

**UNIVERSITY OF WASHINGTON  
GENERAL REVENUE BONDS**

**VOLUNTARY ADDITIONAL INFORMATION**

**DATED JUNE 18, 2020**

The University of Washington (the “University”) is filing this Voluntary Disclosure Notice (the “Notice”) regarding the developing impacts to the University’s finances and operations as a result of the novel coronavirus (“COVID-19”) pandemic.

***Nothing contained in this Notice is, or should be construed as, a representation by the University that this Notice comprises all of the information that may be material to a decision to invest in, hold, or dispose of any University bonds. This information is provided voluntarily by the University, without intention to provide any update to this information or its subject matter or to provide similar information in the future. Any obligation to do so is expressly disclaimed.***

**COVID-19 Pandemic**

COVID-19 is currently affecting many parts of the world, including the United States and the State of Washington (the “State”). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On February 29, 2020, Washington’s Governor declared a state of emergency, directing State agencies to use all resources necessary to prepare for and respond to the outbreak. On March 23, 2020, the Governor issued a statewide “Stay Home, Stay Healthy” proclamation, requiring individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions for essential businesses. COVID-19 has negatively affected commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide, including across the United States and in the State.

The University is providing this statement to describe some of the impacts that the COVID-19 pandemic and related orders have had on the University’s finances and operations, and to describe some of the actions that the University is taking in response. The University cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the State and regional economy or on the other revenues and expenses of the University.

**Overview**

The effect that the COVID-19 pandemic will have on the University is significant, but the nature of the impact is likely to evolve over the next several years. Significant losses to auxiliary and self-sustaining enterprises have occurred and will worsen, and the University is concerned that there may be potential for significant losses in State appropriations.

Though this situation is rapidly changing, the University remains committed to both protecting the University community as well as working diligently to further diagnostic and treatment options in Washington State. To this end, the University administration has taken the following actions:

- University classes will remain online through the end of spring quarter and the summer quarter A term. Summer quarter B term will largely be conducted online, though specific and limited opportunities for in-person instruction may occur in individual lab or small group settings where social distancing and appropriate precautionary measures can be taken.

- The University, in advance of the State mandate, has instituted additional limitations and reviews for all hiring, in anticipation of significant revenue challenges in the coming year.
- The University is monitoring the impact COVID-19 will have on University enrollment and projecting enrollments conservatively.
- UW Medicine has played a significant role in the regional and national response to the pandemic, including:
  - Policy development, implementation, and training for care of patients with COVID-19
  - Care and treatment protocols for ambulatory and hospitalized patients with COVID-19
  - Broad dissemination of policies and protocols for use outside of UW Medicine
  - Development of novel COVID-19 PCR laboratory testing and accurate (high sensitivity and specificity) serologic testing. To support this goal, UW Medicine received an initial allocation of \$10 million of the \$175 million allocated by the State for State and local agency response to the virus. Subsequently the State awarded an additional \$25 million to UW Medicine to increase support for the efforts.
  - Creation of COVID-19 communication modalities including internal and externally facing websites. Curation of biomedical literature, some multi-lingual support, telephonic hotlines, and substantial participation with news media for public education.
  - Rapid development and deployment of Telehealth capabilities for patients, including primary and specialty care and mental health support
  - Substantial modification to physical plant and air handling systems at hospital locations to implement surge capacity plan for respiratory infection isolation.
  - Projection development by the UW Institute for Health Metrics and Evaluation which allowed UW Medicine and many others to develop and implement a surge capability plan to manage a significant influx of patients with COVID-19
  - Participation in regional and State Leadership forums to assist with decision making related to healthcare systems readiness and patients' access to care
- Under the CARES act, the University became eligible for approximately \$40 million in grant funding via the Higher Education Emergency Relief Fund (HEERF), of which no less than 50% of this grant must be utilized as aid to students demonstrating financial need as a result of COVID-19. The University received approximately \$19.8 million and disbursed the full amount as grant aid to students. The University awaits additional guidance from the Department of Education to determine how it may utilize the balance of the \$40 million grant to support institutional needs related to the COVID-19 pandemic.
- The University applied for an \$87 million grant from the FEMA Public Assistance program via the expedited funding channel, which enabled partial funding of estimated eligible expenditures up front, with a 25% cost share requirement. The University received an expedited payment from the grant program of \$32 million to help defray certain costs incurred as part of the institution's response to COVID-19. The University also received an appropriation from the State of \$21.8 million to support the non-federal cost share requirement associated with the FEMA PA program. The vast majority of this grant (>95%) is to be used to defray certain costs borne by the UW Medicine health system, including affiliated, but legally separate, entities.

- The University requested approximately \$70 million from the State’s share of the Coronavirus Relief Fund and Governor’s Emergency Education Relief Fund (GEERF) to defray incremental costs associated with further community testing through UW Medicine, for Housing and Food Services costs and to offset COVID-19 related expenditures associated with the delivery of clinical instruction to health science students, among other priorities.

The University has no assurance regarding whether the University will receive the requested grants in the requested amounts. Federal and state grants are subject to a number of limitations and grant funds will be required to be spent consistent with these limitations.

### **Financial Projections**

Although the University does not yet have sufficient information to quantify the direct impact of the COVID-19 pandemic on the University’s finances across multiple years, it expects that University revenues will be materially adversely affected.

The Board of Regents adopted the University’s Fiscal Year 2021 budget on June 11, 2020. The budget is presented differently than years past given the uncertainties as a result of the COVID-19 pandemic. The Fiscal Year 2021 operating budget is based on the information available for baseline Fiscal Year 2021 projections for each functional area of the budget at the time of overall budget publication (June 1, 2020). The budget identifies known risks and notes where information was still unknown as of that date, including for example a potential range for State funding amounts for Fiscal Year 2021. Thus, the budget is expected to be subject to more volatility than those adopted in previous years. The budget does not include a rollup of projected budgets across the University that has been included in previous years, and defers adoption of UW Medicine and UW Athletics budgets until September 2020. The Board will be provided with monthly updates of major areas of the budget as more information becomes available and as the situation evolves.

### **UW Medicine**

COVID-19 has created serious financial challenges for all healthcare organizations, including UW Medicine. Challenges include lost clinical revenue due to cancellation of non-emergency and elective procedures to preserve hospital and clinic capacity for the “COVID-19 surge” and new expenses related directly to COVID-19 such as personal protective equipment and testing expenses.

Based on information to date, UW Medicine estimates net revenue losses due to COVID-19 for the Clinical Enterprise of approximately \$150 million for Fiscal Year 2020, ending June 30, 2020. A portion of the net revenue losses will be offset by funding recoveries but UW Medicine does not anticipate the losses will be fully covered unless additional funding sources are identified. Some of the actions taken to provide financial stability for UW Medicine include accurate documentation of COVID-19 expenses to maximize reimbursement from federal (e.g., FEMA) and State programs; advocacy for reimbursement from federal sources (e.g., CARES funding and liquidity support through the Medicare advance payment program) for net lost clinical revenue directly related to COVID-19; philanthropy for the UW Medicine Emergency Response Fund; expedited planning to reopen the full range of clinical services in a manner that supports safety for patients and the healthcare workforce; and active planning for the “new normal” for healthcare that includes substantial changes in the use of telehealth and other programs that can provide the highest quality and most cost-effective healthcare.

Although the steps outlined above will help address the COVID-19 financial challenges, UW Medicine has taken additional action to pursue financial stability, including reduction of compensation for senior leadership; system-wide expense reductions that support more “lean” operations for clinical, research

and educational programs, including all discretionary expenses; limiting new recruitments to positions of critical importance; postponement of capital expenses that are not considered to be mission critical; and voluntary and required furloughs and FTE reductions.

On May 18, 2020, Governor Jay Inslee shared guidance on safely resuming elective surgeries and procedures in Washington State. By early June UW Medical Center and Harborview Medical Center were operating at full surgical capacity in an effort to bring elective procedures back to pre-COVID-19 levels. Additionally, a focused team is working to prioritize scheduling the procedures that were previously cancelled in an effort to recover those volumes.

### **Other Auxiliary Units**

Other units at the University, such as Housing and Food Services, UW Athletics and certain components of UW Facilities are also experiencing significant revenue losses due to fewer students and employees living and working on campus. In addition to UW Medicine's estimated net revenue losses, the University is projecting the UW's auxiliary units and certain self-sustaining activities will collectively lose at least \$100 million between now and the end of September 2020. This projection was made during Phase I of the "Stay Home, Stay Healthy" order, and presumes that many campus operations will be building back to normal levels in 2021. However, the University's operations will be closely coordinated and aligned with all state and local regulations and public health guidance.

### **State Support**

The State's Office of Financial Management ("OFM") is gathering information to plan for Fiscal Year 2021, which begins July 1. State appropriations make up roughly a third of the University's General Operating Fund, which support academic operations on all three University campuses. OFM has asked State agencies including the University to model options for a 15% reduction to near general State funds. The University awaits a decision regarding a special State legislative session, during which the legislature may take action to modify the State budget in response to the economic impact associated with the COVID-19 pandemic. Governor Inslee has also restricted hiring at State agencies and asked universities to take similar measures, which the University preemptively implemented by limiting hiring to only essential faculty or staff positions and directed leaders to eliminate non-essential expenses.

In April, 2020, Governor Jay Inslee vetoed significant new funding approved by the legislature in anticipation of projected budget deficits due to COVID-19. State leaders have indicated that there will likely be a special legislative session following the next revenue forecast to align current budgets with expected revenue.

### **Federal COVID-19 Relief**

Upon the President's emergency declaration in response to COVID-19, the University as a State agency, became eligible to access the FEMA Public Assistance program to support certain extraordinary operating costs incurred. On April 10, 2020, the UW submitted an \$87 million expedited funding request, encompassing estimated expenses eligible for Public Assistance funding across the University and UW Medicine systems. The expedited funding path enables approved agencies to receive funding for up to 50% of the estimated expenditures up front, subject to a non-federal cost sharing requirement. On June 9, 2020, the University received \$32 million in expedited funding from FEMA. Determination of cost eligibility is ultimately subject to federal government review and approval. Recognition of FEMA cost recovery will occur once management has determined recovery criteria has been met, acknowledging recognition will be subject to federal audit.

The CARES Act includes approximately \$14 billion to both public and private higher education institutions directly from the Department of Education. Each institution's portion of these funds is based on a share of Pell FTE and non-Pell FTE before the crisis. The University is eligible to receive just under \$40 million, half of which must be used for student grants and the remainder may be used for other institutional needs. On April 30, 2020, the University received an award of approximately \$19.8 million in student aid funds from the Department of Education and fully disbursed this amount in the form of grant aid to eligible students.

As part of the CARES Act, the University was given the option to defer the federal portion of its FICA payments through 12/31/2020. The total amount of these deferred payments is approximately \$130 million. The deferral began with the May 10th pay period. The total amount of the tax deferral is required to be paid to the Federal Government in two approximately \$65 million tranches; half by 12/31/2021 and half by 12/31/2022. There is no interest associated with this deferral other than imputed earnings on the portion associated with federal research.

### **Liquidity Position**

As of March 31, 2020, the University had total operating fund cash and investments valued at approximately \$2.36 billion (excluding the Supplemental Retirement Fund, Capital Assets Pool and UW Physicians), of which \$1.48 billion can be converted to cash between 0 and 3 days, \$0.49 billion can be converted to cash in between 3 and 90 days depending on market conditions and \$0.57 billion can be converted to cash over multiple quarters.

The University expects that these funds will provide sufficient liquidity for operations. To provide additional liquidity for University purposes the University obtained Board of Regents' approval for one or more bank lines of credit in an aggregate principal amount of \$200 million. The University expects to execute two lines of credit pursuant to this authority in July 2020 but currently does not expect to draw on the lines.

***The forecast information described in this Notice is a "forward-looking statement," speaking only as of its date. Actual results may differ materially.*** Furthermore, the University expects these estimates to change as actual revenue data is received and dependent on shifting variables such as the duration of the Stay Home, Stay Healthy order and social distancing restrictions and other factors.

While the full impact on the University and its revenues is currently uncertain, the evolving situation will continue to be monitored and incorporated into future revenue forecasts. The University is evaluating how best to utilize fund balances or one-time resources such as state and federal grants, and the use of its reserves.

### **Cautionary Notes**

The information in this voluntary disclosure notice has been obtained from records of the University and other sources that are considered reliable. Any statement in this notice that includes a matter of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. The information contained in this notice is provided as of the respective dates specified herein and is subject to change without notice, and the filing of this notice shall not, under any circumstances, create any implication that there has been no change in the affairs of the University or in the other matters described herein since the dates as of which such information is provided.

This notice contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates,"

“estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in regional, domestic and international political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, financial conditions of and changes in the higher education sector, technological change, changes at other colleges and universities, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of the University.

The COVID-19 outbreak is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics or vaccinations; (vi) travel restrictions; (vii) the impact of the outbreak on the local or global economy, or on the higher education sector generally; (viii) whether and to what extent the Governor may order additional public health measures; and (ix) the impact of the outbreak and actions taken in response to the outbreak on University revenues, expenses and financial condition. These forward-looking statements speak only as of the date hereof and are subject to revision by the University at any time. The University disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the University’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The publication of this information does not constitute or imply any representation (i) that all of the foregoing is material to investors, (ii) regarding any other financial, operating or other information about the University or its bonds or (iii) that no other circumstances or events have occurred or that no other information exists concerning the University or its bonds that may have a bearing on the financial condition of the University, the security for its bonds, or an investor’s decision to buy, sell or hold any bonds.

***Dated: June 18, 2020***