
2003-05 OPERATING BUDGET HIGHLIGHTS

LEGISLATIVE FINAL



1

SENATE WAYS AND MEANS COMMITTEE
JUNE 4, 2003

TABLE OF CONTENTS

SUBJECT	PAGE
BALANCE SHEET	1
FUNCTIONAL AREAS OF GOVERNMENT	4
STATEWIDE CHANGES	4
PUBLIC SCHOOLS	5
HIGHER EDUCATION	9
HEALTH CARE	14
HUMAN SERVICES	20
PUBLIC SAFETY	24
NATURAL RESOURCES	27
GENERAL GOVERNMENT	32
REVENUE ADJUSTMENTS	36

2003-05 General Fund State Balance Sheet

(Dollars in Millions)

RESOURCES

Beginning Fund Balance	\$298.9
March 2003 Revenue Forecast	\$22,451
I-728 Diversion	236.9
Revenue Measures	182.3
Budget Driven Revenue	51.9
Transfers	140.6
Total Resources Available	\$23,362.2

APPROPRIATIONS & SPENDING LIMIT

2003-05 Operating Budget	\$23,060.7
Other Appropriations	1.0
Total Appropriations	\$23,061.7

2003-05 Spending Limit **\$23,674.1**

ENDING BALANCE

Unrestricted Ending Balance **\$300.5**

Transfers to the General Fund

Fund Name	2003-05
Emergency Reserve Transfer	\$59,350,232
Water Quality Account	27,500,000
Site Closure Account	13,800,000
State Convention & Trade Center	10,000,000
State Treasurer's Service Account	10,000,000
Health Services Account Transfer	1,250,000
Electrical License Account	7,000,000
Flood Control Assistance	2,700,000
Financial Service Regulation Account	1,632,123
Public Service Revolving Account	1,600,000
Dept of Retirement Systems Expense	1,500,000
Insurance Commissioner's Regulatory	1,500,000
Pressure Systems Safety Account	1,000,000
Industrial Insurance Premium Refund	577,000
State Forest Nursery Revolving	500,000
Municipal Sale/Use Tax Equalization	374,000
Asbestos Account	200,000
County Sale/Use Tax Equalization	74,000
TOTAL	\$140,557,355

Appropriations in Other Legislation

(General Fund-State, Dollars in Thousands)

Government Accountability	\$ 1,000
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Expenditure Limit Summary Page

(Dollars in Millions)

	FY 04	FY 05	03-05
Unadjusted Limit (after Rebase)	\$11,710	\$11,734	\$23,444
03-05 Program Cost Shifts			
LEAP: Shift Trans to Op	0.246		0.246
House: Shift Trans to Op	0.857		0.857
Sec State: Shift Costs to Archives	(0.026)		(0.026)
DSHS: Fed Funds in Childrens	(10.075)		(10.075)
DSHS: DSH in MHD	4.538	(1.270)	3.268
DSHS: Fed Funds in ESA	2.372		2.372
DOC: Fund Shift	(0.179)		(0.179)
DOL: Transfer Funds	(0.413)		(0.413)
L&I: Transfer CVC To PSEA	(0.054)		(0.054)
DVA: Institutional Funds	0.039	(1.170)	(1.131)
DNR: Forest Fires	0.260		0.260
AOC: Fund Becca W/PSEA	(3.556)		(3.556)
Military: Shifts Progs to Fed/Local	(0.491)		(0.491)
CTED: DDD Endowment	(0.236)		(0.236)
CTED: Housing Trust Fund Admin	(0.819)		(0.819)
OFM: Revolving Funds	(0.491)		(0.491)
AG: SMART/HITS	(0.045)		(0.045)
AG: Ethics Board	(0.348)		(0.348)
GA: Cap. Tours	(0.308)		(0.308)
DOH: Vital Records Fee	(1.226)		(1.226)
DOH: Shellfish Testing	(0.403)		(0.403)
DSHS: MHD MI Offender Pilot	(0.451)		(0.451)
DSHS: DASA Fund Shifts	4.850		4.850
DSHS: Immigrant Prenatal Care	(17.734)		(17.734)
WSP: Drug Enforcement	(2.000)		(2.000)
K12: Integrate Federal Funds	(3.660)	(9.799)	(13.459)
K12: Summer Accountability Inst.	(0.230)		(0.230)
DOE: 401 Certs to Water Quality	(0.081)		(0.081)
DOE: Air Outreach	(0.050)		(0.050)
DOE: Smoke & Dust in Eastern Wa.	(0.250)		(0.250)
DOE: Water Rights Decisions	(0.500)		(0.500)
DOE: Well Regulation	(0.150)		(0.150)
F&W: Enforcement Program	(0.400)		(0.400)
F&W: Fish Hatcheries	(0.321)		(0.321)
F&W: Warm Water	(0.126)		(0.126)
DNR: Shift to NRCA	(0.025)		(0.025)
DNR: Spartina/ALEA	(0.091)		(0.091)
DNR: Fire Supression /Disaster	(7.200)	7.200	-
DSHS/Childrens: Use PSEA	(11.500)		(11.500)
Higher Ed: Shift Maint to Cap	(26.374)	-	(26.374)
Higher Ed: Waive Less Tuition	(5.646)		(5.646)
Wa. State Historical Society	(0.179)		(0.179)
Higher Ed: Job Skills Program	(0.567)	-	(0.567)
			-
03-05 Revenue & Cash Transfers			-
Cash Transfers Into GFS (Excl. ERF)	41.781	39.426	81.207
I-728 (Prop. Tax Back to GFS)	-	236.920	236.920
	-\$41	\$271	\$230
Limit (After Adjustments)	\$11,669	\$12,005	\$23,674

FUNCTIONAL AREA HIGHLIGHTS

STATEWIDE CHANGES

EFFICIENCY REDUCTIONS

1,156 FTES, \$97.2 MILLION GENERAL FUND STATE SAVINGS, \$45.4 MILLION OTHER FUND SAVINGS.

State agencies are required to become more efficient, regardless of the agencies funding source. Savings from across state government are applied to the state budget problem.

Several types of reductions are made:

- Staff reductions and operating efficiencies are taken in most agencies. State institutions including higher education, prisons, juvenile rehabilitation centers, the state mental hospitals, and the residential habilitation centers are exempted.
- \$23.6 million in funding for the cost of inflation for goods and services are eliminated.
- Personal service contracts for management and organizational development and travel and equipment purchases are reduced by 15 percent.
- Funding for legislative liaisons is eliminated. Each separately elected official is allowed to have one legislative liaison.

EMPLOYEE COMPENSATION

STATE EMPLOYEE, RETIREE AND K-12 HEALTH BENEFITS — \$201.3 MILLION GENERAL FUND — STATE INCREASE, \$51 MILLION OTHER FUNDS.

Premiums for state and higher education employee health insurance benefits are projected to increase by 15.5 percent per year in 2003-05. The state's cost of this increase is partially offset by: (1) increasing office visit co-pays from \$10 to \$15; and (2) requiring employees to pay an average of 16 percent of the cost of the benefit, compared to 14 percent this calendar year. At the 16 percent employee share, the state will pay an average of \$534 per month in 2003-05 for the average employee's individual and family health benefit coverage, compared to an average of \$448 this year. The average employee will pay \$104 per month, compared to an average of \$72 per month now. The K-12 allocation for monthly employer contribution rates is increased from \$457.07 in the 2002-03 school year to \$526.03 in the 2003-05 biennium, consistent with the increase in state employer contribution rates per employee.

PENSION FUNDING CHANGES — \$88 MILLION GENERAL FUND-STATE, \$19 MILLION OTHER FUNDS

A new actuarial method for smoothing returns on assets in Plans 2 and 3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and School Employees' Retirement System SERS is adopted. Contributions towards the unfunded liabilities in Plan 1 of PERS and TRS are suspended during the 2003-2005 biennium. As a result of these changes, the state will contribute approximately \$107 million contributions less to Plans 2 and 3 of these systems than it would have otherwise during the 2003-05 biennium.

PUBLIC SCHOOLS

INCREASES

BEGINNING TEACHER SALARY INCREASE — \$29.2 MILLION GENERAL FUND-STATE, \$106,000 GENERAL FUND-FEDERAL

The state uses a salary schedule to allocate funds to school districts for certificated instructional staff salaries. This schedule provides increments for additional experience and education. For the 2002-03 school year, the state-funded annual salary for a beginning teacher is \$28,300. In the 2003-04 school year, funding is provided to increase beginning teachers and second year teacher salaries by an average of 3 percent, 2.5 percent for third year teachers, 1.5 percent for fourth year teachers, 1 percent for fifth year teachers, and 0.5 percent for sixth and seventh year teachers. In the 2004-05 school year, additional salary increases of the same percentages will be provided. An estimated 32 percent of the teachers will receive salary increases as a result of these salary schedule adjustments. By the second year of the biennium, a teacher with a BA in their first year of teaching will be making \$30,023.

FOCUSED ASSISTANCE TO SCHOOLS--\$2.6 MILLION GENERAL FUND-STATE

Funding is provided to allow an additional thirty low-performing schools to receive "focused assistance" during the 2003-05 biennium. Under this program, low-performing schools are assigned a facilitator to work with a school improvement team consisting of district and school staff, parents, and community members to develop and implement a school improvement plan.

CHARTER SCHOOLS — \$1.7 MILLION GENERAL FUND-STATE

Funding is provided for the implementation of Substitute Senate Bill 5012 (charter schools), which provides for the establishment of a limited number of charter schools. Most of the fiscal impact comes from an anticipated increase in funded enrollment due to home-schooled and students currently in private schools enrolling in public charter schools.

DIGITAL LEARNING COMMONS — \$2.0 MILLION GENERAL FUND-STATE

Funding is provided in the Department of Information Services for the establishment of a Digital Learning Commons, which will be a web-based portal where students, parents, and teachers from around the state will have access to digital resources, learning tools and online classes. The intent is to establish a clearinghouse of high quality online courses and curriculum materials that are aligned with the state's essential learning requirements. The clearinghouse shall be designed for ease of use and shall pool the purchasing power of the state so that these resources and courses are affordable and accessible to schools, teachers, students and parents.

ACHIEVERS SCHOLARSHIP PROGRAM — \$1.0 MILLION GENERAL FUND-STATE

Funding is provided for the Washington State Achievers Scholarship Program. The funds will be used to support community involvement officers that recruit, train and match community volunteer mentors with high school students selected as achievers scholars. After graduating from high school, the achiever scholars receive college scholarships funded through private grants.

REDUCTIONS

INITIATIVE 732 — \$473 MILLION GENERAL FUND-STATE SAVINGS, \$580,000 GENERAL FUND-FEDERAL SAVINGS (\$17 MILLION ADDITIONAL GENERAL FUND-STATE SAVINGS IN THE HIGHER EDUCATION BUDGET)

Initiative 732, approved by voters in November 2000, requires an annual cost-of-living increase (COLA) for school employees and certain community and technical college staff based on the Seattle Consumer Price Index (CPI) for the prior calendar year. These cost-of-living increases are estimated at 2.0 percent for the 2003-04 school year and 1.9 percent for the 2004-05 school year. SB 6059 (cost of living adjustments) removes the annual COLA for the 2003-05 biennium. This saves approximately \$190.4 million for state-funded K-12 staff. Additionally, the legislation eliminates the language of I-732 which directed the state to provide funding for all staff of the school district rather than just those included in state formula staff allocations. Not including state funding for cost-of-living increases for K-12 staff funded from federal and local levies for the 2001-03 biennium, as well as a new cost-of-living increase during the 2003-05 biennium, saves an additional \$283 million.

INITIATIVE 728 — \$236.9 MILLION GENERAL FUND-STATE REVENUE INCREASE

The Student Achievement Fund was authorized by voter approval of Initiative 728 in November 2000. Districts use funds to lower class sizes by hiring more teachers, create extended learning opportunities for students, provide professional development for educators, and provide early childhood programs. Under Initiative 728, Student Achievement Funds to school districts are scheduled to increase in the 2004-05 school year through changes to property tax transfers into the account. These changes would increase the school district allocation from \$220 per FTE student to \$450 per FTE student. SB 6058 (distribution of state property taxes) lowers the level of state property tax transfer into the Student Achievement Fund in the 2004-05 school year to \$254 per FTE student and changes the way the funding is distributed to school districts. These changes lower the General Fund-State revenue transfers to the Student Achievement Fund by \$188.2 million.

FLEXIBLE EDUCATION FUNDS — \$41.4 MILLION GENERAL STATE-STATE SAVINGS

The legislative budget eliminates the flexible education block grant funding to school districts. In the 2002-03 school year, the funds were provided at a rate of \$21.55 per student, based on school districts' prior year FTE student enrollment and were designed to supplement basic education.

BETTER SCHOOLS CLASS SIZE ENHANCEMENT — \$13.9 MILLION GENERAL FUND-STATE SAVINGS

Beginning with the 2004-05 school year, the Better Schools K-4 staffing ratio enhancement is eliminated. The enhancement provides 0.8 certificated instructional staff per 1,000 students and is in addition to basic education staffing ratios.

LEVY EQUALIZATION — \$17.3 MILLION GENERAL FUND-STATE SAVINGS

For calendar years 2004 and 2005, the state local effort assistance (levy equalization) allocations are reduced by 6.3 percent. Because the 2003-05 biennium is comprised of three calendar years, these changes result in a 5 percent reduction of levy equalization funding for the biennium.

INTEGRATING FEDERAL FUNDS — \$17.1 MILLION GENERAL FUND-STATE SAVINGS, \$40 MILLION GENERAL FUND-FEDERAL

Federal funds to Washington for special education will increase by over \$20.0 million in the 2003-04 school year and an additional \$20.0 million in the 2004-05 school year. The budget incorporates a portion of the federal funds to pay for some of the increased costs of the special education program.

TRANSPORTATION BUS REPLACEMENT — \$10.7 MILLION GENERAL FUND-STATE SAVINGS

Provisions included in the budget require each school bus receiving replacement funding to have been competitively bid based on the lowest solicited price quotes from bus dealers for school buses meeting state and local standards. As a result of these changes, it assumed that state depreciation payments would be reduced by \$10.7 million in the 2003-05 biennium.

OTHER NON-BASIC EDUCATION REDUCTIONS — \$11.2 MILLION GENERAL FUND-STATE SAVINGS

The proposed budget makes a variety of reductions in non-basic education programs. Many of the reductions focus on reducing administrative costs or eliminating lower priority programs or activities. Some examples include: assumed administrative efficiencies in the Office of Superintendent of Public Instruction and Educational Service Districts; policy changes to the Washington Assessment of Student Learning; lowering the per individual amounts for those involved in the alternative routes to certification program; and reducing state funding for various K-12 training programs.

**Legislative Budget for Public Schools
GF-S & Student Achievement Funds in Thousands**

	<u>Amount</u>
2001-03 Spending Level (After '03 Supp)	\$10,282,308
<i>Maintenance Level Changes</i>	<i>\$671,706</i>
 Total Policy Changes:	
Health Benefits	\$116,030
Beginning Teacher Salary Increase	29,151
Focused Assistance - Schools	2,600
Charter Schools	1,646
Washington Achievers Scholars	1,000
Re-Takes for 10th Grade WASLs	466
National Board Certification Bonus	405
Align & Review WASLs	300
Develop Alternative Assessments	75
I-728 Student Achievement Fund	(236,939)
I-732 Cost of Living Increases*	(190,563)
Pension Funding Change	(61,370)
State Flexible Education Funds	(41,369)
Levy Equalization	(17,255)
Integrating Federal Funds	(17,119)
Better Schools	(13,874)
Depreciation Changes	(10,700)
Alternative Certification Routes	(2,314)
Educational Service Districts	(2,021)
Change Goal 2 WASLs	(2,005)
Staff Reductions & Efficiencies	(1,558)
Teacher Training Coord (ESDs)	(486)
Student Teacher Centers (ESDs)	(486)
Anti-Bullying/Harassment Training	(486)
Summer Institutes	(460)
Sexual Abstinence Program	(388)
Eliminate Listening WASL	(388)
World War II Oral History Project	(292)
General Inflation	(165)
Revolving Funds	(110)
Total Policy Changes	(\$448,675)
 Total 2003-05 Budget	 \$10,505,339
<i>Dollar Increase from 2001-03</i>	<i>\$223,031</i>
<i>Percentage Increase 2001-03</i>	<i>2.2%</i>

* The amounts depicted as Initiative 732 savings reflect only the costs associated with providing a new cost-of-living increase to state funded K-12 staff in the 2003-05 biennium. Not including state funding for cost-of-living increases for K-12 staff funded from federal and local levies for the 2001-03 biennium as well as a new cost-of-living increase during the 2003-05 biennium saves an additional \$282.6 million. In addition to the savings amount depicted in this item, an additional \$16.8 million is saved in the higher education section of the budget.

HIGHER EDUCATION

NEW ENROLLMENTS

HIGH-DEMAND/COST PROGRAMS — \$20.9 MILLION GENERAL FUND-STATE INCREASE

The Legislature provides funds to increase the capacity of colleges and universities to deliver training and degree programs in high demand fields. High demand fields include: worker retraining programs, nursing and other health services, applied science and engineering, computing and information technology, viticulture and enology, teaching and speech pathology, and other fields. High demand resources are appropriated to the State Board for Community and Technical Colleges (\$12.6 million) and the Higher Education Coordinating Board (\$8.3 million) for allocation to colleges and universities through a competitive process. In addition, funding is provided for state match to attract and retain federal research grants in high demand and technologically advanced fields at the University of Washington.

JUNIOR-LEVEL TRANSFER STUDENT ENROLLMENT- GENERAL FUND STATE INCREASE \$6.3 MILLION

The Legislature makes a special appropriation to the Governor intending to relieve access pressure and expand opportunities for universities to accept qualified residents into degree programs with credits that qualify them for junior-class standing. The Office of Financial Management will distribute these instructional resources for the 2003-04 academic year to support an additional 400 full-time equivalent transfer students.

JOB SKILLS PROGRAM — \$2.9 MILLION ADMINISTRATIVE CONTINGENCY ACCOUNT INCREASE; \$1.1 MILLION GENERAL FUND-STATE SAVINGS

The Legislature expands a grant program by \$1.8 million for job training that is matched dollar for dollar by employers. Administered by the two-year college board, a firm, industry association or hospital district (for example) could elect to partner with a public college, university, vocational arts center, or proprietary career school to address specific workplace shortcomings and ask the state to enlist its money to help retrain employees whose responsibilities are increasing or duties changing. Grants also go to assist firms planning to expand manufacturing or service operations and intend to hire new employees (some of whom might be recently “dislocated”).

ENGINEERING AND SCIENCE INSTITUTE AND REGIONAL PARTNERSHIP — \$2.7 MILLION GENERAL FUND-STATE INCREASE

The Legislature provides funds for allocation to Clark and Lower Columbia Colleges to prepare a total of **168 FTE associate degree students** for direct transfer into baccalaureate programs in applied science and engineering at Washington State University-Vancouver. The University receives funds to support the Institute and the regional partnership being forged to leverage economic development opportunities and interests of employers and industries based in southwest Washington.

CWU ENROLLMENT RECOVERY— \$2.1 MILLION GENERAL FUND-STATE INCREASE

The Legislature provides funds to Central Washington University (CWU) in consideration of base support lost a few years back when its student population dipped below budget

authorized levels. Partial restoration at this level can support 196 FTE more undergraduates starting next Fall.

WINE INDUSTRY EDUCATIONAL PARTNERSHIP — \$1.0 MILLION GENERAL FUND-STATE; \$150,000 CAPITAL PROJECT FUND INCREASE

The Legislature provides bridge funding so that Washington State University (WSU) can proceed without delay to make new faculty appointments, and permanent funding to dedicate field extension staff services to support the State's grape growing (viticulture) and wine making (enology) industry. Three regional education partners: Walla Walla, Yakima Valley and Wenatchee community colleges also receive funds in the budget to purchase equipment and supplies they need to adapt or expand burgeoning associate degree programs that enable residents to pursue careers without having to go out of state to find specialized training. Capital funds are made available to renovate a wet lab for related research at the WSU TriCities branch campus.

VETERINARY SCHOOL — \$1.5 MILLION GENERAL FUND-STATE; \$1.8 MILLION TOTAL INCREASE (TUITION)

The Legislature provides funds to increase the size of entering classes for veterinary medicine at Washington State University in Pullman. This money will ease the transition for this School and partially replace the loss of support fees paid by Oregon State University given the impending departure of 63 of its own doctoral students by the Fall of 2005.

FINANCIAL AID

STATE NEED GRANT — \$26.1 MILLION GENERAL FUND-STATE INCREASE

The Legislature provides support for newly funded enrollment and in order to hold qualifying State Need Grant recipients harmless from higher undergraduate tuition charges expected next biennium.

WASHINGTON SCHOLARS AND VOCATIONAL EXCELLENCE AWARDS — \$1.8 MILLION GENERAL FUND-STATE INCREASE

The Legislature provides funds to restore state merit and vocational excellence scholarships to full-tuition grants. The Higher Education Coordinating Board expects to support more recipients next biennium as increasingly those recognized by the State for their high school achievements are choosing to stay in Washington State for college, more so than was the experience last biennium.

COMPENSATION

INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$16.8 MILLION GENERAL FUND-STATE SAVINGS

Initiative 732, approved by voters in 2000, requires an annual cost-of-living increase for school employees and certain community and technical college staff based on the Seattle Consumer Price Index (CPI) for the prior calendar year. These cost-of-living increases are estimated at 2.0 percent for the 2003-04 school year and 1.9 percent for the 2004-05 school year. Legislation removes the annual cost-of-living requirement for the 2003-05 biennium saving \$16.8 million for state-funded two-year college staff.

RECRUITMENT & RETENTION — \$10.0 MILLION GENERAL FUND-STATE INCREASE

New money in the budget provides flexible resources enabling state four-year institutions to recruit and retain faculty and professional staff. Institutions may supplement this salary pool with tuition funds at their own discretion.

COMMUNITY COLLEGE FACULTY INCREMENTS — \$2.5 MILLION GENERAL FUND-STATE INCREASE

State funds and salary turnover savings authority are combined to help community and technical colleges meet, in part, the increased expense of salary next biennium, cost pressure attributable to increments earned and awarded to full-time faculty this biennium.

PART-TIME FACULTY PAY — \$2.5 MILLION GENERAL FUND-STATE INCREASE

Resources are provided to address salary equity for part-time instructors employed by the state's 34 community and technical colleges.

TUITION

Governing boards will decide the appropriate level of tuition for most students, except resident undergraduates. This authority is delegated for the next six academic years under Chapter 232, Laws of 2003 (Engrossed Substitute Senate Bill 5448), leaving the decision about undergraduate rates to the state budget. The Legislature proposes to limit increases to 7 percent a year over rates charged undergraduates at that institution during the prior academic year.

RESTRICT TUITION WAIVERS -- \$5.6 MILLION GENERAL FUND-STATE REDUCTION OFFSET BY TUITION OR LOCAL FUNDS

Colleges and universities' authority to waive tuition revenue is lowered for the second academic year of the 2003-05 biennium. Governing boards at public baccalaureates and the State Board for community and technical colleges decide for whom and how much operating fees are reduced and at local discretion, these "discounts" and "aid" for students will need to be backed to a greater degree with local funds rather than state funds a year from now.

REDUCTIONS

UNIVERSITY AND COLLEGE OPERATING COSTS — \$131 MILLION GENERAL FUND-STATE SAVINGS; PARTIALLY OFFSET BY TUITION

An operating reduction is made that may be partially offset by increasing tuition rates 7 percent each academic year for undergraduate students. Higher education institutions are given the management flexibility to determine how to best implement this reduction.

FACILITY PRESERVATION — \$52.7 MILLION GENERAL FUND-STATE SAVINGS REPLACED BY CAPITAL FUNDS WITH A \$11.4 MILLION GENERAL FUND-STATE INCREASE

Routine and preventive inspections, mechanical adjustments and minor work to replace or repair building systems, surfaces or materials has heretofore been apportioned by trustees of the state's colleges and universities out of the appropriations granted by lawmakers for general operations. Responding to findings and recommendations of the Joint legislative Audit & Review Committee, the Legislature sharpens the focus on building preservation needs for higher education. Facility operating funds are enhanced providing general funds at

a higher rate per square foot. Then, approximately 85 percent of building systems annual expenses are met with capital funds (cash, not bonds) instead of state general funds starting with the 2003-05 biennium. Given the advanced age of college facilities, the Legislature seeks greater assurance that investments will optimize the useful life of facilities that are presently in “superior” to “good” condition so that for lack of attention or resources, the State does not inadvertently compound today’s \$1.3 billion capital preservation backlog for higher education moving forward in time.

Legislative Budget for Higher Education

(Total Appropriated Funds in Thousands)

Policy Changes:

Health Benefits	\$38,368
State Need Grant Increase	26,145
High Demand Enrollment (State Board, 2-Yrs)	12,609
Facility Maintenance and Operations	11,419
Recruitment and Retention	10,000
High Demand Enrollment (HEC Board, 4-Yrs)	8,275
Self-Insurance Premiums	3,229
High Demand - Research Match	2,500
Full-Time Faculty Compensation	2,500
Part-Time Faculty Compensation	2,500
CWU Enrollment Recovery	2,100
Job Skills Program	1,815
WSU Veterinary Student Enrollment	1,521
Vancouver Engineering & Science Institute	1,350
Pipeline to BS-Engineer & Sci-Technology	1,350
Washington Scholars	1,286
Wine Industry Education Partnership	1,184
Wash. Award for Vocational Excellence	489
Pension Reduction Correction	440
Jefferson County Pilot Project	350
Shellfish Biotxin Monitoring	300
Alliance for Corporate Education	250
Youth Intervention Study	110
Prison Capacity Study	100
Charter Schools Study	50
Juvenile Offender Sentencing Study	26
Standards for Release of Offenders Study	24
HEC Board Reduction	(232)
Revolving Funds	(602)
Pension Funding Change	(4,451)
Restrict Tuition Waivers	(5,646)
General Inflation	(7,670)
Initiative 732 COLA	(16,791)
Building Maintenance to Capital	(52,748)
Reduction Partially Offset by Tuition	<u>(131,014)</u>
Total Policy Changes (Net)	(\$88,864)

Total 2003-05 Biennium* **\$2,691,225**

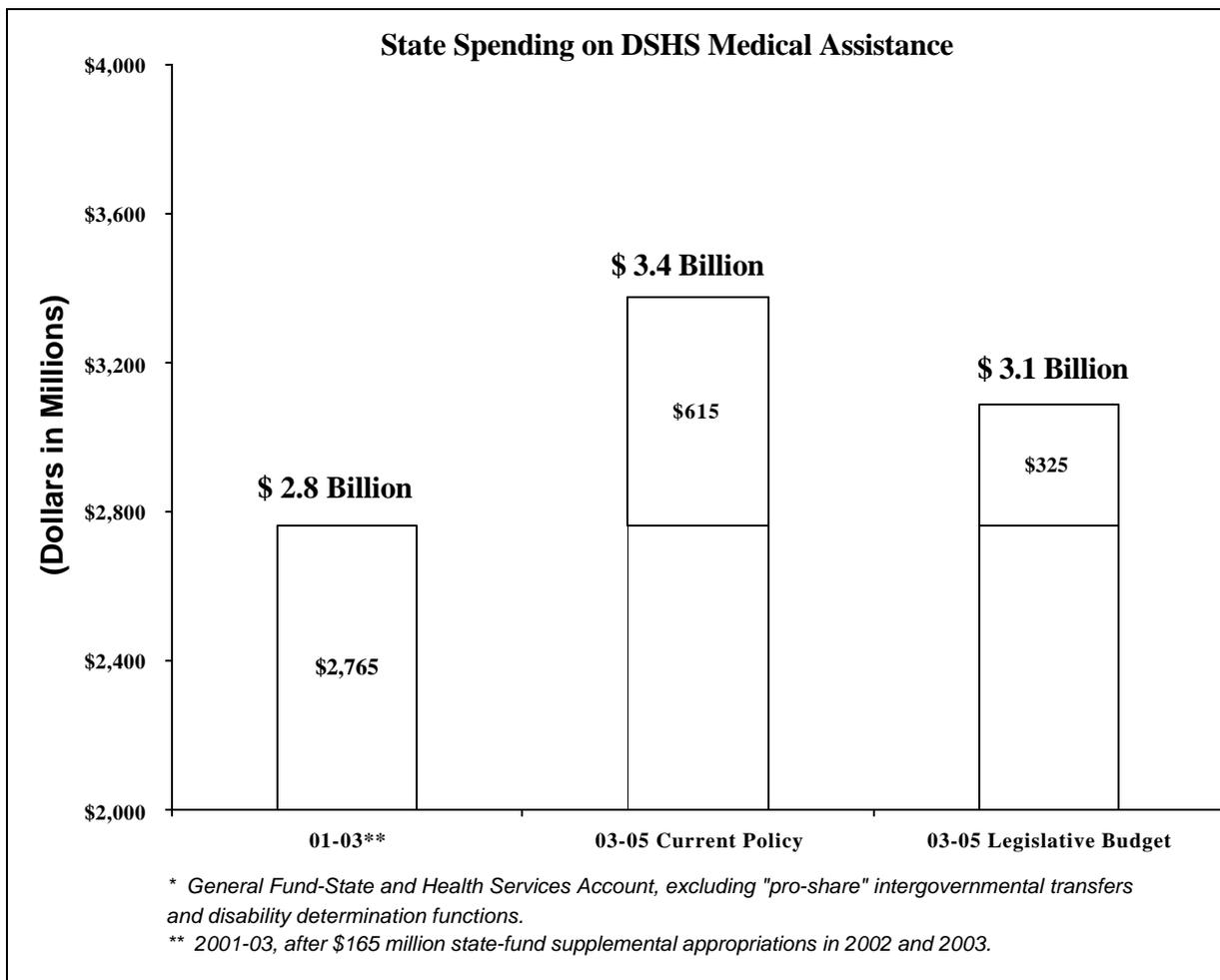
* not listed here is \$6,251 Special Appropriation to the Governor for an additional 400 FTE transfer students at public baccalaureate institutions with junior-class standing.

HEALTH CARE

REDUCING THE GROWTH IN THE MEDICAL ASSISTANCE PROGRAM

After K-12 education, the single largest function of state government is the Medical Assistance Program in the Department of Social and Health Services. Medical Assistance will pay for medical, dental, and vision care for an average of 870,000 low-income Washingtonians each month this year. These include 1 of every 3 children in the state; 4 of every 10 pregnant women; 1 of every 10 senior citizens; and 1 of every 16 other adults.

As illustrated below, such coverage will cost approximately \$2.8 billion during the current 2001-03 biennium, paid out of the state general fund and state Health Services Account. A roughly equal amount will be expended from federal Medicaid matching funds.



If there were no changes in current service eligibility and coverage policies, the state cost of the Medical Assistance program would be at least \$3.4 billion next biennium. That is a state-fund increase of \$615 million, or 22 percent, from the final 2001-03 spending level. (It is an increase of \$780 million from the level originally budgeted for 2001-03, but state Medical Assistance appropriations have been increased by \$165 million over the course of the 2001-03 biennium in response to unanticipated increases in caseloads and service costs.) By way

of context, the \$615 million increase in projected state Medical Assistance expenditures exceeds the entire amount of state general fund support provided during the current biennium for operation of Eastern, Western, and Washington State universities.

The legislative budget proposes a number of changes in eligibility practices and service coverage policies in order to reduce the projected growth in Medical Assistance expenditures. As illustrated below, these changes would reduce the projected growth in state expenditures by \$290 million. After these changes, rather than growing by 22 percent next biennium, state expenditures on Medical Assistance will grow by \$325 million, or 12 percent. These proposed savings and efficiencies are summarized below.

2003-05 Increases in State Funding For DSHS Medical Assistance (Dollars in Millions)		
	State Funding	Percent Change
Current Policy	\$615	22.2%
Legislative Policy	\$325	11.8%
Change	(\$290)	-10.4%

REDUCTIONS

RESTRUCTURE MEDICALLY INDIGENT PROGRAM— \$105.1 MILLION GENERAL FUND-STATE SAVINGS, \$29.2 MILLION HEALTH SERVICES ACCOUNT INCREASE, \$29.2 MILLION GENERAL FUND-FEDERAL INCREASE

The medically indigent program, which has provided partial compensation to hospitals for care they provide to low-income uninsured persons, will no longer operate as an open-ended state-funded entitlement program. It will instead be replaced by two lidded grant programs, one totaling \$3.1 million per year specifically reserved for rural hospitals, and the other totaling \$26.1 million per year for all other hospitals. The funding level for the rural program is sufficient to protect these particularly vulnerable hospitals from financial impact. Under both programs, hospitals that bear a larger share of the total medically indigent cost burden, and those which are relatively less profitable, receive a relatively larger share of the available resources.

PREMIUMS FOR CHILDREN’S MEDICAL COVERAGE — \$32.9 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$34.1 MILLION GENERAL FUND-FEDERAL SAVINGS

Families with incomes over the federal poverty level will be required to pay monthly premiums for their child's medical, dental, and vision coverage. Premiums will average about \$15 per child per month for families with income between 100-150 percent of poverty (\$1,300 - \$1,900 per month for a family of three); \$20 per child per month for families with incomes up to 200 percent of poverty (\$1,900 - \$2,500 per month for a family of three); and \$25 per child per month for families with incomes up to 250 percent of poverty (\$2500-\$3200 per month for a family of three). Premiums will be capped at three children per household.

PRE-NATAL COVERAGE FOR ILLEGAL IMMIGRANTS — \$37.8 MILLION GENERAL FUND-STATE SAVINGS; \$37.8 GENERAL FUND FEDERAL INCREASE

Washington is one of 12 states which use state funds to provide pre-natal coverage for low-income women who are not eligible for Medicaid because of their immigration status. Under new federal regulations, the state expects to be able to use federal Children's Health Insurance Program (SCHIP) funds to cover approximately 65 percent of the cost of such care. The department is directed to obtain all available federal funding, and to implement additional cost-control measures, to the extent necessary to limit total state-fund expenditures on this coverage to \$20.8 million for the biennium.

LIMIT MANAGED CARE RATE INCREASES — \$24.9 MILLION GENERAL FUND-STATE SAVINGS, \$25.8 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$50.4 MILLION GENERAL FUND-FEDERAL SAVINGS

Funding is provided to increase managed care payment rates by an average of 3.3 percent per calendar year, rather than by the average of 8 to 9 percent per year by which they have increased in recent years. Actuarial analysis of health insurer financial reports indicates that state payment rates have been too high in recent years, warranting this one-time adjustment.

INCREASED ELIGIBILITY VERIFICATION — \$9.9 MILLION GENERAL FUND-STATE SAVINGS, \$13.8 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$23.9 MILLION GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is to increase efforts to assure that recipients of publicly-funded medical assistance meet the applicable income, residency, and other eligibility requirements. These changes are expected to result in approximately 4,800 (1.9 percent) fewer persons qualifying for publicly-funded medical assistance in Fiscal Year 2004, and in approximately 19,000 (3.4 percent) fewer receiving such assistance in Fiscal Year 2005.

CONSOLIDATED DRUG PURCHASING — \$25.2 MILLION GENERAL FUND-STATE SAVINGS, \$0.4 MILLION HEALTH SERVICES ACCOUNT INCREASE, \$32.7 MILLION MEDICAL AID ACCOUNT SAVINGS, \$21.9 MILLION GENERAL FUND-FEDERAL SAVINGS

As proposed by the Governor, the Medical Assistance Administration, the Health Care Authority, and the Department of Labor and Industries will consolidate their drug purchasing by jointly purchasing drugs in each of at least sixteen therapeutic classes. This will reduce the rate of growth in state drug expenditures by prioritizing purchase of the less costly safe and effective brand, and by creating a financial incentive for manufacturers of more expensive brands to provide price discounts.

REDUCE ADULT DENTAL COVERAGE — \$11.7 MILLION GENERAL FUND-STATE SAVINGS, \$11.0 MILLION GENERAL FUND-FEDERAL SAVINGS

The scope of adult dental care is to be reduced by approximately 25 percent. The department is directed to work with dental providers and recipient representatives to select the highest priority populations and procedures to include in the reduced benefit package. Examples might include continuation of full-scope dental coverage for persons eligible for federal financial participation because of their nursing home residency or participation in community-based waiver programs; support for programs providing specialized care for persons with disabilities; dentures for those in need; and preventative coverage.

MEDICAL EQUIPMENT COST-CONTAINMENT — \$2.0 MILLION GENERAL FUND-STATE SAVINGS, \$2.0 MILLION GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is to devise and implement a combination of purchasing and utilization management strategies which will reduce expenditures on medical equipment by 5 percent by the second year of the biennium.

REQUIRE CO-PAYS FOR MEDICAL EQUIPMENT AND OPTICAL SERVICES — \$900,000 GENERAL FUND-STATE SAVINGS, \$900,000 GENERAL FUND-FEDERAL SAVINGS

As an alternative to the proposal to eliminate adult vision and hearing services, the legislative budget requires recipients to pay a nominal part of the cost for medical supplies, equipment, and optical services. The co-pay will be \$2 for items and services costing \$25 - \$50, and \$3 for those costing more than \$50. These are the maximum co-pays allowed by federal Medicaid rules.

BASIC HEALTH PLAN

LIMIT NEW BHP ENROLLMENTS THROUGH DECEMBER 2003 — \$13.3 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The legislative budget directs the agency to continue limiting admissions to the program through the end of calendar year 2003. All persons currently enrolled -- including childless adults -- will continue to be covered, but new enrollments will be limited to the following groups: women who have temporarily left the program due to a Medicaid-covered pregnancy; children not eligible for Medicaid due to their immigration status; enrollees who become current on their account after losing a month's coverage due to late payment; and new dependents of existing enrollees. Under this policy, subsidized enrollments are expected to decrease to approximately 103,000 by December 2003.

RESTRUCTURE THE BASIC HEALTH PLAN — \$145.5 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The legislative budget provides sufficient funding for approximately 100,000 persons per month to receive state-subsidized health insurance coverage through the Basic Health Plan during January 2004 - June 2005. The Basic Health Plan is to be restructured, in order to afford coverage for as many low-income persons as possible. The restructured plan is budgeted to include a re-designed benefit package which will require greater enrollee deductibles, co-insurance, and co-premiums. Childless adults will continue to be eligible for coverage.

PUBLIC HEALTH

INCREASES

AIDS PRESCRIPTION DRUG ASSISTANCE — \$4.8 MILLION GENERAL FUND-STATE INCREASE

The Department of Health pays for prescription medications, insurance premiums, and limited medical care for persons with HIV disease and incomes below 300 percent of poverty (about \$27,000 per year for a single person, and \$36,000 for a couple). Program expenditures are projected to grow at 15 percent per year in 2003-05. To partially offset these increased costs, without denying access to life-sustaining medications by lowering eligibility levels or establishing program waiting lists, the legislative budget anticipates that recipient cost sharing is increased to the maximum allowed under the federal Ryan White CARE Act. Recipient cost-sharing would average 5-10 percent of family income, compared to 2-4 percent now, though the agency is authorized to develop alternative ways to accomplish the same level of cost control.

INTERNET-BASED DEATH CERTIFICATE SYSTEM — \$2.4 MILLION GENERAL FUND-STATE SAVINGS, \$7.1 MILLION GENERAL FUND-PRIVATE/LOCAL INCREASE

As provided in Substitute Senate Bill 5545, the fee for certified copies of birth, death, marriage, and divorce certificates is to be increased from \$13 to \$17. This is expected to generate approximately \$600,000 per year of additional revenue for local health departments, and \$2.9 million of additional revenue per year for the state Center for Vital Statistics. The Center for Vital Statistics will use approximately \$3.0 million of the additional revenue to

develop and begin statewide implementation of an internet-based system, which will enable physicians, coroners, and funeral directors to prepare and retrieve death certificates electronically.

ADDITIONAL NEWBORN SCREENING TESTS — \$400,000 GENERAL FUND-STATE, \$1.9 MILLION GENERAL FUND-PRIVATE/LOCAL

As recommended by the State Board of Health, all newborns will be screened by the state public health laboratory for five additional disorders that can cause mental or motor retardation, blindness, hearing loss, physical abnormalities, and/or death if undetected.

Washington is the only state which does not screen for one of the disorders, and among the roughly half which presently do not screen for the other four. Almost half of the testing cost will be borne by the state's Medical Assistance program, which pays for 43 percent of all births in the state. The balance will be paid by fees charged to private payers.

REDUCTIONS

CHILD DEATH REVIEWS — \$1.0 MILLION GENERAL FUND-STATE SAVINGS

Since 1999, the state Department of Health has provided financial assistance for local health department staff to review the circumstances surrounding unexpected child deaths, and has collected, analyzed, and disseminated the result of the teams' findings. State funding for this activity is discontinued. Unusual circumstances will continue to be investigated by local health and law enforcement officials. Patterns and factors associated with avoidable deaths will likely continue to be analyzed and disseminated by private organizations, such as the Sudden Infant Death Syndrome (SIDS) Foundation.

DISCONTINUE HOSPITAL REPORTS SUBSIDY — \$1.1 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The Comprehensive Hospital Accounting and Reporting System (CHARS) system has since its inception been funded by a statutory assessment on hospital revenues. During 1992-2000, this assessment averaged .033% of hospital revenues. During the 2000 legislative session, the system received a public subsidy for the first time, from the Health Services Account. Because that account is in deficit, the subsidy is eliminated. As a result, the assessment is expected to need to be increased to approximately .018% of hospital revenues, about 60 percent of the average rate charged during the 1990's.

HUMAN SERVICES

AGING AND DISABILITY SERVICES

INCREASES

FUNDING FOR COMMUNITY PLACEMENTS AND THE DOWNSIZING OF FIRCREST SCHOOL — \$2.8 MILLION GENERAL FUND-STATE, \$2.8 MILLION GENERAL FUND-FEDERAL

The legislative budget provides funding to continue service to residents of Residential Habilitation Centers (RHCs) who choose to move to community placements. The budget also provides for transition costs for the consolidation of RHC vacancies and the downsizing effort at Fircrest School. Funding is also provided in the Aging and Adult Services program for the assessment of needs of elderly RHC residents.

NURSING HOME QUALITY MAINTENANCE — \$46.1 MILLION GENERAL FUND-STATE, \$46.1 MILLION GENERAL FUND-FEDERAL

To help maintain the quality of nursing home care in the state, Medicaid payment rates will be increased by 3.0 percent effective July 1, 2003. The cost of this rate increase will be covered by a fee of \$6.50 per patient day, which will be applied to most nursing home care delivered in the state. In accordance with Substitute Senate Bill 5341, the Department of Social and Health Services will seek a federal waiver to exempt facilities that would not benefit from the rate increase from the cost of the fee.

HEMOCARE WORKER WAGE INCREASES - \$31.6 MILLION GENERAL FUND-STATE INCREASE, \$30.7 MILLION GENERAL FUND-FEDERAL INCREASE

Sufficient funding is provided to increase wages for homecare workers by 75 cents per hour beginning October 1, 2003. The increase applies both to individuals who contract directly with the state to provide services, and also to those employed by private agencies.

SENIOR AND DISABLED DRUG ASSISTANCE — \$500,000 HEALTH SERVICES ACCOUNT, \$300,000 GENERAL FUND-STATE

Funding is provided to implement a university-based “pharmacy connection” program which will link state residents to the manufacturer-sponsored drug discount program best suited to their particular situation. In addition, Area Agencies on Aging will receive grants to organize training programs that will help seniors learn to use prescription medications more safely and effectively.

REDUCTIONS

REDUCE FUNDING FOR THE ARC LAWSUIT — \$9.9 MILLION GENERAL FUND-STATE SAVINGS, \$9.9 MILLION GENERAL FUND-FEDERAL SAVINGS

The federal court did not accept the proposed settlement of the ARC lawsuit. The lawsuit sought increased funding for additional services for persons on the developmental disabilities Medicaid waiver and to increase the number of persons served by the waiver. The 2002 supplemental budget funded the proposed settlement at a level that carried forward into the 2003-05 biennium at a cost of \$26.8 million general fund-state. Funding that is not yet committed to enhanced services is eliminated.

REDUCE SPOUSAL RESOURCE LIMITS — \$5.9 MILLION GENERAL FUND-STATE SAVINGS, \$5.9 MILLION GENERAL FUND-FEDERAL SAVINGS

Under federal Medicaid rules, when a spouse applies for publicly funded long-term care in a nursing home or in the community, the other spouse is able to retain, at the state's discretion, between about \$18,000 and \$91,000 in savings or other liquid assets. Like approximately half the states, Washington presently sets the spousal resource limit at the federal maximum. Under the legislative budget, the liquid asset limit is reduced to \$40,000. Spouses of new applicants for nursing home and community-based care need to "spend down" all savings over \$40,000 before the state will pay for their long-term care. In addition to the \$40,000, the spouse will continue to be able to retain the home, furnishings, an automobile, and income of up to about \$2,100 per month. As a result of this change, by the end of the 2003-05 biennium, approximately 500 persons per month are expected to cover more of the cost of their long-term care before qualifying for public assistance.

LIMIT "COPEs" ENROLLMENT GROWTH — \$7.9 MILLION GENERAL FUND-STATE SAVINGS, \$7.9 MILLION GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is directed to limit growth in the number of persons receiving in-home and community residential care through the Community Options Program Entry System (COPEs) waiver program to 1.1 percent per year, which is the projected growth in the total state population aged 75 and older. This will allow an average of about 24,350 people to receive such services during the 2003-05 biennium. That is 1,000 more people than are receiving such services during the current year, but approximately 700 fewer than would be served if the program continued to grow without limits. To manage within these enrollment limits, the department may need to establish waiting lists for services, as is done in most other states. If waiting lists are established, the department is directed to prioritize access to service for persons with the greatest care needs, and who are at greatest risk of requiring nursing home or other out-of-home placement.

INCREASE LONG-TERM CARE ELIGIBILITY STANDARDS — \$2.1 MILLION GENERAL FUND-STATE SAVINGS, \$3.1 MILLION GENERAL FUND-FEDERAL SAVINGS

The amount of care which people must require before qualifying for publicly funded long-term care is to be increased. Persons who require only minimal assistance with two activities of daily living will no longer be eligible for personal care. This is expected to result in an average of approximately 475 fewer persons receiving publicly-funded assistance in their own homes. However, after the change, Washington will still have one of the eight most generous eligibility standards in the nation. Persons currently receiving care in community residential settings who do not meet the higher eligibility standard will continue to be served, without the benefit of federal matching funds, but no new applicants with such lower levels of care will be admitted to residential care.

ECONOMIC SERVICES

REDUCTION

GENERAL ASSISTANCE — UNEMPLOYABLE (GA-U) PROGRAM MODIFIED — \$13.7 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved by implementing legislation that requires the Department of Social and Health Services to discontinue benefits for GA-U clients unless the client demonstrates that their medical or mental condition has not improved, and they therefore still need a GA-U cash grant and medical benefits. This does not affect recipients of general assistance who are applicants of federal Supplemental Security Income (SSI).

CHILDREN & FAMILIES

INCREASES

PRESERVE YOUTH PROGRAMS WITH PSEA — \$23.0 MILLION GENERAL FUND-STATE SAVINGS, \$23 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT INCREASE

The Legislature's budget preserves funding for programs that help youth and families in crisis by providing \$23 million in additional PSEA funding. Programs that are preserved include Family Reconciliation Services, Crisis Residential Centers, Secure Crisis Residential Centers, Hope Beds, and the Street Youth Program. Increases in fines charged for traffic infractions under SSB 6023 provide \$16 million of this increase.

FUNDING FOR FOSTER PARENT TRAINING — \$1.0 MILLION GENERAL FUND-STATE, \$400,000 GENERAL FUND-FEDERAL

The Legislature's budget provides funding in response to the Braams lawsuit. Along with other improvements already implemented, the increase covers the foster parent training initiative. Improved foster parent training reduces attrition of foster parents by helping them respond to the complex needs of their foster children. Training also reduces the number of times foster children need to move from one foster home to another.

REDUCTIONS

ADOPTION SUPPORT TAX CREDIT — \$2.9 MILLION GENERAL FUND-STATE SAVINGS

The Legislature's budget assumes a savings in the Adoption Support program due to the new \$10,000 federal tax credit for the adoption of special needs children. The reduction would only affect adoption support benefits for families with incomes sufficient to actually benefit from the tax credit and only to the extent of the amount of the credit.

MENTAL HEALTH

REDUCTIONS

CHILDREN'S MEDICAL PREMIUMS — \$2.1 MILLION GENERAL FUND-STATE SAVINGS, \$2.1 MILLION GENERAL FUND-FEDERAL

The Legislature's budget saves \$4.2 million (total funds) in the cost of mental health coverage due to a projected decrease in the number of persons eligible for Medicaid. The drop in eligible persons is a result of imposing a monthly premium for medical coverage for families above 100 percent of the federal poverty level.

INCREASED MEDICAID ELIGIBILITY VERIFICATION — \$2.1 MILLION GENERAL FUND-STATE SAVINGS, \$2.1 MILLION GENERAL FUND-FEDERAL SAVINGS

The Legislature's budget saves \$4.2 million (total funds) in the cost of mental health coverage due to a projected decrease in the number of persons eligible for Medicaid as a result of increase in the verification of eligibility.

ALCOHOL AND SUBSTANCE ABUSE

INCREASES

INCREASED FUNDING FOR OFFENDERS — \$9.0 MILLION CRIMINAL JUSTICE TREATMENT ACCOUNT

The Legislature's budget increases county managed drug and alcohol treatment funding for offenders, as intended by Chapter 290, Laws of 2002 which revised sentencing for drug crimes.

REDUCTIONS

REDUCTION OF TASC — \$4.6 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT-STATE SAVINGS

The Legislature reduces funding for the Treatment Alternatives for Street Crimes program, while preserving funding for Drug Courts.

REDUCE FUNDING FOR THE GRAVELY DISABLED — \$2.0 MILLION GENERAL FUND-STATE SAVINGS

Treatment services for persons who are gravely disabled from drug and alcohol addiction are reduced.

PUBLIC SAFETY

DEPARTMENT OF CORRECTIONS

INCREASES

DRUG TREATMENT FUNDING — \$1.2 MILLION TOTAL GENERAL FUND-STATE AND VIOLENCE REDUCTION & DRUG ENFORCEMENT ACCOUNT

Additional funding for treatment of drug offenders in prison is provided pursuant to the Drug Reform Act of 2002. The legislation specified that \$2.9 million in savings from reducing drug offender sentences would be reprogrammed for treatment for offenders in prison. The new funding is partially offset by savings due to an expected reduction in drug offender inmate population as a result of sentencing changes in Engrossed Substitute Senate Bill 5990 (Supervision of Offenders), Chapter 379, Laws of 2003.

REDUCTIONS

SENTENCING & SUPERVISION REDUCTIONS FOR NON-VIOLENT AND/OR LOW-RISK OFFENDERS — \$40.1 MILLION GENERAL FUND-STATE SAVINGS

Funding is reduced pursuant to Senate Bill 5990 (supervision of offenders), Chapter 379, Laws of 2003, which implements four new policies: (1) implementing the new drug sentencing grid established under the Drug Reform Act of 2002 one year early; (2) expanding earned early release (EER) for non-violent and non-sex offenders and reducing EER for Class A sex and serious violent offenders; (3) reducing the number of low and moderate-risk offenders subject to supervision; and (4) transferring billing and collection of legal financial obligations to the Office of the Administrator for the Courts and the county clerks. The EER and supervision changes expire July 1, 2010, and exclude offenders with certain prior and current offenses and requirements for treatment.

JUVENILE REHABILITATION

INCREASES

RESEARCH-BASED THERAPIES — \$943,000 GENERAL FUND-STATE

Funding is increased for research-based therapies for parolees and youth transitioning out of institutions, such as aggression replacement training (ART), mentoring, and functional family therapy (FFT). All of these programs have been shown to reduce recidivism by the Washington State Institute for Public Policy (WSIPP), and produce in excess of \$6 dollars in benefits in crime reduction for every dollar spent. This funding level will allow the extension of research-based therapies to youth who do not currently receive them.

REDUCTIONS

RESEARCH-BASED INTENSIVE PAROLE ADJUSTMENT — \$1.9 MILLION GENERAL FUND-STATE SAVINGS, \$629,000 GENERAL FUND-FEDERAL SAVINGS

Funding is reduced for intensive parole consistent with the Washington State Institute for Public Policy's (WSIPP) 2002 findings on intensive parole services. Savings is achieved by

increasing the size of intensive parole caseloads to the same level as for enhanced and sex offender parole. Recent WSIPP studies show intensive parole to be ineffective in reducing recidivism. \$943,000 of the state savings from this reduction is reinvested in research-based therapies shown to reduce recidivism, see “Increases” above.

CONSOLIDATED JUVENILE SERVICES REDUCTION—\$1.3 MILLION NET GENERAL FUND-STATE SAVINGS

Funding to local counties for the Consolidated Juvenile Services (CJS) contract is reduced, consistent with declining local adjudications and diversions. Funded programs provide services to pre-commitment juveniles, including diversion, probation supervision, individual and family services counseling, drug/alcohol assessment and treatment, vocational training, and psychiatric and psychological services.

LOCAL JUVENILE DISPOSITION ALTERNATIVES —\$1.9 MILLION NET GENERAL FUND-STATE SAVINGS

Pursuant to Substitute Senate Bill 5903 (juvenile offender sentencing), funding is reduced to reflect savings from sentencing youth to local sanctions who would otherwise be committed to the Juvenile Rehabilitation Administration (JRA). The total reduction to JRA is \$3.1 million; after compensating counties for serving the youth locally the net savings to the state is \$1.9 million.

MENTAL HEALTH-CIVIL COMMITMENT PROGRAM

INCREASES

MCNEIL ISLAND FERRY — \$1.2 MILLION GENERAL FUND-STATE

One-time funding is provided for the purchase of a used passenger vessel to support additional staffing due to the new construction at the Special Commitment Center on McNeil Island.

OFF-ISLAND SECURE COMMUNITY TRANSITION FACILITY — \$2.4 MILLION GENERAL FUND-STATE

Consistent with direction from the federal court, funding is provided for the operational and staffing costs for the first phase of a Secure Community Transition Facility (SCTF) located off of McNeil Island that can house up to twelve residents. The funding level is based on expected occupancy by October 1, 2003, and a projection of six residents by the end of the biennium. Staffing ratios for this facility will be one staff per resident during waking hours and two staff per three residents during sleeping hours.

REDUCTIONS

ON-ISLAND SECURE COMMUNITY TRANSITION FACILITY CHANGES — \$2.2 MILLION GENERAL FUND-STATE SAVINGS

Funding is reduced pursuant to Senate Bill 5991 (secure community transition facilities), Chapter 216, Laws of 2003, which reduces staffing ratios and State Patrol support to reflect the level of isolation and security at the McNeil Island Secure Community Transition Facility (SCTF). (No changes are made in the legislation to proposed off-island SCTFs.) Staffing is reduced to one staff per three residents during normal waking hours, and one staff per four

residents during normal sleeping hours; however, in no case shall the staffing ratio permit fewer than two staff per housing unit. Also, one-to-one staffing will remain when residents leave the facility for therapy, etc. The roving patrol car provided by the Washington State Patrol is removed. DSHS currently has agreements with the Department of Corrections McNeil Island Corrections Center Emergency Response Team to provide responses to emergencies.

WASHINGTON STATE PATROL

REDUCTIONS

DRUG ENFORCEMENT — \$4.5 MILLION GENERAL FUND-STATE SAVINGS; \$500,000 NET SAVINGS

General Fund-State support for the Narcotics Section of the Investigative Assistance Bureau is eliminated (\$4.5 million), and partially replaced with \$4 million in Public Safety and Education Account-State funds.

NATURAL RESOURCES

DEPARTMENT OF ECOLOGY

INCREASES

SHORELINE MASTER PROGRAMS -- \$2.0 MILLION GENERAL FUND-STATE

Funding is provided for grants to local governments to update their shoreline master programs and to implement SSB 6012 (shoreline management). This funding and legislation implement the settlement of a lawsuit relating to a shoreline guidelines regulation adopted by the Department of Ecology.

REDUCTIONS

PERSISTENT BIOACCUMULATIVE TOXIC CHEMICAL STRATEGY — \$800,000 STATE TOXICS CONTROL ACCOUNT SAVINGS

The Persistent Bioaccumulative Toxic Chemical (PBT) strategy is a coordinated effort across Department of Ecology programs to reduce the release of toxins that can significantly affect the health of humans, fish and wildlife. Funding for the strategy is eliminated.

FLOOD CONTROL ASSISTANCE GRANTS — \$2.0 MILLION FLOOD CONTROL ASSISTANCE ACCOUNT SAVINGS

A state general fund transfer to the Flood Control Assistance Account is reduced by one-half for the 2003-05 biennium. The Department of Ecology will distribute grants totaling \$2.0 million to local governments.

DELAY WATER RIGHTS DECISIONS — \$1.0 MILLION GENERAL FUND-STATE SAVINGS

The reduction will extend the time required to eliminate the backlog of water applications for changes and transfers. Elimination of the 2000-application backlog will be delayed by approximately five months from fiscal year 2005 to fiscal year 2006.

STATE PARKS AND RECREATION COMMISSION

INCREASES

OPERATING IMPACTS OF EXISTING CAPITAL PROJECTS — \$1.4 MILLION GENERAL FUND-STATE

State Parks receives funding in the capital budget to upgrade its facilities each biennium. Some of the projects, when complete, require resources in the operating budget to operate and maintain the facilities.

PARKING FEE IMPLEMENTATION — \$4.0 MILLION PARKS RENEWAL AND STEWARDSHIP ACCOUNT

Funding and staffing are increased to implement the system-wide parking fee that went into effect January 1, 2003. State Parks projects revenues of \$10 million per biennium from the fee. Revenues exceeding the costs to collect the fee are provided for facility preservation in the capital budget.

MAINTENANCE BACKLOG REDUCTION — \$750,000 PARKS RENEWAL AND STEWARDSHIP ACCOUNT

Funding is provided to reduce the State Park facility maintenance backlog. State Parks estimates the backlog at \$41 million.

REDUCTIONS

2003 PARK CLOSURE SAVINGS — \$163,000 GENERAL FUND-STATE SAVINGS

Additional savings are taken to reflect the closure of Lyons Ferry, Crow Butte, Lake Cushman, Central Ferry and Chief Timothy state parks.

CAMA BEACH STATE PARK — \$1.9 MILLION GENERAL FUND-STATE SAVINGS

Except for a day use area, the opening of Cama Beach State Park is postponed until the 2005-07 biennium.

INTERAGENCY COMMITTEE FOR OUTDOOR RECREATION

INCREASES

SALMON MONITORING STRATEGY — \$468,000 GENERAL FUND-STATE

Funding is provided to implement the priority recommendations of the Monitoring Oversight Committee to include improved watershed health monitoring and increased data coordination and access.

LEAD ENTITIES — \$1.65 MILLION GENERAL FUND-STATE, \$1.65 MILLION GENERAL FUND-FEDERAL

Funding is provided to continue the operation of lead entities. Lead entities are local watershed-based entities that recommend salmon recovery projects for consideration by the Salmon Recovery Funding Board.

DEPARTMENT OF FISH AND WILDLIFE

INCREASES

HATCHERY SCIENCE REVIEW GROUP — \$450,000 GENERAL FUND STATE; \$550,000 WILDLIFE FUND-STATE

Funding is provided to implement the HSRG recommendations to reform hatchery programs for the benefit of recovering wild salmon populations and providing sustainable fisheries.

LANDS STEWARDSHIP AND MAINTENANCE — \$850,000 WILDLIFE FUND-STATE

Funding is provided for stewardship and maintenance needs on lands managed by the Department, including water access sites.

MIGRATORY WATERFOWL — \$900,000 WILDLIFE FUND-STATE

Wetland restoration and landowner incentives to create or maintain habitat for migratory waterfowl are funded. These activities are supported by revenue from an increase in the migratory waterfowl stamp, authorized by SB 5363 in 2002.

REDUCTIONS

REDUCED CUSTOMER SERVICE — \$850,000 GENERAL FUND STATE SAVINGS

Reductions to administrative activities for the Department include elimination of customer service staff within each regional office. The public will no longer be able to purchase hunting and fishing licenses at regional offices – relying instead on private sector vendors.

ENFORCEMENT VACANCY SAVINGS — \$1.0 MILLION GENERAL FUND-STATE SAVINGS

The Enforcement Program will continue to hold open five vacancies. Maintaining vacancies of field officers reduces the overall ability of the Department to respond to damage complaints, dangerous wildlife, and to protect fish and wildlife resources and the public.

FISH HATCHERY DIVISION REDUCTION — \$1.2 MILLION GENERAL FUND-STATE SAVINGS

Savings are realized by taking reductions to the Hatchery Division that may include the closure of hatcheries. \$642,000 appropriation authority is transferred from the state general fund to the state wildlife account.

DEPARTMENT OF NATURAL RESOURCES

INCREASES

SDS LUMBER LAWSUIT SETTLEMENT - \$2.7 MILLION GENERAL FUND-STATE

Funding is provided for a lawsuit settlement and purchase of approximately 232 acres of land and timber in Klickitat County from the SDS Lumber Company. The land and timber acquired with this funding will be managed for the benefit of the common schools.

DERELICT VESSEL REMOVAL — \$1.0 MILLION DERELICT VESSEL REMOVAL ACCOUNT

The Derelict Vessel Removal Program oversees the disposal of derelict vessels and provides matching dollars for vessel removal. The 2002 Legislature passed Engrossed Substitute House Bill 2376, which gives authorized public entities the authority to seize, remove, and dispose of derelict vessels. Funding is provided for costs associated with removing derelict vessels

FOREST AND FISH INFORMATION SYSTEM — \$1.2 MILLION GENERAL FUND-STATE

Funding and staffing are provided to maintain and update computer systems that support the state's Forest and Fish Report, forest practices rules, and salmon recovery.

THE FOSS WATERWAY CLEAN-UP — \$1.0 MILLION AQUATIC LANDS ENHANCEMENT ACCOUNT

One-time funding is provided for clean up of contaminated sediments in the Thea Foss waterway in Tacoma. This clean up will fulfill the state's obligations under its agreement with the Environmental Protection Agency for the Thea.

SMALL FOREST LANDOWNERS -- \$278,000 GENERAL FUND-STATE

Funding is provided to address landowners' concerns related to the road maintenance and abandonment plans (RMAPs). The funding implements the requirements of HB 1095 for producing an environmental impact statement and cost-benefit analysis in support of rule making and an engineer to assist with program implementation.

NATURAL AREA OPERATING IMPACTS — \$176,000 GENERAL FUND STATE

DNR acquires acreage for Natural Area Preserves and Natural Resources Conservation Areas through the Trust Land Transfer Program and purchases from the Washington Wildlife and Recreation Program. Funding and staff are provided to support the basic maintenance and operation of 4,700 new acres designated as Natural Area Preserves and Natural Resources Conservation Areas.

REDUCTIONS

FOREST STEWARDSHIP — \$920,000 GENERAL FUND STATE SAVINGS

The Department provides advice, assistance, and educational opportunities to non-industrial private forest owners to enhance stewardship of their lands. General Fund-State funding and associated staffing are eliminated for this activity on an on-going basis. This will result in about one-third fewer educational and technical assistance contacts with non-industrial private forest owners.

GEOLOGY LIBRARY PUBLIC INFORMATION — \$730,000 GENERAL FUND STATE SAVINGS

The Department's Geology library's educational activities include support for special events, one-on-one interactions, and group visits. These activities are eliminated. Customers can pursue this information from federal, university, and private-sector sources. However, \$900,000 funding in the capital budget will allow the Department to digitize its geology library collections, ensuring the availability of products in easily-accessible formats.

DEPARTMENT OF AGRICULTURE

REDUCTIONS

AGRICULTURAL STATISTICS SERVICE — \$350,000 GENERAL FUND-STATE SAVINGS

Funding and staffing are reduced for a cooperative program with the U.S. Department of Agriculture that collects and publishes statistical data on the state's agricultural industry. As a result, fewer county-level crop analyses will be produced, while state-level analyses will be retained.

DEPARTMENT OF HEALTH

REDUCTIONS

SHELLFISH TESTING FEES — \$900,000 GENERAL FUND-STATE SAVINGS

The Department of Health inspects and tests shellfish from public beaches for the presence of bacteria and biotoxins to ensure that contaminated shellfish are not consumed by the public.

The cost of this inspection and testing function is currently paid by all state taxpayers, through the state General Fund. The legislative budget proposes that the fee for recreational shellfish licenses issued by the Department of Fish and Wildlife be increased by an average of \$2.00, so that lab testing and on-site inspection of recreationally-harvested shellfish will be fee-supported rather than state-subsidized.

WATER RECLAMATION ASSISTANCE — \$600,000 GENERAL FUND-STATE SAVINGS

During the 1999-01 biennium, the state's Drinking Water Program expanded efforts to promote water conservation and re-use by providing technical assistance and training to local water systems, and by promoting improved coordination among state and local agencies. Because a solid foundation has now been laid for continuation of such efforts locally, and because this is a lower priority activity of government, state funding for this expanded effort is discontinued.

TRANSFERS

TRANSFER DAIRY NUTRIENTS MONITORING TO THE DEPARTMENT OF AGRICULTURE — \$692,000 WATER QUALITY ACCOUNT; \$165,000 WATER QUALITY PERMIT ACCOUNT

The Dairy Nutrient Management program is transferred from the Department of Ecology to the Department of Agriculture, to reflect passage of SSB 5889.

OTHER

COLUMBIA RIVER GORGE COMMISSION — \$100,000 GENERAL FUND-STATE SAVINGS

Funding is reduced for the Commission. Matching funds from Oregon will be reduced proportionately.

GENERAL GOVERNMENT

COMMUNITY, TRADE, AND ECONOMIC DEVELOPMENT

INCREASES

TOURISM/ECONOMIC DEVELOPMENT — \$2.6 MILLION GENERAL FUND-STATE INCREASE

Enhanced funding is provided for tourism (\$400,000); foreign offices (\$400,000); business retention and expansion (\$600,000); business development (\$400,000); manufacturing services (\$400,000), and industries/international trade (\$350,000); to further support the state's economic development efforts. This increased funding will allow targeted marketing to improve the state's visitor revenues, expand its operations in foreign countries to assist Washington exporters, conduct business recruitment efforts, and provide technical assistance to its businesses to increase their competitiveness.

MILITARY DEPARTMENT

INCREASES

ENHANCED 911 PROGRAM — \$11.2 MILLION ENHANCED 911 ACCOUNT

Funding is provided to assist local governments with meeting enhanced 911 (E911) services, which allow responders to automatically determine a caller's location. An increased level of support for 33 counties is required due to new federal requirements that mandate that E911 systems work with wireless calls, and to update equipment for wireline calls. These counties are collecting the maximum local taxes permitted by law to cover E911 expenses, but are not able to cover minimum service requirements. The \$11.2 million total includes \$2.2 million for one-time equipment purchases.

HOMELAND SECURITY FUNDING — \$43.5 MILLION GENERAL FUND-FEDERAL, \$200,000 GENERAL FUND-STATE

Based on recent congressional action, \$43.5 million in total federal funding is available to assist Washington State in improving homeland security, with no state or local matching fund requirements. The funding is intended for prescribed equipment, exercises, training, and competitive grants. Over 80 percent of the total federal funds are for distribution to local governments. State uses of funding include providing additional security at the state capital, Terrorism and Consequence Management, Community Emergency Response Training (CERT)/Citizen Corps and possible support to the Washington State Patrol. The Military Department will receive the funds and distribute them as required as determined by the Adjutant General and the Governor's Homeland Security Executive Group in conjunction with federal requirements and approval.

LIQUOR CONTROL BOARD

MAINTAIN MERCHANDISING BUSINESS SYSTEM — \$1.3 MILLION LIQUOR REVOLVING ACCOUNT

In the 2001-03 biennium, the Legislature appropriated funding for new point-of-sale technology, the Merchandising Business System (MBS). Additional funding is provided to purchase MBS software licenses, provide training, and hire technical staff to support the system. The MBS system will allow tracking of all state store retail sales, and include forecasting and data analysis that should encourage more effective purchasing and business practices.

OPEN FIVE NEW LIQUOR STORES AND RELOCATE LIQUOR STORES — \$2.6 MILLION LIQUOR REVOLVING ACCOUNT

Funding is provided for the Liquor Control Board to open five new liquor stores in areas that are underserved due to rapid population growth, and to relocate 13 existing liquor stores to more convenient and marketable locations. For the 2003-05 biennium, projected net General-Fund State revenue from liquor profits and taxes is \$5.9 million, and projected net revenue to local governments from liquor profits is \$1.1 million.

MAINTAIN STORE HOURS — \$3.1 MILLION LIQUOR REVOLVING ACCOUNT

Funding is provided to allow adequate staffing to prevent the closure of eleven state liquor stores and to reinstate hours that were cut due to previous budget reductions. These reductions were implemented through a decrease in store hours and proposed store closures, and resulted in a decline in revenues. Refunding these stores will prevent a \$1.2 million net reduction in state general fund revenues for the 2003-05 biennium.

OFFICE OF THE ADMINISTRATOR FOR THE COURTS

INCREASES

JUDICIAL INFORMATION SYSTEM IMPROVEMENTS — \$12.6 MILLION JUDICIAL INFORMATION SYSTEMS ACCOUNT

Building on investments by the Legislature in the 2001-03 biennium, funding is provided to migrate the Judicial Information System (JIS) to a web-based system, provide juvenile parole case management, and other improvements. These projects will assist courts statewide and prevent the need for local courts to develop stand-alone systems.

TRUANCY PETITION FUNDING FOR SCHOOL DISTRICTS — \$3.0 MILLION GENERAL FUND-STATE

Funding is provided for school district petitions to juvenile court for truant students. Funds will be allocated to districts based on the number of petitions filed, through an interagency agreement with the Office of the Superintendent of Public Instruction (OSPI). Truancy funding was formerly administered by OSPI as part of the Flexible Education Funds Block Grant.

OFFICE OF PUBLIC DEFENSE

INCREASES

DEPENDENCY & TERMINATION PROGRAM — \$1.6 MILLION GENERAL FUND-STATE

The Legislature's budget continues the Dependency and Termination Parents' Representation Pilot in Benton-Franklin and Pierce County Juvenile Courts. Early results show the program improves family reunification and reduces the time children spend in foster care before dependency cases are resolved.

GOVERNMENTAL LIABILITY

REDUCE PAYMENTS FOR TORTS — \$32.6 MILLION GENERAL FUND-STATE SAVINGS

Savings are realized from reduced contributions to the tort reserve maintained in the state's Liability Account based on historical patterns in tort claims, settlements, and judgments.

LOCAL GOVERNMENT ASSISTANCE

SMALL COUNTY ASSISTANCE - \$5.0 MILLION GENERAL FUND FEDERAL

\$5 million of assistance is provided in FY 2004 to 16 small counties. Adams, Asotin, Columbia, Douglas, Ferry, Garfield, Island, Lincoln, Mason, Okanogan, Pacific, Pend Oreille, Skamania, Stevens, Wahkiakum, Walla Walla.

ASSISTANCE FOR CITIES - \$5.0 MILLION GENERAL FUND FEDERAL

Funds are provided directly to those cities determined to be "hardest hit" by the elimination of the motor vehicle excise tax (MVET). \$3.0 million will be distributed in FY 2004 and \$2.0 million in FY 2005.

PUBLIC HEALTH DISTRICT ASSISTANCE - \$48 MILLION HEALTH SERVICES ACCOUNT

\$24 million per year is continued for Public Health Districts that lost revenue due to the elimination of the MVET.

COURT ASSESSMENTS AND PENALTIES — \$3.0 MILLION NET REVENUE INCREASE; PUBLIC SAFETY AND EDUCATION ACCOUNT

Senate Bill 6023 raises traffic infractions and court to provide increased funding to state and local governments through the Public Safety and Education Account. Local governments are expected to receive an additional \$3.0 million in net revenue from the passage of this measure.

COUNTY LEGAL-CLERK — \$9.1 MILLION GENERAL FUND-FEDERAL INCREASE

Costs associated with filing child-support pleadings continue to increase for County Prosecutors/Clerks who provide this service on behalf of the state. The increased funding provided through the Legislature's budget allows County Prosecutors/Clerks to better ensure that children receive their proper level of child support. This increase in funding comes solely from federal receipts and is state general fund neutral.

OTHER

FEDERAL "HELP AMERICA VOTE ACT" — \$13.0 MILLION GENERAL FUND-FEDERAL

The Legislature's budget appropriates \$13 million in new federal funding to implement the federal election reform law known as the "Help America Vote Act." The federal law and the related funding is the first step in the process to update election machinery and procedures used to conduct local, state, and federal elections. The state's thirty-nine counties will be the primary recipients of the new federal funding, to be administered by the Secretary of State.

HUMAN RESOURCE INFORMATION SYSTEM DEVELOPMENT — \$11.0 MILLION DATA PROCESSING REVOLVING ACCOUNT (NON-APPROPRIATED)

The Department of Personnel will contract with a private developer for the purchase, development, and installation of a new statewide payroll and human resource information system. As part of this project, the Department of Personnel is authorized to enter into a financing contract for up to \$32.1 million, plus necessary financing expenses. The total cost of the project is estimated to be \$48 million. A surcharge will be added to client agencies' revolving fund assessments to fund debt service and other project costs.

REVENUE ADJUSTMENTS

TAX REDUCTION MEASURES

PROVIDING TAX INCENTIVES TO SUPPORT THE STATE'S SEMICONDUCTOR CLUSTER — \$0 GENERAL FUND-STATE REVENUE IMPACT (\$5 MILLION GENERAL FUND-STATE REVENUE DECREASE FOR FY 2007)

SB 5725 provides five tax incentives to semiconductor manufacturers from July 1, 2006, through July 1, 2017: a B&O tax rate of 0.138 percent; a sales and use tax exemption for gases and chemicals used in manufacturing; a sales and use tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings; a B&O tax credit of \$3,000 per position; and a property tax exemption on machinery and equipment, starting in 2006.

REVISING B&O TAXATION FOR CERTAIN AVIATION BUSINESSES — \$1.3 MILLION GENERAL FUND-STATE REVENUE DECREASE

ESSB 5071 reduces the B&O tax rate from 0.484 percent to 0.275 percent through July 1, 2006, on the sale and repair of equipment used in interstate or foreign commerce by persons classified by the Federal Aviation Administration as a FAR part 145 certificated repair station with an airframe class 4 rating and limited capabilities in instruments, radio equipment, and specialized services.

PROVIDING TAX RELIEF FOR PERSONS PROVIDING CHEMICAL DEPENDENCY SERVICES — \$65,000 GENERAL FUND-STATE REVENUE DECREASE

HB 1858 lowers the business and occupation tax rate from 1.5% to 0.484% on income received from governmental entities by persons certified by the Department of Social and Health Services to provide chemical dependency services.

PROVIDING TAX INCENTIVES FOR BIODIESEL AND ALCOHOL FUEL RETAIL SALES — \$50,000 GENERAL FUND-STATE REVENUE DECREASE

2SHB 1241 establishes two tax incentives through June 30, 2009 for the retail sale of non-petroleum alcohol fuels and biodiesel fuels: a B&O tax deduction; and a sales and use tax deferral on equipment, machinery, structures, vehicles, and services where used for the retail sale or distribution of fuels blended with at least 20 percent biodiesel or 85 percent non-petroleum alcohol fuel.

LIMITING THE TAXABILITY OF CERTAIN INTERNET TRANSACTIONS — \$20,000 GENERAL FUND-STATE REVENUE DECREASE

SHB 1722 provides that a remote seller making sales in Washington is not liable for B&O tax or required to collect sales or use tax if the remote seller's activities are conducted through a 3rd-party Internet Service Provider in this state and the activities are limited to: (1) storage or display of advertising; (2) taking of orders; or (3) processing of payments.

PENALTIES FOR SECURITIES VIOLATIONS -- \$45,000 GENERAL FUND-STATE REVENUE DECREASE

SHB 1219 increases fines for violations of the Securities Act and directs them to the new Securities Prosecution Fund for the purpose of assisting law enforcement authorities in the prosecution of violations of the Securities Act.

PROVIDING TAX INCENTIVES FOR BIODIESEL AND ALCOHOL FUEL PRODUCTION — INDETERMINATE IMPACT

2SHB 1240 establishes four new tax incentives through 2009 for the manufacture of non-petroleum alcohol fuels, biodiesel fuels, and biodiesel feedstock: a sales and use tax deferral on investment projects in rural and distressed counties and areas; a six-year property tax exemption for land and manufacturing property; a leasehold excise tax exemption; and a B&O tax reduction from 0.484 percent to 0.138 percent.

REVENUE INCREASE MEASURES

OMNIBUS REVENUE BILL — \$100.6 MILLION GENERAL FUND-STATE REVENUE INCREASE

SB 6033 raises general fund revenue in five arenas:

- 1) Retailers who collect sales tax over \$4,800 in a calendar year must report and pay taxes by the 20th of the month rather than the 25th;
- 2) The period during which businesses and persons may hold unclaimed property before turning it in to the state is reduced from five years to three years;
- 3) Penalties for underpayments of state excise taxes are increased;
- 4) Promoters of special events such as auto shows, garden shows, and flea markets are required to verify that vendors at the event are registered with the Department of Revenue; and
- 5) The definition of "successor" is modified for purposes of liability for unpaid excise taxes after a business or its assets are sold.

NURSING HOME QUALITY MAINTENANCE — \$78.2 MILLION GENERAL FUND-STATE

To help maintain the quality of nursing home care in the state, a fee of \$6.50 per patient day will be applied to most nursing home care delivered in the state. Revenues generate by the fee will be used to provide a 3.0% increase in the state payment rate for nursing home services. In accordance with Substitute Senate Bill 5341, the Department of Social and Health Services will seek a federal waiver to exempt facilities, which would not benefit from the rate increase from the cost of the fee.

IMPLEMENTING THE STREAMLINED SALES AND USE TAX AGREEMENT — \$4.2 MILLION GENERAL FUND-STATE REVENUE INCREASE

SB 5783 brings Washington State into alignment with all but one provision of the multi-state Streamlined Sales and Use Tax Agreement. Most provisions change definitions and methods of collecting the taxes and result in several minor changes to what is subject to the sales and use taxes and what is not. A study of potential impacts to local governments is required for the sourcing provision, which is not implemented by this bill.

MODIFYING EXCISE TAX INTEREST PROVISIONS — \$614,000 GENERAL FUND-STATE REVENUE INCREASE

SB 5424 makes technical adjustments to the Department of Revenue's method of computing interest owed on late tax payments and interest due on tax overpayments.

INTERNET SALES OF CIGARETTES — \$98,000 GENERAL FUND-STATE REVENUE INCREASE

SHB 2027 restricts internet cigarette sales to minors and requires internet sellers of cigarettes to collect and remit cigarette taxes on sales in Washington State.

ESTABLISHING LIABILITY FOR TAXES ON UNLAWFUL OR DELINQUENT INSURERS OR TAXPAYERS — \$40,000 GENERAL FUND-STATE REVENUE INCREASE

HB 2040 makes health maintenance organizations and health care services contractors subject to the same penalties as other insurers for failure to make timely payments on premium taxes.

REGARDING COUNTERFEIT CIGARETTES — \$8,000 GENERAL FUND-STATE REVENUE INCREASE

SHB 1943 limits access to cigarette tax stamps, makes counterfeit stamps illegal, and sets fines and punishments for printing, selling, or possessing counterfeit stamps.

BUDGET DRIVEN REVENUE

OPEN FIVE NEW LIQUOR STORES AND RELOCATE LIQUOR STORES — \$5.9 MILLION GENERAL FUND-STATE REVENUE INCREASE

Additional expenditure authority is provided for the Liquor Control Board to open five new liquor stores to areas that are under served due to rapid population growth, and to relocate 13 existing liquor stores to more convenient and marketable locations. For the 2003-05 biennium, projected net general fund revenue from liquor profits and taxes is \$5.9 million, and projected net revenue to local governments from liquor profits is \$1.1 million.

LIQUOR PRICE INCREASE— \$14 MILLION GENERAL FUND-STATE REVENUE INCREASE

The Liquor Control Board will add a \$0.42/liter surcharge on spirits in state and contract liquor stores no later than September 1, 2003. The price increase does not apply to licensees, tribal, or military purchases, and expires at the end of the biennium.

DEPARTMENT OF REVENUE ENFORCEMENT ENHANCEMENT — \$32 MILLION GENERAL FUND-STATE REVENUE INCREASE

Additional expenditure authority is provided for additional revenue enforcement efforts which may include, but are not limited to, additional taxpayer education, audit activity, tax discovery efforts, and delinquent account collections. Positions funded include auditors, revenue agents, excise tax examiners, one hearings examiner, and one field audit manager.

OTHER REVENUE MEASURES (NON-GENERAL FUND-STATE)

COURT ASSESSMENTS AND PENALTIES — \$16.9 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT-STATE REVENUE INCREASE

Traffic infractions and court fines are increased in Senate Bill 6023 to provide \$16.9 million in additional funding to the state Public Safety and Education Account (PSEA). These additional revenues are used in the Legislature's budget to preserve funding for programs that assist youth and families in crisis. (See the Human Services Section, DSHS-Children's Administration for more detail).

PARI-MUTUEL TAX — \$360,000 HORSE RACING COMMISSION ACCOUNT-STATE REVENUE INCREASE

SHB 2192 raises the tax on wagers at for-profit horse racetracks with annual receipts of less than \$50 million from 0.52 percent to 1.803 percent.

LITTER TAX — \$775,000 WASTE REDUCTION, RECYCLING, AND LITTER CONTROL ACCOUNT-STATE REVENUE DECREASE

EHB 1037 exempts sales of food and beverages from the litter tax when they are consumed indoors on the seller's premises.

Legislative Revenue Adjustments

(Dollars in Thousands)

Bill	Title	2003-05	2005-07
<u>Tax Reduction Measures (GF-S)</u>			
ESHB 1096	Aviation repair B&O rate	(\$1,272)	(\$712)
SB 5725	Tax exemption for semi-conductor industry	0	(5,021)
SB 5363	Funding source for CERB	0	(1,800)
HB 1858	Chemical dependency services	(65)	(69)
HB 1073	Property tax on subleases	0	0
HB 2001	Property tax exemption for the arts	0	0
HB 1905	Performing arts center property tax	0	0
EHB 2146	Wood biomass fuel	0	0
2SHB 1240	Biodiesel production tax incentives	0	0
SHB 1722	Internet taxation	(20)	(20)
SHB 1219	Penalties for securities violations	(45)	(45)
2SHB 1241	Biodiesel retail sales tax incentives	(50)	(78)
	Subtotal	(\$1,452)	(\$7,745)
<u>Revenue Increase Measures</u>			
EHB 2269	Increased revenue act	\$100,583	\$63,669
SB 5341	Nursing home quality maintenance fee	78,194	81,594
SB 5783	Streamlined sales tax agreement	4,218	5,304
HB 1591	Excise tax interest	614	1,014
SHB 2027	Internet sales of cigarettes	98	109
HB 2040	Delinquent insurer/taxpayer	40	40
SHB 1943	Counterfeit cigarettes	8	0
	Subtotal	\$183,755	\$151,730
<u>Budget-Driven Revenue</u>			
SB 5404	Add five new liquor stores/relocate other stores	\$5,931	\$9,200
SB 5404	Liquor price increase (retail only)	14,000	0
SB 5404	Department of Revenue Enforcement Enhancement	32,000	36,000
	Subtotal	\$51,931	\$45,200
<u>Non-General Fund State Measures</u>			
SB 6023	Increase court assessments and penalties (PSEA)	\$16,881	\$16,881
SHB 2192	Parimutuel Tax (HRCA)	360	360
SHB 2027	Internet sales of cigarettes (WQA, HSA, VRDE)	227	251
EHB 1037	Litter tax (WRRLCA)	(775)	(841)
	Subtotal	\$16,693	\$16,651

