

PROPOSED SENATE 2009-11 OPERATING BUDGET

OVERVIEW

SENATE CHAIR

**SENATE WAYS & MEANS COMMITTEE
MARCH 30, 2009**

TABLE OF CONTENTS

| SUBJECT | PAGE |
|--|--------------------|
| HOW THE SENATE 2009-11 BUDGET WAS CONSTRUCTED | 1 |
| BALANCE SHEET | 9 |
| AREAS OF GOVERNMENT | 11 |
| STATEWIDE CHANGES | 11 |
| EMPLOYEE COMPENSATION | 11 |
| PUBLIC SCHOOLS | 13 |
| HIGHER EDUCATION | 16 |
| HEALTH CARE | 19 |
| OTHER HEALTH CARE | 21 |
| LONG TERM CARE, DD, MENTAL HEALTH | 22 |
| OTHER HUMAN SERVICES | 25 |
| CORRECTIONS & OTHER CRIMINAL JUSTICE | 28 |
| NATURAL RESOURCES | 30 |
| REVENUE ADJUSTMENTS | 33 |
| SENATE FUND TRANSFERS TO GF-S | APPENDIX: A |
| STATE EXPENDITURE LIMIT | APPENDIX: B |

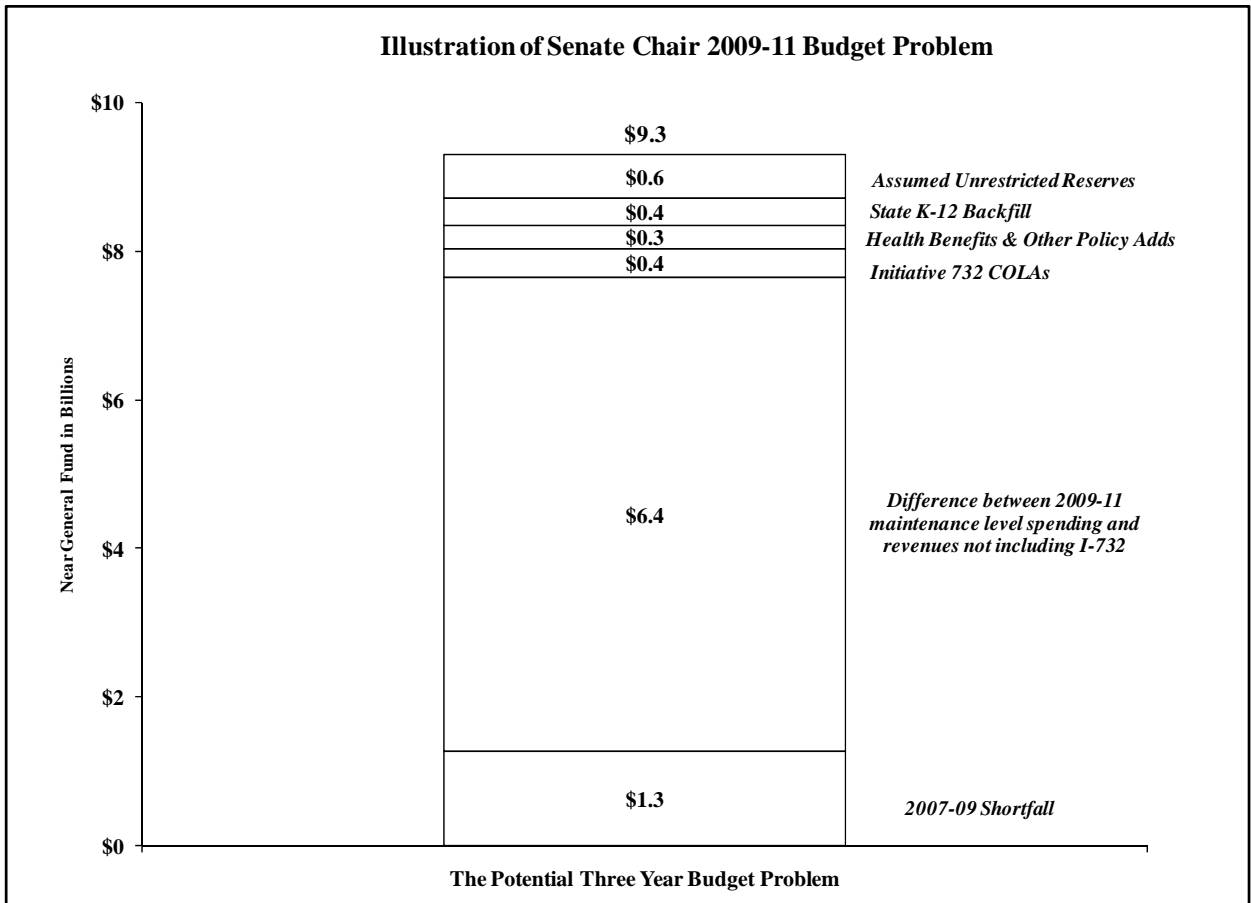
HOW THE SENATE 2009-11 BIENNIAL BUDGET WAS CONSTRUCTED

STATE FISCAL PICTURE FOR 2009-11

Washington faces one of the most significant budget shortfalls in the last thirty years. Over the three year period between now and June of 2011, the deficit addressed by the Senate budget exceeds \$9 billion. This shortfall is the result of a decline in state revenues resulting from the national recession combined with ongoing increases in the cost to maintain state government programs and services.

While some of this potential budget shortfall is calculated based on assuming that the Legislature would fund some additions, such as providing cost-of-living adjustments for teachers, the state budget would have a deficit over \$8 billion based on just maintaining current service levels.

The budget shortfall or the difference by which the estimated cost of continuing state government programs and services exceeds forecasted revenue is illustrated on the chart below.



ECONOMIC AND REVENUE OUTLOOK

The March 2009 economic forecast is based on a state economy that has weakened considerably since the November forecast. The current forecast assumes that the national and Washington economies will be in recession for most of the year with modest growth not occurring until the latter part 2010. It is anticipated that the state will continue to experience job losses even after the economy has begun to recover with unemployment rising to approximately 10 percent.

As a result of deteriorating economic conditions, in just the last year, the projected near general fund-state revenues collections for fiscal years 2009 through 2011 have been reduced by approximately \$5.7 billion since the end of the 2008 Legislative session, with a \$3 billion downward adjustment occurring in the most recent March forecast.

The revenue forecast for the 2007-09 biennium, after adjusting for the required transfer to the Budget Stabilization Account and other legislatively authorized adjustments, is for near general fund revenues of \$30.4 billion. This downward projection from previous estimates includes anticipated 8 percent lower revenue collections from fiscal year 2008 to fiscal year 2009.

The revenue forecast for the 2009-11 biennium, after adjusting for the required transfer to the Budget Stabilization Account and other legislatively authorized adjustments, is for near general fund revenues of \$30.2 billion. This means that there is no revenue growth to support any increase in spending.

EXPENDITURE OUTLOOK

On the expenditure side, partially as a result of increased caseloads and fire related costs, there is projected increased spending demand of approximately of \$177 million for the 2007-09 biennium. As a result of revenue downturn and even after utilizing the \$2.1 billion in reserves available, the difference between available resources and spending demands is \$1.2 billion for the 2007-09 biennium which ends June 30th of this year.

Going forward in the 2009-11 biennium, the current anticipated cost of the maintenance level budget of \$37.0 billion, which represents the cost of continuing current and mandatory state government programs and services, is \$6.8 billion more than forecasted revenues. The primary maintenance level budget drivers are the costs of low-income health care under the state's medical assistance program and K-12 education, which includes the cost of mandatory Seattle Consumer Price Index (CPI) cost-of-living adjustments (COLA) for teachers as required by Initiative 732.

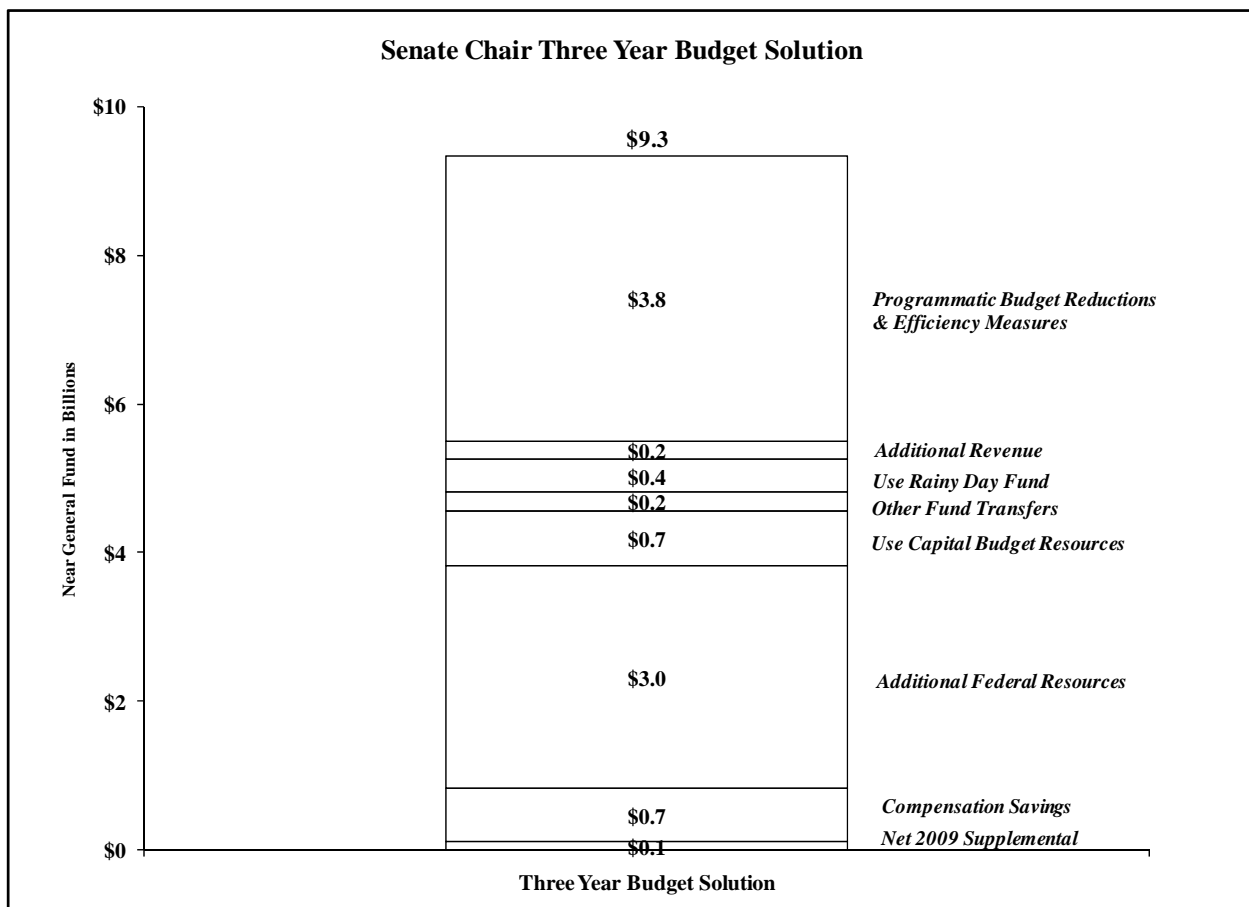
The Senate budget adds \$183 million in the operating budget for new spending items. Some of the most significant include: \$51 million for debt service associated with the capital budget; \$45 million for maintaining current financial aid policy; and \$18 million for the final phase of an information technology projected improving the efficiency of payments for Medical Assistance vendors. Additionally, as part of a strategy of mitigating and equalizing

the impacts of state K-12 budget reductions among school districts, the Senate budget adds \$360 million in state funds in fiscal year 2011.

With these 2009-11 policy enhancements and maintaining unrestricted reserves at slightly over \$600 million, the total size of the Senate’s operating budget problem over the next three years increases to approximately \$9.3 billion.

SOLVING THE \$9 BILLION BUDGET PROBLEM

The Senate budget takes an eight-step approach to solving the state’s \$9.3 billion budget problem as shown on the chart below:



EMPLOYEE COMPENSATION -- \$710 MILLION

As a result of suspending the Initiative 732 requirement for the 2009-11 biennium, the proposed Senate budget does not include \$396.3 million in funding for cost-of-living adjustments (COLA) for K-12 and certain community and technical college staff.

The Senate budget also saves \$411 million from modifying the actuarial assumptions and methods used for determining public employee retirement contributions. The changes

include: (1) phasing in the adoption of a new funding method for the Plan 1 unfunded liabilities; (2) changes to assumed salary growth assumptions; and (3) delaying the adoption of new mortality tables until the 2011-13 biennium.

With respect to funding for state employee health benefits in general government and higher education, the Senate budget provides increases of 3 percent each fiscal year, which is less than the expected rate of medical inflation of approximately 7 percent under current policy. Similar adjustments are made to the rate provided for K-12 employees through state funding formulas. The net result of these changes is an anticipated state cost for employee health benefit coverage of \$97.6 million for the 2009-11 biennium.

While not included in the Senate budget problem, no funding is provided for COLAs for represented or non-represented state and higher education employees or the collective bargaining agreements for home or child care workers, or compensation increases for adult family homes.

FEDERAL STIMULUS FUNDS -- \$3.0 BILLION

The federal American Recovery and Reinvestment Act (ARRA) is anticipated to provide a significant amount of additional resources to the Washington state. The Senate budget over the next three years incorporates slightly over \$3 billion to offset state costs or avoid having to make further reductions in state services. The main areas of additional federal assistance are in four areas.

First, between fiscal years 2009 and 2011, the state will be receiving funding at an enhanced rate for Medicaid eligible services for low income healthcare and other human services. Under current projections, this will reduce state costs by approximately \$1.8 billion.

Second, the state will be receiving \$1 billion of “fiscal stabilization” funding. The Senate budget uses these funds to avoid making further reductions to K-12 public schools, higher education, and the low income health coverage. Specifically, with this federal funding, the state will avoid raising resident undergraduate tuition by more than the 7 percent at the four year institutions and 5 percent at community and technical colleges. In K-12 public schools, the federal funding will restore a portion of the Initiative 728 allocations to school districts, avoid further reductions to assistance for property poor school districts, and other K-12 programs. Finally, in low income health care, the Senate budget avoids having to make an additional 30 percent reduction in the number of people covered by the Basic Health Plan as a result of the federal funding.

Some of the other major types of federal assistance that help offset state costs are additional funding from Temporary Assistance for Needy Families (TANF) contingency funds and the ability to receive enhanced match for the State Children's Health Insurance Program (SCHIP).

BUDGET REDUCTIONS -- \$3.8 BILLION

Besides compensation savings, the Senate budget makes slightly over \$3.8 billion in programmatic reductions in all areas of state government. Some of the major reductions include: (1) a \$754 million reduction in the Initiative 728 per student allocations to school districts; (2) \$582 million in savings by eliminating funding for the enhanced K-4 staffing ratio and reducing levy equalization assistance to property poor school districts; (3) a \$485 million reduction from the amount needed to continue the current level of programs and activities in higher education; (4) achieving \$257 million in savings through administrative reductions and efficiencies in state agencies; (5) a \$251 million savings by making a 42 percent reduction to the Basic Health Plan which provides low income health coverage; (5) a \$190 million reduction by lowering caseloads and restructuring the General Assistance-Unemployable (GA-U) program; (6) a \$107 million savings in amounts provided for hospital reimbursement; and (7) \$61 million in sentencing and community supervision changes.

While these are the some of the larger reductions, the Senate budget makes reductions in all areas of state government. Given the magnitude of the budget problem, one of the Senate's guiding principles is that all areas of state government need to be subjected to review for reduction and ultimately no area can be spared from helping to solve the budget problem.

CAPITAL RELATED TRANSFERS -- \$743 MILLION

The Senate operating budget utilizes \$743 million of cash related funds typically appropriated in the capital budget. This includes: (1) \$182 million of Education Construction Account (lottery revenue) that is back filled with state bonds to fully fund the school construction assistance program; (2) \$158 million of State and Local Toxic Account revenue which is fully backfilled with state bonds to maintain cleanup of contaminated sites and prevention grants, and (3) \$368 million from the Public Works Assistance Account (PWAA) partially backfilled with a temporary grant program for local government infrastructure projects. The value of the temporary public works grant program will exceed the value of the traditional low interest loan program provided from the PWAA. In addition to the \$368 million of PWAA transferred to the general fund, \$10 million of PWAA is transferred to the City and County Assistance Account to increase aid to 15 mostly rural counties and 174 small cities.

TRANSFERS FROM OTHER FUNDS -- \$242 MILLION

In early action fiscal legislation (ESHB 1694) passed in mid-February, the Legislature transferred \$91 million from various funds to increase general fund-state reserves in fiscal year 2009. The Senate budget makes \$151 in million additional transfers from various funds to increase general fund-state reserves as well. Some of the largest transfers include: \$26 million from the Life Science Discovery Fund; \$21 million from the Treasury Service Account; \$17 million from the Tobacco Prevention and Control Account; \$15 million from Performance Audit Fund; \$15 million from the Convention Center Account; and \$10 million from the Judicial Information Systems Account.

USE OF RAINY DAY FUND -- \$449 MILLION

In fiscal years 2009 and 2010, the Senate budget transfers a total of \$449 million from the Budget Stabilization Account (aka “Rainy Day Fund”) to the state general fund. After these transfers, the ending fund balance in Rainy Day Fund is expected to be \$250 million.

REVENUE MEASURES -- \$233 MILLION (NET INCREASE)

The Senate proposal assumes several revenue-related measures that on net will increase general fund revenues by a combined total of \$138 million. Some of the larger increases include: (1) SB 6062 which eliminates the real estate excise tax exemption for sales of property by financial institutions when the property was obtained through foreclosure; (2) SSB 6119 which eliminates the discount that licensees receive on the purchase of spirits for resale; (3) legislation that would repeal the sales and use tax exemptions for vehicles which utilize hybrid technology; and (4) SB 6118 which eliminates the 2 percent credit against the state sales tax on lodging sales in Seattle that was distributed to the convention center. The largest tax reduction measure assumed in the Senate budget is SSB 5899 which creates a 2-year B&O tax credit program for small businesses (with 10 employees or less) which create new employment positions.

The Senate proposal assumes \$94 million in “budget driven” revenue. These measures include: (1) the Department of Revenue implementing additional strategies related to out-of-state auditing and compliance, the purchase of third party data sources for enhanced audit selection, and increased traditional auditing and compliance efforts; (2) the Liquor Control Board opening new state stores and contract stores, opening nine additional state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season; and (3) transferring \$25 million from the Liquor Revolving Account that could be made up from a liquor price increase or implementing efficiency measures.

2009 SUPPLEMENTAL BUDGET--\$113 MILLION

In early action fiscal legislation (ESHB 1694) passed in mid-February, the Legislature adopted approximately \$290 million in various reductions or savings measures. The Senate's proposed 2009 supplemental incorporate these actions as well as accommodate a little under \$177 million in caseload and fire related costs increases. The combination of these changes is a reduction of \$113 million in spending.

Additionally, the early action fiscal legislation (ESHB 1694) and the Senate's proposed 2009 supplemental budget assumes and utilizes funding from the federal American Recovery and Reinvestment Act to offset state costs. This includes: (1) \$523 million in enhanced Medicaid funding; (2) \$300 million which is used to restore Initiative 728 allocations so that school districts have time to transition to significantly reduced funding from this source in the 2009-11 biennium; and (3) \$133 million from Temporary Assistance for Needy Families (TANF) contingency funds. Since this federal funding is described elsewhere in this document, the amount of state offset is not included in the net effect discussed in this section.

Proposed Senate Budget Two Biennia Balance Sheet
Near General Fund in Millions

| | 2007-09 | 2009-11 |
|---|----------------|----------------|
| Beginning Balance | 2,105 | 562 |
| Revenue | | |
| March Revenue Forecast | 30,437 | 30,503 |
| Prior Enacted Fund Transfers | 117 | - |
| Transfer to Budget Stabilization Account | (124) | (268) |
| Other Adjustments | 12 | 6 |
| Revenue Changes | - | 138 |
| Total Revenue | 30,442 | 30,380 |
| Other Resource Changes | | |
| Use Rainy Day Fund | 400 | 49 |
| Use Capital Budget Resources | 76 | 667 |
| ESHB 1694 Fund Transfers | 91 | - |
| Other Fund Transfers | 29 | 122 |
| Budget Driven Revenue | (1) | 94 |
| Other Resource Changes | 595 | 932 |
| Total Resources | 33,143 | 31,874 |
| Spending | | |
| Enacted Budget in 2007-09/2009-11 ML | 33,655 | 37,012 |
| 2008 Actual Spending Adjustment | (16) | - |
| ESHB 1694 (Early Action) | (635) | - |
| 2009 Supplemental | (424) | - |
| 2009-11 Net Policy Level Changes | - | (5,742) |
| Total Spending | 32,581 | 31,270 |
| Ending Balance & Reserves | | |
| <i>Unrestricted Ending Fund Balance</i> | <i>562</i> | <i>604</i> |
| <i>Rainy Day Fund Balance (After Transfers to GF-S)</i> | <i>31</i> | <i>250</i> |
| Total Reserves | 593 | 854 |

FUNCTIONAL AREAS OF GOVERNMENT

STATEWIDE CHANGES

ADMINISTRATIVE REDUCTIONS - \$254.7 MILLION GENERAL FUND-STATE SAVINGS; \$2.3 MILLION OTHER FUNDS SAVINGS

Savings of \$257 million in employment reductions equivalent to 1,192 full-time positions are achieved through administrative reductions and efficiencies in state agencies.

Agencies are directed to achieve these reductions through strategies that will minimize impacts on employees, their families, their communities, and short- and long-term accomplishment of the agency's mission. Agencies are encouraged to use strategies such as reduced work schedules, use of voluntary leave without pay, and temporary furloughs that enable employees to maintain permanent employment status, full insurance benefits, full accrual of retirement service credit, and a living wage. The Senate intends to enact legislation that will protect employees' final compensation for pension purposes from the negative impacts of furloughs or other reductions in hours worked.

EMPLOYEE COMPENSATION

SUSPEND INITIATIVE 732 COLA - \$396.3 MILLION GENERAL FUND-STATE SAVINGS

Initiative 732, adopted by voters in November 2000, requires annual cost-of-living adjustments for K-12 staff and some staff in the community and technical colleges. In the 2009-11 biennium, the increase would be 4.2 percent in 2010 and 0.1 percent in 2011. Due to the budget shortfall, the Initiative 732 cost of living adjustment requirement is suspended for the 2009-11 biennium.

STATE AND SCHOOL EMPLOYEE HEALTH BENEFITS - \$97.6 MILLION GENERAL FUND-STATE; \$42.9 MILLION OTHER FUNDS

Funding for state employee health benefits in general government and higher education is increased by 3 percent each fiscal year, which is less than the expected rate of medical inflation. Funding rates are increased to \$745 per employee per month in fiscal year 2010 and \$768 per employee per month in fiscal year 2011. Subject to the requirements of any applicable collective bargaining agreements, the Public Employees' Benefits Board (PEBB) may make adjustments to employee premium contributions, point of service payments, or plan design in order to provide benefits within available funding.

If the share of health benefit premium costs paid by employees rises above 12 percent in calendar year 2010, the PEBB shall issue a rebate for any additional premium costs above the 12 percent bargained share that are paid in the first six months of the year by employees covered by collective bargaining agreements set to continue through the end of fiscal year 2010. The PEBB may not otherwise provide benefits or adopt contribution requirements that are different for represented and non-represented employees.

PENSION SAVINGS

PENSION FUNDING CHANGES - \$410.8 MILLION GENERAL FUND-STATE SAVINGS, \$58.1 MILLION OTHER FUNDS SAVINGS

Funding for employer contributions to state retirement systems is changed to reflect changes to actuarial assumptions and methods used for the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Public Safety Employees' Retirement System (PSERS), and the Washington State Patrol Retirement System (WSPRS). The changes are: reduction of the assumed rate of salary growth from 4.25 percent to 4 percent; delay of the adoption of new mortality tables until the 2011-13 fiscal biennium; suspension of contribution rate minimums for the 2009-11 fiscal biennium; and the phased adoption of a new funding method for the Plan 1 unfunded liabilities.

The employer and employee contribution rates originally adopted by the Pension Funding Council (PFC) and the rates funded in the Senate budget are shown in the table below. Neither actuarial methods nor contribution rates in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are affected under the Senate proposal.

| | PERS | TRS | SERS | PSERS | WSPRS |
|------------------------|-------|--------|-------|--------|-------|
| Employer rate - PFC | 7.84% | 10.79% | 8.12% | 10.06% | 8.57% |
| Employer rate - Senate | 5.25% | 6.17% | 5.39% | 7.80% | 2.73% |
| Employee rate - PFC | 4.61% | 4.93% | 4.00% | 6.94% | 6.95% |
| Employee rate - Senate | 3.89% | 3.36% | 3.14% | 6.55% | 1.41% |

K-12 PUBLIC SCHOOLS

OVERVIEW

In the 2007-09 biennium, the state is estimated to spend approximately \$15.1 billion (\$13.4 billion state, \$1.7 billion other funds) for the support of K-12 public schools. Of this amount, approximately \$11 billion is associated with the funding for the six programs that are part of the Legislature's definition of "basic education."

Given the fiscal situation facing the Legislature and the fact that over 40 percent of the state's operating budget is dedicated to K-12 public schools, it was not possible for K-12 public schools to be spared from having to make budget reductions. Nonetheless, the Senate budget for K-12 public schools was crafted with two primary principles in mind.

First, the Senate budget writers excluded from consideration for budget reductions any of the programs considered "basic education." In fact, after funding increases for additional students, inflation and other cost increases, the state funding for basic education programs is projected at \$12.9 billion for the 2009-11 biennium. This represents a \$1.8 billion or 16 percent increase from the 2007-09 levels.

Second, the Senate budget uses available federal stimulus resources to mitigate the impact of the state budget reductions on K-12 public schools. As part of this strategy, the Senate budget utilizes \$420.4 million in federal "fiscal stabilization" funds to avoid having to make further K-12 reductions, in addition to \$300 million in federal fiscal stabilization funds for the 2009 supplemental budget. Since the federal funding is exhausted after fiscal year 2010, the Senate budget provides \$360 million in state funds in fiscal year 2011 to backfill some of the K-12 reductions for that time period. Additionally, it is estimated that the K-12 school districts in Washington state will receive \$410 million in enhanced funding for special education, remedial education, school improvement, and technology that will offset some of the state budget reductions. The Senate budget incorporates these various streams of resources in order to equalize the impacts of the various budget reductions among school districts. In addition, the Senate allocates federal and state funds to increase the classified and administrative staff allocations to certain school districts that have historically received lower amounts. As a result of the Senate budget, it is estimated that the net reduction on school district funding will average approximately 3.5 percent.

This is reflective of the Senate budget making approximately \$1.5 billion in non-compensation related reductions and partially offsetting these reductions with the additional federal resources. The major K-12 reductions are detailed below.

MAJOR SAVINGS

REDUCE INITIATIVE 728 ALLOCATIONS - \$753 MILLION GENERAL FUND-STATE SAVINGS

Initiative 728, approved by voters in 2000, created allocations for school districts to reduce class sizes, offer extended learning opportunities, provide early learning programs, or provide professional development. In the 2008-09 school year, per student

allocations are \$458 per student. The Senate budget reduces these per allocations by 93 percent to \$31 per student.

ENHANCED K-4 STAFFING RATIO ELIMINATION - \$297 MILLION GENERAL FUND-STATE SAVINGS

Statutes that define the basic education program for K-12 students require certain staffing ratios at certain grade levels. Statutorily, the state is required to fund a minimum of 49 certificated instructional staff per 1,000 students in grades K-3, and 46 per 1,000 in grades 4-12. However, the state currently funds a total of 53.2 per 1,000 as a non-mandatory enhancement over basic education in grades K-4. Beginning with the 2009-10 school year, funding for enhanced K-4 staffing ratio is eliminated.

LOCAL EFFORT ASSISTANCE PROGRAM - \$285 MILLION GENERAL FUND-STATE SAVINGS

The local effort assistance (LEA) program, also known as levy equalization, provides additional resources to mitigate the impact that local school district levies can have on property poor school districts. Funding for LEA is reduced by approximately 75 percent beginning in calendar year 2010.

ELIMINATE PROFESSIONAL DEVELOPMENT ACTIVITIES - \$53.2 MILLION GENERAL FUND-STATE SAVINGS

In the 2007-09 biennium, funding was provided for additional math & science professional development activities. Funding for most of these activities is eliminated. Specifically, funding is eliminated for math and science professional development in grades four and five, math professional development in high school, and math and science instructional coaches.

OTHER NON-BASIC EDUCATION REDUCTIONS - \$88.0 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget makes a variety of reductions in non-basic education programs, including administrative reductions in the Office of Superintendent of Public Instruction and Educational Service Districts and elimination of lower-priority K-12 programs, pilots, demonstration projects and activities. Examples of program reductions include policy changes to the Washington Assessment of Student Learning; elimination of expansions to the Pacific Science Center and LASER (Leadership and Assistance for Science Education Reform), and elimination of the recently funded school librarian allocation and other recent expansions.

DEPARTMENT OF EARLY LEARNING

OVERVIEW

The Early Childhood Education and Assistance Program (ECEAP) makes up 90 percent of the Department of Early Learning's (DEL) general fund - state budget. With a worsening fiscal situation, further reductions to DEL are limited to administrative functions, the ECEAP program, or a combination of both. To limit the size of reductions, the Senate budget uses federal stimulus funds to the greatest extent possible in order to lessen deeper reductions.

MAJOR INCREASES

WORKING CONNECTIONS CHILD CARE - \$33 MILLION GENERAL FUND-STATE AND GENERAL FUND-FEDERAL

Funds are provided for an average annual caseload of 36,400 in the Working Connections Child Care program. This is a 3 percent increase in the average caseload from the previous biennium and a 6 percent increase in expenditures. No reductions were made to the Working Connections Child Care Program.

QUALITY IMPROVEMENT RATING SYSTEM (QRIS) - \$1 MILLION GENERAL FUND-FEDERAL

Funding is provided to DEL and the public private partnership of Thrive by Five, Washington to pilot QRIS in pilot locations in order to improve the quality of early care and education programs.

MAJOR SAVINGS

EARLY CHILDHOOD EDUCATION AND ASSISTANCE PROGRAM REDUCTIONS (ECEAP) - \$3.9 MILLION GENERAL FUND-STATE SAVINGS

ECEAP is Washington's state funded pre-school program for families 110 percent the federal poverty limit. The Senate's budget reduces DEL's administrative expenditures for ECEAP by \$1.3 million. The Senate budget temporarily reduces ECEAP slots by 2 percent for the biennium in locations that serve both ECEAP and Head Start to achieve a no net reduction in pre-school slots statewide. This is estimated to save \$2.3 million. Washington anticipates receiving \$10 million in federal Head Start from the American Recovery and Rehabilitation Act. Head Start is the federally funded pre-school program. Head Start providers are also expected to see a total increase of five percent in their vendor rates.

SMALL PROGRAM REDUCTIONS - \$7.3 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved through discontinuing the Child Care Resource and Referral (\$1.7M), Career and Wage Ladder (\$3M), Parent, Family, Caregiver Support (\$1.6M), Early Childhood Apprenticeships (\$200k), and Child Care Quality Improvement Specialists (\$870k).

HIGHER EDUCATION

OVERVIEW

As in all other areas of state government, the severe and prolonged economic recession is requiring reductions in the state's investment in its colleges and universities. Despite allocation of \$99.5 million of federal stimulus funding, total proposed 2009-11 appropriations to the public colleges and universities are \$485 million (14 percent) below the amount needed to continue the current level of programs and activities. Of this total, proposed state and federal appropriations to the community and technical colleges are \$144 million (9 percent) below the state carry-forward level, and appropriations to the public four-year institutions are \$340 million (19 percent) lower. After accounting for anticipated tuition increases, the community and technical colleges will have about 7 percent less revenue than this year, and the public four-year universities will have about 11 percent less.

In crafting a higher education budget for these difficult times, Senate budget leadership has been guided by four key goals:

- **KEEP COLLEGE AFFORDABLE**
- **MAINTAIN ACCESS TO HIGHER EDUCATION**
- **EMPHASIZE HIGH ECONOMIC DEMAND FIELDS**
- **FOCUS ON THE FUTURE AND ON OUTCOMES**

The budget strategies used to achieve these goals are summarized below.

KEEPING COLLEGE AFFORDABLE

A time when many tens of thousands of Washingtonians are seeing their jobs lost, their wages cut, and their college savings dwindle is not a good time for sharp spikes in tuition. On the other hand, if we are to maintain progress toward the goals set forth above, the public colleges need additional tuition revenue to at least partially offset reductions in state tax support. The proposed Senate budget balances these considerations by authorizing the public four-year institutions to increase resident undergraduate tuition by a maximum of 7 percent each year, as provided in current law and anticipated in financial solvency projections for the Guaranteed Education Tuition program. The community and technical colleges are authorized to increase tuition by up to 5 percent each year.

In keeping with core provisions of the American Recovery and Reinvestment Act, the proposed Senate budget uses \$99.5 million of federal stimulus funds to assure that resident undergraduate tuition goes up by no more than the 7 percent and 5 percent annual levels. Without the federal funds, tuition would need to increase by 14 percent each year at the public four-year institutions and by 10 percent each year at the community and technical colleges in order to sustain the enrollment and outcome levels in the Senate budget.

The proposed Senate budget maintains current eligibility standards for all state need-based financial aid programs, and provides \$32.7 million of increased state appropriations which, together with \$13.0 million of additional federal grants, will fully offset the cost of the tuition increases for low income students at the public colleges and universities. State need-based aid for students at private Washington institutions is maintained at current levels, but not increased to match future tuition increases.

MAINTAINING ACCESS TO HIGHER EDUCATION

This year and next, more young people than ever before will graduate from Washington high schools and seek admission to the state's colleges and universities. At the same time, thousands of recently-unemployed workers are seeking opportunities to acquire new skills and to sharpen their existing ones. To provide as much opportunity for current and prospective students as possible, the Senate expects colleges and universities to sharply reduce expenditures in other areas in order to preserve capacity for direct student instruction and academic support services. Based on information provided to support budget development, the public colleges and universities expect to reduce state expenditures on institutional and academic administration by \$110 million. To operate within the funds available, expenditures on other non-instructional activities -- such as extension and other public service programs, state-sponsored research, library hours and acquisitions, and plant operations -- are likely to be reduced by about \$125 million. As a result of these actions, coupled with increased tuition revenue, and with increased productivity in the delivery of instructional services through methods such as online learning, fewer small-course offerings, and more faculty time in the classroom, the public colleges and universities are budgeted to enroll an average of 231,000 full-time-equivalent students each year. As shown below, this is 3,200 (2 percent) fewer students than budgeted for the current academic year, and 10,500 (4 percent) fewer than are actually enrolled.

| | Current Enrollment | | 2009-11 Enrollment | |
|---------------------------------------|--------------------|------------------|--------------------|------------------------------|
| | Budgeted | Projected Actual | Budgeted Average | Change from Current Budgeted |
| University of Washington | 38,526 | 39,629 | 37,021 | (1,505) |
| Washington State University | 22,250 | 23,425 | 22,250 | - |
| Central Washington University | 9,322 | 9,060 | 8,507 | (815) |
| Eastern Washington University | 9,184 | 9,298 | 8,656 | (528) |
| The Evergreen State College | 4,213 | 4,406 | 4,213 | - |
| Western Washington University | 12,175 | 12,365 | 11,284 | (891) |
| <i>Sub-Total, 4-Year Institutions</i> | <i>95,670</i> | <i>98,183</i> | <i>91,931</i> | <i>(3,739)</i> |
| Community & Technical Colleges | 139,237 | 146,305 | 139,737 | 500 |
| TOTAL Public Higher Education | 234,907 | 244,488 | 231,668 | (3,239) |

EMPHASIZING HIGH-DEMAND FIELDS

Washington's economic recovery and development depend upon our ability to excel in computer science, technology, engineering, math, health care innovation and delivery, and related high-demand fields. The proposed Senate budget therefore requires the public colleges and universities to maintain, and to the extent possible expand, their current enrollment levels and degree production in these fields. Because it is often more expensive to prepare students to excel in these fields than in others, the public colleges and universities will need to accomplish still more productivity increases and may need to eliminate instruction in other fields in order to achieve this goal within the level of resources available to them.

FOCUSING ON OUTCOMES AND THE FUTURE

While enabling students to enroll is important, enabling them to achieve expertise and employment in a timely fashion is what counts. And while we can't help but focus on the difficult financial times that confront us now, we must not lose sight of where we want and need to be three, five, ten, and even twenty years from now. Therefore, the proposed Senate budget provides for each of the four-year colleges and universities to work with a committee of legislators and Governor's representative to establish a six year performance agreement between the state and the institution. The agreements will identify the specific measurable outcomes each of the institutions is to achieve by 2011 with the resources provided in the current state operating and capital budget, and with those expected to be available during each of the 2-4 subsequent biennia.

LOW-INCOME HEALTH CARE

OVERVIEW

In the 2007-09 biennium, the state provided health care coverage for over one million people at a cost of \$4.5 billion in state and \$3.8 billion in federal funds, through the Medical Assistance program in the Department of Social and Health Services and the Basic Health Plan in the Health Care Authority. Funds are provided for a maintenance level increase of \$677 million in state and \$420 million in federal funds to continue the cost of health care coverage for a 17 percent increase from the 2007-09 biennium.

In making budget reductions, the Senate budget prioritized the preservation of health care coverage programs that are considered mandatory under federal Medicaid law and that maximize federal matching funds. In light of the significant Federal Medical Assistance Percentage (FMAP) increase from the American Recovery and Re-investment Act, the Senate budget also prioritized the maintenance of effort requirements in order remain eligible to receive the over \$1 billion increase in federal revenue and subsequent state savings for the Medical Assistance program. Health care coverage for the most vulnerable populations, such as the Medicaid aged and disabled, and all children up to 300 percent of the federal poverty level, is preserved in the Senate budget.

The options for making state funding reductions in low income health care generally fall into six categories: reduce eligibility, reduce services, reduce provider payments, require enrollees to pay more, manage better through efficiencies, and leverage federal matching funds. The Senate budget strategy was to preserve eligibility to the extent possible, while maximizing federal matching funds, find efficiencies, reduce rates for services that are considered mandatory under federal law, and reduce rates, service levels, or a combination of both for those services that are considered optional under federal law.

MAJOR SAVINGS

BASIC HEALTH PLAN (BHP) - \$251.1 MILLION GENERAL FUND-STATE SAVINGS

The Basic Health Plan provides health care coverage to individuals under 200 percent of the federal poverty level. The program is reduced by roughly 42 percent to achieve an enrollment level of approximately 60,000. Federal economic stimulus funds in the amount of \$182 million are provided to retain this level of enrollment for the 2009-11 biennium.

GENERAL ASSISTANCE-UNEMPLOYABLE (GA-U) - - \$59.3 MILLION GENERAL FUND-STATE REDUCTION

The GA-U program serves adults who are physically or mentally incapacitated and expected to be unemployable for more than 90 days but less than 12 months. The program is retained at 80 percent of the current caseload to serve about 12,700 for the 2009-11 biennium. This reflects a caseload reduction of roughly 3,000 from current levels and approximately 6,000 less than the projected caseload by the end of the biennium. The process for targeted caseload reductions is described under "Other Human Services," page 23.

HOSPITAL REIMBURSEMENT - \$107.2 MILLION GENERAL FUND-STATE SAVINGS

Reimbursement for inpatient and outpatient hospital expenditures comprised close to 27 percent of state medical assistance expenditures during the 2007-09 biennium. The state pays hospitals based on Medicaid inpatient and outpatient claims and also through disproportionate share hospital (DSH) and other grants that are allocated based on factors including charity care, profit margin, and Medicaid and low-income patient utilization rates.

The Senate budget reduces inpatient and outpatient rates by approximately five percent of total expenditures for a state savings of \$74.7 million, reduces DSH and Graduate Medical Education (GME) payments by \$18.4 million, and pursues the equalization of and efficiencies around reimbursement structures for about \$16.6 million in savings. A one-time increase in the low-income DSH program of \$2.5 million in state funds is provided to mitigate the impact of the transition to the Outpatient Prospective Payment System (OPPS).

OTHER PROVIDER RATES - \$68.1 MILLION GENERAL FUND-STATE SAVINGS

Premium payments to managed care organizations accounted for roughly 24 percent of state medical assistance expenditures for the 2009-11 biennium. A premium rate reduction of one percent for CY 2009 and holding premiums at no growth for the 2009-11 biennium achieves a state savings of \$32.6 million. Additionally, the 48 percent rate increase provided to pediatric office visits in the 2007 legislative session is reduced to a 15 percent increase for a savings of \$17.9 million. Healthy Options enhanced payments to Federally Qualified Health Centers (FQHCs) are also reduced by \$13.0 million in order to comply with a recent federal Centers for Medicare and Medicaid (CMS) audit. Rate reductions to other services result in an additional \$4.6 million in savings.

PHARMACY INITIATIVES - \$82.4 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget assumes these savings will be achieved via a comprehensive package of pharmacy cost containment and efficiency-promoting initiatives. Among these initiatives are controlling the cost of brand-name drugs by reducing the percentage of Average Wholesale Price (AWP) paid by six percentage points, reducing coverage of some over-the-counter (OTC) drugs, and increasing the generic prescription drug utilization rate by 20 percent.

OPTIONAL SERVICE UTILIZATION - \$47.8 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget achieves savings through a combination of strategies to reduce utilization in optional services and incent the most appropriate use of such services. For example, Maternity Support Services (MSS) are reduced in order to target high-risk pregnancies, reimbursement rates are reduced and limits are placed on Durable Medical Equipment (DME) supplies, and the department is directed to reduce dental expenditures by targeting areas of high utilization.

LEVERAGING FEDERAL MATCH FOR CHILDREN - \$53.8 MILLION GENERAL FUND-STATE SAVINGS

The recently enacted federal Children's Health Insurance Program Reauthorization Act (CHIPRA) contains a number of provisions that allow Washington state to leverage additional federal match on a permanent basis. The state can now receive an enhanced

match (\$2 federal for every \$1 state) for Medicaid-eligible children between 133 and 200 percent of the federal poverty level rather than the regular (\$1 for \$1) Medicaid match. Additionally, interpreter services will receive an enhanced match and legal immigrant children will be eligible for regular Medicaid or enhanced match rather than state-only funds.

OTHER HEALTH CARE

CHILDREN'S VACCINE PROGRAM TRANSITION - \$55.3 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved beginning July 2009 by eliminating state coverage for the three most recently added vaccines to the Universal Vaccines for Children program: Human Papilloma Virus (HPV), Rotavirus, and Meningococcal vaccines. After one year of time for the provider community to transition to a non-universal vaccine program, beginning July 2010, state funding will no longer be provided to cover non-low income children's vaccinations. Washington state will transfer to "VFC + Underinsured" status which will allow federal Vaccines for Children (VFC) and 317 Direct Assistance (DA) funds to continue to cover low-income children in Medicaid and other state-funded health care programs.

TOBACCO PREVENTION PUBLIC AWARENESS CAMPAIGN - \$15 MILLION TOBACCO PREVENTION AND CONTROL ACCOUNT SAVINGS

Savings are achieved by suspending the public awareness activities, which include television and radio advertisement, to promote awareness of the harmful effects of tobacco by targeting both adult and youth audiences. Over \$37 million is retained within the Department of Health to continue its other tobacco prevention and control activities.

HEALTH INSURANCE PARTNERSHIP - \$12.8 MILLION GENERAL FUND-STATE SAVINGS

The Health Insurance Partnership was created during the 2007 legislative session as a public-private partnership to promote small employers' participation in funding health care for their employees. Both low-income and non-low income employees and their dependents were to receive coverage, but most of the state costs would have come from subsidies for low-income workers. The Partnership is delayed until no earlier than January 2011 if sufficient state or federal funding becomes available.

LOCAL PUBLIC HEALTH FUNDING - \$4.0 MILLION GENERAL FUND-STATE SAVINGS

A \$4 million reduction is made to the local public health enhancement funding provided in the 2007 legislative session. Local public health jurisdictions will still receive at least \$76 million next biennium in pass-through funding.

LONG TERM CARE, DEVELOPMENTAL DISABILITIES AND MENTAL HEALTH

OVERVIEW

The Aging and Disability Services Administration (ADSA) administers the Long Term Care (LTC) and [Division of] Developmental Disabilities (DDD) programs. These two programs combined account for approximately \$2.1 billion in general fund-state (GF-S) expenditures for the 2009-11 biennium.

The Senate budget provides \$817 million GF-S (\$1.9 billion all funds) for DDD clients and services and \$1.3 billion GF-S (\$3.1 billion all funds) to provide in-home, residential, institutional and skilled nursing facility care to over 53,000 individuals. In addition, the Senate budget maintains funding for Medicaid personal care services--which provides assistance with activities of daily living such as bathing, grooming, and toileting--for over 18,000 developmentally disabled adults and children who reside in their homes or in community residential facilities

MAJOR INCREASES

The Senate budget expands the number of waiver slots for both elderly and disabled ADSA clients.

- \$25.0 million GF-S is provided to fund over 2,500 waiver placements in DDD for clients currently receiving supported employment and day services.
- The LTC budget includes \$8.1 million GF-S for community residential and support services for persons who are older adults or who have co-occurring functional and behavioral impairments and who have been discharged or diverted from a state psychiatric hospital.

Funding for homecare worker health benefits (medical, dental, and vision) is continued at \$585 per enrolled member per month. The available funding is provided for current enrollment, projected increased in provider caseloads and enrollment, and maintains agency parity. The total funding available is \$105.3 million general fund-state and \$154.6 million general fund-federal.

Initiative 1029, passed by the voters in November, increased required basic training, levels of background checks, and certification of home care workers. The Senate budget provides funding in LTC, DDD and the Department of Health to implement enhanced background checks, establish the needed certification infrastructure, and provide contributions to a training partnership (per a collective bargaining agreement). The total funding provided is \$4.2 million general fund-state, \$4.6 million general fund-federal, and \$3.4 million other funds.

MAJOR SAVINGS

NURSING HOME VENDOR RATE REDUCTIONS - \$37.8 MILLION GENERAL FUND-STATE SAVINGS

The 2009-11 statewide weighted average daily Medicaid rate for nursing homes is set at \$156.22 for fiscal year 2010 and \$158.60 for fiscal year 2011. These rates assume

funding of the 2009-11 rate rebasing as required by law and continued funding of the low-wage worked add-on; however, no certificates of capital authorization are funded for either year. The 2010 rate is a 4.6 percent reduction from the current year and the 2011 rate is a 3 percent reduction from the current year.

MEDICAID PERSONAL CARE REDUCTIONS - \$26.6 MILLION GENERAL FUND-STATE SAVINGS

The personal care benefit provided to Medicaid clients is reduced by an average of three percent across all care levels. The department is provided with the flexibility to adjust the reduction to ensure sufficient care is maintained for all clients.

ADULT DAY HEALTH REDUCTIONS - \$19.5 MILLION GENERAL FUND-STATE SAVINGS

Currently LTC and DDD clients can access adult day health (ADH) services when authorized as part of their plan of care. Reductions are achieved by funding services only for in-home clients and eliminating transportation costs.

ADMINISTRATIVE AND OTHER REDUCTIONS - \$18.1 MILLION GENERAL FUND-STATE SAVINGS

Savings are assumed from reductions to ADSA administration, maintaining vacancies in placements, vendor rate reductions for ADSA sponsored county contracted programs, reductions to administrative funding for the Senior Citizen Services Act programs, and a reduction to the Senior Companion and Foster Grandparent programs.

AGENCY PROVIDER DEFINITION - \$15.3 MILLION GENERAL FUND-STATE SAVINGS

Family members providing Medicaid-paid personal care will be paid as individual providers rather than agency providers.

COMMUNITY RESIDENTIAL VENDOR RATE REDUCTIONS - \$15.1 MILLION GENERAL FUND-STATE SAVINGS

Base daily Medicaid rates for boarding homes, adult family homes, group homes, and supported living facilities are reduced by three percent. The reduction is applied to vendor base rates. Exceptional care rate add-ons for HIV/AIDS, dementia, and enhanced community services remain unchanged from fiscal year 2009 levels.

YAKIMA VALLEY SCHOOL CLOSURE - \$3.3 MILLION GENERAL FUND-STATE SAVINGS

The department is instructed to begin transferring residents from Yakima Valley School (YVS) to other institutional, residential, or home-based settings. Savings are realized in part by transferring clients to other less costly facilities from complete closure of YVS. In addition, savings are realized in other residential habilitation centers through the closure of therapy pools and the discontinuation of subsidies for certain professional services.

MENTAL HEALTH

"NON-MEDICAID" FUNDING REDUCTION - \$23.2 MILLION GENERAL FUND-STATE SAVINGS

The "state-only" funding provided to Regional Support Networks (RSN) for services and individuals not eligible for the federal Medicaid program is reduced by a total of approximately 9 percent. The reduction is to be distributed among RSNs proportional to total state population.

MEDICAID FUNDING REDUCTION - \$9.9 MILLION GENERAL FUND-STATE SAVINGS; \$14.6 MILLION GENERAL FUND-FEDERAL SAVINGS

The department is directed to develop and implement efficiencies and benefit changes that will reduce expenditures on community Medicaid mental health services by 3.5 percent. Such actions may include but are not limited to adjusting care access standards; improved utilization management of ongoing, recurring, and high-cost services; and increased uniformity in provider payment rates. The department is to implement these changes through rate adjustments that are distributed uniformly and equitably across all regions of the state.

The estimated combined impact on Regional Support Network funding from the changes described above is a 5 percent reduction.

STATE PSYCHIATRIC HOSPITAL STAFFING - \$7.6 MILLION GENERAL FUND-STATE SAVINGS

In culmination of a three-year community investment strategy initiated in 2006, the number of civil commitment beds at Eastern and Western State Hospitals is being reduced by 120 (13 percent) during the year ending September 2009, for a state savings of \$29.0 million in the 2009-11 budget base. In addition to that reduction, a staffing enhancement authorized in the 2008 supplemental budget is rescinded, for the additional savings identified above.

DEMONSTRATION AND PILOT PROJECTS - \$5.3 MILLION GENERAL FUND-STATE SAVINGS

State funding that has been used to demonstrate and test new approaches to mental health service delivery is discontinued. Such funding is presently supporting eleven different projects. These include four of the 22 consumer-run "clubhouses" that provide work-ordered days and other support services for persons recovering from mental illness; two projects that provide consumer-focused services to minority populations; one that supports integration of mental health and primary care services; one, that since 1998, has provided intensive services for mentally ill offenders following their release from jail or prison; and three that, since April 2008, have piloted improved methods for engaging families, mental health professionals, schools, and other child-serving agencies in coordinated service delivery to children at high risk of hospitalization or other out-of-home placement.

OTHER HUMAN SERVICES

DSHS - ECONOMIC SERVICES ADMINISTRATION

OVERVIEW

The Senate budget focuses on ensuring that low income people are able to receive basic services. The budget does not reduce cash benefits for families, child care, or food stamps. The budget aims to make the largest reductions come from administrative functions and to maximize federal stimulus dollars to the greatest extent possible.

MAJOR INCREASES

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) CASH GRANTS - \$110 MILLION GENERAL FUND-STATE AND GENERAL FUND-FEDERAL

The TANF caseload is anticipated to increase by 25 percent from 2008 to the end of 2010. The Senate budget increases funding to meet the caseload increase and preserves the 3 percent grant increase received in 2009.

STATE FOOD ASSISTANCE PROGRAM - \$2.5 MILLION GENERAL FUND-STATE

Funding is provided for to augment state costs related to receiving \$311 million more in federal food stamp benefits. This funding allows individuals not eligible for the federal food stamp program to receiving basic food.

MAJOR SAVINGS

GENERAL ASSISTANCE - UNEMPLOYABLE MEDICAL AND CASH PROGRAM -- \$190 MILLION GENERAL FUND STATE SAVINGS

The General Assistance-Unemployable (GA-U) program provides health care and a cash stipend for adults who are physically or mentally incapacitated and expected to be unemployable for more than 90 days but less than 12 months. Savings are achieved by requiring GA-U recipients to accept drug and alcohol treatment if addiction is a co-occurring condition and to demonstrate to the department that their incapacity has not improved after 12 months. In the event the department cannot meet the savings in the Senate budget, the department has pre-existing authority to implement time limits for medical coverage and reduce the cash stipend to recipients. The medical expenditures are reduced by \$59 million and cash benefit expenditures are reduced by \$131 million.

WORKFIRST REDUCTIONS - \$68 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved in the WorkFirst program through reducing state agencies participating in WorkFirst by an average of five percent, further administrative reductions, and caseload management savings

DSHS – ALCOHOL AND SUBSTANCE ABUSE

OVERVIEW

The Division of Alcohol and Substance Abuse (DASA) within the Department of Social and Health Services coordinates efforts to help individuals and communities with problems related to the abuse of drugs and alcohol. DASA contracts with county governments and organizations in the community to provide prevention, treatment, and other support services for individuals with problems related to alcohol, tobacco, and drugs. DASA also has government-to-government contracts with 29 tribes for prevention and treatment services for Native Americans. Six DASA Regional Administrators work with county coordinators and County Substance Abuse Administrative Boards to plan services and monitor contracts.

The Senate Budget maintains funding for key DASA programs aimed at providing detoxification, treatment and support as well as maintains funding for recent treatment expansion programs aimed at Medicaid eligible adults and youth. In addition, the Senate budget maintains funding for the Alcohol and Drug Addiction Treatment and Support Act (ADATSA) cash stipend and medical coverage programs. Based on research and testimony provided by the Office of Financial Management, DSHS, and treatment center professionals, the majority of ADATSA clients appear to successfully complete the program and exit DSHS public assistance.

MAJOR SAVINGS

LOW-INCOME TREATMENT PROGRAMS - \$8.9 MILLION GENERAL FUND-STATE SAVINGS

Treatment programs are provided in both residential and out-patient settings and can vary in length. DASA contracts with counties, tribes, and directly with private agencies to provide treatment services. Residential treatment services also include Involuntary Chemical Dependency Treatment provided at the Pioneer North and Pioneer East facilities. Savings are achieved by reducing the funding available for low-income treatment contracts and services.

LOW-INCOME DETOXIFICATION - \$3.5 MILLION GENERAL FUND-STATE SAVINGS

Detoxification is a short-term residential service for persons withdrawing from the effects of excessive or prolonged alcohol or drug consumption and always includes supervision. Savings are achieved by reducing available funding for detoxification services.

DSHS - CHILDREN'S ADMINISTRATION

OVERVIEW

The Senate budget was written to target reductions aimed at administrative functions, programs that have not started, and controlling areas that have seen large increases in expenditures such as parental supervised visits and Behavioral Rehabilitative Services. The Senate budget preserves, to the greatest extent possible, those programs that prevent children from entering the foster care and juvenile detention caseloads.

MAJOR INCREASES

FOSTER CARE AND ADOPTIONS - \$16.6 MILLION GENERAL FUND-STATE AND OTHER FUNDS

Foster care caseloads are continuing to decrease while adoptions are increasing. The Senate budget continues to invest in services that allow legally free children to move from foster care to adoption faster.

MAJOR SAVINGS

BEHAVIORAL REHABILITATIVE SERVICES (BRS) - \$7.3 MILLION GENERAL FUND-STATE SAVINGS

BRS is a contracted service in foster care for children with the most severe needs. BRS represents 14 percent of the foster care caseload but is 36 percent of the expenditures and is growing despite overall decreases in the foster care caseload. The Senate budget "block grants" the BRS program at a fixed expenditure amount and directs the department and BRS contractors to work together to decrease the amount of time youth stay in BRS. The Senate encourages the use of performance-based contracts based on outcomes related to length of stay, cost-effective group homes, and streamlined methods for entrances and exits into the program.

PILOTS AND SMALL PROGRAMS - \$13.4 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved through reductions in small existing programs, pilots, and programs that have not started. Reductions are made to chemical dependency professionals, low-risk adolescents, parent support services, the Foster Care to 21 program, and pilots that focus on intensive training for foster care parents.

DSHS – ADMINISTRATION & SUPPORT SERVICES

MAJOR SAVINGS

FAMILY POLICY COUNCIL AND COUNCIL ON CHILDREN AND FAMILIES - \$5.3 MILLION GENERAL FUND-STATE SAVINGS; \$258,000 GENERAL FUND - FEDERAL SAVINGS

Savings are achieved by eliminating the Family Policy Council (FPC) and transferring two FTE and funding for the Community Public Health and Safety Networks to the Council for Children and Families (CCF). The FPC and CCF have similar missions that include improving outcomes for children and families and preventing child abuse, neglect, and other harmful behaviors. The Senate budget eliminates the FPC, transfers a portion of the FPC staff and network funding to the CCF, and reduces funding for the CCF.

CORRECTIONS & OTHER CRIMINAL JUSTICE

OVERVIEW

In the 2007-09 biennium, the state is estimated to spend approximately \$2.1 billion in state funds incarcerating adult and juvenile offenders, supervising released offenders and providing treatment in a secure facility for sexually violent predators. In 2007, the Legislature made significant additional investments in evidence-based programs that prepare adult offenders for re-entry in society and provide early treatment and diversion of juvenile offenders. Given the fiscal situation facing the state, the Senate budget maintains these investments in effective, evidence-based programs while making reductions where caseloads are declining, programs are not effective at reducing crime or in facilities that are expensive and inefficient to operate.

MAJOR SAVINGS

CHANGES IN SENTENCING LEGISLATION - \$60.5 MILLION GENERAL FUND-STATE SAVINGS

The budget assumes savings from reduced population in prison or community supervision for the following bills:

- Substitute House Bill 2188 (deport alien offenders) - reduced demand for 362 prison beds; \$8.3 million
- Engrossed Substitute Senate Bill 5288 (supervision of offenders) - community supervision savings; \$26.8 million
- Engrossed Substitute Senate Bill 5225 (crimes against property) - reduced demand for 162 prison beds; \$4.3 million
- Senate Bill 5525 (State Institutions release) - reduced demand for 278 prison beds, but increase community supervision costs; \$1.4 million
- Senate Bill _____ (S-2444) - Sentencing grid reduction; reduced demand for 955 prison beds; \$19.5 million

CLOSE MCNEIL ISLAND CORRECTIONS CENTER - \$16 MILLION GENERAL FUND-STATE SAVINGS

With the declining prison population as a result of sentencing legislation, the Department of Corrections is able to close a major institution. Because of its isolation and high cost the budget assumes closure of McNeil Island Corrections Center on July 1, 2010. The Special Commitment Center will remain on the Island and the Department of Health and Social Services will assume responsibility for Island operations, including security at the Steilacoom dock, operation of the wastewater treatment plant and fire department, and transport of staff and visitors. The proposed Senate capital budget includes \$7.5 million in state bond funding and \$15 million in borrowing authority to move correctional industries operations from McNeil Island to other correctional institutions.

REDUCE OFFENDER RE-ENTRY - \$15.6 MILLION GENERAL FUND-STATE SAVINGS

Some of the 2007 offender re-entry investments were made in activities that were not evidence-based programs. Savings are made while retaining investment in evidence-based programs.

WA ASSOCIATION OF SHERIFFS AND POLICE CHIEFS - \$14.7 MILLION GENERAL FUND-STATE SAVINGS

Savings are taken for the following items in the Criminal Justice Training Commission pass-through to the Washington Association of Sheriffs and Police Chiefs: (1) Administration is reduced by \$223,000; the Senate budget assumes additional contributions from local law enforcement agencies will cover the reduction in state funds; (2) Verifying the addresses of Level II and III sex offenders will save \$5 million; (3) Grants to local law enforcement agencies for sex offender crackdown, in combination with the Department of Corrections, is no longer necessary, saving \$400,000; (4) One-time grants to local law enforcement agencies for graffiti abatement will be discontinued, saving \$1.5 million; and (5) \$4 million from the Auto Theft Prevention Account will be shifted to the Department of Corrections for incarceration.

CLOSE GREEN HILL SCHOOL - \$14 MILLION GENERAL FUND-STATE SAVINGS

The Juvenile Rehabilitation Administration (JRA) would close Green Hill School beginning July 1, 2010 in order to meet the declining population of youth committed to JRA and continued decline in the JRA population forecast. The budget assumes that the JRA would allocate youth to the remaining institutions, Maple Lane School, Echo Glen Children's Center and Naselle Youth Camp and that youth sentenced to adult sentences, also known as Youthful Offenders or Department of Corrections transfers would remain in the JRA. The proposed Senate capital budget includes \$7 million for altered or new specialized capacity at Maple Lane School, as specified by the JRA.

NATURAL RESOURCES

OVERVIEW

The 2007-09 biennial budget for natural resources is approximately \$1.6 billion and represents 2.7 percent of the overall state budget. Of this \$1.6 billion, the general fund accounts for 29 percent or approximately \$457 million. Some of the primary activities funded with these resources include environmental protection; water quality; fish, shellfish, and game harvest; food safety and commodity control; land and resource management; operation and maintenance of camp sites; and forest fire protection.

Although the fiscal situation facing the Legislature required the natural resource agencies to experience reductions along with the rest of state government, the Senate budget was crafted to achieve the following goals: 1) protect and preserve the health of the state's natural resources, and 2) safeguard, to the extent possible, public access to these resources.

MAJOR INCREASES

CONTINUED OPERATION AND MAINTENANCE OF STATE PARKS - \$28.0 MILLION PARKS RENEWAL AND STEWARDSHIP ACCOUNT

The Senate budget assumes passage of legislation that facilitates a voluntary donation of five dollars at the time of vehicle registration initial applications or renewals. Revenue produced as a result of these donations will allow all state parks to remain open and will produce an additional \$4.1 million investment to address ongoing maintenance needs, such as camp site improvements; dock and boat launch maintenance; and fencing, signage, and trail improvements. Funds collected from this source will be used solely for the operation and maintenance of state parks. The Commission will also actively pursue transferring ownership of state parks to local governments, tribes, or other entities that have expressed interest in operating the park.

STANDBY EMERGENCY RESPONSE TUG - \$3.6 MILLION OTHER FUNDS

Funds are provided in Fiscal Year 2010 for a standby rescue tug stationed at Neah Bay to reduce the risk of a catastrophic oil spill. Beginning in Fiscal Year 2011, a permanent, industry-funded tug will be provided as a result of passage of ESSB 5344 (emergency towing vessels), which was signed into law by the Governor on March 24, 2009.

PROTECT PUGET SOUND SHORELINES - \$3.6 MILLION OTHER FUNDS

Pursuant to a negotiated legal settlement in 2003, the Senate budget provides one-time funding to update local shoreline master programs for the protection of shoreline habitat and water quality.

CLIMATE CHANGE - \$538,000 GENERAL FUND-STATE; \$1.6 MILLION OTHER FUNDS

Funding is provided for a variety of climate change initiatives including ongoing support of the emissions report program enacted in 2008, developing a comprehensive and coordinated climate change adaptation strategy (E2SSB 5138), establishing state agency climate leadership (E2SSB 5560), and to develop a greenhouse gas emissions program that sets statewide and sector emission caps, including criteria for issuing and accepting offset credits, and develops the policy for forestry offset projects in the state (E2SSB 5735).

MAJOR SAVINGS

GENERAL REDUCTIONS AND EFFICIENCIES - \$29.7 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved via the following: consolidating the three growth management hearings boards into one board; reducing the general fund subsidization of fee-based programs; transferring the Puget Sound Monitoring Consortium from the Department of Ecology to the Puget Sound Partnership; and other administrative reductions. Funds are also reduced for flood control, lead entities of salmon recovery, and conservation districts.

SPECIES MANAGEMENT AND ENFORCEMENT - \$14.6 MILLION GENERAL FUND-STATE SAVINGS; \$7.7 MILLION OTHER FUNDS

Savings are achieved by a variety of reductions in the management of species and enforcement activities. Reductions will be made to the collection of harvest and non-harvest related data, the number of enforcement officers, and hunter and other educational programs. In addition, fish production will be reduced and seven hatcheries will be closed (Bellingham, Voights Creek, Colville, Omak, Arlington, Mossyrock, and McKernan).

WATER MANAGEMENT - \$10.1 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved by reducing grants and technical assistance to local groups for watershed planning. The remaining funds will be focused on assisting groups that are ready to implement their watershed plans. Additional savings are achieved by removing funding for a watershed data pilot project, a water adjudication feasibility study, and water resource-related data collection. A one-time reduction in funding for water rights processing will also produce savings and the remaining resources will be concentrated in those basins where the greatest impact can be realized.

LAND MANAGEMENT - \$9.1 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved by a variety of reductions in the management of land. Reductions will be made in forest practices technical assistance, geology staffing and studies, forest health implementation, and access to natural resource areas. Additional savings will be achieved by reducing funding for local governments to combat invasive weeds.

FIRE SUPPRESSION - \$4.3 MILLION GENERAL FUND-STATE SAVINGS

The Department of Natural Resources is responsible for wildfire protection on 12.7 million acres of nonfederal forest land. Savings are achieved by eliminating the forest fire suppression assessment refunds and from efficiencies anticipated in the department's preparedness and emergency fire suppression activities.

REVENUE ADJUSTMENTS

PROPOSED SENATE REVENUE PACKAGE

| Bill | | Title | FY09-11 |
|---------------|------|------------------------------|------------------------|
| SB | 6062 | REET Exemptions | 53,966 |
| SSB | 6119 | Licensee sprits discounts | 36,000 |
| | | Repeal Hybrid Exemption | 30,700 |
| SB | 6118 | Conv & trade center credit | 22,100 |
| SSB | 6108 | Lottery multi-state games | 11,463 |
| SHB | 1067 | Limited Partnership Act | 1,164 |
| SSB | 5571 | Electr methods/revenue dept | 544 |
| SSB | 5045 | Community revitalization | 0 |
| ESSB | 5321 | Local & state sales & use tx | 0 |
| SSB | 5368 | Annual property valuation | 0 |
| SSB | 5433 | Local option tax provisions | 0 |
| SB | 5511 | City-county assistance accts | 0 |
| SSB | 5566 | Excise and sales & use taxes | 0 |
| SB | 5568 | Tax collection tools | 0 |
| SSB | 5630 | Parks and capital projects | 0 |
| SB | 5680 | Nonprofit organizations | 0 |
| SB | 5909 | High tech sales & use tax | 0 |
| SSB | 6051 | Funding for arts | 0 |
| SB | 6103 | Definition of gambling | 0 |
| SB | 6096 | Vessels in foreign commerce | 0 |
| SSB | 5424 | Current use program | (25) |
| SB | 5358 | Intrastate commuter aircraft | (93) |
| P2SSB | 5441 | Biomass energy | (137) |
| SB | 5470 | Low-income senior housing | (149) |
| PSSB | 5206 | Electrolytic process tx exem | (313) |
| PSSB | 5906 | Solar Energy Manufacturing | (500) <i>*estimate</i> |
| PSSB | 5390 | Radioactive waste cleanup | (1,877) |
| SB | 5942 | Taxation of newspapers | (2,100) |
| SB | 5442 | Hog fuel excise tax relief | (2,464) |
| SSB | 5899 | B & O tax credit | (10,000) |
| Totals | | | 138,279 |

REVENUE ADJUSTMENTS

REMOVING AN EXEMPTION FROM THE REAL ESTATE EXCISE TAX - \$54.0 MILLION GENERAL FUND-STATE INCREASE

Senate Bill 6062 (foreclosure sales) eliminates the real estate excise tax exemption for sales of property by financial institutions when the property was obtained through foreclosure.

LIMITING THE DISCOUNT OF PURCHASES OF SPIRITS BY LICENSEES - \$36 MILLION GENERAL FUND-STATE INCREASE

Substitute Senate Bill 6119 (purchase of spirits) eliminates the discount that licensees receive on the purchase of spirits for resale.

EARLY EXPIRATION OF CERTAIN HIGH MILEAGE VEHICLE SALES AND USE TAX EXEMPTIONS - \$30.7 MILLION GENERAL FUND-STATE INCREASE

Sales and use tax exemptions for vehicles which utilize hybrid technology and have a mileage rating of at least 40 MPG are expired early by repealing the exemptions.

CONCERNING LODGING TAXES FOR, AND CERTAIN TRANSFERS FROM, THE STATE CONVENTION AND TRADE CENTER ACCOUNT - \$22.1 MILLION GENERAL FUND-STATE INCREASE

Senate Bill 6118 (Convention & Trade Center Account) eliminates the 2 percent credit against the state sales tax on lodging sales in Seattle that was distributed to the convention center.

PROVIDING AUTHORITY FOR THE STATE LOTTERY TO ENTER INTO AGREEMENTS TO CONDUCT MULTISTATE SHARED GAMES - \$11.5 MILLION GENERAL FUND-STATE INCREASE

Substitute Senate Bill 6108 (state lottery agreements) allows the State Lottery to enter into agreements for additional multistate shared games, in addition to the current Mega Millions game.

CREATING THE UNIFORM LIMITED PARTNERSHIP ACT - \$1.2 MILLION GENERAL FUND-STATE INCREASE

Substitute House Bill 1067 (uniform limited partnership act) adopts the Washington Uniform Limited Partnership Act, changing many aspects of limited partnership law to modernize the statute, to update the fee structure, and to conform the provisions more closely to statutes governing other business entities in Washington.

REQUIRING THE USE OF ELECTRONIC METHODS FOR FILING TAXES, PAYMENT OF TAXES, ASSESSMENT OF TAXES, AND OTHER TAXPAYER INFORMATION - \$544,000 GENERAL FUND-STATE INCREASE

Substitute Senate Bill 5571 (Electronic methods/revenue dept) requires electronic filing of tax returns and electronic tax payment, but only if the taxpayer is required to file and remit taxes monthly. Electronic filing and payment are allowed for taxpayers on the quarterly and annual basis.

REGARDING COMMUNITY REVITALIZATION FINANCING - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5045 (community revitalization) allows certain local governments to create “revitalization areas” and use certain tax revenues which increase within the area to finance local infrastructure and public improvements. The state contribution is available in the form of a local sales and use tax credited against the state tax; the earliest that such a tax may be imposed is July 1, 2011. The maximum state contribution for all revitalization areas is \$2.5 million per fiscal year and all state contributions must be used to pay for general obligation bonds.

EXTENDING LOCAL SALES AND USE TAX CREDITED AGAINST THE STATE SALES AND USE TAX - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute Senate Bill 5321 (local sales and use tax) extends the sales tax credit for cities annexing an area from 2011 to 2021. The city of Seattle may qualify for a credit at the rate of 0.0034 percent. Any city exceeding the maximum credit before 2010 may receive an additional 0.1 percent credit.

MAKING PROVISIONS FOR ALL COUNTIES TO VALUE PROPERTY ANNUALLY FOR PROPERTY TAX PURPOSES - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5368 (annual property valuation) requires that all counties value property on an annual basis for property tax purposes by 2014. To help fund this, the Department of Revenue (DOR) will administer a grant program and provide assistance to the city. The grant program is funded by extending the \$5 real estate technology fee which was set to expire in 2010.

MODIFYING PROVISIONS OF LOCAL OPTION TAXES - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5433 (local option tax provisions) removes the requirement that funds collected under the county public safety sales and use tax and levy lid lifts not supplant existing funds. In addition, it expands the uses of one-third of the county public safety sales and use tax revenues for criminal justice purposes to include fire protection.

MAKING CHANGES AFFECTING CITY-COUNTY ASSISTANCE ACCOUNT DISTRIBUTIONS IN RESPONSE TO THE RECOMMENDATIONS OF THE JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE - NO IMPACT TO GENERAL FUND-STATE IN FY 2009-2011

Senate Bill 5511 (city-county assistance accounts) provides that streamline sales tax mitigation distributions are included into the determination of eligibility for, and amounts of, city/county assistance account distributions. The certification date for city/county assistance account distributions is changed from March 1 to October 1, beginning October 1, 2009.

HARMONIZING EXCISE TAX STATUTES WITH THE STREAMLINED SALES AND USE TAX AGREEMENT - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5566 (excise and sales & use taxes) provides that the sourcing, for sales tax purposes, of direct mail that is delivered or distributed from a location within this state to another location within this state is sourced to the address of the seller from which the direct mail was sent.

ENHANCING TAX COLLECTION TOOLS TO PROMOTE FAIRNESS AND ADMINISTRATIVE EFFICIENCY - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5568 (tax collection tools) allows DOR to apply for a subpoena to a superior court or district court to obtain third party information, if there is probable cause to believe that records in the possession of the third party will aid the DOR in connection with its official duties relating to an audit, collection activity, or a civil or criminal investigation.

MODIFYING THE PROPERTY TAX EXEMPTION FOR NONPROFIT ARTISTIC, SCIENTIFIC, HISTORICAL, AND PERFORMING ARTS ORGANIZATIONS - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5680 (nonprofit organizations) increases the number of days that exempt property can be used for non-exempt purposes from 25 to 50 days per year. The number of days the property may be used for profit-making business activities is increased from 7 days to 15 days. This provision applies for property that is used for historical, scientific, or artistic collection, as well as performing arts.

ELIGIBILITY OF MULTIPLE BUILDINGS IN THE HIGH TECHNOLOGY RETAIL SALES AND USE TAX DEFERRAL PROGRAM - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5909 (high tech sales & use tax) changes the high tech deferral to allow multiple qualified buildings leased to the same person to be eligible for the deferral when the structures are located within a 5 mile radius and the initiation of construction of each building begins within a 60-month period.

HERITAGE AND ARTS PROGRAMS- NO GENERAL FUND IMPACT

Substitute Senate Bill 6051 (heritage & arts program funding) removes the expiration tax for the funding of heritage and arts programs in King County. The result of removing the expiration date has the following effect:

- The 40 percent distributions of arts and heritage funds from the hotel-motel tax is no longer distributed to the endowment fund, but instead is distributed to an account dedicated to art museums, cultural museums, heritage museums, and heritage and preservation programs.
- At the time the bonds used to pay for the repairs to the Kingdome are retired, the county hotel-motel tax will be distributed into the account dedicated to the arts and heritage programs until December 31, 2015. The bonds are expected to be retired in late 2014.
- Beginning January 1, 2021, at least 37.5 percent of the county hotel-motel tax revenues will be distributed to the account dedicated to the arts and heritage programs.

MODIFYING THE DEFINITION OF GAMBLING - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 6103 (definition of gambling) clarifies the definition of "gambling" include conditional or unconditional stakes or risks.

CLARIFYING THE TAX CLASSIFICATION OF MANUFACTURING OF FUEL FOR CONSUMPTION OUTSIDE THE WATERS OF THE UNITED STATES - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 6096 (vessels in foreign commerce) clarifies that, while income from wholesaling and retailing of bunker fuel can be deducted from the B&O tax, manufacturing of bunker fuel is taxable under the B&O manufacturing classification.

CONCERNING INTEREST RATE AND PENALTY PROVISIONS IN THE CURRENT USE PROGRAM - \$25,000 GENERAL FUND-STATE DECREASE

Substitute Senate Bill 5424 (current use program) removes the requirement that property owners must provide 2-years' advance notice to withdraw their properties from current use classification after the initial 10 years to avoid the 20 percent penalty. The interest rate on the additional tax is reduced from 12 percent to the federal short-term rate plus 2 percentage points, which does not compound. The bill adds the exception from the payment of additional tax to hold property owners harmless when the property was accepted into the current use program erroneously through no fault of the owner.

SALES AND USE TAX EXEMPTIONS FOR INTRASTATE COMMUTER AIRCRAFT OPERATIONS - \$93,000 GENERAL FUND-STATE DECREASE

Senate Bill 5358 (intrastate commuter aircraft) provides a sales and use tax exemption for the sale of airplanes for use in providing intrastate air transportation by a commuter air carrier.

CREATING INCENTIVES FOR THE USE OF BIOMASS IN RENEWABLE ENERGY PRODUCTION - \$137,000 GENERAL FUND-STATE DECREASE

Proposed Second Substitute Senate Bill 5441 (biomass energy) provides a sales and use tax exemption for sales of forest-derived biomass used to produce electricity, steam, heat, or biofuel beginning October 1, 2009. It also creates a \$3 business and occupation (B&O) tax credit for each ton of biomass used to produce electricity, steam, heat, or biofuel starting in July 2011. The B&O credit increases to \$5 per ton in July 2013 and \$10 per ton in July 2015.

SALES AND USE TAX EXEMPTIONS FOR SENIOR RESIDENTS OF LOW-INCOME SENIOR HOUSING FACILITIES - \$149,000 GENERAL FUND-STATE DECREASE

Senate Bill 5470 (low-income senior housing) provides a sales and use tax exemption for bundled service packages and meals when provided by qualified low-income senior housing facilities.

MODIFYING THE ELECTROLYTIC PROCESSING BUSINESS TAX EXEMPTION - \$313,000 GENERAL FUND-STATE DECREASE

Proposed Substitute Senate Bill 5206 (electrolytic process tax exemption) extends the Public Utility Tax exemption for sales of electricity by a utility chlor-alkali or a sodium chlorate chemical business until December 31, 2018.

MODIFYING THE B&O TAX RATE ON WHOLESALERS OF SOLAR ENERGY SYSTEMS AND INCLUDING SEMICONDUCTOR MATERIALS - INDETERMINATE GENERAL FUND-STATE DECREASE

Proposed Substitute Senate Bill 5906 (solar energy wholesalers) expands the solar energy manufacturing incentives by reducing the B&O tax rate to 0.275 percent and expanding the qualifying activities. An exemption from sales and use tax for gases and chemicals used in semiconductor manufacturing is extended to silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers.

CLARIFYING THE ACTIVITIES QUALIFYING FOR THE B&O TAX RATE FOR RADIOACTIVE WASTE CLEANUP - \$1.9 MILLION GENERAL FUND-STATE DECREASE

Proposed Substitute Senate Bill 5390 (radioactive waste cleanup) clarifies that certain support services, which are either within the scope of work under a cleanup contract with the United States Department of Energy or which assist in the requirement of a cleanup subcontract, qualify for the reduced 0.471 percent B&O tax rate for radioactive waste cleanup.

CONCERNING THE TAXATION OF NEWSPAPERS - \$2.1 MILLION GENERAL FUND-STATE DECREASE

Senate Bill 5942 (taxation of newspapers) reduces the rate of B&O tax that newspapers pay from 0.484 percent to 0.2904 percent

PROVIDING EXCISE TAX EXEMPTIONS FOR HOG FUEL USED FOR PRODUCTION OF ELECTRICITY, STEAM, HEAT, OR BIOFUEL - \$2.5 MILLION GENERAL FUND-STATE DECREASE

Senate Bill 5442 (hog fuel excise tax relief) provides a sales and use tax exemption for hog fuel used to produce electricity, steam, heat, or biofuel. Hog fuel is wood waste and other wood residuals including forest derived biomass, which does not include firewood or wood pellets.

PROVIDING A B&O TAX CREDIT FOR QUALIFIED EMPLOYMENT POSITIONS - \$10 MILLION GENERAL FUND-STATE DECREASE

Substitute Senate Bill 5899 (B&O tax credit) creates a 2-year B&O tax credit program for small businesses (with 10 employees or less) which create new employment positions. The credits are: \$2,000 credit for jobs providing wages and benefits between 150 percent of minimum wage and \$40,000; and a \$4,000 credit for employment positions with wages and benefits over \$40,000.

BUDGET DRIVEN REVENUE

(IN MILLIONS)

| | |
|-----------------------------------|--------|
| Department of Revenue Enhancement | \$60.1 |
| Liquor Control Board Enhancement | 8.5 |
| Liquor Control Board Transfer | 25 |
| Liquor Control Board Adjustments | .8 |
| Total | \$94.4 |

DEPARTMENT OF REVENUE ENHANCEMENT - \$60.1 MILLION GENERAL FUND-STATE INCREASE

This revenue is the result of the implementation of revenue enhancement strategies by the Department of Revenue. The strategies include increased out-of-state auditing and compliance, the purchase of third party data sources for enhanced audit selection, and increased traditional auditing and compliance efforts.

LIQUOR CONTROL BOARD TRANSFER - \$25 MILLION GENERAL FUND-STATE INCREASE

\$25 million is transferred from the liquor revolving account to the general fund.

LIQUOR CONTROL BOARD ENHANCEMENT- \$8.5 MILLION GENERAL FUND-STATE INCREASE

Several revenue enhancing measures were implemented in the budget including opening five new state stores and ten new contract stores. Additionally, appropriations are provided for new retail strategies including opening nine state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season.

LIQUOR CONTROL BOARD ADJUSTMENTS - \$800,000 GENERAL FUND-STATE INCREASE

Minor policy level adjustments.

APPENDIX A

Senate Fund Transfers to GF-S

Dollars in Millions

| Capital Budget Related Fund Transfers | <u>To GF-S</u> |
|--|-----------------------|
| Public Works Assistance Account | 368.0 |
| Education Construction | 182.0 |
| Local Toxics Control - Reapprop | 75.0 |
| Local Toxics Control - New | 72.0 |
| Water Quality Account | 29.0 |
| State Toxics Control | 11.0 |
| Energy Freedom Account | 6.0 |
| Capital Budget Related Fund Transfers | 743.0 |
| ESHB 1694 (Early Action Supplemental) | |
| Savings Incentive Account | 51.1 |
| Treasury Service Account | 10.0 |
| Education Savings Account | 9.2 |
| Streamline Sales Tax | 8.6 |
| Retirement Systems Expense | 6.2 |
| Family Leave Insurance Transfer | 4.5 |
| Reading Achievement Account | 1.7 |
| ESHB 1694 (Early Action Supplemental) | 91.3 |
| Other Fund Transfers | |
| Life Science Discovery Fund | 26.0 |
| Treasury Service Account | 20.8 |
| Tobacco Prevention & Control Account | 16.8 |
| Performance Audit Fund | 15.0 |
| Convention Center Account | 15.0 |
| Judicial Information Systems Account | 10.0 |
| Economic Development Strategic Reserve | 6.5 |
| Washington Distinguished Professorship Trust Account | 5.0 |
| College Faculty Awards Trust Account | 4.9 |
| Public Services Revolving Account | 4.0 |
| Waste Reduction, Recycling & Litter Control | 4.0 |
| Natural Resources Equipment Revolving | 3.3 |
| Site Closure Account | 3.0 |
| Customized Training Account | 3.0 |
| Flood Control Assistance Account | 2.0 |
| GET Ready for Math and Science Scholarship Account | 1.9 |
| State Forest Nursery Revolving Account | 1.7 |
| Department of Retirement Systems Expense Account | 1.5 |
| Aquatics Lands Enhancement Account | 1.5 |
| Washington Graduate Fellowship Trust Account | 1.4 |
| Local Toxics (Public Participation) | 1.1 |
| State Toxics (Public Participation) | 0.9 |
| Accountancy Account | 0.8 |
| Hazardous Waste Assistance Account | 0.5 |
| State Emergency Water Projects Revolving | 0.4 |
| Other Fund Transfers | 150.9 |
| Total Fund Transfers | 985.2 |

APPENDIX B

State Expenditure Limit (Fiscal Years 2009, 2010 and 2011)

(Dollars, in millions)

| | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> |
|--|-----------------|-----------------|-----------------|
| Limit (Adopted by ELC 11/08) for FY 2009 & Rebased for FY 2010 & 2011 | 16,834.5 | 16,435.5 | 16,532.7 |
| Adjustments to The Expenditure Limit | | | |
| 2009 Supplemental -- Program Cost Shifts | | | |
| DOR: Tobacco Enforcement | (1.9) | | |
| DSHS/DD: Employment & Day Waiver | (0.3) | | |
| DSHS/DD: Core Waiver | (1.0) | | |
| DSHS/Economic Svcs: Fund Shifts | (3.2) | | |
| DSHS/Economic Svcs: Food Stamp Bonus | (2.0) | | |
| DSHS/Economic Svcs: TANF Contingency | (133.2) | 133.2 | |
| DSHS/DASA: One-Time General Fund - State Savings | (19.8) | 19.8 | |
| DSHS/MA: Move Some Pregnant Women to SCHIP | (2.1) | | |
| DSHS/Voc. Rehab: One-Time General Fund - State Savings | (3.0) | 3.0 | |
| DOE: Shift Costs to Toxics | (0.6) | | |
| DOL: Shift Costs to Transportation Funds | (0.3) | | |
| DSHS/MHD: State Hospital Revenues | (0.9) | | |
| DSHS/MHD: Increased DSH Revenues | (2.3) | | |
| DSHS/MA: Adjust ESHB 1694 FMAP | 5.8 | | |
| DSHS/DASA: One-Time General Fund - State Savings Adjust | 4.1 | (4.1) | |
| Veteran's Affairs: Maintenance Level Revenue | (0.2) | | |
| * DSHS/MHD: Increased Stimulus DSH Revenues | (1.5) | | |
| * K-12: Fiscal Stabilization Federal Stimulus | (300.0) | | |
| * DSHS (Multiple): Federal Stimulus FMAP in ESHB 1694 | (205.4) | | |
| * DSHS (Multiple): Federal Stimulus FMAP in Supplemental | (317.9) | | |
| * DSHS/Economic Svcs: Basic Food Stimulus | (1.7) | | |
| 2009 Supplemental -- Fund Transfers | | | |
| Student Achievement Fund Transfer to Ed Legacy Account | (66.0) | | |
| 2009-11 Biennial Budget -- Program Cost Shifts | | | |
| JLARC: Transfer to Other Funds | | (2.9) | |
| LEAP: Transfer to Other Funds | | (1.8) | |
| OFM/GMAP: Transfer to Other Funds | | (2.4) | |
| CTED: THOR Transfer | | (2.5) | |
| DSHS (Multiple): FMAP ML | | 34.8 | 10.3 |
| DSHS/MA: Medicare D Clawback | | 14.5 | 11.0 |
| DSHS/MHD: State Hospital Revenues | | 4.3 | |
| DSHS/MA: Higher FMAP for 133% to 200% Kids | | (9.4) | (27.8) |
| DSHS/MA: Interpreter Services Higher Match | | (1.3) | (0.7) |
| DSHS/MA: Medicaid Match for Legal Immigrants | | (2.0) | 0.2 |
| DSHS/DD: Employment & Day Waiver | | (6.7) | (0.2) |
| DSHS/Economic Svcs: Work First Employment & Training | | (11.1) | |
| DSHS/DD: State Only to Waiver | | (2.3) | (0.4) |
| Veteran's Affairs: Maintenance Level Revenue | | (2.4) | (1.0) |
| DOC: Auto Theft Transfer | | (2.0) | |
| State Parks: Various Park Related Adjustments | | (12.0) | |
| DNR: Fire Protection Shift | | (1.0) | |
| DOL: Professional Athletics Monitoring | | (0.1) | (0.2) |
| * DSHS (Multiple): Federal Stimulus FMAP | | (359.4) | 462.0 |
| * HCA - BHP: Basic Health Plan | | (182.0) | 182 |
| * K-12: Fiscal Stabilization Federal Stimulus | | (120.4) | 420.4 |
| * Higher Education: Fiscal Stabilization Federal Stimulus | | (99.6) | 99.6 |
| * DOC: Security Threat Mitigation Federal Stimulus | | (6.4) | 6.4 |
| * DEL: Head Start and ECEAP Federal Stimulus | | (1.2) | |
| * DSHS/Economic Svcs: Child Support Stimulus | | (8.2) | 6.2 |
| Revised Limit Related Funds | 15,781.4 | 15,804.1 | 17,700.4 |
| <i>Expenditures: Projected FY 2009 Spending</i> | <i>15,623.1</i> | | |
| <i>Expenditures: FY 2010 & 2011 (Budgeted/Projected)</i> | | <i>14,776.7</i> | <i>16,031.9</i> |
| Remaining Capacity Under The Expenditure Limit | 158.3 | 1,027.5 | 1,668.5 |

* These adjustments are related to the federal American Recovery and Reinvestment Act.