

Date: December 15, 2017

Subject: Governor Inslee’s Supplemental Budget Proposals (Making Changes to the 2017-19 Biennial Budget)

Governor Jay Inslee released [supplemental operating and capital budget proposals](#) on Thursday. The operating budget includes technical corrections and minor appropriation changes to the current [2017-19 biennial budget](#) (fiscal years 2018 and 2019). Because the legislature did not pass a capital budget in 2017, the Governor’s capital budget is a two-year budget covering the entire biennium. The Governor’s budget release marks the first step of the 2018 legislative session – set to begin on Monday, January 8, 2018. As a reminder, the House and the Senate will propose their own budgets throughout this short 60-day session as they work toward compromise budgets.

Despite moderate growth predicted in the [November Revenue Forecast](#), lawmakers in Olympia face significant challenges. Most notably, the Washington State Supreme Court recently ruled that the legislature has still not met its obligations to fully fund K-12 education required by their ruling in *McCleary v. State of Washington*. Governor Inslee’s proposal reflects this budgetary reality, proposing only minor changes in overall funding for higher education institutions compared to the enacted 2017-19 biennial budget. On the capital side, the Governor’s proposal is similar to the proposed final capital budget that was negotiated, but ultimately not approved, in the 2017 session. The budget was not passed due to a disagreement over a fix to a different Washington Supreme Court decision regarding water rights (*Whatcom County v. Hirst*).

Operating Budget

The Governor’s budget would add significant new funds to K-12 education and would not significantly change appropriations for higher education institutions. Most significant changes in appropriation amounts were due to funding shifts required by the 2017-19 budget or technical changes to that budget. New investments directed at the UW include additional funding for computer science enrollments.

Direct Impacts to the UW

Table 1 shows total Near-General Fund-State (NGF-S) appropriations provided over the 2017-19 biennium. The assumed carryforward level reflects the cost of continuing the 2015-17 budget into the 2017-19 biennium. The 2017-19 enacted operating budget reflects funding levels approved in the 2017 legislative session, and the Governor’s 2018 supplemental budget proposal would make changes to those enacted funding levels.

Table 1: UW State Funding - 2018 Supplemental Operating Budget Proposals
Near General Fund State, (in \$1,000s)*

Budget	FY 1	FY 2	Total
2017-19 Carryforward Level (base budget)	333,151	332,225	665,376
2017-19 Enacted Operating Budget (approved in 2017 session)	351,726	368,847	720,573
Governor's 2018 Supplemental Proposal	323,419	339,205	662,624
Governor's 2018 Supplemental including PFSA*	349,034	364,658	713,692

*See footnotes below Table 2

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

Table 2: 2018 Supplemental Operating Budget Proposals Near General Fund State (in \$1,000s)

		Governor's Proposed		
		FY18	FY19	2017-19 Total
Total Enacted 2017-19 Funding:		351,726	368,847	720,573
Maintenance Level Changes		(28,331)	(32,796)	(61,127)
Maintenance & Operations (M&O) for CSE		-	979	979
Tuition Backfill Inflation Adjustment		(38)	-	(38)
Maintenance Level Ctrl Service Adjustments		7	9	16
WA Academy of Sciences Shift to WSU		-	(74)	(74)
Pension Fund Shift to Agencies*		(25,615)	(25,453)	(51,068)
Compensation	Workers' Compensation Changes	(195)	(195)	(390)
	Fund Split Correction - SEIU**	(1,457)	(4,591)	(6,048)
	Fund Split Correction - WFSE**	(1,034)	(2,250)	(3,284)
	Updated PEBB Rate	-	(1,352)	(1,352)
	Wellness \$25 Gift Card	1	1	2
	Paid Family Leave Employer Premium	-	130	130
Policy Level Changes		24	3,154	3,178
Policy Level Central Service Adjustments		24	111	135
Computer Science Enrollments		-	3,000	3,000
Comp	PERS & TRS Plan 1 Benefit Increase	-	39	39
	Family Leave - Low Wage Employees	-	4	4
Total 2017-19 Funding:		323,419	339,205	662,624
Total 2017-19 Funding Including PFSA*		349,034	364,658	713,692

* This is a net-zero change in state funding. The budget provides an equal amount of funding from the Pension Funding Stabilization Account (PFSA). See discussion under "Maintenance Level Changes" below.

** These collective bargaining agreements were over-funded in the enacted 2017-19 budget. See discussion under "Compensation."

Tuition Policy:

The compromise budget assumes the continuation of current tuition policy (2ESSB 5954), which will allow resident undergraduate tuition increases of approximately 2.0 percent in FY19, and in each year thereafter. Part of that policy requires an inflationary adjustment to tuition backfill amounts provided in previous budgets. A slight decrease to FY18 backfill amounts reflects a slight downward adjustment in Seattle's Consumer Price Index (CPI) in FY18.

Maintenance Level Changes:

- **Maintenance & Operations for the Bill & Melinda Gates Center for Computer Science & Engineering (formerly CSE II)** – The budget would add \$979,000 starting in FY19 to operate the building, which will be online in December 2018. The ongoing funding amount in FY20 and beyond will be approximately \$1.7 million per year. These amounts are slightly lower than what the UW requested.
- **Washington State Academy of Sciences (WSAS)** – Currently, the UW and Washington State University (WSU) receive appropriations for WSAS. In order to improve administrative efficiency, WSU requested, and the UW supported, moving the UW's portion of the appropriation to WSU beginning in FY19. This budget proposal would implement that change.
- **Pension Funding Shift** – The 2017-19 enacted budget included a funding shift between General Fund- State (Fund 001) and the Pension Funding Stabilization Account (Fund 489). The Governor's Office of Financial Management has said that this would have a net-zero effect on the UW's overall state funding; internal analysis is ongoing. Because the Pension Funding Stabilization Account is not considered "Near-" General Fund- State, it appears as a significant

reduction above. However, the proposal includes equivalent funds from the Pension Funding Stabilization Account to offset the General Fund cut, which is reflected in the final total.

Policy Level Changes:

- **Computer Science Enrollments** – Beginning in FY19, the proposal would provide an additional \$3 million to complete a goal of doubling the number of computer science degrees from 300 to 600 annually. Funding is provided from the Education Legacy Trust Account (ELT), which is considered Near-General Fund- State and is included above.
- **Shellfish Aquaculture Study** – The budget provides \$200k per year for three years to the Washington Sea Grant to complete a study to identify agreed-upon best management practices relating to non-native eelgrass affecting shellfish production. A report is due to the Office of the Governor and appropriate legislative committees by December 1 each year. This funding is provided from the Geoduck Aquaculture Research Account, and is not included in the table above.

Compensation:

- **Fund Split Corrections for SEIU and WFSE** – These collective bargaining agreements were over-funded in the 2017-19 budget due to a calculation error. The UW held these amounts (\$9.3 million over the biennium) in reserve in anticipation of this correction. The Governor’s proposal would pull back the \$9.3 million.
- **Paid Family Leave: Employer Premium and Low-Wage Employees (maintenance and policy levels)** – In the 2017 session, the state passed a paid family and medical leave program (Chapter 5, Laws of 2017, 3rd Special Session). Beginning January 1, 2019, the state, will be responsible for the payment of the employer premiums for state employees not covered by collective bargaining agreements. In the Governor’s proposal, the UW would receive approximately one third of the General Operating Fund (GOF) resources needed to cover the cost of the bill, including an additional amount for low-wage employees with higher employer contribution rates.
- **Public Employee Benefit Board (PEBB) Rates** – In the 2017-19 enacted budget, PEBB rates (monthly limits on employer contributions to employee benefits) were set at \$913 in FY18 and \$957 in FY19. In the Governor’s proposal, FY19 limit would be adjusted down to \$906, resulting in a \$1.3 million reduction in state funding for the UW (reflecting lower costs associated with the lower limit).
- **Other changes** – Workers’ compensation appropriations would be adjusted to reflect estimated charges from the Department of Labor & Industries. A one-time change in PERS & TERS contribution amounts would result in a slight increase in state appropriations. Certain employees, under terms of collective bargaining agreements, will be eligible to receive a \$25 gift card after completing a health risk assessment. The Governor’s budget proposal includes some funding to offset employer taxes owed on those amounts.

Financial Aid

We continue to work with the Office of Student Financial Aid to analyze the budget proposal’s potential effects on financial aid programs at the UW. At a high level, the Governor’s budget:

- Provides an extra \$12.8m to the Washington Student Achievement Council (WSAC) for the Opportunity Scholarship Program to meet state match requirements, and another \$1m to expand the program to students enrolled in professional/technical certificates or degrees.
- Provides no additional funding for the State Need Grant and makes no changes to eligibility for the program.
- Slightly reduces funding for the College Bound Scholarship program to reflect the November 2017 caseload forecast and 2016-17 academic year program data.
- Makes a small additional investment in staff to regulate private, for-profit institutions.

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

Capital Budget

The state legislature did not reach a deal on a 2017-19 capital budget during the 2017 legislative session and, unfortunately, we are still without a state capital budget. Governor Inslee assured the public during his 2018 supplemental budget press conference on December 14, 2017 that he wants the capital budget passed as soon as possible once the session begins in January.

The Governor's capital budget proposal is termed a "supplemental" capital budget, however it is essentially a regular biennial budget because of the absence of a biennial budget. Though the capital budget was not passed last session, a final bipartisan capital proposal was reached at the end of session, becoming the basis for the Governor's proposal. Agencies were asked to submit 2018 supplemental requests that closely mirrored the final legislative proposal. Aside from a few changes, the Governor's proposal for all the public four-year institutions mirrored what was in the final bipartisan proposal. For the UW, the only difference was an additional \$3 million from the UW Building Account for seismic improvements. Both the final bipartisan proposal and the Governor's proposal are outlined in the table below and compared to the UW's original and revised 2017-19 capital budget requests.

The Governor's proposal would appropriate \$82.7 million in new state funding for capital projects. Almost all of the UW's original capital requests would be at least partially funded by the new Governor's budget, though some of that funding is from the UW Building Account instead of the requested state funds. The UW Building Account is intended to fund minor capital repairs and preservation, but has been increasingly used to fund major capital projects and upgrades, diverting resources away from minor capital repairs and preventative maintenance.

In order to continue work on the new Burke Museum, critical building repairs, and preventative maintenance in the absence of a capital budget, the UW issued internal loans, pulled from reserves, and redeployed resources. This was done under the assumption (and reassurance) that the UW would be reimbursed for these costs once a capital budget is finally passed. The Governor's capital proposal included language that should allow the UW to reimburse itself for internal resources and loans that were used to continue critical operations in the absence of a capital budget, but we are continuing to analyze the language to ensure that is the case.

Before the end of the biennium, lawmakers approved a partial 2017-19 capital budget to "reappropriate" unspent funding from the 2015-17 biennium ([ESSB 5965](#)), which has allowed some activities to continue as planned. Reappropriation amounts are adjusted as the legislative session progresses, so the numbers reflect the needed funding for a given project at the time of the proposal. These amounts can be found on our [2017-19 budget brief](#).

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

Appropriations (Requested Projects)	UW 2017-19 Request		Revised UW 2017-19 Request*		Final Bipartisan Proposal			Governor's Budget 12/14/17		
	State Funds	UW Building Account	State Funds	UW Building Account	State Funds	UW Building Account	State Toxics Control Account	State Funds	UW Building Account	State Toxics Control Account
Burke Museum	24,200		24,200		24,200			24,200		
Minor Capital Repair and Preventative Maintenance		71,400		56,300		56,300			56,300	
UW Tacoma Soil Remediation	2,500		2,500				1,000			1,000
UW Major Infrastructure (Seismic Upgrades)	25,000		25,000			14,500			17,500	
Population Health Sciences Building	20,000		20,000		15,000			15,000		
Health Sciences Education - T-Wing Renovation/Addition	10,000		10,000		10,000			10,000		
College of Engineering Interdisciplinary Ed./Research Ctr	1,000		600							
UW Bothell	3,000		3,000		3,000			3,000		
UW Tacoma	500		500		500			500		
Ctr for Adv Materials and Clean Energy Technologies	10,000		20,000		20,000			20,000		
Evans School - Parrington Hall Renovation	10,000		10,000		10,000			10,000		
Subtotal:	106,200	71,400	115,800	56,300	82,700	70,800	1,000	82,700	73,800	1,000

* Agencies were asked to submit 2018 supplemental requests that closely mirrored the final legislative proposal.