

Approve FY19 Operating Budget and 2018-19 Tuition RatesACTION

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 2019 (FY19) operating budget for the University of Washington. The proposed FY19 operating budget is presented in the attached document, which includes final tuition rate recommendations for FY19.

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

1. Adopts the proposed FY19 operating budget;
2. Establishes tuition rates for the 2018-19 academic year for all tuition categories;
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; and,
4. Considers proposed changes to the tuition and fees in the context of the 2018-19 cost of attendance appendix item.

BACKGROUND

This item presents the University's proposed operating budget for FY19, which will begin on July 1, 2018 and end of June 30, 2019. The FY19 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 University's FY18 operating budget provided more information and context for every area of the budget, including budget oversight and policies. This proposed FY19 operating budget builds on the improvements made in the FY18 budget by refining the presentation of information and the methodology used to make budget projections. The proposed FY19 operating budget includes:

- An introduction from the Provost;
- An overview of the University's mission and commonly-cited facts;
- An executive summary of the University's proposed FY19 operating budget;

BOARD OF REGENTS MEETING

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- Background information to provide context for the University’s current budget challenges and proposals;
- 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 and fund uses 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 2018-19 academic year; and
- Projected budget information for:
 - Auxiliary activities, including projected revenue, expenditures, and ending balances for FY19;
 - UW Medicine, including updated FY18 financial results as of April 2018, and projected budgets by entity for FY19;
 - Gift income and endowment distribution projections for FY19; and,
 - Sponsored research activity, including expense projections for FY18 and FY19.

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

Attachments

1. Proposed Operating Budget – Fiscal Year 2019
2. 2018-19 Cost of Attendance for First-Year UW Undergraduates
3. Proposals for 2019-21 State Operating Budget Requests

UNIVERSITY *of* WASHINGTON
OFFICE OF PLANNING & BUDGETING

OPERATING BUDGET

Fiscal Year 2019



INTRODUCTION FROM THE PROVOST

The University of Washington's fiscal year 2019 (FY19) operating budget represents many months of collaboration among deans, faculty, students, and staff along with executive and other academic leadership. With my upcoming retirement in June, this budget also represents my final budget as Provost.

Budgets are strategy put into practice. One of my goals, as Provost, has been to provide creative, equitable solutions that balance resource constraints with short- and long-term University needs and priorities. This year, I posed two core questions to the leaders of schools, colleges, campuses, and administrative units for annual reviews: (1) What is the academic or programmatic vitality of your unit, and (2) what is the fiscal vitality of your unit? I have reiterated that any provost and any unit leader should know the answers to these questions and be actively using those answers for strategic planning.

In developing this year's operating budget, we have faced, head-on, financial shortfalls in vital areas such as compensation, building maintenance, and technological and physical infrastructure. Unfortunately, our ability to close these gaps is hindered by the fact that state appropriations are still well below pre-recession levels, and revenues from other key sources are restricted in use, or constrained in other ways. Such resource constraints demand difficult conversations that assess the alignment of current operations and funding levels with the University's priorities and mission.

Further, we are working diligently to identify and resolve deficits throughout the University. In support of this work, I asked unit leaders to provide more detailed and long-term financial forecasts than ever before as part of this year's Annual Review process. Each unit submitted multi-fund, multi-year income statements that project out to FY21. These data clarified our presumptions: many units are relying upon reserves to backstop operations and we must take a holistic look at unit finances and operations in order to assess the operational and financial health of each unit and the University as a whole.

I thank the many committed administrators, academic leaders, faculty, staff, and students who have taken a University-first, rather than unit-first, approach to strategic planning. To build a sustainable future for the University and its academic mission, difficult decisions will be needed to manage growing demands within existing resources and diminishing reserves. We will need to keep communicating with each other about our constraints, needs, priorities, and goals. My aspiration is to lay the foundation for productive conversations in the years to come.

PRIORITIES AND KEY FOCUS AREAS

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
- Preserve funding related to the student experience and student safety

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.

- In the coming months, we plan to initiate fiscally responsible salary and benefit increases for faculty, librarians, and professional staff that will provide much needed relief in areas of salary compression and external—both regional and national—competition. In conjunction with state action, merit-based salary increases of 2 percent will be enacted and have been integrated into this document and into planning documents furnished to leadership on all campuses.
- Electronic journal and serial access are important to support a quality-learning environment and a competitive research enterprise. This budget contains a modest increase to maintain access to some, but not all, serials and journals in UW Libraries.
- This budget also contains new funding for absolutely critical research enterprise investments and new funding for an enterprise solution to faculty recruitment and talent management.

CONSIDERATIONS

Publication of this document is made in the interest of promoting a greater understanding of the University's operating budget, and the processes through which it is annually determined. This document provides the Board of Regents 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.

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. In this FY19 budget, we ask the Board to take action on tuition rates, the delegation of fee setting authority, and the general use of core operating revenues. Following my introduction, you will find an overview of the University and its activities, an executive summary of the FY19 budget, and a short guide on "how to read" the remainder of this budget document.

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's fiscal year 2019 (FY19) operating budget totals \$7.84 billion, and its Consolidated Endowment Fund is approximately \$3.36 billion (as of December 2017). The University employs more than 33,000 benefits-eligible faculty and staff, and 4,400-plus benefits-eligible graduate-student employees. The UW's three campuses occupy 337 buildings on 792 acres, with more than 20.9 million gross square feet of space.

As the state's flagship university, the University of Washington enrolled nearly 58,000 undergraduate, graduate, and professional students in fall 2017. The UW Continuum College, formerly UW Educational Outreach, educates more than 55,000 students annually via in-person and online degree and certificate programs and continuing professional education programs. The three UW campuses offer a broad range of graduate and undergraduate degrees, and collectively support more than 606 degree options across 314 programs, 970-plus student organizations, and undergraduate research opportunities for more than 8,400 students. In 2016-17, the UW awarded more than 16,000 bachelors, masters, doctoral, and professional degrees.

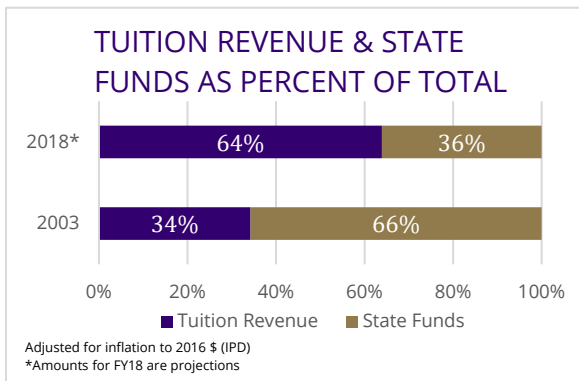
UW MISSION

The primary mission of the University of Washington is the preservation, advancement, and dissemination of knowledge. The University preserves and advances knowledge through its libraries and collections, its courses, the scholarship of its faculty and students, and the support of its staff. 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 research and teaching institutions, the University is committed to maintaining an environment for robust 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.

2018 UW FAST FACTS

PROFILE

- The University of Washington has three campuses that offer more than 606 degree options across 314 programs
- The UW's fiscal year 2019 (FY19) budget totals over \$7.84 billion
- **Tuition revenue comprises 64 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 accompanying increases in state funding



- The UW's 2017-18 resident undergraduate tuition and fee rate is \$10,974, which is **below the mean and median of our U.S. News & World Report (U.S. News) Top 25 Public Research University peers**

ENROLLMENT AND DEGREES

FALL 2017 TOTAL ENROLLMENT				
	SEATTLE	BOTHELL	TACOMA	TOTAL
UNDERGRAD	31843	5370	4457	41670
GRAD/PROF	14843	625	728	16196
TOTAL	46686	5995	5185	57866

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 educates Washington's most promising students:

- **74 percent** of UW undergraduate students are residents of Washington
- **3.1 percent** - increase in the number of freshman applications to the Seattle campus over the past year
- **65.5 percent** - freshman admission rate for students from Washington
- **All 39** Washington counties have students at the UW

In fall 2017, 41 percent of UW students were pursuing at least one science, technology, engineering & mathematics (STEM) major and in 2016-17, **the UW awarded 6203 STEM degrees, 8.8 percent more than 2015-16**. Forty-one percent of students who have declared STEM majors are women.

DEGREES AWARDED 2016-2017				
	SEATTLE	BOTHELL	TACOMA	TOTAL
BACHELOR'S	7738	1553	1336	10627
MASTER'S	3895	230	341	4466
DOCTORAL	762	N/A	4	766
PROFESSIONAL	575	N/A	N/A	575
TOTAL	12970	1783	1681	16434

UW Continuum College (formerly Educational Outreach) educates more than 55,000 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

- Prior to the recession, the number and proportion of **underrepresented minority students at the UW has increased, comprising 21.4 percent of the 2017 incoming domestic freshman class**
- In 2017-18, **35 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 **44 percent at UW Bothell and 58 percent at UW Tacoma**
- Over half of all UW undergraduates graduate with no known debt, and those who borrow still graduate with less debt than the national average
- In 2017-18, **27 percent of undergraduates are eligible for Federal Pell Grant funding**
- As of 2015-16, **the UW has more Pell Grant recipients than 22 of our U.S. News Top 25 Public Research University peers**
- In 2016-17, **31 percent (nearly 10,000) of UW undergraduate residents were eligible for Husky Promise**, which provides free tuition to students with financial need
- Since the start of the Husky Promise program in 2007, about **39,000 students** have received support from the program across the UW's three campuses
- In 2017-18, about **53 percent of UW undergraduates are receiving some form of financial aid**, totaling over \$430 million
- In 2017-18, 3,550 and 8,000 UW students are projected to receive funds from the College Bound Scholarship Program and the Washington State Need Grant, respectively
- In 2017-18, the UW is awarding more than \$102 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. 10 globally by U.S. News (No. 2 among U.S. public institutions), No. 13 globally by the Academic Ranking of World Universities and No. 8 nationally by Washington Monthly
- The UW has 52 graduate programs among the nation's top ten; many of which are in the top five (U.S. News)
- Kiplinger's ranks the UW as the No. 7 best value in the nation for in-state students, and Washington Monthly ranks the UW campus in Seattle No. 30, UW Bothell No. 18, and UW Tacoma No. 1 in its "Best Bang for the Buck" rankings
- The UW has been home to 7 Nobel Prize winners, 15 MacArthur Fellows, 175 members of the National Academies of Sciences, Engineering & Medicine and 181 fellows in the American Association for the Advancement of Science

RESEARCH AND SERVICE

- The UW receives more federal research dollars than any other public university in the nation—in FY17, the UW received \$1.63 billion in total research awards (federal and non-federal sources)
- According to the 2014 UW Economic Impact Report, the UW is one of the top five largest employers in Washington, supporting more than 79,000 jobs, with an annual economic impact of \$12.5 billion
- Over the last five years, CoMotion launched 86 new startups, and the UW was recently rated the No. 1 most innovative public university in the U.S. by Reuters, which examined scholarly articles and patent applications
- Over the last ten years, the UW has produced **more Peace Corps volunteers than any other U.S. university**
- Entrepreneur.com reported the UW as the most common alma mater on resumes of employees at the top 100 tech companies

EXECUTIVE SUMMARY: ADOPTED FY19 BUDGET

This document describes the University of Washington’s (UW) operating budget for the period of July 1, 2018, through June 30, 2019, which is known as Fiscal Year 2019 (FY19). The UW’s projected FY19 budget totals \$7.84 billion. Of that total, our University’s core operating budget is projected to be \$1.41 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 University’s research enterprise, UW Medicine, annual gift and endowment funds, and auxiliary 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 FY19 budget and the share of the total budget that each represents.

Figure 1: FY19 Budget by Major Area

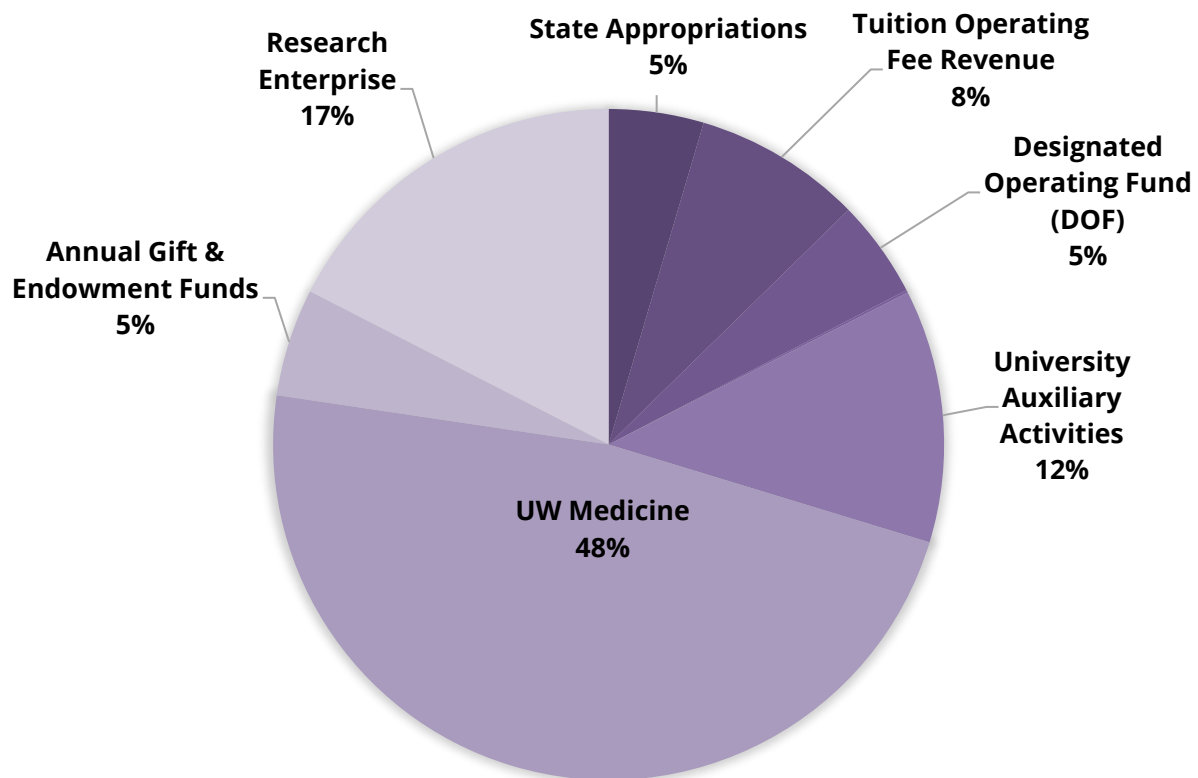


Table 1, on the next page, shows the total projected budgets for FY19, compared to the total budgets that were approved by the Board of Regents for FY18, and the incremental change between the two.

Table 1: Adopted Full FY19 Operating Budget by Fund and Category

Budget by Fund and Category	FY18 Adopted	Incremental Change	FY19
Core Operating Budget	1,339,314,000	68,671,000	1,407,984,000
General Operating Fund (GOF)	975,184,000	52,321,000	1,027,505,000
State Appropriations	351,726,000	17,545,000	369,271,000
Tuition Operating Fee Revenue	623,458,000	34,776,000	658,234,000
Designated Operating Fund (DOF)	364,130,000	16,349,000	380,479,000
Indirect Cost Recovery	247,000,000	20,224,000	267,224,000
Institutional Overhead	26,000,000	130,000	26,130,000
Remaining DOF	91,130,000	(4,005,000)	87,125,000
State Restricted Funds	9,807,000	527,000	10,334,000
University Auxiliary Activities	918,982,000	65,673,000	984,656,000
Seattle	897,153,000	60,127,000	957,280,000
UW Bothell	12,354,000	5,171,000	17,526,000
UW Tacoma	9,475,000	375,000	9,850,000
UW Medicine	3,613,000,000	261,000,000	3,874,000,000
UW Medical Center	1,186,000,000	142,000,000	1,328,000,000
Harborview Medical Center*	1,006,000,000	29,000,000	1,035,000,000
Valley Medical Center	632,000,000	41,000,000	673,000,000
NW Hospital	376,000,000	20,000,000	396,000,000
UW Physicians	302,000,000	22,000,000	324,000,000
Airlift NW	59,000,000	0	59,000,000
UW Neighborhood Clinics	52,000,000	7,000,000	59,000,000
Annual Gift & Endowment Funds	315,583,000	103,915,000	419,498,000
Gift Income	200,583,000	90,915,000	291,498,000
Endowment Distributions	115,000,000	13,000,000	128,000,000
Research Enterprise	1,302,302,000	107,584,000	1,409,886,000
Federal	748,076,000	63,279,000	811,355,000
State and Local Grants	93,250,000	1,211,000	94,461,000
Non-federal	213,976,000	22,870,000	236,846,000
Indirect Expenditures**	247,000,000	20,224,000	267,224,000
TOTAL UNIVERSITY OPERATING BUDGET	7,251,988,000	587,147,000	7,839,134,000

Some discrepancies may exist due to rounding.

* 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 mission 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 FY19 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 29, which is where we dive into "Our Core Operating Budget," the first major area of the UW's FY19 budget.**

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

BACKGROUND

This section articulates the funding challenges that continue to shape our University's budget going into FY19. 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;
- Mandatory cost increases for state central services, compliance, utilities, and infrastructure, which require 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

Student enrollment growth is constrained by space and funding issues. A growing number of students are seeking to enter capacity-constrained majors. These majors tend to be the most expensive to teach and the most research intensive, which requires additional space and high-cost equipment. In response, the University is developing an enrollment strategy that better balances enrollment demands and capacities.

Over the past 10 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 undergraduate student enrollment has exceeded that of graduate and professional student enrollment at all three campuses.

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. More efficient class scheduling may add some capacity at Seattle, but any overall growth will be minimal.

CHALLENGE 2: STATE APPROPRIATIONS AND TUITION FUNDING PER STUDENT

Like many other state institutions, the UW has endured significant state funding cuts in the past decade. Consequently, the majority of core education funding formerly provided by the state is now borne by students and families. The University must carefully balance its desire to invest in excellence and compete in international, national, and local markets, with the reality that many cost increases are outpacing inflation, while revenue increases are at or below inflation.

Important trends appear when examining the UW's core instructional funding (from state appropriations and tuition revenue) per full-time equivalent (FTE) student.¹ Namely, that **tuition increases at public institutions are due, in large part, to a decades-long trend of state budget cuts:**

- In FY91, the state provided 82 percent of total funding per student FTE, with students and families responsible for the remaining 18 percent from tuition.
- FY09 was the last year in which the majority of funding per student FTE was provided by the state.
- Between FY09 and FY12, the UW lost approximately half its state funding, while enrolling more students than ever.
- Projected funding per FTE for FY19 is \$20,076, with 36 percent covered by state funding.

Recently, the downward trend in state funding per student has been slightly reversed 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 FY18 and FY19, 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 maintained resident undergraduate tuition policy (described in the next section) in FY18 and FY19, which allows for modest, inflationary increases.

Although annual state appropriations have recently increased, they are still approximately \$75 million below the annual amounts provided prior to the "Great Recession" (again, adjusted for inflation), and most of the new permanent revenue cannot be used to support the UW's broad academic mission.

Please note that this analysis 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 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 the 2016-17 data submission (the most recent year available) from the Integrated Postsecondary Education Data System (IPEDS), **the UW received less state funding per student than all but two of our 22 other U.S. News peer institutions.**

Looking ahead, we expect that higher education may become more of a priority for the state, now that obligations to fully fund K-12 education are, by many accounts, mostly resolved. However, the state still faces significant financial needs in terms of mental health caseloads, emergency response and preparedness, tax relief, and more. These will continue to compete with higher education, which remains vulnerable to reductions as the largest discretionary component of the state operating budget.

¹ Adjusting for inflation and considering tuition revenue from **all** tuition-based students, not just resident undergraduates.

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 been 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 can be unpredictable. New policies are proposed nearly every legislative session and RUG tuition policy has changed nearly every biennium since the beginning of the Great Recession. For the two biennia prior to the recession, RUG tuition rates were allowed to increase by up to 7 percent per year. Here is an overview of the last three biennia:

- 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.
- For 2017-18 and 2018-19, the state legislature maintained the tuition policy of 2ESSB 5954 (2015), which limits RUG tuition increases to the 14-year rolling average of Washington’s median hourly wage (roughly 2.2 percent per year) for FY18 onwards. The policy also requires annual, inflationary adjustments to the previously provided backfill funds.

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 2018 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 2017-18 academic year, the UW’s RUG tuition and fee rate of \$10,974 is \$2,558 *below* the peer average (see Table 2 below).

Table 2: Peer Comparison – 2017-18 Resident Undergraduate Tuition & Fees

U.S. News Top 25 Public Universities	2017-18 Tuition & Fees
College of William & Mary	22,044
University of Pittsburgh-Pittsburgh Campus	19,080
Pennsylvania State University-Main Campus	18,436
University of Virginia-Main Campus	16,781
University of Illinois at Urbana-Champaign	15,868
Clemson University	15,116
University of Connecticut	14,880
University of Michigan-Ann Arbor	14,826
Rutgers University-New Brunswick	14,638
University of California-Santa Barbara	14,451
University of California-Davis	14,419
University of Minnesota - Twin Cities	14,417
University of California-Berkeley	14,170
University of California-San Diego	14,018
University of California-Irvine	13,738
University of California-Los Angeles	13,261
Virginia Polytech Inst. & State University	13,230
Georgia Institute of Technology-Main Campus	12,418
University of Georgia	11,818
University of Washington-Seattle Campus	10,974
Ohio State University-Main Campus	10,591
University of Wisconsin-Madison	10,533
The University of Texas at Austin	10,452
Texas A&M University	10,403
University of Maryland-College Park	10,399
Purdue University-Main Campus	9,992
University of North Carolina at Chapel Hill	9,005
University of Florida	6,381
U.S. News Top 25 Publics Group Average	13,532

Sources: 2017-18 American Association of University Data Exchange, University of Virginia system survey, and institution websites

UW tuition and fees are excluded from the peer average

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 2017-18, the UW's nonresident undergraduate tuition and fee rate of \$35,538 is still \$597 *below* the peer mean, as seen in Table 3. Although the UW's nonresident undergraduate tuition rate increased by 2.0 and 2.2 percent in the last two academic years, these increases were less than the peer mean of 3.4 percent and 4.2 percent in the 2016-17 and

2017-18 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 – 2017-18 Nonresident Undergraduate Tuition & Fees

U.S. News Top 25 Public Universities	2017-18 Tuition & Fees
University of Michigan-Ann Arbor	47,476
University of Virginia-Main Campus	47,316
College of William & Mary	43,670
University of California-Santa Barbara	42,465
University of California-Davis	42,433
University of California-Berkeley	42,184
University of California-San Diego	42,032
University of California-Irvine	41,752
University of California-Los Angeles	41,275
Texas A&M University	37,155
University of Connecticut	36,948
The University of Texas at Austin	36,848
Clemson University	36,058
University of Washington-Seattle Campus	35,538
University of Wisconsin-Madison	34,783
University of North Carolina at Chapel Hill	34,588
Pennsylvania State University-Main Campus	33,664
University of Maryland-College Park	33,606
Georgia Institute of Technology-Main Campus	33,014
University of Illinois at Urbana-Champaign	31,988
Virginia Polytech Inst. & State University	31,014
University of Pittsburgh-Pittsburgh Campus	30,642
Rutgers University-New Brunswick	30,579
University of Georgia	30,392
Ohio State University-Main Campus	29,695
Purdue University-Main Campus	28,794
University of Florida	28,658
University of Minnesota - Twin Cities	26,603
U.S. News Top 25 Publics Group Average	36,135

Sources: 2017-18 American Association of University Data Exchange, University of Virginia system survey, and institution websites

UW tuition and fees are excluded from the peer average

Similar to nonresident undergraduate tuition, increases to graduate and professional tuition rates must be considered alongside peer comparisons. A variety of peer analyses is available on the following webpage, under "U.S. 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 additional justification for the proposed rate changes. The University collects these tuition recommendations and justifications each year through the annual unit budget submission process. Submissions for FY19 and prior years can be found on the Office of Planning & Budgeting website (<http://opb.washington.edu/content/annual-budgets>), and FY19 tuition recommendations are summarized on page 33 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 as part of their compensation. Therefore, raising tuition in these categories affects our ability to recruit high quality graduate students in a competitive market, and affects academic units' ability to offer TA and RA positions because units often cover the cost of tuition for these students through general funding and research grants. Given the ongoing uncertainty regarding federal 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 many UW faculty and staff are compensated below their counterparts at peer institutions.

Our top priority with the state legislature continues to be more funding for compensation. On a permanent basis, the legislature currently provides only one-third of the funds needed to support the state's authorized compensation increases for faculty and staff paid via General Operating Fund (GOF) revenue. This means the UW has to rely on new, incremental **tuition** revenue to cover the additional two-thirds of the cost. As this document has described, the UW's ability to generate new, incremental tuition revenue is highly constrained, thus this funding model is unsustainable. For staff funded through self-sustaining activities, revenues must increase sufficiently to afford salary and benefit increases.

Table 4, below, compares the UW's compensation increases for faculty and professional staff with the general wage increases authorized by the state for those employees. As other public universities have done, we have provided increases since the Great Recession in order to begin addressing salary gaps created by the recession and the state's salary freezes. Since the state only partially funds the increases that it authorizes, the UW has generally received only around a third of what it needs to implement the state's assumptions for GOF-paid employees, let alone to implement the UW's actual increases. This has created financial challenges that are now exacerbated by every additional salary increase that occurs on top of those previously underfunded increases.

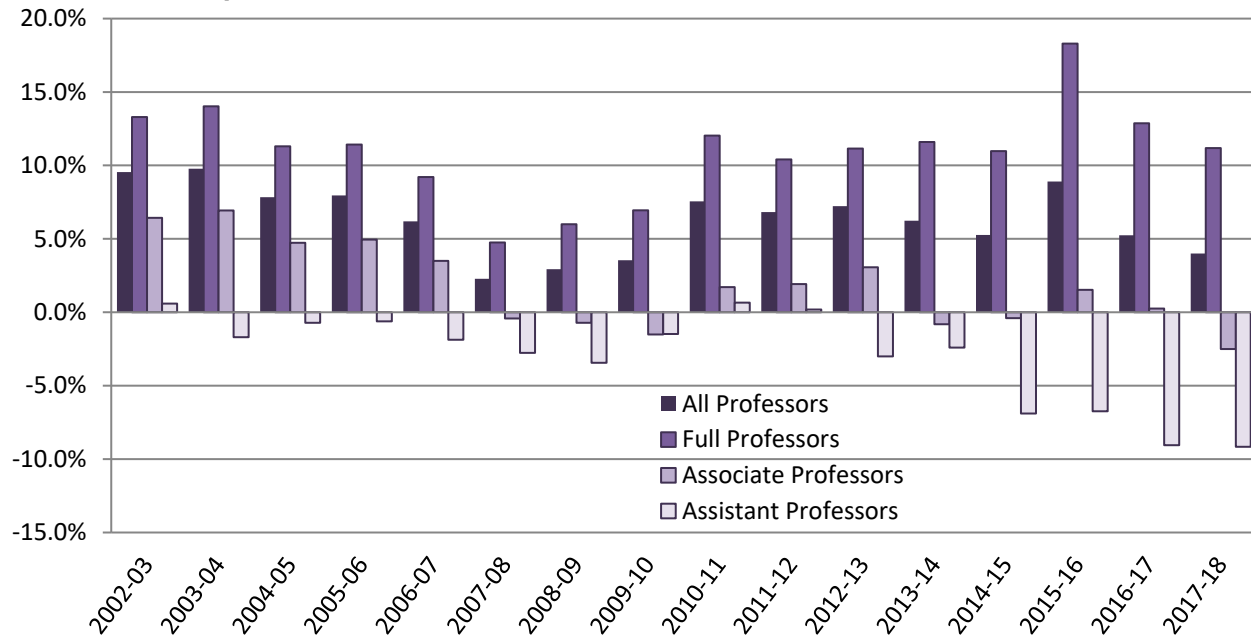
Table 4: Recent Compensation Increases for UW Faculty and Professional Staff

Fiscal Year	State Authorized	State Funded Proportion of State Authorized ¹	UW Implemented	Locally Funded Difference (between state authorization and UW implemented)
FY10	State-mandated salary freeze (no increases were authorized or implemented)			
FY11				
FY12				
FY13				
FY14	0%	0%	4%	4%
FY15	0%	0%	4%	4%
FY16	3%	38%	3%	0%
FY17	1.8%	38%	4%	2.2%
FY18	2%	34%	2%	0%

¹ Portion funded for non-represented employees paid via GOF

Despite these increases, according to 2017-18 data, shown in Figure 2, **UW faculty salaries across all professorial ranks would need to grow by approximately 4 percent in order to reach the average faculty salary at our U.S. News Top Public Research Institution peers.** Importantly, the gap differs by year and rank, highlighting the need for targeted salary adjustments.

Figure 2: Percent Change Required for Average UW Seattle Faculty Salaries to Meet Peer Averages for U.S. News Top Public Research Universities



Although the average salary for assistant professors is above the peer average, hiring for these positions has become increasingly competitive and has primarily occurred in the most expensive fields of study. In order to hire new assistant professors in fields like engineering, the University must make offers that acknowledge the high local cost of living and the number of other universities competing for such positions.

For professional staff, the UW's employee-weighted average salary is 6.0 percent below the 50th percentile of the market, and particular job categories such as information technology staff, research scientists, graphic designers, 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

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

- **Compensation changes** for classified staff are *required* to enact collectively bargained agreements. In addition, as described above, adjustments for faculty and professional staff are necessary to address recruitment, retention, and compression needs—all in a competitive regional, national and, in some cases, international market.
- **New and rising benefits expenses** are largely the byproduct of state benefits assumptions, including health benefit per employee premiums and the proportion of those costs borne by employees versus employers (approximately 15 and 85 percent, respectively). The state's current medical benefits make up the majority of these benefits expenses, but the state's newly enacted paid family & medical leave law will add to benefits expenses in FY19 and beyond.
- **New and rising state central service charges** are requiring the UW to divert incremental tuition revenue and other resources away from core needs, such as compensation. As an example, the UW will have to redirect \$1.5 million of student tuition revenue away from our core academic mission every year to pay for the state's recently instated central service charge to support the Governor's Office of Financial Management (OFM). This almost completely cancels out the UW's new, incremental resident undergraduate tuition revenue. This is not the only new or rising charge.
- Upward pressure on **utility costs** continue to challenge the UW, but conservation efforts and cost saving measures are projected to offset FY19 cost increases. The administration expects that FY20 utility expenses will exceed budgeted levels, and reserves will cover the increase.
- 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 active redeployment of budget authority for **critical compliance** areas.
- **System infrastructure upgrades**, such as replacing payroll software that dated back to the 1980s, were and are a necessity. Such upgrades are also extremely expensive. The next critical upgrade on the horizon is for the UW's financial and budgeting systems—to increase efficiency, compliance and provide early warning of developing budget problems. This will require its own significant investment.

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, though real estate costs are increasing, the UW is looking to maximize the capacity of its centrally funded real estate portfolio. We are also looking at removing subsidies for self-sustaining or grant-funded units, in order to provide funds for cost increases. New classroom scheduling policies have been implemented that have led to increases in efficiency and improved certainty of classroom schedules. For example, in spring 2018, every course in the time schedule had an assigned classroom before registration, the first time this has occurred in over 17 years.

CHALLENGE 6: FEDERAL OUTLOOK

FY18 Omnibus Synopsis

The federal FY18 appropriations process wrapped up in late March, approximately six months into the fiscal year. Although Congress reached an agreement earlier in the calendar year that provided additional funding for both defense and non-defense programs for FY18 and FY19, a conclusion to the appropriations process

proved elusive for many weeks due to political hurdles on policy riders, such as those surrounding Deferred Action for Childhood Arrivals (DACA) and homeland security issues.

Ultimately, Congress did come to a positive resolution for FY18. Almost all federally funded programs central to UW's mission, focus, and advocacy efforts received generous increases, and those programs not receiving increases were level funded. Of note, the National Institutes of Health (NIH) received a \$3 billion increase and the maximum Pell Grant award increased from \$5,920 to \$6,095 (a 3 percent increase). Overall, the FY18 appropriations omnibus demonstrated a broad, bipartisan commitment to increasing investments in federally funded research and higher education.

At the end of 2017, Congress passed a sweeping tax reform package impacting all individuals and nearly all industries. While the proposed changes to the taxes of graduate students were widely known, the final measure included lesser known, but significant, impacts to universities. Impacts included the elimination of the ability to issue tax-exempt advance refunding bonds, impacts to college athletics through areas such as eliminating seating rights deductions, and changes to overall tax structure and how universities can calculate their overall tax burden. It should be noted that the passage of tax reform will impact the University in the years ahead as the guidance from the Internal Revenue Service (IRS) has been particularly slow in its release and remains politically sensitive.

Looking Ahead to FY19

The Trump Administration released its FY19 budget request in February, prior to the conclusion of the FY18 appropriations process. While the President's FY19 budget request proposes programmatic cuts and eliminations, it is key to remember that Congress, not the Administration, is in the driver's seat of the appropriations process. Thus, like its FY18 budget proposal, much of the Trump Administration's package for FY19 will likely be met with bipartisan Congressional opposition. At this time, the UW Federal Relations team has submitted the UW's appropriations requests to the Washington Congressional Delegation. No FY19 appropriations measures have been introduced, but we can expect those measures to be rolled out in the months ahead.

On the policy front, conversations continue about the reauthorization of the Higher Education Act (HEA). In a truncated process at the end of 2017, the House Education and Workforce Committee introduced and passed a partisan reauthorization bill in a span of approximately three weeks. There has been widespread criticism of the House bill from various communities, including veterans' groups and universities. As a sign of the level of opposition to the bill, there is no commitment yet from the Republican leadership to bring the legislation to the House floor for a vote this year, but the Chairwoman of the House Committee remains committed to pushing the bill and seeing it considered on the House Floor this year.

On the Senate side, the process has been more bipartisan, with the leaders of the Health, Education, Labor, and Pensions Committee—where Washington's Senator Patty Murray serves as Ranking Member—publicly committing to a bipartisan bill. Although a number of hearings have been held on a variety of topics related to HEA, no legislative text has been shared at this time.

Like past years, unforeseen political issues will likely arise during the year and may require action and engagement. With the midterm elections looming this November, members of Congress are expected to spend much of autumn in their respective districts and states until Election Day. At this time, it does not appear likely that FY19 appropriations will be completed before the beginning of the new fiscal year on

October 1, which would necessitate a continuing resolution to keep the federal government open until FY19 appropriations can be completed, following the election.

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 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 Six Years (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 six years have been driven by the implementation of Activity Based Budgeting (ABB). Seattle academic units continue to experience more budget growth than administrative units, both in terms of real dollars (\$190 million versus \$72 million) and in terms of proportionate growth (40 percent versus 23 percent), from FY13 to FY18. In FY18, Seattle academic units received 64 percent of the permanent Core Operating Resources going to Seattle, while Seattle administrative units received 36 percent.² Administrative units include the Libraries, Graduate School, Undergraduate Academic Affairs, Student Life, Minority Affairs and Diversity—which have clear obligations to faculty, students and staff—and central administrative units that focus on compliance, operating and capital planning, finance, and human

² Please note, this ratio is different from the ratio of distributed net tuition revenue, under which 70 percent of net operating fee revenue is distributed to academic units and 30 percent is held centrally.

resource functions, to name a few. This clear differentiation is not an artifact of one year's budget process, but rather, sustained investments in the UW's academic mission. Data suggests that this trend will continue with the adoption of the FY19 budget.

Every year, we continue to refine the ABB model, which includes reviewing how base, permanent budget allocations are distributed to all units. Such efforts aim to minimize financial duress to individual units and recognize circumstantial changes in tuition revenue distribution and program delivery, while ensuring that the University as a whole is financially stable.

ENSURING SOUND BUDGET MANAGEMENT

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

ADMINISTRATIVE DUE DILIGENCE

STRENGTH 1: ANNUAL REVIEW AND BUDGET DEVELOPMENT PROCESS

As part of the University's annual budget development cycle, each unit and campus submits a suite of "annual review" materials in preparation for annual meetings with the Provost. Annual reviews are meant to be a holistic look at unit finances and operations, in order to assess the operational and financial health of each unit and the University as a whole. Submissions are publicly available at the following website: <http://opb.washington.edu/content/annual-budgets>.

For the FY19 annual review cycle, the Provost requested that every school, college, campus, and administrative unit answer two chief questions: (1) What is the **academic or programmatic vitality** of your unit, and (2) what is the **fiscal vitality** of your unit? This information supported a **rigorous, nine-month review and consultation process**, involving students, faculty, staff, and executive leadership. Units were also asked to manage growing demands within existing resources and diminishing reserves. To allow more time for units to compile reports, develop tuition recommendations, and consult with faculty and student leadership, the Provost also extended the FY19 annual review timeline into the spring.

This year, unit leaders were asked to provide more detailed and long-term fiscal plans than ever before. Absent a modern financial system, the Office of Planning & Budgeting (OPB) analyzed over 3,500 data points in Excel to assess how the fiscal pressures and assumptions affect unit-level budgets, and to proactively identify and resolve deficits. OPB is in the process of working with unit leadership to resolve any known deficits and to prevent potential deficits in the future.³ Simultaneously, elected faculty councils, deans, and administrators worked in partnership with the Faculty Senate Committee on Planning & Budgeting to develop multi-year, comprehensive faculty salary plans. Merit was the guiding principal for these plans, but considerations of faculty size, peer competition, compression, and inversion were also brought to bear. Faculty salary plans informed fiscal vitality reports and forecasts: this is the first time our University went through a planning process so deep and comprehensive.

During the FY19 budget development process, the Provost reviewed an interactive financial model, created by OPB and driven by over 70 variables, to project compensation and other expense increases against

³ The University's deficit resolution policy is available here: [http://opb.washington.edu/sites/default/files/opb/Budget/Deficit Resolution Policy.pdf](http://opb.washington.edu/sites/default/files/opb/Budget/Deficit%20Resolution%20Policy.pdf)

estimated net, new revenue. University administration used this model to inform decisions regarding salary increases and the allocation of limited central resources for other critical needs.

In summary, robust information and data are being combined with forecasting tools and consultative processes to ensure sound programmatic and fiscal vitality for University units and the University as a whole. Future budget cycles will be managed with the goal of continuous improvement.

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, general, and local operating fund 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 audited annually. In addition, many smaller auxiliary programs conduct annual audits or other external reviews with outside firms.
- UW Finance & Administration (F&A), 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 Continuum College and Housing & Food Services, charge fees. Where Regents have reserved fee-setting authority, rate approvals and/or fee change requests are brought to Regents for action. See "Fee Setting Authority," below, for more details.
- F&A reviews initial rate proposals to establish both service and recharge centers, and reviews rates annually thereafter. Deans and VPs are expected to review recharge center rates annually.

For more information about University Auxiliary Activities, see page 41.

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 be approved by the legislature. Legislative approval is achieved through disclosures of possible and known fee increases.

Regents retain tuition-setting authority for all categories, but must comply with the state legislature's resident undergraduate tuition policy. Every June, the administration brings tuition recommendations to the Board for approval. These recommendations are the result of staff, faculty,

student, and academic leadership collaboration. Note that the University's ability to 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 Cost of Attendance document has also been updated to accompany the budget item.

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

- Application fees
- Transcript fees
- Course fees⁴
- 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. This year, the Provost brought new rigor to the review of fee-based rate proposals and adjusted the approval timeline to provide students with more notice and to align decisions with other unit-level budget discussions.

Fee setting delegation is guided by Executive Order No. 44, User Fee Approval Policy, 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.

⁴ 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.

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

- **Internal Audit** seeks to provide audit coverage across the entirety of the University, deploying its resources in areas of increased risk or operations they have not audited in the recent past. In addition, 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 contracts) are required to attend fiscal training and purchasing cardholders must attend training prior to taking card possession.
- **Workflow approvals** are incorporated into newer technology applications (e.g. procurement and travel and the new payroll system).
- The UW is also **accredited** by Northwest Commission on Colleges and Universities (NWCCU) and is a member of the Association of American Universities (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. The architects of ABB anticipated that periodic review and, eventually, a substantial formal review of ABB would be necessary, especially as market conditions, funding trends, and student demand evolve over time. Every academic year, faculty, staff, deans and students identify potential improvements to the model, and many of these stakeholders work to implement enhancements.

This academic year, a joint committee of deans and faculty was charged with a scope of work related to the "hold harmless" component of base budgets. The hold harmless component was calculated as the amount of funding necessary for each school or college to "break even," once tuition and indirect cost recovery were distributed based on unit activity. Despite initial thinking that these amounts would modify as tuition distributions began to shift across the campus, the hold harmless amounts never changed. With next year's budget cycle, funds will shift between units, in order to supplement operations in areas that have less formulaically-driven funding, but that have static to increasing costs (e.g. faculty, staff, and operations).

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 certain portion of tuition fees is credited to the UW Building Account (building fees) and is 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 32.

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 12-month period ending March 31, 2018. 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. FY18 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 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, generally, 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. In FY17, the Provost approved a recommendation, based on analysis and review, that incremental summer tuition revenue from the 12-month professional programs of the School of Medicine and the School of Dentistry (which are run outside of Continuum College) should be distributed based on current ABB distribution rules. This summer tuition is allocated to the schools separately from the regular academic year tuition, since summer tuition is DOF, rather than GOF. In FY18, \$500,000 was distributed between the two schools. For FY19, an additional \$1 million will be distributed between the schools, along with the calculated new incremental revenue.

- *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 36.

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 value⁵ 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 the University of Washington Investment Management Company (UWINCO). The administration continues to monitor endowment performance and spending as it results from this policy.

In FY19, the administration will implement a gift assessment on current use gifts between \$1,001 and \$5 million. The assessment will be 5 percent and, although exclusions apply, the assessment will be directed to a central budget, to be deployed by the Provost and President to advance the mission of the University. The assessment revenue will be generated from the gift income forecast in this section, and directed to areas of critical importance on a quarterly basis.

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 46.

⁵ 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 mission 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 5, below, shows core operating revenues, expenditures, and use of funds as adopted for FY18 and FY19.

Table 5: FY19 Core Operating Revenue, Expenditures & Use of Funds¹

Revenues, Expenditures & Uses of Funds by Fund	FY18 Adopted	Incremental Change	FY19
Total Operating Revenue:	1,339,314,000	68,671,000	1,407,984,000
General Operating Fund:	975,184,000	52,321,000	1,027,505,000
State Appropriations ²	351,726,000	17,545,000	369,271,000
Tuition Operating Fee Revenue	623,458,000	34,776,000	658,234,000
Designated Operating Fund:	364,130,000	16,349,000	380,479,000
Indirect Cost Recovery	247,000,000	20,224,000	267,224,000
Institutional Overhead	26,000,000	130,000	26,130,000
Administrative Overhead	8,726,000	468,000	9,193,000
Summer Quarter Tuition	56,186,000	2,044,000	58,231,000
Investment Income	15,676,000	(6,676,000)	9,000,000
ILP Risk Fund	2,100,000	0	2,100,000
Miscellaneous Fees	8,442,000	159,000	8,601,000
Total Operating Expenditures, Adjustments & Uses:	1,339,313,000	68,671,000	1,407,984,000
State Adjustment to Prior Fiscal Year		(403,000)	
Compensation Distributions to Units ³		10,174,000	
Tuition Distributions to Units		26,669,000	
ICR Distributions to Units		4,459,000	
Provost Reinvestment Pool		9,320,000	
Provost Investment In Campus Unit Initiatives		6,027,000	
Legislative Directives		7,504,000	
Other Adjustments			
Paid Family & Medical Leave Contingency		2,000,000	
Risk Management & Mitigation		1,290,000	
Summer Tuition Distributions		1,000,000	
Permanent Core Funding for Library Operations		632,000	

¹ Due to rounding, total revenues may not match total expenditures.

² In FY18 and FY19, "State Appropriations" includes approximately \$25.5 million per year from the Pension Funding Stabilization Account, due to a temporary fund shift from the State General Fund.

³ Compensation distributions to units include temporary funds that the state directed us to use for compensation.

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 23), 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, fund areas of critical infrastructure and compliance by redeploying existing budget authority, and maintain investments in the student experience and student safety. Again, expenditures of core operating resources reflect these priorities and are summarized in Table 5, above.

COMPENSATION

It continues to be the highest priority of the President, Provost, and Executive Vice President to improve compensation for our dedicated faculty and staff. Since last year, the Provost has continued to engage Deans and Chancellors in salary planning conversations to proactively contemplate salary equity, compression, and inversion.

Ultimately, the discussions and solutions are not just about salary; they involve a dynamic system of considerations and pressures, including meritorious work, staffing mix, faculty workload, salary policy goals and objectives, market pressures, and program and curriculum design. Sustaining long-term institutional success requires us to thoughtfully manage and better appreciate the dynamic links between these many contributing factors.

The salary planning 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 this budget cycle, the Provost and the Office of Planning & Budgeting analyzed multi-fund multi-year financial forecasts for every unit on all three campuses. This work was instructive and clarified that funding 2 percent merit pools in perpetuity, without additional incremental funding from the state or tuition, will prove challenging in the years ahead. As a result, the Provost is prioritizing compensation again this cycle, and redeploying resources to meet this need.

The extent of our ability to address this priority, however, continues to depend on the state's investment of additional permanent resources for compensation. Our top priority during the last legislative session was to correct the "fund split" that the state applies to new, state-related expenses, primarily compensation. The UW's fund split is roughly 34/66 percent (34 state appropriation, 66 tuition revenue); however, all of the other Washington state public four-year universities have around a 50/50 percent fund split. This fund split is based upon years of assumptions about our ability to raise tuition rates to cover ever-higher annual expenses, and it is not sustainable. The legislative session ended on March 8, and though we received additional state funding to shift some of our "fund splits" to 50/50, the funding is temporary.

Based on the outcome of the state legislative session (described further on page 32) and on discussions between the Provost and each UW unit, the Provost authorized merit-based salary increases of 2 percent for faculty, librarians, and professional staff in FY19. Calculations in this FY19 budget include the 2 percent merit increase, as well as the provisions of collective bargaining agreements for represented employees. In addition, the President, Provost, and Executive Vice President identified central cuts to cover a pool of unit adjustment funding for meritorious faculty.

Benefits expenditures are largely driven by the legislature's negotiated rates on employer contributions to employee benefits, which were set in the state's final 2018 supplemental operating budget at \$916 per employee per month in FY19, up from \$913 per employee per month in FY18.

While the increase is slight, higher legislative limits on benefits contributions result in higher University 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, a 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 provided less funding than anticipated and imposed 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.

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, and the Governor has signed, the state's 2018 supplemental operating and capital budgets, which include technical corrections and minor appropriation changes to the 2017-19 biennial operating and capital budgets.

Here is an overview of the major state funding decisions—from both the 2017-19 biennial budgets and the 2018 supplemental budgets—that influenced the UW's FY19 operating budget:

- Continuation of current tuition policy ([2ESSB 5954](#), 2015), which allows resident undergraduate tuition to increase by 2.2 percent in FY19 and by similar amounts in each year thereafter.
- Permanent incremental compensation funding of \$5.7 million in FY19 to **partially fund** the state's compensation assumptions of two 2-percent salary increases for faculty and professional staff.
- A **one-time allocation** of \$6 million in FY19 that allows us to temporarily reduce the amount of tuition revenue that we use to support compensation and central services. In short, the state budget provides temporary funding to support ongoing expenses, which presents risks for the University when that temporary money expires. The state budget does, however, fund a study aimed at recommending a longer-term solution for higher education fund splits. Thus, there is a formal mechanism to continue the conversation with the state. A permanent fund split fix remains a high priority of the University.
- Approval and **partial funding** of collective bargaining agreements in FY19. The supplemental budget provided an "error correction" for SEIU and WSFE, as the collective bargaining agreements were over-funded in the 2017-19 budget due to a state calculation error.
- **Partial funding** to help offset a slightly higher final limit on the monthly contributions that state agencies make to employee medical benefits—\$916 in FY19, which is up from \$913 in FY18.
- **Partial funding** for rising central service charges, which the UW is required to pay to the state and for things such as audit services, legal services, and archives management.
- A **small portion** of the funding needed to cover Paid Family & Medical Leave premiums, which start on January 1, 2019, pursuant to [SB 5975](#) (2017).
- In addition to provisos in the 2017-19 budget, a number of other provisos for the UW were added in the supplemental budget, including:
 - More than \$1 million in FY19, and \$1.7 million ongoing to operate the Bill & Melinda Gates Center for Computer Science & Engineering, which will be online in December 2018.
 - \$3 million per year, starting in FY19, to complete a goal of doubling the number of computer science degrees awarded from 300 to 600 annually;
 - \$1 million per year, starting in FY19, for the UW's Psychiatry Integrated Care Training Program;
 - \$970,000 in FY19 for an inflationary adjustment to the tuition backfill amounts from FY18.

In addition to these new, incremental changes in FY19, many of the state funding decisions for FY18 carry forward into FY19. For example, in FY18, the state implemented a new central service charge for its Office of

Financial Management (OFM), which requires that the UW annually use \$1.51 million in student tuition revenue to support OFM instead of the University's academic mission. The state also reduced the UW's general fund appropriation by \$1.3 million in FY18, due to an assumed reduction in the UW's state-supported graduate student waiver activity. These changes continue to impact the UW's FY19 budget.

Tuition Revenue & Rates

In the final 2017-19 state operating budget, lawmakers decided to retain current resident undergraduate tuition policy ([2ESSB 5954](#), 2015), which allows institutions to increase operating fees by up to the 14-year rolling average of Washington's median hourly wage in FY18 and onward. The 2018 state legislature left this tuition policy unchanged in the state's 2018 supplemental operating budget. Thus, for FY19, this policy will allow resident undergraduate tuition to increase by 2.2 percent. The Board of Regents has the authority to set tuition rates for nonresident undergraduates and all graduate and professional students.

The tuition rates in Table 6, below, are the result of **many months of collaboration** between chancellors, deans, faculty, students, and staff along with executive and academic leadership. The administration solicited recommendations from deans and chancellors, but required that each dean and chancellor consult with students and elected faculty councils. **All tuition rate proposals were accompanied by a narrative justification, market analyses, enrollment changes, waiver implications, student debt impact, and information regarding the use of incremental revenue.**

The tuition rates in Table 6 include the operating fee and the building fee, and the percentage change applies to both fees. For example, the rate for nonresident undergraduate students assumes that the building fee will increase by the same percentage as the operating fee in FY19—3.0 percent. Please note students must pay other mandatory fees, besides the operating and building fee. Please see our [Cost of Attendance](#) page for more detail.

Projected tuition revenue—net of building fee, required financial aid set-aside, and, of course, waivers—is shown in Tables 1 and 5 as “Tuition Operating Fee” revenue. Tuition revenue projections reflect the tuition rates shown in Table 6, as well as approved enrollment increases, which were discussed in light of a four-year financial forecast for each campus.

The increase between the tuition revenue projection for the approved FY18 budget and the projection for the FY19 budget is attributable to a few factors:

- Primarily, most tuition rates will increase by 2 to 4 percent, as shown in Table 6.
- Due to uncertainty regarding federal policies, the UW had conservatively estimated the number of undergraduate nonresident students, particularly undergraduate international students, who would enroll in FY18. Since FY18 projections have proven to be conservative, the FY19 projections account for known FY18 revenue and we have adjusted our projections accordingly.
- In addition, FY17 tuition collections were underestimated, which caused FY18 projections to also be underestimated. FY19 projections are based on updated projection methodology.

Table 6: FY19 Tuition Rates

Unit	Tuition Category		FY18 (Current Rate)	FY19	
				% Change	Tuition Rate
University-Wide	Undergraduate	Resident	\$9,909	2.2%	\$10,127
		Non-Res	\$34,473	3.0%	\$35,508
	Graduate Tier I	Resident	\$15,207	2.0%	\$15,510
		Non-Res	\$27,255	2.0%	\$27,801
	Graduate Tier II	Resident	\$15,594	2.0%	\$15,906
		Non-Res	\$27,837	2.0%	\$28,395
	Graduate Tier III	Resident	\$17,424	2.0%	\$17,772
		Non-Res	\$31,059	2.0%	\$31,680
Seattle Campus					
Built Environments, College of	Masters - Construction Mgmt., Landscape Architecture, Urban Design & Planning	Resident	\$15,954	3.0%	\$16,434
		Non-Res	\$28,413	3.0%	\$29,265
	Masters - March and MSRE (Real Estate)	Resident	\$16,875	3.0%	\$17,382
		Non-Res	\$35,535	3.0%	\$36,600
Dentistry, School of	Dental Professional (DDS) Year 1	Resident	\$47,190	0.0%	\$47,190
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 2	Resident	\$47,190	0.0%	\$47,190
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 3	Resident	\$47,184	0.0%	\$47,184
		Non-Res	\$72,762	0.0%	\$72,762
	Dental Professional (DDS) Year 4	Resident	\$43,617	0.0%	\$43,617
		Non-Res	\$72,762	0.0%	\$72,762
	Graduate Dental - Oral Biology	Resident	\$15,795	2.0%	\$16,110
		Non-Res	\$30,504	2.0%	\$31,113
	Graduate Dental - Oral Medicine, Pediatric Dentistry, Periodontics, and Prosthodontics	Resident	\$17,541	2.0%	\$17,892
		Non-Res	\$33,246	2.0%	\$33,912
Graduate Dental - Endodontics	Resident	\$19,293	2.0%	\$19,680	
	Non-Res	\$33,246	2.0%	\$33,912	
Graduate Dental - Orthodontics	Resident	\$24,570	2.0%	\$25,062	
	Non-Res	\$33,246	2.0%	\$33,912	
Education, College of	Master of Education and Master in Teaching	Resident	\$16,407	3.0%	\$16,899
		Non-Res	\$30,417	3.0%	\$31,329
	Doctor of Education and Education PhD	Resident	\$16,407	3.0%	\$16,899
		Non-Res	\$30,417	3.0%	\$31,329
Engineering, College of	Master of Chemical Engineering	Resident	\$21,558	2.0%	\$21,990
		Non-Res	\$33,990	2.0%	\$34,671
	Masters of Industrial and Systems Engineering	Resident	\$21,558	2.0%	\$21,990
		Non-Res	\$33,990	2.0%	\$34,671
	Master of Material Science and Engineering	Resident	\$21,558	2.0%	\$21,990
		Non-Res	\$33,990	2.0%	\$34,671
	Master of Applied Bioengineering ¹	Resident	\$30,600	3.0%	\$31,518
		Non-Res	\$36,720	3.0%	\$37,821

Environment, College of the	College of the Environment Graduate Programs	Resident	\$15,594	2.0%	\$15,906
		Non-Res	\$27,837	2.0%	\$28,395
	Masters in Earth Space Science: Applied Geosciences	Resident	\$17,436	4.0%	\$18,132
		Non-Res	\$31,122	4.0%	\$32,367
Evans School	Master of Public Administration (MPA) Incoming ²	Resident	\$21,429	10.0%	\$23,571
		Non-Res	\$38,466	5.0%	\$40,389
	Master of Public Administration (MPA) Continuing ²	Resident	\$21,429	5.0%	\$22,500
		Non-Res	\$38,466	5.0%	\$40,389
Foster School	Master of Business Administration (Incoming)	Resident	\$32,274	3.0%	\$33,243
		Non-Res	\$47,541	3.0%	\$48,966
	Master of Business Administration (Continuing)	Resident	\$31,335	3.0%	\$32,274
		Non-Res	\$46,155	3.0%	\$47,541
Graduate School	Graduate School Interdisciplinary Programs Tier I ³	Resident	\$15,207	2.0%	\$15,510
		Non-Res	\$27,255	2.0%	\$27,801
	Graduate School Interdisciplinary Programs Tier III ³	Resident	\$17,424	2.0%	\$17,772
		Non-Res	\$31,059	2.0%	\$31,680
Law, School of	Law (JD) 1L	Resident	\$33,246	5.0%	\$34,908
		Non-Res	\$43,914	5.0%	\$46,110
	Law (JD) 2L	Resident	\$31,662	4.0%	\$32,928
		Non-Res	\$43,053	4.0%	\$44,775
	Law (JD) 3L	Resident	\$30,891	4.0%	\$32,127
		Non-Res	\$42,192	4.0%	\$43,881
Master of Laws (LLM)	Resident	\$22,944	4.0%	\$23,862	
	Non-Res	\$38,439	4.0%	\$39,978	
Law PhD	Resident	\$20,118	4.0%	\$20,922	
	Non-Res	\$38,439	4.0%	\$39,978	
Medicine, School of	Medical Professional (MD)	Resident	\$34,680	3.0%	\$35,721
		Non-Res	\$64,386	2.0%	\$65,673
Nursing, School of	Nursing Master and Doctor of Nursing Practice	Resident	\$25,461	3.0%	\$26,226
		Non-Res	\$38,934	0.0%	\$38,934
Pharmacy, School of	Doctor of Pharmacy	Resident	\$29,232	4.0%	\$30,402
		Non-Res	\$49,215	4.0%	\$51,183
	PharmD/MBA dual program with UW Bothell	Resident	\$31,698	4.0%	\$32,967
		Non-Res	\$49,215	4.0%	\$51,183
Public Health, School of	Master of Public Health (MPH)	Resident	\$19,959	4.0%	\$20,757
		Non-Res	\$34,749	4.0%	\$36,138
	Public Health Graduate Programs (other than MPH)	Resident	\$17,760	0.0%	\$17,760
		Non-Res	\$30,756	0.0%	\$30,756
Public Health Graduate Programs PHD Program	Resident	\$17,760	0.0%	\$17,760	
	Non-Res	\$30,756	0.0%	\$30,756	
Social Work, School of	Master of Social Work	Resident	\$18,171	3.0%	\$18,717
		Non-Res	\$31,218	3.0%	\$32,154

Bothell Campus					
UW Bothell	Bothell - Nursing	Resident	\$15,594	3.0%	\$16,062
		Non-Res	\$27,837	3.0%	\$28,671
	Bothell - MBA Incoming	Resident	\$22,596	3.0%	\$23,274
		Non-Res	\$28,329	3.0%	\$29,178
	Bothell - MBA Continuing	Resident	\$22,371	0.0%	\$22,371
		Non-Res	\$28,329	0.0%	\$28,329
Tacoma Campus					
UW Tacoma	Tacoma - Nursing ⁴	Resident	\$15,594	2.0%	\$15,906
		Non-Res	\$27,837	2.0%	\$28,395
	Tacoma - MBA Incoming	Resident	\$18,699	0.0%	\$18,699
		Non-Res	\$31,122	0.0%	\$31,122
	Tacoma - MBA Continuing	Resident	\$20,325	-8.0%	\$18,699
		Non-Res	\$33,828	-8.0%	\$31,122
	Masters in Business Analytics ⁵	Resident	\$21,402	-26.3%	\$15,774
		Non-Res	\$26,844	-26.0%	\$19,866

- 1 Applied Bioengineering is a one-year program. The fee listed above is for 4 quarters including summer.
- 2 The Evans School is proposing a new tuition structure to split the MPA rate into incoming and continuing rates. This is not strictly a cohort model because continuing students may be subject to a tuition rate increase over the rate in their first year.
- 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 Tacoma Nursing currently matches the Tier II rate. Beginning in FY19, the program will be part of Tier II and will not be listed separately.
- 5 This reflects a change from a three-quarter to a four-quarter program, so total cost will stay approximately the same.

The University mitigates increases in tuition rates in a multitude of ways. Please see the section, "Ensuring Access and Completion," on page 38 for information regarding financial aid available at the UW.

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 26 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. Based on historical trends and current year-to-date actuals, a significant increase to the ICR budget is warranted, which will bring the total budget to \$267 million. Last year, the UW could have increased the ICR budget, but instead decided to maintain spending authority at a modest level, given uncertainty surrounding federal agency funding and given discussion with the Board and the University community. Despite the uncertainty, ICR exceeded projections and, while we monitor federal policy toward research funding, the UW has exhibited and is projected to continue to exhibit strong performance in this area.
- **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 nearly flat at \$26.1 million.

- **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 by \$468,000 in FY19.
- **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 FY19, a budget increase of \$2.04 million was approved. This is partially offset by upward pressure on expenditures resulting in an incremental net decrease to central balances of approximately \$1 million.
- **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 \$9.0 million in FY19.
- **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, FY19 revenues are estimated to hold flat 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 returned check fees, staff registration fees, etc. Fluctuations in miscellaneous fees account for a projected increase of \$159,000 in FY19.

ENSURING ACCESS AND COMPLETION: FINANCIAL AID

The UW is committed to providing educational access and opportunity, regardless of a student's ability to pay. By providing financial assistance programs, the UW promotes participation in higher education and bridges the gap between students' resources and the cost of attendance. The UW's commitment to financial aid helps students not only access the University, but also successfully complete a degree. Such resources include programs such as Husky Promise, which guarantees 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 officers.

Due to legislation and prior Regental actions, tuition revenue is used to provide student aid in three ways:

1. **State-Mandated Aid:** The state of Washington requires that the UW put an amount equal to 4 percent of total collected tuition revenue toward financial aid.
2. **Institutional Aid:** In an effort to ensure access, UW uses incremental tuition revenue to provide additional funds for need-based grants. In addition, UW policy allows that an amount equal to 4 percent of the total resident portion of tuition charged to all students be used for financial aid. Three-quarters of this aid is awarded on the basis of need and one-quarter on the basis of merit.
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 7, below, shows both the amount of operating fee revenue generated by students and the amount of financial aid funded by tuition revenue. As was the case last year, the recommendation reflected in Table 7 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 \$11 million in FY18) to compensate for the state's underfunded State Need Grant (SNG) program. The state's 2018 supplemental budget provided \$18.5 million in FY19 for the Washington Student Achievement Council to reduce the SNG waiting list by one-quarter, which will serve an additional 4,600 students statewide. While this SNG expansion will likely reduce the UW's offset to the unfunded portion of SNG, the magnitude of the effect is not yet known. Rough estimates indicate that as much as \$4 million could come to the UW, but due to this uncertainty, 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 and other vital areas, and subsequently adjust the program annually once SNG allocations are known. While the UW is very proud of the graduation and retention rates of students who receive aid, additional services could enhance student completion.

Please note also that a great deal of financial aid is provided by gifts and endowments, which is not shown here. Further, support for graduate students comes from grants and contracts (for research assistants) and from GOF (for teaching assistants). Table 7 shows only the projected portion of aid that is derived from tuition revenue.

Further, the table and figures on the next pages are representative of **all three UW campuses**.

Table 7: 2018-19 Net Operating Fee Revenue and Tuition-Based Aid

	Undergraduate			Graduate/Professional			Total
	Resident	Nonresident ¹	Total	Resident	Nonresident	Total	
Full-Time Equivalent (FTE)	27,710	9,309	37,019	6,062	6,187	12,249	49,268
Gross Operating Fee Revenue	274,700,000	312,106,000	586,806,000	105,570,000	166,347,000	271,917,000	858,723,000
State-Mandated Aid	10,333,000	12,246,000	22,579,000	3,537,000	3,439,000	6,976,000	29,555,000
UW Institutional Aid	32,673,000	18,663,000	51,336,000	4,107,000	3,678,000	7,785,000	59,121,000
Waivers - Foregone Revenue²	5,376,000	2,436,000	7,812,000	12,927,000	76,548,000	89,475,000	97,287,000
Provost Pool for Faculty Reinvestment³	1,590,000	910,000	2,500,000	1,000,000	1,000,000	2,000,000	4,500,000
Risk Pool⁴	3,371,000	4,168,000	7,539,000	1,260,000	1,225,000	2,485,000	10,024,000
Net Operating Fee Revenue	221,357,000	273,683,000	495,040,000	82,739,000	80,457,000	163,196,000	658,236,000
Total Aid from Group	49,972,000	33,345,000	83,317,000	20,571,000	83,665,000	104,236,000	187,553,000
Aid from Group as % of Gross Op	18%	11%	14%	19%	50%	38%	22%
Total Aid to Group	72,505,000	14,526,000	87,031,000	23,386,000	75,548,000	98,934,000	185,965,000
Aid to Group as % of Gross Op	26%	5%	15%	22%	45%	36%	22%

¹ Incremental revenue from past nonresident undergraduate tuition increases -has been used to fund aid for domestic nonresident undergraduates.

² More than 75 percent of waivers are provided to graduate teaching and research assistants as function of their appointment.

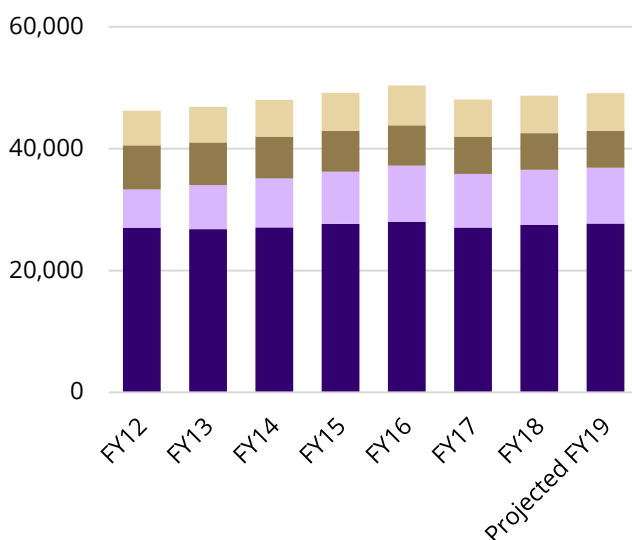
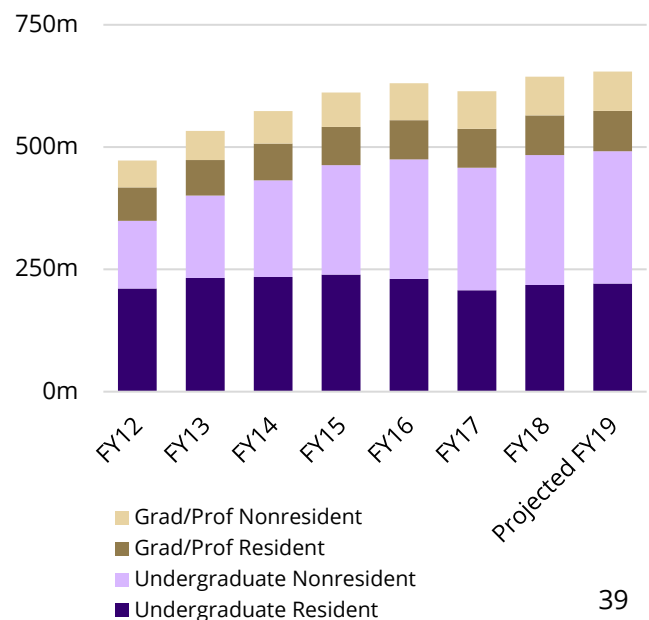
³ Please refer to the Compensation section on page 30 for more information.

⁴ To be conservative, a 1.5 percent risk pool has already been subtracted from projected operating fee revenue.

Nonresident undergraduates continue to contribute considerably more to financial aid than is awarded to them; they generate \$33.3 million in financial aid funds, but are awarded only \$14.5 million.

Figure 4, below, shows changes in **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 modestly increasing 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 shrunk.

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 32. This category, however, includes amounts appropriated from accounts **other than** Near-General Fund-State accounts.

The original 2017-19 state budget provided several restricted fund allocations for FY18 and FY19. These were modified slightly with the 2018 supplemental budget. Table 8, below, shows restricted fund allocations. The majority of “state restricted funds” is comprised 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 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.

The 2018 supplemental budget provided \$200,000 per year beginning in FY19 from the Geoduck Aquaculture Research account for the Washington Sea Grant to complete a three-year study identifying best management practices that optimize the value of shellfish farms for shellfish production and as habitats for other species. Additionally, appropriations from the Economic Development Strategic Reserve, Accident and Medical Aid accounts were adjusted to account for a slight change in state employee benefit rates. These changes are reflected below.

Table 8: FY18 and FY19 State Restricted Funds

State Account	FY18 Original	FY18 Revised	FY19
Biotoxin Acct (Shellfish Monitoring)	298,000	298,000	298,000
Aquatic Lands Enhancement Account	675,000	675,000	675,000
Geoduck Aquaculture Acct	-	-	200,000
Economic Devel. Strategic Reserve Acct (Aerospace Ctr)	1,513,000	1,513,000	1,521,000
Dedicated Marijuana Account	247,000	247,000	247,000
Accident Account (DEOHS)	3,628,000	3,623,000	3,802,000
Medical Aid Account (DEOHS)	3,446,000	3,441,000	3,591,000
Total	9,807,000	9,797,000	10,334,000

*Note that all of these, except Dedicated Marijuana Acct, are biennial appropriations, and therefore funds can be spent across the biennium.

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
- Graduate Medical Education
- Lab Medicine

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

Any school, college, campus or administrative unit may have several types of auxiliary budgets. Excluding UW Medicine, **there are approximately 2,900 auxiliary budgets owned and managed by over 500 departments across the University** (386 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 2,900 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 24 for more details. 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.

Auxiliary budgets are defined by two different categories: (1) Auxiliary Educational Activities, and (2) Auxiliary Enterprises and Internal Services:

- **Auxiliary Educational Activities** are typically referred to as departmental revenue budgets. Their major source of revenue is external (general public, students, etc.) and includes:
 - Activities relating to the educational mission of the UW
 - Activities providing an educational or academic service
 - Course fees
 - Extension credit fees
 - Visitor Fees
- **Auxiliary Enterprises and Internal Services** are non-academic in nature. Their major source of revenue is internal, often a recharge center or service center:

- Recharge Center budgets charge less than \$175,000 to federally sponsored programs and less than \$1 million in total charges.
- Service Center budgets charge more than \$175,000 to federally sponsored programs and more than \$1 million in total charges.
- Most of the large primary auxiliaries (Parking, Housing and Dining, and ICA) are in this category.

REVENUES AND EXPENSES

Projection Methodology

University administration continues to refine its revenue and expenditure projections by enhancing the granularity at which projections are made for auxiliary units. As in prior years, the FY19 budget tables, below, display beginning and ending fiscal year balances, along with projected revenue and expenses by campus.

Due to the timing of the fiscal year budget development, the most recent full fiscal year of data is FY17. In prior years, auxiliary activities were projected largely at a summary level by applying fixed assumptions to all units. As an additional benefit of this cycle's enhanced budget development process, supplementary data points were gathered from business units, which were then factored into the revenue and expense projections for the current and following fiscal year. As a result, unit-provided projections, seasonally adjusted forecasts, and full revenue and expense data from FY10 through partial FY18 were all utilized to project activity on a unit-by-unit basis for the remainder of FY18 and all of FY19.

In general, business units anticipate moderate revenue growth in FY19, with the aggregate average of 2.65 percent. Expense growth is projected to slightly outpace revenue growth, at 2.74 percent, predominately due to compensation adjustments and a net increase to benefit expenses. Although revenue projections may show growth overall, some units carry structural deficits when expenses are taken into account. The Office of Planning & Budgeting develops and analyzes fiscal health reports for auxiliary activities on a quarterly basis, and works with unit administrators to ascertain areas of concern. Units generating or projecting deficits in self-sustaining activities are required to take action to resolve actual or forecasted fund balance deficits as well as file formal deficit reduction plans.

Revenues and Expenses

Revenue in Tables 9 and 10, below, is net of all revenue for the fiscal year, which includes ILP debt service and any revenue transferred into or from the self-sustaining program(s). Please note that the projected FY18 revenue shown in Table 9 differs from the projected FY18 revenue from the FY18 adopted budget, which is reflected in Table 1. This is because the Table 9 projections were done with updated data. 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 9: FY18 Self-Sustaining Projected Revenue, Expenses, and Ending Balances*

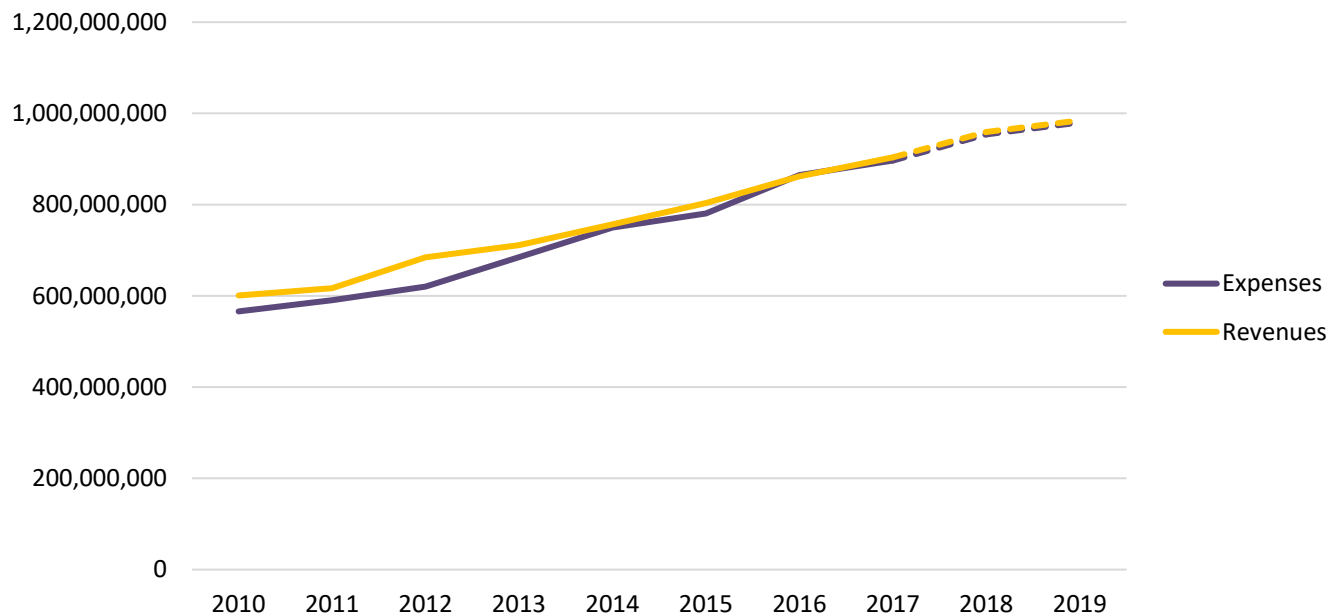
Unit Group	Beginning Balance	Total Projected Revenue	Total Projected Expenses	Projected Ending FY18 Balance
Seattle	368,034,000	932,984,000	929,427,000	371,591,000
UW Bothell	2,146,000	16,691,000	15,367,000	3,470,000
UW Tacoma	4,308,000	9,600,000	9,205,000	4,703,000
Total	374,488,000	959,275,000	953,999,000	379,764,000

Table 10: FY19 Self-Sustaining Projected Revenue, Expenses, and Ending Balances*

Unit Group	Beginning Balance	Total Projected Revenue	Total Projected Expenses	Projected Ending FY19 Balance
Seattle	371,591,000	957,280,000	954,681,000	374,190,000
UW Bothell	3,470,000	17,526,000	15,964,000	5,032,000
UW Tacoma	4,703,000	9,850,000	9,458,000	5,095,000
Total	379,764,000	984,656,000	980,103,000	384,317,000

*Figures may not tie due to rounding

To provide context for this data relative to historical activity, Figure 6 depicts consolidated revenues and expenses from FY10 through FY17, and projections for FY18 and FY19.

Figure 6: Auxiliary Revenue and Expense Trends (excluding UW Medicine)


Over the past several years, primary drivers of expansion include self-sustaining academic programs and growth in the size and complexity of School of Medicine's self-sustaining programs and recharge centers, namely graduate medical education and lab medicine. While the size of the UW's auxiliary activities have grown significantly in size and scope over time, tightening margins in many, if not all, business areas are of significant concern. Consistent with the larger UW trend, expenses are projected to grow proportionally faster than revenues in many areas and, in certain isolated cases, the use of fund balance is already required to meet the cost of annual operations. A concentration on ensuring that structurally sound business practices are in place will be a key focus of University's administration, schools, and colleges over the next year to ensure long-term viability of the University's auxiliary business enterprise.

UW MEDICINE

The FY19 budget for UW Medicine is close to being finalized and will be presented at the UW Medicine Finance and Audit Committee on June 8, 2018 for review and recommendation to the UW Medicine Board for approval on June 25, 2018. Each entity's respective board committee will have reviewed and approved their individual budgets as of May 31, 2018. The starting point for determining targeted margins is the UW Medicine Long Range Plan, or "Project FIT," which was presented to the Board of Regents in November 2017. FY18 is the first year of our FIT plan, which reflected a \$158 million improvement, including inflation, over our FY17 results. On an overall basis, FY18 performance is on budget, though several individual entities are below budget, and some are above budget. Our FY19 budget targets reflect improvement over 2018 of approximately \$140 million in the areas of revenue generation (e.g. clinical service growth and revenue cycle improvements) and cost savings (e.g. labor mix & productivity), as well as investment in infrastructure related to our clinical systems including our electronic health record, which we are calling "Clinical Transformation." This work is challenging but necessary to achieve financial stability. Concentrated efforts continue to increase revenues and reduce expenses across all eight UW Medicine entities, the results of which can be seen in improved year-over-year margins year-to-date at Northwest Hospital (NWH), UW Medical Center (UWMC), and Valley Medical Center (VMC).

Preliminary financial results through April 2018 are included for information in Table 11.

Table 11: FY18 financial results as of April 2018, by UW Medicine (in \$1,000s)

UW Medicine Entity ⁶	Month					YTD				
	Actual	Margin %	Budget	Variance To Budget	Prior Yr Actual	Actual	Margin %	Budget	Variance To Budget	Prior Yr Actual
HMC	(2,583)	-3%	(832)	(1,751)	(4)	(12,933)	-2%	4,562	(17,495)	4,074
UWMC	(4,754)	-5%	(305)	(4,449)	(5,707)	(16,309)	-2%	(4,752)	(11,557)	(38,788)
NWH	(718)	-2%	(1,222)	504	(3,460)	(14,661)	-5%	(9,867)	(4,794)	(23,501)
VMC	17,072	32%	739	16,333	(2,964)	35,356	7%	(836)	36,192	(5,460)
SUBTOTAL	9,017	3%	(1,620)	10,637	(12,135)	(8,547)	0%	(10,893)	2,346	(63,675)
UWNC	(269)	-3%	(192)	(77)	(559)	(1,188)	-1%	(1,677)	489	(5,235)
ALNW	(754)	-20%	(43)	(711)	(211)	(4,869)	-12%	996	(5,865)	2,116
UWP**	-	0%	-	-	-	-	0%	-	-	-
SoM	(4,734)	-4%	(3,564)	(1,170)	468	1,632	0%	(36,894)	38,526	14,769
TOTAL	3,260	1%	(5,419)	8,679	(12,437)	(12,972)	0%	(48,468)	35,496	(52,025)

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

Improved financial performance through execution of the FIT plan includes the following:

- *Enhancement of Revenues* – Improvements to revenue cycle operations to increase revenue realization, targeted growth of service lines and programs, and increased efficiency in care delivery models.

⁶ Each entity's name is spelled out in full in the Acronym Glossary on page 52.

- *Reduction of Costs* – Improvements in labor productivity and expense through effective management of scheduling, staffing efficiencies, standardization of product usage, review of programs, enhancements of contract pricing and utilization management through focused supply chain projects, and space optimization.
- *Investments in Infrastructure* – Strategic investment in certain locations (NWH Childbirth Center) and systems (Clinical Transformation, including a single electronic health record) to improve efficiency and fuel future growth.

The production of an annual 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 UW Medicine’s FY18 financial performance.

The environment in the health care industry nationwide is continuing to experience significant payment pressure, which is yielding reimbursement that is not keeping pace with expense increases. This environmental pressure necessitates improved efficiency in the way we do our work. This trend is particularly challenging as labor represents the most significant portion of UW Medicine expense and it is anticipated that salaries and benefits will rise in FY19. Concurrently, the cost of drugs and other supplies continues to increase. For example, the cost of pharmaceutical agents is projected to increase by 7 percent in the next fiscal year. UW Medicine continues to be focused on expense reductions and strategies for providing care more efficiently, while improving quality of care and patient experience.

Preliminary projected revenues (operating and non-operating) and total margins for FY18 and FY19 budgets are as follows in Table 12.

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

UW Medicine	FY18 UW Regents Adopted	FY18 Subsequently Adopted Revenues	FY19 Projected Revenues	FY19 Target Margin from FIT Plan	FY19 Updated Budget Margin	FY19 Target Total Margin
UW Medical Center	1,186,000,000	1,216,000,000	1,328,000,000	26,300,000	19,700,000	1.5%
Harborview Medical Center	1,006,000,000	1,017,000,000	1,035,000,000	10,400,000	7,200,000	0.7%
Valley Medical Center	632,000,000	632,000,000	673,000,000	-	6,600,000	1.0%
Northwest Hospital	376,000,000	376,000,000	396,000,000	2,000,000	(3,200,000)	-0.8%
UW Physicians*	302,000,000	294,000,000	324,000,000	-	-	0.0%
Airlift NW	59,000,000	59,000,000	59,000,000	2,100,000	2,300,000	3.8%
UW Neighborhood Clinics	52,000,000	55,000,000	59,000,000	-	-	0.0%
UW Medicine (excluding School of Medicine)**	3,613,000,000	3,649,000,000	3,874,000,000	40,800,000	32,600,000	0.8%

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

** UW School of Medicine projections are included within the Auxiliary/Self-Sustaining and Core Operating Budget areas of the University budget, so are excluded here. The UW School of Medicine projected budget for FY19 includes revenues of \$1.5 billion. Thus, the total projected revenues for UW Medicine for FY19 are \$5.4 billion.

POWER OF PHILANTHROPY: ANNUAL GIFTS & ENDOWMENT FUNDS

The UW is fortunate to benefit from an incredible legacy of private support. In October 2016, 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. Table 13 shows changes between the FY18 adopted budget, revised projections for FY18, and the FY19 budget. The revised FY18 column reflects updated revenue estimates based on more current data. Increases are partially due to the original estimates from FY18 being more conservative.

Table 13: FY19 Annual Gift & Endowment Distributions

	FY18 Projected	FY18 Revised	FY19 Projected	Percent Change (Revised FY18 to FY19)
Gift Income	200,583,000	265,868,722	291,498,000	9.6%
Endowment Distributions	115,000,000	115,000,000	128,000,000	11.3%
Total	315,583,000	380,868,722	419,498,000	10.1%

GIFT INCOME

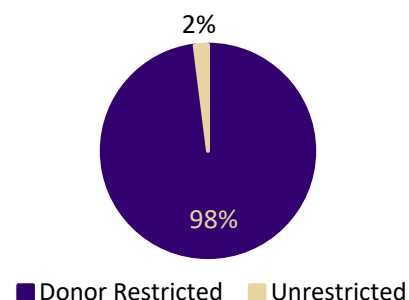
The \$291.5 million gift income estimate, shown in Table 13, reflects both the overall trajectory of UW's fund raising growth through the Be Boundless Campaign, and the results of efforts focused on securing gifts for key academic facilities, including the Population Health Building, the Gates Center for Computer Science & Engineering, the Foster School's Founders' Hall, and the Parrington Hall renewal project. Given the variability of capital project funding, this estimate should not be viewed as a new baseline. Rather, Advancement will endeavor each year to project a data-driven estimate taking into account recurring production, pledge flows, and extraordinary activity such as capital projects.

In FY19, the administration will implement a gift assessment on current-use gifts between \$1,001 and \$5 million. The assessment will be 5 percent and, although exclusions apply, the assessment will be directed to a central budget, to be deployed by the Provost and President to advance the mission of the University.

ENDOWMENT DISTRIBUTIONS

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. As Figure 7 shows, **of the UW's total endowment, 98 percent is restricted to donor-directed purposes**, leaving only 2 percent for the UW to use at its discretion for items such as general University operations and University-wide compensation increases.

Figure 7: Composition of UW Endowment

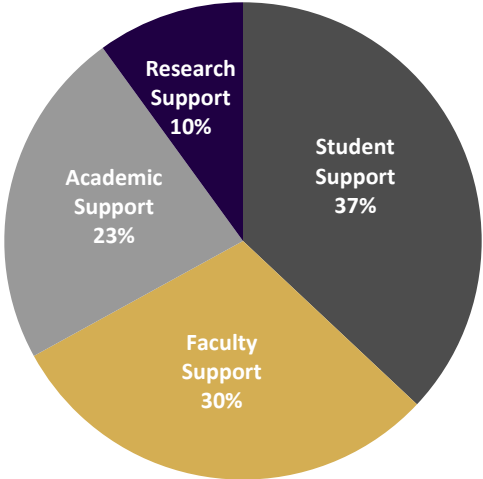


As seen in Figure 8, below, the UW's endowment serves core academic programs, with more than two-thirds directly supporting students and faculty.

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

Annually, donors 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. 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.

Figure 8: Endowment Support by Purpose*



*Excludes operating funds and non-University endowments

STRENGTH OF IDEAS: RESEARCH ENTERPRISE

The UW's record securing research funding is truly exceptional – it is one of the few universities in the United States with total research expenditures exceeding \$1 billion. In 2016 (the most recent national data available), the UW had more externally-sponsored research and development (R&D) funding than any other university in the nation, with the exception of Johns Hopkins University. The UW's success in securing research grants and contracts 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, and in 2018 U.S. News ranked UW 10th among world universities in the “Best Global University Rankings.”

Another measure of research competitiveness can be demonstrated through UW's share of externally-sponsored R&D expenditures, compared to other higher education institutions. As Table 14 shows, the UW has increased its share of total federal and non-federal research expenditures over the last five years, despite increasing competition for limited funds.

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

	2012	2013	2014	2015	2016
Total expenditures	52,095,940,000	52,029,298,000	51,411,893,000	51,956,071,000	53,858,346,000
Total UW	1,039,814,000	1,120,658,000	1,111,147,000	1,121,373,000	1,182,611,000
Market share	2.00%	2.15%	2.16%	2.16%	2.20%

Source: National Science Foundation Higher Education Research & Development Survey (HERD), 2016.

Total research awards reached \$1.6 billion in FY17, a 19 percent increase from FY16. While federal awards increased 4 percent in FY17, the majority of UW's overall increase came from a \$280 million 10-year award from the Bill & Melinda Gates Foundation. We expect FY18 award levels to return to FY16 levels (between \$1.3 billion and \$1.4 billion).

Examples of additional **major awards** in FY17 include:

- \$8 million to support computational immunogen and vaccine design, together with the establishment of a Good Laboratory Practice protein production capability at the UW's Institute for Protein Design (UW-IPD) to support manufacturing of candidate vaccine products for pre-clinical research and technology transfer.
- \$3 million for the National Science Foundation's (NSF's) National Research Traineeship (NRT) program to develop a graduate training program at the interface of clean energy and data science. The program supports new research directions in data-intensive discovery of new energy materials.
- \$2.65 million from National Institutes of Health's (NIH's) High-Risk, High-Reward research program to build artificial heart tissue that can be remotely controlled after transplantation in a patient.
- \$2.6 million from the Department of Defense to test a telehealth intervention to increase treatment engagement and reduce symptoms among active duty soldiers with symptoms of post-traumatic stress at Joint Base Lewis-McChord.

The University of Washington's success in securing research funding has had a deep impact on the economy and education in the state of Washington and the Pacific Northwest. In FY17, UW launched 15 start-up

companies based on UW research advances, bringing the 13-year total to 151 technology start-ups. UW technologies generated over \$17 million in licensing revenue. More than 8,400 students worked under the guidance of UW faculty mentors devoted to research. Sponsored projects supported over 14,000 employees during FY17, including approximately 2,400 graduate students and roughly 1,200 postdocs. There were over 5,700 FTE employees paid on sponsored research funding in FY17.

FEDERAL OUTLOOK

While the UW continues efforts to diversify its research portfolio, federal funding still represents 78 percent of sponsored research expenditures. Despite the President's FY18 and FY19 proposals to significantly decrease the R&D budget of almost every federal agency, the overall federal R&D budget will increase in the 2018 federal fiscal year. However, the politicized nature of the federal government decision making will continue to fuel uncertainty in FY19.

The UW administration will continue to monitor the situation and develop plans to quickly respond to any changes in federal funding. For example, the President's Budget proposal for FY19 proposes significant cuts to research budgets related to the Environmental Protection Agency (EPA), climate change, and other specific research areas. If successful, between \$15 million to \$20 million of UW research funding may be at risk. However, it is worth noting, Congress rejected similar proposals for FY18. The UW administration believes FY19 NIH funding will not be cut significantly, and we are monitoring developments closely, as NIH funding represents half of our total research funding.

For FY18, the President proposed to significantly restrict the allowable Facilities and Administrative (F&A) costs (i.e. research operating costs) for NIH-funded research. The President did so with the belief that restricting F&A reimbursements would allow more research to be funded with less NIH money overall. A national effort ensued, in which the UW took an active part, to educate legislators and their staff about the true costs of doing research and to provide examples to illustrate why cutting F&A costs would in fact decrease the amount of research carried out in the U.S. This effort resulted in a bipartisan commitment to maintain F&A costs at their current rate in the FY18 budget. Although it is unlikely that this issue will be revisited in near term, the University will continue to work closely with our national partners and our congressional delegation to monitor and address this crucial issue.

ESTIMATED SPONSORED PROJECTS EXPENSES

Table 15, below, shows a breakdown of projected sponsored research expenses in FY18 (original and revised projections) and FY19. Last year we projected a reduction of research expenditures for FY18 based on the Trump administration's proposals to significantly reduce the federal R&D budget. However, we are revising those projections based on current expenditure trends and the recently passed FY18 federal budget, which provides an overall increase to the federal R&D budget. It is too soon to know how that budget will change the UW's FY19 research expenditures, but it is likely that we will see at least small increases in research funding. Additionally, please note that these numbers represent not only all R&D and non-R&D sponsored projects at the UW, but also certain Washington state financial aid that is included in research totals for accounting purposes. Lastly, please note that direct and indirect expenditures do not necessarily align when comparing them to research awards. This is mainly due to two reasons: 1) some

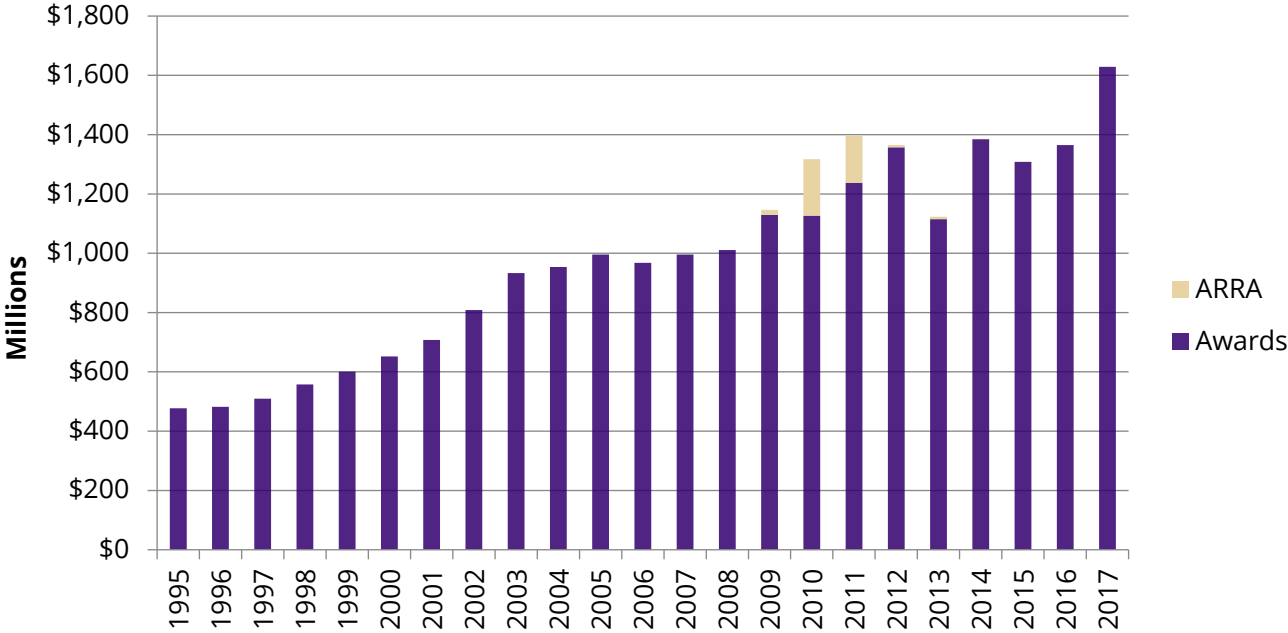
research awards are multi-year awards received in a single year and 2) awards are received throughout the state fiscal year and are not spent on the state fiscal year time frame.

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

	FY18 Projected	FY18 Revised	FY19 Projected	Percent Change (Revised FY18 to FY19)
Federal	748,076,000	806,252,000	811,355,000	0.6%
State & local grants	93,250,000	94,438,000	94,461,000	0.0%
Non-federal	213,976,000	232,202,000	236,846,000	2.0%
Indirect Research Expenses	247,000,000	261,537,000	267,224,000	2.2%
Total	1,302,302,000	1,394,429,000	1,409,886,000	1.1%

Figure 9, below, provides a historical look at the UW's total grant and contract awards by year, with a breakout for American Recovery and Reinvestment Act (ARRA) grants.

Figure 9: Total Grant and Contract Awards by Year (1995-2017)



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, the Office of Planning & Budgeting will begin implementing the FY19 Budget by making allocations to units, adjusting budget authority as needed, and implementing the salary increase process.

In the late summer or early fall, the University will have an opportunity to submit a new slate of requests to the state as part of the state's 2019-2021 budget submission process. A proposed list of requests accompanies this item for information purposes.

Preparation for the University's FY20 operating budget will begin with the development and dissemination of annual review materials to units in the fall. Those materials will be in preparation for budget meetings with the Provost, which will occur early in spring quarter.

As we continue planning for FY20, 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

AAU	Association of American Universities
ABB	Activity Based Budgeting
ALNW	Airlift Northwest
ARRA	American Recovery and Reinvestment Act
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
ICA	Intercollegiate Athletics
ICR	Indirect Cost Recovery from Research
ILP	Internal Lending Program
IPEDS	Integrated Postsecondary Education Data System
NIH	National Institutes of Health
NWCCU	Northwest Commission on Colleges and Universities
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
TS	Transportation Services
UW	University of Washington
UWC ²	University of Washington Continuum College (formerly Educational Outreach)
UWINCO	University of Washington Investment Management Company
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