

## BOARD OF REGENTS MEETING

Approve Proposed FY18 Operating BudgetRECOMMENDED ACTION

It is the recommendation of the administration that the Board of Regents—pursuant to its authority under RCW 28B.20.130, the Bylaws of the Board of Regents, and the Board of Regents Standing Order No. 1—consider and confirm the Fiscal Year 2018 (FY18) Operating Budget for the University of Washington. The proposed FY18 Operating Budget is presented in the attached document, which includes final tuition rate recommendations for FY18.

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

1. Adopts the proposed FY18 Operating Budget;
2. Establishes tuition rates for the 2017-18 academic year for all tuition categories in the context of a revised Cost of Attendance document, which will be included in the day-of packet; and,
3. Specifies that academic fee increases that are implemented under authority that the Board of Regents has delegated to the President and Provost that are consistent with the limitations the Board has specified are reasonable and necessary.

BACKGROUND

This item presents the University's proposed operating budget for FY18, which began on July 1, 2017 and ends of June 30, 2018. The FY18 operating budget includes proposed tuition rates and is presented as one comprehensive draft for discussion.

In response to feedback from Regents regarding the University's FY17 operating budget, the proposed FY18 operating budget provides more information and context for every area of the budget, including budget oversight and policies. The goal in providing this additional information is to thoughtfully and responsibly improve transparency, without overloading decision makers and stakeholders with excessive details. To this end, the proposed FY18 operating budget includes:

- An updated introduction from the Provost;
- An overview of the University's mission and commonly-cited facts;
- An executive summary of the University's overall proposed FY18 operating budget;
- Background information to provide context for the University's current budget challenges and proposals;

## BOARD OF REGENTS MEETING

### Approve Proposed FY18 Operating Budget (continued p. 2)

- An overview of the processes and policies that guide the University's careful management and distribution of resources;
- Details regarding expected revenue and proposed expenditures for the General Operating Fund and Designated Operating Fund, which are known together as the University's "Core Operating Budget;"
- Tuition and financial aid recommendations for the 2017-18 academic year; and
- Projected budget information for:
  - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY18;
  - UW Medicine, including updated FY17 financial results and projected budgets, by entity, for FY18;
  - Gift income and endowment distribution projections for FY18; and,
  - Sponsored research activity, including expense projections for FY17 and FY18.

For additional context, an updated Cost of Attendance document will be available in the day-of packet.

#### *Attachment*

Proposed Operating Budget Fiscal Year 2018

UNIVERSITY *of* WASHINGTON

OFFICE OF PLANNING & BUDGETING

# OPERATING BUDGET



**Fiscal Year 2018**



# INTRODUCTION FROM THE PROVOST

This University of Washington's (UW) Fiscal Year 2018 (FY18) operating budget represents many months of collaboration between deans, faculty, students, and staff along with executive and academic leadership. Following my introduction, you'll find an overview of the University of Washington (UW) and its activities, an executive summary of the FY18 budget, and a short guide on "how to read" the remainder of this budget document.

This budget incorporates changes in state funding and revenue projections, including tuition and fees, grants and contracts to support research, restricted funds, UW Medicine, and auxiliary/self-sustaining activities. The operating budget provides Regents and the public with a sense of scale for total revenue projections, but focuses primarily on the sources and uses of the Core Operating Budget. This item is intended to contextualize the broad budget of the University, while stipulating the specific actions required to enact this budget. Specifically, we will ask the Board to take action on tuition rates, the delegation of fee setting authority, and the general use of core operating revenues.

At the UW, incremental revenues in core operating budget groupings are distributed to units formulaically, as determined by **Activity Based Budgeting (ABB)**<sup>1</sup>. Under ABB, central resources, such as tuition revenue and indirect cost recovery (ICR) from research, are allocated directly to the unit responsible for the activity. First, however, a tax is taken to fund central administrative operations, strategic investments in student and faculty experience, and critical compliance efforts—shared expenses that would otherwise have no direct source of funds. These activities are taxed at a rate outlined by ABB (see page 18). The tax is part of the funds the administration uses to address the President's and my priorities for the University, and deployment of these funds is the result of a lengthy and highly consultative budget development cycle.

Last fall, I initiated the Provost Budget Development cycle, which evolved into a rigorous budget review and consultation process involving students, faculty, staff, and executive leadership. This nine-month process required that each unit provide detailed expenditure plans for FY17 and FY18, prepare and enact immediate administrative efficiencies, detail their uses of carryover and temporary reserves, and detail their plans regarding hiring and compensation. School, college, and administrative unit leaders were asked to redeploy resources, rather than ask for budget increases. Our priorities for the coming fiscal year were developed in consultation with academic, student, and administrative leadership and were identified as follows:

- Provide competitive compensation
- Transform administration
- Fund areas of critical compliance
- Invest in the student experience

Our priorities were clear, but influenced by factors external to the UW, including uncertain funding levels from both the state and federal governments; shifting global and national financial markets; and, importantly, local market conditions, including rising regional wages and cost of living. Consequently, new investments were minimal and targeted toward the most critical initiatives and projects.

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<sup>1</sup> <http://opb.washington.edu/activity-based-budgeting>

## KEY FOCUS AREAS

- In the coming months, we plan to initiate fiscally responsible merit increases for faculty, librarians, and professional staff that will provide much needed relief in areas of salary compression and external competition. In conjunction with state action, merit-based salary increases of 2 percent will be authorized and have been integrated into this document and into planning documents furnished to Deans, Vice Presidents, Vice Provosts, and Chancellors.
- In fall 2016, the Bill and Melinda Gates foundation awarded \$210 million to fund construction of a new building to house several UW units working in the **Population Health** space. This budget provides funding for this program, including funds for pilot awards, grants, bridge funds, and general program support.
- The UW very recently launched Workday, the new Human Resources (HR) Payroll system, and embarked on a new, shared services center, known as the **Integrated Services Center**, to support integrated employee Human Resources, Academic HR, and Payroll inquiries and transactions in an efficient, accurate, and compliant manner. This budget contains both new permanent funding for this effort and contributed funding from existing units.
- This budget also contains new funding for critical research and learning investments in UW Libraries, Office of Research, Veterans Services, and Health Sciences Administration.

## CONSIDERATIONS

Publication of this document is made in the interest of promoting a greater understanding of the University of Washington's operating budget, and the processes through which it is annually determined. This document provides the Board with the following operating plans: 1) state operating budget revenues and uses; 2) gross and net tuition operating fee revenue projections and uses; and, 3) self-sustaining and auxiliary revenues, expenditures and projected ending balances. Not included are carryover fund balances from prior fiscal years, or unit-level expenditures related to grants and contracts. Auxiliary, self-sustaining, and other university units worked closely with the Provost's office to prepare and submit the information compiled in this publication. Every effort has been made to provide accurate information in this publication; however, this document represents the best and most accurate projections at a given moment in time.

Sincerely,



Gerald J. Baldasty  
Provost and Executive Vice President

Professor, Department of Communication



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## OVERVIEW OF THE UNIVERSITY

Founded in Seattle in 1861, the University of Washington (UW) is a public research university with campuses in Seattle, Tacoma, and Bothell. The UW is the largest university in the northwestern United States and is one of the oldest universities on the west coast. The University of Washington's Fiscal Year 2018 budget totals \$7.25 billion, and its endowment's market value is approximately \$3.0 billion (fall 2016). The University employs more than 31,000 benefits-eligible faculty and staff, and 3,450-plus benefits-eligible graduate-student employees. The UW's three campuses occupy 370 buildings on 792 acres, with over 19.8 million gross square feet of space.

As the state's flagship university, the University of Washington enrolled nearly 57,000 undergraduate, graduate, and professional students in Fall 2016. The University of Washington Continuum College, formerly UW Educational Outreach, educates more than 50,000 students annually via in-person and online degree and certificate programs and continuing professional education programs. The three UW campuses offer a broad range of graduate and undergraduate degrees, and collectively support over 579 degree options across 306 programs, 60 languages of study, 970-plus student organizations, and undergraduate research opportunities for over 7,400 students. In 2015-16, the UW awarded nearly 16,000 bachelors, masters, doctoral, and professional degrees.

## UW MISSION

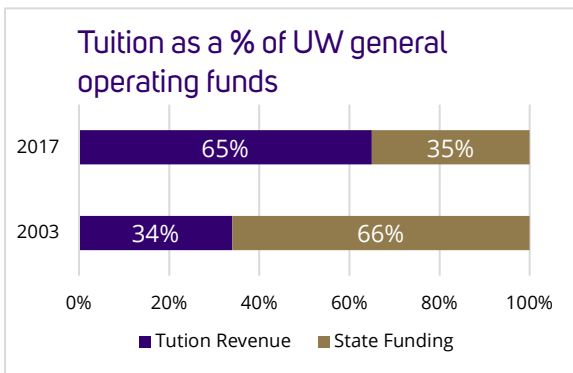
The primary mission of the University of Washington is the preservation, advancement, and dissemination of knowledge. The University preserves knowledge through its libraries and collections, its courses, and the scholarship of its faculty. It advances new knowledge through many forms of research, scholarship, inquiry, and discussion, and disseminates knowledge 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.



# 2017 UW FAST FACTS

## PROFILE

- The University of Washington has three campuses that offer over 579 degree options across 306 programs
- The UW's fiscal year 2017 (FY17) budget totals nearly \$7.1 billion
- Tuition revenue comprises 65 percent of the UW's general operating fund** resources (state funds plus tuition revenue), compared to 34 percent in 2003. This number is *down* from 71 percent in FY15, due to legislatively mandated tuition reductions and increases in state funding



- Across all campuses, 74.5 percent of UW undergraduate students are residents of Washington
- The UW's 2016-17 resident undergraduate tuition and fee rate is \$10,753, which is **below the mean and median of our U.S. News Top 25 Public Research University peers**

## ENROLLMENT AND DEGREES

FALL 2016 TOTAL ENROLLMENT				
	SEATTLE	BOTHELL	TACOMA	ALL UW
UNDERGRAD	31,418	5,113	4,301	40,832
GRAD/PROF	14,663	622	702	15,987
TOTAL	46,081	5,735	5,003	56,819

The UW's **average time to degree is four years**, and 82 percent of entering freshmen graduate within six years, the highest percentage of any public university in the state.

### The UW is increasingly competitive:

- 18 percent** – increase in the number of Seattle freshman applications over the past year
- 45 percent** – admission rate for Seattle freshmen, and UW's lowest admission rate ever (down from 53 percent last year)
- 3.78** – average high school GPA of the Seattle entering class
- 1840** – average SAT composite score for the Seattle entering class (out of 2400)

In fall 2016, 39.2 percent of UW students were pursuing at least one science, technology, engineering & mathematics (STEM) major and in 2015-16, **the UW awarded 6007 STEM degrees, 4 percent more than 2014-15**. Over 40 percent of students who have declared STEM majors are women.

DEGREES AWARDED 2015-2016				
	SEATTLE	BOTHELL	TACOMA	TOTAL
BACHELOR'S	7,772	1,495	1,322	10,589
MASTER'S	3,598	220	264	4,082
DOCTORAL	778	N/A	25	803
PROFESSIONAL	518	N/A	N/A	518
TOTAL	12,666	1,715	1,611	15,992

**UW Continuum College educates more than 50,000 students annually** through UW Professional & Continuing Education, International and English Language Programs, Summer Youth, Summer Quarter, UW in the High School, and the Osher Lifelong Learning Institute.

## AFFORDABILITY AND ACCESS

- Since before the Great Recession, the number and proportion of underrepresented minority students at the UW has increased, comprising 19.7 percent of the 2016 incoming domestic freshman class
- The UW Tacoma student body has been ranked among the **top-50 most diverse campuses** in the nation (*Best College Reviews*)
- In 2016-17, **34 percent of all domestic UW students** entering college for the first time would be the **first generation in their families to attain a bachelor's degree**. That number is **49 percent at UW Bothell and 64 percent at UW Tacoma**
- In 2016-17, **27 percent of undergraduates are eligible for Pell Grant funding**
- As of the most recent data (2014-15), **the UW has more Pell Grant recipients than 21 of our 24 U.S. News Top 25 Public Research University peers**
- In 2016-17, **30 percent (or about 9,900) of UW undergraduate residents were eligible for Husky Promise**, which provides free tuition to students with financial need
- In 2016-17, about 56 percent of UW undergraduates are receiving some form of financial aid, totaling over \$410 million
- Over half of all UW undergraduates graduate with no known debt, and those who borrow graduate with less debt than the national average
- In 2016-17, 2,800 and 7,400 UW students are projected to receive funds from the College Bound Scholarship Program and the Washington State Need Grant, respectively
- In 2016-17, the UW is giving over \$100 million in institutional grants and scholarships to Washington residents

## AWARDS AND HONORS

- The UW is one of the best universities in the world, ranked No. 11 globally by *U.S. News & World Report* (No. 3 among public institutions), No. 15 globally by the Academic Ranking of World Universities (Shanghai Jiao Tong University) and No. 14 nationally by *Washington Monthly*
- The UW has 52 graduate programs among the nation's top ten in their area, many of which are in the top five (*U.S. News & World Report*)
- *Kiplinger's* ranks the UW as the No. 9 best value in the nation for in-state students, and *Washington Monthly* ranks the UW in Seattle No. 36, Bothell No. 22, and Tacoma No. 4 in its "Best Bang for the Buck" rankings
- The UW is home to 7 Nobel Prize winners, 15 MacArthur Fellows, 171 members of the National Academies of Sciences, Engineering & Medicine and 172 fellows in the American Association for the Advancement of Science
- The UW **receives more federal research dollars than almost any other public university** in the nation — in FY16, the UW received \$1.37 billion in total research awards
- According to the 2014 UW Economic Impact Report, the UW is one of the top five largest employers in Washington, supporting over 79,000 jobs, with an annual economic impact of \$12.5 billion
- In FY15, CoMotion **launched 21 new startups** and the UW was recently rated the **No. 5 most innovative university** in the world by *Reuters*, which examined patent applications and impact
- Over the last 10 years, the UW has produced more Peace Corps volunteers than any other U.S. university

# EXECUTIVE SUMMARY: ADOPTED FY18 BUDGET

This document describes the University of Washington’s (UW) operating budget for the period of July 1, 2017 through June 30, 2018, which is known as Fiscal Year 2018 (FY18). The UW’s projected FY18 budget totals \$7.25 billion. Of that total, our University’s core operating budget is projected to be \$1.339 billion; the sources and uses of this amount are the primary focus of this item.

In an effort to provide comprehensive budget information, this document includes summarized and contextualized financial projections for the UW’s research enterprise, UW Medicine, annual gift and endowment funds, and auxiliary/self-sustaining activities. The Board of Regents will receive updates on the financial performance of these areas throughout the year via standalone, detailed items.

Figure 1, below, shows each major component of the UW’s FY18 budget and the share of the total budget that each represents.

**Figure 1: FY18 Budget by Major Area**

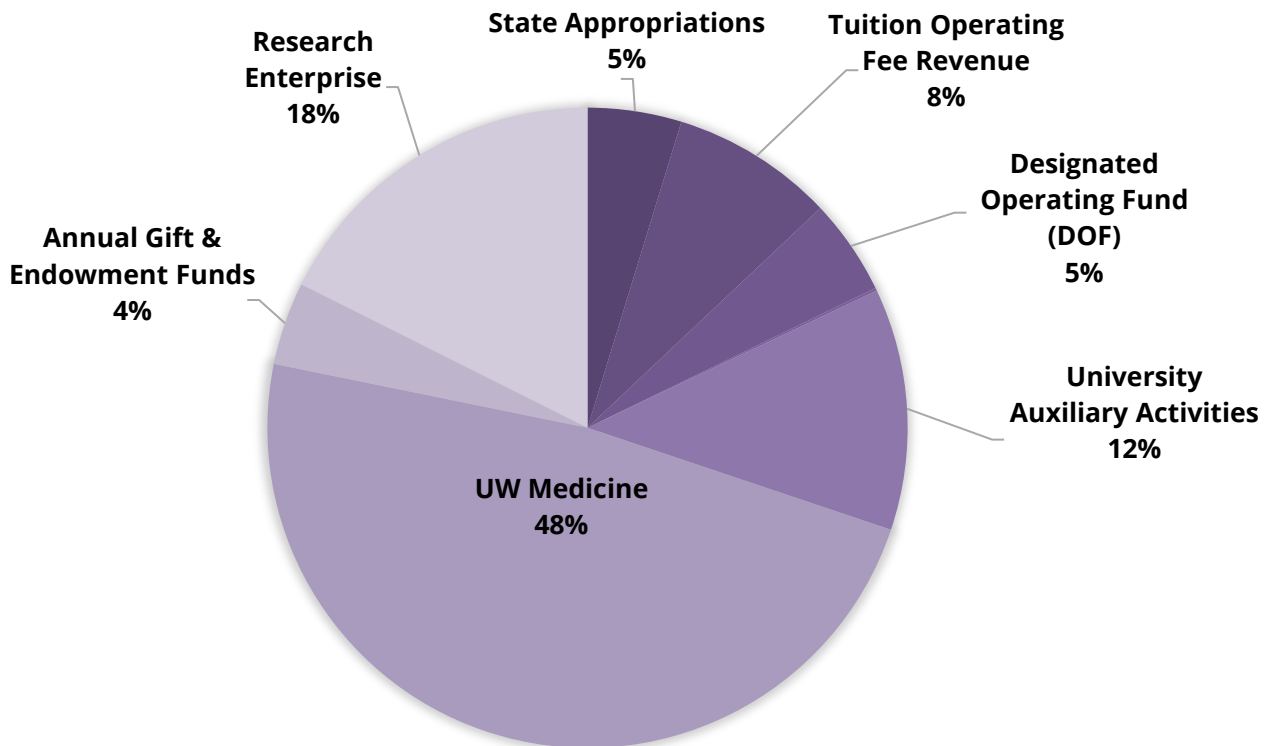


Table 1, on the next page, shows the total projected budgets for FY18, compared to total budgets from FY17, and the incremental change between the two.

**Table 1: Adopted Full FY18 Operating Budget by Fund and Category**

Budget by Fund and Category	FY17 Budget*	Incremental Change	FY18 Adopted
<b>Core Operating Budget</b>	<b>1,301,125,000</b>	<b>38,189,000</b>	<b>1,339,314,000</b>
<b>General Operating Fund (GOF)</b>	<b>940,483,000</b>	<b>34,701,000</b>	<b>975,184,000</b>
State Appropriations	332,343,000	19,383,000	351,726,000
Tuition Operating Fee Revenue	608,140,000	15,318,000	623,458,000
<b>Designated Operating Fund (DOF)</b>	<b>360,643,000</b>	<b>3,487,000</b>	<b>364,130,000</b>
Indirect Cost Recovery	247,000,000	0	247,000,000
Institutional Overhead	26,000,000	0	26,000,000
Remaining DOF	87,643,000	3,487,000	91,130,000
<b>State Restricted Funds</b>	<b>9,876,000</b>	<b>(69,000)</b>	<b>9,807,000</b>
<b>University Auxiliary Activities</b>	<b>889,976,000</b>	<b>29,007,000</b>	<b>918,982,000</b>
Seattle	868,836,000	28,316,000	897,153,000
UW Bothell	11,970,000	384,000	12,354,000
UW Tacoma	9,169,000	306,000	9,475,000
<b>UW Medicine</b>	<b>3,471,000,000</b>	<b>142,000,000</b>	<b>3,613,000,000</b>
UW Medical Center	1,160,000,000	26,000,000	1,186,000,000
Harborview Medical Center**	950,000,000	56,000,000	1,006,000,000
Valley Medical Center	568,000,000	64,000,000	632,000,000
NW Hospital	392,000,000	(16,000,000)	376,000,000
UW Physicians	304,000,000	(2,000,000)	302,000,000
Airlift NW	48,000,000	11,000,000	59,000,000
UW Neighborhood Clinics	49,000,000	3,000,000	52,000,000
<b>Annual Gift &amp; Endowment Funds</b>	<b>280,000,000</b>	<b>35,583,000</b>	<b>315,583,000</b>
Gift Income	170,000,000	30,583,000	200,583,000
Endowment Distributions	110,000,000	5,000,000	115,000,000
<b>Research Enterprise</b>	<b>1,352,159,000</b>	<b>(49,857,000)</b>	<b>1,302,302,000</b>
Federal	801,439,000	(53,363,000)	748,076,000
State and Local Grants	93,225,000	25,000	93,250,000
Non-federal	203,657,000	10,319,000	213,976,000
Indirect Expenditures***	253,838,000	(6,838,000)	247,000,000
<b>TOTAL UNIVERSITY OPERATING BUDGET</b>	<b>7,050,297,000</b>	<b>201,690,000</b>	<b>7,251,988,000</b>

*Some discrepancies may exist due to rounding.*

\* In order to provide FY17 budget information that is comparable to the FY18 budget, new information and breakouts were incorporated into the FY17 budget detail.

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

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

## HOW TO READ THIS DOCUMENT

Staying true to the research and academic missions of the University, this document is structured 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 review the University's budget "**methodology**" (titled "Ensuring Sound Budget Management"), which discusses the processes and policies that guide the University's careful management and distribution of resources;
- Lastly, we present the budgetary "**results**" for each area of the University's FY18 budget:
  - Our Core Operating Budget
  - University Auxiliary Activities
  - UW Medicine
  - Annual Gifts & Endowment Funds
  - Research Enterprise

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 21**, which is where we dive into "Our Core Operating Budget," the first major area of the UW's FY18 budget.

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

Please also note, items highlighted in yellow are things that materially changed since this document was presented to Regents in May 2017. When the title of a table is highlighted, it means the majority of the data in the table has been updated. When the title of a section of text is highlighted, it means the entire section is new since May.

## BACKGROUND

**This section articulates the funding challenges that continue to shape our University's budget going into FY18.** Such challenges include:

- Limitations on enrollment growth and changes in the overall mix of enrollment;
- Per student funding levels that remain low compared to peers and pre-recession funding levels;
- Tuition-setting constraints, particularly for resident undergraduate (RUG) tuition;
- Rising expenses for compensation, including salary competition and mandatory cost increases for benefits;
- Regional pressures and inflationary increases in utilities and property expenses;
- Challenging and increasingly complex regulations requiring new investments of limited funds; and
- Federal funding and policy uncertainties.

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

### CHALLENGE 1: ENROLLMENT LIMITATIONS AND CHANGES

Over the past ten years:

- The University has experienced an annual 2 percent per year tuition-based enrollment growth.
- The bulk of that growth has occurred at UW Bothell and UW Tacoma.
- The growth rate of undergraduates has exceeded that of graduate and professional students at all three campuses.
- The nonresident population has grown at a faster rate than the resident population for each student level.

Changes in the composition of the student body accompany this enrollment growth, which makes it incumbent on the University to ensure that student support services adjust accordingly.

Looking ahead, we anticipate Seattle enrollments will continue to remain stable as Bothell and Tacoma enrollments level off. An important consideration is that current space constraints limit the University's ability to grow, particularly in areas of high student demand.

### CHALLENGE 2: STATE APPROPRIATIONS AND TUITION FUNDING PER STUDENT

Like many other state institutions, the UW has endured numerous state funding cuts in past biennia. Consequently, the majority of funding formerly provided by the state is now borne by students and families.

Figure 2, below, shows trends in the UW's core instructional funding (from state appropriations and tuition revenue) per full-time equivalent (FTE) student. All years are adjusted for inflation to 2016 dollars. Please note that tuition revenue is representative of tuition from **all** tuition-based students, not just resident undergraduates. **This figure illustrates that tuition increases at public institutions are due, in large part, to a decades-long trend of state budget cuts.**

- In 1991, the state provided 82 percent of total funding per student FTE, with students and families responsible for the remaining 18 percent from tuition.

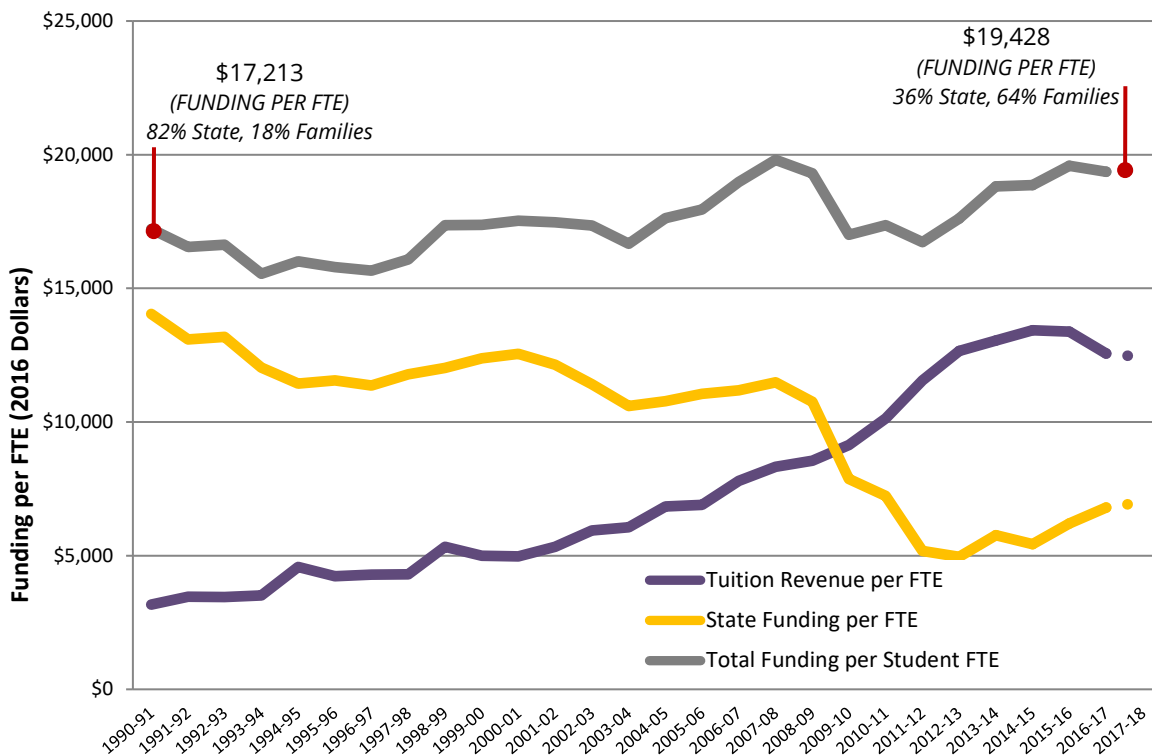
- FY09 was the last year in which the majority of funding per student FTE was provided by the state.
- Between FY09 and FY12, the UW lost approximately half its state funding, while enrolling more students than ever.
- Projected funding per FTE for FY18 is \$19,428, with 36.1 percent covered by state funding.

The recent reversal of the downward trend in state funding per student is primarily due to the additional state funding that was provided to backfill tuition revenue losses associated with a mandated decrease in resident undergraduate tuition (see the “Resident Undergraduate Tuition Policy” section below).

Regarding the 2017-19 biennium, state lawmakers faced immense financial pressures associated with fully funding K-12 education per the Washington state Supreme Court’s ruling in *McCleary v. State of Washington*. While lawmakers were able to provide some new funding for higher education in the final operating budget, the majority of the new funding is earmarked for specific purposes and cannot be applied broadly to the UW’s core educational operations. Lawmakers also decided to maintain current resident undergraduate tuition policy (described below), which allows for modest, inflationary increases.

So, although annual state appropriations have recovered, they are still approximately \$90 million below the annual amounts provided prior to the “Great Recession” (again, adjusted for inflation), and most of the new revenue cannot be used to support the UW’s broad academic mission.

**Figure 2: State and Tuition Funding per UW Student FTE (adjusted for inflation to 2016 dollars)**



Please note that this chart leaves out other revenue sources that we increasingly rely on to support core educational operations: endowment returns, philanthropic gifts, and more. Thus, tuition and state funding per FTE student (which is shown in the chart) is **not** equivalent to the total amount of expenditures used to educate each FTE student.

The UW often compares itself to other *U.S. News and World Report (U.S. News)* Top Public Research Institutions in order to benchmark and check progress. According to 2014 data (the most recent year available) from the Integrated Postsecondary Education Data System (IPEDS), **the UW receives less state funding per student than all but two of our 23 other U.S. News peer institutions.**

### CHALLENGE 3: TUITION-SETTING AUTHORITY AND PREDICTABILITY

As illustrated in the previous section, Challenge 2, the University heavily relies on tuition revenue to support its core academic mission. However, the University is not necessarily able to raise tuition rates whenever state funding (and other revenue sources) are insufficient. This is particularly true for resident undergraduate (RUG) tuition rates, which the state controls and, in recent years, has frozen or reduced. In addition, although tuition rates for non-resident undergraduate, graduate, and professional students are under the control of the University, our ability to increase these rates in response to funding needs is limited by a variety of constraints and considerations. These are explored in more detail below.

#### *Resident Undergraduate Tuition*

As with direct state appropriations to the University, state decisions regarding resident undergraduate (RUG) tuition rates have been unpredictable. Over the last two biennia, the legislature has made several changes to RUG tuition policy:

- For 2013-14 and 2014-15, the state froze RUG tuition at 2012-13 levels. In exchange for the freeze, the state provided \$20 million per year in new funding, acknowledging that operating costs would continue to rise.
- In 2015, the legislature passed 2ESSB 5954, which made the following changes:
  - For 2015-16, the bill reduced the RUG **operating fee** to 5 percent below 2014-15 levels
  - For 2016-17, the bill reduced RUG **operating fee** to 15 percent below 2014-15 levels.
  - In accordance with the bill, the legislature provided funds to “backfill” the forgone tuition revenue associated with the RUG tuition reductions and, in future biennia, those funds are to be adjusted for inflation.

For 2017-18 (FY18) and 2018-19 (FY19), the state legislature decided to maintain the tuition policy of 2ESSB 5954 (2015). That bill limits RUG tuition increases to the 14-year rolling average of Washington’s median hourly wage for FY18 onwards (estimated at 2.2 percent in FY18 and 2.0 percent FY19).

Unfortunately, RUG tuition freezes and inflationary backfill adjustments do not provide sufficient revenue to address rising costs and fill resource gaps left over from the Great Recession. Further, such RUG tuition policies can impact financial aid, making it challenging for students and university administrators to make responsible financial plans.

**The constraints on RUG tuition-setting are reflected in comparisons with peer universities.** As previously mentioned, the University uses the 2017 *U.S. News* “Top 25 Public Universities” as a peer comparison group when analyzing tuition costs and program rankings. Due largely to the legislatively mandated RUG tuition freeze and RUG tuition reductions detailed above, the UW remains affordable compared to its peers, many of whom increased tuition significantly over the same period. For the 2016-17



academic year, the UW's RUG tuition and fee rate of \$10,753 is \$2,085 below the peer average (see Table 2 below).

**Table 2: Peer Comparison – 2016-17 Resident Undergraduate Tuition & Fees**

<b>U.S. News Top 25 Public Universities</b>	<b>2016-17 Tuition &amp; Fees</b>
University of Pittsburgh-Pittsburgh Campus	18,618
Pennsylvania State University-Main Campus	17,900
University of Virginia-Main Campus	15,924
University of Illinois at Urbana-Champaign	15,698
University of Michigan-Ann Arbor	14,402
Rutgers University-New Brunswick	14,372
University of California-Santa Barbara	14,073
University of Connecticut	14,066
University of California-Davis	14,046
University of California-San Diego	13,645
University of California-Berkeley	13,509
University of California-Irvine	13,360
University of California-Los Angeles	12,920
Georgia Institute of Technology-Main Campus	12,212
University of Georgia	11,634
<b>University of Washington-Seattle Campus</b>	<b>10,753</b>
University of Wisconsin-Madison	10,488
University of Maryland-College Park	10,181
The University of Texas at Austin	10,144
Ohio State University-Main Campus	10,037
Purdue University-Main Campus	10,002
University of North Carolina at Chapel Hill	8,834
University of Florida	6,381
<b>U.S. News Top 25 Publics Group Average</b>	<b>12,838</b>

Sources: 2016-17 American Association of University Data Exchange, University of Virginia system survey, and institution websites

Note that two universities were omitted for not classifying as an "R1" research institution according to the Carnegie Foundation classification.

### **Other Tuition Categories**

Resident undergraduate tuition is not the only category with tuition-setting constraints. When setting tuition rates for nonresident undergraduates and the many graduate and professional program categories, the University must carefully consider peer comparisons and, especially for graduate students, competitive recruitment and funding for teaching assistant (TA) and research assistant (RA) positions.

Nonresident undergraduate tuition has been steadily increasing and yet, in 2016-17, the UW's nonresident undergraduate tuition and fee rate of \$34,791 is still \$395 *below* the peer mean, as seen in Table 3. Although the UW's nonresident undergraduate tuition rate increased by 2 percent in each of the last two academic years, these increases were less than the peer mean of 3.9 percent and 3.4 percent in the 2015-16 and 2016-17 academic years, respectively. This trend is an indication that the University responsibly manages the tuition rates for which it has tuition-setting authority.

**Table 3: Peer Comparison – 2016-17 Nonresident Undergraduate Tuition & Fees**

<b>U.S. News Top 25 Public Universities</b>	<b>2016-17 Tuition &amp; Fees</b>
University of Michigan-Ann Arbor	45,410
University of Virginia-Main Campus	45,268
University of California-Santa Barbara	40,755
University of California-Davis	40,728
University of California-San Diego	40,327
University of California-Berkeley	40,191
University of California-Irvine	40,042
University of California-Los Angeles	39,602
University of Connecticut	35,858
The University of Texas at Austin	35,796
<b>University of Washington-Seattle Campus</b>	<b>34,791</b>
University of North Carolina at Chapel Hill	33,916
University of Wisconsin-Madison	32,738
Georgia Institute of Technology-Main Campus	32,404
Pennsylvania State University-Main Campus	32,382
University of Maryland-College Park	32,045
University of Illinois at Urbana-Champaign	31,320
Rutgers University-New Brunswick	30,023
University of Georgia	29,844
University of Pittsburgh-Pittsburgh Campus	29,758
Purdue University-Main Campus	28,804
University of Florida	28,658
Ohio State University-Main Campus	28,229
<b>U.S. News Top 25 Publics Group Average</b>	<b>35,186</b>

Sources: 2016-17 American Association of University Data Exchange, University of Virginia system survey, and institution websites

Similar to nonresident undergraduate tuition, increases to graduate and professional tuition rates must be considered alongside peer comparisons. A variety of peer analyses are available on the following webpage, under "US News Top 25": <http://opb.washington.edu/content/peer-comparisons>. When UW academic units make recommendations to increase certain graduate and professional tuition rates, they must also provide market analyses and justification for proposed rate changes. The University collects these tuition recommendations and justifications each year through the annual unit budget submission process. Submissions for FY18 can be found on the Office of Planning & Budgeting website (<http://opb.washington.edu/content/annual-budgets>), and FY18 tuition recommendations are summarized on page 24 of this document.

Graduate and professional tuition rates must also contemplate competitive recruitment and funding for teaching assistant and research assistant positions. Many students, primarily PhD students who serve as TAs or RAs, have their tuition waived or funded by the University. 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 funding and research grants). Given the current uncertainty regarding federal funding (which is explored in more detail later in this section), it is especially critical for the UW to be mindful of these issues.

## CHALLENGE 4: COMPETITIVE COMPENSATION

Although the UW has been able to provide moderate salary increases for faculty and staff during the past few years, the state imposed a four-year salary freeze during the Great Recession and the fact remains that UW faculty and staff are compensated well below their counterparts at peer institutions.

According to our most recent analysis, **UW faculty salaries across all professor ranks would need to grow by an average of 8.7 percent in order to reach the mean salary for our U.S. News Top Public Research Institution peers.** For professional staff, the UW's employee-weighted average salary is 4.7 percent below the 50th percentile of the market, and particular job categories such as information technology staff, facilities engineers, human resources (HR), and others lag substantially behind the market. The high (and rising) cost of living in the Puget Sound region is also a major complicating factor for both faculty and staff as they find it increasingly expensive to live and commute in the area.

**As a result, it has become increasingly challenging to recruit and retain high quality faculty and staff who, in turn, provide students with a quality and meaningful education.** Therefore, it is a high priority of the UW administration to offer competitive compensation, so that the University can maintain and expand its reputation as a world-class research institution, and its exceptional record in scholarship, research, and student success.

## CHALLENGE 5: MANDATORY COST INCREASES AND INVESTMENTS IN COMPLIANCE

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

- Benefits expenses are largely the byproduct of state benefits assumptions, and typically increase each fiscal year.
- Utilities expenses are expected to increase significantly this fiscal year. Water, sewer and electricity payments are all projected to rise as rates increase and as new facilities are brought online. Incremental expenses are being covered by a mix of new revenue and budget cuts to other centrally managed expenses.
- Compensation changes for faculty, professional staff and classified staff are required to enact collectively bargained agreements, address faculty quality and compression, and attract and retain professional staff—all in a competitive regional, national and, in some cases, international market.
- Expenses for employee and student disability accommodations have significantly increased over the last several years and there is every indication that costs for these necessary and important activities will continue to rise.
- This budget reflects continued or new funding for critical compliance areas.

Wherever possible, we have asked that units redeploy funds or cut budgets to effect service changes or new investments in areas of critical importance. For example, both the Provost's organization and the newly configured Finance and Administration organization will be making permanent budget cuts in order to shore up resources to redirect to mission-critical areas.

## CHALLENGE 6: FEDERAL OUTLOOK

As is widely known, the UW secures significant grant and contract funding from federal government agencies, as well as financial aid from Pell grant and loan programs.

Earlier this spring, President Trump released a FY18 budget request that continues to fund individual Pell grants awards at \$5,920, which is consistent with the FY17 maximum award. The request does, however, rescind \$3.9 billion from the Pell surplus, which could have an adverse impact on the program in future years.

The President's budget proposal would increase defense spending by \$54 billion and cut domestic spending by a corresponding amount. Under the proposal, domestic spending would continue to shrink over the next decade until nondefense spending shrinks to \$385 billion in FY27 (under current law, the spending level for FY18 is slated to be \$516 billion). The request proposes devastating cuts to scientific programs, including long-standing, successful programs that have had a profound impact on our community and the nation. Notably, the proposal would cap the facilities and administration rate for National Institutes of Health (NIH) grants at 10 percent of total research.

Many programs slated for elimination in the Trump proposal enjoy widespread bipartisan support and are long-standing priorities for the UW and Congress. However, while the President's budget request proposes these dramatic cuts, it is not possible to implement such a budget under the current budget structure. Doing so would require Congress to amend the Budget Control Act to legally shift funds from nondefense spending over to defense spending and increase spending above spending caps currently in place.

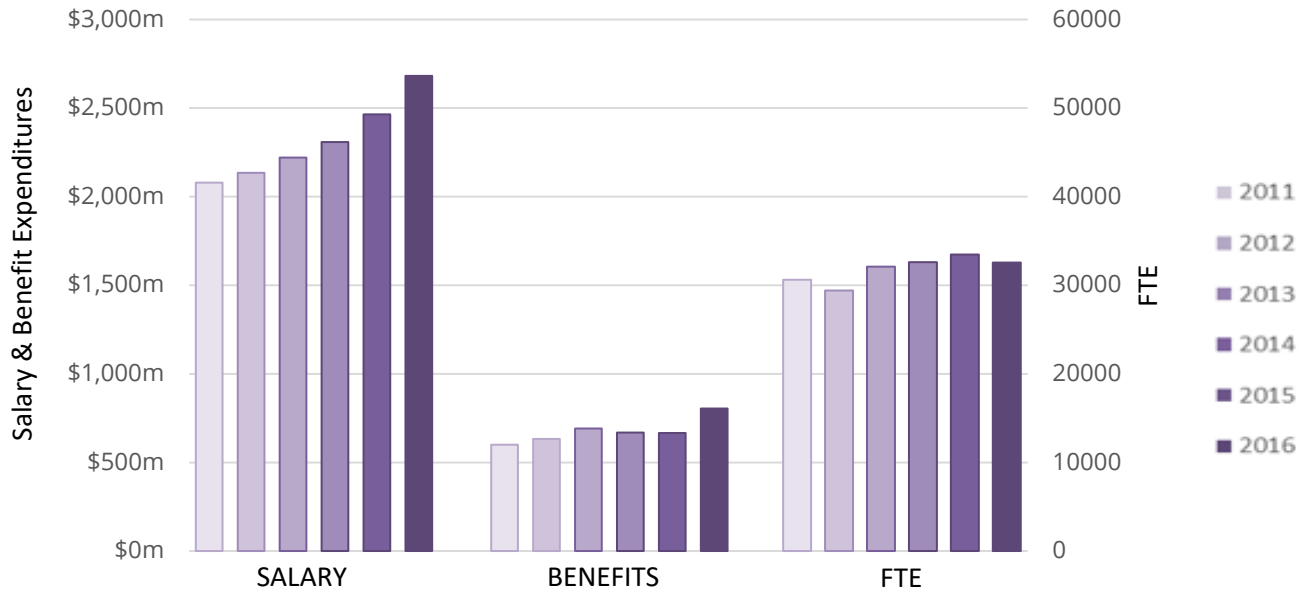
Along those lines, as we look ahead to FY18, Congress is many months behind schedule on the budget and appropriations process. The first seven months of the 115th Congress were focused on completing FY17 appropriations, confirmation hearings, efforts to repeal and replace the Affordable Care Act, and investigations into Russia's meddling in the election. While House appropriations committees began marking up FY18 appropriations measures at the end of June, they are doing so without a budget agreement to set parameters around how much can be spent. The new federal fiscal year begins on October 1, leaving Congress with approximately twenty-five legislative days to complete FY18 appropriations or pass a continuing resolution to keep the government funded on a temporary basis.

Healthcare could continue to be a major issue at the federal level. The Trump Administration and senior members of Congress want to take on tax reform this year, as well, but that may depend on healthcare. The FY18 funding process will become more visible during the rest of the year. The University is actively engaged with Washington's Congressional Delegation and federal agencies on these matters.

## **BUDGET TRENDS OVER THE LAST THREE BIENNIA**

Salary and benefit expenditures have continued to climb over the past six years. This is mainly due to the continual increase in health benefit rates and the fact that the University has provided modest salary increases in recent years. However, as shown in Figure 3, below, there has been very little increase in total full-time equivalent (FTE) employees over the last six years.

Despite the increases in compensation expenditures, competitive compensation continues to be a significant challenge for the UW. This is partially because Washington state imposed a four-year salary freeze between FY10 and FY13.

**Figure 3: Trends in Compensation Expenditures and FTEs Over Three Biennia (from all fund types)**


Sources: FTE data come from the "ActualDistribution" table in the HumanResources\_HEPPS database in EDW; Salary and benefit information was obtained from the Financial database expenditure data.

Other budget trends over the last three biennia have been driven by the implementation of Activity Based Budgeting (ABB). Since FY12, when the UW implemented ABB, Seattle academic units have experienced more budget growth than Seattle administrative units, both in terms of real dollars (\$173 million versus \$62 million) and in terms of proportionate growth (36 percent versus 21 percent). In FY17, Seattle academic units received 65 percent of the permanent Core Operating Resources going to Seattle, while Seattle administrative units received 35 percent. Administrative units include the Libraries, Graduate School, Undergraduate Academic Affairs, Student Life, Minority Affairs and Diversity, and central administrative units that focus on compliance, operating and capital planning, finance, and human resource functions, to name a few. This clear prioritization is not an artifact of one year's budget process, but rather, sustained investments in the academic mission of the UW. Data suggests that this trend will continue with the adoption of the FY18 budget.

# ENSURING SOUND BUDGET MANAGEMENT

As a public institution, it is essential that the University manages its resources to most effectively serve our students and the citizens of our state and region. This involves careful consideration of revenues and expenditures including budget oversight and informed distribution of resources. This section outlines central budget oversight strengths, as well as limitations, and concludes with an overview of budget policies and Activity Based Budgeting (ABB) distribution rules.

## ADMINISTRATIVE DUE DILIGENCE

### STRENGTH 1: ANNUAL BUDGET DEVELOPMENT PROCESS

As part of the annual budget development cycle, each unit and campus submits a suite of materials in preparation for annual budget meetings with the Provost. Submissions are publically available at the following website: <http://opb.washington.edu/content/annual-budgets>. **The Provost and executive leadership review these submissions and assess base budgets, allocations, and any deficits by college, school, campus, and administrative unit.** In addition, as part of the planning for the beginning of the new biennium, the Provost asks for departmental base budgets that highlight the major groups of expenditures such as salaries, benefits, and operations.

For the FY18 budget development cycle, the Provost requested that every school, college, campus, and administrative unit provide projected expenditures and full-time equivalent (FTE) employees by fund for both FY17 and FY18. These units were also asked to prepare and enact immediate administrative efficiencies, detail their use for carryover and temporary reserves, and share their plans regarding hiring and compensation. This information supported a **rigorous nine-month budget review and consultation process**, involving students, faculty, staff, and executive leadership. In this process, school, college and administrative unit leaders were asked to redeploy resources, rather than ask for budget increases.

During the FY18 budget development cycle, the Provost reviewed an interactive financial model created by the Office of Planning & Budgeting (OPB) to project compensation and other expense increases, by unit, against projections of net, new revenue. The Provost used this model to inform decisions regarding merit salary increases, allocations of central permanent and temporary funding, and the distribution of state funding for compensation and to backfill the mandated resident undergraduate tuition reduction.

In addition, the Provost, in his role of formulating and allocating capital and operating budgets (which deans are responsible for managing), asked that each dean produce a three-year plan using salary planning tools and assuming extremely modest-to-flat revenue growth.

University leadership instructed all central administrative units, except those that are student or faculty facing, to simultaneously plan for permanent budget cuts and look for ways to improve efficiency and redeploy funds to support mission-critical work.

## STRENGTH 2: AUXILIARY BUDGET OVERSIGHT

The University's large, self-sustaining auxiliary business enterprises include UW Continuum College, Housing and Food Services, Intercollegiate Athletics, and Parking and Transportation Services. UW Medicine is also an auxiliary; but, given its size and unique mission, it is typically identified separately and it has additional oversight and budget controls beyond those described below.

Chancellors, Deans, Vice Presidents, Vice Provosts, Vice Chancellors, and Directors are delegated authority to manage revenues and expenses associated with each auxiliary unit or unit with self-sustaining activities. In addition, **various central and external controls provide support to unit-level auxiliary budget oversight:**

- Supporting the Provost in his role as chief budget officer, OPB monitors all self-sustaining budgets for deficits. Units must clear any deficits by either the close of the biennium or the close of the fiscal year. Some deficits may carry over into the subsequent year or biennium, but only with consent of senior leadership and approval of a deficit mitigation plan. This policy was put in place in FY10.
- For units that have not met debt covenants associated with an internal loan, a Financial Stability Plan is required and must be shared with the Board of Regents, in accordance with policy.
- Each of the University's major auxiliary units are annually audited. In addition, many smaller auxiliary programs conduct annual audits or other external reviews with outside firms.
- The UW's Finance unit, along with OPB, conducts annual reviews of large, non-externally audited self-sustaining or recharge units with more than \$10 million in revenue.
- Some of these auxiliary units, such as UW Educational Outreach and Housing and Food Services, charge fees. Where Regents have reserved fee-setting authority, rate approvals and/or fee change requests are brought to Regents for action. See "Fee Setting Authority," below, for more details.
- The UW's Finance unit reviews initial rate proposals to establish both cost and recharge centers. Thereafter, Finance reviews recharge center rates annually. Deans and VPs are to review cost center rates annually.

For more information about University Auxiliary Activities, see page 32.

## STRENGTH 3: TUITION AND FEE-SETTING AUTHORITY

State law gives the Board of Regents broad authority to set fees necessary to run the University, but also requires that certain fee impositions and increases are approved by the legislature. Legislative approval is achieved through disclosures of possible and known fee increases.

**Regents retain tuition-setting authority for all categories except resident undergraduate tuition,** which is set by the legislature. Every June, the administration brings tuition recommendations to the Board for approval. These recommendations are the result of staff, faculty, student, and academic leadership collaboration. Note that the University's ability to set tuition rates is constrained by a variety of factors, as described in the "Background" section.

As a general policy, **other academic fees that apply to all students on a given campus require the review and approval of the Board of Regents.** These include:

- New Student Enrollment & Orientation Fee
- Student Technology Fee

- Services and Activities Fee
- Dedicated fees for transportation and bond payments on student-funded capital projects and sports facilities
- Housing and dining fees, as applicable

In spring 2016, OPB began providing “cost of attendance” information to the Board of Regents to help the Board make informed decisions about changes to these fees. The cost of attendance document, which now accompanies all fee proposals going to the Board, lists all mandatory fees paid by undergraduate students at each campus and shows five years of trend data for each fee. At the Board’s request, most fee proposals also include information about the effects of a “no increase” scenario.

**The Board of Regents has delegated the approval of other academic fees to the President and Provost.** These include:

- International student fees
- Application fees
- Transcript fees
- Course fees<sup>2</sup>
- Study abroad fees

Finally, **the Board has delegated approval of fee-based program rates (for programs that charge fees in lieu of tuition) to the Provost**, who sets rates after consulting with campus advisory bodies such as the Faculty Senate Committee on Planning & Budgeting and the Provost Advisory Committee for Students. An example of a large auxiliary unit that charges fees for programs is UW Continuum College, which offers a wide variety of fee-based instructional programs.

Fee setting delegation is guided by Executive Order No. 44, User Fee Approval Policy, available at the following location: <http://www.washington.edu/admin/rules/policies/PO/EO44.html>.

## STRENGTH 4: OTHER BUDGET CONTROLS

Unit leads (e.g. Chancellors, Deans, Vice Presidents, and Vice Provosts) are responsible for the financial performance of all departments or offices within their organization. Each unit leader has a financial administrator or chief financial officer who is responsible for providing the leader with necessary information on a regular basis.

Other central controls, beyond those noted previously, serve to ensure that programs are sound in terms of quality, consistency, and financial health:

- **Internal Audit** seeks to provide audit coverage across the entirety of the University, deploying Internal Audit resources in areas of increased risk or operations they have not audited in the recent past. In addition, Internal Audit focuses its annual audit plan on areas of highest risk across the University’s units and within its departments.
- **Training and outreach** is provided or required for certain expenditure types or programs. For example, Principle Investigators (researchers responsible for specific sponsored grants and

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<sup>2</sup> Academic departments, with the approval of the respective Dean or Director, may add course fees to specific course sections. New course fees in excess of \$50 and course fee increases in excess of 10 percent of the prior approved fee amount must also be approved by the Provost’s Office.



contracts) are required to attend fiscal training and purchasing cardholders must attend training prior to taking card possession.

- **Workflow approvals** are incorporated into newer technology applications (e.g. procurement and travel and the soon-to-be-live human resource and payroll system).
- The UW is also **accredited** by Northwest Commission on Colleges and Universities (NWCCU) and is a member of the Association of American Universities (AAU). NWCCU conducted a mid-cycle visit to the UW in May 2017.

## BUDGET POLICIES AND ABB DISTRIBUTION

In 2013, **the University fully implemented Activity Based Budgeting (ABB) with the goal of bringing more transparency and predictability into the budget process.** In its most basic form, ABB is a method of budgeting in which revenues generated from instructional and indirect research activities are allocated directly to the unit responsible for the activity. ABB allows for enhanced local planning and accountability and creates incentives for units to more efficiently manage resources and expenditures. Further, direct control of resources generated from activities creates incentives to set priorities and develop new activities consistent with the overall mission and strategic goals of the institution.

**However, as is the case with any budgeting model, ABB is imperfect and has shortcomings.** ABB's original architects anticipated that periodic review and, eventually, a substantial formal review of ABB would be necessary. Over the past few years, a series of working groups have reviewed the model and, in February 2016, the Provost charged an "ABB Phase II" committee with conducting a formal review of ABB. Using extensive input from campus stakeholders, the committee developed a series of [recommendations](#) to the Provost, which he accepted in December 2016. The recommendations, which formally take effect in FY18, respond to concerns about the relative weight of student credit hours and degrees that govern tuition revenue distributions, the availability of informational materials, unintended impacts on teaching and research collaboration, and the creation of new courses and degrees.

More work is already being done to refine the ABB model and to transform the University's archaic financial and data systems. These efforts will continue to improve central oversight, local decision-making, and broad budget policies.

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

### GENERAL OPERATING FUND (GOF) DISTRIBUTION

**State Appropriations:** The University distributes state appropriations to campuses, schools, colleges, and administrative units, in accordance with state policies and directions. While most state funding comes to the UW in the form of "provisos," which are directed to specific programs or efforts, some funding (e.g. funding for compensation) is available for broader distribution. *Distribution under ABB: state funds with **no** legislative directive, though rare, are available to support the strategic priorities of the University and are distributed by the Provost, in consultation with academic and administrative leadership.*

**Tuition Operating Fee Revenue:** The University allocates new, *net* tuition revenue to the unit(s) that conduct the activity generating the new revenue. Net tuition revenue is the total of all operating fees charged to

students, after subtracting waivers, grants, and certain fees. By statute, a specific percentage of tuition fees are credited to the UW Building Account (building fees) and are to be used exclusively for constructing, altering, and maintaining buildings; these funds are appropriated by the legislature. *Distribution under ABB: of the net tuition operating fee revenue generated at the UW in Seattle, 70 percent is distributed to Seattle schools and colleges, and 30 percent is retained by the Provost for basic university functions and strategic investments. Increasingly, the amount retained centrally is used to fund compensation expenses in Seattle schools, colleges and administrative units. Tuition revenue generated at UW Bothell and UW Tacoma is distributed to those campuses.*

For more information about the University's general operating fund (GOF), which is composed of state general fund appropriations and tuition revenue, please see page 23.

## DESIGNATED OPERATING FUND (DOF) DISTRIBUTION

**Indirect Cost Recovery:** Several negotiated rates of allowable facilities and administrative overhead fees govern the receipt of indirect cost recovery (ICR) collected on federal grants and contracts. *Distribution under ABB: Units receive 35 percent of ICR they generate from the twelve-month period ending March 31, 2017. In this case, a large portion of the funds retained by the central administration are used for debt service, building operations and maintenance, and utilities costs. UW Bothell and UW Tacoma receive the indirect revenue generated by each campus.*

**Institutional Overhead:** A percentage of self-sustaining units' revenue from the sale of goods and services is charged to recover costs for building use, physical plant operations and maintenance, and institutional support at the Seattle campus. The institutional overhead rate is applied to revenues associated with these activities. The UW has two institutional overhead rate categories: on-campus and off-campus, determined by the location of the preponderance of effort by each entity. FY17 rates are 15.60 percent for on-campus and 6.85 percent for off-campus activities. *Distribution under ABB: Institutional overhead charges are received as revenue to the Designated Operating Fund (DOF) group and distributed back to units as part of the budget process.*

**Remaining DOF:** This includes investment income, Seattle summer quarter tuition, the Provost Internal Lending Program (ILP) risk fund, and administrative overhead charges to UW Bothell and UW Tacoma.

- Seattle summer quarter: There is no state support for Seattle summer quarter, and it is not part of the ABB model. Continuum College submits a summer quarter budget to the Provost each year for approval. Based on this budget, revenue is transferred from DOF fund balance to cover the budgeted expenses. After the quarter is over, fund balance is adjusted up or down to reconcile with actual summer quarter tuition revenue and expenses. The net budget becomes part of the DOF pool of funds and is allocated back out to campus units.
- Administrative overhead: These charges reflect a share of centralized administrative services provided by Seattle to UW Bothell and UW Tacoma, and are calculated as 10 percent of GOF revenue for each campus, excluding funds for salary increases and funds for operations and maintenance.

*Distribution: Remaining DOF revenues are distributed back to units as part of the budget process.*

For more information about DOF, please see page 27.

## **GIFT INCOME AND ENDOWMENT DISTRIBUTION**

The policy approved by the Board of Regents allows 5 percent, or 500 basis points, of the endowment's average quarter market value<sup>3</sup> to be distributed. Of this payout, 400 basis points are allocated to individual endowment shareholders. The remaining 100 basis points are allocated to offset endowment related expenses, with 80 basis points going to Advancement and 20 basis points going to Treasury. This current policy is under review, and changes may be implemented for FY19.

Endowment funds and gift income can only be used for the purposes specified by the granting agency or donors, and are distributed accordingly.

For more information about Gift Income and Endowment Distribution, please see page 37.

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<sup>3</sup> The average quarter market value is based on a trailing 20-quarter, or 5-year, average

# OUR UW CORE OPERATING BUDGET

Critical to the academic and research missions of the University, our core operating budget is composed of state appropriations, net tuition revenue, cost recovery from grants and contracts, overhead from self-sustaining activities, summer quarter tuition and other, local resources. Table 4, below, shows *permanent* core operating revenues and expenditures as budgeted for FY17 and as adopted for FY18.

Note that each campus, school, college and administrative unit furnished FY17 and FY18 expenditure projections; submissions are available on the Office of Planning & Budgeting's website.

**Table 4: FY18 Core Operating Revenue and Expenditures\***

Revenue and Expenditures by Fund	FY17 Adopted	Incremental Change	FY18 Adopted
<b>Revenue</b>			
<b>General Operating Fund:</b>	<b>940,483,000</b>	<b>34,701,000</b>	<b>975,184,000</b>
State Appropriations	332,343,000	19,383,000	351,726,000
Tuition Operating Fee Revenue	608,140,000	15,318,000	623,458,000
<b>Designated Operating Fund:</b>	<b>360,642,000</b>	<b>3,488,000</b>	<b>364,130,000</b>
Indirect Cost Recovery	247,000,000	0	247,000,000
Institutional Overhead	26,000,000	0	26,000,000
Administrative Overhead	8,619,000	107,000	8,726,000
Summer Quarter Tuition	55,136,000	1,050,000	56,186,000
Investment Income	12,961,000	2,715,000	15,676,000
Provost ILP Risk Fund	2,500,000	(400,000)	2,100,000
Miscellaneous Fees	8,226,000	216,000	8,442,000
Admin. Allowance for Federal Aid	200,000	(200,000)	0
<b>Total Operating Revenue</b>	<b>1,301,125,000</b>	<b>38,189,000</b>	<b>1,339,314,000</b>
<b>Expenditures</b>			
<b>FY17 Expenditures</b>	<b>1,301,125,000</b>		
Base Adjustments		(120,000)	
<b>Incremental Expenditures or Adjustments:</b>			
Compensation Distributions to Units		7,266,000	
Tuition Distributions to Units		14,445,000	
Provost Reinvestment Pool		1,105,000	
Legislative Directives		13,586,000	
Other Adjustments			
Summer Tuition Distributions		500,000	
Utilities - Power Plant		700,000	
Electricity		1,500,000	
Water and Sewer		1,500,000	
Fuel (Natural Gas)		(1,193,000)	
Risk Management		(1,100,000)	
<b>FY18 Expenditures</b>			<b>1,339,313,000</b>
<b>Total Operating Expenditures</b>	<b>1,301,125,000</b>	<b>38,188,000</b>	<b>1,339,313,000</b>

\*Due to rounding, Total Operating Revenue may not match Total Operating Expenditures.

## OUR CORE OPERATING EXPENDITURES

**The University's core operating expenditures convey the priorities of UW leadership**, including the President, Provost, and student and faculty leaders. As noted in the "Administrative Due Diligence" section (page 15), most of the core revenues of the UW are distributed formulaically through Activity Based Budgeting (ABB). Incremental funding allocations are made in alignment with priorities for the coming fiscal year, which were formed in consultation with faculty, staff, and student leaders. As noted in the introduction, key priorities for funding allocations outside of the ABB formulae were guided by the desire to provide competitive compensation in alignment with available funds, transform administration, fund areas of critical infrastructure and compliance, and invest in the student experience. Again, expenditures of core operating resources reflect these priorities and are summarized in Table 4, above.

### COMPENSATION

The Provost initiated salary planning conversations with the Board of Deans and Chancellors and Faculty Senate, and asked that each school and college develop a three-year plan in collaboration with their Elected Faculty Council, department chairs, and leadership teams. These plans are to proactively contemplate salary equity, compression, and inversion. Ultimately, the discussions and solutions are not just about salary; they are about the quality of the faculty, meritorious work, and market pressures.

These issues also concern human capital needs. Program and curriculum design, faculty workload, staffing mix, and salary policy goals and objectives are all inextricably linked together to create a dynamic system. Sustaining long term institutional success requires us to thoughtfully manage and better appreciate the dynamic links between these many contributing factors.

This process requires (a) making explicit the costs related to our activities, (b) deciding how to prioritize those activities in a way that most effectively serves our mission and addresses our needs and interests, and (c) being strategic about how we distribute funds. Further, this planning provides an opportunity for extensive and deep collaboration between faculty and administration in each school and college.

**In conjunction with the outcome of the state legislative session, the Provost plans to authorize merit-based salary increases of 2 percent for faculty, librarians, and professional staff in FY18.**

Calculations in this FY18 budget include the 2 percent merit increase, as well as the approval of collective bargaining agreements for represented employees.

**Benefits expenditures are largely driven by the legislature's negotiated rates on employer contributions to employee benefits**, which were set in the final 2017-19 state operating budget: \$913 per employee per month in FY18.

Higher legislative limits on benefits contributions result in higher University's fringe load rates, which, in turn, result in higher costs to schools, colleges, administrative units, and campuses. Although the state provides some funding to offset the increased benefits expenditures, that funding only defrays part of the cost to the University and its units.

## FIXED COSTS

“Fixed costs” is a term used to refer to those costs incurred by the University that are necessary or unavoidable, but are not costs generated by a particular unit. The largest fixed cost budget items are for utilities, such as electricity, fuel, power plant, sewer, etc. Other fixed costs include property rentals, back-up childcare and eldercare support, student and employee disability needs, University risk financing, legal services revolving fund, and many others.

Although managed by units around campus, the funding is provided from central funds. At the end of the fiscal period, if over-expended, central funds cover the costs; conversely, if the budgeted level is under-expended, the savings accrue centrally.

Due to the nature of these budgets, cost projections can be difficult. Many fixed costs are driven by economic factors 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.

Because the state budget provides less funding than anticipated and imposes new charges, incremental permanent funding that is meant to support the University’s core academic mission must be redeployed. Most areas under “Other Adjustments” will receive less permanent funding than requested, even after this redeployment. In addition, \$500,000 of summer tuition revenue will be budgeted for professional schools that have increased their summer quarter course activity (outside Continuum College), in accordance with accreditation requirements. Funding for this distribution will also come from the Provost Reinvestment Pool.

## OUR CORE OPERATING REVENUES

University Operating Resources are derived from state appropriations, net tuition revenue, indirect cost recovery from grants and contracts, institutional overhead charged to self-sustaining budgets and auxiliary units of the University, administrative overhead charged to Bothell and Tacoma, and summer quarter tuition revenue. These revenues are combined into two major budget categories: the General Operating Fund (GOF) and the Designated Operating Fund (DOF).

### GENERAL OPERATING FUND (GOF)

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

#### *State Appropriations*

Lawmakers have approved a state operating budget for the 2017-19 biennium. The final compromise budget represents a middle ground between budget proposals released by the Governor, House, and the Senate earlier this session. In releasing this budget on June 30, 2017, lawmakers narrowly avoided a partial shutdown of state government.

Below is an overview of the major state funding decisions that influenced this FY18 operating budget. At a high level, the final state compromise budget included the following legislative allocations and actions:

- Continuation of current tuition policy (2ESSB 5954, which allows resident undergraduate tuition increases of 2.2 percent in FY18 and 2.0 percent in FY19).
- Compensation funding of \$3.7 million in FY18 to fund one-third of the cost of an assumed 2 percent salary increase for faculty and professional staff. The state budget assumes the other two-thirds will be funded by the University's tuition revenue.
- Approval and funding of collective bargaining agreements in FY18.
- A higher limit on the monthly contributions that state agencies make to employee medical benefits: \$913 in FY18.
- Various other "proviso" funding for the UW, including:
  - \$3 million in FY18 for the UW's medical program in Spokane;
  - \$1 million in FY18 to increase resident undergraduate enrollment in Science, Technology, Engineering and Mathematics (STEM); and
  - \$2.25 million in FY18 for the Regenerative Medicine Institute.
- A new central service charge to all state agencies to cover the functions of the Governor's Office of Financial Management (OFM). The UW will be charged a total of \$2.29 million in FY18 and will be appropriated \$777,000 in GF-S to cover equivalent charges (for a net-zero GF-S impact). However, the remainder will need to be covered by the UW and is attributed to tuition funds. This means that in FY18, the UW will have to use \$1.51 million in student tuition revenue to support OFM instead of the University's academic mission.
- A \$1.3 million reduction in the UW's general fund appropriation due to an assumed reduction in the UW's state-supported graduate student waiver activity. Please note that the UW's FY18 Operating Budget does *not* assume the UW would reduce its waiver support for graduate students.

### ***Tuition Revenue & Recommendations***

In the final 2017-19 state operating budget, lawmakers decided to retain current resident undergraduate tuition policy (2ESSB 5954, 2015), which allows the operating fee to increase by 2.2 percent in FY18 and by 2.0 percent in FY19—the 14-year rolling average of Washington's median hourly wage.

The Board of Regents has the authority to set tuition rates for nonresident undergraduates and all graduate and professional students. Projected tuition revenue—net of building fee, required financial aid set-aside, and, of course, waivers—is shown in Tables 1 and 4 as "Tuition Operating Fee" revenue.

The tuition rate recommendations in Table 5, below, are the result of **many months of collaboration** between deans, faculty, students, and staff along with executive and academic leadership. The administration solicited recommendations from deans, but required that each dean consult with students and elected faculty councils. **All tuition rate proposals were accompanied by required supplementary information**, including a narrative justification, market analyses, enrollment changes, waiver implications, student debt impact, and information regarding the use of incremental revenue generated from the increase.

The tuition rates in Table 5 include the operating fee and the building fee, and the percentage change 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 FY18—2.2 percent.

**Table 5: FY18 Tuition Recommendations**

Unit	Tuition Category		FY17 (Current Rate)	FY18	
				% Change	Tuition Rate
<b>Seattle Campus</b>					
University-Wide	Undergraduate	Resident	\$9,694	2.2%	\$9,909
		Non-Res	\$33,732	2.2%	\$34,473
	Graduate Tier I	Resident	\$15,207	0.0%	\$15,207
		Non-Res	\$27,255	0.0%	\$27,255
	Graduate Tier II	Resident	\$15,594	0.0%	\$15,594
		Non-Res	\$27,837	0.0%	\$27,837
	Graduate Tier III	Resident	\$16,917	3.0%	\$17,424
		Non-Res	\$30,153	3.0%	\$31,059
Built Environments, College of	Masters - Construction Mgmt. Landscape Architecture, Urban Design & Planning	Resident	\$15,954	0.0%	\$15,954
		Non-Res	\$28,413	0.0%	\$28,413
	Masters - March and MSRE (Real Estate)	Resident	\$16,875	0.0%	\$16,875
		Non-Res	\$35,535	0.0%	\$35,535
Dentistry, School of	Dental Professional (DDS) Year 1 <sup>1</sup>	Resident	\$45,816	3.0%	\$47,190
		Non-Res	\$70,644	3.0%	\$72,762
	Dental Professional (DDS) Year 2 <sup>1</sup>	Resident	\$45,816	3.0%	\$47,190
		Non-Res	\$70,644	3.0%	\$72,762
	Dental Professional (DDS) Year 3 <sup>1</sup>	Resident	\$45,810	3.0%	\$47,184
		Non-Res	\$70,644	3.0%	\$72,762
	Dental Professional (DDS) Year 4 <sup>1</sup>	Resident	\$42,348	3.0%	\$43,617
		Non-Res	\$70,644	3.0%	\$72,762
	Graduate Dental - Oral Biology	Resident	\$15,336	3.0%	\$15,795
		Non-Res	\$29,616	3.0%	\$30,504
	Graduate Dental - Oral Medicine, Pediatric Dentistry, Periodontics, and Prosthodontics	Resident	\$17,031	3.0%	\$17,541
		Non-Res	\$32,277	3.0%	\$33,246
	Graduate Dental - Endodontics	Resident	\$18,732	3.0%	\$19,293
		Non-Res	\$32,277	3.0%	\$33,246
	Graduate Dental - Orthodontics	Resident	\$23,853	3.0%	\$24,570
		Non-Res	\$32,277	3.0%	\$33,246
Education, College of	Master of Education and Master in Teaching	Resident	\$15,930	3.0%	\$16,407
		Non-Res	\$29,532	3.0%	\$30,417
	Doctor of Education and Education PhD	Resident	\$15,930	3.0%	\$16,407
		Non-Res	\$29,532	3.0%	\$30,417
Engineering, College of	Master of Chemical Engineering	Resident	\$21,135	2.0%	\$21,558
		Non-Res	\$33,324	2.0%	\$33,990
	Masters of Industrial and Systems Engineering	Resident	\$21,135	2.0%	\$21,558
		Non-Res	\$33,324	2.0%	\$33,990
	Master of Material Science and Engineering	Resident	\$21,135	2.0%	\$21,558
		Non-Res	\$33,324	2.0%	\$33,990
	Master of Applied Bioengineering <sup>2</sup>	Resident	\$30,000	2.0%	\$30,600
		Non-Res	\$36,000	2.0%	\$36,720



<b>Environment, College of the</b>	College of the Environment Graduate Programs	Resident	\$15,594	0.0%	\$15,594		
		Non-Res	\$27,837	0.0%	\$27,837		
	Masters in Earth Space Science: Applied Geosciences	Resident	\$16,764	4.0%	\$17,436		
		Non-Res	\$29,925	4.0%	\$31,122		
<b>Evans School</b>	Master of Public Administration (MPA)	Resident	\$20,409	5.0%	\$21,429		
		Non-Res	\$36,633	5.0%	\$38,466		
<b>Foster School</b>	Master of Business Administration (Incoming) <sup>1</sup>	Resident	\$31,335	3.0%	\$32,274		
		Non-Res	\$46,155	3.0%	\$47,541		
	Master of Business Administration (Continuing) <sup>1</sup>	Resident	\$30,129	4.0%	\$31,335		
		Non-Res	\$44,379	4.0%	\$46,155		
<b>Graduate School</b>	Graduate School Interdisciplinary Programs Tier I <sup>3</sup>	Resident	\$15,207	0.0%	\$15,207		
		Non-Res	\$27,255	0.0%	\$27,255		
	Graduate School Interdisciplinary Programs Tier III <sup>3</sup>	Resident	\$16,917	3.0%	\$17,424		
		Non-Res	\$30,153	3.0%	\$31,059		
<b>Law, School of</b>	Law (JD) 1L <sup>1</sup>	Resident	\$31,662	5.0%	\$33,246		
		Non-Res	\$43,053	2.0%	\$43,914		
	Law (JD) 2L,3L <sup>1</sup>	Resident	\$30,891	2.5%	\$31,662		
		Non-Res	\$42,192	2.04%	\$43,053		
	Law (JD) 3L <sup>1</sup>	Resident	\$30,891	0.0%	\$30,891		
		Non-Res	\$42,192	0.0%	\$42,192		
	Master of Laws (LLM)	Resident	\$21,645	6.0%	\$22,944		
		Non-Res	\$36,960	4.0%	\$38,439		
	Law PhD	Resident	\$18,978	6.0%	\$20,118		
		Non-Res	\$36,960	4.0%	\$38,439		
<b>Medicine, School of</b>	Medical Professional (MD)	Resident	\$33,669	3.0%	\$34,680		
		Non-Res	\$63,123	2.0%	\$64,386		
<b>Nursing, School of</b>	Nursing Master and Doctor of Nursing Practice	Resident	\$25,461	0.0%	\$25,461		
		Non-Res	\$38,934	0.0%	\$38,934		
<b>Pharmacy, School of</b>	Doctor of Pharmacy	Resident	\$28,518	2.5%	\$29,232		
		Non-Res	\$49,215	0.0%	\$49,215		
	PharmD/MBA dual program with UW Bothell	Resident	\$31,383	1.0%	\$31,698		
		Non-Res	\$49,215	0.0%	\$49,215		
<b>Public Health, School of</b>	Master of Public Health (Incoming)	Resident	\$19,377	Tuition rates to be consolidated and increased from former "incoming" rate (see below)			
		Non-Res	\$33,738				
	Master of Public Health (Continuing)	Resident	\$18,840				
		Non-Res	\$33,738				
	Master of Public Health <sup>4</sup>	Resident	\$19,377			3.0%	\$19,959
		Non-Res	\$33,738			3.0%	\$34,749
Public Health Graduate Programs (other than MPH)	Resident	\$17,583	1.0%	\$17,760			
	Non-Res	\$30,153	2.0%	\$30,756			
Public Health Graduate Programs PHD Program	Resident	\$17,583	1.0%	\$17,760			
	Non-Res	\$30,153	2.0%	\$30,756			
<b>Social Work, School of</b>	Master of Social Work	Resident	\$17,643	3.0%	\$18,171		
		Non-Res	\$30,309	3.0%	\$31,218		

Bothell Campus					
UW Bothell	Bothell - Nursing	Resident	\$15,594	0.0%	\$15,594
		Non-Res	\$27,837	0.0%	\$27,837
	Bothell - MBA Incoming <sup>1</sup>	Resident	\$22,596	0.0%	\$22,596
		Non-Res	\$28,329	0.0%	\$28,329
	Bothell - MBA Continuing <sup>1</sup>	Resident	\$22,371	0.0%	\$22,371
		Non-Res	\$28,329	0.0%	\$28,329
Tacoma Campus					
UW Tacoma	Tacoma - Nursing	Resident	\$15,594	0.0%	\$15,594
		Non-Res	\$27,837	0.0%	\$27,837
	Tacoma - MBA Incoming <sup>1</sup>	Resident	\$20,325	-8.0%	\$18,699
		Non-Res	\$33,828	-8.0%	\$31,122
	Tacoma - MBA Continuing <sup>1</sup>	Resident	\$20,325	0.0%	\$20,325
		Non-Res	\$33,828	0.0%	\$33,828
	Masters in Business Analytics	Resident	New category		\$21,402
		Non-Res	New category		\$26,844
Graduate Tier Changes					
Unit	Tuition Category	Current Tier		New Tier	
UW Tacoma	Tacoma – Social Work	Grad Tier I		Grad Tier II	

1 These programs have a cohort tuition structure (that is, there are different rates for incoming and continuing students, or students pay one rate for all years). For these programs, please note that the change in tuition is **not** applied to all students, but is applied to the rate for a category or cohort. For UW School of Law JD programs, for example, increases occur in the 1st year only, and then are stable through years 2 and 3.

2 Applied Bioengineering is a one-year program. The fee listed above is for 4 quarters including summer.

3 Although these tuition categories will follow Tier I and Tier III rates, respectively, the revenue from interdisciplinary programs will be distributed under a different formula than other tuition revenue, hence the need for separate tuition categories.

4 Rate recommendations for the combined rate are based on the previous "incoming" rate.

## DESIGNATED OPERATING FUND (DOF)

Other, local sources of revenue that support operations for all University units are referred to collectively as the Designated Operating Fund (DOF). DOF includes the following local sources of revenue, but please review "Budget Policies and ABB Distribution" on page 18 for more information regarding distribution methodology:

- **Indirect Cost Recovery:** The UW's receipt of indirect cost recovery (ICR) from grants and contracts is the largest component of DOF. ICR provides reimbursement for prior institutional expenses associated with the UW's research activity. In the coming year, the administration will hold the ICR budget at \$247 million. This is mainly due to the large amount of uncertainty regarding federal policy toward 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 Seattle campus. In the coming year, the University administration

will hold the institutional overhead budget at \$26 million. Programs are not expected to see noticeable price increases, and we do not anticipate a significant number of new programs.

- **Administrative Overhead:** This is equivalent to institutional overhead, but is charged to UW Bothell and UW Tacoma. This overhead reflects a share of centralized administrative services provided to those campuses by the UW in Seattle. Administrative overhead is calculated as 10 percent of GOF for each campus, excluding funds for operations and maintenance. Projections are calculated based on the year-end budget at each campus, incorporating known allocations for the coming year, and are estimated to increase \$107,000 in FY18.
- **Summer Quarter Tuition:** Continuum College manages the summer quarter program for the University. The approved budget dictates the incremental increase or decrease over prior year. In FY18, a budget increase of \$1.05 million was approved.
- **Investment Income:** This is DOF revenue derived from invested funds after distributions to campus units. Treasury bases its projections for anticipated returns on market conditions for the upcoming fiscal year. The value of this fund can be volatile, depending on market forces and performance of the Diversified Investment Pool, and is currently projected to be \$15.7 million in FY18.
- **Provost ILP Risk Fund:** Beginning in FY17, Treasury started allocating a portion of the ILP rate charged to borrowers to compensate central administration for incurring incremental risk and providing credit support. Based on the first year's collections to-date, FY18 revenues are estimated at \$2.1 million.
- **Miscellaneous Fees:** This is a group of fees that contribute to the DOF revenue. 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 return check fees, staff registration fees, etc. Fluctuations in miscellaneous fees account for a projected increase of \$216,000 in FY18.
- **Administrative Allowance for Federal Aid:** Allowances for federal aid administration are included in this category. FY18 will decrease \$200,000 due to the discontinuation of Perkins Loans.

## ENSURING ACCESS AND COMPLETION: FINANCIAL AID

The UW is committed to providing educational access and opportunity for all students, 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 the cost of attending the University. The UW's financial aid resources help students not only access the University, but also successfully complete a degree. These resources include programs like Husky Promise, which guarantees 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, such as those to veterans and surviving spouses and dependents of fallen firefighters and police officers.

As a result of both legislation and prior Regental actions, and there are three ways in which tuition revenue is used to provide student aid:

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:** UW policy requires that an amount equal to 4 percent of the total resident portion of tuition charged to all students be used for tuition waivers. Three-fourths of these waivers are awarded on the basis of need and one-fourth on the basis of merit. Additional incremental tuition revenue has been used to provide further need-based aid and ensure access.
3. **Waivers - Foregone Revenue:** Waivers that represent foregone tuition revenue help many students pay for tuition. Such waivers are usually awarded automatically to students who fit certain criteria. Waivers automatically awarded to students with graduate student service appointments are by far the largest group of these waivers. Certain veterans also receive waivers. In our student system, the non-resident differential for students in the Washington, Wyoming, Alaska, Montana and Idaho (WWAMI) regional medical education program also shows up as a "waiver," even though the states from which these students originate are compensating the University.

Table 6, below, shows both the amount of operating fee revenue generated by students and the amount of financial aid funded by tuition revenue. **The recommendation reflected in Table 6 is that the UW adjust its contribution to need-based institutional aid for tuition changes (increases or decreases) and for expected changes in resident undergraduate enrollment.** Please note, the UW uses tuition revenue (roughly \$20 million in FY17) to compensate for the state's underfunded State Need Grant (SNG) program. The state's final budget provided \$5.8 million to the Washington Student Achievement Council in FY18 to expand the SNG and reduce the number of unserved, eligible students by 875 students per year, statewide. While this modest SNG expansion could reduce the need for the UW to provide need-based aid to students, this budget does not assume any savings in institutional aid. If there are savings, it is recommended that the UW redirect a portion toward student support services. While the UW is very proud of the graduation and retention rates of students who receive aid, additional services are needed to improve student completion.

Please note also that a great deal of financial aid is provided by gifts and endowments. Further, support for graduate students comes from grants and contracts (for research assistants) and from GOF (for teaching assistants).<sup>4</sup> Table 6 shows only the portion of aid that is derived from tuition revenue.

<sup>4</sup> Since Table 6 relates only to tuition-based aid, the stipends paid to graduate assistants are not represented. The only aid in the table related to graduate assistantships are operating fee waivers. Note that research assistants paid on a grant/contract will have the resident portion of tuition paid by the grant/contract; thus, there is no forgone revenue associated with such waivers.

**Table 6: 2017-18 Net Operating Fee Revenue and Tuition-Based Aid**

2017-18	Undergraduate			Graduate/Professional			Total
	Resident	Nonresident <sup>1</sup>	Total	Resident	Nonresident	Total	
<b>Full-Time Equivalent (FTE)</b>	27,425	8,895	36,320	6,102	6,192	12,294	48,614
<b>Gross Operating Fee Revenue <sup>2</sup></b>	259,482,000	282,236,000	541,718,000	102,089,000	159,264,000	261,353,000	803,071,000
<b>State-Mandated Aid</b>	9,883,000	11,193,000	21,076,000	3,458,000	3,340,000	6,798,000	27,874,000
<b>Institutional Aid</b>	33,053,000	15,041,000	48,094,000	4,997,000	4,511,000	9,508,000	57,602,000
<b>Waivers - Foregone Revenue <sup>3</sup></b>	5,116,000	3,011,000	8,127,000	12,734,000	73,275,000	86,009,000	94,136,000
<b>Net Operating Fee Revenue</b>	211,430,000	252,991,000	464,421,000	80,900,000	78,138,000	159,038,000	623,459,000
<b>Total Aid from Group</b>	48,052,000	29,245,000	77,297,000	21,189,000	81,126,000	102,315,000	179,612,000
<b>Aid from Group as % of Gross Op</b>	19%	10%	14%	21%	51%	39%	22%
<b>Total Aid to Group</b>	68,156,000	12,011,000	80,167,000	26,171,000	73,275,000	99,446,000	179,613,000
<b>Aid to Group as % of Gross Op</b>	26%	4%	15%	26%	46%	38%	22%

<sup>1</sup> Incremental revenue from past nonresident undergraduate tuition increases has been used to fund aid for domestic nonresident undergraduates.

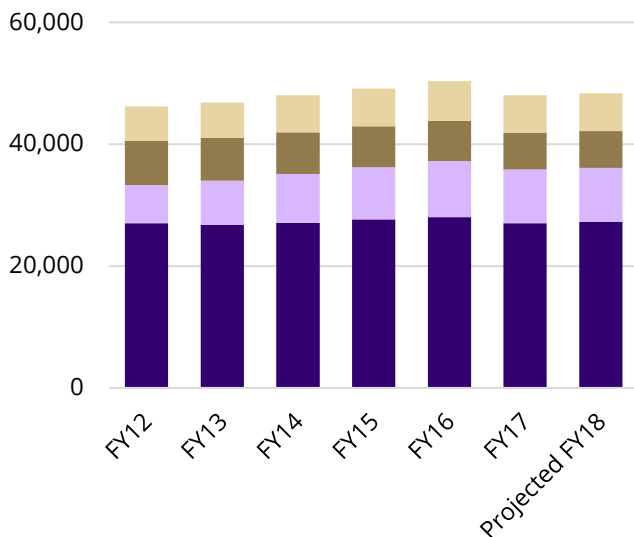
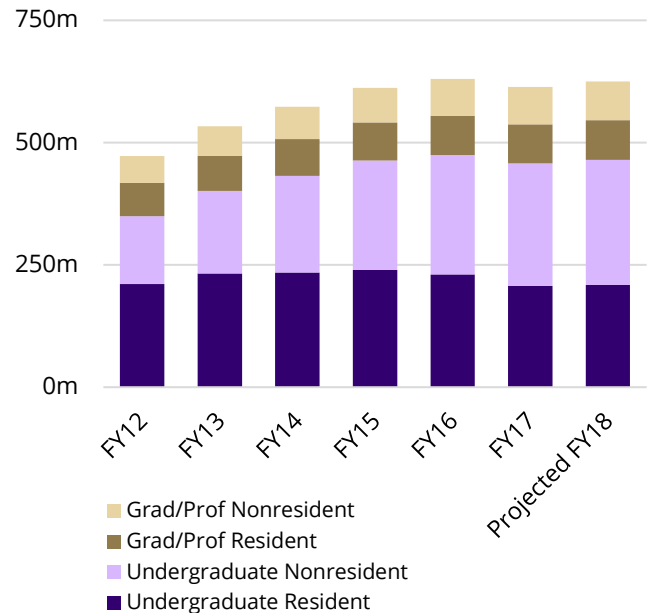
<sup>2</sup> To be conservative, a 1.5 percent risk pool has already been subtracted from projected operating fee revenue.

<sup>3</sup> More than 75 percent of waivers are provided to graduate teaching and research assistants as a function of their appointment.

Nonresident undergraduates continue to contribute considerably more to financial aid than is awarded to them; they generate \$29 million in financial aid funds, but are awarded only \$12 million.

Figure 4, below, shows changes in **full-time equivalent (FTE) enrollment** by student level and residency over time, while Figure 5 shows changes in **net revenue** by student level and residency over time. These figures suggest two things:

- Net operating fee revenue has been rising while enrollments have remained fairly flat,
- There has been little increase since FY15 in net operating fee revenue, largely because the pool of revenue from resident undergraduates has fallen.

**Figure 4: FTE Enrollment by Student Category**

**Figure 5: Net Revenue by Student Category**


## STATE RESTRICTED FUNDS

Certain state appropriations can only be used for the strategic purposes specified by the Washington state legislature, and are distributed accordingly. Restricted appropriations from accounts considered “Near-General Fund-State” (General Fund-State and Education Legacy Trust Account) are included in the “State Appropriations” section, on page 23. This category, however, includes amounts appropriated from accounts **other than** Near-General Fund-State accounts.

As seen in Table 7, below, the majority of the “state restricted funds” line item is composed of approximately \$7 million per year in Accident and Medical Aid account funding, which is allocated to the School of Public Health for specific activities performed by the Department of Environmental and Occupational Health Sciences (DEOHS). An appropriation of \$1.51 million per year from the Economic Development Strategic Reserve account supports the Joint Center for Aerospace Innovation Technology. Also included are annual appropriations of \$298,000 for shellfish biotoxin monitoring and \$675,000 for ocean acidification research. In the previous biennium, the state provided one-time funding of \$100,000 per year for ocean acidification research on certain commercial and managed species. The removal of these one-time funds is reflected as a reduction between FY17 and FY18. In addition, an appropriation of \$247,000 from the Dedicated Marijuana account is provided for research and education on the effects of marijuana use. That funding is \$774,000 per year *less* than what the UW requested in order to fulfill the legislature’s obligations under 2E2SHB 2136 (2015), but is \$20,000 more per year than what the UW was previously receiving.

**Table 7: FY17 and FY18 State Restricted Funds**

State Account	FY17	Incremental Change	FY18
Biotoxin Account (Shellfish Monitoring)	297,000	1,000	298,000
Aquatic Lands Enhancement Account	775,000	(100,000)	675,000
Economic Develop. Strategic Reserve Acct (Aerospace Ctr)	1,507,000	6,000	1,513,000
Dedicated Marijuana Account-State	227,000	20,000	247,000
Accident Account (DEOHS)	3,649,000	(21,000)	3,628,000
Medical Aid Account (DEOHS)	3,421,000	25,000	3,446,000
<b>Total</b>	<b>9,876,000</b>	<b>(69,000)</b>	<b>9,807,000</b>

\*Note that all of these, except Dedicated Marijuana Acct, are biennial appropriations, and therefore funds can be spent across the biennium. The Accident Account appropriation appears to decrease, but that is not the case when the second year of funding is contemplated.

# UNIVERSITY AUXILIARY ACTIVITIES

## WHAT YOU NEED TO KNOW ABOUT AUXILIARY ACTIVITIES

The University has a large, self-sustaining auxiliary business enterprise. These activities are different from those supported by tuition, state appropriations, and federal and state grants or contracts in that they receive operating revenue, not budget authority. Some of these large business enterprises include:

- UW Parking and Transportation Services
- Housing and Dining
- Intercollegiate Athletics (ICA)
- Continuum College (formerly Educational Outreach)

Due to the nature of their business and, in some cases, the debt covenants associated with their participation in the UW's Internal Lending Program (ILP), these auxiliaries tend to carry sizable balances. Although UW Medicine is also an auxiliary, it is identified separately, given its size.

Any school, college, campus or administrative unit may have several types of auxiliary budgets. **There are over 3,500 auxiliary budgets owned and managed by over 500 departments across the University** (126 of which are part of the Continuum College).

Ultimately, unit leads (e.g. Chancellors, Deans, and Vice Presidents or Provosts) are responsible for the financial performance of self-sustaining programs within their units. However, **a variety of central and external controls exist to support unit-level auxiliary oversight**. For example, the Office of Planning & Budgeting monitors all 3,500 auxiliary budgets for deficits, external entities audit the primary auxiliary units (listed above) on an annual basis, and Financial Stability Plans are required of auxiliaries that have not met debt covenants. Please see "Auxiliary Budget Oversight" on page 16 for more details.

Auxiliary budgets can be defined by two different categories, Auxiliary Educational Activities and 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
  - Visitor Fees
- **Auxiliary Enterprises and Internal Services** are non-academic in nature. Their major source of revenue is internal, often a cost center or recharge center:
  - Cost Center budgets charge less than \$175,000 to federally sponsored programs and less than \$1 million in total charges.
  - Recharge budgets charge more than \$175,000 to federally sponsored programs and more than \$1 million in total charges.
  - Most of the primary auxiliaries (Parking, Housing and Dining, and ICA) are in this category.

## REVENUES AND EXPENSES

### *Projection Methodology*

In prior budget items, auxiliary and self-sustaining activities were reported on their projected revenue estimates alone. In recent years, University administration has taken a more proactive approach to provide the Board with more refined revenue and expenditure projections. As a further step in that direction, **the FY18 budget displays ending fiscal year balances, in addition to projected revenue and expenses.** Although revenue projections may show growth, some units carry structural deficits when expenses are taken into account. Each unit head is responsible for building reasonable self-sustaining budgets, but this budget document contains projections of ending balances to enhance transparency into each areas' relative financial health.

Due to the timing of the fiscal year budget development, the most recent full fiscal year of data is FY16. Full FY16 data and partial FY17 data were analyzed as a means of projecting data for FY18. In looking at the self-sustaining group as a whole, rather than individual programs, projections were made using: a 3 percent growth assumption for revenue, with no change to any ILP transfers; a 3 percent growth assumption for operational expenses; and, for salaries and benefits expenses, growth assumptions driven by employee categories and anticipated changes to benefits rates.

### *Revenues and Expenses*

Revenue in Tables 8 and 9 (below) is net of all revenue for the fiscal year, which includes ILP transfers and any revenue transferred into the program. Beginning balances are listed separately so the annual activity can be seen when looking at the charts. Expenses include any expense transfers or Cost Transfer Invoices that post to the program, as well as the normal operations, salary and benefit costs. As a reminder, most self-sustaining budgets are charged an institutional overhead tax (per Administrative Policy Statement 33.2), which helps cover utilities, maintenance, and other costs incurred by the operation of these activities.

**Table 8: FY17 Self-Sustaining Projected Revenue, Expenses, and Ending Balances**

Unit Group	Beginning Balance	Total Projected New Revenue	Total Projected Expenses	Projected Ending FY17 Balance
Seattle	361,544,000	868,836,000	870,340,000	360,041,000
UW Bothell	2,205,000	11,970,000	13,088,000	1,088,000
UW Tacoma	4,662,000	9,169,000	10,870,000	2,961,000
<b>Total</b>	<b>368,412,000</b>	<b>889,976,000</b>	<b>894,298,000</b>	<b>364,089,000</b>

**Table 9: FY18 Self-Sustaining Projected Revenue, Expenses, and Ending Balances**

Unit Group	Beginning Balance	Total Projected New Revenue	Total Projected Expenses	Projected Ending FY18 Balance
Seattle	360,041,000	897,153,000	894,617,000	362,577,000
UW Bothell	1,088,000	12,354,000	13,494,000	(52,000)
UW Tacoma	2,961,000	9,475,000	11,182,000	1,254,000
<b>Total</b>	<b>364,089,000</b>	<b>918,982,000</b>	<b>919,293,000</b>	<b>363,778,000</b>



Like other areas of the UW's budget, expenses are growing at a faster rate than revenue and the use of fund balance is required or otherwise used to meet the cost of annual activity.

To check assumptions and further assess financial health, the administration discretely reports larger auxiliary units' revenue and expenditure projections. In addition, each of these units was asked to provide predictions regarding programs expansion or contraction, and, in the case of program contraction, information regarding steps to address the reduced revenue expectations or costs.

**The appendix (page 43) shows income statements furnished by each of the four primary auxiliary units.** Please note that these units, and their associated budgets, are included in the Tables 8 and 9, above.

# UW MEDICINE

The FY18 budget for UW Medicine has been finalized and approved by each respective board committee. The starting point for determining targeted margins is the long range plan coupled with current year performance. FY17 has been a financially challenging year across the enterprise, but most notably for UW Medical Center (UWMC) and Northwest Hospital & Medical Center (NWH). The negative financial performance in 2017 is primarily due to lower realization of revenue due to payer mix degradation, higher than expected labor costs and, in certain of our entities, lower than anticipated volumes. Concentrated efforts are underway to reduce expenses across all eight UW Medicine entities and increase revenue moving into the next fiscal year.

Preliminary financial results for FY17, through May 2017, are included for information in Table 11.

**Table 11: Preliminary FY17 financial results as of May 2017, by UW Medicine Entity (in \$1,000s)**

UW Medicine Entity <sup>5</sup>	Month					YTD				
	Actual	Margin %	Budget	Variance To Budget	Prior Yr Actual	Actual	Margin %	Budget	Variance To Budget	Prior Yr Actual
HMC	989	1%	1,601	(612)	4,040	5,063	1%	3,565	1,498	7,123
UWMC	946	1%	4,619	(3,673)	(1,728)	(37,842)	-3%	12,858	(50,700)	(29,568)
NWH	2,272	6%	729	1,543	(875)	(21,229)	-6%	3,097	(24,326)	(2,068)
VMC	101	0%	1,563	(1,462)	277	(5,359)	-1%	14,236	(19,595)	13,603
<b>SUBTOTAL</b>	<b>4,308</b>	<b>2%</b>	<b>8,512</b>	<b>(4,204)</b>	<b>1,714</b>	<b>(59,367)</b>	<b>-2%</b>	<b>33,756</b>	<b>(93,123)</b>	<b>(10,910)</b>
UWNC	(463)	-11%	356	(819)	1,019	(5,669)	-13%	(2,490)	(3,179)	(3,829)
ALNW	765	15%	331	434	1,002	2,880	6%	1,905	975	4,594
UWP**	-	0%	-	-	-	-	0%	-	-	-
SoM	(4,872)	-4%	(2,195)	(2,677)	(2,449)	9,897	1%	(17,789)	27,686	(16,253)
<b>TOTAL</b>	<b>(262)</b>	<b>0%</b>	<b>7,004</b>	<b>(7,266)</b>	<b>1,286</b>	<b>(52,259)</b>	<b>-1%</b>	<b>15,382</b>	<b>(67,641)</b>	<b>(26,398)</b>

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

The work being done to improve financial performance includes the following:

- Management of staffing mix and schedules within patient care services to ensure most efficient use of staffing resources. Expense reductions in all other areas, including elimination of open positions and review of all non-labor costs
- Improvements to the revenue cycle at UWMC and Harborview Medical Center (HMC) to improve revenue realization
- Enhancement of contract pricing and reduction of utilization through focused supply chain projects
- Care Transformation work, which is a partnership between our physicians and operational leadership to identify ways to standardize and streamline care based on evidence based practice

<sup>5</sup> Each entity's name is spelled out in full in the Acronym Glossary on page 41.

The production of this budget item requires that UW Medicine provide early projections of revenue, by entity, for the Board of Regents to adopt with all other University revenues. After the annual budget item is adopted, leadership from UW Medicine will provide a separate annual report to the Regents on the financial performance of UW Medicine every January or February.

The environment in the health care industry nationwide is experiencing significant payment pressure, which is yielding rate increases that are not keeping pace with expense increases, which further highlights the need for expense reduction. This trend is challenging as labor represents the most significant portion of UW Medicine expense and it is anticipated that salaries and benefits will rise in FY18. Concurrently, drug inflation is projected to run near 8 percent in the next fiscal year. UW Medicine continues to be focused on expense reductions and strategies for providing care more efficiently without sacrificing quality, patient safety or experience.

Additionally, the Seattle market is facing a significant new competitor in the market with Kaiser's acquisition of Group Health. This new entrant as well as the competitive threat from Providence St. Joseph Health makes it imperative that we continue to provide high quality care in the most efficient manner possible while improving access and the patient experience.

Preliminary projected revenues (operating and non-operating) and total margins for the FY17 and adopted FY18 budget are as follows in Table 12:

**Table 12: UW Medicine Budgets and Operating Margin Estimates (excluding the UW School of Medicine)**

UW Medicine	FY17 UW Regents Adopted	FY17 Subsequently Adopted Revenues	FY18 Projected Revenues	FY18 Budget Margins	FY18 Target Total Margin
UW Medical Center	1,160,000,000	1,167,000,000	1,186,000,000	0	0.0%
Harborview Medical Center	950,000,000	944,000,000	1,006,000,000	10,100,000	1.0%
Valley Medical Center	568,000,000	602,000,000	632,000,000	0	0.0%
Northwest Hospital	392,000,000	401,000,000	376,000,000	-10,900,000	-2.9%
UW Physicians*	304,000,000	302,000,000	302,000,000	0	0.0%
Airlift NW	48,000,000	54,000,000	59,000,000	2,200,000	3.8%
UW Neighborhood Clinics	49,000,000	51,600,000	52,000,000	0	0.0%
<b>UW Medicine (excluding School of Medicine)**</b>	<b>3,471,000,000</b>	<b>3,521,600,000</b>	<b>3,613,000,000</b>	<b>1,400,000</b>	<b>0.0%</b>

\* Note that UW Physicians targets a zero margin as cash generated from UWP is intended for use by the clinical departments to fund salaries and operations.

\*\* Also note that UW School of Medicine projections are included within the Auxiliary/Self-Sustaining and Core Operating Budget Areas of the campus budget, so are excluded here. The UW School of Medicine projected budget for FY18 includes projected revenues of \$1,392,000,000. Thus, the total projected revenues for UW Medicine for FY18 are \$5,005,000,000.

# POWER OF PHILANTHROPY: ANNUAL GIFTS & ENDOWMENT FUNDS

The UW is fortunate to benefit from an incredible legacy of private support. Last year, the University publicly launched the most expansive campaign in our history: **Be Boundless — For Washington, For the World**, scheduled to conclude in FY20. This campaign has increased momentum for fundraising and giving, with private support continuing to climb at a steady rate, year over year. Annually, donors endow gifts of \$50 million to \$100 million, as well as fund current initiatives and priorities that allow the UW to meet today's greatest challenges. Fundraising continues to be strong with a number of large-scale capital campaigns underway, including the Life Sciences complex, the Burke Museum, the Computer Sciences & Engineering II building, and others.

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 spending policy, currently 4 percent of the five-year rolling average market value of the CEF, provides predictable and stable support to programs across campus.

**Table 13: FY18 Annual Gift & Endowment Distributions**

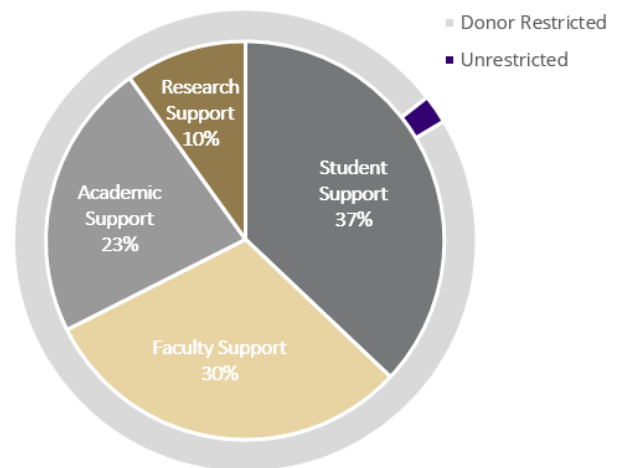
	FY17 Budget	Incremental Change	FY18 Adopted
Gift Income	170,000,000	30,583,000	200,583,000
Endowment Distributions	110,000,000	5,000,000	115,000,000
<b>Total</b>	<b>280,000,000</b>	<b>35,583,000</b>	<b>315,583,000</b>

As seen in Figure 6, below, the UW's endowment serves core academic programs, with more than two-thirds directly supporting students and faculty.

The UW's endowment is composed of over 4,600 individual endowments, each with its own unique purpose. Individual endowments are commingled for investment purposes. Of the UW's total endowment, 98 percent is restricted to donor-directed purposes, leaving only 2 percent available for the UW to use at its discretion.

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.

**Figure 6: Endowment Support by Purpose\***



\*Excludes operating funds and non-University endowments

# STRENGTH OF IDEAS: RESEARCH ENTERPRISE

The UW's record securing federal research funding is truly exceptional – it is one of the few universities in the United States with total research expenditures exceeding \$1 billion. Since 1979, with the exception of only one year, 2009, the UW received more federal research funding than any other U.S. public university. Since 1969, the UW placed in the top five for total funding for all public and private universities. Continued success in securing research grants and contracts translates to consistently high scores in national and international rankings. The National Taiwan University ranks the UW sixth overall (fourth nationally) and first in public universities worldwide for the quality and impact of research endeavors; last year, Reuters ranked the UW the most innovative public university in the world.

Another measure of success in research competitiveness is in terms of the UW's share of federal expenditures compared to other higher education institutions. As Table 14 shows, the UW's ability to maintain its share of total federal and non-federal research expenditures has remained consistent over the last four years, despite increasing competition for limited funds.

**Table 14: UW Research Expenditures - Federal and Non-federal Market Share (in \$1,000s)**

	2012	2013	2014	2015
Total expenditures	52,096,000	52,029,000	51,412,000	51,956,000
Total UW	1,040,000	1,121,000	1,111,000	1,121,000
<b>Market share (percent)</b>	<b>2.00</b>	<b>2.15</b>	<b>2.16</b>	<b>2.16</b>

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2015.

Total funding reached \$1.3 billion in FY16, with federal funding making up 73 percent of the total. There are almost 5,000 grants, with over 180 funded at over \$1 million each.

Four **major grants** from FY16 include:

- \$5.5 million for five years for the Washington, Wyoming, Alaska, Montana and Idaho (WWAMI) regional medical education program Practice Transformation Network from the Centers for Medicare and Medicaid Services to improve health outcomes and reduce hospitalization and unnecessary healthcare utilization.
- \$4.5 million for five years from the National Science Foundation's National Nanotechnology Coordinated Infrastructure (NNCI) program to advance nanoscale science, engineering and technology research in the Pacific Northwest and support a new network of user sites across the country.
- \$11 million for five years from the National Institute of Diabetes and Digestive and Kidney Diseases for the University of Washington Center for Nuclear Organization and Function.
- \$1.3 million from the National Oceanic and Atmospheric Administration (NOAA) to support ocean scientists and developers who are investigating new technologies and modelling techniques to improve tsunami monitoring and forecasts.

## ECONOMIC AND EDUCATIONAL IMPACT

The University of Washington's research enterprise has a deep impact on the economy and education in the state of Washington and the Pacific Northwest. In FY16, UW launched 21 start-up companies based on UW research advances, bringing the 11-year total to 136 technology start-ups. UW technologies generated over \$15 million in licensing revenue. More than 7,400 students worked under the guidance of UW faculty mentors devoted to research. Sponsored projects supported over 5,700 employees during FY16.

Based on economic multipliers provided previously by the Washington State Higher Education Coordinating Board, UW research funding generated about 25,000 jobs statewide. Currently, more than 2,800 graduate students and 1,463 post-doctoral fellows are being supported on research grants and contracts. Graduate and undergraduate students contributed to 41 percent of the 652 patent applications that the UW filed.

## FEDERAL OUTLOOK

As noted, at the time of publication, the UW administration analyzed available information from President Trump's budget, but had little knowledge about potential congressional action. Significant uncertainty regarding federal policy toward higher education is the new norm, specifically pertaining to research and financial aid funding. The highly politicized nature of federal appropriations fuels this uncertainty, which will persist until Congress passes appropriation bills and builds out the national discretionary budget.

At this time, all that we know about the future of federal research funding is that it is uncertain and the UW administration is both monitoring the situation and developing plans to quickly respond to any changes in federal funding. The UW administration believes that National Institute of Health (NIH) funding will not be cut significantly, but it is half of our total funding; we are monitoring developments closely. The administration expects that Environmental Protection Agency (EPA), climate change, and some fetal tissue research may be reduced, which would put \$15-20 million of research funding at risk. In addition, the UW will closely monitor any proposed changes related to indirect cost recovery (ICR) rates.

## PROJECTED RESEARCH EXPENSES

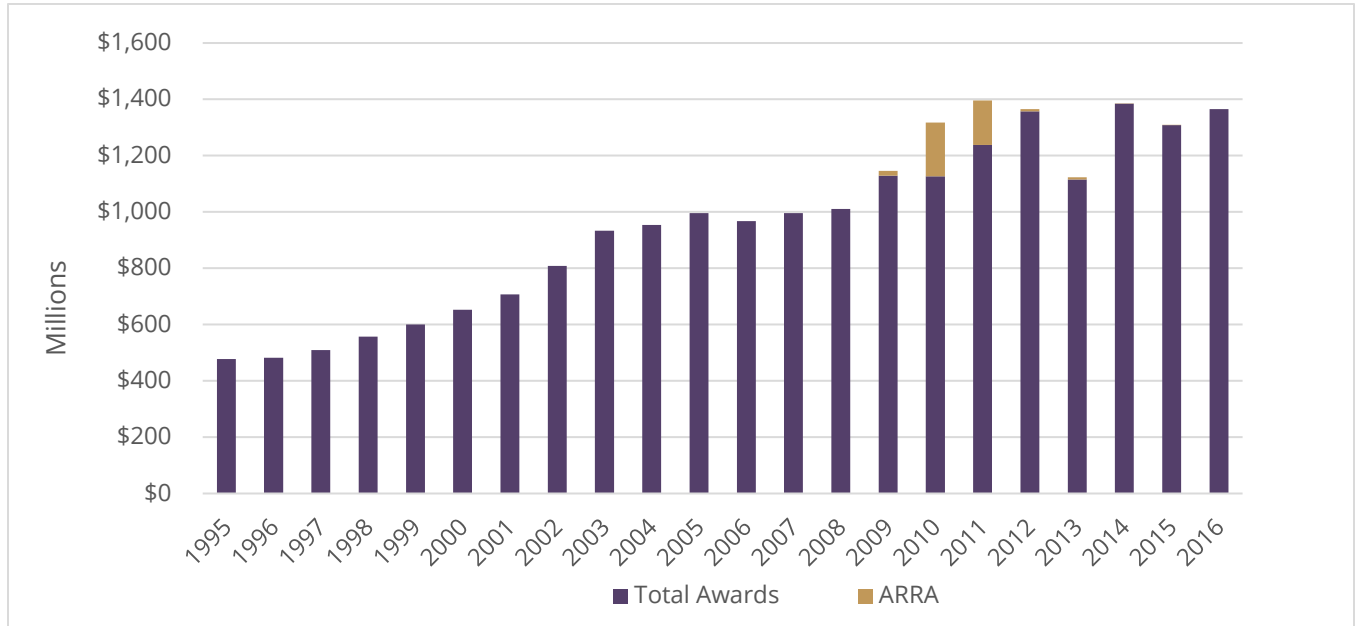
Table 15, below, shows a breakdown of projected sponsored research expenses in FY17 and FY18. Please note that direct and indirect research expenditures do not necessarily align when comparing them to expected revenue streams. Typically, grants are not fully expended in the year in which they are received. Further, federal and state fiscal years have different calendars. As seen below, the vast majority of the University's research expenses are associated with federal grants, which means they are often received and expended in alignment with the federal fiscal year. The projected decline in federal research expenses is reflective of the uncertainty noted above (under "Federal Outlook").

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

	FY17	FY18	Percent Change
Federal	801,439,000	748,076,000	-6.7%
State & local grants	93,225,000	93,250,000	0.0%
Non-federal	203,657,000	213,976,000	5.1%
Indirect Research Expenses	253,838,000	247,000,000	-2.7%
<b>Total</b>	<b>1,352,159,000</b>	<b>1,302,302,000</b>	<b>-3.7%</b>

Figure 7, below, provides a historical look at the UW's total grant and contract awards by year.

**Figure 7: Total Grant and Contract Awards by Year (1995-2016)**



As the figure shows, the UW's grant and contract awards have steadily increased with time, and are now roughly flat. Note that FY13 numbers are artificially low because of delays in awards due to sequestration.

## CONCLUSION: A LOOK BACK AND AHEAD

### WHERE WE'VE BEEN

As described in the "Background" section, the University continues to face several challenges. These include limitations on enrollment growth, per student funding levels that remain low compared to peers and pre-recession funding levels, constrained tuition growth, uncertain state and federal funding, rising expenses for compensation and utilities, and an increasingly complex regulatory environment. These challenges limit the use of new resources to only the most critical activities, and necessitate that we effectively manage and deploy funding in a way that best serves our students, state, and region.

### WHERE WE'RE HEADED

With Regental approval in July, the Office of Planning & Budgeting will begin implementing the FY18 Budget by making allocations to units, adjusting budget authority as needed, and implementing the salary increase process.

Preparation for the FY19 University Operating Budget has already begun and will continue with the development and dissemination of budget materials for units to complete and submit to the Provost in the winter. Those materials will be in preparation for budget meetings with the Provost, which will occur in winter and/or spring quarter.

In late summer or early fall, the University will have an opportunity to submit technical corrections to the state as part of the 2018 supplemental state budget process.

As we continue planning for FY19, we expect uncertainty regarding future federal and state funding and policy decisions. We will continue to be conservative in forecasting and planning to help manage those unknowns.



## ACRONYM GLOSSARY

ABB	Activity Based Budgeting
ALNW	Airlift Northwest
DOF	Designated Operating Fund
EPA	Environmental Protection Agency
FTE	Full Time Equivalent
FY	Fiscal Year
GOF	General Operating Fund
HMC	Harborview Medical Center
HR	Human Resources
ICR	Indirect Cost Recovery from Research
ILP	Provost Internal Lending Program
IPEDS	Integrated Postsecondary Education Data System
NIH	National Institute of Health
NNCI	National Nanotechnology Coordinated Infrastructure
NOAA	National Oceanic and Atmospheric Administration
NWCCU	Northwest Commission on Colleges and Universities
NWH	Northwest Hospital & Medical Center
OPB	Office of Planning & Budgeting
RA	Research Assistant
RUG	Resident Undergraduate
SoM	School of Medicine
STEM	Science, Technology, Engineering, Mathematics
TA	Teaching Assistant
UW	University of Washington
UWMC	University of Washington Medical Center
UWNC	UW Neighborhood Clinics
UWP	UW Physicians
VMC	Valley Medical Center
WWAMI	Washington, Wyoming, Alaska, Montana, and Idaho Regional Medical Education Program

# APPENDIX: UNAUDITED INCOME STATEMENTS FROM MAJOR AUXILIARY UNITS

## CONTINUUM COLLEGE (UWC<sup>2</sup>) INCOME STATEMENT FOR FY17 AND FY18

	FY17 (Projected)	FY18 (Projected)
<b>REVENUE</b>		
Program Management Fees (charged to UWC <sup>2</sup> programs)		
AP PM (099857)	5,097,918	5,607,710
UWHS PM Fee (099857)	315,000	315,000
Shared Access/ASF (099857)	41,308	42,134
IELP (09-9858)	3,270,904	2,817,803 <sup>1</sup>
Infrastructure Fees (charged to UWC <sup>2</sup> programs)		
AP Infra (099859)	5,314,451	5,845,896
Shared Access/ASF (099859)	458,230	467,395
IELP (09-9860)	1,117,563	902,614 <sup>1</sup>
Distance Learning & Instructional Design Fees (charged to UWC <sup>2</sup> pgrms)		
DL/EDGE (098912, 099626)	2,433,995	2,500,000
Application Fees (charged to students)		
IAP Application Fee (098152, 099323)	322,050	328,491
Registration Fees (charged to students)		
Reg, Access, Clock Hr. (099354, 098965, 099236)	729,912	592,000 <sup>2</sup>
Other Fees		
Conference Services Fee	127,748	127,748
Facilities Rental (099873, 099874, 099871)	861,185	947,304
<b>Total Revenues</b>	<b>\$20,090,264</b>	<b>\$20,494,094</b>
<b>OPERATING EXPENSES</b>		
Salaries/Benefits	14,111,306	17,592,302 <sup>3</sup>
Admin, Supplies, Other	4,682,602	4,600,000
<b>NON-OPERATING EXPENSES</b>		
Professional Development	99,333	100,000
Application Fee Overhead	90,597	90,597
Osher (subsidy return)	56,327	56,327
<b>Total Expenses</b>	<b>\$19,040,166</b>	<b>\$22,439,226</b>
<b>NET OPERATING INCOME</b>	<b>\$1,050,098</b>	<b>-\$1,945,132</b>
UWC <sup>2</sup> Int'l & Academic Programs Net Revenue (non-credit)	3,026,470	3,147,528
<b>TOTAL CONTRIBUTIONS TO RESERVES</b>		
<b>(Net Operating Income + Net revenue from program lines)</b>	<b>\$4,076,568</b>	<b>\$1,202,397</b>

<sup>1</sup> Revenue decline: Due to the possibility of a continued decline in International Programs, we are estimating a decrease in Program Management and Infrastructure fees collected from IELP programs in FY18

<sup>2</sup> Revenue decline: Increasing credit card fees reduce the overall registration fees collected. We chose not to increase the registration fee to offset the credit card fees, allowing for a decline in revenue.

<sup>3</sup> Salaries/Benefits are not increasing between FY17 and FY18. The FY17 Salaries/Benefits line is adjusted down to reflect \$1,628,167 allocated to reserve budgets and \$2,214,063 allocated to DOF budgets, for a combined \$17,953,536 est. for FY17. The FY18 salaries have not been allocated to DOF or reserves at this time.

**INTERCOLLEGIATE ATHLETICS (ICA) INCOME STATEMENT FOR FY17 AND FY18**

	2016-17 (Projected)	2017-18 Budget (Projected)
<b>REVENUE</b>		
Gate Revenue	\$25,934,000	\$29,630,000
Contributions	\$33,903,000	\$32,674,000
NCAA / Conference Distributions	\$36,245,000	\$34,660,000
Other Revenue	\$29,879,000	\$30,107,000
<b>TOTAL REVENUE</b>	<b>\$125,961,000</b>	<b>\$127,071,000</b>
<b>EXPENSES</b>		
Salaries and Benefits	\$47,464,000	\$44,602,000
Athletics Student Aid	\$13,367,000	\$13,754,000
Sport Operational Expenses	\$25,645,000	\$26,343,000
Facilities, Maintenance & Utilities	\$4,493,000	\$4,692,000
UW Institutional Overhead	\$2,614,000	\$2,650,000
Misc. Expenses	\$13,407,000	\$14,120,000
Debt Service	\$16,228,000	\$16,253,000
Capital Expenditures	\$2,726,000	\$2,886,000
<b>TOTAL EXPENSES</b>	<b>\$125,944,000</b>	<b>\$125,300,000</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>\$17,000</b>	<b>\$1,771,000</b>
Beginning reserve balance	\$26.3 m	\$26.3 m
Ending reserve balance	\$26.3 m	\$28.0 m

## HOUSING AND FOOD SERVICES (HFS) SYSTEM FORECAST FOR FY17 AND FY18

	FY17 (Projected)	FY18 (Projected)
<b>Operating Revenue</b>		
Housing Operating Revenue	55,691,000	55,042,000
Residential and Retail Food Revenue	44,856,000	45,694,000
Phase 2 - Lander/Mercer	15,075,000	15,391,000
Phase 3 - Maple/Terry	9,649,000	9,738,000
Public/Private Partnership Payout	1,744,000	2,250,000
Housing and Food Services Sponsorship	949,000	949,000
Other Operating Revenue	-	-
<b>Total Operating Revenue</b>	<b>\$127,964,000</b>	<b>\$129,064,000</b>
<b>Operating Expense</b>		
Building Allocated Costs Current System	13,810,000	13,363,000
Housing/HFS Admin and System Costs	12,852,000	13,277,000
Res Dining and Retail and Remote Food Expenses	43,315,000	44,121,000
Phase 2 - Lander/Mercer	4,225,000	4,316,000
Phase 3 - Maple/Terry	2,159,000	2,205,000
<b>Total Operating Expense</b>	<b>\$76,362,000</b>	<b>\$77,283,000</b>
<b>Non-Operating Income</b>		
HFS Operating and Reserve Fund Interest Income	1,335,000	1,352,000
Café Payouts	(6,000)	-
<b>Total Non-Operating Income</b>	<b>\$1,329,000</b>	<b>\$1,352,000</b>
<b>Debt Service</b>		
HFS Debt Service - Phase 1 included	14,713,000	14,691,000
Debt Service Phase 2	11,974,000	11,947,000
Debt Service Phase 3	6,746,000	6,730,000
Nordheim Court	1,948,000	1,945,000
<b>Total Debt Service</b>	<b>\$35,381,000</b>	<b>\$35,312,000</b>
<b>Capital Expenditures</b>		
Housing and Res Dining Capital Expenses	14,119,000	13,351,000
Retail Food Capital Expenses	1,830,000	1,249,000
<b>Total Capital Expense</b>	<b>\$15,948,000</b>	<b>\$14,600,000</b>
<b>NET POSITION</b>	<b>\$1,602,000</b>	<b>\$3,220,000</b>

**TRANSPORTATION SERVICES (TS) INCOME STATEMENT FOR FY17 AND FY18**

TDM Rate	Parking		Commute Options		TOTAL	
	59%	58%	FY17	FY18	FY17	FY18
	FY17	FY18				
	Projected	Budget	Projected	Budget <sup>1</sup>	Projected	Budget
<b>Revenue</b>	11,169,662	11,242,595	28,550,395	29,345,914	39,720,057	40,588,509
Operating Expenses	8,497,453	9,646,149	1,420,650	1,660,428	9,918,103	11,306,576
Transit Contract Expenses			25,228,914	26,595,871	25,228,914	26,595,871
Sales Tax Liabilities			2,276,016		2,276,016	
<b>Total Expenses</b>	<b>8,497,453</b>	<b>9,646,149</b>	<b>28,925,580</b>	<b>28,256,299</b>	<b>37,423,033</b>	<b>37,902,447</b>
Net Operating Income <sup>2</sup>	2,672,209	1,596,446	(375,185)	1,089,615	2,297,024	2,686,062
Non-Operating Adjustments <sup>3</sup>	(4,690,336)	(2,560,439)	(193,637)	(187,055)	(4,883,974)	(2,747,494)
<b>Change in Fund Balance</b>	<b>(2,018,127)</b>	<b>(963,993)</b>	<b>(568,822)</b>	<b>902,561</b>	<b>(2,586,949)</b>	<b>(61,432)</b>
<b>Beginning Fund Balance</b>	<b>8,896,899</b>	<b>6,878,772</b>	<b>2,171,976</b>	<b>1,603,153</b>	<b>11,068,875</b>	<b>8,481,925</b>
<b>Ending Fund Balance</b>	<b>6,878,772</b>	<b>5,914,780</b>	<b>1,603,153</b>	<b>2,505,714</b>	<b>8,481,925</b>	<b>8,420,493</b>
ILP/Internal Note Required Reserve	836,906	784,959	20,571	33,389	857,476	818,348
Student Trust			980,094	1,188,039	980,094	1,188,039
<b>Available Balance</b>	<b>6,041,867</b>	<b>5,129,821</b>	<b>602,488</b>	<b>1,284,286</b>	<b>6,644,355</b>	<b>6,414,106</b>

## Summary Footnotes

1 - Budgeted transit expenses are adjusted to include anticipated Metro flat rate fare restructure.

2 - Negative Net Operating Income in Commute Options is the result of Sales Tax Liability payments from prior years.

3 - Negative Non-Operating Adjustments include debt service payments and Parking capital improvements. Projected 16-17 includes \$2.5M for ADA improvements.