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# **2002 SUPPLEMENTAL BUDGET SENATE BUDGET SUMMARY**

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## **PROPOSED LEGISLATIVE FINAL**

AS OF MARCH 14, 2002 @ 11:30 AM



SENATE WAYS & MEANS COMMITTEE

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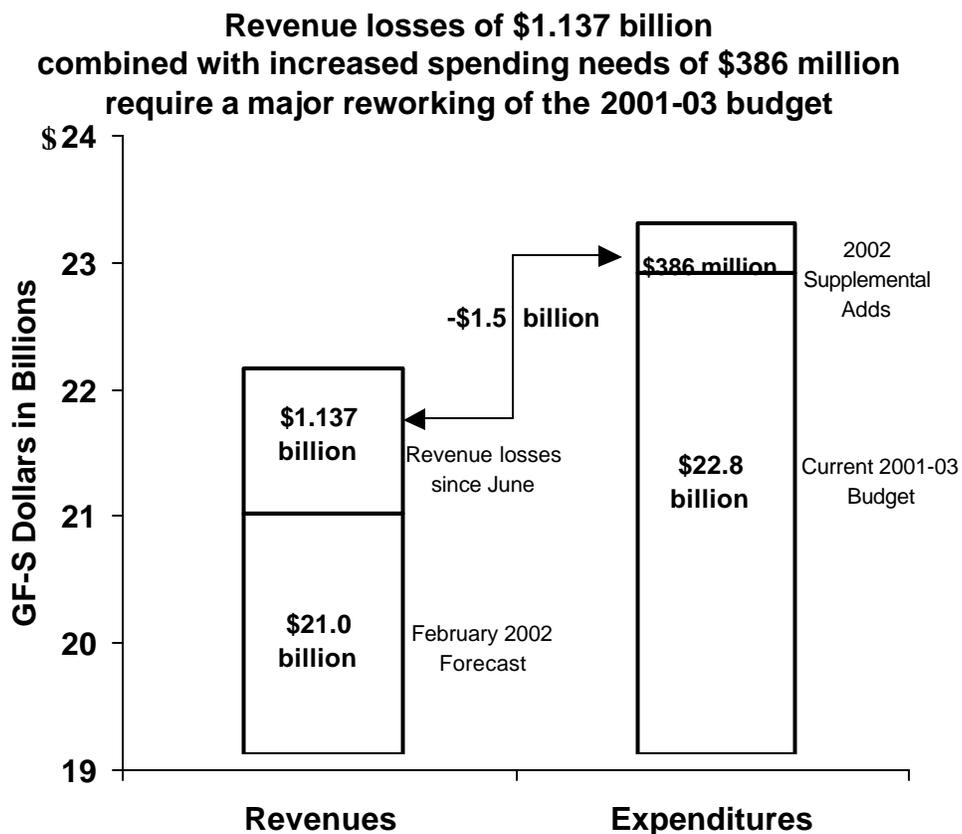
# HOW THE 2002 SUPPLEMENTAL BUDGET WAS CONSTRUCTED

## BUDGET OUTLOOK FOR 2002

Following the passage of the 2001-03 Operating Budget in June 2001, several factors and events combined to produce one of the largest budget deficits in recent memory. These include:

- The September 11<sup>th</sup> terrorist attacks, which lead to an unprecedented 48-hour national groundstop in air travel and the Boeing Company's subsequent decision to reduce its commercial airplane workforce by 30,000 workers by June 2002.
- A national recession that began in March 2001 and which is anticipated to persist in Washington State through calendar year 2002.
- Continued rapid escalation in costs for low-income medical care.
- Increased costs for public school enrollments, tort liability payments and additional prison inmates and offenders under supervision.
- Passage of Initiatives 747 and 773, which further reduce state general fund revenue collections.

In combination, these factors have resulted in a reduction in general fund revenue of \$1.137 billion and increased expenditure needs of \$386 million since the original 2001-03 budget was passed. The combined impact of the revenue loss and budget increase is an approximately \$1.5 billion budget deficit, which is illustrated in the chart below.



## REVENUE OUTLOOK

As the chart above indicates, the February 2002 revenue forecast of \$20.962 billion is \$1.137 billion less than the \$22.099 billion June 2001 revenue forecast which was used in constructing the original 2001-03 biennial budget. Most of the revenue loss occurred in November 2001 when the Economic and Revenue Forecast Council reduced the general fund forecast by \$813 million, primarily in response to the economic after effects of the September 11<sup>th</sup> terrorist attacks. Most recently, the Council further reduced the forecast of general fund collections for the current biennium by an additional \$247 million at their meeting on February 19, 2002. This means that more than one billion in forecasted revenue has been lost in just the last three months.

The result of these changes is that general fund revenues for 2001-03 are actually **\$300 million lower than actual general fund collections for the 1999-01 biennium** – an extraordinary event that has happened only once in the past forty years.

While much of the current revenue downturn is due to economic factors, the passage of Initiative 728 in November 2000 (which diverts a portion of state collected property tax revenues to local school districts), has also contributed to the current revenue decline, reducing general fund revenues in 2001-03 by \$442 million. Passage of Initiatives 747 and 773 in November 2001 further reduced general fund revenues by an additional \$34 million bringing the total 2001-03 revenue loss from these three initiatives to \$476 million.

## EXPENDITURE OUTLOOK

Since the passage of the \$22.783 billion 2001-03 general fund biennial budget last June, new spending pressures have emerged resulting in additional budgetary spending needs of \$386 million in the 2002 supplemental budget. Most of the increase comes from two budget drivers – K-12 education and low-income health care. An additional \$126 million is needed for public schools primarily for increased enrollments and levy equalization costs. Another \$91 million is added for the increased costs of health care in the Department of Social and Health Services (DSHS) medical assistance program, primarily for aged, blind and disabled recipients. Other significant general fund supplemental spending requirements include the Department of Corrections (\$41 million), tort liability payments (\$25 million) and the DSHS economic services program (\$16 million).

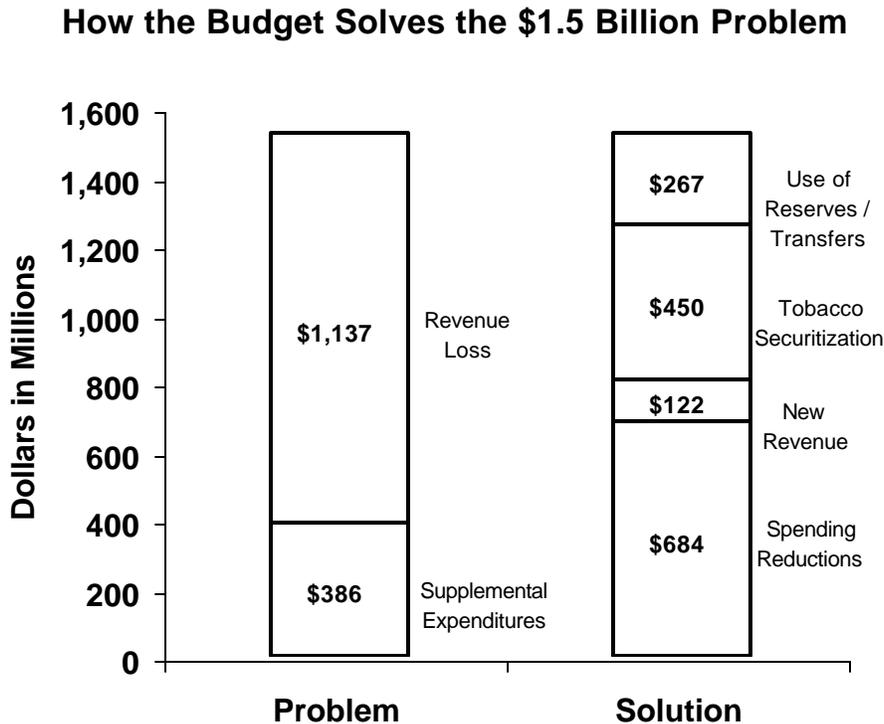
Since 1991-93, the general fund budget has grown, on average, about 9 percent per biennium. Two thirds of these biennial budgets were built under the requirements of Initiative 601, which limits general fund budget growth each year by a growth factor based on statewide inflation and statewide population growth. Because of the budget reductions and savings discussed in the next section, even with \$386 million in new supplemental expenditure requirements, the 2002 supplemental budget would reduce the 2001-03 general fund budget level to \$22.462 billion. Adoption of this budget would drive the percentage growth in general fund biennial spending in 2001-03 down to 6.7 percent – ***the lowest percentage growth in the general fund budget since the early seventies.***

The bottom line of the state's revenue and expenditure situation is that both general fund revenue growth and state expenditure growth are at historically low levels. While the economic impact of the current recession is not as deep as the early 1980's, the effect of recent voter-approved initiatives and the current recession has resulted in the lowest general

fund revenue growth and expenditure growth since the famous “Boeing Bust” period of the early seventies.

## SOLVING THE \$1.5 BILLION PROBLEM

The 2002 supplemental budget takes a four-part approach to bringing the 2001-03 biennial budget back in balance, as illustrated in the chart below.



## BUDGET REDUCTIONS AND SAVINGS (\$684 MILLION)

As the chart above indicates, a little less than one half of the Senate’s proposed solution to the state’s \$1.5 billion budget problem is based on budget reductions and savings. General fund spending is reduced by \$89 million through a number of efficiency savings and across-the-board reductions throughout state government. The amount also includes cuts in travel, equipment and mileage reimbursement. An additional \$57.4 million in savings comes from elimination of backfill assistance for cities and counties, which lost significant revenue due to the passage of Initiative 695 in November 1999. Another \$63 million is saved from a proposal to adopt the State Actuary’s most recent pension system valuation assumptions prescribed by the 1995-2000 experience study. Shifting the cost of certain general fund programs to other funds and accounts conserves \$51 million in general fund resources.

Health care benefits for state employees (and allocations for public schools) are reduced by \$41 million. Employees share of co-premiums is increased to an average of about 12 percent, office visit co-payments are increased from \$10 to \$15 and state support for prescription drug benefits is cut by 10 percent. In the area of program reductions, the scheduled July 1, 2002 2.6 percent cost-of-living adjustment for state and higher education employees and vendors is eliminated, saving \$50 million in the state general fund. The vendor cost-of-living is reduced to 1.5 percent, saving \$9 million. Public school funding is reduced by \$92 million through

elimination of state funding for planning days, proposed changes in the calculation of the “staff mix” factor, and utilization of new federal education funding. Excluding compensation changes, higher education is reduced by \$57 million through a combination of across-the-board reductions (\$48 million of this amount is included in the \$85 million efficiency total above), and other measures.

### **SECURITIZING TOBACCO SETTLEMENT PAYMENTS (\$450 MILLION)**

Following the lead of at least six other states and a number of city and county governments, the budget proposes to “securitize” a portion of the annual revenue coming to the state from the 1998 settlement of the national tobacco litigation. In separate legislation, an independent authority is created to which the state would sell a portion of the state’s annual tobacco settlement revenues in order to raise \$450 million in net proceeds to the state general fund. The authority would issue revenue bonds, the proceeds of which would be paid back to the state in return for the right to receive a portion of future tobacco settlement payments.

### **USE OF GENERAL FUND RESERVES AND MONEY TRANSFERS (\$267 MILLION)**

The proposed budget makes use of both state reserve accounts and money transfers from dedicated fund balances to close a portion of the \$1.5 billion budget deficit. A total of \$143 million is consumed from the unrestricted ending balance when the original 2001-03 biennial budget was adopted last June.

Another \$86 million is drawn from a variety of money transfers from various dedicated funds, listed on page 7 of this document. The budget also assumes a transfer of \$247 million is made from the emergency reserve account to the general fund, but only \$83 million is used to balance the budget, with the remainder staying in the general fund as a guard against further revenue downturns.

The budget leaves a total \$301 million budget reserve comprised of \$164 million in the unrestricted ending balance and \$137 million in the emergency reserve account.

### **REVENUE INCREASES (\$122 MILLION)**

The Senate budget relies on several measures that are expected to raise general fund revenues by \$122 million during the remainder of the 2001-03 biennium and \$261 million in 2003-05. A total of \$46 million in new revenue is anticipated from the hiring of additional staff in the Department of Revenue to improve tax collection, tax discovery, and overall tax compliance. Another \$24 million in on-going revenue is expected from Washington’s entry into “The Big Game” multi-state lottery consortium, as authorized by separate legislation.

Additional on-going revenue of about \$27 million is expected from a proposal to close loopholes in use taxation. Passage of a measure to place a new retail sales tax of 5% on liquor is anticipated to generate another \$40 million. Offsetting a portion of the revenue increases are a number of measures which reduce general fund state revenues by approximately \$16 million.

# BALANCE SHEET

## 2001-03 Balance Sheet

### General Fund State

(Dollars in Millions)

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#### RESOURCES

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<b>Beginning Fund Balance</b>	<b>599.7</b>
February 2002 Revenue Forecast	20,961.9
2001 Session Money Transfers	228.0
Revenue Changes	54.3
Budget Driven Revenue	43.0
Big Game Lottery	24.4
Other Money Transfers	51.6
Tobacco Securitization Transfer	450.0
Emergency Reserve Account Transfer	<u>325.0</u>
<b>Total Resources Available</b>	<b>22,737.9</b>

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#### APPROPRIATIONS

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<b>Original 2001-03 Appropriation</b>	<b>22,783.1</b>
2002 Supplemental Budget	<u>(298.0)</u>
<b>Total Appropriation</b>	<b>22,485.2</b>

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#### BALANCE

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<b>Unrestricted Ending Balance</b>	<b>252.7</b>
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#### EMERGENCY RESERVE ACCOUNT

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<b>Beginning Balance</b>	<b>462.1</b>
Interest Earnings	10.6
Transfers to Transportation	(70.0)
Earthquake / Drought	(25.0)
Transfer to the General Fund	<u>(325.0)</u>
<b>Ending Balance</b>	<b>52.7</b>

<b>TOTAL RESERVES</b>	<b>305.4</b>
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# ADJUSTMENTS TO THE STATE SPENDING LIMIT

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2001-03</u>
<b>Current Official Limit</b>	<b>11,251.5</b>	<b>11,608.1</b>	<b>22,859.6</b>
<b>Revenue Transfers</b>			
Transfer Proshare Revenue	20.0	(20.0)	
Transfer AASA Licensing Fees to GFS-L		(3.4)	
Transfer Industrial Insurance fund balance	1.0	-	
Transfer Gambling Account fund balance	2.0	0.5	
Transfer Financial Services Regulatory Account fund balance	2.3	0.4	
Transfer State Drought Protection Account fund balance	3.0	-	
Transfer Treasurer's Service Account fund balance	-	4.4	
Transfer Clark/McNary fund balance	4.0	-	
Transfer UTC/Public Service Revolving		0.4	
Transfer: Lottery Admin		0.3	
Transfer Insurance Commissioner		0.4	
Transfer Liquor Construction		0.5	
Transfer Liquor Revolving		2.1	
Transfer E 911		6.0	
Transfer EMS & Trauma Account	6.0	-	
Transfer Local Lease Excise Tax	1.0		
Higher Ed Capital Transfers (Made in Cap. Budget)		17.5	
<b>Program Shifts to GFS</b>			
DSHS-FMAP	-	14.0	
SPI-Assessment System Funding	1.0	(1.0)	
DOC Federal Fund Transfer	1.1	1.0	
DSHS DD-Cost Allocation Plan	1.5	(1.5)	
<b>Program Shifts out of GFS</b>			
DSHS: Use RSN Reserves	-	(21.2)	
DSHS: Part B in MAA	(1.6)	(0.5)	
DSHS: MHD Third Party Revenues	(1.8)	0.3	
DSHS: Econ Svcs Fund Shift	(1.0)		
DSHS: DDD Fund Source Change	(0.9)		
AG: Fund Shifts		(3.6)	
K12: Safety Net		(10.9)	
K12: LAP		(5.5)	
CTED: Shelters		(2.0)	
Corporations Fund Shift	-	(2.0)	
Salmon Recovery Fund Reallocation	-	(1.5)	
CERB Position*	(0.0)		
Transfer Community Health Services	-	(6.7)	
Apprenticeship Transfer	(1.0)	-	
Employment Standards Transfer	(1.1)	-	
Pediatric Interim Care	-	(0.6)	
Voluntary Placement Parent Pay	-	(1.4)	
DSHS: DDD Higher Client Contributions	(0.2)	-	
DSHS: Adjust AASA Licensing Fees	-	-	
DOH: Maximize Use of Fed Funds	-	(1.1)	
DOH: AIDS Presc. Drug Plan	(1.9)	-	
DOH: Childhood Vaccines	(5.2)	-	
Redirect Legal Immigrants to BHP	-	(21.0)	
Maternity Support Services	-	(8.6)	
Initiate Fees for Syphilis Testing	-	(0.1)	
Initiate Fees for Shellfish Testing	(0.1)		
DOH: Water Conservation and Reuse	-	(0.2)	
Watershed Grants Funding Shift	(6.0)	-	
Stream Gauging Fund Shift	(0.3)	-	
Aquatic Pesticides Shift to Fees	-	(0.4)	
Forest Road Inventory	(0.1)	-	
Statewide Monitoring Strategy	(0.3)	-	
Salmon Recovery Reallocation	(1.5)	-	
DOE: Water Quality Certifications & Stormwater Phase 2		(1.2)	
DOE: Hanford Liaison	(0.1)		
DOE: Contaminated Sediments	(0.2)		
F&W: Various Fund Shifts		(1.1)	
Resource Program Fund Shifts	(0.1)	(0.9)	
Natural Resource Conservation Areas	-	(0.2)	
	<b>19.7</b>	<b>(68.9)</b>	
<b>Limit</b>	<b>11,271.2</b>	<b>11,539.1</b>	<b>22,810.3</b>

## 2002 MONEY TRANSFERS

	<b>2002</b>	<b>2003</b>	<b>Biennium</b>
Transfer HSA revenue to General Fund	130.0	20.0	150.0
Transfer from MultiModal Account	70.0	0.0	70.0
Transfer from Treasurer's Service Account	0.0	8.0	8.0
<b>Subtotal</b>	<b>\$200.0</b>	<b>\$28.0</b>	<b>\$228.0</b>
<b>2002 Supplemental</b>			
Transfer Industrial Insurance fund balance	1.0	-	1.0
Transfer Gambling Account fund balance	-	2.5	2.5
Financial Services Regulatory Account fund balance	2.3	0.4	2.6
State Drought Protection Account fund balance	3.0	-	3.0
Transfer Treasurer's Service Account fund balance	-	4.4	4.4
Transfer Clark/McNary fund balance	4.0	-	4.0
Transfer UTC/Public Service Revolving		0.4	0.4
Transfer: Lottery Admin		0.3	0.3
Insurance Commissioner		0.4	0.4
DOH Health Professions		-	-
Electrical Contractors at L&I		-	-
Liquor Construction		0.5	0.5
Liquor Revolving		2.1	2.1
E 911		6.0	6.0
Local Leasehold Excise Tax	1.0		1.0
EMS & Trauma Care		6.0	6.0
Capital Budget Related Transfers		17.5	17.5
<b>Subtotal</b>	<b>\$11.3</b>	<b>\$40.4</b>	<b>\$51.6</b>



# TOBACCO SECURITIZATION

The budget proposes to raise \$450 million for the 2001-03 biennium by securitizing a portion of the revenue the state receives under the national tobacco litigation settlement agreement. Securitization is a common financial transaction by which a stream of revenue is sold or assigned to a third party, in exchange for a cash payment.

Washington is one of many states receiving annual payments from tobacco manufacturers from the 1998 settlement of the national tobacco litigation. The state will receive more than \$300 million of these payments in the 2001-03 biennium, with similar payments continuing in perpetuity. Under separate legislation, a portion of this annual revenue will be sold for cash to private investors. In return for their cash payment, the investors would receive revenue bonds that are backed by the tobacco settlement revenues and are not an obligation of the state.

Six other states have generated revenue by securitizing all or a portion of their tobacco revenues.

Under the Legislative proposal, an independent authority would be established, to which the state would sell or assign a portion of the state's tobacco revenues. The Washington State Housing Finance Commission would provide administrative support to the authority. The authority would issue the revenue bonds, the proceeds of which would be paid to the state in return for the right to receive the future tobacco settlement payments. The debt service on the revenue bonds would be paid from the tobacco revenues and would not be guaranteed by the state.

This proposal, in addition to generating immediate state revenue, would have the additional advantage of reducing the risk to the state if tobacco revenues decline from current projections (as a result of a decline in tobacco sales or bankruptcy of tobacco manufacturers, for example). In the event of such a decline, the loss would be borne by the independent authority and the private investors. The revenue bonds do not create state debt, and the state bears none of the risk. The securitization proposal converts a portion the tobacco revenues into cash and relieves the state of any future risks associated with that revenue.



# ACROSS THE BOARD REDUCTIONS

## EFFICIENCY SAVINGS

### **844 FTEs, \$89 MILLION GENERAL FUND-STATE, \$110 MILLION TOTAL FUNDS**

All state agencies are required to become more efficient, regardless of the agency's funding source. Savings from across state government are applied to the state's budget problem. In addition to agency specific administrative reductions, three other reductions are made:

- Agencies that did not take a specific administrative reduction are reduced by 3 percent in fiscal year 2003, except the House and the Senate, which are reduced by 5 percent. The portion of an agency's appropriation that is for direct payments to providers or clients are excluded from the efficiency savings, although they may be reduced in a separate reduction.
- All travel is reduced by 10 percent.
- All equipment purchases are frozen.

The agencies of the state are directed to take actions consistent with their mission, goals, and objectives to reduce operating costs. The agencies are directed to give strong consideration to the "Best Practice" proposals put forth by Office of Financial Management (OFM) and Department of Information Services (DIS). Such action, to the extent possible, should maintain client services and state revenues. Agency actions may also include hiring freezes, employee furloughs, reduced travel and training expenditures, and reductions in equipment purchases and personal service contracts.

A safety net of \$3.4 million is provided to OFM to provide financial relief to agencies that are determined to be unable to achieve these savings without jeopardizing vital state services. Details of efficiency savings are provided in Appendix 1.

## COST OF LIVING ADJUSTMENTS/VENDOR RATES

### **COST OF LIVING ADJUSTMENTS — \$59.8 MILLION GENERAL FUND-STATE SAVINGS**

Funding in the underlying budget which would have provided a 2.6 percent salary increase for higher education and state employees in fiscal year 2003 is eliminated.

Funding in the underlying budget to provide a 2.3% rate increase for vendors is reduced to 1.5 percent.

<b>Total COLA Savings</b>	
(Dollars in Millions)	
	<b>GF-S</b>
State Employees	\$28.9
Higher Education Employees	21.5
Vendors	9.4
<b>Total</b>	<b>\$59.8</b>

## **HEALTH CARE BENEFITS**

### **EMPLOYEE HEALTH BENEFITS — \$9.5 MILLION GENERAL FUND-STATE SAVINGS**

The state will increase its payments for state and higher education employee health benefits by 5.5 percent in fiscal year 2003, rather than by 8.8 percent as originally budgeted. As a result, employees are expected to be responsible for paying an average of 12.6 percent of their monthly premium costs in calendar year 2003, compared to an average of 8.4 percent of such costs this year.

The following additional changes are also anticipated in 2003:

- an increase in office visit co-pays to \$15, from \$10 this year;
- an increase in Uniform Medical Plan enrollee co-insurance to 15 percent of allowed charges, from 10 percent now;
- a 10 percent reduction in the employer share of prescription drug benefits.

To assist employees with these increased out-of-pocket costs, the budget directs the Health Care Authority to provide increased opportunities for employees to set aside pre-tax income to cover such costs. The budget also directs the Health Care Authority to develop a plan for graduating employee premiums according to salary, so that lower-wage workers would contribute less of the total cost of their coverage.

## **I-695 BACKFILL**

### **INITIATIVE 695 BACKFILL - \$70.8 MILLION GENERAL FUND-STATE SAVINGS**

Beginning July 1, 2002, municipal assistance (\$37.3 million) and county assistance (\$20.1 million) are reduced. Five million is provided for counties and \$8 million for cities. In addition, state assistance for Public Health Districts is not reduced in this budget.

## **PENSIONS**

### **PENSION CONTRIBUTION RATE ADJUSTMENTS — \$63 MILLION GENERAL FUND-STATE SAVINGS**

The budget (in separate legislation, HB 2782) includes reductions in employer and state contributions for PERS, SERS, TRS and LEOFF Plan 2 and employee contribution rates for the Plan 2 retirement systems. Most of the savings (\$54 million) is in the K-12 system.

The 1995-2000 experience study conducted by the State Actuary showed that the contribution rates for PERS, TRS, SERS and LEOFF were higher than necessary to fully fund those systems. Effective April 1, 2002, employer contribution rates will be reduced from 1.54 percent to 1.10 percent for PERS; 1.54 percent to 0.96 percent for SERS; and 2.75 percent to 1.05 percent for TRS. The basic state contribution rate for LEOFF 2 will be reduced from 1.80 percent to 1.75 percent.

Plan 2 employee contribution rates will be reduced from 4.50 percent to 4.39 percent for LEOFF 2; 0.88 percent to 0.65 percent for PERS 2; 0.88 percent to 0.35 percent for SERS 2 and 1.23 percent to 0.15 percent for TRS 2.

# PUBLIC SCHOOLS

## **MAINTENANCE LEVEL ADJUSTMENTS — \$126.3 MILLION GENERAL FUND-STATE**

### **ENROLLMENT AND WORKLOAD CHANGES — \$105.3 MILLION GENERAL FUND-STATE**

The February 2002 enrollment forecast from the Caseload Forecast Council indicates that K-12 FTE student enrollment will be higher than anticipated. The increase is 8,827 FTE students for the 2001-02 school year, and 12,531 FTE students for the 2002-03 school year. Included in workload changes are other adjustments including staff mix and local deductible revenues.

### **LEVY EQUALIZATION UPDATE — \$12.7 MILLION GENERAL FUND-STATE**

Higher than expected assessed property values, local levy bases, and increased voter approval of local levies have combined to increase the maintenance level amount needed for the Local Effort Assistance program.

### **K-12 INFLATION — \$6.2 MILLION GENERAL FUND-STATE SAVINGS**

Inflation adjustments are provided in the budget for K-12 basic education programs. The inflation forecast has changed from 2.1 percent to 1.0 percent for fiscal year 2002, and from 2.3 percent to 1.7 percent for fiscal year 2003. Basic education budgets cannot be adjusted once school districts have set their budgets, so no changes are made for the 2001-02 school year. A budget adjustment is made for the 2002-03 school year taking into account the lower inflation in the previous year and the coming year. These adjustments result in a budgeted inflation rate of 1.01 percent for the 2002-03 school year.

### **INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$14.5 MILLION GENERAL FUND-STATE**

The 2001 calendar year Seattle Consumer Price Index (CPI) used for the 2002-03 school year K-12 cost of living adjustment (COLA) mandated by Initiative 732 is higher than the 3.1 percent anticipated in the budget. The current CPI estimate is 3.6 percent and requires a \$14.5 million increase for COLAs for state-funded K-12 staff.

## **SAVINGS AND REDUCTIONS**

### **PENSION RATE CHANGE — \$53.9 MILLION GENERAL FUND-STATE SAVINGS**

House Bill 2782 changes employer and employee pension contribution rates based on the 1995-2000 experience study and 2000 actuarial valuation of the retirement systems. The change in rates is effective April 1, 2002.

### **BETTER SCHOOLS CLASS SIZE --\$24.6 MILLION GENERAL FUND-STATE SAVINGS**

Beginning with the 2002-03 school year, the Better Schools K-4 staffing ratio enhancement is reduced from 2.2 certificated instructional staff per 1,000 students to 0.8 staff per 1000 students.

**HEALTH BENEFIT RATE CHANGES -- \$29.5 MILLION GENERAL FUND-STATE SAVINGS**

The budget provides \$457.07 per FTE staff for the 2002-03 school year. The original budgeted amount was \$493.59 per month.

**INTEGRATING FEDERAL FUNDS -- \$24.1 MILLION GENERAL FUND-STATE SAVINGS, \$50.4 MILLION FEDERAL FUNDS**

Federal funds are incorporated in the funding of three programs in the following amounts: special education (\$17.3 million); learning assistance (\$5.8 million); and the Washington Assessments of Student Learning, (\$1.0 million).

**STAFF MIX CALCULATION CHANGE -- \$18.9 MILLION GENERAL FUND-STATE SAVINGS**

Staff mix refers to the experience and education of a school district's certificated instructional staff. It is one of the components used to determine state funding in the apportionment and special education programs and adjusts state funding based on the profile of a school district's staff in these two programs. Beginning with the 2002-03 school year, all of a district's certificated instructional staff are used to calculate staff mix.

**LEARNING IMPROVEMENT DAYS -- \$12.1 MILLION GENERAL FUND-STATE SAVINGS**

Since 1993 the legislature has provided funding for student learning improvement days to implement education reform. The allocation of funds for this has changed over the years. The latest change was in 1999 when the legislature added three learning improvement days to the state salary allocation schedule for certificated instructional staff. Starting in the 2002-03 school year, two extra days are provided.

**TRANSFER TO STATE FLEXIBLE EDUCATION FUNDS -- \$6.8 MILLION GENERAL FUND-STATE SAVINGS**

For fiscal year 2003, a number of non-basic education programs totaling \$27.4 million are transferred to a newly created State Flexible Education Funds program. This amount is then reduced by 24.4 percent for a total appropriation of \$20.6 million. Starting September 1, 2002, the funds are allocated to school districts at a rate of \$21.55 per FTE student. The funds may be expended for local program enhancements as determined by school districts to improve student learning and include all the programs that were transferred into the new fund. The funds may not be expended to increase salary or compensation for existing teaching duties. Programs transferred and the amounts transferred are listed below.

**STATE FLEXIBLE EDUCATION FUNDS PROGRAM**  
(Dollars in Thousands)

	<u>GF-S</u>
<b>Source of Amounts Transferred In:</b>	
Block Grant Program	\$14,193
School Safety Allocation	6,084
Mentor\Beginning teacher assist @50%	2,347
Educational Centers	1,349
Complex Needs	1,075
Truancy	750
Superintendent\Principal internships @50%	705
Paraprofessional training @50%	547
Principal Assessment and Mentorships @50%	313
<b>Total Transferred Amount</b>	<b>27,363</b>
24.4% Reduction	<u>(6,751)</u>
<b>State Flexible Education Fund Amount</b>	<b>20,612</b>
<b>Rate per FTE Student</b>	<b>\$21.55</b>

**LEVY EQUALIZATION -- \$1.5 MILLION GENERAL FUND-STATE SAVINGS**

The fiscal year 2003 levy equalization amount is adjusted to reflect the various policy changes in the K-12 supplemental budget. The budget also changes the per pupil inflator from 3.3 percent to 2.9 percent to reflect the change in per pupil spending in the 2002 supplemental budget. The change in per pupil expenditures is calculated using General Fund-State, General Fund-Federal, and Student Achievement Fund appropriations in FY 2002 and FY 2003. In addition, calendar year 2003 levy equalization allocations are reduced 1 percent as authorized by House Bill 3011 (local effort assistance).

**EFFICIENCIES AND SAVINGS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS**

Most basic education programs not subject to transfer to the State Flexible Education Funds program are reduced by 3.0 percent for fiscal year 2003. The major programs included in this reduction are; the office of the superintendent of public instruction; educational service districts; highly capable; traffic safety education; and summer skills center programs.

## Public Schools 2002 Supplemental Budget

(Dollars in Thousands)

	<b>GF-S</b>
<b>2002 Maintenance Changes</b>	<b>\$126,324</b>
<b>2002 Policy Changes:</b>	
Pension Rate Change	(53,962)
Health Benefit Changes	(29,509)
Better Schools	(24,551)
Integrating Federal Funds	(24,142)
Staff Mix Calculation Change	(18,982)
Learning Improvement Days	(12,109)
Transfer to State Flexible Ed. Fund	(6,751)
Traffic Safety Ed Allocation	(2,283)
Efficiencies and Savings	(1,436)
Levy Equalization	(1,472)
Levy Equalization Task Force	49
National Board Certification	70
Technology Task Force	92
<b>Total Policy Changes:</b>	<b>(174,986)</b>
<b>Net Policy and Maintenance Changes:</b>	<b>(\$48,662)</b>

# HIGHER EDUCATION

## ENROLLMENTS

### **WORKER RETRAINING PROGRAM — \$4 MILLION GENERAL FUND-STATE; \$2.6 MILLION ADMINISTRATIVE CONTINGENCY ACCOUNT**

The budget provides \$6.6 million to expand enrollments by 1,320 to help dislocated workers retrain in programs offered at state community and technical colleges. This sum includes some financial aid for those exhausting unemployment benefits during this recession.

## FINANCIAL AID

### **STATE NEED GRANT — \$2.7 MILLION GENERAL FUND-STATE**

The budget provides supplemental funds to support higher tuition charges expected next year. The legislative priority is to serve eligible students at or below 55 percent of the state median family income during this recession. The Board is directed to use funds made available and where necessary adjust grant amounts to maximize service rather than pursue closure of the tuition gap where that may exist.

## COMPENSATION

### **PART TIME FACULTY RETIREMENT — \$9.5 MILLION GENERAL FUND-STATE; \$2.5 MILLION COLLEGE FACULTY AWARDS ACCOUNT**

Resources are provided to settle a lawsuit involving retirement contributions for part-time instructors employed by the state community and technical colleges.

### **RECRUITMENT AND RETENTION POOL — \$6.0 MILLION GENERAL FUND STATE**

Resources are distributed among the four-year universities and The Evergreen State College for competitively awarded salary adjustments to retain or recruit key faculty and professional staff.

### **INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$1.3 MILLION GENERAL FUND-STATE**

The 2001 Calendar Year Seattle Consumer Price Index (CPI) used for the 2002-03 academic year cost-of-living adjustment (COLA) mandated by Initiative 732 is higher than 3.1 percent anticipated in the budget. The current CPI estimate is now 3.6 percent. This requires a supplement of \$1.3 million for eligible community and technical college employees.

## TUITION

Governing boards will decide the appropriate level of tuition, within certain limits established by the Legislature. If enacted, this authority is delegated for the next six academic years, for all students, except resident undergraduates, under the provisions of Engrossed Second Substitute Senate Bill 5770. With an exception for the 2002-03 academic year for resident graduate business and law students, such increases the bill would cap at 10 percent a year for residents.

The Legislature retains tuition setting authority for resident undergraduates and proposes to limit tuition increases adopted by governing boards for the 2002-2003 academic year through the Budget Act as follows:

- For residents attending the University of Washington or Washington State University, no greater increase than **16 percent** over current year rates;
- For residents attending the regional universities of Eastern, Western, Central or The Evergreen State College, no greater increase than **14 percent** over current year rates;
- For residents attending state community and technical colleges, no greater increase than **12 percent** over current year rates.

#### **WAIVERS — NO RESTRICTIONS**

State colleges and universities are encouraged to waive less and be more selective in granting tuition relief to enrolled students in order to retain funds sufficient to support their respective academic programs.

### **SAVINGS AND REDUCTIONS**

#### **UNIVERSITY AND COLLEGE OPERATING COSTS — \$53.9 MILLION GENERAL FUND-STATE REDUCTION**

The budget cuts operating support by amounts that range from 3 to 5 percent of levels appropriated for fiscal year 2003.

#### **FACULTY AND STAFF COMPENSATION — \$22.6 MILLION GENERAL FUND-STATE SAVINGS**

No further increments are funded for two-year college faculty this biennium. No further cost-of-living adjustments (COLA) for state-supported higher education employees not covered by the terms of Initiative 732 are funded. The original budget had included money sufficient to provide a 2.6 percent COLA in July.

#### **HEALTH BENEFIT RATE CHANGES — \$4.3 MILLION GENERAL FUND-STATE SAVINGS**

Effective September 1, 2003, the state health benefit allocation for higher education employees is adjusted consistent with changes for state employees. The health benefit rate will increase from \$457.29 per month during fiscal year 2002 to \$482.38 per month during fiscal year 2003. The original budget has assumed a rate of \$497.69 per month during fiscal year 2003. A detailed explanation of the assumption underlying the new health benefit rate is provided in the compensation section on page 13.

#### **PROMISE SCHOLARSHIPS — \$ 2.4 MILLION GENERAL FUND-STATE SAVINGS**

Under the budget, students graduating in the top 15 percent with income no greater than 135 percent of the state median (\$76,300 for 2002-03 for a family of four) would qualify for a two-year scholarship. Awards are capped at \$1,000 a year beginning with the class of 2002.

**PENSION RATE CHANGE — \$2.2 MILLION GENERAL FUND-STATE SAVINGS**

Chapter 7, Laws of 2002 changes employer and employee pension contributions rates based on the 1995-2000 experience study and a 2000 actuarial valuation of retirement systems. The change in rates is effective on April 1, 2002.

<b>Senate Budget -- Higher Education</b>	
<b>General Fund Policy Items and Initiatives</b>	
(Dollars in Thousands)	
<b>Description</b>	<b>GF-S</b>
Two-Year College Retirement Settlement	\$9,500
Four-Year Recruitment and Retention	6,000
Worker Retraining Expansion	4,000
State Need Grants	2,180
CWU Enrollment Recovery	350
Institute for Public Policy Studies	60
HECB & SIRTl Efficiencies and Savings	(220)
HECB Administration of Financial Aid	(416)
Two-Year College Faculty Increments	(1,190)
Pension Rate Changes	(2,243)
Washington Promise Scholarships	(2,450)
Health Benefit Rate Changes	(4,350)
Higher Education COLA, (I-732)	(20,137)
College & University Operating Cost Reductions	(53,931)
<b>Total Policy Changes (Net)</b>	<b>\$(62,847)</b>



# HUMAN SERVICES

## HEALTH CARE

### INCREASES

#### **LOW-INCOME MEDICAL ASSISTANCE — \$91 MILLION GENERAL FUND-STATE, \$58 MILLION HEALTH SERVICES ACCOUNT**

Spending for Medicaid and other DSHS medical programs for low-income persons continues to consume ever-increasing shares of the state budget. State spending on such programs is now projected to increase by an additional 5.8 percent this biennium, in addition to the 28 percent (\$689 million) by which such spending was already budgeted to exceed last biennium's level. About one-third of the additional spending is due to covering more people. An average of about 875,000 people are now expected to receive DSHS medical coverage during the 2001-03 budget period. That is 2 percent more than anticipated in the original budget, and almost 9 percent more than were covered last year. The remaining two-thirds of the expenditure growth is due to higher costs per person covered, particularly in the areas of hospital care and drug coverage for the elderly and disabled, managed care rates for low-income families, and support services for pregnant women.

#### **ADDITIONAL BASIC HEALTH PLAN ENROLLMENTS — \$34 MILLION HEALTH SERVICES ACCOUNT**

As a result of the additional cigarette and tobacco taxes enacted by the voters in Initiative Measure 773, an additional 47,000 low-income persons will have the opportunity to enroll in the Basic Health plan. This will bring total subsidized enrollment in the Plan to 172,000 by June 2003. The budget reserves 27,000 of the additional enrollment slots for children and adults who will no longer qualify for the more expansive medical and dental benefits presently available to them through the state medical assistance programs offered by DSHS.

#### **PHYSICIAN AND AMBULANCE RATE INCREASES — \$3.7 MILLION GENERAL FUND-STATE, \$4.3 MILLION OTHER FUNDS**

In calendar year 2000, state Medical Assistance programs paid physicians only about half as much as private insurers for an adult office visit, and only about 60 percent as much as the federal Medicare program. This is reportedly contributing to substantial financial problems for physician practices across the state, and resulting in Medical Assistance recipients delaying necessary care, or seeking it at greater public cost in emergency rooms. Ambulance services also report that Medical Assistance rates are substantially below their costs, creating financial problems for the operators, and cost-shifts to other payers.

In recognition of these concerns, the budget provides for (1) an approximately 5 percent increase in average Medical Assistance payment rates for physicians; and (2) a 25 percent increase in ambulance payment rates. Both types of increase would be targeted toward procedures with the greatest need, as demonstrated by access problems and difference from prevailing-rate benchmarks.

### **LOW-INCOME CLINICS — \$3 MILLION HEALTH SERVICES ACCOUNT**

Non-profit community clinics will receive additional grant support to provide dental care for low-income children and adults for whom such care is not available through Medicaid or any other source. The increase may also be used for interpreter services for persons with limited English-speaking ability who need them to effectively access and use medical care.

### **PRESCRIPTION DRUG UTILIZATION AND EDUCATION — \$685,000 HEALTH SERVICES ACCOUNT, \$674,000 OTHER FUNDS**

Funding is provided for implementation of Substitute Senate Bill 6368, if it is enacted this year. The legislation seeks to increase the affordability and cost-effective utilization of prescription drugs across all state agencies and, beginning in 2004, for other purchasers, including persons who do not have prescription drug coverage. The bulk of the funding will be used to assist medical experts develop a list of "preferred drugs" in each therapeutic class, based on considerations of clinical effectiveness and costs. Availability of such a list is expected to result in state savings of at least \$20 million in the 2003-05, as a result of preference for equally effective but less-expensive drugs, and negotiation of manufacturer rebates. The legislation also provides for development of a uniform drug utilization review process across all state agencies; for education of prescribers and patients regarding appropriate use of preferred drugs; and disease management projects to support comprehensive, effective approaches to treatment of chronic disease conditions.

## **EFFICIENCIES AND REDUCTIONS**

### **END MEDICAL ASSISTANCE COVERAGE FOR SOME IMMIGRANTS — \$23 MILLION GENERAL FUND-STATE SAVINGS**

Approximately 27,000 non-citizen children and adults will no longer be eligible for state-funded Medical Assistance after September 2002. They will instead be provided opportunities to enroll in the subsidized Basic Health Plan (BHP), where their medical coverage will be less expensive for taxpayers because the BHP does not provide dental and vision care, and requires recipient cost-sharing.

### **REDUCE PHARMACY PAYMENT RATES — \$12.4 MILLION GENERAL FUND-STATE SAVINGS, \$12 MILLION OTHER FUND SAVINGS**

Beginning July 1, the Medical Assistance program will pay 86 percent of manufacturer list price for single-source drugs, and 50 percent of list price for drugs for which there are multiple generic versions. Such rates are comparable to and competitive with those paid by other major insurers. The budget also anticipates that the Medical Assistance program will begin providing a mail-order pharmacy option for its clients no later than January 2003. This will result in a substantial discount on drug prices for taxpayers, and increased convenience for elderly and disabled recipients with chronic conditions.

### **Reduce Hospital Disproportionate Share Payments -- \$1.6 Million General Fund-State Savings, \$7.2 Million Health Services Account Savings**

Hospitals will receive approximately \$117 million of federal disproportionate share and Medicare upper payment limit revenues to reduce their uncompensated care costs this biennium, rather than \$126 million as originally budgeted. The supplemental budget anticipates \$16 million less in Medicare upper payment limit revenues than originally budgeted. The amount of such revenues actually available to support state medical

programs count be up to \$400 million less than budgeted, due to a contention by the federal government that the state does not qualify for the revenues.

**INTERPRETER SERVICES EFFICIENCIES — \$1.1 MILLION GENERAL FUND-STATE SAVINGS, \$1.0 MILLION OTHER FUND SAVINGS**

As an alternative to the proposed elimination of funding for interpreter services in the Medical Assistance program, the budget replaces the current method of purchasing interpreter services with a new "brokerage" model for all DSHS programs. Under the brokerage model, DSHS will contract at a specified rate with any qualified individual or agency, and will also contract with intermediaries who will schedule and link interpreters with clients and service providers. This is expected to result in savings both from lower hourly payment rates, and also from better service coordination and utilization review. Department-wide savings from this approach are estimated at \$12 million in 2003-05.

**COST-SHARING FOR AIDS DRUGS & SERVICES — \$700,000 GENERAL FUND-STATE SAVINGS**

The HIV Early Intervention Program provides financial assistance with drug and other medical costs for persons with HIV disease. Due to the expense of drug therapies, and enrollment increases due to increased longevity and earlier onset of therapy, expenditures on the program are growing about 17 percent annually. Enrollment in the program is open to any HIV-infected person with an income below 370 percent of poverty (\$32,800 for a single person).

The budget directs the Departments of Health and the Department of Social and Health Services to work together to identify and implement strategies to reduce the growth in program expenditures. Such methods are to include a sliding-scale system under which the state's contribution toward the cost of coverage is adjusted according to recipient income level.

## **FAMILIES AND CHILDREN**

### **INCREASES**

**GA-U CASELOAD GROWTH — \$13 MILLION GENERAL FUND-STATE INCREASE**

General assistance unemployable (GA-U) caseload expenditures are projected to grow by \$13 million above the current appropriation. This increase is 15 percent above the current appropriation for fiscal year 2003.

**ADOPTIONS SUPPORT CASELOAD EXPENDITURE GROWTH — \$2.7 MILLION GENERAL FUND-STATE INCREASE, \$500,000 GENERAL FUND-FEDERAL INCREASE**

The February 2002 adoption support caseload forecast by the Caseload Forecast Council is slightly less than the original biennial budget forecast. However, the cost per case continues to rise above the increases assumed in the appropriation. The increase provided in the Budget brings the cost per eligible child to \$510.71 for fiscal year 2002 and \$527.85 for fiscal year 2003.

## **SAVINGS AND REDUCTIONS**

### **FREEZE FOSTER CARE BASIC RATE AND CHILD PLACING AGENCY CAPACITY — \$1.6 MILLION GENERAL FUND-STATE SAVINGS, \$0.8 MILLION GENERAL FUND-FEDERAL SAVINGS**

The budget cancels the July 2002 increase in the basic rate paid to foster parents and the increase in capacity of the child placing agencies. The basic rate rose to an average of \$420 per month July 2001 and was scheduled to increase to \$440 per month in July 2002.

### **REDUCE FAMILY RECONCILIATION SERVICES — \$1.7 MILLION GENERAL FUND-STATE SAVINGS**

The budget reduces about one third of the budget for family reconciliation services. These services are designed to help families in conflict.

### **HOME SUPPORT SPECIALISTS — \$625,000 GENERAL FUND-STATE SAVINGS**

The budget reduces by one-third the number of home support specialists who help families' with basic skills of parenting and maintaining a home that is safe for children.

### **REPROGRAM SSI STATE SUPPLEMENTAL PAYMENTS — \$28 MILLION GENERAL FUND-STATE SAVINGS**

The budget reprograms Supplemental Security Income (SSI) state supplemental payments. Beginning July 2002, state supplemental payments will no longer be provided automatically to all persons receiving a federal SSI benefit. SSI recipients will continue to receive their federal benefits and their annual cost of living increases each January. Some recipients who are dependent on larger state supplements will be provided a transitional benefit. The remaining amount of state supplemental payments required by federal rules will be used to support low and moderate-income families who care for children and other relatives with developmental disabilities.

### **GA-U PROGRAM EFFICIENCIES — \$5.4 MILLION GENERAL FUND-STATE SAVINGS**

The budget reduces funding for the General Assistance-Unemployable (GA-U) program. The reductions will be achieved through tighter application of eligibility rules.

### **PARENT SUPPORT FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES IN OUT OF HOME PLACEMENTS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS**

Senate Bill 6585 requires parents with children who have developmental disabilities and who are in state funded out of home placements to share in the cost of that care. The amount of parent support would be the same required of other parents with children in out-of-home placements. It is expected that the average support level will be \$150 per month based on the financial ability of the family.

### **EFFICIENCIES IN CHILDREN'S SERVICES — \$1.9 MILLION GENERAL FUND-STATE SAVINGS, \$800,000 GENERAL FUND-FEDERAL SAVINGS**

The budget reduces funding in the DSHS Children's Administration based on savings estimated from centralizing after-hours programs and by reducing travel, equipment and training expenditures.

**FEDERAL RESUMPTION OF FOOD STAMPS FOR LEGAL IMMIGRANTS — \$1.6 MILLION  
GENERAL FUND-STATE SAVINGS**

The budget reduces funding for the state food assistance program for legal immigrants. President Bush's budget proposal for fiscal year 2003 includes provisions for a resumption of coverage for some legal immigrants under the federal food stamp program. Both parties in Congress have expressed support for the proposal.

## **LONG TERM CARE**

### **INCREASES**

**HOMECARE WORKER WAGE INCREASE -- \$4.1 MILLION GENERAL FUND-STATE, \$4.1  
MILLION GENERAL FUND-FEDERAL**

Funding is provided for a 25 cents per hour wage increase for persons who provide state-funded in-home care.

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**AREA AGENCY ON AGING CASE MANAGERS — \$300,000 GENERAL FUND-STATE,  
\$300,000 OTHER FUNDS**

The budget increases by \$1,700 per case manager per year the amount which the Department of Social and Health Services pays Area Agencies on Aging (AAA's) to provide case management services for persons receiving state-funded care in their own homes. This provides the AAA's with the same level of funding as would be required for the state to provide this service with its own employees.

**HOME CARE QUALITY AUTHORITY & INITIATIVE 775 — \$437,000 GENERAL FUND-  
STATE**

Initiative 775, passed in November 2001, established a new state agency, the Home Care Quality Authority (HCQA). The HCQA acts as the public employer for home care workers providing services for elderly people and people with disabilities, for collective bargaining and quality control purposes. General Fund-State provides half of the initial start-up funding; the other half is covered with federal Medicaid matching funds. Funding is also provided for workload impacts for the Public Employment Relations Commission, which is responsible for negotiating collective bargaining agreements, running elections, and acting as the appeals board for unfair labor practice allegations.

### **EFFICIENCIES AND REDUCTIONS**

**ADULT FAMILY HOME AND NURSING HOME LICENSING FEES — \$3.1 MILLION  
GENERAL FUND-STATE SAVINGS**

Nursing home licensing fees are to be increased to approximately \$275 per bed, from their current level of \$127 per bed, so that the fees will cover the full state cost of nursing home inspections. Adult family home fees are also to be increased to cover more of the approximately \$1,500 per home per year state cost of licensing and inspecting them. However, because the adult family home fee has been fixed in state law since 1989 at only \$50 per home, this is to be accomplished over a two-year period. The adult family home fee will increase to approximately \$220 per home in fiscal year 2003, and then in fiscal year 2004 to the same per-bed rate as charged for boarding homes. This is currently \$79 per bed, equating to about \$400 per adult family home.

**TIGHTEN INCOME ELIGIBILITY FOR LONG-TERM CARE — \$2.7 MILLION GENERAL FUND-STATE SAVINGS, \$2.7 MILLION GENERAL FUND-FEDERAL SAVINGS**

Under current policy, when a married person applies for publicly-funded long-term care in a nursing home or in the community, the other spouse is able to retain a house, furnishings, and an automobile; up to \$2,200 per month of income; and \$89,000 in savings or other liquid assets. This policy is to be modified so that persons with more than \$30,000 in cash assets will need to “spend down” the excess before qualifying for publicly-funded care. This change would only affect new applicants: people who are already receiving publicly-funded care would continue to be eligible. There is no change in the amount of income the non-recipient spouse is able to retain for her or his living expenses.

**NURSING HOME PAYMENT RATES — \$800,000 GENERAL FUND-STATE SAVINGS, \$800,000 GENERAL FUND-FEDERAL SAVINGS**

The budget does not make any of the reductions in nursing home payment rates proposed by the Governor. However, it does lower to 1.5 percent the 2.3 percent increase which was originally budgeted for July 2002, in the therapy, administration, and operations components of the nursing home payment rate.

**RESCIND PLANNED EXPANSION OF IN-HOME SERVICES — \$1.5 MILLION GENERAL FUND-STATE SAVINGS, \$1.5 MILLION GENERAL FUND-FEDERAL SAVINGS**

The 2001 Legislature authorized the Department of Social and Health Services to seek federal authority to provide Medicaid-funded in-home care to up to 200 persons whose incomes are too high to qualify for such services under current rules. Because the waiver has not yet been approved and no one is being served, this program will not be implemented.

**ASSISTED LIVING CAPITAL ADD-ON RATE — \$1.4 MILLION GENERAL FUND-STATE SAVINGS, \$1.4 MILLION GENERAL FUND-FEDERAL SAVINGS**

The state will continue to provide an enhanced rate to cover construction and renovation costs for assisted living facilities in which at least half of the residents receive public assistance. However, the enhanced rate will no longer be provided to facilities in which less than 50 percent of the residents are on Medicaid.

## **PERSONS WITH DISABILITIES**

### **INCREASES**

**COMMUNITY MENTAL HEALTH CASELOAD GROWTH — \$8.5 MILLION GENERAL FUND-STATE, \$8.5 MILLION GENERAL FUND-FEDERAL (*MAINTENANCE LEVEL INCREASE*)**

The number of children and adults eligible for Medicaid is now projected to be approximately 3.0 percent higher than originally budgeted, and 2.4 percent higher than the November 2001 caseload forecast upon which the Governor's budget proposal was based. As a result, managed care payments to the Regional Support Networks (RSNs) will also be higher than originally budgeted, in order to assure availability of needed community mental health services.

**ARC LAWSUIT/DD REFORM — \$10.3 MILLION GENERAL FUND-STATE, \$3.7 MILLION GENERAL FUND-FEDERAL**

The budget provides a total of \$14 million to expand access to community services for persons with developmental disabilities and to strengthen program and fiscal management of the developmental disabilities system. These enhancements are intended to be the fiscal component of the negotiated settlement in the pending litigation on developmental disabilities services, *ARC v. Quasim*.

**SAVINGS AND REDUCTIONS**

**SPEND DOWN RSN RESERVES — \$21.2 MILLION GENERAL FUND-STATE SAVINGS**

The Regional Support Networks (RSNs) reported \$53 million of accumulated reserves and fund balances at the end of calendar year 2001, which is about 14 percent of total revenues for that year. Such reserves have accumulated because the RSNs are paid a capitated rate per eligible person, rather than reimbursed for allowable costs actually incurred. Because the number of eligible persons has for each of the past several years consistently exceeded the levels originally forecasted, RSNs have found themselves the recipients of more funds than anticipated in prudent budget planning, and with funds in reserve.

Actuarially recommended risk reserves vary with the size of the RSN, ranging from 3.7 percent of revenues for the largest RSN to 10 percent of revenues for the smaller ones. The budget directs that RSN fund balances be reduced to the actuarially recommended level. This is to be accomplished by deducting state funding otherwise due the RSN by the difference between the RSN's accumulated December 2001 reserves, and the recommended risk-reserve amount.

**DISCONTINUE ATYPICAL DRUGS PILOT PROJECT — \$2.4 MILLION GENERAL FUND-STATE SAVINGS**

The atypical anti-psychotic medications pilot project is to be terminated at the beginning of 2002, rather than at the beginning of 2003 as originally budgeted. The pilot has been operating in Seattle and Tacoma since early 2001 to demonstrate the effectiveness of and methods for providing atypical anti-psychotic medications for persons who would not otherwise receive them. It is expected that project recipients can obtain needed medications from other sources, such as drug industry samples available through community mental health centers and correctional facilities, and state medical assistance programs for the unemployed and working disabled.

**STATE PSYCHIATRIC HOSPITAL WARD CLOSURES — \$700,000 GENERAL FUND-STATE SAVINGS, \$270,000 OTHER FUNDS SAVINGS**

A total of \$1.7 million is provided for community residential and support services for 58 persons who would otherwise be served in the state psychiatric hospitals. This will permit closure of one ward specializing in geriatric care at Eastern State Hospital by October 2002, and in one-quarter of the Program for Adaptive Living Skills (PALS) units at Western State Hospital by January 2003. As in the case of the other 120 state hospital beds previously scheduled for closure this biennium, the budget directs that, before patients are discharged from the hospital, a team of community professionals is available to assure that there is a safe and stable place for the person to live, and that the medical, behavioral, and social services needed for successful community living are in place, before patients are discharged from the hospital.

**REDUCE MENTAL HEALTH PROGRAM ADMINISTRATION — \$290,000 GENERAL FUND-STATE, \$275,000 GENERAL FUND-FEDERAL**

The budget reduces funding for Regional Support Network (RSN) administration by 3 percent, and directs that RSN administration is to be limited to no more than 8 percent of total contractual payments. The Mental Health Division is directed to reduce its central clinical review function by one-third, by placing increased reliance upon the certification reviews conducted by national accreditation organizations, and the provider program reviews conducted by RSNs. Finally, as a safeguard against unwarranted reductions in direct patient care, the budget directs that no RSN is to spend less on direct care in fiscal year 2002 or 2003 than it did last year.

**PHASE OUT EXTENDED SUPPORT SERVICES — \$160,000 GENERAL FUND-STATE SAVINGS**

The Extended Support Services program provides subsidized sheltered employment for 89 adults whose cognitive and/or physical impairments and life experiences have prevented them from obtaining permanent employment in the regular workforce. As an alternative to elimination of the program July 1, 2002, the budget provides for it to be phased out over the course of the following year. This will provide families and case managers additional time to find alternative ways for the affected individuals to productively spend the workday.

**REDUCE RHC STAFFING — \$1.4 MILLION GENERAL FUND-STATE, \$1.4 MILLION GENERAL FUND-FEDERAL**

Due to continued declines in resident populations at Residential Habilitation Centers (RHCs), 65.4 FTEs are reduced in non-direct care staffing. Positions will be reduced in auxiliary services such as custodial, kitchen, and administration.

**REDUCE FUNDING FOR TASC — \$1 MILLION GENERAL FUND-STATE**

The budget reduces by 30 percent the Treatment Accountability for Safe Communities (TASC) program. The program provides funding for Clark, King, Pierce, Snohomish, Spokane, and Yakima counties for interventions during the criminal justice process to provide assessment, case management, referral to treatment, and urinalysis monitoring. These same counties also currently receive state or federal funding for Drug Courts that have demonstrated strong, positive outcomes in diverting offenders with drug and alcohol problems out of the criminal justice system and into treatment. Drug Court funding is maintained, and the Department is directed to consolidate TASC funding with Drug Court funding by fiscal year 2004.

**PARENT SUPPORT FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES IN OUT OF HOME PLACEMENTS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS**

Senate Bill 6585 requires parents with children who have developmental disabilities and who are in state funded out of home placements to share in the cost of that care. The amount of parent support would be the same require of other parents with children in out of home placements. It is expected that the average support level will be \$150 per month base on the financial ability of the family.

# JUVENILE REHABILITATION

## INCREASES

### **ENHANCED MENTAL HEALTH SERVICES — \$778,000 GENERAL FUND-STATE**

Funding is provided for increased mental health services in the Juvenile Rehabilitation Administration's (JRA) institutions and community facilities. JRA will combine this funding with the \$1.1 million provided in the original 2001-03 biennial budget to: (1) increase inpatient and outpatient treatment capacity; (2) provide mental health protocol training to residential staff; and (3) increase mental health professional staff coverage during evening and night time hours.

### **RESEARCH BASED INTERVENTIONS — \$217,000 GENERAL FUND-STATE**

Funding is provided for new research-based interventions to additional youth as they transition out of institutional settings. With the funding provided in the "restructure parole services" item, a total of \$945,000 is provided for research-based interventions. The Juvenile Rehabilitation Administration will utilize this funding for juvenile offenders identified as most in need for this type of rehabilitation programming.

## SAVINGS AND REDUCTIONS

### **CASELOAD DECREASES — \$5 MILLION GENERAL FUND-STATE SAVINGS, \$492,000 GENERAL FUND-FEDERAL SAVINGS (MAINTENANCE LEVEL DECREASE)**

Based on the February 2002 forecast, the Juvenile Rehabilitation Administration's residential population is expected to be 97 offenders lower in fiscal year 2002 and 152 offenders lower in fiscal year 2003 than the November 2000 forecasted levels. This results in savings from a reduced need for institutional and community residential beds. Additionally, funding levels are also adjusted for parole and other community services programs to reflect changes in projected workload.

### **CLOSURE OF MISSION CREEK YOUTH CAMP — \$1.5 MILLION GENERAL FUND-STATE SAVINGS**

Mission Creek Youth Camp will be closed by July 2002 and the institution will be mothballed for future use. This closure will reduce the Juvenile Rehabilitation Administration's (JRA) bed capacity by 60 beds. The closure will result in the relocation of these youth to other institutions. The juvenile offender basic training camp staging area will be relocated to an existing institution.

### **CHANGES TO RELEASE POLICIES FOR LOWER RISK OFFENDERS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS, \$29,000 OTHER FUND SAVINGS**

In their budget reductions submitted to the Governor, the Juvenile Rehabilitation Administration (JRA) proposed to achieve savings by changing their release policies so that lower risk offenders serve 115 percent of their minimum sentence as opposed to 145 percent under current practice. In addition to this change, JRA will work with local juvenile courts to develop alternative residential placements for approximately 80 to 90 of their lowest risk youth.

**RESTRUCTURE PAROLE SERVICES — \$1.1 MILLION GENERAL FUND-STATE SAVINGS, \$567,000 GENERAL FUND-FEDERAL SAVINGS**

Savings are achieved by modifying current parole services to youth after release from Juvenile Rehabilitation Administration (JRA) facilities. Specifically, JRA may take the following steps to improve the effectiveness and cost efficiency of parole services: (1) contract with counties for a greater proportion of parole services; (2) reduce administrative costs related to parole services; (3) reduce the portion of the parole caseload receiving intensive supervision to the statutory required level of 25 percent; (4) provide new research-based interventions to additional youth; (5) increase caseloads of parole counselors; or (6) reduce the number of lower risk youth receiving parole services.

## **DEPARTMENT OF CORRECTIONS**

### **INCREASES**

**INMATE AND COMMUNITY CORRECTIONS CASELOAD GROWTH — \$36 MILLION GENERAL FUND-STATE, \$500,000 COST OF SUPERVISION FUND (MAINTENANCE LEVEL INCREASE)**

The budget provides funding for the increased operating costs associated with the projected population changes based on the current forecasts prepared by the Caseload Forecast Council. The Department of Corrections' residential population is expected to be 335 offenders higher in fiscal year 2002 and 413 offenders higher in fiscal year 2003 than the November 2000 forecasted levels. Funding levels are also adjusted for significant increased workload in the community supervision program. Additionally, funding is provided for increased health care inflation.

**MOTOR VEHICLE THEFT LEGISLATION — \$53,000 GENERAL FUND-STATE**

Funding is provided for the implementation of SSB 6490 (motor vehicle theft), which increases the penalties for motor vehicle theft crimes.

### **SAVINGS AND REDUCTIONS**

**COMMUNITY CORRECTIONS CHANGES — \$3.5 MILLION GENERAL FUND-STATE SAVINGS**

In their budget reductions submitted to the Governor, the Department of Corrections identified savings that could be achieved by removing community corrections officer positions at contracted work release facilities and-only performing pre-sentence investigations for sex offenders and mentally ill offenders.

**ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$4.3 MILLION GENERAL FUND-STATE SAVINGS**

The budget assumes that the department will take a variety of actions to reduce operating costs and achieve administrative savings. These steps include: (1) identifying efficiencies in business, human resources, and information technology support activities; (2) reducing administrative costs associated with educational and mental health programs; (3) mitigating the need for outside training resources by using department staff to perform these functions; (4) standardizing meal plans to lower overall food costs; and (5) reducing administrative costs at the regional level.

### **DRUG OFFENDER SENTENCING - \$100,000 GENERAL FUND-STATE SAVINGS**

Savings are achieved through the implementation of 2SHB 2338 (drug offender sentencing), which reduces sentences for certain narcotics drug dealers and eliminates the triple scoring of prior drug offenses in determining an offenders presumptive sentence, except for methamphetamine related offenses. The legislation also establishes a new drug grid for the sentencing of most felony drug offenders after July 1, 2004. Beginning in the 2003-05 biennium, 25 percent of the state savings will be dedicated towards providing drug treatment to offenders in the prison system and 75 percent of the state savings will be distributed to local governments for drug treatment and related services for individuals involved in the criminal justice system.

## **SPECIAL COMMITMENT CENTER**

### **INCREASES**

#### **INCENTIVES AND MITIGATION FUNDING FOR NEW SECURE COMMUNITY TRANSITION FACILITIES — \$600,000 GENERAL FUND-STATE**

Substitute Senate Bill 6594 (secure community transition facilities) includes provisions designed to encourage local jurisdictions to voluntarily work with the Department of Social and Health Services (DSHS) to site additional Secure Community Transition Facilities. These facilities are for individuals, civilly committed under the state's sexually violent predator statute, that have progressed enough in their treatment plans to be suitable for this placement. The budget assumes that at least two jurisdictions will work with DSHS. Therefore, sufficient funding is provided for planning, incentive, bonus, and mitigation grants for these communities.

### **SAVINGS AND REDUCTIONS**

#### **MITIGATION FUNDING AND REDUCED COSTS OF THE MCNEIL ISLAND SECURE COMMUNITY TRANSITION FACILITY — \$1.5 MILLION GENERAL FUND-STATE SAVINGS**

The original 2001-03 budget provided approximately \$2.0 million for mitigation funding for costs incurred by local governments due to the activities involving residents of the Secure Community Transition Facility (SCTF) on McNeil Island. Approximately \$1.4 million of the mitigation funding is eliminated. The remaining \$600,000 is assumed sufficient to cover any increased local government costs associated with the SCTF on McNeil Island. Pursuant to Chapter 12, Laws of 2001, 2nd Special Session (3ESSB 6151), the department will continue to work towards an agreement with impacted jurisdictions. Additionally, the Special Commitment Center has identified two staff positions in fiscal year 2003 at the SCTF that can be eliminated without impacting operations. These reductions are also assumed in this item.



# NATURAL RESOURCES

## DEPARTMENT OF ECOLOGY

### ENHANCEMENTS

#### **NEAH BAY RESCUE TUG -- \$700,000 GENERAL FUND-STATE, \$700,000 WATER QUALITY ACCOUNT**

Funding is provided for a dedicated rescue tug stationed at Neah Bay.

#### **WATER STRATEGY— \$189,000 GENERAL FUND-STATE,**

Funding is provided for a series of studies to continue the progress on the water strategy and facilitation of the strategy.

### SAVINGS AND REDUCTIONS

#### **WATERSHED GRANTS AND ASSISTANCE — \$11.9 MILLION GENERAL FUND-STATE SAVINGS**

The Department's watershed grant funding is shifted from the state General Fund to the Water Quality Account. Within the appropriation, Ecology will provide technical assistance, local planning units will address water quality and quantity and habitat issues and a grant will be made for facilitation of the Puget Sound regional initiative. The Department will apply to the Salmon Recovery Funding Board to fund instream flow components of watershed plans.

#### **ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$5 MILLION GENERAL FUND SAVINGS**

The budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings. These steps include identifying efficiencies in business, human resources, and information technology support activities. Reductions include: limiting the Neah Bay rescue tug to 200 days in fiscal year 2002, reducing the auto emission program to reflect a small population of vehicles subject to testing, and reducing technical assistance under the state environmental policy act and in shoreline planning.

## STATE PARKS AND RECREATION COMMISSION

### SAVINGS AND REDUCTIONS

#### **TEMPORARY PARK CLOSURE AND RETURN PARKS TO OWNERS — \$1.5 MILLION GENERAL FUND-STATE SAVINGS**

The State Parks and Recreation Commission will temporarily close some state parks, through fiscal year 2005. In addition, the Commission will assess whether to continue to operate parks owned by others, such as public utility districts, counties and federal agencies. If the owners are unable to pay State Parks' operating costs, the facilities will be returned to the owners.

**ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$1.0 MILLION GENERAL FUND SAVINGS**

The budget assumes that the Commission will take a variety of actions to reduce operating costs and achieve administrative savings. In addition, a 2001 enhancement for parks maintenance is reduced by \$500,000.

**CONSERVATION COMMISSION**

**ENHANCEMENT**

**ENGINEERING GRANTS -- \$600,000 WATER QUALITY ACCOUNT**

Funding is provided for engineering grants to conservation districts for project design and approval of dairy waste management systems, irrigation systems, salmon recovery projects, and other natural resource protection activities that benefit salmon.

**DEPARTMENT OF FISH AND WILDLIFE**

**ENHANCEMENT**

**PACIFIC SALMON TREATY STATE MATCH -- \$400,000 GENERAL FUND-STATE**

Funding is provided to match federal funding to continue the commercial fishing license buy-back program.

**SAVINGS AND REDUCTIONS**

**HATCHERY CLOSURE — \$273,000 GENERAL FUND-STATE SAVINGS**

The McAllister Creek fish hatchery will be closed.

**FUND SHIFTS TO THE SALMON RECOVERY FUNDING BOARD, WILDLIFE FUND AND SALMON RECOVERY ACCOUNT — \$7.0 MILLION GENERAL FUND-STATE SAVINGS**

The Salmon Recovery Funding Board will consider funding grants to lead entities – that recommend projects to the board, and smolt production monitoring. The development of a forest roads management plan, Pacific coastal license buy-back and the Lower Skykomish habitat conservation plan are shifted to the salmon recovery account.

**ADMINISTRATIVE EFFICIENCIES — \$2.4 MILLION GENERAL FUND-STATE SAVINGS**

The budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings.

**PROGRAM REDUCTIONS — \$3.9 MILLION GENERAL FUND-STATE SAVINGS**

The following funding reductions are made: One position is eliminated and vacancies are maintained in the enforcement program; various construction crews are consolidated; watershed technical assistance is reduced and the SSHEAR and screen functions are reduced.

## **DEPARTMENT OF NATURAL RESOURCES**

### **ENHANCEMENTS**

#### **THEA FOSS WATERWAY SETTLEMENT — \$1.8 MILLION STATE TOXICS CONTROL ACCOUNT**

Funding is provided to partially resolve the Department of Natural Resources Superfund liability for clean up of contamination in the Thea Foss waterway in Tacoma.

#### **FIRE MOBILIZATION AND FIRE SUPPRESSION — \$33 MILLION DISASTER RESPONSE ACCOUNT-STATE**

During the summer of 2001, there were a series of wildfires that significantly affected state and local fire fighting agencies. An additional \$33 million is provided for costs associated with the 2001 fire season and replenishing the fire contingency pool for future fires. This funding, combined with the \$3 million provided in the original 2001-03 budget, will fund the following costs: (1) \$24.2 million for the Department of Natural Resources' and other natural resource agencies' costs in fire suppression activities; (2) \$7.8 million for fire mobilizations coordinated by the Military Department; and (3) \$4 million as a contingency for fire mobilization and suppression activities in the future. In addition, the supplemental budget continues to fund \$15.2 million General Fund-State for fire suppression in DNR.

#### **CORRECTION CAMPS -- \$400,000 GENERAL FUND-STATE; \$800,000 OTHER FUNDS**

Funding is provided for correction camp supervisors.

### **SAVINGS AND REDUCTIONS**

#### **ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$2.6 MILLION GENERAL FUND-STATE SAVINGS**

The budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings. In addition, funding in the forest practices program is reduced for development of the small forest landowners database, postponement of the “reasonable use rule” and postponement of the program’s wetlands database. Funding is reduced for recreation lands management, including management of natural areas, public use enforcement and urban-interface campgrounds.

## **DEPARTMENT OF AGRICULTURE**

### **SAVINGS AND REDUCTIONS**

#### **INTERNATIONAL MARKETING — \$700,000 GENERAL FUND-STATE SAVINGS**

The 2001 enhancement for market development is replaced by federal funds. In October 2001 the state received federal funding of \$10.1 to promote agriculture and specialty crops.



# OTHER

## EFFICIENCIES AND REDUCTIONS

### COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT

#### **OFFICE OF TRADE AND ECONOMIC DEVELOPMENT EFFICIENCY REDUCTIONS — \$504,000 GENERAL FUND-STATE SAVINGS**

The Office of Trade and Economic Development shall take actions consistent with their mission, goals, and objectives to reduce operating costs. Such action, to the greatest extent possible, should maintain client services and state revenues. Examples of actions agencies may typically take include hiring freezes, employee furloughs, restricted travel and training, delaying the purchase of vehicles, and limiting equipment and personal service contracts.

#### **OFFICE OF COMMUNITY DEVELOPMENT EFFICIENCY REDUCTIONS — \$1.6 MILLION GENERAL FUND-STATE SAVINGS**

The Office of Community Development shall take actions consistent with their mission, goals, and objectives to reduce operating costs. Such action, to the greatest extent possible, should maintain client services and state revenues. Examples of actions agencies may typically take include hiring freezes, employee furloughs, restricted travel and training, delaying the purchase of vehicles, and limiting equipment and personal service contracts.

#### **ELIMINATE BUILDABLE LANDS GRANTS TO LOCAL GOVERNMENTS — \$1.2 MILLION GENERAL FUND-STATE SAVINGS**

The budget eliminates the fiscal year 2003 funding for local governments to track data relating to the Growth Management Act. The first reports on the data are due in September 2002. The budget assumes further activities and reporting will occur within local government available resources.

#### **ECEAP ADMINISTRATIVE REDUCTION — \$838,000 GENERAL FUND-STATE SAVINGS**

The budget reduces the fiscal year 2003 administrative budget for ECEAP by three percent. Direct services to the at-risk children served by the program are not impacted.

#### **HEAD START STATE MATCH REDUCTION — \$235,000 GENERAL FUND-STATE SAVINGS**

State funding assistance for Head Start contractors is reduced in FY 2003. Head Start contractors must provide a 20 percent match to obtain federal funds. The matching requirement is \$1,806 per child slot, and state funds have paid about \$51 of the \$1,806 match.

## **STATE LIBRARY**

### **TRANSFER THE STATE LIBRARY TO THE SECRETARY OF STATE — \$279,000 GENERAL FUND-STATE SAVINGS**

The State Library is transferred to the Secretary of State. Funding for the Library is provided to the Governor but reduced by \$279,000 with the exception of grants for the Washington Talking Book and Braille Library.

## **ENHANCEMENTS**

### **JUDICIAL**

#### **JUDICIAL SALARY INCREASES — \$2.3 MILLION GENERAL FUND-STATE**

Funding is provided for salary increases awarded to justices of the Supreme Court and the judges of the Court of Appeals and Superior Court. The Citizens' Commission on Salaries for Elected Officials awarded increases of 2.3 percent per year on September 1, 2001 and September 1, 2002. Additionally, besides the percentage salary increases, the Commission approved a \$5,000 increase for each member of the judiciary on September 1, 2001.

#### **CONTINUATION OF ENHANCED DEPENDENCY REPRESENTATION PILOT - \$500,000 GENERAL FUND-STATE**

Funding is provided to continue a dependency and termination case pilot program in Benton, Franklin and Pierce counties through April 2003. The pilot is designed to improve the representation of parents in dependency and termination cases. By November 15, 2002, the Office of Public Defense will prepare an updated final evaluation of the pilot program.

#### **EXTRAORDINARY CRIMINAL JUSTICE — \$394,000 PUBLIC SAFETY AND EDUCATION ACCOUNT**

In the Special Appropriations to the Governor section of the budget, funding is provided for assistance to Franklin and Stevens counties for extraordinary judicial and other criminal justice costs incurred in the adjudication of aggravated homicide cases.

#### **CIVIL INDIGENT LEGAL REPRESENTATION — \$1.5 MILLION VIOLENCE REDUCTION AND DRUG ENFORCEMENT ACCOUNT**

The Governor has recently notified the Department of Community, Trade and Economic Development that funding from the federal Temporary Assistance to Needy Families block grant will no longer be available to support civil indigent legal representation. For this reason, \$1.5 million in funding from the Violence Reduction and Drug Enforcement Account is provided to replace a portion of the reduced federal funding.

## **EFFICIENCIES AND REDUCTIONS**

#### **ELIMINATE JUROR COMPENSATION INCREASE — \$1.6 MILLION PUBLIC AND SAFETY EDUCATION ACCOUNT SAVINGS**

In the original 2001-03 biennial budget, fiscal year 2003 funding from the Public Safety and Education Account (PSEA) was provided to increase juror compensation from \$10

per day to \$25 per day, beginning on the second day of juror service. Due to a revenue shortfall in PSEA, the budget eliminates funding for the increase.

## **WASHINGTON STATE PATROL**

### **INCREASES**

#### **CRIMINAL JUSTICE INFORMATION SYSTEM ENHANCEMENTS — \$1.1 MILLION FINGERPRINT IDENTIFICATION ACCOUNT**

The budget provides funding for improvements and upgrades to various criminal justice information systems maintained by the State Patrol. These include: (1) continued support of the Criminal History Backlog Elimination project; (2) changes to keep the crime information and identification systems current with the needs of the public safety community; and (3) implementing live-scan fingerprint technology throughout the state.

#### **CRIME LAB IMPROVEMENTS — \$1.1 MILLION OTHER FUNDS**

The Washington State Patrol, in cooperation with the Forensics Investigation Council, the Washington Association of Sheriffs and Police Chiefs, and the Washington Association of Prosecuting Attorneys have developed a comprehensive improvement program to improve the delivery of forensic services to Washington law enforcement agencies, cities, and counties. Funding is provided for a portion of the Forensic Laboratory Services Improvement Plan. Additionally, funding is provided for SHB 2468 (offender DNA database), which expands DNA data banking to additional felony offenders and certain misdemeanants.



# REVENUE ADJUSTMENTS

## **“THE BIG GAME” MULTI-STATE LOTTERY — \$24 MILLION GENERAL FUND INCREASE**

Under Substitute Senate Bill 6560, the State Lottery Commission is authorized to join “The Big Game”, a shared game multi-state lottery consortium. Washington will be the tenth state to join the consortium, and the only western state. Higher jackpots and different draw days than existing Lottery games are expected to reduce the negative impact on current Washington sales. “The Big Game” also has higher jackpots and different draw days than neighboring states, which is expected to increase cross-border sales.

With expected implementation in October 2002, the "The Big Game" is projected to generate net General Fund-State revenues of \$24.4 million in fiscal year 2003, and \$63.5 million in the 2003-2005 biennium. Revenue projections account for an expected decrease in existing lottery game sales and “hold harmless” the student achievement and education construction accounts by guaranteeing that lottery revenue available for these accounts remains at the current level of \$102 million a year. In addition, \$500,000 of revenue in fiscal year 2003 will be transferred to the Violence Reduction and Drug Enforcement Account exclusively for the treatment of pathological gambling.

## **BUDGET DRIVEN REVENUE**

### **TAX EDUCATION & TAX COLLECTION — \$46.4 MILLION GENERAL FUND INCREASE**

The Department of Revenue will add staff to conduct additional audits, tax discovery, delinquent account collections, and targeted taxpayer education. Projected General Fund-State revenues are \$46.4 million for fiscal year 2003, and \$106.1 million for the 2003-2005 biennium. Projected local government revenues are \$6.8 million for fiscal year 2003, and \$15.6 million for the 2003-2005 biennium.

## **REVENUE LEGISLATION**

*Note: The revenue impacts of the following bills are assumed for the purposes of the budget. However, these bills must be enacted separately from the budget in order to take effect.*

## **REVENUE INCREASES**

### **LOOPHOLE CLOSURES : SB 6835 REVISING USE TAX PROVISIONS — \$27.2 MILLION GENERAL FUND REVENUE INCREASE**

Revises use tax provisions in three areas in a manner consistent with current sales taxes on in-state purchases: (1) For the purposes of calculating the use tax, delivery, shipping, freight, or like transportation charges are included in the value of an article. (2) Imposes the use tax on advertising printed out-of-state for an instate retailer and mailed directly by the printer to Washington residents primarily to promote the sale of goods or services. (3) Imposes the use tax on out-of-state repair services performed on tangible personal property for a Washington consumer.

**HB 3004 RETAIL SALES TAX ON HARD LIQUOR -- \$39.5 MILLION GENERAL FUND-STATE REVENUE INCREASE**

Imposes an additional retail sales and use tax of five percent on the sale of liquor sold by the bottle or by the drink by liquor stores and restaurants. The tax does not apply to beer and wine.

**REVENUE DECREASES**

**SSB 6785 WASHINGTON ESTATE TAX — \$8.3 MILLION GENERAL FUND REVENUE DECREASE**

Incorporates the changes in the federal estate tax adopted by Congress in June 2001 into the Washington estate tax, except the four-year phase out of the federal credit for state taxes. Instead, the federal credit for state taxes is phased out by 2010 along with the federal estate tax. This measure reduces total state estate taxes paid as compared to current law.

**HB 2641 INVESTMENT INCOME TAX DEDUCTION — \$3.62 MILLION GENERAL FUND REVENUE DECREASE**

Eliminates the business and occupation taxation of investment income received by businesses that might be considered financial businesses, except for banking businesses, lending businesses, security business, loans or the extension of credit, revolving credit arrangements, installment sales, and the acceptance of payment over time for goods or services.

**2E2SS 5514 PUBLIC FACILITY DISTRICTS — \$725,000 GENERAL FUND REVENUE DECREASE**

Public facility districts are allowed a refund of all sales taxes paid on the construction of regional centers after the center becomes operationally complete. Counties that form PFDs before July 2002 and commence construction before January 2004 are allowed to impose a 0.033 percent sales tax (deducted from the state tax). Finally, a city is allowed to form a public facility district with a county.

**SB 5082 DEFINING RURAL COUNTIES — \$414,000 GENERAL FUND REVENUE DECREASE**

The definition of "rural county" is expanded to include counties that are smaller than 225 square miles. Island County and San Juan County are the only two counties that meet this requirement. This designation enables counties to charge a 0.08 percent local option sales tax is credited against the state's 6.5 percent sales and use tax. Revenues from the local option sales and use tax are used to finance public facilities such as bridges, roads, and sewer facilities.

**2SHB 1531 MODIFYING THE TAXATION OF LODGING — \$144,000 GENERAL FUND REVENUE DECREASE**

Eliminates the requirement for continuous occupancy of a specific lodging unit by the same person in order to be exempt from the taxes on lodging.

**SSB 6787 ORGAN PROCUREMENT ORGANIZATIONS — \$34,200 GENERAL FUND REVENUE DECREASE**

Exempts income of nonprofit organ procurement organizations from the B&O tax to the extent that it is exempt from federal income tax. The purchase or use of medical

supplies, chemicals, or specialized materials for nonprofit organ procurement organizations is exempt from sales and use tax. The sales and use tax exemption does not apply to construction materials, office equipment, building equipment, administrative supplies, or vehicles.

## **OTHER REVENUE LEGISLATION**

### **HB 1477 COUNTY EMERGENCY COMMUNICATIONS TAX – NO GENERAL FUND REVENUE IMPACT**

Authorizes counties to impose an additional 0.1 percent sales and use tax for emergency communication systems and facilities, subject to voter approval.

### **SHB 2466 REVISING THE MULTIPLE-UNIT DWELLING PROPERTY TAX EXEMPTION — NO GENERAL FUND REVENUE IMPACT**

Reduces the minimum city population cap from 50,000 to 30,000 for the multifamily housing property tax exemption program. Counts the cost of the rehabilitation or construction as new construction when calculating the maximum district property tax amount at the time the property is no longer exempt. Allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for program participation.

### **HB 2595 ENHANCED 911 TAXES -- \$0 GENERAL FUND-STATE REVENUE DECREASE**

Equalizes the Enhanced 911 taxes on wireline and wireless telephones. The county 911 tax of 25 cents on wireless lines is increased to 50 cents. A state Enhanced 911 tax of 20 cents is imposed wireless lines. Revenues from the state tax can be used for implementation and operation of wireless E911 statewide, including funding of counties and reimbursement of wireless carriers.

### **HB 2658 MUNICIPAL BUSINESS & OCCUPATION TAX UNIFORMITY — \$800,000 MILLION GENERAL FUND-STATE REVENUE INCREASE**

Requires cities to adopt a model municipal B&O tax ordinance that includes a system of credits that prevent multiple taxation; a gross receipts threshold of \$20,000; tax reporting frequency requirements; provisions for penalties and interest; claim and refund provisions; and certain definitions based on comparable state definitions. The model ordinance must include provision for the apportionment and allocation of business income by January 1, 2005. Cities that impose B&O taxes must comply with all provisions of the bill by December 31, 2003. The state excise tax administrative statutes are amended to make the calculation of interest on refunds, in terms of the period of time to which the interest would apply, consistent with the interest calculation used for assessments.

### **HB 2732 TAX ON SOCIAL WELFARE COMPENSATION — \$7.8 MILLION HEALTH SERVICES ACCOUNT REVENUE DECREASE**

Provides retroactive relief for nonprofit and public hospitals for business and occupation taxes on payments of health benefits through contract of federal or state governments. Also provides waiver of tax liability for those hospitals that already paid these taxes.

**2SSB 5695 LOCAL REAL ESTATE EXCISE TAX — NO GENERAL FUND REVENUE IMPACT**

Authorizes an additional real estate excise tax for counties of 0.5 percent for the development of affordable housing, subject to voter approval. Only a county that imposes the 1.0 percent tax for conservation areas at the maximum rate and imposed it by January 1, 2003, is eligible.

**ESSB 6060 HAZARDOUS SUBSTANCE TAX — NO GENERAL FUND REVENUE IMPACT**

Updates references to federal acts defining hazardous substances for purposes of the state hazardous substance tax. Taxable hazardous substances under the Federal Comprehensive Environmental Response, Compensation, and Liability Act are updated to reflect substances as of March 1, 2002. Excepted are certain non-compound metals that are no longer included as a hazardous substance. Pesticides required to be registered under the Federal Insecticide, Fungicide and Rodenticide Act are limited to those required to be registered as of August 3, 1996, the last date the act was amended.

**SSB 6342 SALES TAX SIMPLIFICATION ACT — NO GENERAL FUND REVENUE IMPACT**

Authorizes Washington to be a voting member in negotiating a national Streamlined Sales and Use Tax Agreement. Any proposed changes to state law as the result of a national agreement must still be approved by the Legislature.

**SSB 6540 SIMPLIFYING TAX ADMINISTRATION — NO GENERAL FUND REVENUE IMPACT**

Makes miscellaneous changes to the excise and property tax statutes. Obsolete sections are repealed and inaccurate cross-references are corrected.

**SSB 6582 IMPROVING PROPERTY TAX ADMINISTRATION — NO GENERAL FUND REVENUE IMPACT**

Makes a number of technical changes to the property tax statutes.

**SJM 8013 SALES TAX DEDUCTION ON FEDERAL TAXES — NO GENERAL FUND REVENUE IMPACT**

Asks Congress to restore the itemized deduction on federal income taxes for state sales taxes paid.

**Revenue Adjustments**  
**GF-S Dollars in Thousands**

	2001-03	2003-05
<b>New Lottery Game</b>		
6560 The Big Game Multi-State Lottery	\$24,400	\$63,446
<b>Budget Driven Revenue</b>		
Department of Revenue: Tax Education & Tax Collection	46,400	106,100
License fee for adult family homes and nursing homes	(3,390)	(6,780)
<b>Subtotal</b>	<b>43,010</b>	<b>99,320</b>
<b>Revenue Increase Bills</b>		
6835 Revising use tax provisions	27,179	58,431
3004 Retail sales tax on hard liquor	39,500	81,800
<b>Subtotal</b>	<b>66,679</b>	<b>140,231</b>
<b>Revenue Decreases</b>		
6785 Washington estate tax	(8,278)	(29,888)
2641 Investment income tax deduction	(3,620)	(10,470)
5514 Public facility districts	(725)	(2,101)
5082 Defining rural counties	(414)	(1,070)
1531 Modifying the taxation of lodging	(144)	(245)
6787 Organ procurement taxation	(34)	(171)
<b>Subtotal</b>	<b>(13,215)</b>	<b>(43,945)</b>
<b>Other Revenue Legislation</b>		
1477 County emergency communications tax	0	0
2466 Revising the multiple-unit dwellings property tax exemption	0	0
2595 Enhanced 911 services	0	0
2658 Municipal business and occupation tax uniformity	800	1,600
2732 Tax on social welfare compensation	0	0
5965 Local Real Estate Excise Tax (REET)	0	0
6060 Hazardous substance tax	0	0
6342 Sales Tax Simplification Act	0	0
6540 Simplifying tax administration	0	0
6582 Improving property tax administration	0	0
8013 Sales tax deduction on federal income taxes	0	0
<b>Subtotal</b>	<b>800</b>	<b>1,600</b>
<b>TOTAL</b>	<b>\$121,674</b>	<b>\$260,652</b>



# APPENDIX 1

## EFFICIENCY REDUCTIONS

(Dollars in Thousands)

Functional Area	Agency / Title	FTEs	GF-S	Total Funds
DSHS		-73.5	-10,340	-17,327
Governmental Operations	Administrative Hearings	-4.0		-330
	Attorney General	-10.0		-1,579
	Caseload Forecast		-19	-19
	Community, Trade & Econ Dev	-2.5	-274	-548
	Dept Financial Inst	-2.0		-357
	Dept General Admin	-7.0		-642
	Dept of Personnel	-6.5		-262
	Dept of Revenue	-3.0	-699	-699
	Dept Retirement System			-732
	Econ & Rev Forecast		-15	-15
	Gambling Commission	-6.0		-450
	Growth Plan Hearings		-45	-45
	Horse Racing Commission	-0.9		-68
	Insurance Commission			-366
	Investment Board	-2.0		-194
	Liquor Control Board	-4.0	-45	-2,104
	Military Department	-1.0	-269	-269
	Office Financial Mgmt	-3.6	-366	-366
	Office of Governor	-2.0	-136	-136
	Public Employee Relations Com	-1.0	-86	-86
	Public Disclosure		-57	-57
	Secretary of State	-3.0	-501	-501
	Salaries for Elected Officials		-5	-5
	State Auditor			-1,106
	State Lottery Committee	-4.5		-335
	Tax Appeals Board		-31	-31
	Utility Transportation Commission	-4.0		-406
	Governmental Operations Total:	-67.0	-2,548	-9,504
Higher Education		-576.5	-54,567	-54,567
Judicial		-8.0	-639	-1,452
Legislative		-14.0	-3,059	-3,059
Natural Resources	Columbia River Gorge		-12	-12
	State Conservation Commission	-1.0	-31	-71
	Department of Natural Resources	-12.0	-1,200	-1,200
	Department of Agriculture	-2.4	-240	-240
	Department of Fish & Wildlife	-5.0	-550	-562
	Department of Ecology	-14.0	-1,400	-1,400
	Environmental Hearings Office		-25	-25
	State Parks & Recreation Commission	-5.0	-500	-501
	Natural Resources Total:	-39.4	-3,958	-4,011

Functional Area	Agency / Title	FTES	GF-S	Total Funds
Other Education	Washington State Arts Commission	-0.5	-86	-86
	Eastern Washington Historical Society	-1.0	-46	-46
	Washington State Historical Society	-2.0	-94	-94
	Work Force Trng & Educ Coord Board	-0.1	-87	-87
	Other Education Total:	-3.6	-313	-313
Other Human Services	Criminal Justice Training Commission	-2.0	0	-369
	Dept of Health			-574
	Dept of Labor and Industries			-397
	DOC Admin & Support Services	-14.6	-943	-943
	DOC Community Corrections	-11.5	-450	-798
	DOC Institutional	-7.1	-2,093	-2,111
	Health Care Authority	-9.0	0	-766
	Human Rights Commission	-1.0	-81	-81
	Indeterminate Sentence Review Board	0.0	-30	-30
	Sentencing Guidelines Commission	0.0	-25	-25
	Department of Services for the Blind	0.0	-81	-81
	Veterans Field Services	-0.9	-51	-51
	Veterans Headquarters	-0.7	-49	-49
	Veterans Institutional Services	-1.9	-144	-144
	Other Human Services Total:	-48.7	-3,947	-6,419
Public Schools		-8.0	-1,182	-1,182
Transportation	Department of Licensing	0.5	-49	-49
	Washington State Patrol	-5.0	-456	-760
	Transportation Total:	-5.5	-505	-809
Special Appropriations (All Agencies)	Agency Administrative Contingencies		1,500	1,500
	Revolving Fund Reduction	0.0	-3,743	-7,984
	State Agency Equipment Reduction	0.0	-2,300	-2,300
	State Employee Travel Reduction	0.0	-3,000	-3,000
	Special Appropriations Total:	0.0	-7,543	-11,784
<b>Grand Total</b>		<b>-844.2</b>	<b>-88,601</b>	<b>-110,427</b>