

Date: December 15, 2016 **[UPDATED 1/13/2017 and 2/8/2017]**

Subject: Governor Inslee’s Proposed 2017-19 Biennial Operating & Capital Budgets

UPDATE 2/8/2017: The Office of Financial Management identified several errors in the Governor’s original 2017-19 operating budget proposal. Corrected “errata” budget documents are now available, see [OPB’s brief](#) for details.

In advance of the upcoming 2017 legislative session, Governor Inslee released his proposed 2017-19 biennial operating and capital budgets. His proposed biennial operating budget would appropriate over \$46 billion across all state agencies and institutions of higher education (Near General Fund - State), which amounts to a 21 percent increase over the enacted 2015-17 biennial budget. The Governor’s budget relies on a variety of new revenue streams, including closing certain tax exemptions, imposing a new capital gains tax, increasing the business and occupation tax rate, and enacting a new tax on carbon pollution. Using these new revenue streams and some of the state’s reserves, the budget proposal would make significant investments in K-12 education, mental health, and homelessness.

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 2017 session is set to begin on January 9, 2017 and will end on or by April 23, 2017, with the option of one or more 30-day special sessions.

For a recap of the final action on the 2016 supplemental budget, please see OPB’s brief [here](#). For more information regarding the UW’s requests for state funding for the 2017-19 biennium, please see our [operating](#) and [capital](#) requests.

OPERATING BUDGET PROPOSAL

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. As of late, revenue projections in each subsequent forecast have been increased, albeit only moderately.

Table 1 shows the total funding provided over the 2015-17 biennium (FYs 2016 and 2017), 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 \$85 million over the carryforward level. Details are provided on the following page.

**Table 1: UW State Funding - Comparison of 2017-19 Operating Budget Proposals
Near General Fund State, (in \$1,000s)***

Budget	FY 1	FY 2	Total
2015-17 Biennial Budget Total Funding	292,933	332,343	625,276
2017-19 Carryforward Level	333,151	332,225	665,376
Governor's Proposed 2017-19 Operating Budget	360,883	389,541	750,424

*See footnotes below Table 2

Detailed Comparison of the Budget Proposals

Table 2, below, shows a line-by-line breakdown of the funding levels and policy changes proposed by the Governor. The line items in the table are described in more detail below.

Table 2: Governor's Proposed 2017-19 Operating Budget Near General Fund State (in \$1,000s)

	FY18	FY19	2017-19 Total	
2017-19 Carryforward Level	333,151	332,225	665,376	
Maintenance Level Changes	1,814	3,988	5,802	
Maintenance & Operations for New Buildings	744	2,057	2,801	
Tuition Backfill Inflation Adjustment*	929	1,767	2,696	
Initiative 1433 Minimum Wage	64	87	151	
Archives/Records Management	8	8	16	
Audit Services	4	7	11	
Legal Services	(158)	(161)	(319)	
CTS Central Services	163	163	326	
OFM Central Services**	(557)	(557)	(1,114)	
Workers' Compensation Changes	279	279	558	
Pension and DRS Rate Changes	338	338	676	
Policy Level Changes	25,918	53,328	79,246	
Policy Level Central Service Adjustments	38	45	83	
Tuition Revenue Backfill	5,300	10,200	15,500	
WWAMI Spokane Continuation	3,000	2,000	5,000	
WWAMI Spokane Expansion	2,500	2,500	5,000	
Center for Human Rights	125	125	250	
Special Olympics USA Games	-	2,000	2,000	
Compensation	Public Employee Benefits Rate***	1,676	2,882	4,558
	Represented Employee Benefits Rate***	497	855	1,352
	Non-Rep Employee General Wage Inc.	10,732	27,262	37,994
	Non-Rep Targeted Pay Increases	1	1	2
	Agreement with WFSE	988	2,363	3,351
	Agreement with Teamsters (Police)	136	233	369
	Agreement with SEIU 925	881	2,777	3,658
	Agreement with WFSE Police Mgmt	44	85	129
Total 2017-19 Funding:	360,883	389,541	750,424	

*The FY19 amount for this item is not consistent across the budget bill and supporting documents. See below for discussion.

**Charges for OFM central services were vetoed by the Governor. This represents a net-zero impact. See below.

*** These adjustments reflect higher limits on employer contributions to benefits, and are presumed to have a net-zero impact.

Maintenance Level Changes:

The Governor's maintenance level items include:

- An appropriation of **\$2.8 million over the biennium to support maintenance and operations (M&O)** for the Intellectual House, Burke Museum, Computer Science & Engineering II, and UW Tacoma Urban Solutions. These buildings were funded, at least in part, by the state capital budget and are currently online or expected to come online during the 2017-19 biennium.
- **An inflationary adjustment to the tuition backfill amount from 2015-17** (per the requirements of 2ESSB 5954). As noted above, the budget bill and supplementary documents are not consistent as to the appropriation amount for FY19. The budget bill indicates that the amount for FY19 should be \$898,000 *more than* the FY18 amount. However, supplementary budget items show the appropriation for that year at \$898,000, not an incremental increase over the previous year. We believe this to be an error and have alerted the Office of Financial Management (OFM). The amounts reflected in the table are what we believe to be correct.
- Voters recently approved Initiative 1433, which will increase the state's minimum wage to \$13.50 by the year 2020. The Governor's budget would provide **\$151,000 over the biennium to cover the costs associated with the wage increases and sick leave provisions of the initiative.**

Central Services Changes (Maintenance and Policy Levels):

The Governor's budget makes several changes to central services, and associated charges, including:

- Assumed policy and practice changes by the Attorney General's Office (AGO) to achieve lower bills, which **reduced the UW's appropriation for legal services by \$319,000 over the biennium.** We are continuing to work with colleagues at OFM and the UW AGO to determine the impact of this change.
- A line item for OFM Central Services is included to reflect the UW's calculated share of charges from the Office of Financial Management (OFM). This is the OFM central service charge that the Governor vetoed at the very end of the 2016 session. It does **not** represent budget cut to the UW. For more information, please see our 2016 supplemental budget brief [here](#).
- Other central service items, including audit services and workers' compensation, are adjusted to reflect each agency's estimated charges from other state agencies performing those functions.
- The Governor proposed several small adjustments to these central service appropriations in the policy level, which were combined into the "Policy Level Central Service Adjustments" item in the table above.

Policy Level Changes:

1. **Tuition Revenue Backfill** – The provisions of current tuition policy (2ESSB 5954)—which would allow moderate increases in resident undergraduate tuition in FY18 and FY19—would be delayed until FY20. Instead, the Governor proposed that resident undergraduate operating fees would be frozen at the FY17 rate for FY18 and FY19. In exchange for the freeze, the Governor's budget would provide the UW with \$15.5m for the biennium. Based on initial calculations, this amount seems sufficient to cover the forgone tuition revenue associated with a 2.2 percent

increase in FY18 and a 2.0 percent increase in FY19 (which is an estimate of allowed increases under current tuition policy).

2. **WWAMI Spokane Continuation** – The Governor’s budget includes \$5 million for the biennium (\$3 million in FY18, \$2 million in FY19) for 20 UW medical students in Spokane to continue to years 3 and 4 of their medical education, bringing the cohort size to 60 students per cohort. While this is slightly less than what the UW requested for the biennium, the ongoing appropriation (\$2 million per year) would be sufficient to cover ongoing needs.
3. **WWAMI Spokane Expansion** – The proposal includes \$5 million for the biennium (\$2.5 million per year) to add an additional 10 students to each cohort of UW medical students in Spokane, bringing each cohort to a total of 70 students. The UW had requested \$9.2 million for the biennium to expand each cohort by 20 students, for a total of 80 students per cohort.
4. **Center for Human Rights** – The proposal would provide \$250,000 in one-time funding for the Washington Center for Human Rights to coordinate with the schools of law, business, economics, public policy, and international studies.
5. **Special Olympics USA Games** – The UW will be a vendor, serving as the main site for events, for the 2018 Special Olympics USA games in July 2018. To support that work, the budget includes \$2 million in one-time funding.

Compensation:

The UW requested \$66 million over the biennium to support 4 percent salary and benefit increases in both FY18 and FY19 for faculty and professional staff. The Governor’s budget assumes the following compensation increases: a 2 percent increase in FY18 and two 2 percent increases in FY19 (one on July 1, 2018 and the other on January 1, 2019). In total, the Governor’s budget would provide \$37.99 million in state support for these increases. Based on preliminary analyses, it appears that the funding provided may be sufficient to cover the three 2 percent increases. **[UPDATE 1/13/2017: After the Governor’s budget came out, we heard from the Office of Financial Management (OFM) that an error had resulted in certain institutions getting more compensation funding than OFM had intended and other institutions getting less. The UW was among the institutions that received more compensation support than OFM intended. UPDATE 2/8/2017: See OPB’s [brief on the “Errata” version of the Governor’s budget for details](#)]**

The Governor’s budget would also appropriate approximately \$7.5 million to partially fund collective bargaining agreements reached between the UW and represented employees, which include wage increases and other provisions.

As noted above, the Governor’s budget would appropriate funds to cover increases in the state public employee benefits rate, which are the monthly contributions agencies make to employee benefits. The Governor’s budget would increase monthly employer limits to \$970 per employee per month in FY18 and to \$1,029 per employee per month in FY19. The current rate is \$888 per employee per month. Funding adjustments reflect these new, higher limits on contributions and are presumed to have a net-zero impact.

Other State Funds (non-GF-S):

1. **Ocean Acidification Correction** – In 2015-17, the UW received an additional \$200,000 from the Aquatic Lands Enhancement Account for certain work related to ocean acidification. This funding was originally said to be ongoing, but was later confirmed to be one-time. As a result, the Governor’s proposal removed this funding for 2017-19.

2. **Marijuana Research Funding** – The budget proposal includes an additional \$799,000 per year from the Dedicated Marijuana Account to reflect funding authorized under 2E2SHB 2136 (2015). This brings the UW’s total allocation for marijuana research to \$1,026,000 per fiscal year for the 2017-19 biennium.

Other Higher Education Budget Impacts

We continue to work with the Office of Student Financial Aid to determine how the budget proposal could impact state-funded aid programs at the UW. At a high level, the budget includes:

- **\$116 million to expand the State Need Grant (SNG)** to serve 14,000 more eligible students each year, increasing the total number of grant recipients annually from 70,000 students to 84,000. Budget documents state that this investment will *decrease* the number of *unserved*, eligible students by 60 percent.
- **\$30 million to maintain the SNG** in light of projected increases in College Bound students, who are prioritized to receive the State Need Grant.
- **\$3 million to expand the Opportunity Scholarship** to students in professional-technical certificates or degrees.
- No changes to SNG eligibility and College Bound Scholarship eligibility.

CAPITAL BUDGET PROPOSAL

The Governor’s proposed capital budget would make a significant investment in the K-12 system, with new funding from the State Building Construction Account. The proposed budget for the UW provides some additional funding for projects that were not fully funded in the previous biennium. The budget includes the remaining funding needed for the Burke Museum (\$24.2 million), as well as additional funding for Computer Science & Engineering II (\$7.5 million). The Center for Advanced Materials and Clean Energy, on which work began in the previous biennium, would receive an additional appropriation (\$20 million). The budget also supports a portion of the UW’s request to perform seismic upgrades on the Seattle campus (\$14.5 million).

The proposed budget would appropriate \$70.8 million from the UW Building Account to “Minor Capital Repair – Preservation,” which would support the preservation and renewal of facilities across all three campuses. Projects in this category include infrastructure upgrades, building repairs, utilities and site work repair, classroom improvements, life safety projects, and data system improvements across the UW.

The budget would also appropriate \$1 million from the State Toxics Control Account to fund ongoing soil remediation at UW Tacoma.

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

Per usual, budget updates will be provided on OPB’s [website](#) and [blog](#). For information about the operating budget, contact [Jed Bradley](#) or [Becka Johnson Poppe](#). For information about the capital budget, contact [Alan Nygaard](#).

UW Priority	Requested Projects	2017-2019 Request		Governor's Budget 12/14/16		
		State Funds	UW Building Account	State Funds	UW Building Account	State Toxics Control Account
1	Burke Museum	24,000		24,200	-	-
2	Minor Capital Repair - Preservation	-	71,400	-	70,800	-
3	UW Tacoma Soil Remediation	2,500		-	-	1,000
4	UW Major Infrastructure (Seismic Upgrades)	25,000		14,500	-	-
5	Population Health Sciences Building	20,000		20,000	-	-
6	Health Sciences Education - T-Wing Renovation/Addition	10,000		-	-	-
7	College of Engineering Interdisciplinary Ed./Research Center I	1,000		-	-	-
8	UW Bothell	3,000		-	-	-
9	UW Tacoma	500		-	-	-
10	Ctr for Advanced Materials and Clean Energy Research Test Beds	10,000		20,000	-	-
11	Evans School - Parrington Hall Renovation	10,000	-	-	-	-
	Subtotal:	106,000	71,400	78,700	70,800	1,000
	Other New Appropriations					
	Computer Science & Engineering Expansion	-	-	7,500	-	-
	Subtotal:	-	-	7,500	-	-
	New 2017-19 Appropriations Total	106,000	71,400	86,200	70,800	1,000
	Reappropriations					
	Burke Museum	10,000	-	130	-	-
	Minor Capital Repair - Preservation	-	5,000	-	5,000	-
	UW Tacoma Soil Remediation	-	-	-	-	99
	Health Sciences Education - T-Wing Renovation/Addition	150	-	150	-	-
	UW Bothell	120	-	130	-	-
	Ctr for Advanced Materials and Clean Energy Research Test Beds	6,500	-	700	-	-
	Health Sciences Interprofessional Education Classroom	2,000	-	350	-	-
	Computer Science & Engineering Expansion	15,000	13,000	-	13,000	-
	School of Nursing Simulation Learning Lab	3,000	-	350	-	-
	Subtotal:	36,770	18,000	1,810	18,000	99
	Grand Total:	142,770	89,400	88,010	88,800	1,099