

Date: December 18, 2012

Subject: Governor Gregoire’s 2013-15 Biennial Budgets (Making Appropriations for FY14 & FY15)

Governor’s Biennial Operating Budgets - Overview

The Governor’s budget office released the first set of biennial budgets today. The current Governor proposed a “current law” balanced budget, assuming no new revenue, and a budget with new revenue, appropriating \$34.1 billion of Near General Fund State, for which *all* of higher education, including financial aid, would receive nearly \$3 billion (or 8.7 percent). As a reminder, **Governor Gregoire’s budget proposals are the first of many budgets to be released for the upcoming biennium. The earliest point that the UW will have a sense of its actual anticipated state funding level is late April 2013.** In addition, we might see Governor-elect Inslee release his own budget, or a set of budget priorities, in January 2013.

UW State Funding Scenarios			
	FY14	FY15	Total
" New Law" Budget (New Rev)	\$ 228,376	\$ 229,650	\$ 458,026
Balanced Budget (No Rev)	\$ 221,868	\$ 223,109	\$ 444,977
<i>Difference</i>			\$ (13,049)

Under Governor Gregoire’s balanced and new law budgets, each of the state’s six baccalaureate institutions would receive slight increases in funding when compared to carry-forward budget levels¹, with no new tuition increases or state funding reductions. While the UW has another year of tuition setting authority under HB 1795, the Higher

Education Opportunity Act, **this budget does not provide any new financial aid funds to cover tuition increases.** Note that Education Legacy Trust funding, from which the UW normally received at least \$8 million annually, was removed from all public baccalaureate institutions’ budgets and replaced with general fund appropriations. More analysis about this fund transfer will be provided as it becomes available.

The **2012 Legislature appropriated \$209 million in state funds to the UW for FY13**, thus, both of the Governor’s proposed budgets represent an increase in the UW’s state funding for FY14 and FY15. **However, the budget bill devotes these increases to covering expenses associated with the UW’s collective bargaining agreements. If any funds remain afterward, they will be available for any other purpose(s).**

The “new law” budget contains an additional \$6.5 million for the UW per year, along with more funding for all higher education institutions when compared to the balanced budget. In addition, the “new law” budget contains new funding of \$1 million per year for the UW’s College of Engineering.

2013-15 State Funding "New Law"			
	FY14	FY15	Total
UW	\$ 228,376	\$ 229,650	\$ 458,026
WSU	\$ 162,641	\$ 164,046	\$ 326,687
CWU	\$ 35,617	\$ 35,842	\$ 71,459
EWU	\$ 36,667	\$ 36,919	\$ 73,586
TESC	\$ 19,435	\$ 19,435	\$ 38,870
WWU	\$ 44,650	\$ 45,603	\$ 90,253
TOTAL	\$ 527,386	\$ 531,495	\$ 1,058,881
SBCTC	\$ 598,770	\$ 604,476	\$ 1,203,246

Governor Gregoire’s Budgets: Policy Changes Affecting Funding for UW Activities

1. **College of Engineering Proviso** – The Governor’s new law budget provides \$1 million per year in new state funds for the College of Engineering to continue enrollment growth, which was initially “funded” through a redirect of UW funding last year.

2. **Aerospace Initiative Funding** – Both the new law and balanced budgets contain \$1.5 million per year of Economic Development Strategic Reserve Account Funds for the Joint Aerospace Initiative with WSU.

¹ Carry forward budgets taken into account previous budget changes, restore temporary cuts, and make permanent final budget changes. The carry forward near general fund appropriation for the UW is \$451.1 million for FY14 and FY15.

3. **Center on Ocean Acidification** – Both budgets contain \$910,000 per year for a new Center on Ocean Acidification in response to the Governor’s blue ribbon task force on ocean acidification.

Tuition

The Governor’s budget bill contains language allowing the Regents to set tuition rates, and all other fees, in a manner considered reasonable and necessary for **all student categories other than resident undergraduates**. Importantly, the budget bill does not authorize tuition increases for resident undergraduates, which means that **no new tuition increases are assumed in the funding of the State Need Grant**. However, UW Regents have authority to set tuition rates for resident undergraduates under HB 1795, the Higher Education Opportunity Act.

Tuition rates for the 2013-14 academic year will be established in late spring 2013 by the UW Board of Regents, in consultation with the President, Provost, Board of Deans, Provost Advisory Committee for Students, and Faculty Senate Committee on Planning and Budgeting after enactment of a final budget.

Compensation

The Governor’s budget does not extend the current salary freeze for state employees. In other words, salary increases would be allowable, but remain unfunded, in both the new law and balanced budgets.

The UW’s collective bargaining agreements (CBA) are deemed financially feasible in the budget and provisions are made for each CBA submitted to the Governor in October. Note that the restoration of the 3 percent salary reduction imposed on all state agencies last biennium (for the UW, this was a temporary reduction of \$12 million per year) is expressly devoted to covering the expense associated with each CBA at the UW.

The Governor’s new law budget includes a contingent \$3.8 million in funds (equivalent to a 1 percent increase in the state-supported UW salary base) for compensation increases in FY15 should the February 2014 revenue forecast indicate that a \$200 million positive variance in revenue is possible in FY15.

Other Higher Education Budget Impacts

1. **Financial Aid** – The Governor’s balanced and new law budgets contain increases for student financial aid primarily related to the incoming enrollment expansion of College Bound students. In addition, College Bound students are guaranteed priority for State Need Grants. Again, these budgets do not contain new State Need Grant funding for tuition increases, as the budgets assume that institutions will not increase tuition rates for resident undergraduate students.
2. **STEM Enrollment Pool** – The Governor’s budgets contain an \$11 million appropriation (\$5.5 million per year) for a competitive funding program for public baccalaureate institutions to expand STEM enrollments. Funds would be distributed by the Office of Financial Management, in consultation with the governor’s office, and the Student Achievement Council.
3. **STARS Eliminated** – The Governor’s budget eliminates funding for the Entrepreneurs in Residence Program (STARS) at the UW and WSU for a “savings” of \$3.7 million.

Health & Human Services, K-12 Impacts

Governor Gregoire's budget assumes federal Medicaid support that will increase the number of Washingtonians eligible for Medicaid and simultaneously, a higher Medicaid reimbursement rate. Additionally, both budgets assume one-time savings from lower than forecasted caseloads in the state's Workfirst program.

The Governor's budgets suspend cost-of-living increases for K-12 education employees for a "savings" of \$360 million. The Governor is proposing an increase in the K-12 budget to begin implementation of HB 2776, increasing the state's commitment to basic education. These enhancements include funds to reduce class sizes, continue phasing in all-day kindergarten, improve teacher and principal evaluations, and support for maintenance, supplies, and operating costs.

More information about these areas of the budget will be provided as it becomes available.

Governor Gregoire's biennial budgets are a critical first step in the annual legislative budget process, and serve as foundations from which both legislative chambers build their budgets. However, it is critical to note that we are at least four months away from a legislative budget compromise (unless special legislative sessions are called).

For more information about the operating budget, please contact: Sarah Hall at sahall@uw.edu or 206.543.4804.

Governor's Biennial Capital Budget - Overview

Governor Gregoire's capital budget contains a total appropriation to the University of Washington of \$56.5 million in state bonds, \$67.5 million in UW Building Account funds, and authorizes the UW to issue bonds in an amount not to exceed \$20 million for the renovation of Denny Hall financed from UW Building Account.

The issuance of UW-backed bonds to fund Denny Hall would impact the UW's debt capacity available to fund other capital projects. The Governor's budget includes funding for the three of the University's top four capital priorities. The proposed budget would fund renovations for Denny Hall and Lewis Hall funded with state funds and UW bonding authority. The Governor's budget also appropriates \$25 million from the UW Building Account to fund Preventive Facility Maintenance and Building System Repairs.

Priority	Requested Projects Name	Phase	2013-15		Gov Gregoire Budget 12/18/2012		
			State Funds	UW Building Account	State Funds	UW Building Account	UW Bond Authority
1	Minor Capital Repair - Preservation	D/C	64,700	40,000	11,754	35,000	-
2	Minor Capital Repair - Program Renewal	D/C	-	22,000	-	-	-
3	Major Infrastructure - UW Tower Chilled Water System Replacement	D/C	7,500	-	-	7,500	-
4	Major Infrastructure - MHSC Roofing Replacement Project	D/C	7,000	-	6,529	-	-
5	Major Infrastructure - UW District Energy Resource Center	D	2,200	-	-	-	-
6	Health Sciences Education Phase I - T-Wing Renovation/Addition	PD/D	8,000	-	-	-	-
7	CoE - UW College of Engineering Classroom & Research Renovation	PD/D/C	13,400	-	-	-	-
8	UW Tacoma Classroom Building Renovation - Urban Solutions Center	PD/D	1,900	-	-	-	-
9	Health and Life Sciences - Hitchcock West	PD/D	10,500	-	-	-	-
10	CAS - Denny Hall Renovation	C	54,600	-	34,600	-	20,000
11	CAS - Lewis Hall Renovation	C	3,650	-	3,650	-	-
12	UW Libraries Archival Storage - Sand Point Building 5	PD/D	1,000	-	-	-	-
13	Innovation Collaboration Center	PD	350	-	-	-	-
14	CoE - Interdisciplinary Education/Research Center I	PD	350	-	-	-	-
15	UW Tacoma Innovation Partnership Zone Development - Phase 1	PD	500	-	-	-	-
-	Preventive Facility Maintenance and Building System Repairs		-	-	-	25,000	-
Biennial TOTAL:			175,650	62,000	56,533	67,500	20,000

For more information about the capital budget, please contact: John Seidelmann at seidj@uw.edu or Kateri Schlessman at kateris@uw.edu.