

Date: December 16, 2010

Subject: Governor Gregoire’s 2011-13 Biennial Budget (Fiscal Years 2012 and 2013) – **COMPENSATION REDUCTION REVISION**

The Governor’s 2011-13 Operating Budget was released yesterday and as we reported, it contained significant cuts to higher education institutions. The brief we sent out yesterday is included in full form beginning on the second page. However, a *critical section was not included* in the higher education section of the Governor’s budget, nor was it included the Office of Financial Management’s (OFM) summary of UW’s line item reductions and appropriations.

This section would require 3% compensation reductions for ALL state employees. Regardless of fund source, all UW employees would receive a pay cut of 3%.

On top of cuts we summarized yesterday, we would be required to reduce our general fund salary base by \$12 million and all other salary bases by \$20 million (all appropriated and non-appropriated funds are included in this budget currently). The bill language allows higher education institutions to locally exempt faculty, but the University would have to take a commensurate general fund cut to achieve the same overall reduction level. Currently, the bill exempts student employees and also exempts employees whose salaries are less than \$2,500 per month.

We are analyzing the feasibility and legality of this wholesale reduction and we want to emphasize that this is the first of many budgets we will see out of Olympia.

If we isolate these salary cuts to only the salary base supported by the general fund, our General Operating Fund budget declines even more in the next two fiscal years.

	FY10	FY11	2009-11	FY12*	FY13*	2011-13
State Support	\$320,627	\$307,152	\$627,779	\$247,518	\$203,918	\$451,436
Gen Fund Salary Cut	\$0	\$0	\$0	-\$11,989	-\$12,021	
Tuition Revenue	\$330,558	\$369,897	\$700,455	\$401,654	\$436,554	\$838,208
TOTAL GOF BUDGET	\$651,185	\$677,049	\$1,328,234	\$637,183	\$628,451	\$1,289,644

* Assumes 11% increase for res undergraduates per year + comparable increases from 2010-11 for other students

The UW’s cut compared to our maintenance level was 26% without these salary reductions; our cut would grow to 29% under this policy. Our understanding of these cuts is evolving, but a rough outline is included below.

UW	
State Cut Replaced with Tuition	-\$127,181
6% Pension Cap Cut	-\$16,683
FY11 December Cut Carried Forward	-\$22,772
Salary Reduction for General Fund ONLY	-\$24,010
Total Cut for FY12 and FY13	-\$190,646
Percent Cut Compared to Maintenance	-29.89%

Once again, **ALL state employees, regardless of agency, employee classification, and fund source would be affected under this proposal as it is written currently. OFM’s estimate of the UW’s share of these salary reductions for all nonappropriated and appropriated funds is \$32 million per fiscal year, or \$64 million over the biennium.**

WEDNESDAY, DECEMBER 15 – PLANNING & BUDGETING BRIEF

Date: December 15, 2010

Subject: Governor Gregoire’s 2011-13 Biennial Budget (Fiscal Years 2012 and 2013) – **ORIGINAL**

The Governor’s 2011-13 Operating Budget was released today and, as predicted, it includes significant reductions to higher education institutions. The Governor’s budget is the first of many budgets which will be released to address the 2011-13 biennium. While the Governor’s budget is a critical first step in the budget development process, we will have many more budgets to review as the legislative session progresses. This budget proposes funding reductions as well as fund shifts. In broad terms, the budget can be broken down into four categories.

- Replaces General Fund (GF) Support with Tuition Revenue** - Each institution received a GF reduction meant to equal the amount of tuition revenue generated by the Governor’s suggested tuition rate increases. The Governor established differential tuition rate increases for resident undergraduates at all six public baccalaureate institutions and community college system (CTCs):

UW	WSU	EWU	CWU	TESC	WWU	CTCs
11%	11%	9%	9%	9%	11%	10%

- Imposes a Cap on General Fund Support for Higher Education Pensions** - The Governor’s budget caps the state support of higher education pension plans at 6 percent of salaries. This cap translates into a budget cut for the UW of \$8.3 million a year, or \$16.7 million for the biennium.
- Memorializes Fiscal Year 2011 Special Session Cuts** - For the UW, this means that our \$11.4 million cut formalized last Saturday becomes a permanent cut carried into the 2011-13 biennium.
- Dictates Fund Shifts** - The Governor’s budget strips higher education institutions of any Education Legacy Trust (ELT) Funds and replaces these funds with General Funds. Revenue from cigarette taxes, which funded ELT, would be diverted to the GF and the remaining revenue from estate taxes would be appropriated to K-12. It isn’t clear whether K-12 will see a revenue benefit from being the sole beneficiary of what remains of ELT. This fund shift may affect the composition of, and funding for, higher education in the future.

The results of these four actions for FY 12 and FY 13 are displayed in the chart below. The percent cut is derived from the proposed 2011-13 funding level compared to maintenance level.

	UW	WSU	EWU	CWU	TESC	WWU	CTCs
State Cut Replaced with Tuition	-\$127,181	-\$61,535	-\$14,379	-\$14,833	-\$8,911	-\$23,994	-\$93,820
6% Pension Cap Cut	-\$16,683	-\$7,852	-\$1,894	-\$1,024	-\$1,024	-\$3,022	-\$24,591
FY11 December Cut Carried Forward	-\$22,772	-\$14,968	-\$3,080	-\$2,840	-\$1,554	-\$4,064	-\$52,898
Total Cut for FY12 and FY13	-\$166,636	-\$84,355	-\$19,353	-\$18,697	-\$11,489	-\$31,080	-\$171,309
Percent Cut Compared to Maintenance	-26.27%	-20.43%	-20.65%	-21.19%	-22.71%	-25.91%	-12.36%

How the Governor’s Budget Affects the UW’s General Operating Fund

The following chart compares the 2009-11 biennial budget to the Governor’s proposed 2011-13 budget, including fiscal year views for easy comparison to each adopted Regent’s budget.

	FY10	FY11	2009-11	FY12*	FY13*	2011-13
State Support	\$320,627	\$307,152	\$627,779	\$247,518	\$203,918	\$451,436
Tuition Revenue	\$330,558	\$369,897	\$700,455	\$401,654	\$436,554	\$838,208
TOTAL GOF BUDGET	\$651,185	\$677,049	\$1,328,234	\$649,172	\$640,472	\$1,289,644

* Assumes 11% increase for res undergraduates per year + comparable increases from 2010-11 for other students

Biennium over biennium, the UW’s state funding would be cut by \$166 million when compared to our maintenance level. Even with tuition rate increases of 11 percent per year for resident undergraduates and equivalent increases for all other tuition categories, the UW’s General Operating Fund (GOF) budget would still be, once again, in deficit.

Notably, based on the Governor’s proposed budget, the share of the UW core education budget provided by tuition revenue would jump to 65 percent, 14 percent higher than in the current biennium in which the 50 percent mark was first exceeded for the first time in history.

Changes to Financial Aid

State Need Grant (SNG) – Funding for SNG was increased by \$91.6 million to account for proposed resident undergraduate tuition rate increases of 11 percent per year. However, 22,000 **eligible** Washington students did not receive a SNG during the 2010-11 academic year because of funding limitations. From a policy standpoint, the SNG program is not fully funded until all **eligible** students receive funding but the program ran out of money in the 2010-11 academic year. While the Governor’s budget keeps the eligibility requirements the same for the next two years, if a similar number of students are eligible for a SNG, the program will once again not serve all eligible students. Hence, the program will be underfunded given need, once again.

Note that the eligibility ranges for the SNG remain the same as for the 2010-11 academic year, but a provision allows for grants to be reduced by the amount of any federal Pell Grant increases during the biennium. We anticipate more information on potential impacts as a result of Pell in the coming weeks.

State Work Study – The Governor’s budget maintains some support for work study students. However, the amount of support is reduced for both fiscal years. Roughly 3,000 students would receive work study support in the next two years, compared to about 5,000 who receive work study today.

Washington Scholars, Future Teachers Scholarship and Conditional Loan, Health Professions Conditional Scholarship, Passport to College Program, and WICHE Professional Student Exchange Program – No new awards will be provided in the coming biennium for these programs. However, students currently enrolled in these programs will continue to be funded.

Other Provisions or New Requirements in the Governor's Budget

- The budget would require higher education institutions to provide coordinated, “uniform” personnel data for state policy planning purposes.
- The budget provides an additional \$5 million for the Higher Education Coordinating Board to establish a Baccalaureate Incentive System to provide additional funds for institutions meeting certain degree, STEM, and retention benchmarks.

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