
Cybersecurity & IT Infrastructure		*6,292,000*	
Research & Innovation Support		*2,022,000*	
Safety & Emergency Management		*1,658,000*	
Student Experience & Academic Program Enhancement		*1,652,000*	

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

[2] *Does not include $80 million of one- time UW Medicine clinical safety net support, which is accounted for in the UW Medicine budget.*

Table 2: FY24 Projected Sources of Core Operating Funds as of May 26, 2023[1]

	FY23 Budget	FY23 Forecast	FY23 Variance Forecast Greater (Less) than Budget	FY24 Increment FY23 Forecast to FY24 Adopted	FY24 Adopted
Total:	**1,674,609,000**	**1,707,328,000**	***32,718,000***	**57,664,000**	**1,764,991,000**
General Operating Fund:	**1,238,043,000**	**1,236,571,000**	***(1,472,000)***	**52,466,000**	**1,289,038,000**
State Appropriations	469,852,000	472,209,000	*2,357,000*	30,855,000	503,064,000[2]
Tuition Operating Fee Revenue	768,191,000	764,362,000	*(3,829,000)*	21,611,000	785,974,000
Designated Operating Fund:	**436,566,000**	**470,756,000**	***34,190,000***	**5,197,000**	**475,954,000**
Indirect Cost Recovery	306,525,000	335,524,000	*28,999,000*	9,476,000	345,000,000
Institutional Overhead	32,106,000	36,890,000	*4,784,000*	(3,444,000)	33,446,000
Administrative Overhead	10,142,000	9,175,000	*(967,000)*	184,000	9,359,000
Summer Quarter Tuition	63,879,000	67,154,000	*3,275,000*	831,000	67,985,000
Investment Income	12,750,000	10,850,000	*(1,900,000)*	(1,850,000)	9,000,000
Provost ILP Risk Fund	2,100,000	2,100,000	*0*	0	2,100,000
Miscellaneous Fees	9,063,000	9,063,000	*0*	0	9,063,000

[1] *Due to rounding, there may be discrepancies reflected above.*
[2] *Does not include $80 million of one-time UW Medicine clinical safety net support, which is accounted for in the UW Medicine budget.*

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 the "Ensuring Sound Budget Management" document on OPB's "About the Budget" page. 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 32.
- 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) Budget" section on page 38.
  - 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 33 for more information.
- It is important to emphasize that our ABB method formulaically corrects for over/under budget to actuals for much 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 FY24 budget, the President, Provost, and the OPB continued the established process of analyzing multi-fund financial forecasts for every unit on all three campuses, newly informed this cycle by the first release of the Workday Adaptive Planning tool. Based on the Washington State Legislature's authorization for general wage increases for UW employees of 4 percent in FY24, and after the consultations that occurred in March and April, this budget includes a 4 percent salary increase pool for certain non-represented employees (faculty, professional staff, academic staff, and classified non-union employees) in FY24. It is important to note, while the state budget has authorized a 4 percent merit for non-represented employees, only a fraction of total UW employees are paid with state funds.

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.

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, insurance premiums and 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.

PLANNED CORE OPERATING FUND INVESTMENTS

Contemplated in the FY24 core academic operating budget are 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 FY23, the core academic operating budget *base* for FY24, prior to consideration of new incremental resources, is expected to be reduced by approximately $23.3 million as a result of legislative

actions, primarily the expiration of one-time funding provided in the 2021-23 biennium (the largest portion of which was a one-time $20 million appropriation for UW Hospitals in FY23).

After contemplating this adjustment to the budget base for FY24, nearly $29 million of the new state general funding is associated with legislatively mandated activities and are included in the FY24 budget as state provisos, with the balance of state general funding supporting compensation and general operations of the University. As noted previously, UW Medicine safety net support state appropriations are included within the FY24 operating budget of UW Medicine as these resources ($80 million state general funds and $20 million state restricted funds) are specifically intended to support the healthcare mission of the University and are otherwise unavailable for use by the Academy. The next largest distribution of core academic operating funds is the allocation of resources to University units, (approximately $26.1 million to UW Seattle academic and administrative units, UW Bothell and UW Tacoma, with the balance, approximately $14.8 million, available for distribution in the Provost Reinvestment Pool).

Further targeted uses include investments necessary to sustain or enhance key University operations, including:

- $7.9 million to support the rising cost of the University's risk portfolio;
- $6.7 million to support the anticipated impacts of inflationary pressures on utility rates and utilization returning to levels prior to the onset of the pandemic;
- $6.3 million to support necessary enhancements to the University's cybersecurity and IT infrastructure; and
- $1.7 million investment in the student experience and academic program enhancement, including essential resources for student mental health services, library staffing and the DECOD program operated by the School of Dentistry

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: GOF and 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 26, 2023

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 26, 2023

At the end of the 2022 legislative session, the economic outlook in Washington state was forecasted positively. Because of this, lawmakers approved a 2022 supplemental budget that appropriated significant funding to the UW, including compensation and hospital safety-net support. However, beginning with the June 2022 Revenue Forecast, the ERFC's overall outlook shifted to caution that economic growth, while still

positive, was slowing. This trend has progressed, and the March 2023 forecast revised revenue down compared to the November 2022 forecast.

In the 2023 legislative session, which conclude don April 23, state lawmakers approved a 2023-25 biennial operating budget (affecting FY24 and FY25) and a second supplemental budget for the remainder of FY23. The Governor approved the budgets without major modification.

Total Near General Fund-State (NGF-S) funding in the final compromise budget is $1.1 billion over the 2023-25 biennium. This reflects a significant increase over the carry-forward level (the cost of continuing 2021-23 budget decisions into 2023-25). Increases in the operating budget are highly restricted and largely attributed to UW Medicine Safety Net appropriations of $100 million in FY24 ($80 million GF-S, $20 million Coronavirus State Fiscal Recovery Fund-Federal) and dedicated compensation appropriations for represented and non-represented faculty and staff. Because these appropriations are for UW Medicine, not for the academy, **these amounts are not included in the State Appropriations figures in this budget**, but rather are accounted for in revenue in the budget for UW Medicine.

At a high level, many of the University's operating budget requests were funded, along with nearly 40 additional proviso allocations – a record number. More information regarding state budgets, including a comprehensive summary of decisions and provisos in the 2023-25 biennial operating and capital budgets, can be found in relevant documents on the OPB Briefs webpage.

Tuition Revenue & Recommendations – As of May 26, 2023

Current resident undergraduate (RUG) 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 resulted in a lower than expected median hourly wage in FY23. As a result, the allowable tuition increase decreased from 2.8 percent in FY22 to 2.4 percent in FY23. The BLS data informing the allowable increase was released in April, and OFM confirmed a 3.0 percent allowable increase for FY24. The Board of Regents has the authority to set tuition rates for nonresident undergraduate and all graduate and professional tuition categories. The recommendation is to apply the same allowable increase to all university-wide rates.

The tuition rate recommendations in Table 3, 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 3 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 FY24—3.0 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 3 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 several tables and figures throughout this document as "Tuition Operating Fee Revenue." Tuition revenue projections reflect the tuition rate recommendations shown in Table 3, as well as approved enrollment increases, which were discussed in light of a four-year financial forecast for each campus.

Table 3: Adopted Tuition Rates for FY24

Unit	Tuition Category		FY23 (Current Annual Rate)	FY 24	
				% Change	Adopted Tuition Rate
University-wide	Undergraduate	Resident	$11,189	3.0%	$11,524
		Non-Res	$39,687	3.0%	$40,878
	Graduate Tier I	Resident	$17,004	3.0%	$17,514
		Non-Res	$30,477	3.0%	$31,392
	Graduate Tier II	Resident	$17,436	3.0%	$17,958
		Non-Res	$31,128	3.0%	$32,061
	Graduate Tier III	Resident	$19,482	3.0%	$20,067
		Non-Res	$34,728	3.0%	$35,769
Seattle Campus					
Built Environments, College of	Master of Construction Mgmt., Landscape Architecture, Urban Design & Planning	Resident	$16,965	0.0%	$16,965
		Non-Res	$30,210	0.0%	$30,210
	Master of Architecture and MSRE (Real Estate)	Resident	$17,940	0.0%	$17,940
		Non-Res	$37,779	0.0%	$37,779
Dentistry, School of	Dental Professional (DDS) Year 1	Resident	$47,190	2.0%	$48,135
		Non-Res	$72,762	0.0%	$72,762
	Dental Professional (DDS) Year 2	Resident	$47,190	2.0%	$48,135
		Non-Res	$72,762	0.0%	$72,762
	Dental Professional (DDS) Year 3	Resident	$47,184	2.0%	$48,129
		Non-Res	$72,762	0.0%	$72,762
	Dental Professional (DDS) Year 4	Resident	$43,617	2.0%	$44,490
		Non-Res	$72,762	0.0%	$72,762
	Graduate Dental - Oral Biology	Resident	$17,097	2.0%	$17,439
		Non-Res	$33,018	2.0%	$33,678
	Graduate Dental - Oral Medicine, Pediatric Dentistry, Periodontics, and Prosthodontics	Resident	$18,987	2.0%	$19,368
		Non-Res	$35,988	2.0%	$36,708
	Graduate Dental - Endodontics	Resident	$20,886	0.0%	$20,886
		Non-Res	$35,988	2.0%	$36,708
	Graduate Dental - Orthodontics	Resident	$26,595	0.0%	$26,595
		Non-Res	$35,988	2.0%	$36,708
Education, College of	Master of Education and Master in Teaching	Resident	$17,928	3.0%	$18,465
		Non-Res	$33,237	3.0%	$34,233
	Doctor of Education and Education PhD	Resident	$17,928	3.0%	$18,465
		Non-Res	$33,237	3.0%	$34,233
Engineering, College of	Master of Chemical Engineering	Resident	$24,465	2.0%	$24,954
		Non-Res	$38,571	2.0%	$39,342
	Master of Industrial and Systems Engineering	Resident	$24,465	2.0%	$24,954
		Non-Res	$38,571	2.0%	$39,342
	Master of Material Science and Engineering (Applied)	Resident	$24,465	2.0%	$24,954
		Non-Res	$38,571	2.0%	$39,342
	Master of Applied Bioengineering	Resident	$31,758	2.0%	$32,394
		Non-Res	$38,112	3.23%	$39,342

Environment, College of the	College of the Environment Graduate Programs	Resident	$17,436	3.0%	$17,958
		Non-Res	$31,128	3.0%	$32,061
	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	$25,887	4.0%	$26,922
		Non-Res	$44,364	4.0%	$46,140
Foster School	Master of Business Administration - Incoming	Resident	$37,392	4.0%	$38,889
		Non-Res	$55,074	3.0%	$56,727
	Master of Business Administration - Continuing	Resident	$35,610	5.0%	$37,392
		Non-Res	$52,452	5.0%	$55,074
Graduate School	Graduate School Interdisciplinary Programs Tier I[1]	Resident	$17,004	3.0%	$17,514
		Non-Res	$30,477	3.0%	$31,392
	Graduate School Interdisciplinary Programs Tier III[1]	Resident	$19,482	3.0%	$20,067
		Non-Res	$34,728	3.0%	$35,769
Law, School of	Law (JD) 1L	Resident	$40,635	4.5%	$42,465
		Non-Res	$52,401	4.0%	$54,498
	Law (JD) 2L	Resident	$38,328	4.5%	$40,053
		Non-Res	$50,883	4.0%	$52,917
	Law (JD) 3L	Resident	$37,398	4.5%	$39,081
		Non-Res	$49,866	4.0%	$51,861
	Master of Laws (LLM)	Resident	$27,648	4.5%	$28,893
		Non-Res	$45,432	2.0%	$46,341
	Law PhD	Resident	$24,237	4.0%	$25,206
		Non-Res	$45,432	2.0%	$46,341
Medicine, School of	Medical Professional (MD)	Resident	$39,033	3.0%	$40,203
		Non-Res	$69,696	3.0%	$71,787
Nursing, School of	Nursing Master and Doctor of Nursing Practice	Resident	$29,583	6.0%	$31,359
		Non-Res	$42,642	6.0%	$45,201
Pharmacy, School of	Doctor of Pharmacy	Resident	$34,182	2.0%	$34,866
		Non-Res	$56,430	0.0%	$56,430
	PharmD/MBA dual program with UW Bothell	Resident	$37,011	2.0%	$37,752
		Non-Res	$56,430	0.0%	$56,430
Public Health, School of	Master of Public Health	Resident	$23,139	3.0%	$23,832
		Non-Res	$40,278	3.0%	$41,487
	Public Health Graduate Programs - Other than MPH	Resident	$19,797	3.0%	$20,391
		Non-Res	$34,284	3.0%	$35,313
	Public Health Graduate Programs PhD Program	Resident	$19,797	3.0%	$20,391
		Non-Res	$34,284	3.0%	$35,313
Social Work, School of	Master of Social Work - Incoming	Resident	$21,477	5.0%	$22,551
		Non-Res	$36,897	5.0%	$38,742
	Master of Social Work - Continuing	Resident	$20,751	3.5%	$21,477
		Non-Res	$35,649	3.5%	$36,897

[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.

Bothell Campus					
UW Bothell	Nursing - Incoming	Resident	$17,214	2.5%	$17,643
		Non-Res	$30,726	2.5%	$31,494
	Nursing - Continuing	Resident	$16,794	2.5%	$17,214
		Non-Res	$29,976	2.5%	$30,726
	Master of Business Administration - Incoming	Resident	$24,939	2.0%	$25,437
		Non-Res	$31,269	2.0%	$31,893
	Master of Business Administration - Continuing	Resident	$24,450	2.0%	$24,939
		Non-Res	$30,657	2.0%	$31,269
Tacoma Campus					
UW Tacoma	Master of Business Administration - Incoming	Resident	$19,455	2.4%	$19,923
		Non-Res	$28,887	2.4%	$29,580
	Master of Business Administration - Continuing	Resident	$19,455	2.4%	$19,923
		Non-Res	$28,887	2.4%	$29,580
	Master of Business Analytics	Resident	$16,410	2.4%	$16,803
		Non-Res	$20,667	2.4%	$21,162

The University mitigates increases in tuition rates in a multitude of ways. Please see the "Ensuring Access and Completion" section on page 40 for information regarding financial aid available at the UW.

DESIGNATED OPERATING FUND (DOF) – AS OF MAY 26, 2023

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:

- **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 partial reimbursement for institutional expenses associated with the UW's research activity. FY23 represents another strong year for the UW's research enterprise and award trends thus far remain track to again see year over year growth. As of May 2023, ICR is on track to materially exceed budget for FY23 by approximately $29 million (9.5 percent). In FY24 the UW is projected to experience a modest 2.8 percent ICR increase over projected FY23 ICR due to current award trends and positive 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 and we expect to see a return to this trend as the significant demand for Lab Medicine testing services diminishes in FY24. Lab Medicine activities are largely exempt from Institutional Overhead under existing policy. Year to date FY23 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. In FY24, with the expectation of revenue declines relative to FY23, institutional overhead is anticipated to decrease by approximately 11 percent vs FY23 *forecast* and increase by 4 percent vs FY23 *budget*.
- **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 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. Summer Quarter 2023 (FY24) forecast includes a 1.0 percent increase in student credit hours (SCH) on the Seattle Campus and no growth to SCH on the UW Bothell and UW Tacoma campuses.
- **Investment Income:** DOF revenue derived from invested funds after distributions certain mandatory or policy driven allocations to business units. UW 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 $1.9 million from the adopted FY23 budget of $12.75 million. The underlying securities in the invested funds programs are sensitive to interest rates, which have continued to experience volatility over the last year, and the balance of funds in this pool, which has grown over the last year. FY24 revenues, net of distributions and fees are expended to decline on budget-to-budget basis vs the FY23 adopted levels with an

expectation that challenging economic conditions impacting the invested funds program will continue to persist.

- **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 FY24 value for this assumption of risk is expected to remain flat at $2.1 million and be fully allocated to ICA 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 stability within this pool in FY24.

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 and success, 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 4 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 awarded to student employees 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 4, 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 4 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. Additional support for graduate students comes from grants and contracts (for RAs) and from GOF (for TAs). Table 4 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 4: 2023-24 Net Operating Fee Revenue and Tuition-Based Aid[1]

	Undergraduate			Graduate/Professional			Total
	Resident	Nonresident[2]	Total	Resident	Nonresident	Total	
Full-Time Equivalent (FTE)	27,028	10,032	37,060	5,470	6,809	12,279	49,339
Gross Operating Fee Revenue	306,610,000	388,005,000	694,615,000	108,879,000	205,879,000	314,758,000	1,009,373,000
State-Mandated Aid	11,503,000	15,195,000	26,698,000	3,642,000	4,207,000	7,849,000	34,547,000
UW Institutional Aid	34,151,000	16,388,000	50,539,000	4,016,000	4,591,000	8,607,000	59,146,000
Waivers – Foregone Revenue[3]	6,760,000	3,811,000	10,571,000	13,469,000	95,915,000	109,384,000	119,955,000
Faculty and 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	249,488,000	350,068,000	599,556,000	86,502,000	99,916,000	186,418,000	785,974,000
Total Aid *from* Group	52,414,000	35,394,000	87,808,000	21,127,000	104,713,000	125,840,000	213,648,000
Total Aid *to* Group	82,699,000	12,085,000	94,784,000	24,200,000	94,665,000	118,865,000	213,649,000
Aid *to* Group as % of Gross	27%	3%	14%	22%	46%	38%	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 percent of waivers are provided to graduate teaching and research assistants as function of their appointment.
[4] Please refer to the Compensation section on page 31 for more information about the reinvestment pool.

Revenue received through nonresident undergraduate tuition contributes greatly to the financial aid funding pool. While nonresident undergraduate tuition generates more than $35 million in financial aid funds, these students are awarded approximately $12.1 million.

Figure 6, below, shows changes in **FTE enrollment** by student level and residency over time, while Figure 7 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 6: FTE Enrollment by Student Category

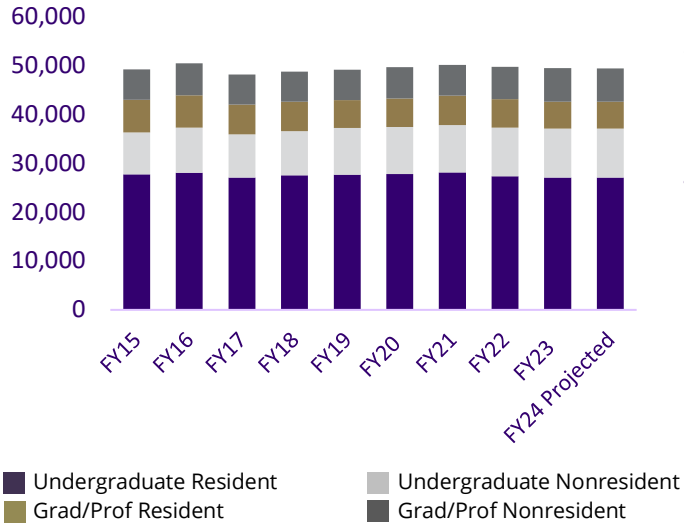
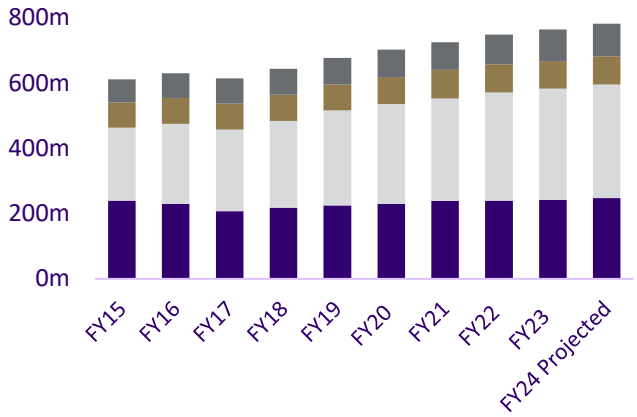


Figure 7: Net Revenue by Student Category



RESTRICTED FUNDS

Certain state appropriations can only be used for strategic purposes specified by the State Legislature and are distributed accordingly. All "Near General Fund-State" (NGF-S) 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 32. State restricted fund allocations are provided from other, less common fund sources, and are contemplated separately from NGF-S allocations.

The University will receive more than $38 million in state restricted funds in FY24. The largest portion, $20 million, is one-time funding to support UW Medical Center and Harborview Medical Center using federal COVID funds (along with a GF-S allocation of $80 million, totaling $100 million in FY24). The FY23 supplemental budget includes an additional $50 million in federal funds for the hospitals for the remainder of the current fiscal year. These amounts will be used to support the public health and safety net care missions of the two hospitals and are accounted for in the budget for UW Medicine. Therefore, they are not included in the table below.

Other new sources of restricted funds include $3 million in FY24 from the Climate Commitment Account to develop a Clean Energy Strategy that will better align UW's sustainability values for the Seattle campus. Also included is $2.5 million in each FY24 and FY25 for a sidewalk inventory and mapping project from the Multimodal Transportation Account, $416,000 from the Natural Climate Solutions Account to support the Washington Ocean Acidification Center, and $250,000 for the implementation of ESSHB 1134 (988 crisis response system).

Levels of funding from other restricted funds remain relatively unchanged, with most seeing small adjustments based on staffing and compensation changes. Accident and Medical Aid account funding is allocated to the Department of Environmental and Occupational Health Sciences (DEOHS) in the School of Public Health. The Economic Development Strategic Reserve account supports the Joint Center for Aerospace Technology Innovation (JCATI). Table 5 shows expected restricted fund allocations by fiscal year.

Table 5: State Restricted Funds (FY22-FY24)

State Restricted Fund Account	FY22	FY23	FY24
Biotoxin Acct (Shellfish Monitoring)	301,000	308,000	314,000
Aquatic Lands Enhancement Account	796,000	834,000	812,000
Geoduck Aquaculture Account	8,000	14,000	207,000
Economic Dev. Strategic Reserve Acct. (Aerospace Ctr)	1,540,000	1,561,000	1,555,000
Dedicated Cannabis Account	263,000	325,000	351,000
Accident Account (DEOHS)	3,877,000	4,111,000	4,200,000
Medical Aid Account (DEOHS)	3,687,000	3,877,000	3,947,000
UW Building Account	773,000	773,000	773,000
988 Behavioral Health & Suicide Prevention Line			250,000
Climate Commitment Account			3,075,000
Natural Climate Solutions Account			416,000
Multimodal Transportation Account			2,500,000
Total	**11,245,000**	**11,803,000**	**18,400,000**

*Note that most restricted fund accounts provide biennial appropriations, and therefore funds can be spent across the biennium.

UNIVERSITY AUXILIARY ACTIVITIES

WHAT YOU NEED TO KNOW ABOUT AUXILIARY ACTIVITIES

The University, like many large R1 institutions, operates a broad portfolio of auxiliary business enterprises that exist to support the multipart mission of the institution. These activities are different from those supported by tuition, state appropriations, and federal and state grants or contracts in that they are intended to function sustainably within the revenues generated from internal and external customers. Some of these large business enterprises include:

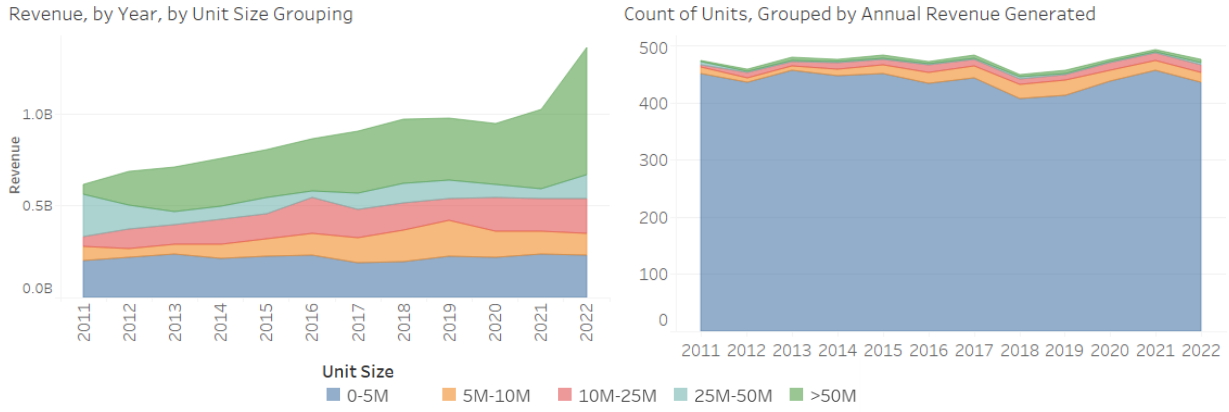
- Parking and Transportation Services (Seattle Campus);
- Housing and Food Services (Seattle Campus);
- Intercollegiate Athletics;
- Graduate Medical Education (GME); and
- Lab Medicine.

Due to the diverse nature of the portfolio of auxiliary enterprises and, in some cases, the debt covenants associated with their participation in the UW's Internal Lending Program (ILP), this component of the University's operations tend to operate with sizable accumulated net position. Although UW Medicine is considered an auxiliary, it is commonly identified and reported on separately, due to its size, risk profile and, in many cases, drastically different business environment relative to other auxiliary business enterprises.

Many of our schools, colleges, campuses, or administrative units have several types of auxiliary operations, ranging from specialty operations that focus on supporting a very specific type of activity to large operations that provide broad support to the University mission. 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. In FY22, the 1 percent of auxiliary units each generating greater than $50 million per year in revenue accounted for greater than half of total auxiliary revenue, while the 90 percent of auxiliary units that generate between $0 and $5 million per year account for just under twenty percent of total auxiliary revenue. Figure 8, below, shows these data over the last ten fiscal years.

Figure 8: Auxiliary Unit Trends (FY11-FY22)



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, OPB 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" the OPB website within the "About the Budget" page for more details.

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.

As this component of the University has grown in size and importance to the overall mission in time, administrative infrastructure, particularly the financial systems, have not kept pace with evolving business conditions and complexities. As a result, many auxiliary operations have relied upon "home grown" systems and processes, while others, particularly larger units, have implemented systems far more advanced or capable than core University financial and planning systems. With the implementation of Workday Finance and further enhancement to Adaptive Planning in FY24, tremendous opportunity exists in migrating the wide array of systems and tools into a single, shared, ERP, including greater degrees of information sharing, consistent bases of transacting and planning, as well as enhanced capacity for the institution to conduct "what if" modeling as we seek as a community, irrespective of funding source, to tackle the challenges facing UW over the coming years.

Revenues and Expenses – As of May 26, 2023

During last year's (FY23) budget development cycle, auxiliary revenues and expenses were predicted to decrease relative to FY22 due to an anticipated significant decline in Lab Medicine COVID-19 related activities and drawn-out recovery in other areas. While COVID-19 activities have declined, the degree of the decline anticipated has not materialized at this point in the fiscal year and, in general, recovery from the operational impacts of the pandemic accelerated faster than predicted. At the same time, many auxiliary

units are trending higher in revenues and expenses than anticipated, primarily a factor of wage and goods/services inflation influencing expenditures and causing units to increase pricing for services provided to internal and external customers. As a result, the auxiliary is forecasted to slightly exceed historical pre-pandemic margins in FY23, after adjusting for certain one-time transactions.

The FY24 budget development process marked a significant milestone in the UW's Finance Transformation project, the first time a component of the Workday Finance ecosystem, Workday Adaptive Planning, was broadly deployed to Academy users. Planning efforts in this new tool focused on FY24 activity and information collected via this process was combined with prior planning cycle multiyear forecasts and actual performance to arrive at a forecasted FY24 picture of auxiliary revenue and expenses. With full capacity of the Workday Finance ecosystem coming online in FY24 as well as enhanced functionality within the second "release" of the Adaptive Planning tool, FY24 will be rich with opportunities to capitalize on the groundwork laid over the last few years to migrate the entire institution to a consistent planning process and level of detail.

In FY24, it is anticipated that the University's auxiliary activities will continue to face varying economic and operational challenges, even as the material impacts of COVID-19 diminish. During FY23, lingering effects of the pandemic, geopolitical conditions and persistently high inflation combined with continued supply chain disruptions have led to increased expenditures and pressures on sustainable revenue growth. The FY24 budget development process highlighted uncertainty over the long term of the University's many relatively small self-sustaining business units, which rely heavily upon recharge to other units within the University for continued operation. As costs continue to rise, business units reliant on dwindling pools of internal funding sources to draw from will continue to feel the outsized impacts of challenges noted earlier in this document. While the University's larger auxiliary units face similar economic pressures, major differentiating factors include level of accumulated reserves, greater ability to influence operational efficiency/economies of scale and, in some cases, drastically differing business environments these units operate within.

Revenue in Tables 6 and 7, 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 6: FY23 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	87,300,000	133,000,000	135,000,000	85,300,000
Subtotal - Aux Education		**87,300,000**	**133,000,000**	**135,000,000**	**85,300,000**
Other Auxiliary Enterprises	UW Seattle	644,800,000	1,157,000,000[2]	1,117,000,000	684,800,000
	UW Bothell	23,200,000	15,000,000	13,500,000	24,700,000
	UW Tacoma	5,900,000	12,500,000	10,500,000	7,900,000
Subtotal Other Aux Enterprises		**673,900,000**	**1,184,500,000**	**1,141,000,000**	**717,400,000**
Total Auxiliary		**761,200,000**	**1,317,500,000**	**1,276,000,000**	**802,700,000**

[1] Balances include service and recharge center working capital, stabilization/risk mitigation funds, and committed/uncommitted reserves.
[2] In FY23, a MOU regarding repayment of the School of Dentistry's legacy deficit was established and resulted in a one-time reclassification of approximately $44 million, reflected in the forecasted revenue for FY23. Removing the effect of this transaction results in forecasted revenue of $1.11 billion.

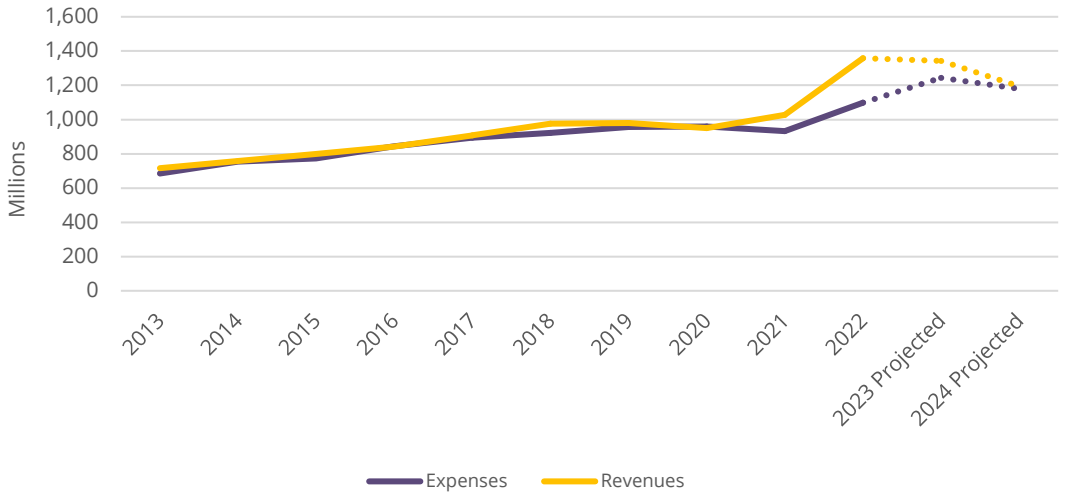
Table 7: FY24 Self-Sustaining Projected Revenue, Expenses, and Balances[1]

Auxiliary Group	Unit Group	Forecasted Beginning Balance	Forecasted Revenue	Forecasted Expense	Forecasted Ending Balance
Auxiliary Educational	All Locations	85,300,000	135,000,000	135,000,000	85,300,000
Subtotal - Aux Education		**85,300,000**	**135,000,000**	**135,000,000**	**85,300,000**
Other Auxiliary Enterprises	UW Seattle	684,800,000	1,034,000,000	1,022,000,000	755,800,000
	UW Bothell	24,700,000	15,200,000	11,300,000	30,600,000
	UW Tacoma	7,900,000	10,300,000	11,100,000	6,600,000
Subtotal Other Aux Enterprises		**717,400,000**	**1,059,500,000**	**1,044,400,000**	**732,500,000**
Total Auxiliary		**802,700,000**	**1,194,500,000**	**1,179,400,000**	**817,800,000**

[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 9 depicts consolidated revenues and expenses from FY13 through FY22, and projections for FY23 and FY24.

Figure 9: Auxiliary Revenue and Expense Trends (excluding UW Medicine)



POWER OF PHILANTHROPY: GIFTS & ENDOWMENT DISTRIBUTIONS

As a top global Research 1 (R1) public institution, the University of Washington maintains a robust philanthropic enterprise. We are identifying both school, college and campus visions and priorities, as well as a handful of significant multi-disciplinary initiatives that address some of the most intractable issues of our times. These transformational ideas will require significant collaboration throughout the University, as well as significant philanthropic and other investments.

Table 8 below shows changes between the FY23 adopted budget, revised projections for FY23, and the projected FY24 budget. The gift income figure—defined as current-use support—is a subset of total annual private support, which Advancement projects will be about $598 million in FY23. It does not include revenue from private grants (approximately $233 million) or new endowment gifts. Gift income for FY23 is trailing budget due to significant vacancies in frontline fundraisers and a timing difference in the realization of certain anticipated gifts.

Table 8: FY24 Annual Gift & Endowment Distributions

	FY23 Adopted	FY23 Forecasted	FY24 Adopted	% Change (Forecasted FY22 to FY23)
Gift Income	297,000,000	233,000,000	238,000,000	2.1%
Endowment Distributions	124,000,000	127,000,000	132,000,000	3.9%
Total	**421,000,000**	**360,000,000**	**370,000,000**	**2.8%**

GIFT INCOME

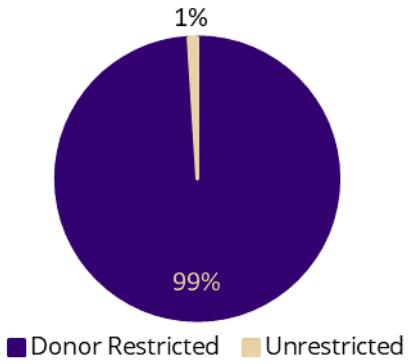
The $238 million FY23 gift income projection, shown in Table 8, reflects continued fundraising for current initiatives and long-term priorities, including support for students, faculty, programs, and key academic facilities. The 2.1 percent growth rate is in line with UW historical trends and sector 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 10 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 11, the UW's endowment serves core academic programs, with approximately two-thirds directly supporting students and faculty.

Figure 10: Composition of UW Endowment

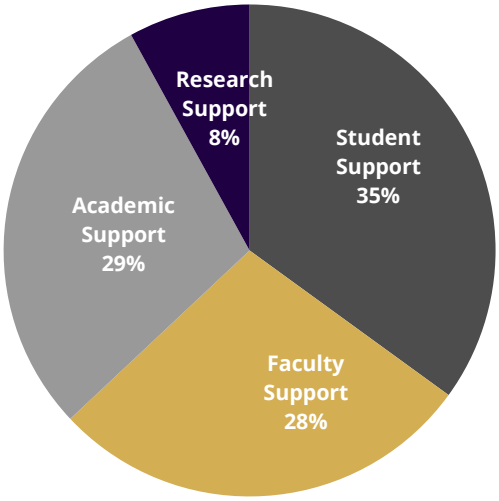


The UW Board of Regents considers long-term, inflation-adjusted returns and risk levels to establish sustainable investment and spending policies. In times of strong market performance, the UW builds reserves so that in bad markets the UW can sustain spending and limit disruption to essential academic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

Annually, donors contribute endowment gifts totaling more than $75 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 11: 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 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 2021 (the most recent national data available), UW Seattle 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 University's success in securing research grants and contracts, coupled with the research productivity associated with that success translates to consistently high scores in national and international rankings. The National Taiwan University ranks the University 8th overall international, 4th nationally, and 1st amongst domestic public universities for the quality and impact of research endeavors. In 2022, U.S. News ranked the University 7th among world universities, 6th nationally, and 2nd among domestic public universities.

Another measure of research competitiveness can be demonstrated through the University's share of externally sponsored R&D expenditures, compared to other higher education institutions. As Table 9 shows, the University 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 9: UW R&D Expenditures - Federal and Non-Federal Market Share

	2017	2018	2019	2020	2021
Total expenditures	56,290,643,000	58,890,441,000	62,386,645,000	64,349,388,000	67,275,085,000
Total UW	1,220,260,000	1,269,570,000	1,308,260,000	1,345,761,000	1,383,575,000
Market share	**2.17%**	**2.16%**	**2.10%**	**2.09%**	**2.06%**

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2021. Each campus reports separately and figures exclude certain sponsored projects that are not considered R&D.

Examples of **major awards** in FY22 include:

- $15 million from the Bill and Melinda Gates Foundation to conduct a two-year facility-based study to inform key decisions for Shigella vaccine trials.
- $11 million from the Centers for Disease Control and Prevention (CDC) to the School of Medicine to study covid vaccine effectiveness.
- $10 million from the US Department of Transportation to identify ways to provide more efficient, affordable, and accessible transportation options for underserved communities that often face greater challenges in accessing essential services.

- $7 million from the National Oceanic and Atmospheric Administration to research the effects of ocean acidification in fish, shellfish, and bacterial communities and to support sustainable marine aquaculture through the development of new technologies and identification of more sustainable feed resources.
- $5 million from the National Science Foundation to create the Center for Integration of Modern Optoelectronic Materials on Demand (IMOD). IMOD is a multi-disciplinary, multi-university collaboration led by the UW to research the core challenge of scalability of quantum technologies.
- $5 million from the National Science Foundation to create the Artificial Intelligence Institute for Dynamic Systems. This multi-disciplinary institute supports research and education in fundamental AI and machine learning methods, driven by a broad range of scientific and engineering applications.
- $1.5 million from the Foundation for Opioid Response Efforts to create the Northwest Center for Family Support in the School of Social Work which will provide inclusive, evidence-based family-focused interventions to families with caregivers suffering from opioid use disorder (OUD).

Sponsored projects supported over 14,600 employees during FY22, including over 3,000 graduate students. Over 5,700 FTE employees were paid on sponsored research funding.

Federal Outlook

While the University continues efforts to diversify its research portfolio, federal awards continue to represent a significant majority, approximately 76 percent, of sponsored research expenditures. The final Federal budget for FY23 was very positive for research and development with large increases in multiple agencies (NIH, NSF, DOE, etc.). In this funding environment coupled with the University's strong track record, the University expects to remain highly competitive in research funding and is well positioned to respond to anticipated funding opportunities in FY24. Note that the UW has received approximately $186 million in COVID-related research awards as of March 13th, 2023.

As has been the focus for some time now, the administration will continue to monitor the situation and develop plans to quickly respond to any changes in federal funding, including changes resulting from federal funding constraints that may result from tightening federal fiscal policy in subsequent fiscal years.

Estimated Sponsored Projects Expenses

Table 10, below, shows a breakdown of projected sponsored research expenses in FY23 (adopted and forecasted projections) and FY24. The University is currently projecting an increase of expenditures in FY24 based on expenditure and awards trends through February of FY23. 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 (approximately $150 million per year) as well as expenditures from certain COVID-relief funding provided by the federal government. Lastly, please note that research expenditures do not necessarily align with awards received on an annual basis. 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 10: Projected Sponsored Research Expenses with Breakout of Indirect Costs

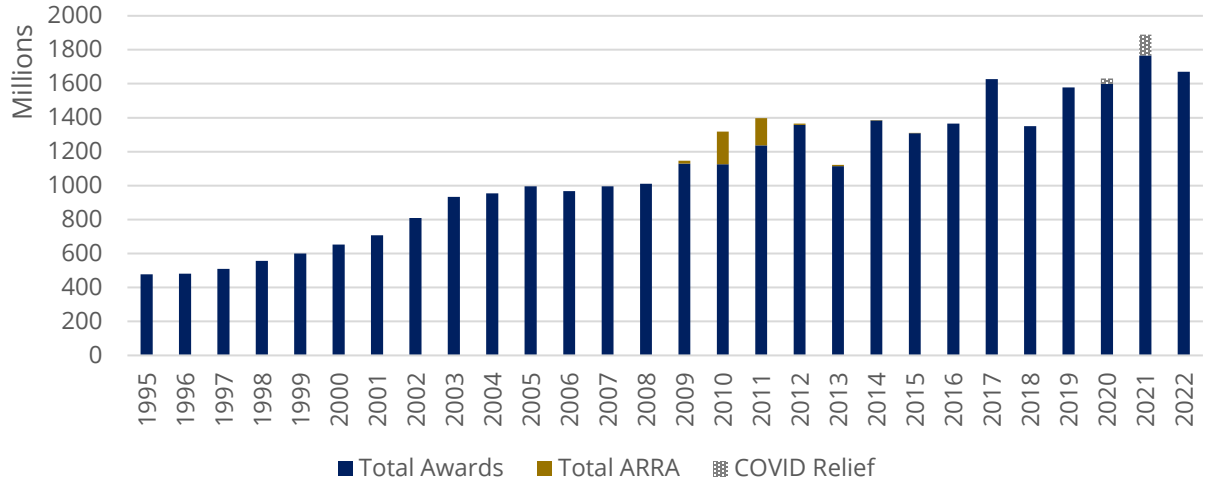
	FY23 Adopted	FY23 Forecasted	FY24 Adopted	Percent Change (Forecasted FY23 to FY24)
Federal	1,045,551,000	1,206,654,000	1,258,000,000	4.26%
State & local grants	113,764,000	129,519,000	129,000,000	-.04%
Nongovernmental	278,761,000	300,665,000	308,750,000	2.69%
Indirect Research Expenses	306,525,000	335,524,000	345,000,000	2.82%
Total	**1,744,602,000**	**1,972,362,000**	**2,040,750,000**	**3.47%**

Award Trends

Figure 12, 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 to 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. FY21's increase was driven mostly by large amounts of COVID relief funding as well as a few large, multi-year foundation awards.

While FY22 saw a decrease in awards it was the still the 2nd best year on record and FY23 is currently on track to surpass FY22's total. However, it is important to note that the transition to Workday may impact FY23's total as some systems must be frozen for at least a few weeks prior to go live. This may artificially depress FY23's total.

Figure 12: Total Grant and Contract Awards by Year (1995-2022)



CONCLUSION: A SUSTAINABLE PATH FORWARD

The University has many budgetary challenges that lie before us, which continue to require careful planning and prudent decision making. However, through the implementation of rigorous modeling of risks, the beginning stages of Finance Transformation, the formation of the Capital Planning Advisory Team (CPAT) and Capital Planning and Space Stewardship policy, implementation of a financial stability plan for UW Medicine, and the coordination and collaboration of units across the institution, we are laying the foundation for a sustainable path forward. Our work to effectively manage and deploy resources 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 despite the challenges we have faced and continue to face as a community.

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 face new and evolving challenges. The vitality and resilience of our community has been evident throughout the challenges of the last several budget cycles, 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. We have learned a lot over the last few years, and the challenges we face continue to have impacts across all aspects of the University including in our classrooms and labs, the provision of student services, in our hospitals, and the retention and compensation of our faculty and staff. This year we are working to address big and long-term issues such as the renewal of our aging infrastructure, investing in our clean energy future, and modernizing our aging IT and cybersecurity infrastructure, which will happen over many more budget cycles. We also recognize the need for meaningful investments in our people, the lifeblood of our institution, which our leadership continues to hold as a central priority. 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. Previous versions of the University's budget have included an "Ensuring Sound Budget Management" section that provided an overview of the budget development process and distribution of resources at the University. That information is now on the OPB website on the "About the Budget" page.

ACRONYM GLOSSARY

AAUP	Association of American University Professors
ABB	Activity Based Budgeting
ALNW	Airlift Northwest
ARRA	American Recovery and Reinvestment Act
BODC	Board of Deans & Chancellors
CCE	Consolidated Clinical Enterprise
DOF	Designated Operating Fund
FTE	Full-Time Equivalent
FY	Fiscal Year
GOF	General Operating Fund
HMC	Harborview Medical Center
ICA	Intercollegiate Athletics
ICR	Indirect Cost Recovery (from research activity)
ILP	Internal Lending Program
IPEDS	Integrated Postsecondary Education Data System
NIH	National Institutes of Health
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 2

UW Intercollegiate Athletics | FY24 Budget

Proposed as of 5/1/23

		2023-24 Budget
Beginning Reserve Balance		$16,886,000
REVENUE		
	Gate Revenue	$30,451,000
	Contributions	$35,723,000
	NCAA / Conference	$43,121,000
	Royalties, Adv & Sponsorships	$15,575,000
	Tuition Waivers / Campus Distributions	$7,727,000
	Other Revenue	$11,513,000
TOTAL REVENUE		**$144,110,000**
EXPENSE		
	Salaries	$47,608,000
	Benefits	$12,365,000
	Athletics Student Aid	$17,019,000
	Sport Operational Expense	$35,472,000
	Direct Facilities, Maintenance & Utilities	$5,612,000
	Misc. Marketing / Promotion Expense	$1,409,000
	UW Institutional Overhead	$0
	Misc. Expenses	$14,669,000
TOTAL EXPENSE		**$134,154,000**
NET OPERATING INCOME		**$9,956,000**
	Debt Service	$9,778,000
	Minor Capital Expenditures / Deferred Maint	$4,168,000
CASH FLOW		**($3,990,000)**
	Reserve Adjustment: *Severance + benefits charge for former FB staff*	***($3,770,000)***
	June 30 Cash Balance (excludes capital accounts)	$9,126,000

UW MEDICINE

The clinically integrated parts of UW Medicine consist of 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 was extremely beneficial during our pandemic response. However, the resulting labor market wage and benefit pressure, other inflationary pressures, capacity challenges, and a high length of stay have more than offset the significant financial improvement generated from initiatives successfully deployed over the last 5 years. In addition, the required system-wide focus on a pandemic response over the past three years delayed our ability to launch or more fully develop existing initiatives including UW Medicine's Clinical Strategic Refresh initiatives. As we complete FY23, we are in an economic environment impacted by inflationary increases, particularly labor costs, that have resulted in significant hospital financial losses, which has further pressured hospital liquidity, despite being at full capacity in our hospitals.

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, due to increased capacity, reliance on contract labor for staff grew significantly. In the summer of 2022, we reached an agreement with our labor partners that resulted in historic and competitive increases to salary levels that are scheduled to occur periodically through FY25. Recently, contract labor rates have started to stabilize at a lower level and the hospitals have worked to reduce their utilization of contract labor as the focus to recruit and retain permanent staff has been a top priority. In order to address the financial challenges, UW Medicine has implemented a financial turnaround campaign called Mission Forward. Mission Forward is a systemwide initiative to identify, design and implement changes that improve our financial stability; increase operational efficiency; promote the well-being of our staff, faculty and trainees; and ensure we can continue providing high-quality, equitable patient care to our community. In addition, considerable work was devoted throughout the year to the launch of the Fred Hutchison Cancer Center (FHCC) , which occurred on April 1, 2022. FHCC is UW Medicine's cancer program and is a clinically integrated part of UW Medicine.

Consistent with the goals established, 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.

FY23 Performance Summary by Entity

UWMC integrated Northwest Hospital and UW 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 and provided a platform for growth. The utilization of facilities on

the Northwest campus has increased substantially since the integration. Construction of the new Behavioral Health Teaching Facility on the Northwest campus, planned and funded in partnership with the State to provide critically needed mental health services for all Washington residents, is scheduled for completion at the end of FY24. Despite this improvement, other factors have contributed to the deterioration of financial performance in FY23. The continued reliance on contract labor coupled with historic increases in union labor contract rates and a high length of stay have resulted in significant operating losses in FY23. One-time FEMA recoveries have helped to mitigate the losses, but the cash position of the medical center remains well below benchmark levels. Days of cash on hand in FY22 was 43 days, and cash levels in FY23 have declined to 32 days at the end of March 2023 including UW Medicine non-interest bearing funding of $49.1 million.

Several inpatient units at UWMC ran at extremely high occupancy rates during the pandemic and continue to run at these increased levels. Some inpatient volume growth is projected as a result of the addition of 12 new medical surgical inpatient beds in the former inpatient psychiatry unit at Montlake, and increased capacity in the labor and delivery inpatient unit. As with HMC, the inability to discharge certain patients no longer needing acute levels of care has created significant challenges in managing throughput and continues to create capacity pressures.

Timely access to capital and efficient deployment of 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 who no longer need 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 has prepared a budget that anticipates growth in key areas, consistent with the prioritized strategies of UW Medicine overall. Cash reserves at UWP have recovered to pre-pandemic levels.

UWMPC expects continued growth in outpatient primary care volumes. 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. In FY24 UWMPC is planning expansion via a new clinic opening in Kirkland.

ALNW has experienced deteriorating financial performance throughout FY23 due to lower than anticipated volumes. Airlift opened a new helicopter base in Davenport, WA in June 2022. The new base at Davenport Municipal Airport enables helicopter transports to more quickly service hospitals in Lincoln County, as well as the greater Northeast Tri-County area. Mitigating strategies to improve the financial performance of ALNW are being evaluated by leadership.

HMC during the pandemic ran at more than 100 percent occupancy and continues to run at this level on a regular basis, requiring focused work to safely manage length of stay. Some inpatient volume growth is projected 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 who no longer need acute levels of care has created enormous challenges in managing throughput and the issue continues to create capacity pressures. UWM is working with legislators to develop solutions that will alleviate the levels of these “difficult to discharge” patients. Additionally, HMC has filed and received approval of 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 underway 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, 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 serves as Hospital District #1, in the south King County region. The region has experienced significant population growth, and prior to the pandemic, VMC saw corresponding growth in its volumes, specifically in the outpatient areas. Since the pandemic, VMC has experienced some deterioration in both market share and payer mix. Management continues to focus on selected strategic growth in some outpatient areas, but the emphasis for FY24 will be on stabilization post-COVID-19 through a financial turnaround campaign called Operation Ascend.

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 provides additional surgical capacity within the VMC surgical space, but, until volumes are fully backfilled, it will have a negative financial impact. VMC has constrained capital spending to preserve cash flow.

SoM experienced positive financial results in FY22 due primarily to strong performance from Lab Medicine and Pathology 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 have resulted in significant favorability compared to budgeted margins in the current year. FY23 has seen a continuation of high levels of COVID-19 testing volumes beyond what was included in the budget, but that is not expected to continue into FY24.

Future Challenges for UW Medicine

Challenge 1: Current Financial Performance is Pressuring Liquidity Levels and Revenues Increases are Not Keeping Up with Inflationary Expense Increases, Most Notably Labor Costs

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 have resulted in a challenging budget cycle. Increases for professional staff and faculty have been included in our FY24 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 incredibly 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 expenses 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 FY23 is not known until the end of the fiscal year but will be recorded in the audited financials prior to finalization.

CHALLENGE 2: EXECUTING ON MISSION FORWARD and SUCCESSFUL IMPLEMENTAL OF STRATEGIC INITIATIVES

Mission Forward is a systemwide initiative to ensure a future for UW Medicine that is financially stable, operationally efficient, and promotes the well-being of our staff, faculty, and trainees so we can continue providing high-quality, equitable patient care to our community. While all healthcare systems are challenged, UW Medicine’s financial situation is exacerbated by our unique role within the state and region:

- Our mission is to provide care for all people, including the most vulnerable and complex patients. This results in over $800 million in undercompensated care per year.
- We train over 65% of the residents in Washington state. However, the Federal reimbursement for resident education has been capped since 1996.
- We have continued to invest in temporary labor to meet the clinical needs of our state while other healthcare systems have reduced their staffing and are not using all their physical beds.
- We have over 175 patients in our system on any given day that medically are ready to be discharged to the next level of care but remain in our hospitals due to the lack of post-acute care availability; reimbursement covers only about 17% of the cost of their hospital care.

In October 2022 UW Medicine engaged Huron Consulting Group to identify and assess opportunities by connecting stakeholders to gain insight and inform how we drive toward measurable improvements in both the short and the long-term. Our work has two parts:

- 90-Day Action Plan. On December 20, 2022, we announced the Mission Forward 90-Day Action Plan. This part of our work brings structured focus to a select number of high-priority areas to accelerate cash flow and reduce costs. Beginning in mid-December, we began work to define specific short-term initiatives and identified metrics to track progress in key areas.
- Broader Mission Forward Plan. In addition to building on the 90-Day Action Plan, the broader Mission Forward initiative includes three primary phases of work: assessment, design, and implementation which will encompass short, mid-, and longer-term opportunities.

As UW Medicine moves into FY24, management focus on the 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 FY24 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 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 3 – INCREASING LEVELS OF DIFFICULT TO DISCHARGE PATIENTS HAVE PUT PRESSURES ON CAPACITY AND A SOLUTION IS NEEDED TO ENSURE INPATIENT CAPACITY IS AVAILABLE FOR PATIENTS WHO REQUIRE THAT LEVEL OF CARE

Our state is facing a hospital capacity crisis with an unsustainable number of patients, often with significant medical and behavioral complexity, who no longer need acute-level care yet remain in hospitals due to the lack of appropriate post-acute care availability and other factors. This is true across the state, throughout the UW Medicine system, and particularly at Harborview – where approximately 20% of patients are no longer in need of acute care. On an average day over recent months, UW Medicine has had approximately 175 patients no longer in need of acute level care in its hospitals. While we continue to fulfill our mission and meet the needs of these patients, there are significant costs we are shouldering to do so. For example, in FY21 Harborview received a Medicaid daily payment rate of roughly $340 for patients awaiting discharge, despite incurring average acute care costs of $2,400 per day. Harborview has developed and funded a bed readiness program to help transition these patients to a more appropriate level of care, providing care coordination and supplementary payments to skilled nursing facilities – at a cost of over $8 million per year.

CHALLENGE 4: LIMITED ACCESS TO CAPITAL FOR STRATEGIC INVESTMENTS

Limited access to capital has created challenges in funding deferred maintenance, infrastructure investments, and strategic priorities for UW Medical Center. UW Medical Center's 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 several 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 5: 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 a transformation in how we do our work, with a 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 6: 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 costs.

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 1, below, depicts the FY23 margins recorded at all the UW Medicine entities through April 2023, but is preliminary and subject to audit. A subtotal has been incorporated to highlight the results specific to the Select Units (SU). The SU 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 SU they will be measured only on the results of the SU. Financial results through April 2023 include one-time FEMA disaster relief funding of $94.3 million. Without this one-time disaster relief funding of $37.2 million for HMC, $29.7 million for UWMC, and $27.5 million for Valley, UW Medicine would have reported a loss of $111.6 million.

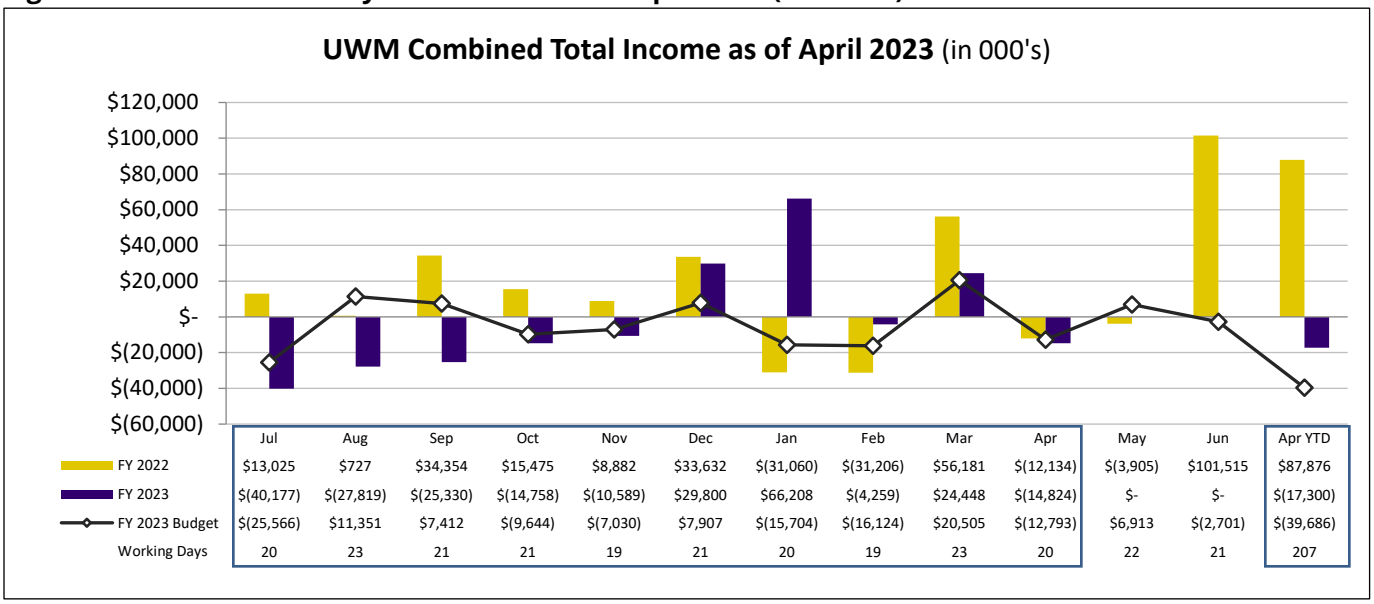
Table 1: FY23 Financial Results by UW Medicine Entity, as of April 2023 (in $000's)

	YTD Actual[2]	YTD Budget	Variance to Budget
UWMC	(62,526)	(34,738)	(27,788)
ALNW	(9,018)	1,224	(10,242)
UWMPC	(6,469)	(2,928)	(3,541)
UWP[1]	-	-	-
SUBTOTAL, SU	**(78,013)**	**(36,442)**	**(41,571)**
HMC	3,062	(3,270)	6,332
VMC	10,963	(8,443)	19,406
SoM	46,688	8,469	38,219
TOTAL	**(17,300)**	**(39,686)**	**22,386**

[1] Results for UWP are shown after amounts available to the School of Medicine. OPEB actuarial adjustments have not yet been recorded in FY23 and will be recorded in audited results.
[2] YTD Actual results include $94.3 million in one-time FEMA disaster relief funding ($37.2 million for HMC, $29.7 million for UWMC and $27.5 million for VMC). Without this one-time funding, the year-to-date loss is $111.6. million.

Figure 1, on the following page, depicts the month-to-month comparison of actual results to budget.

Figure 1: Combined Monthly Total Income as of April 2023 (in $000's)



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Apr YTD
FY 2022	$13,025	$727	$34,354	$15,475	$8,882	$33,632	$(31,060)	$(31,206)	$56,181	$(12,134)	$(3,905)	$101,515	$87,876
FY 2023	$(40,177)	$(27,819)	$(25,330)	$(14,758)	$(10,589)	$29,800	$66,208	$(4,259)	$24,448	$(14,824)	$-	$-	$(17,300)
FY 2023 Budget	$(25,566)	$11,351	$7,412	$(9,644)	$(7,030)	$7,907	$(15,704)	$(16,124)	$20,505	$(12,793)	$6,913	$(2,701)	$(39,686)
Working Days	20	23	21	21	19	21	20	19	23	20	22	21	207

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 the disaster recovery funding available. COVID-19 will have a lasting impact on our financial performance and cash position. In our FY20, FY21, and FY22 audited financial statements, we recognized the Provider Relief Funds (PRF). In addition to PRF funding, UW Medicine has other recoveries received and recognized as depicted in Table 2 below of which the most significant remaining funding relates to FEMA Public Assistance. UW Medicine has submitted requests for FEMA Funding which have not yet been recovered and are expected to be received in FY23 and FY24. All recoveries received are subject to audit by the federal government. In addition to the amounts displayed in the table below, liquidity support was provided in the form of Medicare Advance Payments, which has been repaid in full.

Table 2: UW Medicine Federal and State COVID-19 Recovery Funding *(as of May 18, 2023)*

Funding Source	Cash Received	Recognized in FY20	Recognized in FY21	Recognized in FY22	Recognized in FY23
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	126,728,000	-	-	32,421,000	94,307,000
CARES Provider Relief Funds	219,040,000	126,610,000	71,901,000	20,529,000	-
Total	439,110,000	138,643,443	113,053,883	93,105,674	94,307,000

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

As we have been coming out of the pandemic, a reassessment process to evaluate our strategic initiatives was completed for our capital plans and adjustments have been made. Where we were able to reduce or delay our planned capital spending we have done so. During FY23 we have started work on a number of

capital projects that will continue into FY24. UW Medicine is planning for an increased level of capital necessary to address delayed maintenance and strategic growth projects.

Projected revenues and total margins for FY22 and FY23 are in Table 3, on the following page. The FY24 revenue, expenses, and total margins are completed pending approval. While the UW Medicine FY24 budget does not include FHCC, it will be included in the University's FY24 financial results as a discreetly presented component unit. The target margins for FY24 are displayed in the chart below. 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.

All of the hospital budgets for FY24 were approached with the goal of preserving liquidity given the challenges in financial performance that UW Medicine as well as our peers are facing. Specifically, at UWMC, work has been done to develop short term strategies that will provide the runway to establish the initiatives necessary to improve financial results on a sustained basis. Included in those strategies are one-year deferrals of internal debt payments with the goal of maintaining cash levels at specified levels agreed to by UW and UW Medicine leadership.

The 2023 Legislative Session just concluded, which resulted in significant state investments in UW Medicine. The budget includes additional appropriations for UW Medicine for FY23 of $50 million as well as $100 million in FY24. This funding recognizes the important role played by UWMC and HMC as the safety net hospitals of Washington State and is a crucial investment in the public health of our community, These funds provide short term support that partially offset the rapid and significant rise in operating expenses, most notably labor. We are prioritizing our work to implement Mission Forward Initiatives and evaluate other structural changes that may be necessary for long term financial viability. The appropriation will serve as bridge funding to support financial recovery. Recognizing the significance of our losses excluding one-time disaster relief funding, our need to fully implement our Mission Forward initiatives, and the time required to get the Directed Payment Programs fully in place, UW Medicine will use the appropriation funding to help offset the significant increase in labor costs and other inflationary cost increases at UWMC and HMC. Based on analysis of both FY23 and FY24 days cash on hand and projected margin, the $50 million in FY23 was allocated to UWMC. The $100 million appropriated for FY24 is budgeted to be allocated $90 million to UWMC and $10 million to HMC based on the same considerations. The appropriations provided are included in the FY24 budget and are included in the FY24 budget margins in Table 3, on the following page.

Table 3: FY22 and FY23 YTD Actual Revenues and Margins and FY24 Budget, in 000s

UW Medicine	FY22 Actual Total Margins	FY23 Budget Revenues[2]	FY23 April Annualized Revenues	FY23 April Annualized Total Margins[3]	FY24 Budgeted Operating Revenues	FY24 Budgeted Operating Expenses	FY24 Budgeted Net Nonoperating Income	FY24 Budget Margins
UWMC	85,048	2,147,200	2,177,000	(75,000)	2,260,802	2,517,125	141,817	(114,506)
UWP	-	445,800	549,000	-	593,646	460,107	(133,539)	-
Airlift NW	9,004	75,600	64,000	(11,000)	81,169	81,479	310	-
UWMPC	(3,936)	80,100	72,837	(8,000)	90,940	91,168	(927)	(1,155)
Subtotal SU [4]	**90,116**	**2,748,700**	**2,862,837**	**(94,000)**	**3,026,557**	**3,149,879**	**7,661**	**(115,661)**
HMC	(3,882)	1,258,400	1,272,000	4,000	1,331,090	1,421,377	27,287	(63,000)
VMC	(59,007)	845,300	886,000	13,000	912,632	946,799	62,432	28,265
UW Medicine	**27,227**	**4,852,400**	**5,020,837**	**(77,000)**	**5,270,279**	**5,518,055**	**97,380**	**(150,396)**

1 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 FY23 budget due to final budget refinements.
3 Total margin does not include pension and OPEB year end actuarial adjustments.
4 Select Unit subtotals do not include Shared Services, ITS, and eliminating entries in FY22, FY23, or FY24.

Budget Priorities

Achieving sustainable financial performance and liquidity continues to be one of UW Medicine's top strategic priorities. Pressure on reimbursement from all UW Medicine payers has resulted in less than inflationary increases. In FY23 the impacts of high levels of inflation, particularly related to labor costs, continued higher than anticipated reliance on high cost contract labor required to meet high inpatient census as well as high length of stay resulted in lower than anticipated margins being achieved. As we move into FY24, 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 FY24 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 Regental approval.

UW Medicine's 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 included in the FY24 budgets. Additional cost savings or revenue-producing initiatives are required to offset these increases. Successful execution of UW Medicine's multi-year Mission Forward program focused on revenue growth and cost savings is critical to achieving FY24 budget targets. Achievement of Mission Forward goals will require continued transformation in the way UW Medicine does its work.

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 amount due to the University on June 30, 2023 will be approximately $115 million. Upon integration, UWMC assumed the monthly minimum payments annualizing to $5 million each year on the payable. These payments resumed in FY22 through an

agreement between the University President and the CEO of UW Medicine and continued through April of FY23.

Clinical Strategic Planning and Long-Range Financial Planning: FY23-FY37

The most recent trend in healthcare has seen negative financial performance as well as closures of both programs and facilities as the ability to weather the current economic challenges has become further strained. At the same time, hospitals need to be able to make large capital expenditures to keep current with advances in technology, provide needed access to care, and address delayed maintenance. 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 few years as we navigate our way past the very significant inflationary cost increases resulting from 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 through our work on Mission Forward.
- Clinical strategic initiative deployment across the enterprise, including:
    - Inpatient capacity growth
    - 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
- Successful implementation, stabilization, and enhancements of the Workday financial platform
- Investments in campus renewal at each site
- Length of stay and other efficiency improvements
- Philanthropic support

UW Medicine's ability to successfully deliver on our mission to improve the health of the public 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 $800 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 our financial success and our ability to achieve our goals.

ATTACHMENT 4

2023-24 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)	**$17,115**	**$17,982**	**$15,948**
Books, Personal, Transportation [1]	**$5,010**	**$3,927**	**$4,482**
Annual Student Fees – Total [2]	**$1,405**	**$1,515**	**$1,518**
New Student Enrollment & Orientation Fee (NSEOF) – one time fee [3]	*$370*	*$396*	*$225*
Student Tech Fee	$126	$66	$126
Services and Activities Fee	$312	$489	$492
Student Activities Center	$441		
Student Activities Center Programming	$66		
Sports Field	$90		
Facilities Renovation Fee		$210	
Intramural Activities Building		$96	
U-PASS [4,5]		$258	$135
YMCA [5]			$540
Resident Annual Tuition	**$11,524**	**$11,524**	**$11,524**
Resident Annual Total	**$35,054**	**$34,948**	**$33,472**
Non-Resident Annual Tuition	**$40,878**	**$40,878**	**$40,878**
Non-Resident Annual Total	**$64,408**	**$64,302**	**$62,826**

[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 2023 to students entering in Fall 2023. Seattle will begin charging its new rate in Spring 2024 to students entering in Spring 2024. Tacoma will begin charging its new rate in Fall 2023 to students entering in Winter 2024.

[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.

COST OF ATTENDANCE TREND DATA BY CAMPUS

BOTHELL	2019-20	2020-21	2021-22	2022-23	2023-24	5yr Change
Room & Board [1] (traditional undergraduates)	**$12,636**	**$13,191**	**$14,154**	**$15,282**	**$17,115**	**$4,479**
Books, Personal, Transportation [1]	**$4,689**	**$4,773**	**$4,773**	**$4,890**	**$5,010**	**$321**
Annual Student Fees - Total [2]	**$1,350**	**$1,350**	**$1,353**	**$1,385**	**$1,405**	**$55**
NSEOF - one time fee [3]	*$330*	*$330*	*$330*	*$350*	*$370*	$40
Student Tech Fee	$126	$126	$126	$126	$126	$0
Services and Activities Fee	$297	$297	$300	$312	$312	$15
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	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$11,524**	**$1,154**
Resident Annual Total	**$29,045**	**$29,943**	**$31,207**	**$32,746**	**$35,054**	**$4,742**
Non-Resident Annual Tuition	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$40,878**	**$3,807**
Non-Resident Annual Total	**$55,746**	**$57,312**	**$59,037**	**$61,244**	**$64,408**	**$8,662**

SEATTLE	2019-20	2020-21	2021-22	2022-23	2023-24	5yr Change
Room & Board [1] (traditional undergraduates)	**$13,296**	**$13,887**	**$14,871**	**$16,068**	**$17,982**	**$4,686**
Books, Personal, Transportation [1]	**$3,633**	**$3,693**	**$3,693**	**$3,780**	**$3,927**	**$294**
Annual Student Fees - Total [2]	**$1,433**	**$1,463**	**$1,503**	**$1,427**	**$1,515**	**$82**
NSEOF - one time fee [3]	*$338*	*$347*	*$354*	*$374*	*$396*	*$58*
Student Tech Fee	$114	$114	$114	$0	$66	-$48
Services and Activities Fee	$423	$438	$453	$471	$489	$66
Facilities Renovation Fee	$210	$210	$210	$210	$210	$0
Intramural Activities Building (IMA)	$96	$96	$96	$96	$96	$0
U-PASS [5]	$252	$258	$276	$276	$258	$6
Resident Annual Tuition	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$11,524**	**$1,154**
Resident Annual Total	**$28,732**	**$29,672**	**$30,994**	**$32,464**	**$34,948**	**$6,216**
Non-Resident Annual Tuition	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$40,878**	**$3,807**
Non-Resident Annual Total	**$55,433**	**$57,041**	**$58,824**	**$60,962**	**$64,302**	**$8,869**

TACOMA	2019-20	2020-21	2021-22	2022-23	2023-24	5yr Change
Room & Board [1] (traditional undergraduates)	**$11,748**	**$12,258**	**$13,194**	**$14,220**	**$15,948**	**$4,200**
Books, Personal, Transportation [1]	**$4,209**	**$4,260**	**$4,260**	**$4,362**	**$4,482**	**$273**
Annual Student Fees - Total [2]	**$1,428**	**$1,428**	**$1,431**	**$1,439**	**$1,518**	**$90**
NSEOF - one time fee [3]	*$159*	*$159*	*$162*	*$170*	*$225*	$66
Student Tech Fee	$120	$120	$120	$120	$126	$6
Services and Activities Fee	$474	$474	$474	$474	$492	$18
U-PASS [4,5]	$135	$135	$135	$135	$135	$0
YMCA [5]	$540	$540	$540	$540	$540	$0
Resident Annual Tuition	**$10,370**	**$10,629**	**$10,927**	**$11,189**	**$11,524**	**$1,154**
Resident Annual Total	**$27,755**	**$28,575**	**$29,812**	**$31,210**	**$33,472**	**$5,717**
Non-Resident Annual Tuition	**$37,071**	**$37,998**	**$38,757**	**$39,687**	**$40,878**	**$3,807**
Non-Resident Annual Total	**$54,456**	**$55,944**	**$57,642**	**$59,708**	**$62,826**	**$8,370**

Please see previous page for footnotes.