

*Together We Thrive: Ensuring Financial Resilience of the University of Washington***Executive Summary**

The University of Washington (UW) faces a significant and growing financial challenge: **an increasing imbalance between revenues and expenses**. While the situation is not unlike what many institutions of higher education (IHEs) currently face, we are in the fortunate position to have capacity to strategically course correct if action is taken now. The risk of not acting on this opportunity to address our future trajectory in a timely and deliberate manner poses threat to UW's long-term vitality, will pressure our ability to substantially invest in our mission, and is likely to lead to draconian financial measures lacking nuance and strategy.

Our balance sheet is strong, propped up over time by strong returns and non-operating revenues, but we face many threats that risk altering this position of strength ahead of us. Challenges range from unsustainable and growing deferred maintenance levels, uncertainty surrounding our academic, research and healthcare operating and regulatory environments, demographic shifts and changes in consumer preferences, inflationary pressures on wages, goods and services, and challenging social and political questions about the value of higher education, to name a few.

This whitepaper highlights the case for action, proposes strategies and recommends an approach that warrants executive review, adoption, and ongoing development in our effort to balance essential fiscal stability and execution of our multipart mission.

The Case for Action

Coming off the depths of the Great Recession (December 2007 – June 2009¹), UW's balance sheet and resource base strengthened in the years that followed, benefiting from a confluence of policy and economic conditions that are unlikely to occur with similar magnitude in the near future. Key drivers of financial performance² during this time were factors such as substantial enrollment growth (33% increase in FTEs, 2.4% CAGR³ from FY08-20), a period of uncapped and, relative to current conditions, substantial tuition rate increases (13% CAGR FY07 – FY13) compounding the revenue effect of enrollment growth, multi-year freezes on merit (FY10-FY13) and positive operating margins within UW Medicine through the mid-2010s.

During the mid-2010s, financial conditions began to shift, driven by a multitude of factors. In FYs 14 and 15, the UW implemented merit (4%) in excess of state policy (0%) in order to attract and retain top talent. Shifts in state tuition policy took hold in FY12, resulting in multi-year tuition freezes (FY13-15), followed by two years of tuition rate decreases (FY16-17) and maximum future rate increase thresholds. Significant financial challenges materialized within UW Medicine as healthcare economics and payer mix deteriorated.

By the late 2010s into early 2020s, enrollment growth rate began to taper off (2.2% increase in FTEs, 0.5% CAGR FY20-24), operational challenges with UW Medicine were further complicated by COVID-19 pandemic and inflation levels reached multi-decade highs. As the pandemic hit, financial conditions briefly improved, propped up by the FY21 freeze on provision of merit, budget reductions enacted in response to the pandemic and short-term reductions in operating costs associated with the limiting of on campus activities. Emerging from the pandemic, labor market conditions resulted in substantial (32%, 7.2% CAGR FY20-24) increases in compensation expenditures and goods/service costs reached all-time highs.

Overall, from the beginning of the Great Recession through FY24, on a nominal basis, total operating revenues grew by 173% or \$4.7B and operating expenses by 158% or \$5.2B. Compensation and benefit costs, on a nominal basis, during this time increased by 146% (\$3 billion), faculty and staff FTEs have grown by 48% (11,800 FTEs) and the unweighted cost per employee FTE has increased by 66% (\$56k per FTE). Importantly, these summary level data points gloss over the

¹ Robert Rich, F. R. (2013, 11 22). The Great Recession. Retrieved 12 3, 2024, from Federal Reserve History: <https://www.federalreservehistory.org/essays/great-recession-of-200709?emci=ae005b31-dc81-eb11-85aa-00155d43c992&emdi=ea000000-0000-0000-000000000001>

² Financial figures, student FTE and employee FTE data sourced from [UW Financial Reporting Archive](#)

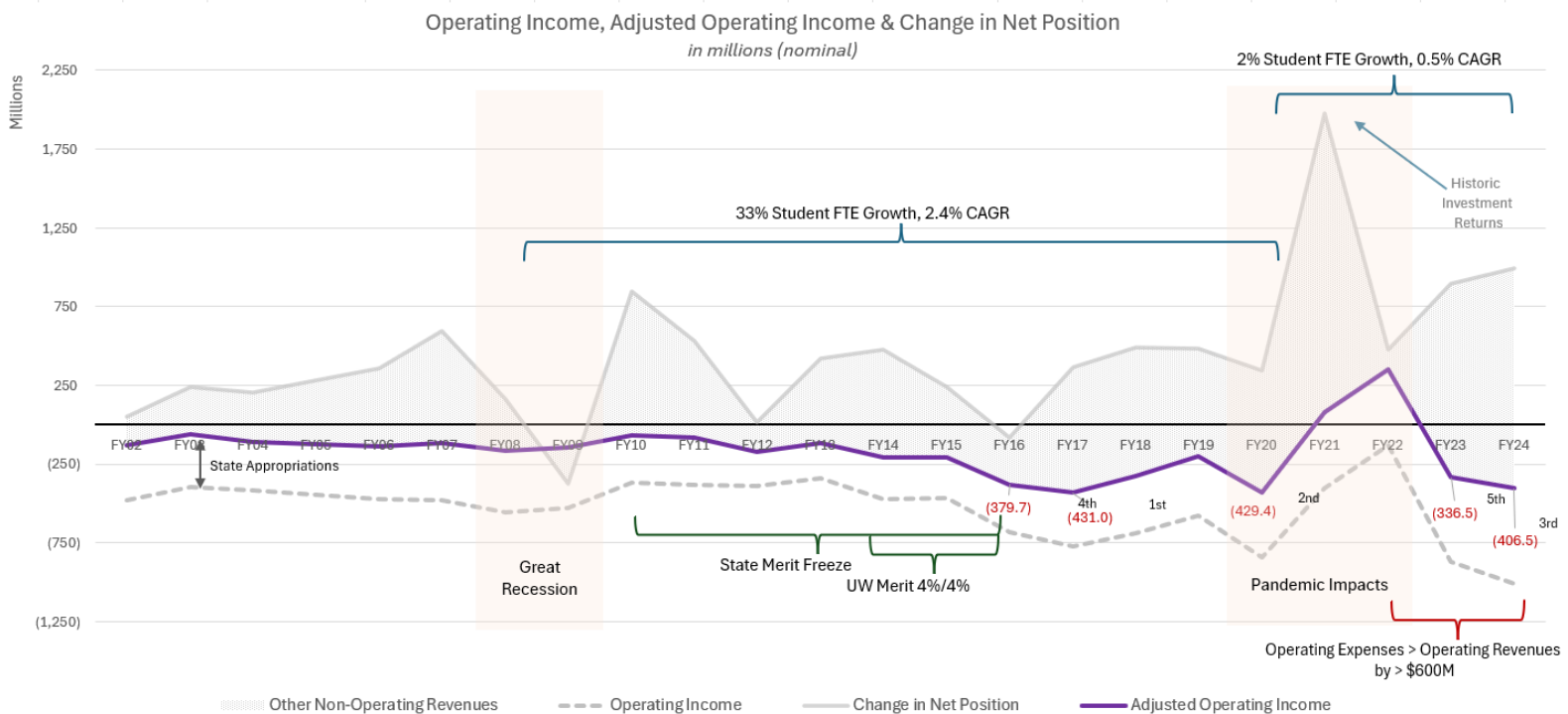
³ Compound Annual Growth Rate

seismic shift in the size, role and complexity the UW has experienced since the Great Recession and *must be carefully considered with that context* before reaching conclusion as to whether this was “too much” or “too little” beyond the confines of pure financial data points.

Regardless of opinion on “too much” or “too little”, our reality is that **since FY16 the UW experienced the five largest adjusted operating⁴ losses (nominal \$) in history**. From **FY22-24 alone, operating expenditures outpaced operating revenues by more than \$600 million**. Figure 1 illustrates the UW’s financial performance from the Great Recession through FY2024.

Further contributing to the need to course correct, UW campus and unit submitted financial projections during the FY2025 operating budget development process **suggested more than one quarter of Seattle units will exhaust their core accumulated reserves by FY2029**, and many indicated deteriorating conditions within their auxiliary portfolios. The outlook for UW Medicine is equally challenging. Shifting this trajectory and ensuring long term financial resilience is vital for maintaining the confidence of our community and the public, including students, faculty, staff, donors, and government agencies as well as an essential element of sustaining our competitive advantage in attracting highly qualified individuals, securing research funding, and delivering high-quality education.

Figure 1. UW Financial Performance Over Time



Where Do We Go From Here: Strategies for Financial Resilience

Like our peers who have implemented financial stability measures, **we must adopt a variety of strategies within a broader framework of financial and other relevant metrics**. These strategies for financial course correction can be viewed from different perspectives, but they must, both individually and collectively, focus on enhancing revenue and/or constraining expenses while preserving our mission.

As we consider various strategies, it is important to recognize that focusing solely on expense constraint approaches and the notion that we can simply enact *global* increases in efficiency have their limits in any service-based, non-mechanized industry. Studies on the Baumol effect⁵, or cost disease theory, on higher education and healthcare delivery are

⁴ GASB Operating Revenue plus GASB Non-Operating Revenue: State Operating Appropriations less GASB Operating Expenditures

⁵ Archibald, R. B., & Feldman, D. H. (2008). Explaining Increases in Higher Education Costs. *The Journal of Higher Education (Columbus)*, 79(3), 268–295. <https://doi.org/10.1353/jhe.0.0004>

particularly relevant in this context. Successful strategies related to expenditure constraint side must be executed with a particular eye towards administrative efficiency without negatively implicating core service delivery and contemplate resource realignment with strategic mission priorities - meaning taking a hard look at activities that could be discontinued without real *or perceived* impacts to quality educational, healthcare, research or public service delivery the UW is charged with as a state institution.

The following non-exhaustive list of tactics commonplace amongst IHEs pursuing financial resilience plans have been organized around four themes and, where appropriate, contextualized to UW.

Operational Efficiencies

- Consider enacting performance audits – audit administrative processes for inefficiencies and underutilization of capacities
- Leverage technology to streamline operations
- Establish boundary conditions for backfilling staff vacancies that does not add administrative complexity
- Communicate need to identify activities or initiatives to discontinue and coordinate with budget planning
- Consolidate administrative services where conducting activities at scale are likely to result in cost efficiencies, rather than consolidate for the sake of consolidation
- Identify opportunities where service levels or functions can be moderated and true business requirements maintained

Improved Transparency and Resource Source/Use Accountability

- Implement Incentive Based Budgeting (IBB) to bring more clarity to and connection between the sources and uses of resources each unit is responsible for managing
- Reduce number and nature of recharge activities for core university services provided by administrative units
- Establish university wide governance and accountability for resource allocation

Strengthen Financial Management Approach and Policies

- Develop a robust institutional financial reserve policy to cushion against economic fluctuations
- Strengthen and connect disparate financial planning processes by integrating long-term forecasting and scenario analysis at an institutional level within FPB
- Establish institutional and unit level financial metric benchmarks beyond focusing on “the bottom line”
- Further leverage our connections with external stakeholders and influencers - stay informed about potential regulatory changes and engage in advocacy efforts to influence policy decisions. Actively develop contingency plans to adapt to potential new regulations or policy shifts
- Carefully consider “cut and redeploy” strategies through the lens of financial efficacy

Identify Our Essential Priorities and Resource for Impact

- Identify, agree and articulate our essential institutional priorities
- Optimize resource allocation by prioritizing high-impact, revenue enhancing initiatives and reducing expenditures on non-essential activities

Approach: Act Now to Secure Our Future

Our financial position is challenged, but not critical. UW has a window of opportunity to act and benefit from starting work from a position of strength rather than a position of weakness and need for draconian action. Engaging in this work now will afford a unique opportunity to approach financial resilience in a strategic, planful and engaging manner.

Acting now enables us to leverage our current strengths and address these challenges head-on. We must conduct this work in a way that reflects the values of community, collaboration, and commitment to excellence that are central to UW. By doing so, we can maintain the confidence of our community and the public, including students, faculty, staff, donors, and government agencies. This collective effort will help us sustain our competitive advantage in attracting highly qualified individuals, securing research funding, and delivering high-quality education.

This work risks disruption and requires attending to, in some cases, deeply entrenched operational culture of the UW. Our reality is that we operate a service delivery organization with more than 60% of our operating expenditures tied to people – compensation and benefits. Changing the course of our financial trajectory inevitably affects people directly through changes to roles, responsibilities and staffing/service levels or indirectly, through the psychological impact of change in the context of financial performance. Members of the community and stakeholders may question “why now”, particularly coming off several challenging institutional projects (Finance Transformation, Destination One to name two), exiting the depths of the pandemic, an impending transition of the UW President, and heading into an uncertain political and economic environment. Why? **UW must initiate this work from a position of strength rather than a position of crisis.**

Compared to institutions that have had to *react* instead of having the *opportunity to act*, we can approach this work differently. Establishing an appropriate tone from the outset is essential. This initiative should be communicated through clear messaging and actions that align UW’s core values with the significance of this work for the university's future. FPB suggests starting this effort under the tagline "**Together We Thrive**" (TWT), which highlights the collective effort in ensuring the sustainability of the university's future. Highlighting the importance of unity and collective effort in maintaining and enhancing the university's legacy can also facilitate positive engagement.

Next Steps: Align, Engage, and Act

For purposes of initiating discussion, a short-term timeline is outlined on the following page, divided into three non-sequential phases:

- **Align:** Effort to align with leadership and potentially correlated strategic efforts.
- **Engage:** Connect with the leadership community, highlight key actions, address urgency, and collaboratively iterate on strategies.

- **Act:** Take action to implement and build upon initiatives that enhance financial resilience.

Step	Timeframe	Action
Align	December 2024	Executive Office alignment on call to action and refine approach
Align	December 2024	Confirm complementary alignment between TWT and “Strategic Foundations Assessment” work underway within the Provost’s Office
Act	December 2024	UWS Incentive Based Budgeting (IBB) governance groups begin meeting
Align	Winter 2025	Seek alignment in messaging and connecting UW Medicine “Mission Forward” and TWT
Engage	December 2024/ January 2025	Increase FPB outreach to UWS academic and central units to pitch shared environment opportunities
Aline/ Engage	January/February 2025	Briefings and ideation sessions with Cabinet, BODC, Administrator’s Council and SCPB
Act	February/March 2025	Deploy TWT hub for initiatives tracking and information resources for leadership
Act	February/March 2025	Refine “menu” of unit specific strategies that leadership may consider deploying
Engage	March/April 2025	Share initial institutional forecast (<i>modified mathcast</i> ⁶) with leadership groups
Act	March/April 2025	Draft margin policy and submit to Rules Office
Act	March/April 2025	Establish <i>institutional</i> financial metric benchmarks
Align	Spring 2025	Align with new incoming UW President (TBD)
Act	Spring 2025	Explore synergistic opportunities for leveraging technology with AI Taskforce on Administration outcomes
Act	Spring/ Summer 2025	Link Academy & Medicine budget process results to institutional forecast (budget process informed forecast)
Act	Summer 2025	Establish <i>unit/campus</i> financial metric benchmarks & integrate UWM financial metric benchmarks

⁶ A statistical approach with limited manual intervention to analyze historical financial data and smooths each line item on the financial statement, using five-year compound annual growth rates (CAGRs) to calculate the mean growth rate and standard deviation for each line item. This aids in forecasting by giving three perspectives: mean growth, mean plus standard deviation, and mean minus standard deviation. This approach does not contemplate unit level forecasts.