

Date: March 30, 2016 [UPDATED April 18, 2016]*

Subject: Final Compromise - 2016 Supplemental Operating and Capital Budgets (Making Changes to the 2015-17 Biennial Operating and Capital Budgets)

**On April 18, Governor Inslee signed the final compromise operating budget after vetoing several sections. One such veto reversed a plan to convert activities conducted by the Office of Financial Management (OFM) into a “central service.” As a result of the veto, the UW will no longer be billed approximately \$2.03 million from tuition operating fee revenue to cover those services. See the amended paragraph on page 3 for more detail.*

On Tuesday, March 29, the House and Senate released and passed a final compromise supplemental operating budget proposal in the form of [ESHB 2376](#). Lawmakers also approved a compromise supplemental *capital* budget in the form of [SHB 2380](#); please find that analysis toward the end of this brief.

As a reminder, supplemental budget proposals are intended to capture technical corrections and minor appropriation changes to the enacted 2015-17 biennial budgets (fiscal years 2016 and 2017). In case it is of interest, OPB’s brief regarding the enacted 2015-17 biennial budgets, which were amended during this legislative session, can be found [here](#).

Supplemental Operating Budget Proposals – UW Overview

The House, Senate, and compromise proposals take into consideration the lower revenue projections made in the Economic and Revenue Forecast Council’s [February forecast](#). However, Governor Inslee’s proposal, which was released in December, was based on the slightly more optimistic revenue forecast from November.

Table 1 shows the total funding provided in the final supplemental budget and each of the previous budget proposals.

Table 1: UW State Funding - Comparison of 2016 Supplemental Budget Proposals Near General Fund State, detail by fiscal year (in \$1000s)*

Budget	FY16	FY17	Total
<i>2015-17 Biennial Budget Total Funding</i>	291,886	327,686	619,572
Governor's Budget Proposal	291,783	328,879	620,662
House Chair Budget Proposal	291,882	328,984	620,866
Senate Chair Budget Proposal	291,707	332,283	623,990
Senate "Offer" Ways & Means Budget Proposal (SB 6667)	292,908	332,178	625,086
Final Operating Budget Compromise	292,933	332,343	625,276

*Figures account for amounts reflected in budget bills and accompanying documents.

Overall, the compromise budget reflects an increase of \$5.7 million over the enacted biennial budget, largely due to funding to “true up” resident undergraduate tuition reduction backfill associated with [2ESB 5954](#). However, the increase is partially offset by new ongoing charges related to services provided by the Office of Financial Management, which are described in more detail below.

Detailed Comparison of the Budget Proposals

Table 2, below, shows a line-by-line comparison of the final budget and previous budget proposals from the Governor, House and Senate. The line items in the table are described in more detail below.

**Table 2: 2016 Supplemental Budget Proposals (making changes to the 2015-17 Operating Budget)
Near General Fund State, detail by biennium (in \$1000s)***

	Governor	House	Senate	Senate 2nd Offer	Final Compromise
2015-17 Biennial Budget Total Funding	619,572	619,572	619,572	619,572	619,572
Supplemental Maintenance Changes	754	904	905	905	905
Audit Services	-89	-89	-89	-89	-89
Legal Services	-151	1	1	1	1
CTS Central Services	2	0	1	1	1
Time, Leave, Attendance System	13	13	13	13	13
Workers' Compensation Changes	979	979	979	979	979
Supplemental Policy Changes	336	390	3,513	4,609	4,799
Tuition Backfill			3,513	3,513	3,513
OFM Central Service Charges**			1,252	1,244	1,244
Moore v. HCA settlement costs**	86	90	90	90	90
Mental Health Task Force		50			50
Telemedicine			36	36	36
PEBB Funding Rate***			-269	-269	-134
MESA STEM Pre-College Program	250	250			
Alt. Contracts OMWBE			36	36	
Administrative Efficiencies			-41	-41	
Youth Suicide Prevention			97		
WWAMI Reduction			-1,201		
Total 2015-17 Funding:	620,662	620,866	623,990	625,086	625,276

**Italicized amounts indicate items that were not present in budget bills but were reflected in accompanying budget documents.*

***These amounts do not represent additional funding, see below for explanation.*

****This reduction reflects lower limits on monthly employer contributions to employee insurance benefits (zero net impact)*

Maintenance Level Changes:

Although the Governor’s proposal rolled back critical investments in the UW Division of the Attorney General’s Office, all subsequent proposals (including the final compromise budget) hold harmless the funding level in the 2015-17 budget.

Policy Level Changes:

- 1. Tuition Backfill** – The final compromise budget proposes \$3.513 million in additional funding to “true up” the tuition backfill associated with [2ESB 5954](#), which reduced the operating fee portion of resident undergraduate tuition and promised adequate funding to cover the difference in expected revenue. The final compromise budget states that

no more than one percent enrollment growth, or the average enrollment growth of the preceding five years, whichever is greater, may be considered when calculating adjustments to the tuition backfill for 2016-17.

2. **OFM Central Service Charges** – *[this paragraph adjusted on April 18]* The compromise budget as passed by the legislature converted accounting and forecasting activities conducted by OFM into a central service, a portion of which would have been charged to each state agency. The \$1.252 million in general fund appropriations shown in the table above were provided to offset the UW’s general fund charges. In addition, the UW would have been charged \$2.03 million from tuition operating fee revenue, for which no funding was provided. With a selective veto, Governor Inslee nearly negated the need for OFM to charge state agencies. The general fund allocation will still be provided to the UW, but will be swept back at a later date. The net fiscal impact of the change is now zero.
3. **Moore v. HCA Settlement** – The final budget allocates a total of \$80 million to cover an expected settlement related to the *Moore et al. v. Health Care Authority* lawsuit. The UW’s share of the settlement would be approximately \$16.267 million charged across all UW fund sources, including self-sustaining and auxiliary funds. The final budget allocates \$133,000 in state funding (\$90,000 in Near General Fund – State, as noted in the table above) to offset a small portion of the settlement costs. Therefore, the net impact to the UW is approximately \$16.134 million across a variety of local and non-appropriated funds.
4. **Mental Health Task Force** – The budget provides \$50,000 over the biennium to fully fund the Mental Health Task Force as a result of [SHB 1138](#).
5. **Telemedicine** – The Senate budget would provide \$36,000 over the biennium (\$18,000 per fiscal year) to meet the requirements of [SSB 6519](#).
6. **PEBB Funding Rate** – The budget cuts the UW’s general fund appropriation by \$134,000 to reflect a decrease in the FY17 state employer contribution for state employee insurance benefits. The FY17 rate in the 2015-17 operating budget was \$894 per month and the final compromise budget reduces it to \$888 per month. The net financial impact to the UW is zero as the cut in state funding is offset by reduced expenses.

The final budget includes \$100,000 in additional annual expenditure authority, beginning in FY17, for shellfish biotoxin monitoring work by the UW’s Olympia Regional Harmful Algal Bloom Program. This funding is from the Biotoxin Account and, therefore, is not included in the table above.

Compensation:

As described above, the compromise budget reduced the FY17 monthly employer funding rate for insurance benefit premiums from \$894 to \$888. The budget does not appear to modify higher education general wage increases or collective bargaining agreements for UW employees.

Other Higher Education Budget Impacts

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

- The final budget shifts a total of \$18.0 million in one-time caseload savings from the College Bound (CB) program to maintain State Need Grant (SNG) service levels in FY16 and FY17.

- In addition, the final budget includes \$6 million in FY17 for the Opportunity Expansion Program to award higher education institutions that increase production of bachelor’s degrees in high demand fields.

Table 3, below, compares the final compromise budget’s financial aid provisions to those of the previous budget proposals.

Table 3: Comparison of Financial Aid Funding in 2016 Supplemental Budget Proposals (Detail by biennium in \$1000s)

	Governor	House	Senate	Senate 2nd Offer	Final Compromise
Savings shift from CB to maintain SNG service levels		18,000	14,000	18,000	18,000
Opportunity Expansion Program (one-time \$)		6,000	6,000	6,000	6,000
Address teacher shortage		2,500			1,144
Foster Youth Suppl. Education Transition Program					343
Higher ed needs assessment in southeast King County					250
For-profit school system study				182	182
Alternative financial aid application systems*	200	200	200	200	200
Admin duties for the Alternative Routes Program					93
WA College Savings Program start-up costs				500	25
Expand Aerospace Training Student Loan program	✓	✓	✓	✓	✓
Study of students who become ineligible for CB		✓			✓
Continue the STEM Alliance	✓				
“Free to finish” college pilot program (one-time \$)		1,000			
Expand Health Professionals Loan Repayment Prgm		1,000			
Transfer from Health Prof Loan Repayment Prgm Acct			(1,000)		
CTC bachelor degree pilot program		50			

* From the amounts already provided to WSAC

Legislative staff have compiled a [high-level summary](#) of all aspects of the compromise supplemental budget.

Supplemental Capital Budget

The 2016 compromise supplemental capital budget offers limited additional capital funding for projects around the state. The UW, along with most other higher education institutions, received no additional funding beyond the enacted 2015-17 biennial 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 [John Seidelmann](#).