



THE FINANCIAL CONDITION OF THE UNIVERSITY OF WASHINGTON: THE EFFECT OF THE DECLINE IN THE STATE APPROPRIATION

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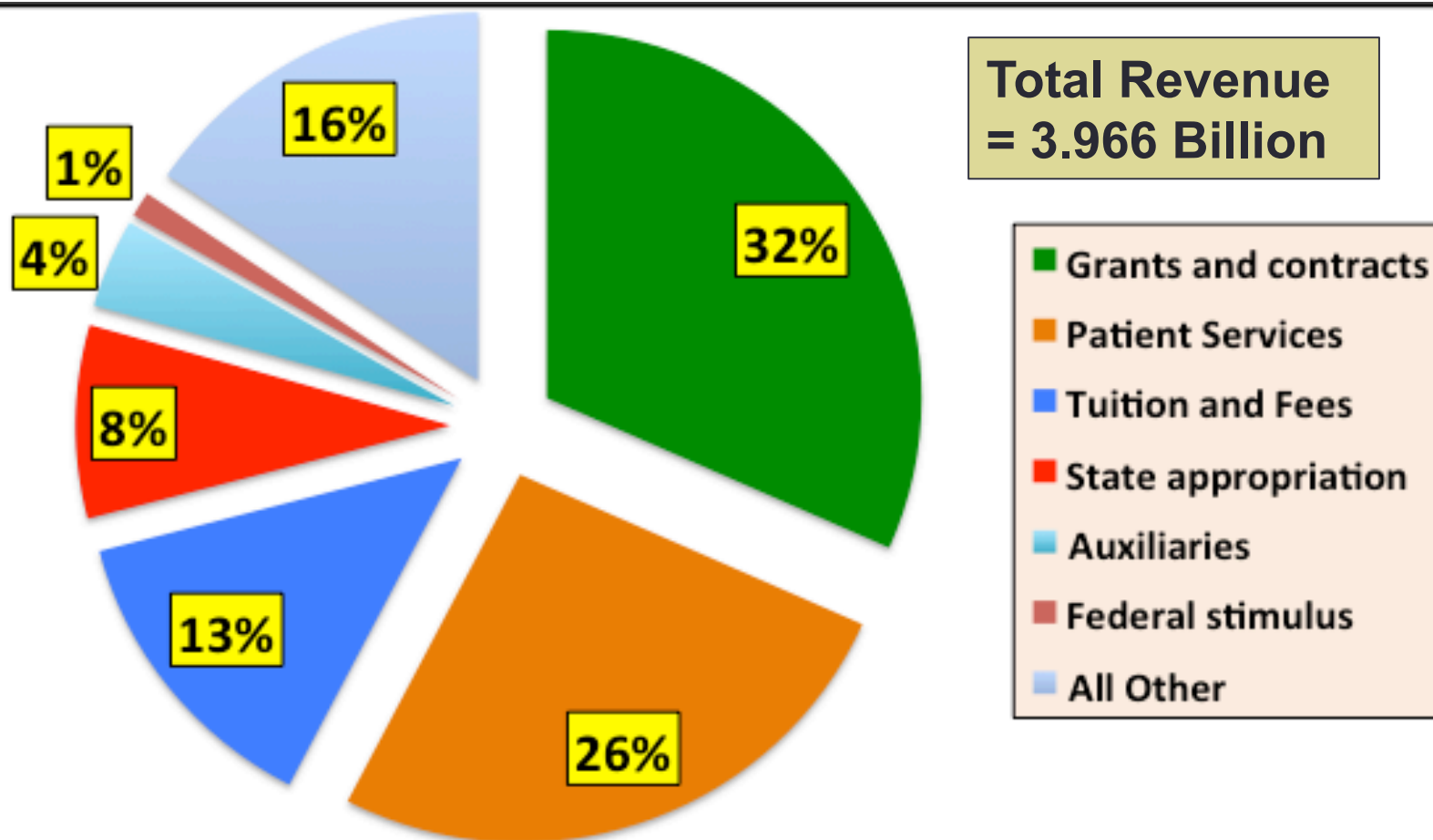
April, 2011

Roadmap

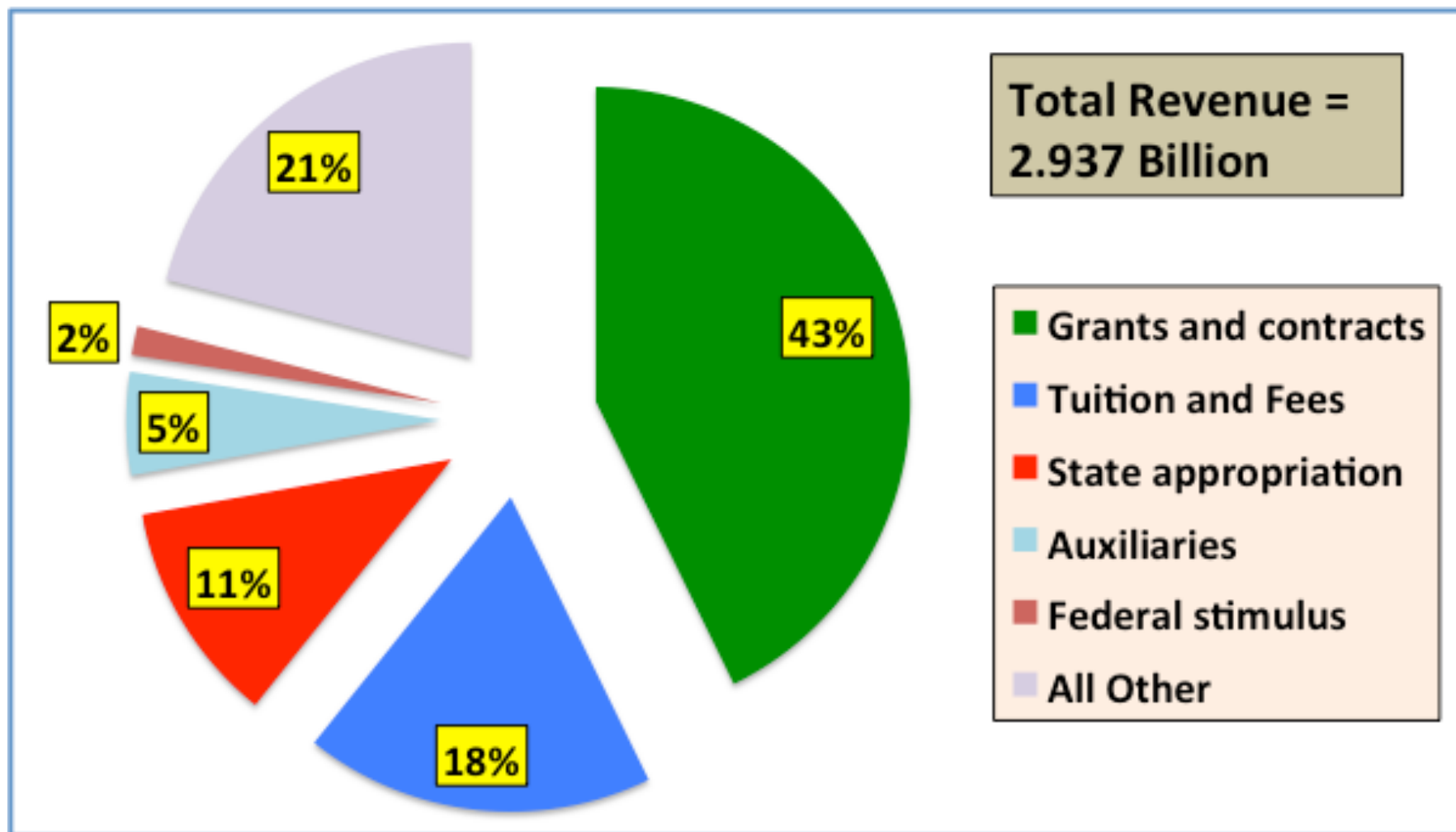
- State of Washington Higher Education Appropriation
 - Governor, House, and Senate proposed budgets
 - Overall financial situation of the State
- State tax and economic metrics
- Overall financial situation of the University of Washington
 - Main financial statements and a discussion of whether reserves are available
 - Ratio analysis and cash flows
 - Bond ratings
- Are cuts really necessary?
- Analysis of individual revenues (with and without the medical school) and expenses
- Enrollment and number of faculty
- Faculty salaries in context
- Athletics
- Conclusions and aspirations

2010 UW Revenue Distribution

Source: 2010 UW Audited Financial Statements

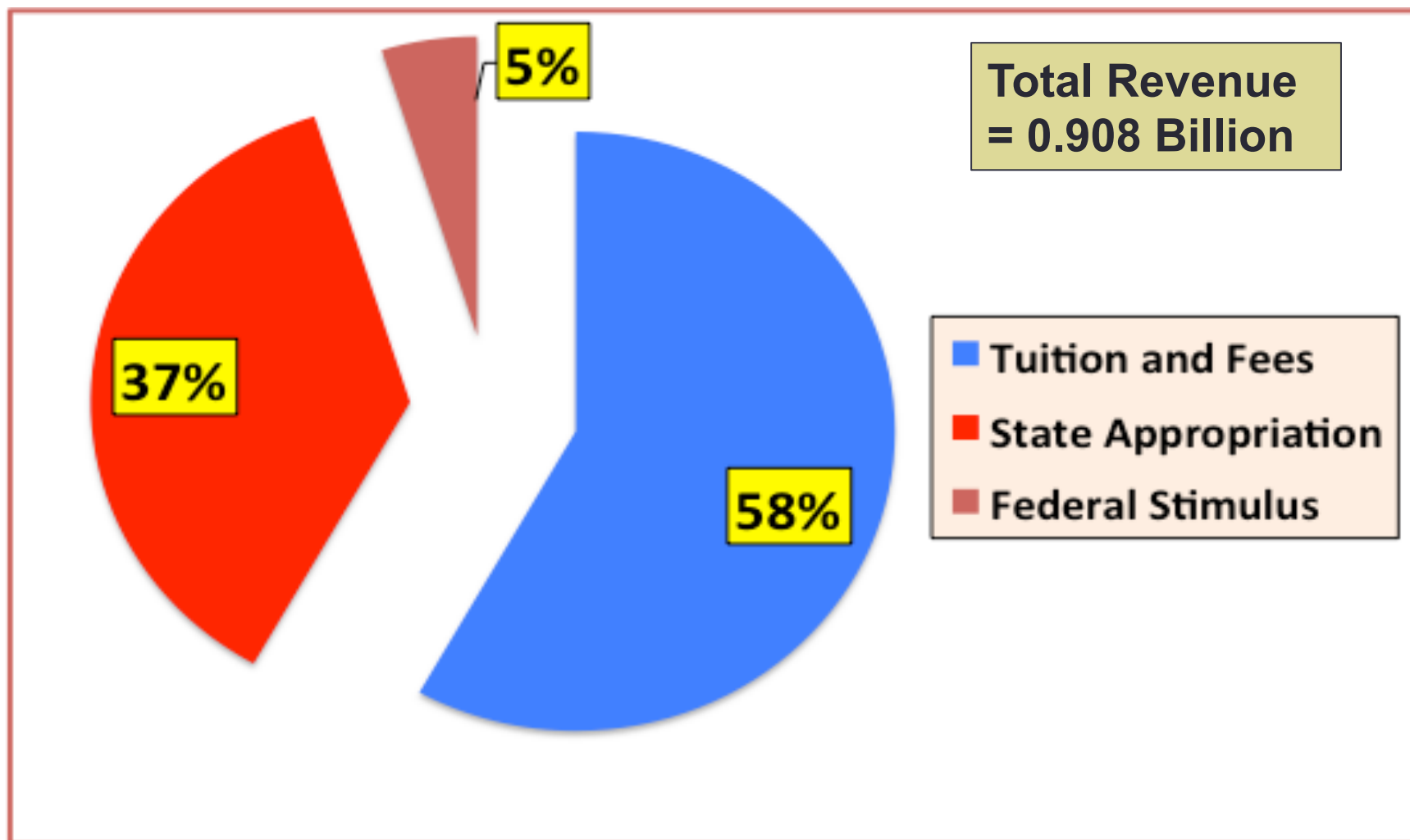


2010 UW Revenue Distribution: Take Out the Medical School



2010 UW Revenue Distribution

Take Out The Med School, Grants, Auxiliaries, and All Other



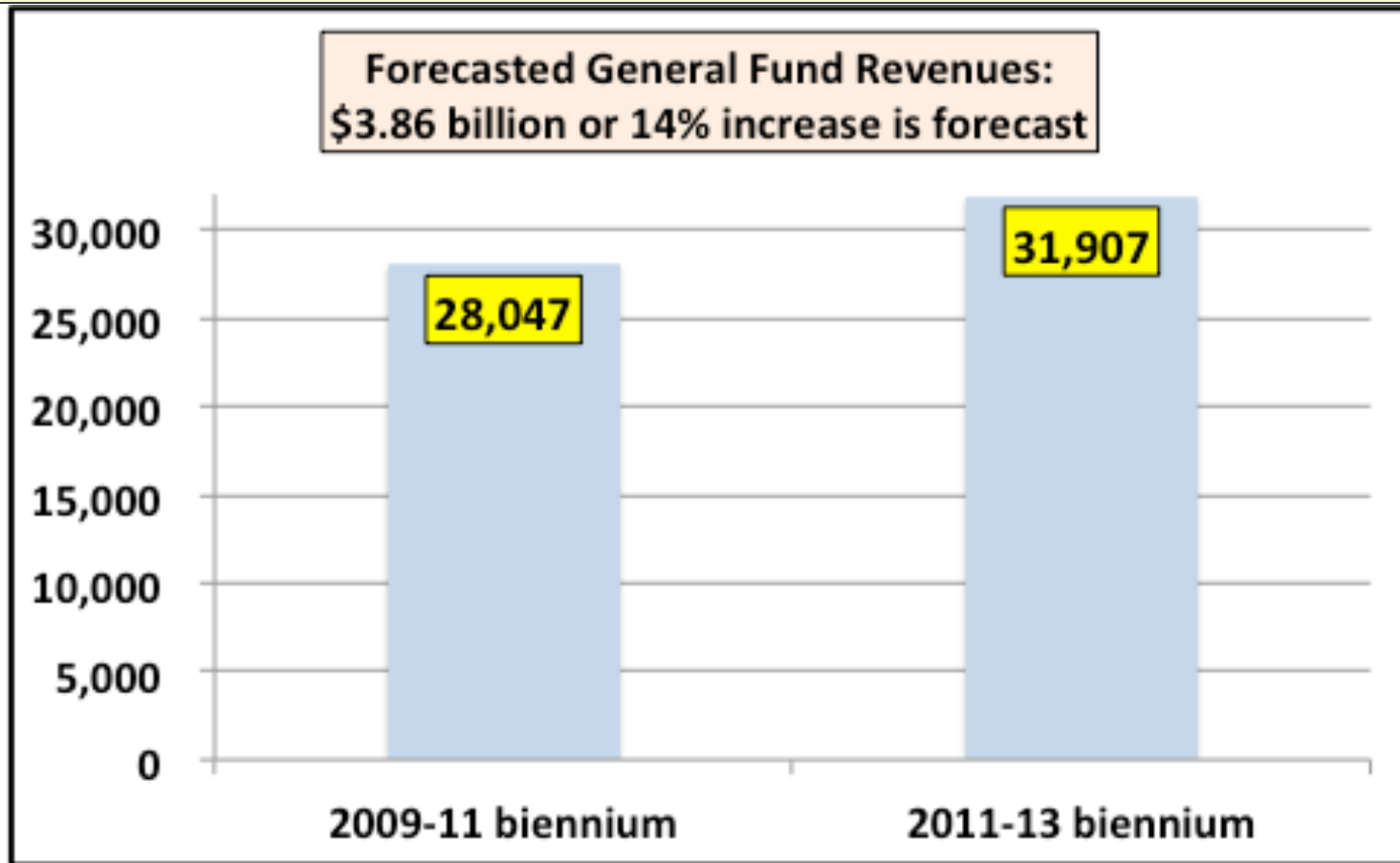
State of Washington Budget Situation

- CAVEAT: UW is NOT the State!
- The General Fund (core operations) revenues are forecasted for the rest of the 2009-11 biennium, as well as the 2011-13 biennium.
- The forecast is created by the Economic and Revenue Forecast Council (ERFC), led by Executive Director and Chief Economist Arun Ruha
- There is an estimated shortfall for:
 - Remainder of the 2009-11 biennium
 - The entire 2011-13 biennium
- Higher education is a small but not insignificant component of the General Fund of the State

Overall State Forecast

- There is a \$5.1 to \$5.3 billion dollar hole to fill in approximately a \$30 billion General Fund biennium budget.
- Result: Since November of 2010, total General Fund revenues (mostly sales and business taxes, as there is no income tax in Washington State) for the 2009-11 biennium will generate \$80 million less than forecast is November of 2010
- The revenues for the 2011-13 biennium will be \$698 million less than what was expected in November of 2010.
- The troubles in Japan and the Middle East were prominently mentioned, which are allegedly slowing the recovery.

Total General Fund Revenues, Biennium Basis (Amounts in millions)



Source: Economic and Review Forecast Council, March 2011

Total General Fund Revenues, Year-by-Year (Amounts in millions)



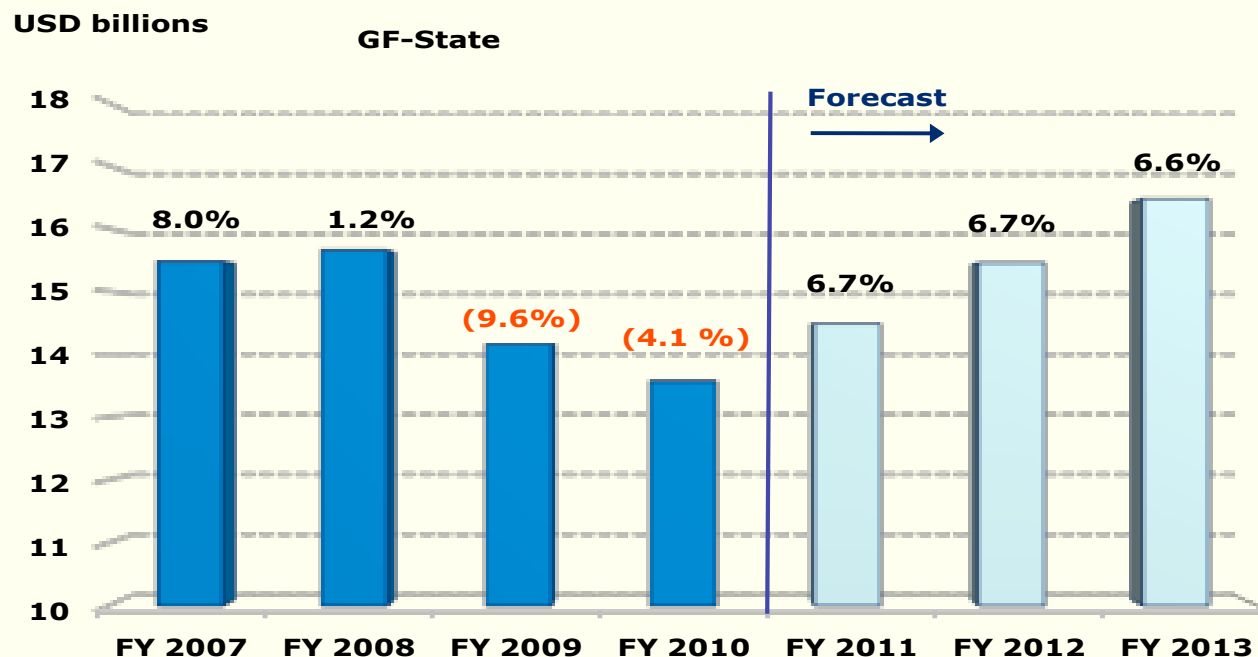
General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

Arun Raha
Revenue Review
17 March 2011

Slide 7



Source: ERFC forecast, March 2011

Negative Factors Affecting State of Washington Revenue

- Taxes are only collected on 50% of online sales, resulting in revenue losses for the State
- Gas prices have spiked in recent weeks
- Consumer confidence is softening
- Home prices are again headed down
- Employment growth in this recession is slower than for prior recessions
- Residential construction in Washington is at a 30-year low
- Foreclosures in Washington are increasing, but the rate is below the national average

Source: Economic and Review Forecast Council, March 2011

Positive Factors Affecting State of Washington Revenues

- Online sales, which account for 20% of retail sales, and they are forecast to grow faster than retail sales
- GDP growth forecast to be approximately 3% in 2011 to 2013.
- Core inflation remains stable
- U.S auto sales were highest since cash for clunkers
- Multi-family building permits in Washington are recovering
- Migration into Washington is increasing
- Rental vacancy rates are declining
- Boeing orders recovered in 2010
- Software publishing employment is expected to grow 5% per year
- Washington export growth is strong and will help the recovery
- Washington personal income will recover faster than the U.S.

Source: Economic and Review Forecast Council, March 2011

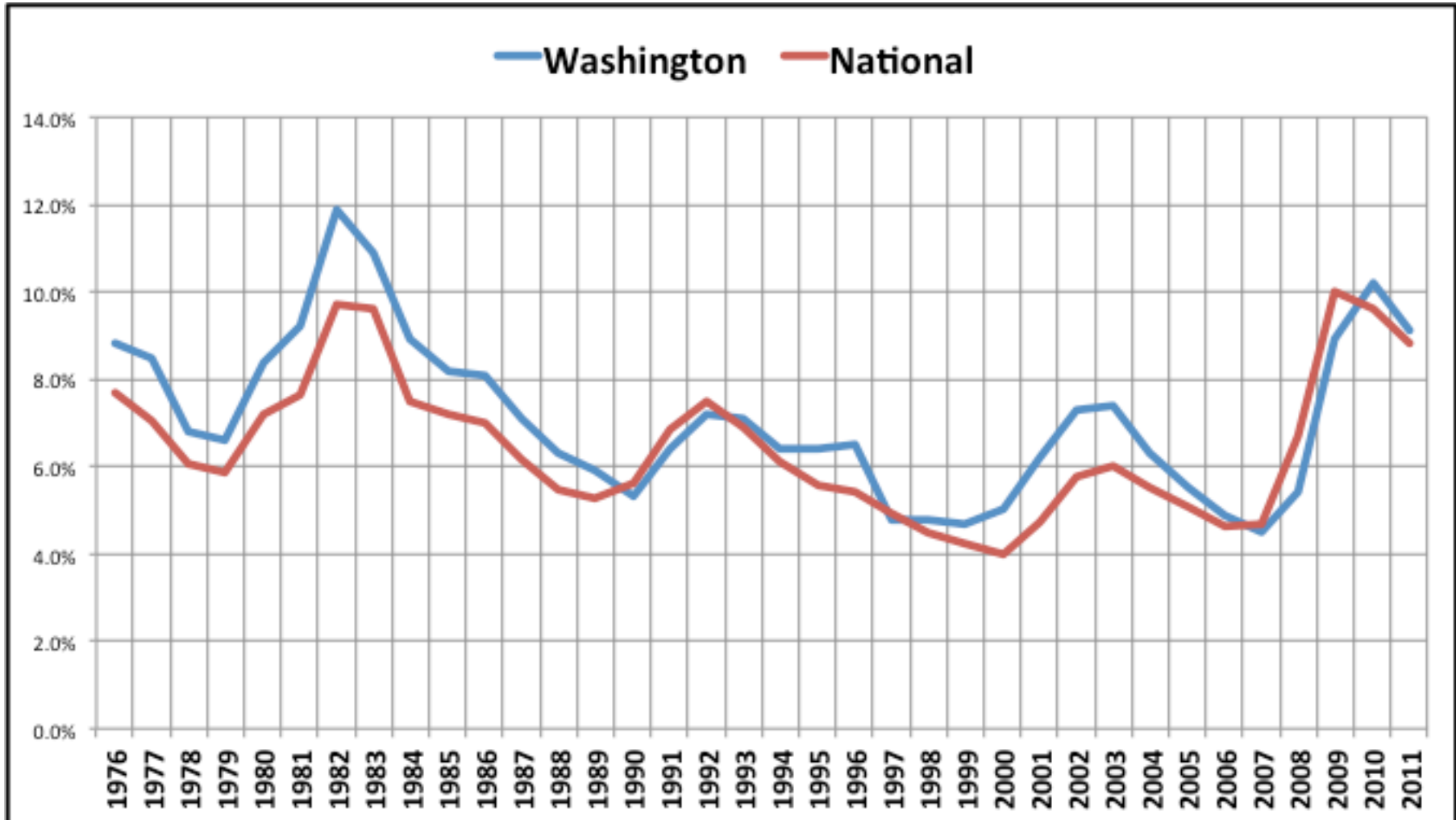
Selected State Unemployment Rates

Source: <http://www.bls.gov/web/laus/lauhsthl.htm>

| Source: BLS (Rates Since 1976) | | Historical High | | Historical Low | |
|--------------------------------|--------------------|-----------------|-------|----------------|------|
| State | February 2011 Rate | Date | Rate | Date | Rate |
| Nevada (high) | 13.6% | Dec-10 | 14.9% | Apr-00 | 3.8% |
| California (2nd highest) | 12.2% | Dec-10 | 12.5% | Jan-01 | 4.7% |
| Florida (3rd highest) | 11.5% | Dec-10 | 12.0% | Aug-06 | 3.3% |
| Michigan (5th highest) | 10.4% | Dec-82 | 16.8% | Mar-00 | 3.3% |
| Oregon (7th highest) | 10.2% | Jan-83 | 12.1% | Feb-95 | 4.7% |
| Idaho | 9.7% | Feb-11 | 9.7% | May-07 | 2.7% |
| Washington | 9.1% | Nov-82 | 12.2% | May-07 | 4.5% |
| US Average | 8.8% | Jan-00 | 10.8% | Apr-00 | 3.8% |
| Texas | 8.2% | Nov-86 | 9.3% | Jan-01 | 4.2% |
| New York | 8.2% | Nov-76 | 10.3% | Apr-88 | 4.0% |
| Montana | 7.4% | Mar-83 | 8.8% | 3/2007 | 3.1% |
| Wyoming | 6.2% | Jan-87 | 9.1% | Apr-79 | 2.3% |
| North Dakota (low) | 3.7% | Feb-83 | 6.8% | Jul-01 | 2.6% |

Washington State and National Unemployment Rates: 1976 to 2011

Source: Bureau of Labor Statistics



Underemployment Rate

- BLS (Bureau of Labor Statistics) calls this U-6
<http://www.bls.gov/lau/stalt10q4.htm>
 - Total unemployed, plus
 - Discouraged workers, plus
 - Employed part time for economic reasons
- US for all of 2010 (the last time this was computed by BLS was 1/28/2011)
 - Official unemployment rate: 9.6%
 - Underemployment rate: 16.7%
- Washington State
 - Official unemployment rate 10.2%
 - Underemployment rate 18.4%

State Budget Gaps

Source: Center on Budget and Policy Priorities: March 2011

| STATE | FY12 Projected Shortfall | Shortfall as % of FY11 Budget | | STATE | FY12 Projected Shortfall | Shortfall as % of FY11 Budget |
|-----------------------|--------------------------|-------------------------------|--|---------------|--------------------------|-------------------------------|
| Nevada | \$1.5 billion | 45.20% | | Arizona | \$974 million | 11.50% |
| New Jersey | \$10.5 billion | 37.40% | | Rhode Island | \$331 million | 11.30% |
| Texas | \$13.4 billion | 31.50% | | Ohio | \$3.0 billion | 11.00% |
| California | \$25.4 billion | 29.30% | | South Dakota | \$127 million | 10.90% |
| Oregon | \$1.8 billion | 25.00% | | Maryland | \$1.4 billion | 10.70% |
| Minnesota | \$3.8 billion | 23.60% | | Oklahoma | \$500 million | 9.40% |
| Louisiana | \$1.6 billion | 20.70% | | Nebraska | \$314 million | 9.20% |
| New York | \$10.0 billion | 18.70% | | Kentucky | \$780 million | 9.10% |
| Connecticut | \$3.2 billion | 18.00% | | Missouri | \$704 million | 9.10% |
| South Carolina | \$877 million | 17.40% | | Kansas | \$492 million | 8.80% |
| Pennsylvania | \$4.2 billion | 16.40% | | New Mexico | \$450 million | 8.30% |
| Vermont | \$176 million | 16.30% | | Hawaii | \$410 million | 8.20% |
| Washington | \$2.5 billion | 16.20% | | Utah | \$390 million | 8.20% |
| Maine | \$436 million | 16.10% | | Georgia | \$1.3 billion | 7.90% |
| Florida | \$3.6 billion | 14.90% | | Delaware | \$208 million | 6.30% |
| Illinois | \$4.9 billion | 14.60% | | Michigan | \$1.3 billion | 5.90% |
| Mississippi | \$634 million | 14.10% | | Massachusetts | \$1.8 billion | 5.70% |
| Alabama | \$979 million | 13.90% | | Idaho | \$92 million | 3.90% |
| Colorado | \$988 million | 13.80% | | Iowa | \$186 million | 3.50% |
| Virginia | \$2.0 billion | 13.10% | | Indiana | \$270 million | 2.00% |
| Wisconsin | \$1.8 billion | 12.80% | | States Total | \$111.9 billion | 17.60% |
| North Carolina | \$2.4 billion | 12.70% | | | | |

Washington is NOT a High Tax State

Source: Tax Foundation, March 2011

| State | Overall Index Rank | Corporation Tax | Ind. Income Tax | Sales Tax | Unemp. Ins Tax | Prop Tax |
|--|--------------------|-----------------|-----------------|-----------|----------------|----------|
| Nevada | 4 | 3 | 6 | 43 | 40 | 17 |
| Washington | 11 | 32 | 1 | 50 | 25 | 19 |
| Oregon | 14 | 46 | 46 | 4 | 37 | 5 |
| Idaho | 18 | 17 | 29 | 12 | 48 | 2 |
| California | 49 | 33 | 48 | 49 | 14 | 16 |
| | | | | | | |
| High (South Dakota) | 1 | 1 | 1 | 25 | 36 | 13 |
| Low (New York) | 50 | 20 | 50 | 34 | 46 | 42 |
| | | | | | | |
| Washington Rates: | | | | | | |
| Income is 0% | | | | | | |
| There is no corporate income tax but a gross receipts tax | | | | | | |
| State sales tax rate is 6.5%; average local rate is 2.14% | | | | | | |
| State and local tax burden per capita in Washington is 11th highest at \$4,408 | | | | | | |
| State and local tax burden as % of personal income is 29th highest at 9.3% | | | | | | |

College Attainment Rates

| State | Bachelor's Degree or More | Rank |
|----------------------|---------------------------|------|
| Massachusetts (high) | 38.1% | 1 |
| New York | 31.9% | 9 |
| Washington | 30.7% | 11 |
| California | 29.6% | 14 |
| Oregon | 28.1% | 18 |
| US Average | 27.7% | |
| Montana | 27.1% | 23 |
| Florida | 25.8% | 27 |
| Texas | 25.3% | 30 |
| Michigan | 24.7% | 35 |
| Idaho | 24.0% | 38 |
| Wyoming | 23.6% | 40 |
| Nevada | 21.9% | 45 |
| West Virginia (low) | 17.1% | 50 |

Source: U.S. Census Bureau 2008

Higher Education Appropriation Per FTE

- Washington: \$5,831 per full time equivalent student
- Washington Rank 32nd highest

- Highest: Wyoming at \$13,090
- National Average: \$6,454
- Lowest: Vermont at \$2,754

- Conclusion is that LEVEL is low
- Conclusion of next slide is that CHANGES in the appropriation have been disappointing as well

- Source: **State Higher Education Executive Officers (SHEEO) State Higher Education Finance FY 2010 March 8, 2011**

Higher Education Appropriation by State

Source: Grapevine: http://www.grapevine.ilstu.edu/fifty_state_summary.ht

| STATES | % Change in State Fiscal Support Calculated as the Sum of State Tax Appropriations and Other State Monies | | |
|------------------|---|----------------------------|----------------------------|
| | 1-Year % Change, FY10-FY11 | 2-Year % Change, FY09-FY11 | 5-Year % Change, FY06-FY11 |
| Wyoming | 11.5% | 4.9% | 36.7% |
| Texas | 0.6% | 6.0% | 13.6% |
| California | 8.4% | 12.8% | 13.3% |
| New York | -4.4% | -9.3% | 9.2% |
| National Average | 1.8% | -2.8% | 8.3% |
| Massachusetts | 12.4% | -5.4% | 2.0% |
| Washington | -1.9% (34th) | -14.8% (41st) | 0.4% (34th) |
| Florida | 2.0% | -9.0% | -2.7% |
| Idaho | -2.5% | -17.6% | -5.4% |
| Oregon | -12.6% | -16.0% | -7.1% |
| Michigan | 1.8% | -8.8% | -7.1% |

Political Landscape in Washington

- Democratic Governor
- State House: 98 Seats
 - 56 Democrats
 - 42 Republicans
- State Senate: 49 seats
 - 27 Democrats
 - 22 Republicans

State of Washington Budget Process

- \$5.1 to 5.3 billion “hole” for 2011-13 biennium, per the News Tribune, March 18, 2011:
<http://blog.thenewstribune.com/politics/2011/03/18/morning-update-day-68/>
- The Governor proposed a budget on December 15, 2010
- The House proposed a budget in April, 2011
- The Senate proposed a budget in April, 2011
- All three parties will now negotiate and hope to have a final budget by April 24, 2011

Governor's Proposed Budget

- Proposed reduction in class size and teacher cost of living increases are eliminated, saving 1.2 billion
- \$630 million cut in higher education, combined with a 9-11% tuition increase that is allowed
- College work-study program eliminated, \$21 million
- Health coverage for low income adults cut \$230 million
- Medical coverage for those who cannot work is cut, saving \$148 million
- Apple health for kids eliminated, \$59 million
- State funding for parks eliminated, \$67 million
- Food assistance for legal immigrants, \$61million; other support for immigrants cut \$16 million
- Personal care hours for seniors and those with disabilities, \$97 million
- Many other cuts
- “In any other time I would not sign this budget. It’s difficult to support something that goes against all we have accomplished over the past six years. But these are the circumstances we find ourselves in, and we have been left with few options.”

House Proposed Budget

- \$4.7 billion in spending cuts (\$4.4 proposed by House Republicans)
- \$482 million in higher education reductions (over two years).
- Tuition will increase at least 13 percent at the University of Washington and Washington State, and 11 percent at smaller colleges and community colleges.
- Do not fund two education initiatives that increase teacher pay and reduce classroom sizes. That decision saves an estimated \$1.2 billion.
- includes a plan to privatize liquor distribution, which the state handles, for a one-time money intake of \$300 million.
- Democrats apparently have learned something from last year, when they balanced a budget with tax increases on bottled water, candy and soda that voters shot down by initiative.
- <http://www.thenewstribune.com/2011/04/06/1615694/house-gop-unveils-alternative.html#ixzz1Jq3mx2kU>

Senate Proposed Budget

- Cuts \$4.8 billion in spending in an attempt to close a \$5.1 billion deficit.
- Similar \$480 million cut to higher education
- 3% cut for all state workers
- \$250 million reduction to K-12 education, which budget writers assume would come from a 3 percent wage cut for teachers. The governor rejected this cut, and it was not in the House budget
- \$95 million from school districts based on class attendance.
- Gregoire added that she is concerned about the \$200 million cut and 12 percent tuition hikes per year to the state's community college system because they can't withstand it as well as the four-year institutions.
- She did not mention anything about the 13% tuition increase
- <http://www.thenewstribune.com/2011/04/13/1624989/gov-opposes-senate-plan-to-cut.html#storylink=mirelated>

UW Administration Response to House Budget

- Total cut of \$90 million for Seattle in 2011-12 (\$204 million over the 2011-13 biennium)
- UW can only put in 6% of salary for retirement, but UW will maintain the current level (because they have the money. Percent seems to be 7.5% for those > 35, and 10% if > 50. The employee still must contribute.
- Mandated salary cuts; however, the administration said that this was “very complex,” and that not all personnel would receive reductions.
- 14% cut to operating budgets
- The UW is required to produce at least 8,657 bachelors degrees each year of the biennium.
- Source:
http://www.washington.edu/admin/pb/home/pdf/briefs/House-2011-13-Operating-Budget-Brief_4-5-11.pdf

2009-11 Cuts by UW

- Elimination of 950 jobs
- Elimination of 12 degree programs
- Elimination of 384 undergraduate lecture sessions
- Elimination of 130 small group sessions
- Increase in adviser load by 180 students per adviser
- Decrease in the number of lab sections by 20 percent
- Closure of four writing/tutoring centers
- Closure of two computer labs
- Closure of one library
- Reduced hours on existing libraries
- Cancellation of subscriptions to over 1,200 journals.
- Source: <http://www.wsws.org/articles/2011/mar2011/wash-m08.shtml>

Summary of Proposed 2011-13 Cuts to UW

- **2009-11 Appropriation: \$594 million (\$300M per year)**
- **2011-13 Appropriation:**
 - **Gov. \$451 million**
 - **House \$455 million**
 - **Senate \$452 million**
- **Cut from 2009-11:**
 - **Dollar cut: \$141 to \$145 million**
 - **Percent cut: 24%**
- **Approximately \$72 million per year to UW (\$90-\$100 million per UW administration)**
- **Can UW handle this cut?**
- **Source:**
<http://leap.leg.wa.gov/leap/budget/detail/2011/so1113p.asp>

Framework for Financial Analysis of a Public University

- You should examine four broad aspects of your institution's financial situation, which generally describe how a non-profit institution is performing:
 - 1. Reserves
 - 2. Debt
 - 3. Revenues versus Expenses
 - 4. Cash Flows

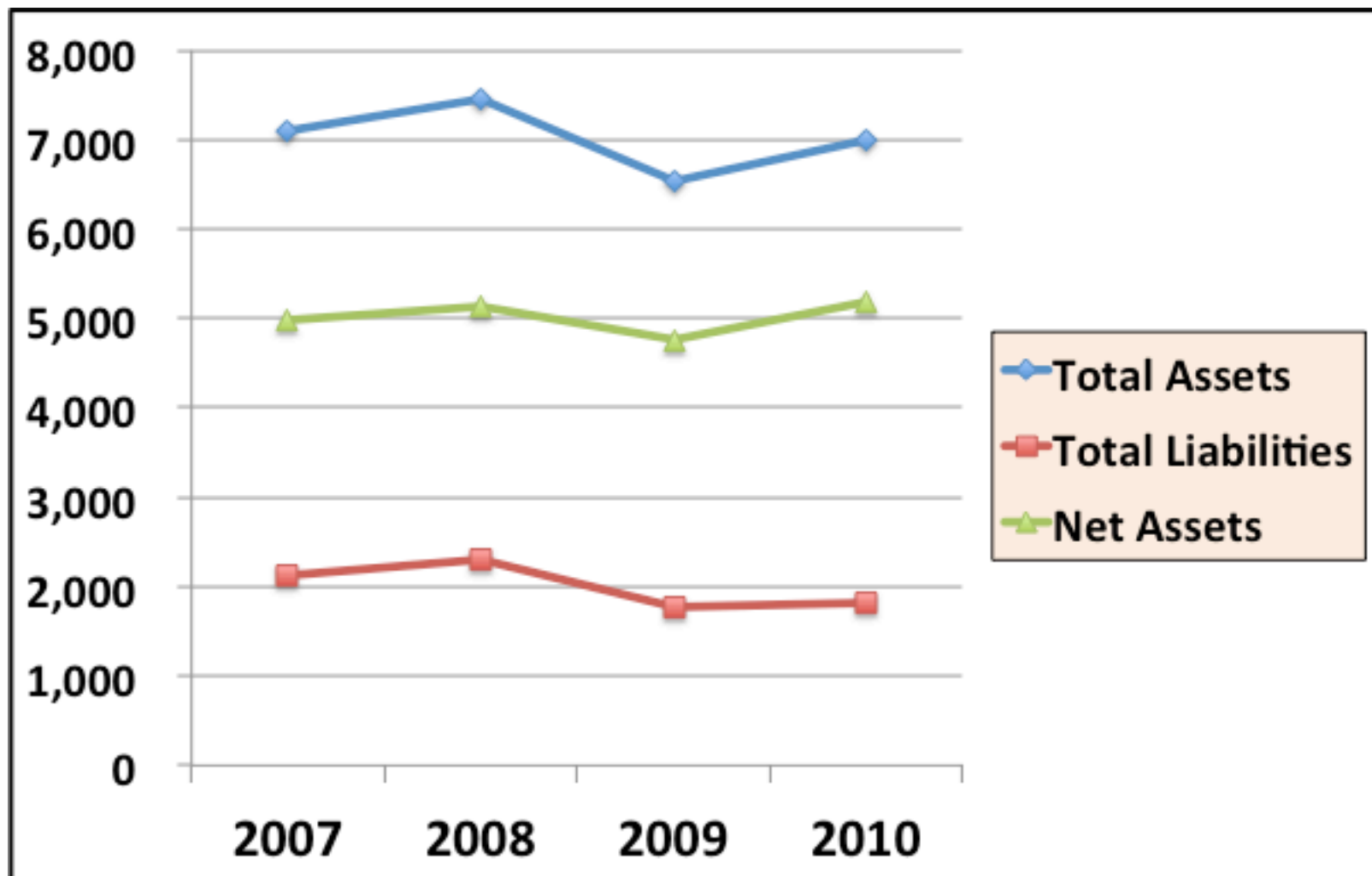
Statement of Net Assets

Source: Annual Audited Financial Statements

| Amounts in millions | 2007 | 2008 | 2009 | 2010 |
|--------------------------|--------------|--------------|--------------|--------------|
| Total Assets | 7,100 | 7,443 | 6,535 | 7,000 |
| Total Liabilities | 2,126 | 2,306 | 1,772 | 1,806 |
| Net Assets | 4,974 | 5,137 | 4,763 | 5,194 |
| | | | | |
| % of Total Assets | 2007 | 2008 | 2009 | 2010 |
| Total Assets | 100% | 100% | 100% | 100% |
| Total Liabilities | 30% | 31% | 27% | 26% |
| Net Assets | 70% | 69% | 73% | 74% |

- UW had 7 BILLION of assets as of June 30, 2010
- The level of liabilities is very low
- This is a very strong balance sheet

Statement of Net Assets Graphically



Analysis of Assets

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|--------------------------|---------------|---------------|---------------|---------------|
| Cash | 34 | 17 | 32 | 36 |
| Accounts Receivable, Net | 429 | 422 | 462 | 470 |
| Investments | 3,300 | 3,302 | 2,834 | 3,162 |
| Capital Assets, Net | 2,609 | 2,714 | 2,840 | 2,958 |
| Other Assets | 727 | 988 | 368 | 374 |
| Total Assets | 7,100 | 7,443 | 6,535 | 7,000 |
| | | | | |
| As % of Total Assets | 2007 | 2008 | 2009 | 2010 |
| Cash | 0.5% | 0.2% | 0.5% | 0.5% |
| Accounts Receivable, Net | 6.0% | 5.7% | 7.1% | 6.7% |
| Investments | 46.5% | 44.4% | 43.4% | 45.2% |
| Capital Assets, Net | 36.7% | 36.5% | 43.5% | 42.3% |
| Other Assets | 10.2% | 13.3% | 5.6% | 5.3% |
| Total Assets | 100.0% | 100.0% | 100.0% | 100.0% |

Discussion of Assets

- UW has over 3 BILLION in investments (endowment). This money cannot all be spent, but it is reflective of incredible wealth and financial flexibility
- The State is cutting the appropriation approximately \$100 million, and tuition will make up most of that. Are budget cuts really necessary? We will also look at reserves, and the administration will claim that almost none of these assets or reserves can be spent. That is a claim without merit.
- The decline in investments from 2008 to 2009 was due to the stock market decline. This paper loss will also be reflected in the revenue vs. expense analysis
- Keeping a low amount of cash is typical; UW is incredibly liquid.
- Accounts receivable are mostly from patient operations and grants; hardly any is from students.

Where is the \$3 Billion Invested?

| In Millions | Dollars | Percent |
|----------------------------|--------------|-------------|
| Domestic Fixed Income | 1,106 | 35% |
| Foreign Equity | 479 | 15% |
| Domestic Equity | 421 | 13% |
| Nonmarketable Alternatives | 408 | 13% |
| Absolute Return | 377 | 12% |
| Cash Equivalents | 338 | 11% |
| Foreign Fixed Income | 19 | 1% |
| Real Assets | 10 | 0% |
| Miscellaneous | 4 | 0% |
| Total | 3,162 | 100% |

- Absolute return, typically hedge funds, use short-selling, futures, options, derivatives, arbitrage, leverage and unconventional assets.
- Non-marketable alternative assets consist of investments in private equity investments and venture capital investments that are not registered for sale on public exchanges.

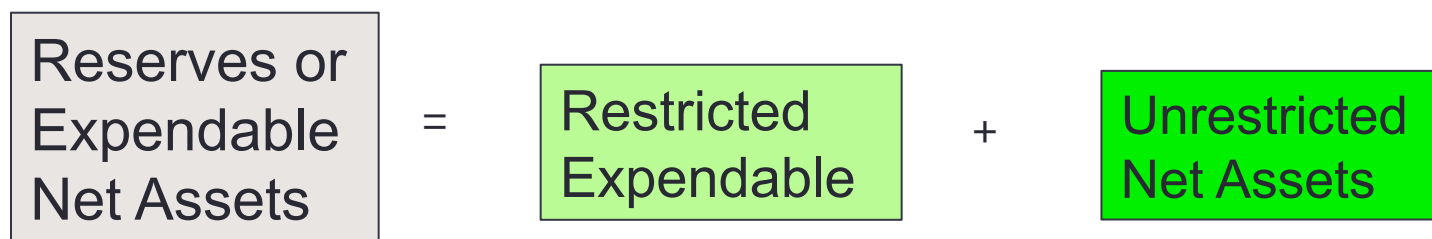
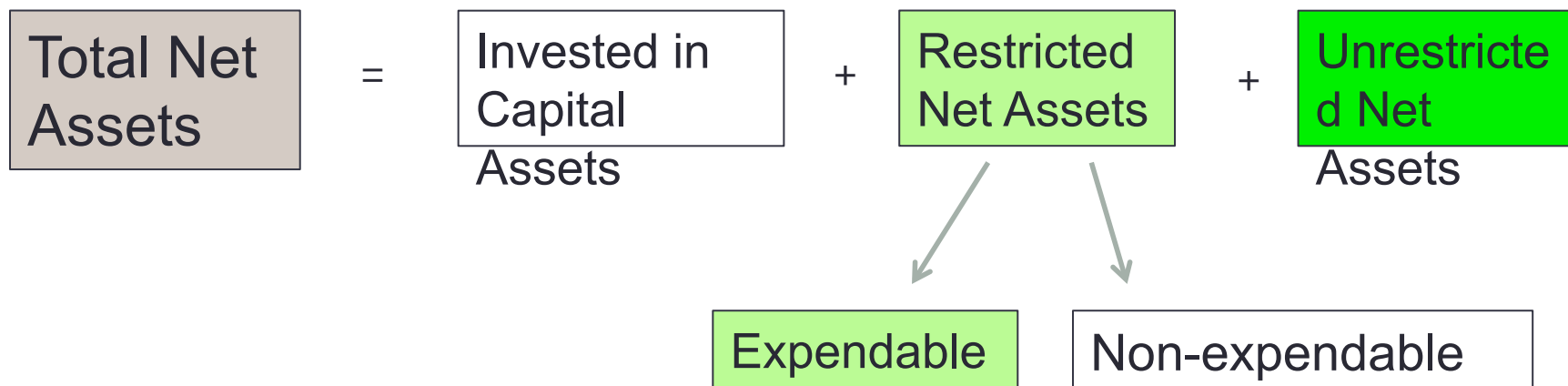
Discussion of Net Assets and Reserves

- There are 3 broad categories of net assets:
 - Invested in capital assets
 - Restricted
 - Unrestricted
- Net Assets invested in capital assets represent the value of capital assets that do not have debt associated with them. Since the UW is unlikely to sell these capital assets, this category of net assets does not represent or demonstrate any financial flexibility or freedom for the UW
- Restricted net assets are those that are earmarked for specific purposes. Some of these are expendable, and some are not expendable.
- Unrestricted net assets allow the UW much more financial flexibility and freedom

Further Discussion of Net Assets

- Expendable net assets are the numerical sum of restricted-expendable net assets and unrestricted net assets.
- Restricted non-expendable have restrictions that prevent spending, such as contractual or donor-imposed (permanent restrictions imposed by donors)
- Restricted expendable net assets are those that are externally imposed by creditors, grantors, contributors or laws, so that the money must be spent on that purpose. However, it is an indication of financial flexibility and freedom (money has been set aside to pay off principle).
- Unrestricted net assets represent the greatest financial flexibility and freedom for UW, though the administration will claim these funds are “spoken for.” However, they are not firmly committed; if they were, the external auditors would not put them in the unrestricted category.

Reserves



UW Net Assets

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|----------------------------|--------------|--------------|--------------|--------------|
| Invested in Capital Assets | 1,745 | 1,816 | 1,944 | 1,982 |
| Restricted Non-Expendable | 812 | 902 | 884 | 959 |
| Restricted Expendable | 1,465 | 1,396 | 1,005 | 1,089 |
| Unrestricted | 952 | 1,023 | 930 | 1,163 |
| Total Net Assets | 4,974 | 5,137 | 4,763 | 5,194 |

- There were over \$1.1 BILLION of unrestricted net assets as of June 30, 2010
- Source: Annual audited financial statements

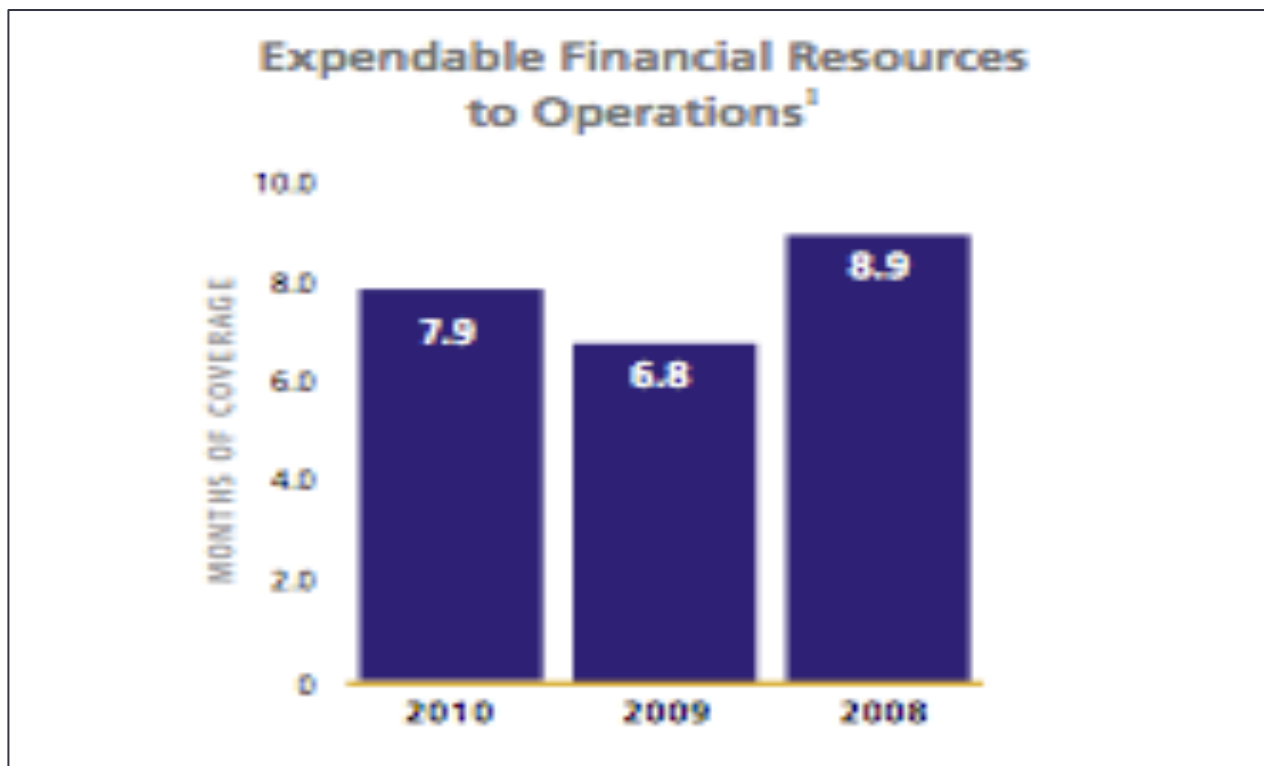
Bottom Line Reserves of UW

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|------------------------------------|--------------|--------------|--------------|--------------|
| Restricted Expendable | 1,465 | 1,396 | 1,005 | 1,089 |
| Unrestricted | 952 | 1,023 | 930 | 1,163 |
| Total Expendable Net Assets | 2,417 | 2,419 | 1,935 | 2,252 |
| Total Expenses | 3,111 | 3,325 | 3,474 | 3,536 |
| Primary Reserve Ratio | 78% | 73% | 56% | 64% |

- The primary reserve ratio is defined as total reserves (total expendable net assets) divided by total expenses.
- Total Reserves are over \$2.2 Billion
- Overall, having a Primary Reserve ratio of 64% is incredibly high; it indicates that UW has approximately 7-8 months of expenses in reserve.

From the UW 2010 Audited Financial Statements (Page 12 of UW 2010 Audited Financial Statements)

“The ratio of expendable financial resources to operations (as defined by Moody’s) measures the strength of net assets. This ratio, illustrated in the chart below, shows that in 2010 the University had enough expendable resources from various sources to fund operations for a period of 7.9 months.”



Do the Reserves Represent Liquidity?

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|-------|-------|-------|-------|
| Current Assets | 1,188 | 1,404 | 907 | 851 |
| Current Liabilities | 994 | 1,189 | 579 | 548 |
| Current Ratio | 1.2 | 1.2 | 1.6 | 1.6 |
| | | | | |
| Cash | 34 | 17 | 32 | 36 |
| Investments | 3,300 | 3,302 | 2,834 | 3,162 |
| Total Liquid Assets | 3,334 | 3,319 | 2,866 | 3,198 |
| | | | | |
| Total Expendable Net Assets | 2,417 | 2,419 | 1,935 | 2,252 |

- The current ratio of 1.6 is strong
- Total cash resources are now over 3.1 BILLION!
- The total reserves in 2010 were \$2.2 Billion, so it is clear that the reserves of UW are represented by liquid assets

Debt Analysis

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|--|-------------|-------------|-------------|-------------|
| Total Expendable Net Assets (Reserves) | 2,417 | 2,419 | 1,935 | 2,252 |
| Total Interest-Bearing Debt | 890 | 984 | 1,016 | 1,061 |
| Viability Ratio | 272% | 246% | 190% | 212% |

- The viability ratio is defined as reserves divided by interest-bearing debt
- A viability ratio that is over 200% is very strong

Debt Analysis per UW

Page 12 of the 2010 Audited Financial Statements

The 2010 ratio of expendable financial resources to debt (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 2.1 times over.



Revenues vs. Expenses: Broad View

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------|--------|-------|
| Total Revenues | 3,706 | 3,489 | 3,099 | 3,967 |
| Total Expenses | 3,111 | 3,325 | 3,474 | 3,536 |
| Change in Net Assets | 595 | 163 | (375) | 431 |
| As % of Total Revenues (Net Income Ratio) | 16.1% | 4.7% | -12.1% | 10.9% |
| Investment gain (loss): Mostly paper | 503 | 77 | (469) | 309 |

- The entire loss in 2009 was due to a decline in the value of investments
- Cash flow evidence will demonstrate how strong the results have been

Moody's Ratio Analysis

- **Moody's uses three ratios to judge the financial condition of public universities. Then a composite score is compiled based on these 3 ratios:**
- **Primary Reserve Ratio**
 - Are there sufficient reserves?
- **Viability Ratio**
 - Is there too much debt?
- **Net Income Ratio**
 - Are revenues and expenses in line with each other?

Moody's Ratio Definitions

- *Primary reserve ratio*: Expendable net assets divided by total operating expenses.
- *Viability ratio*: Expendable net assets divided by debt.
- *Net Income Ratio*: Change in total net assets divided by total revenues.
- Final Score =
 - 50% * Primary Reserve Ratio +
 - 30% * Viability Ratio +
 - 20% * Net Income Ratio

Moody's Summary Scores

| SCORE | 0 | 1 | 2 | 3 | 4 | 5 |
|------------------------------|----------|--------------|------------|--------------|--------------|--------------|
| Primary Reserve Ratio | < -.1 | -10% to 4.9% | 5% to 9.9% | 10% to 24.9% | 25% to 49.9% | 50% or more |
| Viability Ratio | < 0 | 0% to 29% | 30% to 59% | 60% to 99% | 100% to 250% | > 250% or NA |
| Net Income Ratio | < -.05 | -5% to 0% | 0% to 0.9% | 1% to 2.9% | 3% to 4.9% | 5% or more |

UW Moody's Scores

| | 2007 | 2008 | 2009 | 2010 |
|--------------------------------|------------|------------|------------|------------|
| Primary Reserve Ratio | 77.7% | 72.7% | 55.7% | 63.7% |
| Viability Ratio | 271.6% | 245.8% | 190.5% | 212.4% |
| Net Income Ratio | 16.1% | 4.7% | -12.1% | 10.9% |
| | | | | |
| Primary Reserve Score | 5 | 5 | 5 | 5 |
| Viability Score | 5 | 4 | 4 | 4 |
| Net Income Score | 5 | 4 | 0 | 5 |
| Moody's Composite Score | 5.0 | 4.3 | 3.5 | 4.5 |

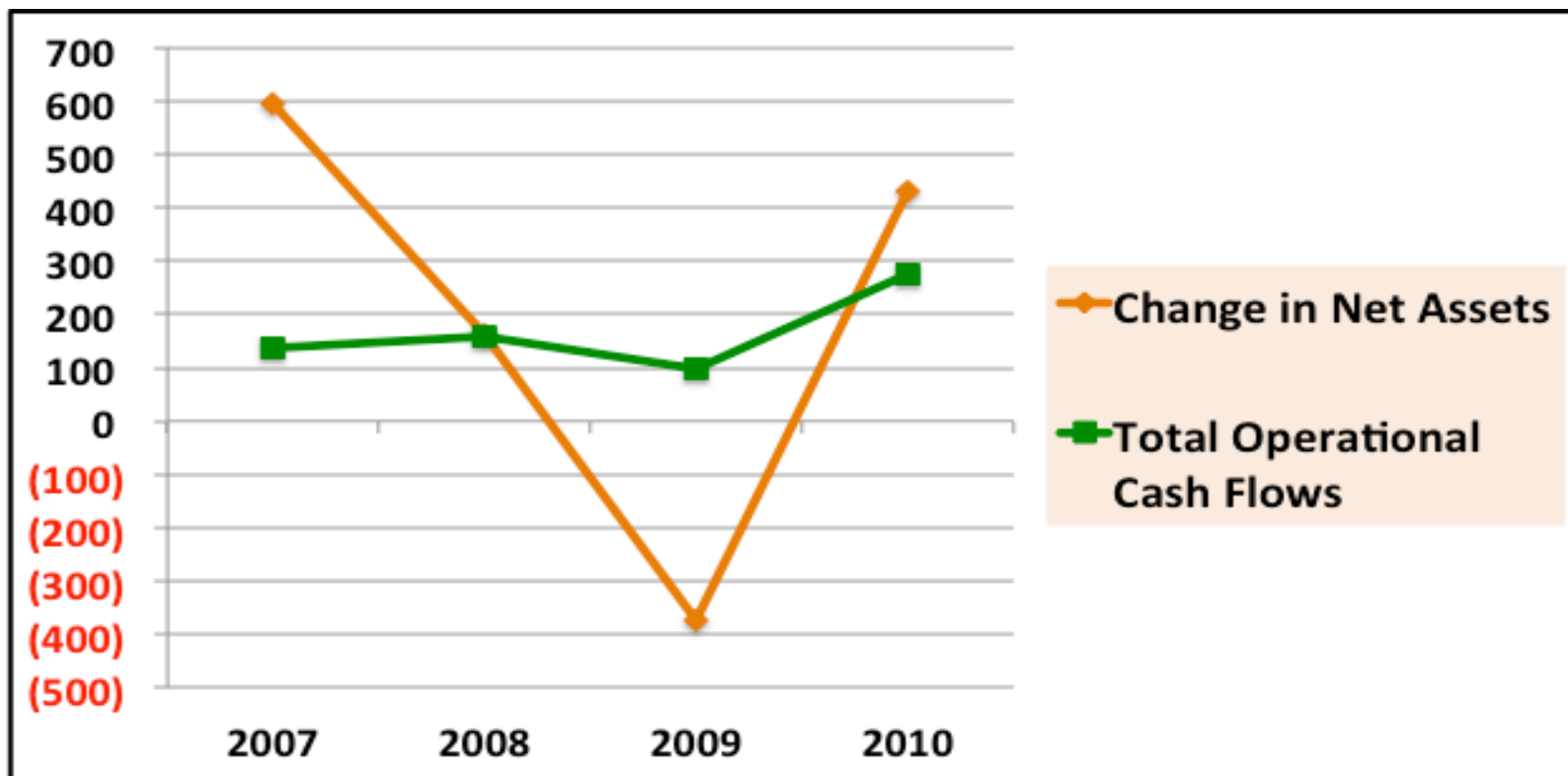
- A score of 4.5 is considered very solid, which is why UW has a high bond rating. The highest possible score is 5.0.
- To be in trouble, there needs to be two consecutive years with a composite score below 1.75
- UW is in VERY STRONG financial condition.

Cash Flows

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|---|------------|------------|-----------|------------|
| Cash from Operations | (363) | (339) | (380) | (138) |
| Cash from Non-capital financing (mostly State Appropriation) | 538 | 538 | 523 | 457 |
| Interest Paid on Debt | (40) | (42) | (45) | (43) |
| Total Operational Cash Flows | 135 | 157 | 98 | 277 |

- This is among the strongest evidence of financial strength, as cash flows are positive each year
- All public institutions have negative cash flows from operations, as the State appropriation is not included in cash from operations

Cash Flows and the Change in Net Assets



- This is among the strongest evidence of financial strength, as cash flows are positive each year
- The 2009 decline for the change in net assets was fueled by the non-cash paper loss on investments.

UW Bond Ratings: Aaa in November, 2010

- The Aaa rating reflects University of Washington's excellent market position as the flagship public university for the State, one of the largest research enterprises in the country, good financial flexibility and generally balanced operating performance from a well-diversified revenue stream.
- The stable rating outlook reflects the University's continued strong market, good operating cash flow and sufficient financial resources cushion for manageable debt plans for the next twelve months.
- http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=NIR_16620669

Strengths From the November 2010 Moody's Report

- Excellent market position as the flagship public university for Washington, with Fall 2009 total enrollment of 47,835 full-time equivalent (FTE) students and a provider of medical education and clinical care to the region through its Medical Center.
- Nationally prominent research enterprise with an estimated \$1.16 billion in annual grants and contracts during fiscal year (FY) 2010 and expectations of equal or higher grant activity for the current FY 2011.
- Good financial flexibility, with total financial resources of \$2.8 billion for FY 2009 and \$930 million of unrestricted financial resources.
- Generally balanced operating performance, with a three-year average operating margin of 1.3% for fiscal years 2007-2009, derived from a well-diversified revenue stream.

Challenges from the Moody's Report

- Substantial debt increase in recent years reflecting the University's investment in strategic initiatives, with total pro-forma direct debt of \$1.3 billion assuming \$250 million of full issuance of its commercial paper program. The University has manageable debt plans over the next 12 months and is currently assessing the timeframe for debt and capital projects going forward.
- Significant 26% cut in state funding (State of Washington rated Aa1 with a stable outlook) approved for the current 2010-2011 biennium. The University intends to offset the reduction in part with a 14% tuition increase per year, resulting in a net decrease of \$50 million in operating revenues for each year.
- Exposure to health care sector at University of Washington Medical Center (UWMC), with patient care revenues representing 30% of total operating revenues for FY 2009 and significant investment expected in UWMC facilities totaling \$300 million over two phases.

More from the Moody's Report

- We believe the University's excellent market position, anchored by good underlying student demand and very strong research fundamentals, will be maintained for the foreseeable future. The University offers a broad array of undergraduate, graduate and professional programs, with total enrollment of 47,835 FTE students for Fall 2009 at its three campuses in Seattle, Bothell, and Tacoma. Demand for the current Fall 2010 semester remains very strong with high application and projected enrollment levels at least equal to the previous year.
- The University is one of the nation's largest research organizations, receiving \$1.2 billion in sponsored research grants in FY 2010, up from \$1.1 billion for FY 2009. Of the research awards, the Department of Health and Human Services (HHS) accounts for about one-half. With its strong reputation and research faculty, programmatic and funding diversification, as well as planned capital expenditures for research facilities, we believe the University remains well-positioned to attract increased research funding for the foreseeable future.
- The University of Washington Medical Center, an operating division of the University, is a 450-bed academic medical center, nationally ranked and offering tertiary/quaternary services. The University's health care activities represent one of the largest components of revenues at 30% of total operating revenues for FY 2009. The University's faculty physicians are the exclusive providers of its health care services, with over 4,800 clinical faculty

Moody's Report on Operating Performance

- The University has consistently generated balanced operating performance. The University benefits from its diversified revenue base. State operating funding for the 2010-2011 biennium was reduced by 26%, which was offset by the University being granted the ability to increase undergraduate tuition up to 14% for each of FY 2010 and FY 2011, which it implemented.
- Further, the University is planning for expense reductions of up to \$116 million during fiscal year 2011, with an additional reduction in funding made in FY 2012. As a result, the University will incur net revenue losses that will need to be covered by tuition increases, expense measures and other actions. Although the reductions are significant, we note that state appropriations represent a small share of the University's revenue - only 11% for FY 2009 and likely less for FY 2010 - and should be manageable if offset by other revenues including tuition.

Moody's Ratings

| Rating | Description |
|--|--|
| Aaa | Issuers or issues rated Aaa demonstrate the strongest creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| Aa | Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| A | Issuers or issues rated A present above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| Baa | Issuers or issues rated Baa represent average creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| Ba | Issuers or issues rated Ba demonstrate below-average creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| B | Issuers or issues rated B demonstrate weak creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| Caa | Issuers or issues rated Caa demonstrate very weak creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| Ca | Issuers or issues rated Ca demonstrate extremely weak creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| C | Issuers or issues rated C demonstrate the weakest creditworthiness relative to other US municipal or tax-exempt issuers or issues. |
| | |
| Modifiers for Municipal Ratings | |
| Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. | |
| The modifier 1 indicates that the obligation ranks in the higher end | |
| the modifier 2 indicates a mid-range ranking; | |
| and the modifier 3 indicates a ranking in the lower end of that generic rating category. | |

An Aaa Rating from Moody's

- **This is the highest rating that Moody's gives out: Triple A!!!**
- **Any discussion of financial emergency or financial exigency is completely and totally irresponsible.**

Standard and Poor's Rating

- On November 2, 2010, S&P gave UW an AA+/Stable rating.
- This is the 2nd highest potential rating out of 33 categories for S&P.
- "The rating reflects our view of the university's strong lease provisions without appropriation or abatement risk and its position as one of the top research universities in the U.S.," said Standard & Poor's credit analyst Jessica Matsumori.
- "The university also has what we consider good financial resources for the rating category and a stable and increasing enrollment," Ms. Matsumori said.
- <http://www.standardandpoors.com/prot/ratings/articles/en/us/?assetID=1245282128509>

Revenue Analysis

| | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|--------------|--------------|--------------|--------------|
| Grants and contracts | 995 | 1,019 | 1,110 | 1,249 |
| Patient Services/Other Med | 900 | 968 | 1,036 | 1,069 |
| Tuition and Fees | 397 | 420 | 458 | 528 |
| State appropriation | 366 | 388 | 385 | 303 |
| State capital appropriation | 74 | 71 | 101 | 33 |
| Housing and Dining | 50 | 52 | 54 | 59 |
| Parking Services | 10 | 8 | 10 | 11 |
| Sports Programs | 34 | 42 | 37 | 39 |
| Other Auxiliaries | 43 | 44 | 49 | 47 |
| Federal stimulus | 0 | 0 | 0 | 44 |
| Gifts | 181 | 189 | 152 | 125 |
| Investment income | 503 | 77 | (469) | 309 |
| All Other | 154 | 209 | 176 | 151 |
| Total | 3,706 | 3,489 | 3,099 | 3,967 |

- The categories here are slightly different than those from earlier (more detail here)
- Source: Annual audited financial statements

Revenue Percentage Analysis

| | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|-------------|-------------|-------------|-------------|
| Grants and contracts | 27% | 29% | 36% | 31% |
| Patient Services/Other Med | 24% | 28% | 33% | 27% |
| Tuition and Fees | 11% | 12% | 15% | 13% |
| State appropriation | 10% | 11% | 12% | 8% |
| State capital appropriation | 2% | 2% | 3% | 1% |
| Housing and Dining | 1% | 1% | 2% | 1% |
| Parking Services | 0% | 0% | 0% | 0% |
| Sports Programs | 1% | 1% | 1% | 1% |
| Other Auxiliaries | 1% | 1% | 2% | 1% |
| Federal stimulus | 0% | 0% | 0% | 1% |
| Gifts | 5% | 5% | 5% | 3% |
| Investment income | 14% | 2% | -15% | 8% |
| All Other | 4% | 6% | 6% | 4% |
| Total | 100% | 100% | 100% | 100% |

- The State appropriation is only 8% of total revenues; 12% if you take out the medical school
- The federal stimulus is a pimple on an elephant

Revenue Percentage Change Analysis

| | 2007 to 08 | 2008 to 09 | 2009 to 10 | 2007 to 10 |
|-----------------------------|--------------|---------------|---------------|-------------|
| Grants and contracts | 2.5% | 8.9% | 12.5% | 26% |
| Patient Services/Other Med | 7.5% | 7.0% | 3.2% | 19% |
| Tuition and Fees | 5.7% | 9.1% | 15.3% | 33% |
| State appropriation | 6.2% | -0.9% | -21.1% | -17% |
| State capital appropriation | -3.8% | 42.2% | -67.9% | -56% |
| Housing and Dining | 3.1% | 5.7% | 7.4% | 17% |
| Parking Services | -15.8% | 15.1% | 11.4% | 8% |
| Sports Programs | 24.3% | -12.7% | 6.5% | 16% |
| Other Auxiliaries | 2.5% | 12.3% | -4.8% | 10% |
| Gifts | 4.7% | -19.6% | -17.8% | -31% |
| Total | -5.9% | -11.2% | 28.0% | 7% |

- Tuition revenue increases significantly each year, due to a price and potential enrollment increase
- Total revenues have increased in the face of large declines from the State and investment losses.
- The 2010 cash flows were positive not just due to cost cutting; there were not \$277 million of costs cut; core cash flows were positive before those cuts

The State Cut: Looking to 2011-12 and Beyond

- The loss of federal stimulus money is not an important factor; it was 1% of total revenue in 2010. There is no cliff!
- If the appropriation goes down \$90 million in 2012, with tuition going up 14% (before any change in enrollment), then total tuition revenue will come close to covering this (about \$80-90 million).
- The other revenues will more than make up for the decline from the State.
- Predictions:
 - 2011-12 total revenues for UW will be higher than in 2010-11
 - 2011-12 cash flows will be positive (before any cost-cutting)

The State Cut: What Should be Done?

- Assuming the administration believes there will be \$90 million needed after the tuition increase (this is very debatable), then the administration should:
 1. Use reserves. There are over 1 BILLION of unrestricted net assets. These are unrestricted. They are there for a rainy day. It is raining. Use the umbrella. Reserves cannot be used every year, but they will not be needed every year. There is only so much lower the appropriation can go, and the State is forecasting significant growth going forward.
 2. Cut administrative costs
 3. Cut more administrative costs
- There is no need to make cuts to the core academic mission. The size of the cut, given the size of the university and the size of reserves, indicates that no cuts to the core mission need be made.



Expense Analysis

| Amounts in Millions | 2007 | 2008 | 2009 | 2010 |
|-----------------------|--------------|--------------|--------------|--------------|
| Salaries | 1,533 | 1,622 | 1,731 | 1,710 |
| Benefits | 442 | 464 | 501 | 514 |
| Scholarships | 69 | 71 | 71 | 93 |
| Utilities | 58 | 53 | 55 | 51 |
| Supplies | 297 | 324 | 309 | 324 |
| Purchased Services | 385 | 435 | 440 | 469 |
| Depreciation | 190 | 200 | 207 | 229 |
| Interest | 40 | 42 | 45 | 43 |
| Other | 98 | 113 | 115 | 103 |
| Total Expenses | 3,111 | 3,325 | 3,474 | 3,536 |

Expense Percentage Distribution

| | 2007 | 2008 | 2009 | 2010 |
|--------------------|--------|--------|--------|--------|
| Salaries | 49.3% | 48.8% | 49.8% | 48.4% |
| Benefits | 14.2% | 14.0% | 14.4% | 14.5% |
| Scholarships | 2.2% | 2.1% | 2.1% | 2.6% |
| Utilities | 1.9% | 1.6% | 1.6% | 1.4% |
| Supplies | 9.5% | 9.7% | 8.9% | 9.2% |
| Purchased Services | 12.4% | 13.1% | 12.7% | 13.3% |
| Depreciation | 6.1% | 6.0% | 6.0% | 6.5% |
| Interest | 1.3% | 1.3% | 1.3% | 1.2% |
| Other | 3.1% | 3.4% | 3.3% | 2.9% |
| Total Expenses | 100.0% | 100.0% | 100.0% | 100.0% |

Expense Percentage Changes

| | 2007 to 08 | 2008 to 09 | 2009 to 10 | 2007 to 10 |
|---------------------------|------------|------------|------------|------------|
| Salaries | 5.9% | 6.7% | -1.2% | 11.6% |
| Benefits | 5.0% | 7.9% | 2.5% | 16.2% |
| Scholarships | 3.5% | 0.4% | 30.6% | 35.8% |
| Utilities | -7.9% | 3.7% | -7.7% | -11.8% |
| Supplies | 9.1% | -4.6% | 5.0% | 9.2% |
| Purchased Services | 13.0% | 1.1% | 6.6% | 21.8% |
| Depreciation | 5.5% | 3.3% | 10.5% | 20.5% |
| Interest | 4.1% | 7.4% | -3.9% | 7.4% |
| Other | 16.0% | 1.1% | -10.4% | 5.0% |
| Total Expenses | 6.9% | 4.5% | 1.8% | 13.7% |

Discussion of Expenses

- Salaries went down in 2010 due to restrictions from the State and actions by the administration
- Health care costs actually declined from 2008 to 2009, which moderated the effect of salary increases
- The administration claims that future health care costs will be adversely affected by the new health care law. The most prevalent provision now in place is the coverage of 19-26 year olds. The estimate of the cost increase for having to cover this group (and not charge a separate rider) is 1% of total health care costs.
http://www.healthreform.gov/newsroom/implementation_efforts.html;
www.healthcare.gov
- Employers can no longer charge differently for dependents by age, but they can charge more based on the number of people covered (pay more if 3 kids than if 2 kids, for example).
- There is another way of reporting expenses, and UW reports the “functional” expenses in the footnotes to the financial statements, which will be analyzed on the next few slides.

Functional Expenses

| Amount in Millions | 2007 | 2008 | 2009 | 2010 |
|---------------------------------|--------------|--------------|--------------|--------------|
| Educational/General Instruction | 783 | 824 | 908 | 905 |
| Research | 596 | 623 | 640 | 700 |
| Public Service | 35 | 31 | 33 | 34 |
| Academic Support | 220 | 265 | 265 | 259 |
| Student Services | 31 | 34 | 34 | 34 |
| Institutional Support | 140 | 156 | 143 | 141 |
| Plant | 175 | 169 | 178 | 155 |
| Scholarships | 69 | 71 | 71 | 93 |
| Auxiliaries | 143 | 162 | 171 | 166 |
| Medical-related | 689 | 749 | 779 | 777 |
| Depreciation | 190 | 200 | 207 | 229 |
| Interest | 40 | 42 | 45 | 43 |
| Total Expenses | 3,111 | 3,326 | 3,474 | 3,536 |

* Public service, academic support, student services, and institutional support all have administration as their main components

Percent Distribution of Functional Expenses

| | 2007 | 2008 | 2009 | 2010 |
|--|---------------|---------------|---------------|---------------|
| Educational/General Instruction | 25.2% | 24.8% | 26.1% | 25.6% |
| Research | 19.2% | 18.7% | 18.4% | 19.8% |
| Public Service | 1.1% | 0.9% | 0.9% | 1.0% |
| Academic Support | 7.1% | 8.0% | 7.6% | 7.3% |
| Student Services | 1.0% | 1.0% | 1.0% | 1.0% |
| Institutional Support | 4.5% | 4.7% | 4.1% | 4.0% |
| Plant | 5.6% | 5.1% | 5.1% | 4.4% |
| Scholarships | 2.2% | 2.1% | 2.0% | 2.6% |
| Auxiliaries | 4.6% | 4.9% | 4.9% | 4.7% |
| Medical-related | 22.1% | 22.5% | 22.4% | 22.0% |
| Depreciation | 6.1% | 6.0% | 6.0% | 6.5% |
| Interest | 1.3% | 1.3% | 1.3% | 1.2% |
| Total Expenses | 100.0% | 100.0% | 100.0% | 100.0% |

- The percent for instruction should never go down
- The percentage for instruction is 33% if the medical school is taken out; this is low when compared to other institutions

Percentage Change of Functional Expenses

| | 2007 to 08 | 2008 to 09 | 2009 to 10 | 2007 to 10 |
|--|------------|------------|------------|------------|
| Educational/General Instruction | 5.2% | 10.2% | -0.3% | 15.6% |
| Research | 4.5% | 2.7% | 9.4% | 17.4% |
| Public Service | -11.4% | 6.5% | 3.0% | -2.9% |
| Academic Support | 20.5% | 0.0% | -2.3% | 17.7% |
| Student Services | 9.7% | 0.0% | 0.0% | 9.7% |
| Institutional Support | 11.4% | -8.3% | -1.4% | 0.7% |
| Plant | -3.4% | 5.3% | -12.9% | -11.4% |
| Scholarships | 2.9% | 0.0% | 31.0% | 34.8% |
| Auxiliaries | 13.3% | 5.6% | -2.9% | 16.1% |
| Medical-related | 8.7% | 4.0% | -0.3% | 12.8% |
| Depreciation | 5.3% | 3.5% | 10.6% | 20.5% |
| Interest | 4.1% | 7.4% | -3.9% | 7.4% |
| Total Expenses | 6.9% | 4.5% | 1.8% | 13.7% |

- From 2009 to 2010, instructional costs declined while total expenses increased.
- Institutional support may have declined in 2009 and 2010, but there was a huge increase in 2008

Generic Operating Expense Categories

- 1) **Instruction:** Faculty, Lecturers, Adjuncts, Dept. Heads, Dept. Secretaries, Graduate Assistants, Distance Education & off-campus sites
- 2) **Research:** Institutes & Centers, Bioinformatics, Matching Funds, New Faculty Awards, Faculty Research Fellowships, Geospatial Research
- 3) **Public Service:** Clinics and centers, radio station
- 4) **Academic Support:** College Deans, Library, Doctoral Fellowships, Accreditation (NCATE, etc.), Extended program administration, Faculty Development Center, Honors Program, Academic Advising,

Expense Categories (continued)

- 5) **Institutional Support:** President's Office, Business & Finance, University Marketing & Communications, Academic Affairs, Advancement, DPS, Legal Affairs, Human Resources, Governmental Relations, Enrollment Management, Alumni Relations
- 6) **Student Services:** Admissions Office, Financial Aid Office, Office of the Registrar, Learning Center, Student Services, Campus Life, Student Center, Band
- 7) **Operation of the Plant:** Physical Plant Operations & Campus Plan, Purchasing, Architect & Engineering, University House, Grounds, Utilities, Custodial
- 8) **Auxiliary Expense:** Athletics, Dorms, Health Center, Rec Center
- 9) **Scholarships:** Funded, Graduate Fellowships
- 10) **Other:** Debt Retirement, Depreciation, Miscellaneous

National Report on Administrative Costs in Higher Education: Goldwater Institute and Administrative Bloat

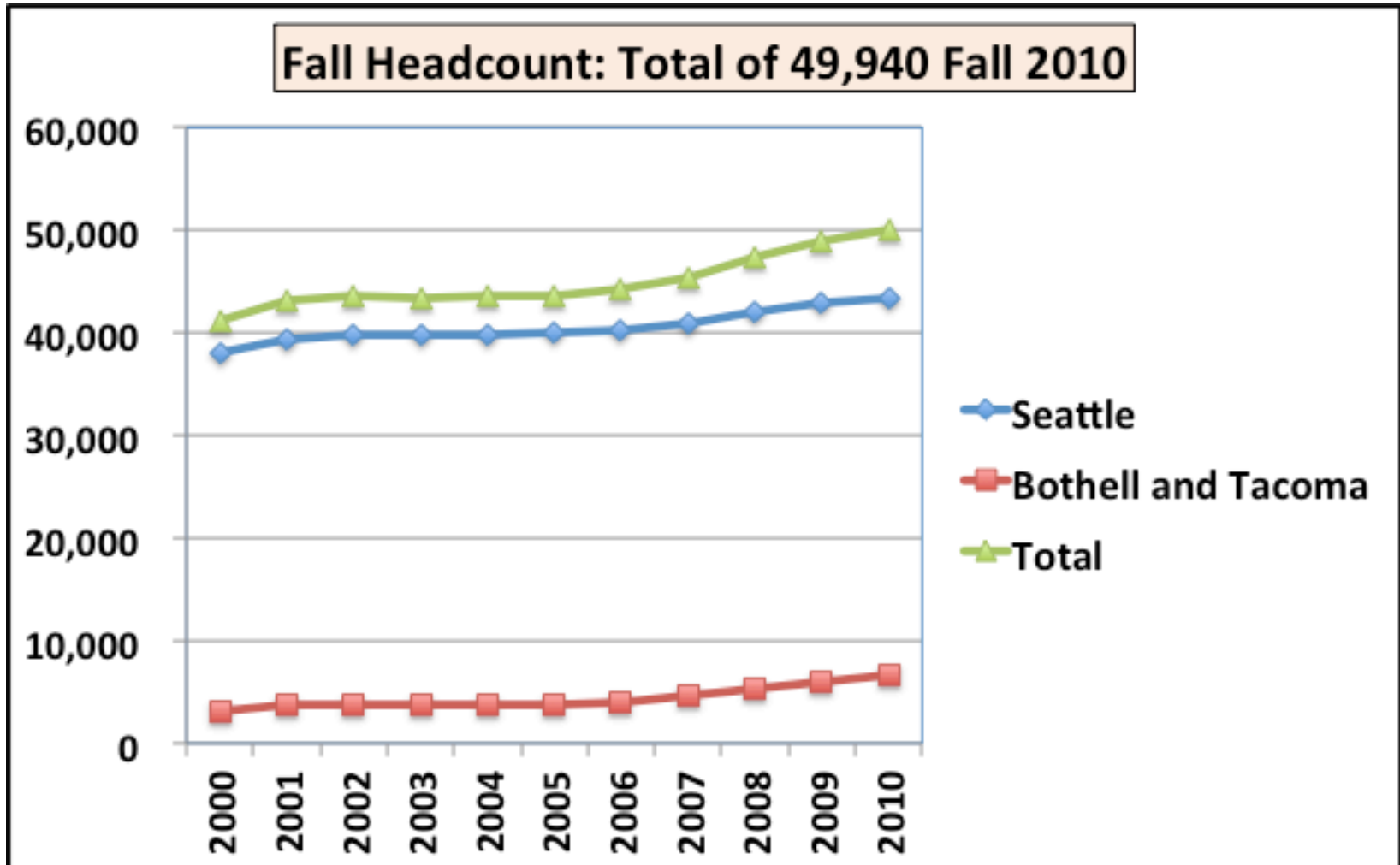
- Source: No. 239 | August 17, 2010: Administrative Bloat at American Universities: The Real Reason for High Costs in Higher Education. <http://www.goldwaterinstitute.org/>
- “Enrollment at America’s leading universities has been increasing dramatically, rising nearly 15 percent between 1993 and 2007. But unlike almost every other growing industry, higher education has not become more efficient. Instead, universities now have more administrative employees and spend more on administration to educate each student. In short, universities are suffering from “administrative bloat,” expanding the resources devoted to administration significantly faster than spending on instruction, research and service.”

National Report on Administrative Costs in Higher Education: Delta Project

- Source: Trends in College Spending, 1998-2008. Released July 8, 2010. <http://www.deltacostproject.org/>
- “The share of spending going to pay for instruction has consistently declined when revenues decline, relative to growth in spending in academic and student support and administration. This erosion persists even when revenues rebound, meaning that over time there has been a gradual shift of resources away from instruction and towards general administrative and academic infrastructure.”

Enrollment: Fall Headcount

Source: UW Office of Planning & Budgeting



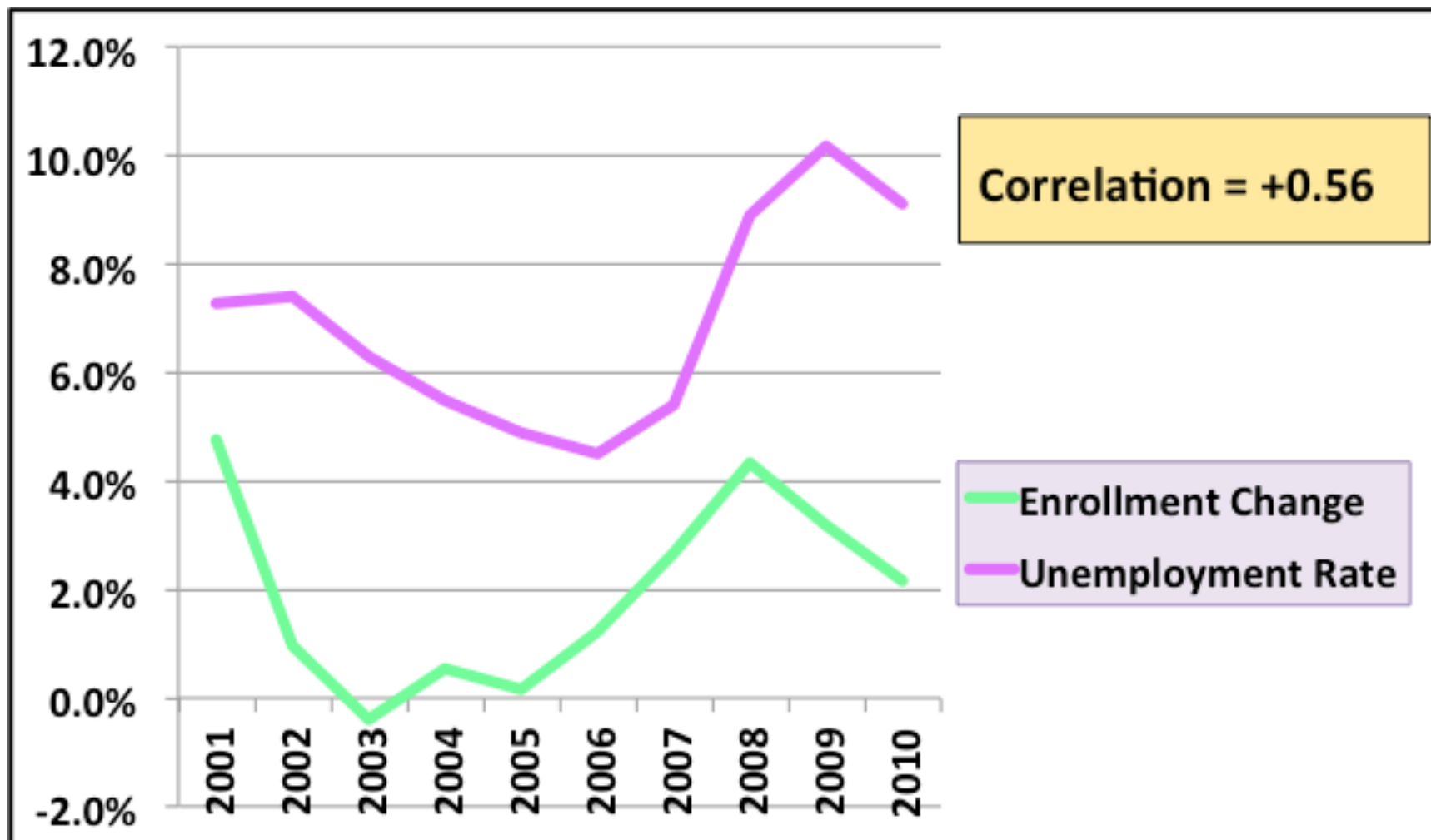
Enrollment Changes: Numbers

| Annual # Change | Seattle | Bothell and Tacoma | Total |
|-----------------|---------|--------------------|-------|
| 2000 to 01 | 1,386 | 580 | 1,966 |
| 2001 to 02 | 370 | 39 | 409 |
| 2002 to 03 | (92) | (88) | (180) |
| 2003 to 04 | 129 | 108 | 237 |
| 2004 to 05 | 80 | (13) | 67 |
| 2005 to 06 | 271 | 263 | 534 |
| 2006 to 07 | 656 | 527 | 1,183 |
| 2007 to 08 | 1,241 | 731 | 1,972 |
| 2008 to 09 | 820 | 685 | 1,505 |
| 2009 to 10 | 386 | 673 | 1,059 |
| | | | |
| 2000 to 2005 | 1,873 | 626 | 2,499 |
| 2005 to 2010 | 3,374 | 2,879 | 6,253 |
| 2000 to 2010 | 5,247 | 3,505 | 8,752 |

Enrollment Changes: Percentages

| Annual % Change | Seattle | Bothell and Tacoma | Total |
|-----------------|---------|--------------------|-------|
| 2000 to 01 | 3.6% | 18.6% | 4.8% |
| 2001 to 02 | 0.9% | 1.1% | 0.9% |
| 2002 to 03 | -0.2% | -2.4% | -0.4% |
| 2003 to 04 | 0.3% | 3.0% | 0.5% |
| 2004 to 05 | 0.2% | -0.3% | 0.2% |
| 2005 to 06 | 0.7% | 7.0% | 1.2% |
| 2006 to 07 | 1.6% | 13.2% | 2.7% |
| 2007 to 08 | 3.0% | 16.1% | 4.3% |
| 2008 to 09 | 1.9% | 13.0% | 3.2% |
| 2009 to 10 | 0.9% | 11.3% | 2.2% |
| | | | |
| 2000 to 2005 | 4.9% | 20.1% | 6.1% |
| 2005 to 2010 | 8.4% | 76.9% | 14.3% |
| 2000 to 2010 | 13.8% | 112.5% | 21.2% |

Enrollment Changes vs. Washington Unemployment Rate



FTE Employment by Source of Funds

All Campuses (Office of Budget and Planning)

| Fall 2009 | Number | % of Total |
|---|---------------|-------------|
| State Appropriation and Operating Fee | 5,921 | 20% |
| Grants and Contracts | 7,324 | 25% |
| University Medical Center | 3,941 | 13% |
| Agency, including Harborview Med Center | 5,241 | 18% |
| Generated Local Revenue | 4,209 | 14% |
| Other (including Auxiliaries) | 2,656 | 9% |
| Total | 29,292 | 100% |

Faculty Numbers and Outlays

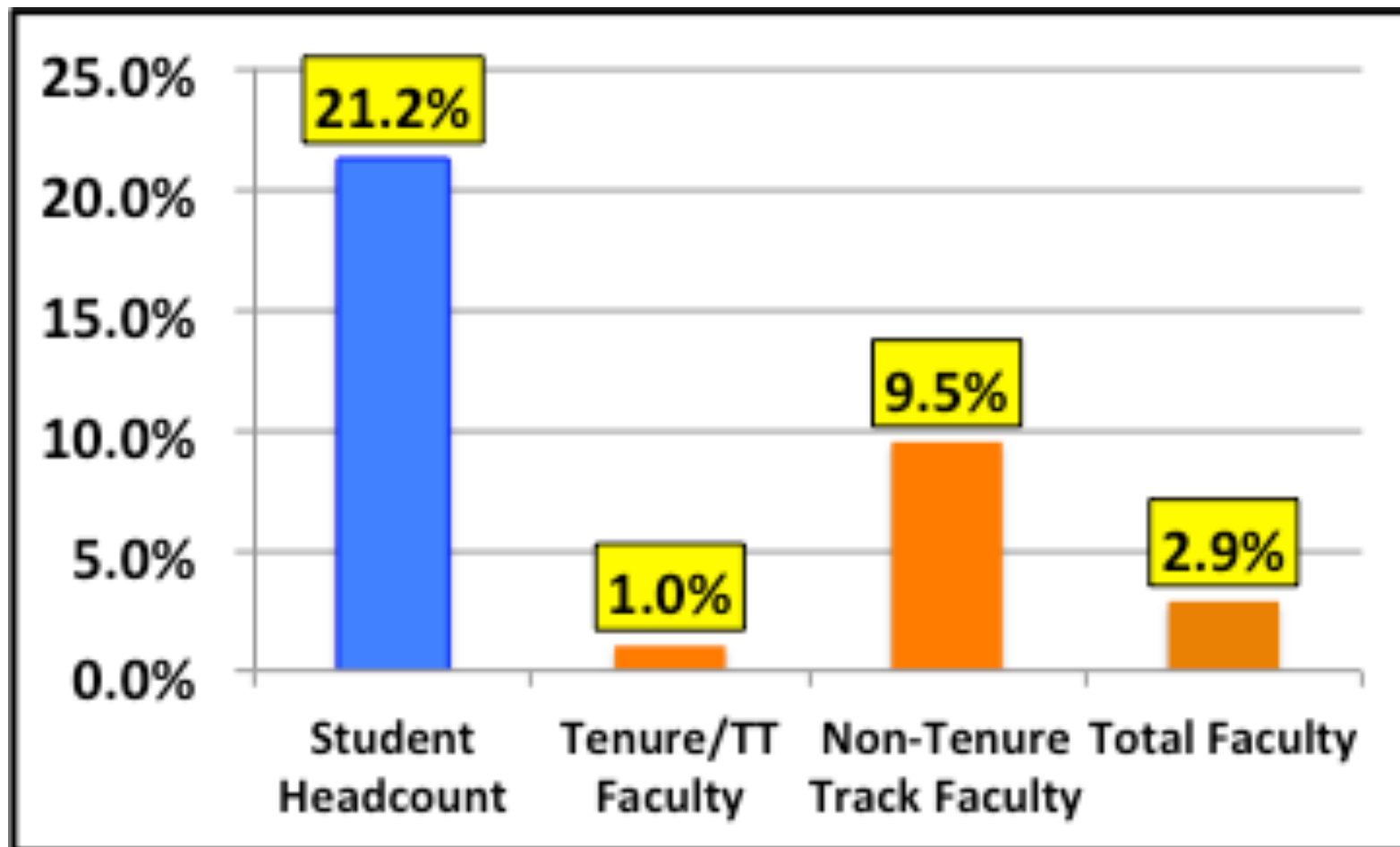
Source: Office of Planning and Budget

| Autumn 2009 | Tenure/TT | Non-TT | Total Faculty | Total Salary Outlay | Average Salary |
|----------------------|------------------|---------------|----------------------|----------------------------|-----------------------|
| Seattle, 9/10 month | 1,284 | 193 | 1,477 | 138,834,220 | 93,997 |
| Seattle, 11/12 month | 274 | 268 | 542 | 68,509,910 | 126,402 |
| Tacoma, 9/10 month | 110 | 22 | 132 | 10,631,131 | 80,539 |
| Tacoma, 11/12 month | 4 | 1 | 5 | 727,176 | 145,435 |
| Bothell, 9/10 month | 73 | 25 | 98 | 8,263,004 | 84,316 |
| Bothell, 11/12 month | 3 | 3 | 6 | 607,889 | 101,315 |
| TOTALS | 1,748 | 512 | 2,260 | 227,573,330 | 100,696 |
| | | | | | |
| Autumn 2010 | Tenure/TT | Non-TT | Total Faculty | Total Salary Outlay | Average Salary |
| Seattle, 9/10 month | 1,222 | 168 | 1,390 | 132,193,651 | 95,103 |
| Seattle, 11/12 month | 159 | 247 | 406 | 47,592,049 | 117,222 |
| Tacoma, 9/10 month | 91 | 22 | 113 | 8,843,919 | 78,265 |
| Tacoma, 11/12 month | 4 | 4 | 8 | 886,932 | 110,867 |
| Bothell, 9/10 month | 85 | 25 | 110 | 9,614,648 | 87,406 |
| Bothell, 11/12 month | 4 | 7 | 11 | 1,333,516 | 121,229 |
| TOTALS | 1,565 | 473 | 2,038 | 200,464,715 | 98,363 |

Faculty Salaries in Context

| | 2009-10 |
|---|----------------------|
| Total Faculty Salaries | 227,573,330 |
| Benefits (28%) | 63,720,532 |
| Total Faculty Salaries and Benefits | 291,293,862 |
| | |
| Salary and Benefit Expense for all employees | 2,224,082,000 |
| Total Expenses | 3,535,635,000 |
| | |
| Faculty Salaries and Benefits as Percent of: | |
| Total Salaries and Benefits of all employees | 13% |
| Total Expenses | 8% |

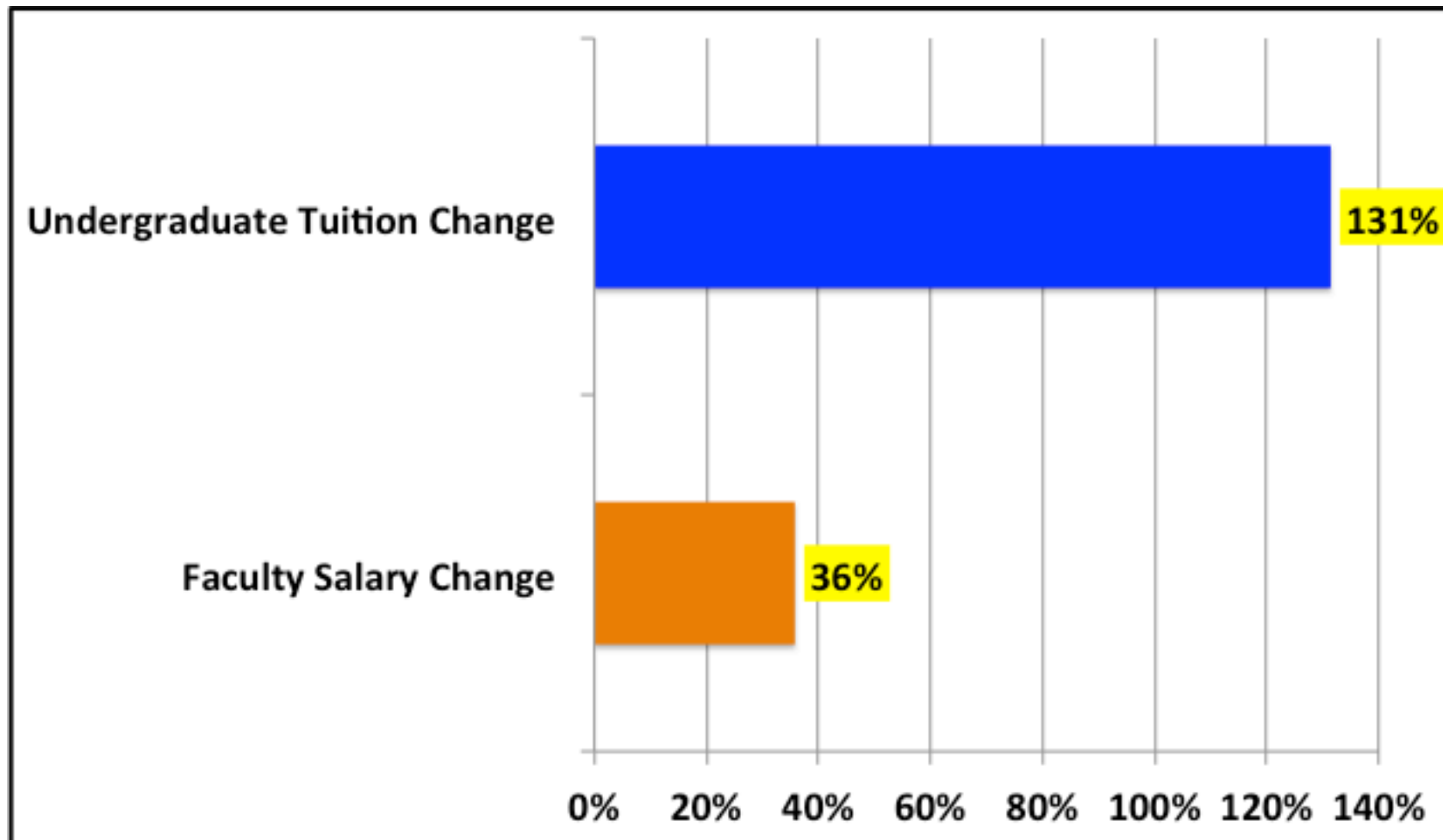
Percentage Changes: 2000 to 2010



Tuition

| Year | Undergraduate Resident Tuition | Annual % Change |
|-----------------------------|--------------------------------|-----------------|
| 2000-01 | 3,761 | |
| 2001-02 | 3,983 | 5.9% |
| 2002-03 | 4,636 | 16.4% |
| 2003-04 | 4,968 | 7.2% |
| 2004-05 | 5,286 | 6.4% |
| 2005-06 | 5,610 | 6.1% |
| 2006-07 | 5,985 | 6.7% |
| 2007-08 | 6,385 | 6.7% |
| 2008-09 | 6,802 | 6.5% |
| 2009-10 | 7,692 | 13.1% |
| 2010-11 | 8,701 | 13.1% |
| | | |
| % Change 2000-01 to 2005-06 | 49% | |
| % Change 2005-06 to 2010-11 | 55% | |
| % Change 2000-01 to 2010-11 | 131% | |

Tuition Change vs. Average Faculty Salaries: 2000 to 2010



Faculty Salaries: 2009-10 to 2010-11

Source: AAUP Faculty Salary Survey

| Seattle Campus | 2009-10 | 2010-11 | % Change |
|----------------|---------|---------|----------|
| Full | 121,900 | 118,300 | -3.0% |
| Associate | 88,100 | 86,800 | -1.5% |
| Assistant | 77,200 | 77,400 | 0.3% |
| Instructor | 45,700 | 44,100 | -3.5% |
| All Ranks | 96,500 | 95,300 | -1.2% |

Athletics Overview: 2009-10 Data

| | Men | Women | Total |
|---------------------------------|-------------------|-------------------|-------------------|
| Sports | 8 | 9 | 17 |
| # of Participants | 325 | 321 | 646 |
| | | | |
| Team Expenses by Sport: | Men | Women | Total |
| Basketball | 5,372,380 | 2,184,803 | 7,557,183 |
| Football | 19,207,560 | 0 | 19,207,560 |
| All Other Sports | 5,761,980 | 9,101,275 | 14,863,255 |
| Total of Sports Expenses | 30,341,920 | 11,286,078 | 41,627,998 |
| Not Allocated by Sport | | | 20,012,600 |
| Grand Total Expenses | | | 61,640,598 |

Source: EADA Federal Department of Education

Athletics Revenue and Expense Details

| Total Expenses by Function | Men | Women | Total |
|-------------------------------|-------------------|------------------|-------------------|
| Coaches Salaries | 4,741,944 | 1,877,337 | 6,619,281 |
| Operating Expenses | 3,860,194 | 1,365,100 | 5,225,294 |
| Athletic Student Aid | 4,606,834 | 3,534,560 | 8,141,394 |
| Recruiting Expenses | 575,715 | 287,995 | 863,710 |
| Sport Expenses | 30,341,920 | 11,286,078 | 41,627,998 |
| Not Allocated by Sport | | | 20,012,600 |
| Grand Total Expenses | | | 61,640,598 |
| | | | |
| Team Revenues: | Men | Women | Total |
| Basketball | 11,481,376 | 725,498 | 12,206,874 |
| Football | 33,919,639 | 0 | 33,919,639 |
| All Other Sports | 1,751,808 | 3,951,549 | 5,703,357 |
| Total Team Revenues | 47,152,823 | 4,677,047 | 51,829,870 |
| Not Allocated by Sport | | | 12,204,540 |
| Grand Total Revenues | | | 64,034,410 |
| | | | |
| Revenues Less Expenses | | | 2,393,812 |

Source: EADA Federal Department of Education

UW Athletics Expenses in Context

| | 2009-10 |
|--|----------------------|
| Athletic Expenses | 61,640,598 |
| Total UW Expenses | 3,535,635,000 |
| Percentage | 1.7% |
| | |
| Total Faculty Comp and Benefits | 291,293,862 |
| Total UW Expenses | 3,535,635,000 |
| Percentage | 8.2% |

UW Athletic Salaries in Context

| | 2009-10 |
|--------------------------------------|----------------|
| Average Men Head Coach | 592,743 |
| Average Women Head Coach | 208,593 |
| Average Men Assistant Coach | 148,469 |
| Average Full Professor | 121,900 |
| Average Associate Professor | 88,100 |
| Average Assistant Professor | 77,200 |
| Average Women Assistant Coach | 68,255 |
| Average Instructor | 45,700 |

Source: EADA Federal Department of Education and AAUP 2009-10 Salary Survey

Conclusions

- Is there really a financial crisis at UW? No, as UW has solid reserves, revenues exceeding expenses, strong cash flows, and manageable debt. This conclusion is true even with the advent of the loss of Federal stimulus money and a large expected drop in the 2011-13 biennium appropriation.
- This conclusion is confirmed by the outstanding credit ratings of UW.
- Can the administration handle the expected reduction in the State appropriation without making cuts to the core academic mission? Yes.
- The number of faculty and dollars expended on faculty are not keeping pace with the increases in enrollment; it is likely that there are fewer sections and/or larger classes.

Aspirations

- Change the conversation – do not just accept the fact that cuts have to be made no matter what. No matter what, the core academic mission has to be preserved.
- As faculty, we should be skeptical and persistent in demanding that the most resources necessary are being committed to the key academic and research mission of UW
- The response that we should be lucky to have our jobs needs to be rejected; public higher education is a public good, and we need to stand up for the role of higher education in our society.