

Date: December 19, 2014

Subject: Governor Inslee’s Budget for 2015-17 (FY16 and FY17)

Governor Inslee’s Operating Budget - Overview

Governor Inslee released his balanced (book 1) and “new law” (book 2) budgets today. His book 2 budget appropriates \$38.8 billion of Near General Fund State for the 2015-17 biennium by assuming cuts and savings in existing programs, new revenue from new taxes and closed tax loop holes, and funding from reserves. Of this amount, *all* of higher education, including financial aid, would receive nearly \$3.3 billion (or 8.5 percent). We are still reviewing the potential impacts of this budget proposal and will provide revisions to this brief as more information becomes available. **Note that this budget represents the first step in a lengthy budget process; we do not expect final action on a new biennial budget from the Legislature until March at the very earliest.**

Table 1 shows the total funding the UW would receive under the Governor’s book 2 budget, compared to the current ending biennial balance and the carryforward level.¹

Table 1: UW State Funding - Governor's Book 2 Budget (in \$1000s)
General Fund State

Budget	FY1	FY2	Total
2013-15 Funding Level	\$254,062	\$246,471	\$500,533
Carry Forward	\$259,960	\$259,002	\$518,962
Governor's 2015-17 Budget	\$270,947	\$274,109	\$545,056

Table 2 shows the total funding that the various institutions of higher education would receive under this budget.

Table 2: 2015-17 Higher Education State Funding – Governor’s Book 2 Budget (in \$1000s)
General Fund State

	Carry Forward Level			Governor's Budget		
	FY16	FY17	Total	FY16	FY17	Total
UW	\$259,960	\$259,002	\$518,962	\$270,947	\$274,109	\$545,056
WSU	\$177,113	\$177,671	\$354,784	\$186,444	\$189,729	\$376,173
CWU	\$41,060	\$41,088	\$82,148	\$43,188	\$43,900	\$87,088
EWU	\$41,035	\$40,980	\$82,015	\$43,469	\$44,111	\$87,580
TESC	\$21,514	\$21,321	\$42,835	\$23,232	\$23,325	\$46,557
WWU	\$51,889	\$51,906	\$103,795	\$55,108	\$56,374	\$111,482
TOTAL	\$592,571	\$591,968	\$1,184,539	\$622,388	\$631,548	\$1,253,936

Although the Governor’s budget provides the UW with \$40 million more in general funds for 2015-17 than the UW received in 2013-15, the call on these funds is significant. In particular, the Governor’s budget assumes that the UW will cover one-third of total compensation increases using state funds and two-thirds using tuition revenue.

¹ The Carryforward level is calculated by OFM, reviewed by each agency and widely considered the “base budget” from which changes are made to agency funding in the upcoming biennium.

Moreover, although the budget assumes that the UW maintains its tuition setting authority for graduate students, professional students and nonresident undergraduate students, it mandates that resident undergraduate tuition rates remain frozen at 2012-13 levels without offsetting state funding investments.

As shown in Table 3, the result is that, once salary increases are covered, recognized additional operational needs are met and dedicated funds are removed from the equation, **there are no new state funds. In fact, the loss of resident undergraduate authority and the increased compensation expenses we would bear could result in potential unit-level shortfalls. OPB will continue to assess this budget and possible compensation expenses and provide more information as it becomes available.**

Table 3: Required General Fund Spending (in \$1,000s)

Revenue	Governor’s Budget
Undergraduate Resident Tuition Increase	FY16: 0%, FY17: 0%
2013-15 Funding	\$500,533
New Carryforward Adjustment	\$4,431
Total 2015-17 Funding	\$545,056
New Funding	\$40,092
Fund Shift (Education Leg Trust to General Fund)	\$14,000
Recognized Carry Forward & Maintenance Needs	\$4,317
O&M for UW Bothell’s Discovery Hall	\$1,556
Compensation Increases	\$15,221
Required - Engineering Enrollments	\$4,000
Required - Climate Impacts Group	\$1,000
Net New State Funding	\$0

Tuition

The Governor’s budget **freezes resident undergraduate tuition rates** at all public higher education institutions at the levels charged in 2014-15. However, as the UW did not increase undergraduate resident tuition rates during the 2013-15 biennium, the budget essentially holds rates at the 2012-13 level.

A separate, draft bill clarifying resident undergraduate tuition-setting authority and relevant reporting requirements is mentioned in the budget, but is not yet available online. Once it is released, OPB will track it for the University. The budget maintains current tuition-setting authority for graduate and professional students, and nonresident students.

Policy Changes Affecting Funding for UW Activities

Funded by State General Fund

- 1. Computer Science and Engineering (CSE) Proviso** –The Governor’s budget provides a biennial total of \$4 million in general funds for expansion of CSE enrollments by approximately 150 new students. The UW will be held to current reporting requirements regarding Engineering enrollment growth.

2. **Climate Impacts Group** –The UW Climate Impacts Group receives \$1 million in new funding over the biennium to conduct data modeling and provide Washington agencies and organizations with technical assistance on climate impact analysis.
3. **Continuation of other, prior provisos** – Proviso language is included to ensure the UW continues its current expenditure authority for activities regarding the Center for International Trade in Forest Products in the University of Forest Resources (CINTRAFOR), the Institute for Protein Design (IPD), and the Clean Energy Institute (CEI). The budget does not reallocate general funds for these activities, but essentially requires that current funding be maintained for those purposes.
4. **O&M Funding** – The bill provides \$1.556 million over the biennium to cover some of the expected operation and maintenance (O&M) costs for UW Bothell’s Discovery Hall; however the total is much lower than is needed. We believe this funding level will be revisited by legislative staff.

Funds other than State General Fund

1. **Ocean Acidification Research** – The Washington Ocean Acidification Center receives \$1.55 million from the Aquatic Lands Enhancement Account to continue operations, collection of data, and ocean acidification forecast modeling for the biennium. This appropriation includes \$200,000 in one-time funding to study certain species’ responses to ocean acidification.
2. **Research on Effect of Marijuana Use** – The budget provides \$1.158 million for two years from the Dedicated Marijuana Account for research on the short- and long-term effects of marijuana use, as authorized Initiative 502.
3. **Continuation of Aerospace Initiative Funding** – Proviso language is included to ensure the UW continues its current expenditure authority for activities regarding the Joint Center for Aerospace Innovation Technology with WSU.

Compensation

Pay Increases

The Governor’s budget authorizes salary increases for professional staff and faculty. The budget assumes increases of 3 percent in FY16 and approximately 1.8 percent in FY17; however, we do not believe the budget would hold the UW to those specific percentages. Of the cost of those assumed professional staff and faculty increases, \$12.5 million would be covered using state funding, while the remaining cost would come from tuition revenue or other local funds. Collective bargaining agreements (CBAs) with the Washington Federation of State Employees (WFSE) and Service Employees International Union 925 (SEIU 925), which include a 3 percent wage increase in FY16 and a 2 percent increase in FY17, are funded one-third from state funds and two-thirds from tuition. This represents the first time the UW has been asked to help cover the cost of CBAs. In all, the Governor’s budget assumes that the UW will cover one-third of total compensation increases using state funds and two-thirds using tuition revenue.

Benefits

Regarding health benefits, the budget reflects the language of the CBA reached with the labor healthcare coalition in September. The monthly employer funding rates are anticipated to maintain PEBB healthcare benefits at their current level. The bill also allows the Health Care Authority (HCA) to proceed with “managed competition” as a tool to maintain healthcare costs, with assurances to labor that the amounts they agreed to will be fully utilized in support of healthcare

for state employees. There is no specific reference to “wellness” in the budget at this time, because the HCA has maintained that they have the authority to facilitate a wellness program without specific authorizing language. The current surcharges for tobacco or spouse coverage continue to be a permanent feature of the plans.

Central Services

More [central services](#) were included in agency carryforward and maintenance than has been the case in the past. For example, replacement of OFM’s accounting system is now loaded as an agency expense, only partially covered by general funds. In the case of higher education, these central state-wide expenses would be covered primarily by tuition revenue and other local funds.

Other Higher Education Budget Impacts

1. **Education Legacy Trust (ELT) Fund** – At all public baccalaureate institutions, ELT appropriations were removed and replaced with commensurate general fund allocations. The effect of this change is null.
2. **Financial Aid** – The Governor’s budget contains new funding to expand the Opportunity Scholarship and College Bound (CB) Scholarship programs. Although no new funding is provided for the State Need Grant (SNG), the budget specifies that CB funds that are “saved” by maximizing SNG eligibility would be put toward the SNG program. The budget states that CB students will be given priority for the SNG program “regardless of date of enrollment at the institution.” Based on initial conversations, it appears that there would be a set-aside at the start of the year for the SNG needed for all projected CB students. That set-aside would be based on the proportion of total CB-eligible students at each institution.
3. **Health Professional Education** – The budget directs \$3 million over the biennium toward the Health Professionals Loan Repayment and Scholarship Program, which the Student Achievement Council must use to target loan repayments toward increasing the number of primary care and adolescent mental health practitioners in rural and underserved communities. **However, the budget does not provide funding for WWAMI, the regional medical education program, or a medical school at Washington State University.**

K-12 Impacts

The Governor’s budget directs \$1.3 billion to K-12 in order to meet the requirements of HB 2776, which requires the state to fulfill its commitment to fully fund and improve basic education. The budget’s K-12 investment would reduce K-3 class sizes; fund statewide, all-day kindergarten one year ahead of schedule; and increase allocations for materials, supplies, and operating costs.

Governor Inslee's Capital Budget - Overview

The Governor's proposed capital budget would appropriate \$238.5 million in new funding from the State Building Construction Account. With a focus on STEM and Clean Energy projects, the budget includes the full requested amount for CSE Expansion (\$40 million) as well as unexpected appropriations for design of CoE - Center for Advanced Materials and Clean Energy Technologies (\$6.6 million), and Clean Energy Research Test Beds (\$12 million). The budget also supports Health Sciences Education: MHSC T-wing Renovation predesign (\$623,000), Nursing Simulation Lab (\$4 million), Interprofessional Education (IPE) Classroom (\$3 million). And as a continuation of 'restore the core', the budget also supports the completion of the phased renovation of Lewis Hall.

While the proposed budget includes funding for the Burke Museum (\$16 million), it is less than the Burke's request (\$46 million). Also not included in proposed budget is funding for the Life Sciences Building, UW Tacoma - Urban Solutions Center - Classroom Building Renovation (construction), or UW Bothell - Phase 4 - Academic STEM (predesign).

The proposed budget would appropriate \$69 million from the UW Building Account; Minor Capital Repair - Preservation (\$43.2 million) to 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, life safety, and classroom improvements. Preventative Facility Maintenance and Building System Repairs (\$25.8 million) shifts resources from the capital budget to provide operating resources for UW preventative facility maintenance on the UW Seattle campus.

The budget would also appropriate \$1 million from the State Toxics Control Account to fund ongoing UW Tacoma Soil Remediation. All told, the Governor's capital budget provides the UW with much needed capital investment.

Table 4: The Governor's 2015-17 Capital Budget Compared to UW Requests (in \$1,000s)

UW Priority	Requested Projects	2015-17 Request		Governor's Budget 12/18/2014		
		State Funds	UW Building Account	State Funds	UW Building Account	State Toxics Control Account
1	Minor Capital Repair - Preservation	57,800	69,000	-	43,175	-
2	Health Sciences Education Phase I - T Wing Renovation/Addition	8,000		623	-	-
3	CoE - Computer Science & Engineering Expansion	40,000		40,000	-	-
4	CAS - Life Sciences Building I	40,000		-	-	-
5	UW Tacoma - Urban Solutions Center - Classroom Building Renovation	18,000		-	-	-
6	SON - Nursing Simulation Learning Lab	4,000		4,000	-	-
7	Health Sciences Interprofessional Education Classroom Phase I	3,000		3,000	-	-
8	UW Tacoma Campus Development and Soil Remediation	5,000		-	-	1,000
9	CAS - Lewis Hall Renovation	16,000		16,000	-	-
10	UW Bothell - Phase 4 - Academic STEM	500		-	-	-
-	Burke Museum	46,200	-	16,000	-	-
21	CoE - Center for Advanced Materials and Clean Energy Technologies	-	-	6,578	-	-
	Subtotal:	238,500	69,000	86,201	43,175	1,000

Table 4: (continued) The Governor’s 2015-17 Capital Budget Compared to UW Requests (in \$1,000s)

	2015-17 Request		Governor's Budget 12/18/2014		
	State Funds	UW Building Account	State Funds	UW Building Account	State Toxics Control Account
Other New Appropriations					
Preventative Facility Maintenance and Building System Repairs	-	-	-	25,825	-
Clean Energy Research Test Beds	-	-	12,000	-	-
Subtotal:	-	-	12,000	25,825	-
Reappropriations					
Denny Hall Renovation	27,590	-	27,590	-	-
UW Tacoma - Urban Solutions Center - Classroom Building Renovation	500	-	500	-	-
CAS - Lewis Hall Renovation	200	-	200	-	-
Burke Museum	650	-	650	-	-
Subtotal:	28,940	-	28,940	-	-
Total:	267,440	69,000	127,141	69,000	1,000