OFFICE OF THE CHANCELLOR

June 11, 2020

Dear faculty and staff,

As you are all too aware, we are living in a time like no other. A movement is underway as people are rising up in droves to demand change in the face of systemic racism and violence against Black people in our country and around the world. As Chancellor Martin shared in his message to the community yesterday, next week we will announce concrete actions we will take as a university to improve our climate and advance racial equity both on campus and in St. Louis. To compound our national and regional heartbreak, this fight for racial equity is taking place against the backdrop of the COVID-19 pandemic, which continues to wreak havoc on Americans, with a disproportionate, negative impact on our communities of color. The pandemic has brought into stark view the disparities that have resulted from decades of systemic racism, making the call for justice even more imperative.

There have been nearly 2 million confirmed cases of COVID-19 in the United States, and the pandemic tragically has so far taken the lives of more than 113,000 people in this country. The crisis has caused enormous disruption to nearly every aspect of our daily lives, including our national and regional economy. Here at Washington University, like all institutions of higher learning, particularly those with medical centers, we continue to experience the impacts of the situation and to adapt to the dramatic changes that are still affecting us all. While we have begun the slow and deliberate process of returning some aspects of our university operations to a somewhat more normal status, we still face a long road to recovery, including additional sacrifices that we all may be asked to make in the months ahead. We're writing to you today to provide an update on where we are with our financial planning for the 2020-21 fiscal year, and to share insight into the uncertain path we must now travel together.

COVID-19 and university operations

It was just a few short months ago that we had to take swift action to respond to the emergence of COVID-19 in our country and region. In early March, we made the difficult decision to take bold steps to address the evolving public health crisis. We shifted to online instruction, sending our students home for the remainder of the spring semester and bringing back those who were studying abroad. With the exception of those who needed to be on campus to care for patients or maintain essential services, we moved our employees to remote work. We dramatically restricted laboratory research across the university. On the Medical Campus, we made significant changes to respond to the COVID-19 health crisis, dramatically reducing clinical services in hospitals and clinics. None of these were small things, and yet, as a community, we made them happen. We remain immensely proud of how all of you have risen to the challenge and given of yourselves for the greater good of our community.

As we continue to plan our next steps, we also must assess the damage this crisis has caused to the finances of the university and how we must respond. The pandemic began late in the 2019-20 fiscal year, which closes just a few weeks from now, on June 30. This means the situation will have a significant impact on at least two fiscal years – the one that is just ending, and the one that is about to begin.

Impact on 2019-20 budget

The pandemic has had serious, negative financial effects on all aspects of the university. At the School of Medicine, the elimination of elective surgeries and cancellation of a great deal of outpatient care at our hospitals and clinics has reduced revenue. The Danforth Campus has also lost revenue as it refunded student housing and dining fees. Additional costs include implementing technology to accommodate the shift to online instruction and the ability for employees to work remotely, as well as packing and shipping student belongings at the university's expense and mobilizing to support COVID-19 clinical operations with people and material. Overall, we lost over $150 million because of the pandemic for the fiscal year ending on June 30.

We already have taken significant steps to offset these losses, including some that have been extraordinarily difficult for our community. We furloughed more than 2,000 university employees for up to 13 weeks. Senior university leaders took voluntary pay cuts of 10 to 20 percent. Faculty incentives were reduced. We significantly reduced non-personnel expenses, including travel and items that we purchase. All of these actions were difficult, but necessary.

Impact on 2020-21 budget

Looking ahead to the next fiscal year, the question we must now attempt to answer is how best to position the university to respond to the challenges that still lie ahead. While there is considerable uncertainty, including the possibility of another pandemic surge in St. Louis, our best estimate is that university revenues will be approximately $500 million below our original estimates for the 2020-21 fiscal year. This represents 13 percent of the university's $3.9 billion budgeted revenue. There are still many unknowns about what the future holds. It remains to be seen what effect the pandemic will have on our fall enrollment of both domestic and international students, and the associated need for increased financial aid; whether there will be a second wave of pandemic surges and how that might continue to impact patient care revenues; or when we might be able to fully return to our research endeavors. Until the picture becomes clearer, we must make decisions based on what we know, and what we reasonably can prepare for based on current information.

Every unit at the university has revised their 2020-21 budgets to reduce expenses. Our initial estimate is that we will need to cut over $300 million in order to sustain our mission as a top institution through this challenging time and well into the future. Some of the steps we have already taken will be helpful in addressing our shortfall in 2020-21. The furloughs will carry into the new fiscal year, as will the reductions in salary for university leaders on both campuses, and in incentive payments for faculty on the Medical Campus. The hiring freeze and canceled merit increases will reduce expenses. We also have slowed capital expenditures while continuing key strategic investments that are imperative to ensure that we are still meeting the university's long-range goals. However, to reach an expense reduction of the necessary magnitude in 2020-2021 will require even more action.

The path forward

With revenue severely impacted by the current situation, we have taken a hard look at all financial resources that are available to us. We are using some of our reserve funds, with a careful eye toward responsible stewardship of our long-term assets, and we also are drawing funds from the endowment, within existing guidelines and limitations. On the expense side of the budget, when we take a big picture look at our costs, the largest category of expenses by far is salaries and benefits. As difficult as this is to acknowledge, we must face the reality that we cannot address the challenges of this situation without taking a hard look at ways to cut spending in this area. The available options include reducing salaries, laying off employees, and/or cutting benefits, at least for a period of time. Our decision-making is guided heavily by our strong desire to protect our employees and preserve as many permanent jobs as possible. Our people are our greatest asset and we are committed to doing all we can to avoid eliminating positions.

If we are to minimize the number of jobs eliminated, we have two primary options for otherwise reducing our compensation budget – temporarily reducing salaries for the 2020-21 fiscal year, and/or eliminating the university's contribution to employee retirement savings plans. Neither is an easy or desirable path; however, in consultation with other university leaders and our Board of Trustees, we are giving serious consideration to eliminating the university's contribution to employees' retirement savings plans for one year, beginning July 1, 2020. Doing this would result in an estimated savings of $95.4 million, making a significant contribution to our financial recovery, and mitigating the need for deeper salary reductions or more reductions in force. This also could be reversible in the event that we are able to change course in a positive direction. One point of information: achieving this level of savings by reducing positions would require eliminating 1,400 jobs at a salary of $55,000 per year (the median salary for our staff employees). While we must remain cautious, please be assured that if the situation were to significantly improve in the months ahead, then we would certainly want to look at reinstating what has been reduced or eliminated.

We realize this news will likely add to the stress that many of you are already feeling due to this situation, and for that, we are truly sorry. We wish our financial outlook were more positive and that we had other options for addressing these serious challenges. Please know that we are absolutely committed to doing all we can to protect the long-term security of the university and, importantly, the people that make it great. Especially in times of difficulty, it's important to remember that we are one community and that, with each of us doing our part, we will persevere together.

Sincerely,

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