

**Date:** December 22, 2020 [Updated February 11, 2021 for Governor's Errata budget, updates highlighted]  
**Subject:** Governor Inslee's Proposed 2021-23 Biennial Operating and Capital Budgets

In advance of the 2021 state legislative session, Governor Inslee released his proposed 2021 supplemental [operating](#), and 2021-23 biennial [operating](#) and [capital](#) budgets. In February, the Governor released technical and priority revisions in the form of an "Errata" budget. The operating budget proposal assumes new revenue from the creation of both a capital gains tax and a tax on health insurers. The proposed budgets would increase state funding for the University of Washington Medical Center (UWMC) and Harborview Medical Center (HMC), and would fulfill a number of University operating and capital priorities. Despite these promising investments, the budget would require furloughs and suspend regular merit increases for University staff throughout the biennium. The Governor did not propose any changes to the state's current tuition policy.

As a reminder, the release of the Governor's budget proposals represents the first step in a lengthy budget process. Lawmakers in the Senate and the House will have the opportunity to release their own budget proposals over the course of the legislative session. In sessions occurring in odd-numbered years (such as the current session), lawmakers are tasked with setting a two-year state budget, which they have an opportunity to amend during supplemental sessions in even-numbered years. The 2021 session began on January 11, 2021, and will end on or before April 25, 2021, with the option of one or more 30-day special sessions.

For a review of the 2020 supplemental budget, please see OPB's brief [here](#). For more information regarding the UW's current requests for state funding, please see our 2021-23 operating and capital submissions on [this page](#).

## OPERATING BUDGETS

The COVID-19 pandemic has drastically changed the economic outlook in Washington state. The June Revenue Forecast, released by the Economic and Revenue Forecast Council (ERFC), forecasted a precipitous economic decline as a result of the full shutdown in spring and early summer. Fortunately, more recent forecasts from September and November showed a significant recovery from June estimates. Despite promising improvements, the [November General Fund-State forecast](#) still projected a \$1.8 billion deficit in each the current and upcoming biennia. This deficit reflects the difference between the cost of the currently enacted state budget compared to expected revenue projections over this period of time.

Governor Inslee's operating budget proposals assume revenue projections in the November revenue forecast. Subsequent budget proposals by leadership in the Senate and House will be released following the next revenue forecast, which is set to be released in February or March.

## Direct Impacts to the UW

Table 1 shows the total funding provided over the 2019-21 biennium (FY20 and FY21), the Governor's proposed 2021 supplemental budget (affecting FY21), the assumed base funding (the cost of continuing appropriations from the previous biennium into the upcoming biennium), and the Governor's biennial operating budget proposal (FY22 and FY23). Overall, the Governor's biennial budget proposal reflects an increase of \$78.4 million over the base budget.

**Table 1: UW State Funding – 2021 Supplemental and 2021-23 Biennial Operating Budget Proposals**  
Near General Fund State (including Pension Funding Stabilization Acct), (in \$1,000s)

Budget	FY1	FY2	Total
2019-21 Biennial Budget + 2020 Supplemental	396,798	423,093	819,891
Governor's Proposed 2021 Supplemental Budget	396,798	480,940	877,738
2021-23 Base Funding (2019-21 + Carryforward Level)*	408,685	407,824	816,509
Governor's Proposed 2021-23 Biennial Operating Budget	447,673	454,920	902,593

Table 2, below, shows a line-by-line breakdown of the funding levels and policy changes proposed in the 2021 supplemental operating budget, amending the 2020 supplemental budget for the final six months of 2021. Table 3 details the 2021-23 biennial operating budget. Line items are described in more detail in the following pages.

**Table 2: 2021 Supplemental Operating Budget Proposals**  
Near General Fund State (in \$1,000s)

	Governor Proposed		
	FY20	FY21	2019-21 Total
<b>2019-21 Budget (2019-21 budget and 2020 Supp) *</b>	396,798	423,093	<b>819,891</b>
<b>Maintenance Level Changes</b>	-	(2,153)	<b>(2,153)</b>
OFM Central Services Formula Adjustment	-	2,200	<b>2,200</b>
Removal of FY21 General Wage Funding	-	(4,353)	<b>(4,353)</b>
<b>Policy Level Changes</b>	-	60,000	<b>60,000</b>
UW Hospital Support	-	60,000	<b>60,000</b>
<b>Total Funding*</b>	396,798	480,940	<b>877,738</b>

**Table 3: 2021-23 Operating Budget Proposals**  
Near General Fund State (in \$1,000s)

	Governor Proposed		
	FY22	FY23	2021-23 Total
<b>2021-23 Base Funding (2019-21 + Carryforward Level) *</b>	408,685	407,824	<b>816,509</b>
<b>Maintenance Level Changes</b>	(1,784)	<b>285</b>	<b>(1,499)</b>
Maintenance & Operations	-	<b>1,400</b>	<b>1,400</b>
Tuition Backfill Inflation Adjustment	964	1,693	<b>2,657</b>
Maintenance Level Central Service Adjustments	(2,851)	(2,871)	<b>(5,722)</b>
Comp.	Worker's Compensation	248	<b>495</b>
	Pension & DRS Rate Changes	(1,279)	<b>(2,563)</b>
	Adjust PEBB Rate for Use of Reserves	1,134	<b>2,234</b>
<b>Policy Level Changes</b>	<b>40,772</b>	<b>46,811</b>	<b>87,583</b>
Policy Level Central Service Adjustments	<b>210</b>	<b>93</b>	<b>303</b>
Comp.	Temporary Layoffs and Other Savings	(13,308)	<b>(26,249)</b>
	Non-Rep General Wage Increases	<b>(2,621)</b>	<b>(5,242)</b>
	Total Employee Benefits Changes	<b>(898)</b>	<b>(608)</b>
Psychiatry Training Programs	814	1,630	<b>2,444</b>
UW Hospital Safety Net Support	55,000	55,000	<b>110,000</b>
UW Dentistry Safety Net Support	1,000	1,000	<b>2,000</b>
Spokane Medical Education Facility	-	2,291	<b>2,291</b>
Climate Commitment Act	<b>50</b>	<b>1,694</b>	<b>1,744</b>
Climate Risk Assessment	225	75	<b>300</b>
Climate Science Education	300	300	<b>600</b>
<b>Total Funding*</b>	<b>447,673</b>	<b>454,920</b>	<b>902,593</b>

\* In the 2017-19 Biennium, the state temporarily shifted approximately \$51 million off of the State General Fund and onto the Pension Funding Stabilization Account (PFSA). PFSA amounts are included in these totals. See OPB's 2018 Supplemental Budget brief for more information.

## 2021 Supplemental Budget

- **UW Medicine Safety Net Support:** \$60 million in additional funding in FY21 for UW Medical Center and Harborview Medical Center.
- **FY21 Salary Savings:** \$4.3 million reduction in FY21 to capture savings resulting from the University not implementing previously planned salary increases for non-represented faculty and professional staff in FY21, as requested by the Governor's office.
- **OFM Central Services Formula Adjustment:** \$2.2 million in additional funding in FY21 to help cover the significant increase in central service charges for the state's financial system upgrade (One Washington). More information about this formula change is detailed in the "Maintenance Level Changes" section for the biennial budget, below.

## 2021-23 Biennial Budget

### Tuition Policy

The Governor's budget proposal assumes the continuation of current tuition policy ([2ESSB 5954](#), 2015), which will allow resident undergraduate tuition increases of approximately 2 percent in FY22 and each year thereafter. Part of that policy requires an inflationary adjustment to tuition backfill amounts provided in previous budgets. The backfill adjustment in the Governor's budget proposal would result in an additional \$2.65 million in funding over the biennium.

### Compensation and Benefits

- **No regular wage increases** would be authorized in FY22 or FY23 for any UW employees.
- A related policy bill would require **significant furloughs** for employees at state agencies, including institutions of higher education. In total, this proposal would capture savings of over \$26 million from the UW over the biennium, assuming 24 furlough days over the biennium per employee (one day per month).
- An additional **\$5.2 million** in ongoing savings is captured as a result of not implementing FY21 salary increases for non-represented employees, as detailed above. **This amount was reduced from \$10.9 million in the Governor's original budget proposal.**
- The proposal caps the employer monthly funding rate for insurance benefits at \$988 per eligible employee in FY22, and \$1,018 in FY23. These rates assume the use of plan surplus in both fiscal years.
- A new "Covered Lives Assessment" relating to the Governor's proposed new tax on health insurers would result in an increase to benefits costs. The University would receive an appropriation of \$290,000 in FY23 out of a total assumed benefits cost of approximately \$3 million.

### Maintenance Level Changes

- **Maintenance & Operations:** \$1.4 million beginning in FY23 for maintenance & operations of the Health Sciences Education Building. The Governor's original budget appropriated \$965,000 due to an incorrect formula, which was updated in the Errata budget. **This funding is expected to be ongoing.**
- **OFM Central Service Charges:** In the 2017-19 biennium, the state began charging the UW and other state agencies to support the budget of the Governor's Office of Financial Management (OFM). The 2020 supplemental budget significantly increased that charge to support One Washington, the state's new core financial system. New costs starting in FY21 were nearly \$4 million per year, two-thirds of which was expected to be paid by student tuition revenue, and were slated to increase nearly four-fold into the 2021-23 biennium. Following the session, we determined that the legislature used statewide FTE totals on all funds to apply a portion of the costs to each agency, which resulted in the University being asked to cover over 20 percent of the statewide project costs. At our request, OFM revisited the formula and significantly reduced the amount attributed to the University. The reduction in funding (and therefore expected charges) is reflected in "maintenance level central services" line item, and the more modest approach is reflected in "policy level central services." The new approach amounts approximately \$1.5 million in total charges in the 2021-23 biennium, one-third of which is funded.

## Policy Level Changes

- **Continued Safety Net Support:** \$56 million per year beginning in FY22 to support the major safety net and teaching activities of UW Medical Center and Harborview Medical Center, as well as the School of Dentistry. \$55 million is attributed to UWMC and HMC, and \$1 million for the UW School of Dentistry. This is ongoing funding.
- **Psychiatry Training Programs:** \$814,000 in FY22 and \$1.63 million is provided in FY23 to complete intended ramp-ups of the number of child psychiatry fellowships and adult psychiatry residencies in mental health training programs at the UW. This is expected to be ongoing funding.
- **Spokane Medical Education Facility:** \$2.3 million per year beginning in FY23 for the School of Medicine to expand and relocate to new classrooms and anatomy labs in Spokane, in partnership with Gonzaga University. This is expected to be ongoing funding.
- **Climate Commitment Act:** \$50,000 in FY22 and \$1.6 million in FY23 was added in the Governor's Errata budget to fund [SB 5126](#), the Climate Commitment Act. The amount is similar to the University's cost estimate for the bill.
- **Climate Risk Assessment:** \$225,000 in FY22 and \$75,000 in FY23 is provided for the Climate Impacts Group at the University of Washington to update the climate risk assessment for the state of Washington. This information will be used to inform future updates to the statewide climate resilience strategy and help state and local decision-makers strategically prioritize their climate risk reduction activities. This is expected to be one-time funding.
- **Climate Science Education:** \$300,000 is provided in each FY22 and FY23 for the Institute for Science and Math Education in the College of Education to collaborate with teacher preparation programs and the Office of the Superintendent of Public Instruction to develop an open access climate science curriculum.

## Financial Aid

Table 4, below, outlines the Governor's financial aid proposal for the Washington Student Achievement Council (WSAC). A few of the more major items are as follows:

- The proposed appropriations to the Washington College Grant Program (formerly the State Need Grant), total approximately \$494 million over the biennium. Of the total appropriation, the Workforce Education Investment Account would contribute \$277 million.
- The Governor's proposal would add \$8.5 million to the Passport to College program.
- The proposal would also provide additional funding for digital engagement tools, expanded training, events, and marketing resources to increase FAFSA completion, and also to promote Career Connected Learning.

**Table 4: Financial Aid Funding in Governor's Budget Proposal**  
Detail by biennium in \$1000s

	Governor Proposed
Passport to College	8,480
Increase FAFSA Completion	1,150
Career Connected Learning	500
<b>Total Funding:</b>	<b>10,130</b>

For information about the operating budget, contact [Jed Bradley](#) or [Jessie Friedmann](#).

## CAPITAL BUDGET

Given the COVID-19 pandemic, Governor Inslee proposed a \$6.2 billion biennial capital construction budget across the state to help jumpstart the post-COVID economy. The proposal focuses on addressing a backlog of construction projects on community college and university campuses with the goal of increasing employment statewide.<sup>1</sup>

For the UW, the Governor's [proposal](#) would appropriate almost \$280.7 million in new state funding for capital projects, and thus fully fund the UW's capital request for state funding. The proposal includes:

- **\$45.4 million** for construction of the College of Engineering's Interdisciplinary Engineering Building/Education Research Center
- **\$36 million** for the construction of UW Tacoma's Milgard Hall
- **\$5 million** in design funding for the next phase of the Magnuson Health Sciences Building Renovation/Replacement
- **\$3 million** in design funding for the renovation of Anderson Hall
- **\$191.25** for construction of the Behavioral Health Teaching Facility at the UW Medical Center - Northwest campus

The proposal also includes the UW's requested amount of \$85.8 million from the UW Building Account for Preventative Facility Maintenance, Seismic Improvements, and Asset Preservation. These funds will support the preservation and renewal of facilities across all three campuses through infrastructure, code, and safety projects; utilities; and electrical, interior, exterior, site, and mechanical work. Finally, the Governor provided reappropriation amounts as requested.

The capital budget continues to rely on contributions from UW funds, grants, and private equity, including an assumed private investment in the Center for Advanced Materials and Clean Energy Technology (CAMCET) of \$140 million over the biennium.

Please see the table below for a comparison of the UW's capital budget request to the amounts in the Governor's proposed 2021-23 capital budget. For more information about the capital budget, contact [Kelsey Rote](#).

**Table 5: 2021-23 Capital Budget Proposals**  
(All amounts in \$1,000s)

Appropriations (Requested Projects)	Final 2021-23 UW Request			Governor's Budget 12/17/20		
	State Funds	UW Building Account	State Toxics Control Account	State Funds	UW Building Account	State Toxics Control Account
College of Engineering Interdisciplinary Engineering Bldg. - Phase I	45,400			45,400		
UW Tacoma - Milgard Hall	36,000			36,000		
Renovation/Replacement Magnuson Health Sciences Bldg. - Phase II	5,000			5,000		
Anderson Hall Renovation - Design	3,000			3,000		
UW Medicine - Behavior Health Teaching Facility	191,250			191,250		
Preventive Facility Maintenance & Building System Repairs		25,825			25,825	
Major Infrastructure - Seismic Improvements		18,000			18,000	
Asset Preservation - Minor Works & Major Preservation		42,000			42,000	
UW Tacoma - Soil Remediation			2,000			2,000
<b>Subtotal:</b>	<b>280,650</b>	<b>85,825</b>	<b>2,000</b>	<b>280,650</b>	<b>85,825</b>	<b>2,000</b>

<sup>1</sup> <https://www.kuow.org/stories/inslee-dusts-off-capital-gains-tax-and-proposes-new-tax-on-insurance-plans-to-fund-public-health>