

**Date:** December 17, 2018

**Subject:** Governor Inslee’s Proposed 2019-21 Biennial Operating and Capital Budgets

In advance of the upcoming 2019 legislative session, Governor Inslee released his proposed 2019-21 biennial [operating](#) and [capital](#) budgets on Thursday. The Governor’s operating budget assumes significant new revenue from the creation of a capital gains tax, increasing the business and occupation tax rate for professional services, and modifying the real estate excise tax. His proposed biennial operating budget would significantly increase appropriations to higher education institutions and student financial aid. The Governor’s budgets also invest heavily in the state’s behavioral health system—including planning a partnership with UW’s health science schools to expand the workforce and clinical care through telemedicine and new clinical facilities, recovery efforts for Southern Resident Killer Whales, and steps to reduce greenhouse gas emissions.

As a reminder, **the release of the Governor’s budget proposals represents the first step in a lengthy budget process.** Lawmakers in the Senate and the House will have the opportunity to release their own budget proposals over the course of the legislative session. In sessions occurring in odd-numbered years (such as the upcoming session), lawmakers are tasked with setting a two-year state budget, which they have an opportunity to amend during supplemental sessions in even-numbered years. The 2019 session is set to begin on January 14, 2019, and will end on or before April 28, 2019, with the option of one or more 30-day special sessions.

For a recap of the legislature’s final action on the 2018 supplemental budget, please see OPB’s brief [here](#). For more information regarding the UW’s current requests for state funding, please see our 2019-21 operating and capital submissions on [this page](#).

## OPERATING BUDGET

In addition to new revenue, Governor Inslee’s operating budget proposal assumes revenue projections in the [November revenue forecast](#) from the Economic and Revenue Forecast Council. Subsequent budget proposals by leadership in the Senate and House are likely to be released following the next revenue forecast, which is set to be released in March. Recent revenue forecasts have consistently increased revenue projections, but that growth may be slowing.

### *Direct Impacts to the UW*

Table 1 shows the total funding provided over the 2017-19 biennium (FYs 2018 and 2019), the assumed carryforward level (which is the cost of continuing appropriations from the previous biennium into the new biennium), and the total funding provided in the Governor’s operating budget proposal. Overall, the Governor’s budget reflects an increase of \$93.8 million over the base budget. Details are provided on the following page.

**Table 1: UW State Funding - 2019-21 Biennial Operating Budget Proposals**  
Near General Fund State (including Pension Funding Stabilization Acct\*), (in \$1,000s)

Budget	FY 1	FY 2	Total
<i>2017-19 Enacted including 2018 Supplemental Changes</i>	351,549	369,271	720,820
2017-19 Base Budget (2017-19 Enacted + Carryforward)	365,776	364,864	730,640
<b>Governor’s Proposed 2019-21 Biennial Operating Budget</b>	<b>406,804</b>	<b>417,676</b>	<b>824,480</b>

\*See footnote below Table 2

Table 2, on the next page, shows a line-by-line breakdown of the funding levels and policy changes proposed. Line items in the table are described in more detail in the following pages.

**Table 2: 2019-21 Biennial Operating Budget Proposals Near General Fund State (in \$1,000s)\***

		Governor Proposed		
		FY20	FY21	2019-21 Total
<b>Total 2017-19 Funding*</b>		351,549	369,271	<b>720,820</b>
<b>2019-21 Base Funding (2017-19 + Carryforward Level)*</b>		365,776	364,864	<b>730,640</b>
<b>Maintenance Level Changes</b>		5,155	10,159	<b>15,314</b>
Maintenance & Operations		-	4,123	<b>4,123</b>
Tuition Backfill Inflation Adjustment		915	1,851	<b>2,766</b>
Maintenance Lvl Ctrl Service Adjs.		2,882	2,865	<b>5,747</b>
Worker's Compensation		(61)	(61)	<b>(122)</b>
Comp	Pension & DRS Rate Changes	11	11	<b>22</b>
	Statutory Minimum Wage	-	1	<b>1</b>
	Paid Fam. Leave Employer Premium	32	32	<b>64</b>
	Adjust PEB Rate for Use of Reserves	1,376	1,337	<b>2,713</b>
<b>Policy Level Changes</b>		35,873	42,653	<b>78,526</b>
Policy Level Central Service Adjs.		1,367	1,347	<b>2,714</b>
Compensation	SEIU 925	782	1,285	<b>2,067</b>
	WSFE Police Management	21	40	<b>61</b>
	SEIU 1199	1	1	<b>2</b>
	Teamsters 117 - UW Police	44	80	<b>124</b>
	State Public Employee Benefits Rate	121	136	<b>257</b>
	State Represented Employee Benefits Rate	29	34	<b>63</b>
	Non-Rep General Wage Increases	5,850	11,496	<b>17,346</b>
	PERS & TRS Plan 1 Benefit Increase	152	153	<b>305</b>
	State Tax - Wellness Gift Card	1	1	<b>2</b>
	Health Coalition FSA Fund Transfer	(66)	(66)	<b>(132)</b>
Foundational Support		12,500	13,000	<b>25,500</b>
UW Hospital Support		7,000	7,000	<b>14,000</b>
UW Dental School		1,000	1,000	<b>2,000</b>
Enhancements and Student Supports		4,419	4,419	<b>8,838</b>
Mental Health Residency		1,000	1,000	<b>2,000</b>
CAMCET Clean Energy Operations		1,000	1,000	<b>2,000</b>
Labor Archives		300	300	<b>600</b>
Career Connected Learning		102	176	<b>278</b>
Ocean Acidification Response		250	251	<b>501</b>
<b>Total Funding*</b>		406,804	417,676	<b>824,480</b>

\* In the 2017-19 Biennium, the state temporarily shifted approximately \$51 million off of the State General Fund and onto the Pension Funding Stabilization Account (PFSA). PFSA amounts are included in these totals. See OPB's 2018 Supplemental Budget brief for more information.

***Tuition Policy:***

The Governor’s budget proposal assumes the continuation of current tuition policy (2ESSB 5954), which will allow resident undergraduate tuition increases of approximately 2 percent in FY20 and each year thereafter. Part of that policy requires an inflationary adjustment to tuition backfill amounts provided in previous budgets. The backfill adjustment results in an additional \$2.7 million over the biennium compared to the 2017-19 budget.

***Compensation: (See also the “Foundational Support” bullet point below)***

For the 2019-21 biennium, the UW requested \$70.8 million to support 4 percent per-year salary and benefit increases for faculty and professional staff, and also submitted a series of approved collective bargaining agreements (CBAs) for represented employees. The Governor’s budget provides \$17.3 million over the biennium to partially cover the cost of 3 percent wage increases for faculty and staff in FY20 and FY21. The Governor proposed partial funding of collective bargaining agreements that were ratified and submitted to the Office of Financial Management by the October 1, 2018 deadline. These agreements included provisions for across the board wage increases of 2 percent in each fiscal year.

The proposal caps the employer monthly funding rate for insurance benefits at \$977 per eligible employee in FY20, and \$978 in FY21. The budget states that these rates assume the use of plan reserves in amounts equivalent to an additional \$18 in FY20 (for an effective rate of \$995) and an additional \$76 in FY21 (for an effective rate of \$1,054). For eligible Public Employees' and Teachers' Retirement Systems Plan 1 members, this item provides a one-time, ongoing increase of 3 percent, up to \$62.50 per month. We are working with OFM and the UW Benefits Office analyze these changes.

***Maintenance Level Changes:***

- **Maintenance & Operations for the Population Health Facility** – The Governor’s budget would provide \$4.1 million per year beginning in FY21 to operate the building, which will be online at the beginning of FY21.

***Policy Level Changes:***

- **Foundational Support** – \$25.5 million over the biennium in additional operating funding for the University. This funding helps make permanent the one-time funds provided in the 2018 supplemental budget to temporarily cover 50 percent of new faculty and staff compensation and central service expenses. In addition, this funding is intended to recognize that operating costs, including compensation and state central service charges, exceed estimated increases in undergraduate operating fee revenue given the state’s current resident undergraduate tuition policy.
- **UW Hospital Support** – \$7 million per year (ongoing) to support the operations and teaching missions of the UW Medical Center and Harborview Medical Center.
- **UW Dental School** – \$1 million per year (ongoing) for the School of Dentistry to support its role as a major oral health provider to individuals covered by Medicaid and the uninsured.
- **Enhancements and Student Support** – \$4.4 million per year (ongoing) for academic program enhancements, student support services, and other key university priorities that maintain a quality academic experience for Washington students.
- **Mental Health Residency** – \$1 million per year (ongoing) for the psychiatry residency program to offer additional residency positions that are approved by the Accreditation Council for Graduate Medical Education.
- **CAMCET Clean Energy Operations** – \$1 million per year (ongoing) for shared clean energy research instrumentation and testbed operations at the Center for Advanced Materials and Clean Energy Technologies (CAMCET) facility. Funding will provide for professional staff and quality user spaces needed to operate as the nation's premier open-access facility for academic- and industry-relevant clean energy research instrumentation and technology.
- **Labor Archives** – \$300,000 per year (ongoing) for the Harry Bridges Center for Labor Studies to support labor research, the Labor Archives of Washington, and labor education. The Labor Archives currently receives \$200,000 per year in state support.

- **Career Connected Learning** – \$278,000 over the biennium to support the development of a statewide system of career connected learning. Funding is provided for coordinators to expand career preparation and career launch course offerings; for alignment between training plans and courses of study; and for staff to improve credit transfer and articulation agreements between high schools, community colleges, and institutions of higher education.
- **Ocean Acidification Response** – \$501,000 over the biennium (one-time) for the Washington Ocean Acidification Center to conduct biological response studies on the effect of ocean acidification on marine species, such as salmon and forage fish.
- **Ocean Acidification Sampling** – An additional \$200,000 over the biennium (ongoing) for the Washington Ocean Acidification Center for the increased cost of ocean acidification sampling, and to expand the existing sampling program to provide better information for assessments of ocean acidification at the base of the food web. The Center currently receives \$1.35 million per biennium in state funding. This allocation is provided from the Aquatic Lands Enhancement Account - State and, therefore, is not included in the table above.

*Other Activities/Collaboration:*

- **ShakeAlert Monitoring** – The proposal would provide \$1 million per year to the state’s Military Department “for the procurement and installation of seismic monitoring stations and global navigation satellite system stations that integrate with the early earthquake warning system known as ShakeAlert.” The language directs the Military Department to collaborate with the University of Washington for placement and location of the equipment.

*Financial Aid*

We continue to work with the Office of Student Financial Aid to analyze the potential effects of the Governor’s budget proposal on financial aid programs at the UW. Below, Table 3 outlines the Governor’s financial aid provisions for the Washington Student Achievement Council (WSAC). A few of the more major items are as follows:

- The budget proposal would rebrand the State Need Grant to be called “Washington College Promise” and would provide \$103.3 million over the biennium to reduce the waitlist by 6,000 students in FY20 and 12,000 students in the FY21. According to the proposal, this would fulfill the 2018 legislature’s commitment to fully eliminate the waiting list and serve all eligible students in FY22.
- The proposal would give \$12 million to match private contributions to the Washington Opportunity Scholarship.
- The proposal would also suspend several state financial aid programs that have not been funded since the 2011-13 biennium, including Washington Scholars, Washington Awards for Vocational Excellence programs, Community Scholarship Matching Grants, and the Foster Care Endowed Scholarship.

**Table 3: Financial Aid Funding in Governor’s Budget Proposal (Detail by biennium in \$1000s)**

	<b>Governor Proposed</b>
Washington State Opportunity Scholarship (WSOS) - State Match	12,000
National Guard Grant	3,000
College Bound WSOS Adjustment	2,127
Career Connected Learning	3,706
"Washington College Promise" (formerly State Need Grant)	103,300
Continue Program Suspensions	(9,514)
Increase FAFSA Completion	1,155
Mental Health Scholarship	2,000
Teacher Shortage Scholarships	1,600

For information about the operating budget, contact [Jed Bradley](#) or [Becka Johnson Poppe](#).

**CAPITAL BUDGET**

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The Governor's proposal would appropriate \$72 million in new state funding for capital projects. This is \$43 million less than the UW's requested \$115 million in state funds, but the Governor does propose fully funding one of the UW's highest priority requests: \$70 million for the Health Sciences Education Building. The budget would also provide \$2 million for planning and possible pre-design of a Behavioral Health Teaching Facility that would provide workforce development and clinical care. In addition, the budget would appropriate \$1 million out of the requested \$2.5 million from the State Toxics Control Account to fund ongoing soil remediation at UW Tacoma.

The proposal also includes the UW's requested amount of \$88.3 million from the UW Building Account for Minor Works and Preservation, Preventative Facility Maintenance, and Major Infrastructure (Seismic Improvements). These funds will support the preservation and renewal of facilities across all three campuses through infrastructure upgrades, building repairs, utilities and site work repair, classroom improvements, safety projects, and data system improvements across the UW. Historically, the UW Building Account was intended to fund minor capital repairs and preservation, but the state has increasingly used the account to fund operating costs and major capital projects and upgrades. Finally, the Governor provided reappropriation amounts as requested.

The Governor's proposal **does not include** funding for several of the University's requests: the Health Sciences T-Wing Renovation, College of Engineering's Interdisciplinary Ed./Research Center, UW Bothell's Academic STEM Building, UW Tacoma's Academic Innovation Building. As a reminder, leadership in the House and Senate will offer alternative capital budget proposals and work toward an agreement by the end of the legislative session. Therefore, it is possible that some or all of these projects will be funded in the final biennial capital budget.

Please see the following page for a table comparing the UW's capital budget request to the proposed appropriations in the Governor's proposed 2019-21 capital budget.

For information about the capital budget, contact [Kelsey Rote](#) or [Becka Johnson Poppe](#).

**Table 4: 2019-21 Capital Budget Proposal (in \$1,000s)\***

Appropriations / Requested Projects	Final UW 2019-21 Request			Governor Proposed		
	State Funds	UW Building Account	State Toxics Control Account	State Funds	UW Building Account	State Toxics Control Account
Minor Works - Preservation		47,466			47,466	
Preventative Facility Maintenance		25,825			25,825	
Major Infrastructure - Seismic Improvements		15,000			15,000	
Health Sciences Education Building (T-Wing addition)	70,000			70,000		
T-Wing Renovation - Phase 2	1,000					
Coll. of Eng. Interdisciplinary Ed./Research Center - Phase 1	5,000					
UW Bothell - Academic STEM Building	35,000					
UW Tacoma - Academic Innovation Building	4,000					
UW Tacoma - Soil Remediation			2,500			1,000
Behavioral Health Teaching Hospital				2,000		
<b>Total</b>	<b>115,000</b>	<b>88,291</b>	<b>2,500</b>	<b>72,000</b>	<b>88,291</b>	<b>1,000</b>

\*This table does not include reappropriations