

May 19, 2005
Board of Regents
Finance, Audit and Facilities Committee

Information Item

Proposed Fiscal Year 2006 Operating and Capital Budgets

The Fiscal Year 2006 Operating and Capital Budgets are being presented as an information item at the May 2005 Finance, Audit and Facilities Committee meeting of the Board of Regents; these budgets will be presented for action at the June 2005 Board of Regents meeting.

Preview of the June 2005 Action Item

The June 2005 Action Item adopting the Fiscal Year 2006 Operating and Capital Budgets will ask the Board to do five things:

- adopt a Fiscal Year 2006 operating budget;
- adopt a Fiscal Year 2006 capital budget;
- raise undergraduate resident tuition for the 2005-06 academic year by 7% (from \$4,770 to \$5,103 – an increase of \$333 for the 2005-06 academic year);
- increase the undergraduate application fee from \$38 to \$50; and
- adopt a new graduate and professional non-resident tuition waiver under which most graduate and professional students would be eligible for the resident tuition rate after having lived in the state for one year (this will be a separate action item).

Status of Fiscal Year 2006 Operating and Capital Budget Development

It is important to note at the start of this discussion that while the process of developing the Fiscal Year 2006 operating and capital budgets is well along the road to completion, this is still a draft budget. Many of the component numbers that feed into this budget proposal will be updated one more time between the informational presentation at the May 2005 Board of Regents meeting and when the budget is brought for adoption at the June 2005 Board of Regents meeting. The proposed budget may also be revised based on feedback that the administration receives from the Board of Regents at the May 2005 meeting, as well as additional feedback from various campus constituencies.

Budget Context

There are three areas of budget context highlighted below: ongoing academic transformation; efficiency/effectiveness of university operations; and the state and local financial context that impacts the proposed Fiscal Year 2006 Budget.

Ongoing Academic Transformation

As part of the presentation of the proposed Fiscal Year 2006 budget at the May 2005 Board meeting, a short discussion of ongoing academic transformation at the UW will be presented.

Efficiency/Effectiveness of University Operations

As part of the presentation of the proposed Fiscal Year 2006 budget at the May 2005 Board meeting, a short update of information concerning the efficiency/effectiveness of university operations will be presented.

Financial Context

The Fiscal Year 2006 budget proposal that is being presented to the Board of Regents is divided into four areas:

- the core education budget;
- the restricted programs budget;
- the academic enhancement/support budget; and
- the capital budget.

The Fiscal Year 2006 proposed budget is summarized in Table 1. The budget context for Fiscal Year 2006 varies depending on which of these four areas of the budget is under discussion.

The context for the Fiscal Year 2006 Core Education Budget is primarily set by two factors: the outcome of the recently completed State legislative session and the tuition setting decisions for the 2005-06 academic year for undergraduate non-resident, graduate and professional students that the Board made in March 2005. Although the Fiscal Year 2006 State budget includes a \$3,497,000 budget cut for the UW, the UW will still receive \$14,579,000 more in State funding in Fiscal Year 2006 than it received in Fiscal Year 2005. New state funding is provided for salary increases, health benefit increases and new enrollments at all three campuses; the adopted State budget gives the UW the authority to raise undergraduate resident tuition by up to 7% and gives the authority to raise the undergraduate application fee to \$50.

The budget outlook for the Fiscal Year 2006 Restricted Programs Budget continues to be positive. Expenditures on grants and contracts and indirect cost recovery collections in the current fiscal year are at or above budgeted levels and grant awards are stable. Spending from gift and endowment accounts is predicted to increase as a result of improving returns for the Consolidated Endowment Fund and continued strength in gifts to the university. State Restricted Funds will increase slightly based on legislative actions.

The university's academic enhancement/support functions have a stable outlook for Fiscal Year 2006. The university's large auxiliary business enterprises (UW Medical Center, Educational Outreach, Housing and Food Services, Intercollegiate Athletics, and Parking and Transportation Services) are all financially stable and expect continued growth in Fiscal Year 2006.

The proposed UW capital budget for Fiscal Year 2006 reflects the legislature's actions on the State's 2005-07 capital budget. The Fiscal Year 2006 Capital Budget includes construction funding for the renovation of Architecture Hall and Guggenheim Hall, pre-design/design funding for the second phase of the UW's Restoration Program (Savery Hall, Clark Hall and the Playhouse Theater) and funding for the Assembly Hall project at UW/Tacoma. Funding for construction of the UW/Bothell South Campus Access Project is provided through the 2005-07 State transportation budget. While this is a positive short term outcome, State capital resource allocations continue to lag behind needs; while the UW accounts for 35% of State higher education facilities, the 2005-07 State capital allocation to the UW is only 10% of the allocation to higher education.

Approach to Fiscal Year 2006 Budget Decisions

Four over-riding themes guided the development of the Fiscal Year 2006 budget:

- the reaffirmation of excellence through a reinvestment in the core academic mission of the university;
- continued support for the research enterprise at the UW and its associated impacts on economic development in the state;
- the promise of responsible stewardship of the various resources entrusted to the university – from the State, from students and their families, from donors, from patients and from consumers of university programs; and
- the obligations the university assumes in meeting the oversight responsibilities of the regulatory environment in which it operates.

In the context of these themes, a set of specific objectives influenced the building of the budget:

- investing in program excellence – recruiting and retaining top talent in all fields;
- expanding the opportunity higher education affords – through greater access for students seeking baccalaureate and advanced degrees and maintaining affordability through increased financial aid; and
- promoting greater diversity of the student population and of the university's faculty and staff.

Fiscal Year 2006 Core Education Budget Discussion

The proposed Fiscal Year 2006 Core Education Budget is presented in Table 2. Note that while the Board of Regents will only adopt an annual budget for Fiscal Year 2006, a Fiscal Year 2007 column is included on Table 2 for informational purposes.

Changes in Revenues

The changes in revenues supporting the Fiscal Year 2006 Core Education Budget are summarized below:

Revenue Source	FY 2005 Adopted	FY 2006 President Proposed	Change
State General Fund	325,122,000	339,701,000	14,579,000
Tuition Operating Fee	201,351,000	221,026,000	19,675,000
Designated Operating Fund	47,825,000	50,063,000	2,238,000
Use of Interest Stabilization Reserve	2,000,000	0	(2,000,000)
Use of Fund Balance	6,260,000	23,000,000	16,740,000
TOTAL REVENUES	582,558,000	633,790,000	51,232,000

Comments on Changes in Revenues

Budgeted revenues in the proposed Fiscal Year 2006 Core Education Budget are \$51,232,000 higher than the budgeted revenues that supported this budget in Fiscal Year 2005. State General Fund (which in this presentation includes the new Education Trust Fund allocation) revenues increase by \$14,579,000, tuition operating fee revenues increase by \$19,675,000 and Designated Operating Fund revenues increase by \$2,238,000. In Fiscal Year 2005, \$6,260,000 in fund balance was used to support selected one-time or limited duration investments; in Fiscal Year 2006, the administration is proposing to utilize \$23,000,000 in fund balance to support selected one-time or limited duration investments – an increase of \$16,740,000 over the current fiscal year. These proposed changes in revenues for Fiscal Year 2006 are discussed below.

State General Fund. The State General Fund figure in the proposed Fiscal Year 2006 budget comes from the recently adopted State 2005-07 biennial budget. All of the \$14,579,000 increase is dedicated to specific purposes – primarily salary and benefit increases, new enrollments, and specific program allocations.

Tuition Operating Fee. Three factors account for the \$19,675,000 increase in tuition operating fee revenue for Fiscal Year 2006: revenue associated with the tuition increases for undergraduate non-resident, graduate and professional programs that were adopted by the Board of Regents in March is included; this proposed budget assumes that undergraduate resident tuition is increased by 7% (the maximum increase allowed in the 2005-07 State budget bill) for the 2005-06 academic year; and tuition associated with the new enrollments funding in Fiscal Year 2006 included in the estimate.

Designated Operating Fund. Three changes account for the small (\$2,238,000) increase in Designated Operating Fund revenue for Fiscal Year 2006: investment income revenue is assumed to increase by \$1,000,000; Summer Quarter tuition revenue is assumed to increase by \$1,000,000; and \$238,000 in increased revenue is assumed from increasing the undergraduate application fee (which both freshman and transfer applicants pay) from \$38 to \$50.

Use of Fund Balance. The proposed Fiscal Year 2006 Core Education Budget utilizes \$23,000,000 in fund balance to support various one-time or limited duration commitments that are specified later in this section.

Fiscal Year 2006 Core Education Budget Allocations

The new allocations in the Fiscal Year 2006 Core Education Budget are summarized below:

<u>Area of Budget</u>	<u>FY 2006 Allocations</u>
<u>Competitive Compensation:</u>	
Salaries	18,376,000
Benefits	5,698,000
Subtotal	24,074,000
<u>Expanding Higher Education Opportunity:</u>	
Enrollment Allocations	
UW/Seattle (140 UG, 40 GR each year)	1,369,000
UW/Bothell (75 in FY06, 200 in FY07)	675,000
UW/Tacoma (100 in FY06, 225 in FY07)	900,000
High demand enrollment adjustment	1,811,000
UG Resident Financial Aid	980,000
Grad/Professional Financial Aid	483,000
Subtotal	6,218,000
<u>Investments in Program Excellence</u>	
Colleges/Schools Investments	2,221,000
Administrative Units Investments	1,108,000
In Innovation	2,150,000
Research & Scholarship Office support	60,000
Grad career services/MyGrad program	120,000
Freshman application: 100% comp review	250,000
Advising/Academic progress	750,000
Leadership & Values Initiative	250,000
Library materials	450,000
Subtotal	7,359,000
<u>Investments to Promote Diversity</u>	
Diversity Assessment Follow-up	300,000
Diversity minor in Arts & Sciences	85,000
Subtotal	385,000
<u>Investments in Oversight/Compliance</u>	
Financial Aid Compliance	200,000
<u>Legislative Actions</u>	
Operating to Capital Shift	(2,858,000)
<u>Required Cost Increases/Budget Adjustments</u>	2,910,000
<u>Use of Fund Balance</u>	23,000,000

Comments on Fiscal Year 2006 Budget Allocations

The new budget allocations in the proposed Fiscal Year 2006 Core Education Budget are summarized below.

Competitive Compensation. The details of the compensation allocations for Fiscal Year 2006 are provided in Appendix 1. In the Fiscal Year 2006 proposed budget, \$24,074,000 is allocated for new funding for salary and benefits. Funding is provided for 3.2% average salary increases for faculty, professional staff, librarians, teaching and research assistants, and classified staff. Additional funding is provided for faculty promotions, salary floor adjustments and emeritus rehires. A \$2,000,000 allocation is made for retention of senior faculty. In addition, \$1,500,000 is budgeted for a recruitment and retention pool for faculty, librarians and professional staff.

Additional funding is allocated for increased costs of the employer share of health benefits and for increases in PERS pension costs.

Expanding Higher Education Opportunity. In Fiscal Year 2006, the recently adopted State budget for the 2005-07 biennium includes 140 undergraduate enrollments at the UW/Seattle, 40 graduate enrollments at the UW/Seattle, 75 upper division undergraduate enrollments at the UW/Bothell, and 100 upper division enrollments at the UW/Tacoma. The specific allocations of these enrollments to academic programs are still under discussion. At the UW/Seattle, the current plan is to allocate these funds as follows: \$132,000 to the School of Public Health and Community Medicine for an undergraduate public health major; \$208,000 to the College of Architecture and Urban Planning for a Masters in Real Estate program; \$100,000 to the Graduate School for additional research assistantships in interdisciplinary graduate programs; \$60,000 to the Evans School of Public Affairs for research assistantships for Ph.D. students; and \$869,000 to the College of Arts and Sciences which will absorb new enrollments in a variety of areas.

The high demand enrollment adjustment that appears in this category is a technical adjustment to the budget to account for the cost of the high demand enrollment allocations to the UW in Fiscal Years 2004 and 2005. These high demand program allocations include: expansion of the undergraduate Bioengineering program at UW/Seattle; expansion of the undergraduate Nursing program at UW/Seattle; expansion of the undergraduate Computer and Software Systems program at UW/Tacoma; expansion of the Pharm.D. program at UW/Seattle; expansion of the undergraduate Informatics program at UW/Seattle; and expansion of the undergraduate Electrical Engineering Program at the UW/Seattle.

The 7% increase in undergraduate resident tuition for the 2004-05 academic year will produce \$1,572,000 in additional unfunded need for undergraduate students in the 2005-06 academic year. The Regents have adopted a policy of meeting 55% of this additional need figure with financial aid grants and tuition waivers. To meet this policy goal next year, \$865,000 in additional grant and tuition waiver financial aid has to be made available to undergraduate resident students next year. The UW's current financial aid policy of utilizing 3.5% of tuition operating fee collections for financial aid grants and waiving 4% of tuition will make \$980,000

in additional financial aid available to needy undergraduate resident students in the 2005-06 academic year. This additional allocation to financial aid exceeds the commitment that the Regents have made.

The UW's current financial aid policy of utilizing 3.5% of tuition operating fee collections for financial aid grants and waiving 4% of tuition will make \$483,000 of additional financial aid available to graduate and professional students in the 2005-06 academic year. In addition, graduate appointees qualifying for the non-resident differential and the operating fee tuition waivers will have \$2,836,000 in additional tuition waiver benefit in Fiscal Year 2006.

Investments in Program Excellence. The proposed Fiscal Year 2006 budget provides \$7,359,000 of investments in program excellence. A variety of investments to support program excellence are included in the "Colleges/Schools Investments" and the "Administrative Unit Investments" rows in Table 2 – and these allocations are summarized in Appendix 2 and selected items are highlighted here. In Fiscal Year 2006 program enhancement investments will be made in the following academic units: the Business School (\$476,000), the School of Pharmacy (\$240,000), the Law School (\$141,000), the School of Nursing (\$120,000) and the School of Medicine (\$143,000). In addition, funding is provided to Student Affairs to support the changes in the freshman and transfer student admissions and undergraduate student recruitment efforts that have been made over the last few years.

This category also includes investments in selected programs that the State legislature made in the recently passed State budget. These legislatively directed allocations include: temporary allocations of \$100,000 each to the UW/Bothell and the UW/Tacoma campuses to support planning for having lower division enrollments starting in Fiscal Year 2007; an allocation of \$146,000 to the Burke Museum to support public outreach capabilities; an allocation of \$30,000 to the Harry Bridges Center to support research on labor and economic issues in Washington state; an allocation of \$125,000 to the Institute of Learning and Brain Sciences to support developing partnerships linking the institute to policy makers, the private sector and user groups; an allocation to provide ongoing support for the UW/Tacoma Autism Center; and a temporary allocation of \$250,000 to support a Korean Studies endowment (with an additional \$250,000 allocation provided in Fiscal Year 2007.)

Significant support (\$2,150,000) for innovation efforts is provided in the proposed budget: \$900,000 of this amount is not yet permanently allocated University Initiatives Fund resources; and \$1,250,000 of "research matching" funds provided in the 2003-05 State budget is being set aside for innovative programs to leverage private and federal research investments.

A number of budget allocations are made in Fiscal Year 2006 to help improve the quality of undergraduate education: support for the undergraduate research and scholarship office; support for undergraduate advising and academic progress initiatives; and support needed to have all freshman applications undergo comprehensive reviews. Almost all of the additional cost associated with having all freshman applications undergo comprehensive review will be covered by increasing the undergraduate application fee from \$38 to \$50.

Support is provided for graduate student career services and for expanding the MyGrad Program web portal through which graduate and professional students can access various services.

Two other allocations are included in this category: support to partially cover the increased costs of books and periodicals purchased by the library; and support for the Leadership, Community and Values Initiative the President has started.

Investments to Promote Diversity. Two allocations are proposed for Fiscal Year 2006 to support campus diversity efforts: \$300,000 for various follow-up proposals from the Diversity Assessment; and \$85,000 to support a diversity minor in the College of Arts and Sciences.

Investments in Oversight/Compliance. The proposed budget includes support for necessary computer system changes to insure compliance with financial aid regulations.

Legislative Actions. In the 2005-07 State budget that the legislature recently adopted, the legislature expanded a policy of transferring building operations and maintenance expenses from the operating budget to the capital budget; this policy results in a \$2,858,000 reduction in the operating budget that is offset by an identical increase in the capital budget.

Required Cost Increases/Budget Adjustments. Required cost increases and budget adjustments are shown in Appendix 3. These cost adjustments include changes in utility, property rental, risk management, and other budgets.

Use of Fund Balance. The proposed Fiscal Year 2006 Core Education Budget includes \$23,000,000 of funding from unrestricted fund balance (see Table 3) for a number of one-time or limited duration commitments:

Support for Research

\$10,000,000 of one-time support for the South Lake Union Phase 2 building.

\$500,000 from the Royalty Research Fund to support the Technology Gap Innovation Fund which helps bring UW developed technologies to commercialization – this investment leverages additional funding from the Washington Research Foundation and is the second year of a three-year commitment.

Academic Program Excellence

\$3,000,000 for renovation of undergraduate chemistry labs in Bagley Hall.

\$2,000,000 for renovation of classroom space in T-Wing in the Health Sciences complex; these funds are specifically targeted to classroom space that is directly assigned to the Department of Medicine.

\$1,250,000 of support for implementation of wireless computing capacity – this is the second year of a three-year commitment.

\$1,000,000 for classroom technology equipment replacement/expansion; these funds will be allocated by the Academic Technology Advisory Committee.

\$750,000 to support various initiatives to promote diversity at the UW.

\$500,000 of support for the continuation of selected efforts to transform undergraduate education, including Foundation Courses, Web Enhanced Foreign Language Instruction, Learning Goals and Writing Initiative projects.

\$500,000 to provide matching funds for a proposed Faculty/Staff/Retiree Campaign for Students development effort.

\$500,000 to provide additional high demand/bottleneck course sections.

Support for Oversight/Compliance

\$1,500,000 of support for modifications to administrative computing systems needed to support the implementation of Civil Service Reform – this will be the last year of temporary support for this effort.

\$500,000 of support for modifications to administrative computing systems to resolve issues with transferring data to the State Department of Retirement Systems computing systems – this will be the last year of temporary support for this initiative.

Stewardship of Resources

\$1,000,000 of support for the Chief Investment Office pilot project – this is the first year of a five-year commitment.

Fiscal Year 2006 Restricted Programs Budget Discussion

The proposed Fiscal Year 2006 Restricted Programs Budget is presented in Table 4. As in the Core Education Budget presentation, while the Board of Regents will only adopt an annual Restricted Programs Budget for Fiscal Year 2006, a “planned” Fiscal Year 2007 column is included on Table 4 for informational purposes.

Changes in Revenues

The changes in revenues supporting the Fiscal Year 2006 Restricted Programs Budget are summarized below:

Revenue Source	FY 2005 Adopted	FY 2006 President Proposed	Change
Grant and Contract Direct Cost	780,000,000	800,000,000	20,000,000
Grant and Contract Indirect Cost	180,000,000	187,000,000	7,000,000
Gifts	110,000,000	116,000,000	6,000,000
State Restricted Funds	6,220,000	6,310,000	90,000
TOTAL REVENUES	1,076,220,000	1,109,310,000	33,090,000

Comments on Changes in Revenues

Budgeted revenues in the proposed Fiscal Year 2006 Restricted Programs Budget increase by \$33,090,000 over the Fiscal Year 2005 budgeted level: Grant and Contract Direct Cost increases by \$20,000,000; Grant and Contract Indirect Cost increases by \$7,000,000; Gift and endowment revenue is projected to increase by \$6,000,000; and State Restricted Funds increase by \$90,000. These proposed changes in revenues are discussed below.

Grant and Contract Direct Cost. Grant and contract direct cost is projected to increase by a modest 2.6% in Fiscal Year 2006. While grant and contract awards for the current fiscal year are flat, some modest growth is expected as research activity related to previous awards ramps up.

Grant and Contract Indirect Cost. As grant and contract direct costs are projected to be slightly higher in Fiscal Year 2006 than in Fiscal Year 2005, grant and contract indirect cost recovery is also to be slightly higher.

Gifts. Revenues to gift and endowment spending accounts are projected to increase moderately in Fiscal Year 2006. This increase reflects both continued fund raising success and that endowment distributions are rebounding somewhat from recent lows.

State Restricted Funds. The School of Public Health and Community Medicine receives a small amount of appropriated State funding from the Accident Account and the Medical Aid

Account for specific activities performed by the Department of Environmental Health. Changes in revenues for Fiscal Year 2006 simply reflect changes in State appropriations.

FY 2006 Restricted Programs Budget Allocations

The discussion in this section is limited to how the administration proposes to allocate additional indirect cost recovery resources that are anticipated in Fiscal Year 2005. Expenditures from grant and contract direct cost, almost all gifts, and State restricted funds budgets can only be used for the specific purposes specified by the granting agency, donor or State. Thus, for the grant and contract direct cost, gifts and State restricted funds areas, annual expenditures are assumed to be equal to budgeted levels. Proposed allocations of additional indirect cost recovery resources are discussed below.

The new allocations in Fiscal Year 2006 supported by indirect cost recovery resources are summarized below:

<u>Area of Budget</u>	<u>FY 2006 Allocations</u>
<u>Indirect Cost Recovery:</u>	
<u>Competitive Compensation:</u>	
Salaries	1,682,000
Benefits	842,000
Subtotal	<u>2,524,000</u>
<u>Investments in Research Support</u>	
Change in Research Cost Recovery	2,000,000
Change in ICR to capital	(366,000)
Research Equipment Allocation	4,000,000
Administrative Units Investments	54,000
Library materials	450,000
Support for major research initiatives	750,000
Enhance indirect cost recovery	400,000
Subtotal	<u>7,288,000</u>
<u>Investments in Oversight/Compliance</u>	
New Faculty Effort Cert. System	500,000
IRB Support	500,000
Office of Research Computing Systems	750,000
Research Advisory Board Recommendations	907,000
Subtotal	<u>2,657,000</u>
<u>Required Cost Increases/Budget Adjustments</u>	
Required cost increases/investments	4,233,000
Bioe/Genome Sciences O&M	1,021,000
Subtotal	<u>5,254,000</u>

Comments on FY 2006 Budget Allocations

Competitive Compensation. The indirect cost recovery budget picks up a calculated share of salary and benefit costs of employees who are funded from indirect cost recovery resources.

Investments in Research Support. The proposed Fiscal Year 2006 Indirect Cost Recovery Budget provides over \$7,000,000 of investments in research support. Under the UW's Research Cost Recovery policy, the portion of indirect cost recovery that is associated with college and department administration of grants is allocated to the schools and colleges. In Fiscal Year 2006, the Research Cost Recovery allocations to schools/colleges are estimated to increase by \$2,000,000. Similarly, by policy the administration allocates the building depreciation portion of indirect cost recovery to the capital budget for program-related building renovations. In Fiscal Year 2006 this allocation of indirect cost recovery resources to capital has been reduced by \$366,000 as a result of a more refined calculation method. After this reduction, there will be \$11,000,000 of indirect cost recovery revenue transferred to the capital budget to support program driven building adaptation and renewal projects.

As part of the adoption of the Fiscal Year 2005 budget, the administration committed to utilize \$4,000,000 of indirect cost recovery resources for three years to provide a research equipment allocation to colleges and schools; Fiscal Year 2006 will be the second year of this three-year research equipment support commitment.

Three other investments in research support are included in the proposed budget: \$750,000 of temporary support for major research initiatives like DUSEL, Neptune and nanotechnology – which can have substantial start-up costs associated with them; \$450,000 of support for purchase of library materials; and a temporary allocation of \$400,000 for computer system changes to enhance indirect cost recovery.

Investments in Oversight/Compliance. The proposed Fiscal Year 2006 Indirect Cost Recovery budget makes over \$2,600,000 of investments in various oversight/compliance functions related to research. These investments include:

\$500,000, which supplements funds provided in the current fiscal year, for implementation of a new Faculty Effort Certification system; this investment will replace an outdated system and substantially improve the accuracy of faculty effort reporting that is required by granting agencies;

\$500,000 for additional support for the UW's Institutional Review Boards (the committees that review and approve research proposals involving the use of human subjects); as a follow-up to a recently completed federal review of the university's human subjects procedures, the university has identified a number of areas where these procedures can be improved;

\$750,000 of temporary support for further development of Office of Research computing systems; the Office of Research operates a number of computer systems that support the grant submittal process and a number of enhancements to the existing systems that would ease the grant submission process have been identified; and

\$907,000 of additional funding for research support areas/tasks identified as needing further investment by the Research Advisory Board.

Required Cost Increases/Budget Adjustments. The indirect cost recovery budget picks up its share of estimated increases in cost for utilities and risk management, its share of other critical institutional investments approved by the President and Provost – and these allocations are shown in Appendix 3. The large allocations in this area are \$970,000 for increased utility costs, \$979,000 in debt service costs for the soon to be completed Bioengineering Building, \$440,000 in costs associated with hazardous materials remediation in research space, and \$150,000 for an attending veterinarian for approving and monitoring protocols required when animals are used in research.

Annual adjustments to certain indirect cost recovery budgets that are dedicated to specific purposes (the Primate Center “B” rate) or to pay the operations and maintenance costs of particular buildings (Harborview Research and Training, other Harborview research space, etc.) are also included in this category, and are shown in Appendix 3.

The last item in this category is \$1,021,000 for operations and maintenance costs associated with the new Bioengineering and Genome Sciences buildings. The Bioengineering Building is scheduled to be occupied starting in January 2006 and the Genome Sciences Building is scheduled to be occupied starting in April 2006.

Fiscal Year 2006 Academic Enhancement/Support Budget Discussion

There are four areas included in the Academic Enhancement/Support Budget: UW Medical Center; auxiliary enterprises; auxiliary educational activities; and institutional overhead activities that support the other functions. Auxiliary enterprises include: Housing and Food Services; Intercollegiate Athletics; Parking; internal service units (Stores, Motor Pool, Publication Services, etc.); Student Government; Recreational Sports; and miscellaneous other activities. Auxiliary educational activities include: continuing education; conferences; the medical resident program; the WAMI Program in the School of Medicine; and miscellaneous activities. The University charges institutional overhead to all of these activities to recover the cost of central services utilized by these academic enhancement/support activities.

The projected changes in revenue for academic enhancement/support activity are shown in the table below:

Revenue Source	FY 2005 Adopted	FY 2006 President Proposed	Change
UWMC	550,000,000	567,000,000	17,000,000
Auxiliary Enterprises	265,796,000	281,911,000	16,115,000
Auxiliary Educational Activities	151,893,000	169,052,000	17,159,000
Institutional Overhead	12,357,000	14,000,000	1,643,000
TOTAL REVENUES	980,046,000	1,031,963,000	51,917,000

Based on financial results over the last few years, inflationary increases in revenues have been projected for Fiscal Year 2006 for UW Medical Center, auxiliary enterprise, and auxiliary educational revenues. The projected increases in institutional overhead revenue is based on both actual collections in the current fiscal year and projected increased revenues for the units that pay institutional overhead.

With the exception of institutional overhead resources, the Academic Enhancement/Support Budget resources can only be spent for specified purposes and annual expenditures are assumed to be equal to budgeted levels.

Fiscal Year 2006 Capital Budget Discussion

The proposed Fiscal Year 2006 Capital Budget is presented in Table 5, and includes approval of \$142,912,500 in new capital funding (of which \$112,812,500 is state-appropriated), with the balance for the biennium of \$32,462,500 (of which \$23,862,500 is state-appropriated) to be approved in FY 2007. Non-appropriated funds from donors, indirect cost recovery, and transfers from unrestricted operating funds are also included for approval as part of the overall funding for the FY 2006 capital program. The FY 2006 capital budget is consistent with, and supportive of the themes and objectives that have guided the development of the proposed FY 2006 operating budget.

The 2005-07 state capital budget provides the essential funding required for the Seattle campus restoration program, partial funding for expansion at the Bothell and Tacoma campuses, and relies on local University of Washington funds to support the minor works program. In total, the state capital funding to the University of Washington was about half of the amount requested in the Council of President's Prioritized Capital List, and provided a record low for state investment in minor works projects (\$900,000). Although the legislature adhered to the prioritized list for only a few projects, a budget proviso requires the continuation of the prioritized list process in 2007-09, and calls for the Higher Education Coordinating Board to play a significant role in ranking projects.

Investing in Stewardship. The University of Washington's reinvestment in its physical facilities is a commitment to excellence and responsible stewardship. The university's facilities are not only culturally and historically significant, but they also represent an incredible financial asset, with an estimated total current replacement value of approximately \$6 billion. Our beautiful but aging facilities are integral to the delivery of a quality educational experience; reinvestment and skillful management of these facilities is vital to the well-being of the institution. In the 2005-07 biennium, the legislature provided \$61.5 million of the \$63 million requested for Phase II of the UW's Seattle campus restoration program. This funding provides renovation construction funds for Architecture Hall (\$1 million less than requested) and Guggenheim Hall (\$512,000 less than requested), incremental construction funding for renovations to MHSC H-Wing, and pre-design/design funding for Savery Hall, Clark Hall, and the Playhouse Theater. This pre-design/design funding places \$75 million in renovation construction work in the pipeline for the 2007-09 biennium.

As part of the university's comprehensive program to reduce the backlog of deferred renewal, significant investments are also required to complete minor works projects such as roofing, plumbing, electrical, exteriors, utilities, road and sidewalk improvements, and seismic and accessibility corrections. A total of \$41 million from the University of Washington Building Account and local capital reserve balances was appropriated to fund minor works preservation projects proposed for the 2005-07 biennium. In addition, an institution the size of the University of Washington requires ongoing improvements and renovation projects to support changing program needs and strategic goals. In total, the state funding for minor works was a record low of \$900,000 for the biennium, with this amount appropriated to program projects. An additional \$22 million in facilities indirect cost recovery funds will be directed toward program renewal projects.

Investing in Student Access and Success. Capacity expansion projects for Tacoma and Bothell were partially funded in the 2005-07 state capital budget. The UW Bothell South Campus Access project was funded through an appropriation of \$18 million in the State transportation budget with a commitment to an additional \$8 million in 2007-09 transportation funding. The university also requested \$2.2 million in design funding for the next phase of development at the Bothell campus; this design funding was not provided by the legislature, although design funds for the next phase of development of Cascadia Community College were provided. Funding was provided to Tacoma for the construction of the UW Tacoma Assembly Hall project, which will essentially demolish the facility known as the “Dawg Shed”, and construct a flexible assembly hall facility in its place. State funding for the UW/Tacoma Assembly Hall are proposed to be enhanced by \$2,500,000 in donor funds. Funding was not however, provided for additional land acquisition and soils remediation in Tacoma.

Table 1

University of Washington Fiscal Year 2006 Proposed Operating Budget

Budget Category	FY 2005 Adopted	FY 2006 President Proposed
CORE EDUCATION BUDGET		
Revenues		
State General Fund	325,122,000	339,701,000
Tuition Operating Fee	201,351,000	221,026,000
Designated Operating Fund	47,825,000	50,063,000
Use of Interest Stabilization Reserve	2,000,000	0
Use of Fund Balance	6,260,000	23,000,000
Total Revenues	582,558,000	633,790,000
Expenditures	582,558,000	633,790,000
RESTRICTED OPERATING BUDGET		
Revenues		
Grant and Contract Direct Costs	780,000,000	800,000,000
Grant and Contract Indirect Costs	180,000,000	187,000,000
Gifts	110,000,000	116,000,000
State Restricted Funds	6,220,000	6,310,000
Total Revenues	1,076,220,000	1,109,310,000
Expenditures	1,076,220,000	1,109,310,000
ACADEMIC ENHANCEMENT/SUPPORT BUDGET		
Revenues		
UWMC	550,000,000	567,000,000
Auxiliary Enterprises	265,796,000	281,911,000
Auxiliary Educational Activities	151,893,000	169,052,000
Institutional Overhead	12,357,000	14,000,000
Total Revenues	980,046,000	1,031,963,000
Expenditures	980,046,000	1,031,963,000
TOTAL OPERATING BUDGET		
Revenues	2,638,824,000	2,775,063,000
Expenditures	2,638,824,000	2,775,063,000

Table 2
President Proposed Budget
Core Education Operating Budget for Fiscal Year 2006 and Fiscal Year 2007

	FY 2005 Adopted	FY 2006 President Proposed	FY 2007 President Planned	Comment
<u>REVENUES</u>				
State General Fund	325,122,000	339,701,000	351,809,000	
Tuition Operating Fee	201,351,000	221,026,000	234,026,000	
Designated Operating Fund	47,825,000	50,063,000	50,063,000	
Use of Interest Stabilization Reserve	2,000,000	0	0	
Use of Fund Balance	6,260,000	23,000,000	0	
TOTAL REVENUES	582,558,000	633,790,000	635,898,000	
<u>EXPENDITURES</u>				
<u>Adjusted Base Budget</u>	582,558,000	572,502,000	609,327,000	
<u>Competitive Compensation:</u>				
Salaries		18,376,000	11,226,000	
Benefits		5,698,000	1,593,000	
Subtotal		24,074,000	12,819,000	
<u>Expanding Higher Education Opportunity:</u>				
Enrollment Allocations				
UW/Seattle (140 UG, 40 GR each year)		1,369,000	1,369,000	
UW/Bothell (75 in FY06, 200 in FY07)		675,000	1,463,000	125 lower division in FY07
UW/Tacoma (100 in FY06, 225 in FY07)		900,000	1,688,000	125 lower division in FY07
High demand enrollment adjustment		1,811,000		
UG Resident Financial Aid		980,000		FY 07 determined next year
Grad/Professional Financial Aid		483,000		FY 07 determined next year
Subtotal		6,218,000	4,520,000	
<u>Investments in Program Excellence</u>				
Colleges/Schools Investments		2,221,000	632,000	
Administrative Units Investments		1,108,000		
In Innovation		2,150,000		
Research & Scholarship Office support		60,000		
Grad career services/MyGrad program		120,000		
Freshman application: 100% comp review		250,000		
Advising/Academic progress		750,000		
Leadership & Values Initiative		250,000		
Library materials		450,000		
Subtotal		7,359,000	632,000	
<u>Investments to Promote Diversity</u>				
Diversity Assessment Follow-up		300,000		
Diversity minor in Arts & Sciences		85,000		
Subtotal		385,000		
<u>Investments in Oversight/Compliance</u>				
Financial Aid Compliance		200,000	0	Temp investment
<u>Legislative Actions</u>				
Operating to Capital Shift		(2,858,000)	(1,000)	
<u>Required Cost Increases/Budget Adjustments</u>				
		2,910,000	3,000,000	
<u>Available for FY 07 Allocations</u>				
		0	5,601,000	
<u>Use of Fund Balance</u>				
		23,000,000	0	See table 3
TOTAL EXPENDITURES	582,558,000	633,790,000	635,898,000	

Table 3
Proposed Temporary Investments from Fund Balance for Fiscal Year 2006

Temporary Investments	FY 2006 President Proposed
<u>EXPENDITURES</u>	
<u>Support for Research</u>	
South Lake Union Phase 2 Construction	10,000,000
Technology Gap Innovation Fund (WRF matches UW)	500,000
Total Support for Research	10,500,000
<u>Academic Program Excellence</u>	
Undergraduate Chemistry Lab Renovation	3,000,000
T-Wing Classrooms Assigned to Schools Renovation	2,000,000
Wireless Computing Infrastructure	1,250,000
Classroom Tech Equipment Replacement/Expansion	1,000,000
Diversity Initiatives	750,000
Arts and Sciences Undergraduate Education Initiatives	500,000
Staff/Faculty/Retiree Campaign for Students	500,000
Additional High Demand/Bottleneck Course Sections	500,000
Total Academic Program Excellence	9,500,000
<u>Support for Oversight/Compliance</u>	
Civil Service Reform Implementation	1,500,000
Department of Retirement Systems Project	500,000
Total Compliance	2,000,000
<u>Stewardship of Resources</u>	
Chief Investment Office Pilot Project	1,000,000
TOTAL EXPENDITURES	23,000,000

Table 4

President Proposed Budget
Restricted Programs Budget for Fiscal Year 2006 and Fiscal Year 2007

	FY 2005 Adopted	FY 2006 President Proposed	FY 2007 President Planned	Comments
<u>REVENUES</u>				
Grant and Contract Direct Cost	780,000,000	800,000,000	800,000,000	
Grant and Contract Indirect Cost	180,000,000	187,000,000	189,000,000	
Gifts	110,000,000	116,000,000	116,000,000	
State Restricted Funds	6,220,000	6,310,000	6,335,000	
TOTAL REVENUES	1,076,220,000	1,109,310,000	1,111,335,000	
<u>EXPENDITURES</u>				
Grant and Contract Direct Cost	780,000,000	800,000,000	800,000,000	
Gifts	110,000,000	116,000,000	116,000,000	
State Restricted Funds	6,220,000	6,310,000	6,335,000	
Subtotal	896,220,000	922,310,000	922,335,000	
<u>Indirect Cost Recovery:</u>				
<u>Adjusted Base ICR Budget</u>	180,000,000	169,277,000	180,193,000	
<u>Competitive Compensation:</u>				
Salaries		1,682,000	1,028,000	
Benefits		842,000	236,000	
Subtotal		2,524,000	1,264,000	
<u>Investments in Research Support</u>				
Change in Research Cost Recovery		2,000,000	0	
Change in ICR to capital		(366,000)	0	
Research Equipment Allocation		4,000,000	4,000,000	Temp allocation
Administrative Units Investments		54,000	0	
Library materials		450,000	0	
Support for major research initiatives		750,000	0	Temp allocation
Enhance indirect cost recovery		400,000	0	Temp allocation
Subtotal		7,288,000	4,000,000	
<u>Investments in Oversight/Compliance</u>				
New Faculty Effort Cert. System		500,000	0	
IRB Support		500,000	0	
Office of Research Computing Systems		750,000	0	Temp allocation
Research Advisory Board Recommendations		907,000	0	
Subtotal		2,657,000	0	
<u>Required Cost Increases/Budget Adjustments</u>				
Required cost increases/investments		4,233,000	2,000,000	
Bioe/Genome Sciences O&M		1,021,000	1,165,000	
Subtotal		5,254,000	3,165,000	
Subtotal Indirect Cost Recovery Bdgt:		187,000,000	188,622,000	
Still available for allocations:		0	378,000	
TOTAL EXPENDITURES	1,076,220,000	1,109,310,000	1,111,335,000	

Table 5

**President Proposed Budget
Capital Budget for Fiscal Year 2006 and Fiscal Year 2007**

	FY 2006 President Proposed	FY 2007 President Planned
<u>REVENUES</u>		
Funding for FY 2006 & FY 2007 Projects		
State Funds (State Bonds)	69,400,000	450,000
Education Construction Account	12,912,500	12,912,500
UW Building Account - Local Funds	30,500,000	10,500,000
Donor/ICR - Local Fund	22,000,000	2,500,000
Federal Funds	-	3,000,000
Transfer from Unrestricted Local Funds	8,100,000	3,100,000
Subtotal	142,912,500	32,462,500
Funding for Previously Approved Projects	95,763,677	-
Funding for Enterprise Unit Projects	154,129,549	-
TOTAL REVENUES	392,805,726	32,462,500
<u>EXPENDITURES</u>		
Previously Approved Projects	95,763,677	3,000,000
Enterprise/Self-sustaining Unit Projects - Previously Approved	154,129,549	-
Proposed Projects to be Approved FY06		
Architecture Hall - C	21,850,000	-
Guggenheim Hall - C	24,500,000	-
HSC H Wing - C	5,000,000	-
Savery Hall - P/D	6,600,000	-
Clark Hall - P/D	2,500,000	-
Playhouse Theater - P/D	1,000,000	-
UW Tacoma Assembly Hall - C	7,500,000	2,500,000
Total Proposed Projects	68,950,000	2,500,000
Minor Projects		
Minor Works, Preservation	31,700,000	11,700,000
Preventative Facility Maintenance and Building System Repairs	12,912,500	12,912,500
Minor Works, Program	29,350,000	2,350,000
Total Minor Projects	73,962,500	26,962,500
TOTAL EXPENDITURES	392,805,726	32,462,500

P - Planning; D-Design; C-Construction

Note: \$18,000,000 in construction funding for the UW Bothell/Cascadia Community College South Campus access project was provided through the 2005-07 State transportation budget; with a commitment for an additional \$8,000,000 in 2007-09.

Appendix 1

COMPETITIVE COMPENSATION

Item	FY 2006 Change	FY 2006 Amount to Core Educ.	FY 2006 Amount to ICR
<u>SALARIES</u>			
Faculty			
2% continuing merit	4,340,000	4,340,000	0
1.2% other	2,604,000	2,604,000	0
Promotions	500,000	500,000	0
Floors	75,000	75,000	0
Senior Faculty Retention	2,000,000	2,000,000	0
Emeritus re-hires	500,000	500,000	0
Faculty/Prof Staff/Lib recruit/retention	1,500,000	1,500,000	0
Teaching/Research Assistants 3.2%	650,000	650,000	0
Professional Staff/Librarians 3.2%	3,639,417	2,836,000	804,000
Represented Classified Staff 3.2%			
Classified staff -- GOF	2,199,000	2,199,000	0
Classified staff -- DOF	1,052,000	324,000	728,000
Non-represented Classified Staff GOF & DOF	300,000	300,000	0
Classification Revisions/Salary Survey	398,000	398,000	0
Library Hourly minimum wage	300,000	150,000	150,000
Total Salaries	20,057,417	18,376,000	1,682,000
<u>BENEFITS</u>			
Employer share of health benefits			
Benefits -- GOF	4,462,000	4,462,000	0
Benefits -- DOF	1,217,000	375,000	842,000
TA/RA health insurance	150,000	150,000	0
Others			
Social Sec Base Change	165,000	165,000	0
PERS Pension Change	708,000	708,000	0
Workers Comp change	(162,000)	(162,000)	0
Total Benefits	6,540,000	5,698,000	842,000
TOTAL COMPENSATION	26,597,417	24,074,000	2,524,000

Appendix 2

INVESTMENTS IN PROGRAM EXCELLENCE

Item	FY 2006 Change	FY 2006 Amount to Core Educ.	FY 2006 Amount to ICR
<u>Colleges/Schools Investments</u>			
UW Allocations			
Business Program Enhancement	476,000	476,000	0
Law Program Enhancement	141,000	141,000	0
Nursing Program Enhancement	120,000	120,000	0
Pharmacy Program Enhancement	240,000	240,000	0
Medicine - WAMI adjustment	143,000	143,000	0
Total UW Allocations	1,120,000	1,120,000	0
Legislative Actions			
UW/Tacoma & UW/Bothell Lower Div Planning Fnd	200,000	200,000	0
Burke Museum	146,000	146,000	0
Labor Ctr Rsch	30,000	30,000	0
Institute for Learning & Brain Science	125,000	125,000	0
Tacoma Autism Center	350,000	350,000	0
Korean Studies Endowed Chair	250,000	250,000	0
Total Legislative Actions	1,101,000	1,101,000	0
Total Colleges/Schools Investments	2,221,000	2,221,000	0
<u>Administrative Units Investments</u>			
Student Affairs Admissions/Recruit Process (current procedure)	692,000	692,000	0
Adjustments to Regent's Office budget	150,000	113,000	37,000
New Provost/Dean hires	250,000	250,000	0
Attorney General Office Support	70,000	53,000	17,000
Total Administrative Units Investments	1,162,000	1,108,000	54,000

Appendix 3

REQUIRED COST INCREASES/BUDGET ADJUSTMENTS

Item	FY 2006 Change	FY 2006 Amount to Core Educ.	FY 2006 Amount to ICR
<u>Fixed Cost Budgets</u>			
Utilities:			
Electricity	181,000	137,000	44,000
Natural gas	3,197,000	2,413,000	784,000
Water/sewer	604,000	456,000	148,000
Solid waste	27,000	20,000	7,000
Power plant operations	(53,000)	(40,000)	(13,000)
Subtotal utilities:	3,956,000	2,986,000	970,000
Other fixed cost budgets:			
Property rentals-general	(516,000)	(516,000)	0
Prop. Rental-Sand Point central	19,000	19,000	0
Prop. Rental-Sand Point unassigned	19,000	19,000	0
Risk management	(905,000)	(683,000)	(222,000)
Investment management fees	80,000	80,000	0
Other fixed cost budgets	100,000	75,000	25,000
Subtotal other fixed cost budgets	(1,203,000)	(1,006,000)	(197,000)
<u>UW/Bothell and UW/Tacoma Allocations</u>			
UW/Bothell O&M increases	306,000	306,000	0
UW/Tacoma O&M increases	408,000	408,000	0
UW/B & UW/T Summer Qtr tuition adjustment	696,000	696,000	0
<u>Other Issues</u>			
Recycling program	250,000	189,000	61,000
Change in Summer Quarter cost	500,000	500,000	0
Bioengineering debt service	979,000	0	979,000
Hazardous materials charges	585,000	145,000	440,000
Attending veterinarian	150,000	0	150,000
Institutional overhead offset	(1,500,000)	(1,500,000)	0
Changes in State Revolving Funds	186,000	186,000	0
Subtotal Other Issues	1,150,000	(480,000)	1,630,000
Subtotal for Fixed Cost budgets, O&M increases & Other Issues	5,313,000	2,910,000	2,403,000
<u>Dedicated Indirect Cost Recovery Dollars</u>			
Primate Center "B" Rate	300,000	0	300,000
Harborview Research and Training Bldg	300,000	0	300,000
Harborview Other Research Buildings	75,000	0	75,000
Rosen Building	125,000	0	125,000
Sand Point Building 29	(200,000)	0	(200,000)
Roosevelt 1 Building	(600,000)	0	(600,000)
I-LABS	375,000	0	375,000
K-Wing debt service	500,000	0	500,000
401 Broadway	500,000	0	500,000
411 Nickerson	100,000	0	100,000
UW/Bothell ICR	230,000	0	230,000
UW/Tacoma ICR	50,000	0	50,000
Applied Physics Lab	75,000	0	75,000
Subtotal Dedicated Indirect Cost Recovery	1,830,000	0	1,830,000
TOTAL REQUIRED COST INCREASES/BUDGET ADJUSTMENTS	7,143,000	2,910,000	4,233,000