

Good evening board members and college presidents,

This morning the Governor released her proposed 2009 supplemental, 2009-11 operating, and capital budgets. Here are the major elements of these requests. Please note the attachments that provide additional detail. Over the next few days we will gather more detail from OFM analysts, and we will update you periodically.

2009 Supplemental Operating Budget Request for the CTC system:

- The Governor recommends a **reduction** of \$32.1 million to the college system's state appropriation for the remainder of the current year, approximately 4.3%. To date we have been reporting a \$30.5 million or a 4.1% reduction; however, an additional \$1.6 million was cut in self-insurance savings. The revised 4.3% reduction level is expected to enable a financial emergency declaration. Such a declaration, however, is subject to: 1) the legislature passing the Governor's supplemental budget recommendations without change, and 2) State Board action.
- **Tuition** remains unchanged for the current year.
- **Enrollment targets** remain unchanged for the current year.
- **Provisos** remain the same with one exception. The Governor's proposed supplemental budget collapses all of the separate high-demand enrollment provisos into a single high-demand proviso. Therefore, the system would report a single high-demand enrollment number at the end of the current academic year.
- We will provide further guidance as we learn more.

Governor Proposed 2009-11 Operating Budget for the CTC system:

- The Governor's proposed **reduction** to the CTC system operating budget is \$100 million off of the maintenance level. This cut includes the reductions you are already taking during the current year (the newly revised \$32.1 million) as requested by the Governor and directed by the State Board. This means that the current year cut (\$32.1 million) is permanent in each of the next two years (\$64.2 million for the biennium); and, therefore, we are being asked to cut an additional \$35.8 million for the next biennium. Please see the attached spreadsheet that details this by fiscal year. **Our total system cut (not including tuition revenue increases) is approximately 6.5% of our 2009-11 biennial budget (and this includes cuts you are currently taking).**
- **Tuition** increases are limited to 5% in the first year and another 5% increase in the second year for resident undergraduate students. The Governor is proposing an extension of a current law that allows the SBCTC and university regents to set tuition on all other categories of students (non-residents, etc.). **With tuition yields added back for the system, our net cut for the 2009-11 biennium is calculated at 4.3%.**
- **Fees:** No higher education fee increases are proposed.
- **Enrollment targets** remain the same next biennium as they are this biennium (139,237).

- Only three legislative **provisos** remain next biennium: Worker Retraining, Job Skills, and a new proviso related to the system's Student Achievement Initiative. It reads: "of the amounts appropriated in this section, \$3,500,000 is provided for the student achievement initiative."
- Higher costs associated with **health benefits** are fully funded based on existing agreements. Employees will continue to pay 12% of costs on average and the employer will pay 88% of the cost on average.
- **Retirement contributions** from the employer are reduced based on actuarial estimates. We have questions about this to discuss with OFM staff.
- \$1.5 million is added to the **Health Care Career Advancement** effort that was started last session. This effort is described in a budget note from OFM staff but is not contained in a budget proviso.
- No salary increases are provided to any employee groups.
- Please see the attached fiscal year summary for more details on the 2009-11 operating budget proposal.

Governor Proposed 2009-11 Capital Budget for the CTC system:

- The CTC system total 2009-11 capital budget is proposed by the Governor at \$477.3 million. This comes from a combination of appropriated bond funds, certificates of participation, and tuition building fees.
- The CTC bond funds are proposed at \$353.4 million (they were \$438.5 million in the current biennium). The CTCs would get 50% of all bonds authorized for higher education. \$109.8 million is provided as alternative financing (COP funding) against the system's Building Fee Account – this includes all four of the major growth projects that are scheduled for construction in the 2009-11 biennium.
- In addition, \$22.8 million of M&O funding remains in the capital budget and is now funded with taxable bonds instead of cash sources (these M&O funds are separate and apart from the \$477.3 million project list).
- All of the college specific COPs that were proposed by the CTC system are provided for in the Governor's budget.
- A few projects were spread across several biennia or delayed.
- Several adjustments were made in project costs by the OFM analysts based on their review of project estimates.
- As we have seen in the past, OFM removed funding for the Repairs B category.
- The capital budget was made possible by some large-scale changes proposed by the Governor.
 1. Assuming the repeal of the statutory debt limit and moving to the constitutional debt limit (9% max);
 2. Pushing the unofficial working debt limit from 8.5% to 8.75%; and
 3. Expand general state revenues to now include several accounts that were previously dedicated accounts and therefore not considered as part of the base when calculating the debt limit. With the inclusion of these accounts, the bond availability increased from \$1.6 billion to \$2.2 billion for state capital projects.
 4. Assumptions about lower interest rates in the future.

- See the attached Governor Proposed capital project list for more details.

Additional Observations:

- University budgets are reduced by 13% on average for the 2009-11 biennium (approximately 6% after tuition revenue is factored in).
- University tuition increase for resident undergraduate is assumed to increase by 7% in the first year of the biennium and another 7% in the second year. **The 7% assumptions are used for the upper division rates for the CTC applied baccalaureate degree programs also.**
- State Need Grant is increased commensurate with tuition assumptions, but the eligibility threshold has been reduced from 70% of Median Family Income to 65% of Median Family Income. There are additional “step” reductions for families with Median Family Incomes between 50% and 64%. We will get these details to the student services officers when we learn more.
- Reduction percentages in other functions of State Government (state appropriations):
 - K-12 – 5.6%
 - Public Safety – 6.3%
 - Early Learning – 6.4%
 - Health Care and Human Services – 12.2%
 - Natural Resources – 12.2%
- No statewide salary increase for any employee groups
- I-728 class size reduction funds in the K-12 system are cut back by 24% for the 2009-11 biennium.

For further detail about the Governor’s proposed budgets please use the following link:

<http://www.ofm.wa.gov/budget09/highlights/highlights.pdf> (summary document)

<http://ofm.wa.gov/budget09/> (Agency details)

I want to highlight the following statement that is included in the Governor’s Higher Education Summary: **“The lower rate of reduction for the community and technical colleges is in recognition of their unique mission in job training and skills development essential to the state’s economic recovery.”**

We should all be very proud to work for a system whose work not only improves the lives of individuals but is recognized as a substantial contributor to the State’s economic vitality.

Please call me, Denise Graham (704-4350), or Tom Henderson (704-4382) if you have additional questions about the budget details. We will need several more days to gather further detail and ask our follow-up questions of the OFM staff. Thanks for all of your good work.

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