

VII. STANDING COMMITTEES**A. Academic and Student Affairs Committee**

In Joint Session with

B. Finance, Audit and Facilities Committee

University of Washington 2011-13 State Operating and Capital Budget Requests
– Information Only

INFORMATION ONLY:

The University of Washington's 2011-13 state operating and capital budget requests are due to the Office of Financial Management (OFM) on September 1, 2010. In order to meet the budget submission deadline, the framework for the UW's 2011-13 state operating and capital budget requests will be discussed with the Board of Regents as an information item at the June 2010 meeting and will be brought to the Board for action at the July 2010 meeting. This document contains preliminary estimates that may change in the action item that will be presented to the Board at the July meeting.

ACTIONS THAT WILL BE PROPOSED TO THE BOARD IN JULY:

At the July 2010 Board of Regents meeting, the administration will ask the Board to:

1. Approve the 2011-13 state operating budget request;
2. Approve the 2011-13 state capital budget request;
3. Endorse the general framework for certain policy initiatives that the UW may seek during the 2011 legislative session; and
4. Authorize the UW administration to further develop the descriptions of selected 2011-13 budget requests and to prepare and submit other supporting materials that are required by the Office of Financial Management.

Attachment

Proposed 2011-13 State Operating and Capital Budget Requests

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State Fiscal Outlook for 2011-13

In the 2009-11 biennial budget, Washington State faced a budget deficit of approximately \$9 billion, a major portion of which was resolved with state funding reductions. Since FY 2009, the University of Washington has sustained cuts to its state general fund base budget of \$132,066,000 (or 33 percent). Despite significant reductions across numerous state agencies and the tax increases that accompanied the 2010 supplemental budget, the outlook for the 2011-13 biennial budget cycle remains grim.

The Office of Financial Management's (OFM) outlook for the state general fund currently assumes another \$2.6 billion deficit for the 2011-13 biennium. This outlook anticipates increased demand for essential state services, the need to replace one-time federal stimulus funding, increased commitment of state funding for constitutionally mandated (and voter-approved) performance measures in the K-12 sector, and cost of living increases for teachers, which are required by a voter initiative passed in 2000. Mandatory, escalating operating costs compounded by the anticipated general fund deficit also mean that state bond capacity will be constrained.

These and other pressures indicate that state support for new budget initiatives is expected to be negligible. Thus, state agencies have been instructed to include only constitutionally mandated or emergency funding requests in their 2011-13 operating and capital state budget requests.

Components of the 2011-13 Budget Submission

The UW will still be required to submit a variety of materials to satisfy OFM budget submission requirements. UW administration must prepare a multitude of reports on topics which include tuition waivers, enrollments, maintenance and operations costs, student debt and information related to Initiative-960 (I-960). While we are not able to submit a full complement of state performance level budget requests with the required components of the operating budget, UW administration suggests two operating budget requests and a list of potential capital requests.

I-960 process

As required by the voter-approved Initiative 960, all state agency fee increases (including tuition) must receive legislative approval prior to implementation. OFM has asked agencies to include any fees expected to be initiated or increased during the 2011-13 biennium to be justified as part of the 2011-13 budget submittal. For the UW, this includes all categories of tuition and related fees not yet adopted by the Board of Regents for the 2011-12 and 2012-13 academic years, in addition to a variety of other student and course fees.

2011-13 Operating Budget Request

Funding requests proposed by the administration for inclusion in the UW’s 2011-13 state operating budget request are presented in the sections that follow this introduction. As required by OFM, the proposed budget requests are listed in proposed priority order. For the 2011-13 state operating budget request, the administration does not intend to present to the Board the actual text that will be submitted to OFM for each request. Instead, the administration is asking the Board to approve the items that will be included in the request.

The University is requesting state operating funds for two critical proposals in the 2011-13 state operating budget.

I. Compensation Adjustments

At the end of FY 2011, UW faculty will reach the end of a two-year compensation freeze. While salaries have stagnated across all state agencies, UW faculty salaries would have to grow \$6,800 on average to achieve the 60th percentile of Global Challenge State (GCS) peers. Flat compensation has an immediate effect at the UW. Recruiting and retaining the most talented faculty is difficult during faculty wage freezes. UW faculty leverage federal and private investment dollars to initial state investment at a three to one ratio; investing in our most influential resource is imperative.

Given that state revenues appear to be significantly constrained in the coming biennium, UW administration suggests that a two percent increase in salary and corresponding benefit adjustments be requested to begin to address the declining parity of UW faculty salaries compared to tier one research institutions in the GCS peer group, while recognizing that the state has limited resources to adjust compensation.

Likewise, professional staff sustained flat compensation for several years. The elimination of filled and vacant positions over the past three years, in concert with increasing workload pressure from over-enrollment, have combined to increase workload pressures across the academy. Professional staff members continue to bear expanding job responsibilities with less administrative support. Classified staff compensation adjustments will be made as a result of contract negotiations with university administration at a later date.

II. Funding for Current Enrollment Levels

The Legislature budgeted enrollments for each year of the biennium well below actual anticipated enrollments. When enrollments are budgeted by the legislature, full-time equivalent (FTE) students are combined from Seattle, Bothell and Tacoma and undergraduate and graduate FTEs are aggregated.

Enrollment	FY09	FY10	FY11
Actual/Estimated Average Annual FTEs	39,729	40,943	41,517*
Legislature Budgeted	38,526	36,546	37,162
Difference	1,203	4,397	4,355

*FY11 average annual FTEs is an estimate based on UW admission plans.

In the adopted 2009-11 state budget, the state authorized enrollment levels for FY 2010 and FY 2011 for the UW were reduced because of the budget cuts that were implemented as part of that budget. Because of record demand for undergraduate, graduate and professional programs, the UW decided to at least temporarily use its FY 2009 state authorized enrollment level as its “target” enrollment figure – and in the current fiscal year, the UW is substantially overenrolled relative to that number.

Should any new state resources be available in 2011-13, the UW administration may seek funding that would allow the UW to continue to serve the number of students that the state specified as the UW’s enrollment level for FY 2009. In effect, this action would restore budget cuts made in the last two legislative sessions and allow the UW to maintain access at current levels.

Enrollment Support for Areas of Critical State Need

Further, UW administration may seek resources for enrollment support in areas of critical state need. “Areas of critical state need” has been defined by the UW as including degrees in “life, natural, environmental and health sciences, engineering, computer and information systems and sciences, education and teacher preparation, and mathematics, applied mathematics and statistics.” Supporting enrollments in areas of critical state need is more costly than other academic areas; the UW received additional state funding for “high demand” enrollments in both years of the 2007-09 biennium.

III. Other Potential Requests

The administration is still evaluating whether it may want to submit one or two other budget requests for support for high priority issues at the UW where some state investment might leverage support from other funding sources. One possibility is to ask for some state funding to support the operation of facilities that support biomedical, science or engineering research.

Background for the Capital Budget Request

State Capital Funding in the Current Biennium

In the 2009-11 biennium, the UW received \$114 million (compared to \$146.9 million in the 2007-09 biennium) in state capital funds, and experienced a reduction in state support in the second year of the biennium in particular. Funding for Tacoma Phase 3, Savery Hall, Denny Hall and Lewis Hall Renovation Projects was reduced in the second year.

OFM and Higher Education Coordinating Board Capital Prioritization Process

In the 2008 supplemental legislative session, the legislature passed Engrossed Substitute House Bill 3329 which created a new capital prioritization process for public baccalaureate institutions. Major projects that have not been funded for design are required to go through the scoring process. In the 2010 supplemental legislative session, Senate Bill 6355 passed, which directs the Higher Education Coordinating Board to rank major capital projects at four-year institutions in a single list by priority order and submit the list to OFM for consideration.

2011-13 State Capital Budget Request

UW administration is requesting a total of \$240.1 million in state capital funds in the 2011-13 state budget and authority to spend \$47 million out of the UW Building Account (for a total of \$287,095,000). A summary of the UW's 2011-13 capital budget request (in priority order) is shown in the table below and brief project descriptions follow on the next page:

Project Name	2011-13	
	State Funds	UW Building Account
Minor Capital Repair - Infrastructure and Program Allocations	66,000,000	47,000,000
Denny Hall Renovation	54,615,000	-
House of Knowledge (New Academic Building)	2,700,000	-
Odegaard Undergraduate Learning Center - Phase 1 (Renovation)	19,500,000	-
UW Bothell Phase 3 (New Academic Building)	62,850,000	-
UW Tacoma Land Acquisition/Remediation	5,000,000	-
Anderson Hall Renovation	2,300,000	-
Lewis Hall Renovation	23,130,000	-
Miller Hall Renovation	4,000,000	-
Biennial TOTALS	\$240,095,000	\$47,000,000

Minor Capital Repairs, \$113,000,000. This request is split into \$66 million of state funds and \$47 million of UW Building Account funds for minor capital repair projects including building renewal, utility and energy conservation projects, upgrades to the communications data network, and critical educational facilities program improvements.

Denny Hall Renovation, \$54,615,000. After a delay of one biennium due to state funding constraints, Denny Hall is scheduled for construction in the 2011-13 biennium. Denny Hall must be strengthened to better resist earthquakes; the project scope includes the replacement of the electrical, lighting, mechanical, communications systems to bring the building into compliance with current building codes, and LEED Silver certification.

House of Knowledge, \$2,700,000. The UW is requesting state funds for the House of Knowledge, with the balance of the project to be funded from non-state sources.

Odegaard Undergraduate Learning Center- Phase 1, \$19,500,000. This request is for design and construction of Phase I renovation of Odegaard to reinvigorate student learning spaces, increase access to technology and support undergraduate education.

UW Bothell Phase 3, \$62,850,000. The UW is requesting state funds for the construction phase of UW Bothell Phase 3, a new academic building and associated site work to accommodate enrollment growth.

UW Tacoma Land Acquisition/Remediation, \$5,000,000. This request is for the acquisition of properties as well as for funds to address remediation requirements within the 46 acre footprint of the UW Tacoma campus. This appropriation would allow the UW to proceed with procuring individuals parcels of land as they become available; in total, six acres of individual parcels are not yet acquired.

Anderson Hall Renovation, \$2,300,000. Anderson Hall has not had a major upgrade in over 40 years; this request is for the design phase of its renovation. The renovation will address outdated building systems such as the heating/ventilation, electrical, lighting, and plumbing, as well as addressing the needs to upgrade seismic, life safety, access and building code issues.

Lewis Hall Renovation, \$23,130,000. This request is for the construction phase of Lewis Hall, which is listed on the Washington Heritage Register. The exterior and interior of Lewis Hall are in dire need of a complete renovation and upgrade. The project will update all major building systems utilizing sustainability goals to LEED Silver certification as well as address important seismic, life safety, accessibility and current building code requirements.

Miller Hall Renovation, \$4,000,000. Miller Hall is home to the College of Education and has not had a major upgrade in over 46 years; this request is for a combined predesign/design phase of its renovation. The project will address major building issues including the exterior shell, heating/ventilation system, plumbing, electrical, fire protection, access issues and computing infrastructure.

2011-13 Policy Level Requests

The UW administration is evaluating several policy requests for the coming legislative session with the goal of putting the university on a more stable and predictable funding path.

I. Provide a Sustainable Operating Funding Model for the University

- A. The UW administration would like to continue a conversation with state lawmakers to develop a sustainable funding model for the university that could include granting greater flexibility to set tuition and fees for resident undergraduate tuition to the UW Board of Regents.

- B. The UW's tuition setting authority for all nonresident and resident graduate tuition fee categories will sunset at the end of the 2012-13 academic year. Thus, the administration would like to engage in discussion with state lawmakers to grant permanent tuition setting authority to the UW Board of Regents for these categories.

II. Provide a Sustainable Capital Funding Model for the University

UW administration would like to continue prior discussions with state lawmakers on developing a sustainable funding model for capital projects that could provide the UW with greater ability to locally manage its Metro Tract and student building fee revenues.

III. Other Efficiency/Cost Saving Initiatives

UW administration seeks Regental consent to pursue legislative initiatives that would produce efficiencies or cost savings in purchasing, capital project contracting, etc.



University of Washington 2011-13 State Operating and Capital Biennial Budget Development

2011-13 State Biennial Budget Process



❖ Outlook for state general fund capacity in 2011-13 is bleak.

- OFM predicts another deficit for the coming biennium of at least \$2.6 billion.
- June quarterly revenue forecast shows revenue losses are worse than anticipated.
- Capacity for new operating budget initiatives and state bonding will be extremely limited.

❖ 2011-13 Budget Submission:

- Will include a full complement of required reports, but new budget initiatives are discouraged.
- The initial draft of UW operating and capital requests is due to the Higher Education Coordinating Board this summer.
- Formal operating and capital budgets are due to OFM early September.

❖ UW administration suggests the following structure:

- Two operating budget requests at the “performance level.”
- An abbreviated list of capital state budget requests
- Pursuit of several policy initiatives related to stable funding and student financial aid.

UW Proposed Operating Maintenance and Performance Level Requests.



Maintenance Level:

- ❖ *Restore Operations and Maintenance Shift*

Performance Level:

- ❖ *Compensation adjustments for faculty and staff*

Two percent increase in salary and corresponding benefit adjustments to address declining parity of UW faculty salaries compared to GCS peers.

- ❖ *Funding for Enrollments*

The UW is supporting more enrollments than the state is providing funding for. An enrollment funding package could support general enrollments or expand high demand enrollments, which is a clear priority for the state.

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Legislature Budgeted	38,526	36,546	37,162
Actual/Estimated Average Annual FTEs	39,729	40,943	41,517*
Difference	(1,203)	(4,397)	(4,355)



UW Proposed Capital Project List.

UW administration is requesting a total of \$240.1 million in state capital funds in the 2011-13 state budget and authority to spend \$47 million out of the UW Building Account (for a total of \$287,095,000).

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UW administration policy directions for the 2011-13 Biennial Budget Process.



UW administration seek Regental consent to:

- ❖ Advocate for increased funding for the State Need Grant
- ❖ Provide a sustainable operating model for the UW
 - Resident undergraduate tuition setting authority for the UW Regents.
 - Permanent tuition setting authority for the UW Regents for resident graduate and nonresident undergraduate and graduate tuition categories.
- ❖ Provide a sustainable capital funding model for the UW
 - Locally manage Metro Tract and student building fee revenues.
- ❖ Pursue other efficiency/cost savings initiatives as they arise