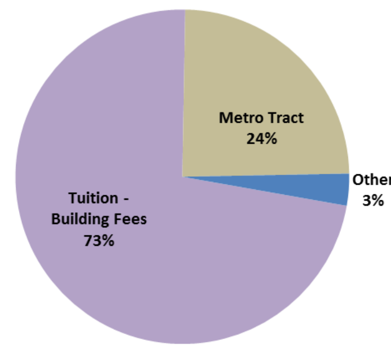
Date: **11/19/2013**

Subject: **Background on the UW Building Account**

In recent biennia, the Legislature has increasingly relied on the UW Building Account to fund major capital projects at the expense of funding minor projects necessary to repair and preserve existing UW buildings and infrastructure. This brief describes UW Building Account funding sources, state appropriated uses, and discusses the implications of funding decisions which impact this fund's ability to address UW's growing backlog of deferred renewal projects. Background information is provided on the University of Washington Building Account (fund 064) and its associated funds, the UW Bond Retirement Account (348), and the UW Facilities Bond Account (387), from which revenues are transferred[1].

Funding Sources



Funding sources

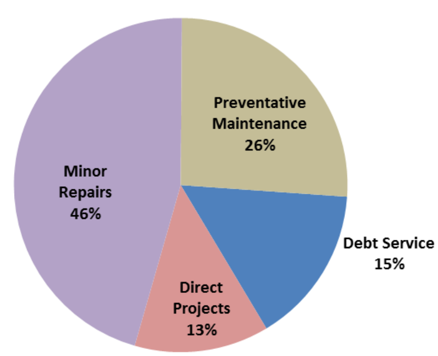
The majority of funding (73 percent) comes from building fees collected as part of undergraduate and graduate, resident and nonresident student tuition fees. Building fees are distributed equally between the UW Building Account and Bond Retirement Account. Decisions on tuition rates and enrollment directly impact the level of funding available for appropriation within these accounts.

After building fees, the next largest portion of funding (24 percent) comes from Metropolitan Tract revenues. The site of the original UW campus in downtown Seattle, the Metro Tract has been leased and developed into over 1.5 million square feet of commercial space. Biennially, $16 million has been distributed from the Metro Tract to the UW Facilities Bond Account (387). Each biennium, about $6 million of that is used to service law school debt. The balance, in excess of the required debt service reserve, is transferred to the UW Building Account.

The remaining 3 percent of funds are derived from Department of Natural Resources land revenues, UW Permanent Fund income, and State Treasury Office interest income.

A notable exception to the normal funding sources occurred when proceeds from the 2013 sale of the Wellington Hills property of nearly $9 million were deposited in the UW Building Account. This transfer provided additional one-time revenue to offset the $13 million appropriated from the UW Building Account to fund UW Bothell Phase 3.

Appropriated Uses



UW Building Account appropriations in 2013-15

Less than half (46 percent, or about $45 million) of UW Building Account funds were appropriated for minor capital repairs in the 2013-15 biennial budget. While this investment helps, the amount is not sufficient to significantly

[1] Funds are collected and transferred in accordance with RCW 28B.20.382, and RCW 28B.20.725.

impact the estimated $1.8 billion of deferred renewal and facility modernization needs of the UW.

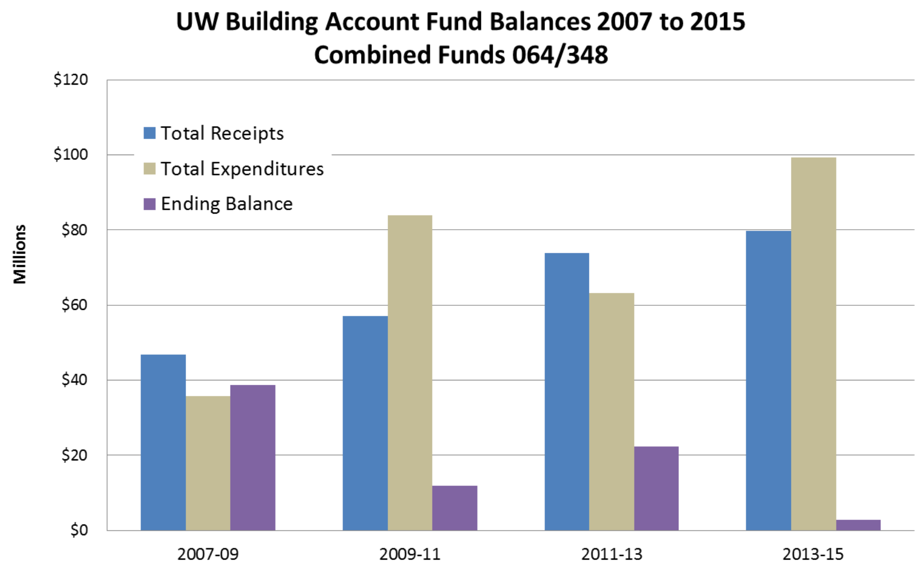
A combined total of $54 million, or about 54 percent of UW Building Account funds, was appropriated for expenditures that do not address the deferred renewal backlog for UW facilities. These included $25.8 million for preventative facility maintenance, a $13 million re-appropriation for UW Bothell Phase 3, and $15 million in debt service authorized for major projects. Appropriations for debt service not only obligate funds for the next 30 years, but also increase the amount required to be held in reserve to cover debt service payments on an annual basis. Debt issued through state appropriation of UW funds also affects the UW's overall capacity to issue debt for other projects.

Trends that affect available funds and remaining balances

The UW Building Account (064), UW Bond Retirement Account (348), and UW Facilities Bond Account (387) funds are not accumulating a reserve. In fact, fund balances in these accounts have been declining over the past few biennia as the legislature appropriated all funds, including the required debt service payment reserve (three years of issued debt coverage per RCW 28B.20.725). In the past three biennia, this requirement was temporarily reduced to one year, and temporarily waived altogether in 2013-15 (SB 5035 sec. 7027).

The current projected remaining balance at the end of 2013-15 is about $2.9 million (less than half of one year's total debt service coverage). If the temporary waiver of the three year debt service reserve requirement is not renewed in future biennia, at least $23 million will need to be restored to the reserve before new appropriations are made.

As the chart at right shows, total expenditures in excess of receipts over the span of three biennia have resulted in the decline in ending balances.



Conclusions

On its current path, the UW Building Account cannot:

- Sustain the same level of spending in future biennia without increasing revenue.
- Absorb additional debt service obligation without impacting future investments in minor repairs, and the UW's overall debt capacity to fund other projects.
- Restore a three year debt service reserve balance without reducing funds available for appropriated uses.
- Keep pace with the UW's growing deferred renewal and facility modernization needs.

For more information, please contact: John Seidelmann (seidj@uw.edu)