

2011-13 OPERATING BUDGET

OVERVIEW

Second Engrossed
Substitute House
Bill 1087

**SENATE WAYS & MEANS COMMITTEE
MAY 25, 2011**

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THE 2011-13 BUDGET SOLUTION

STATE FISCAL PICTURE FOR 2011

Economists determined that June of 2009 was the official end of the 2008 recession. However, the economy is still in the process of making a full recovery. Further, the corresponding increase in revenue collections is yet to occur. As a result of the lagging recovery, as well as increasing caseloads and other budget pressures, a budget gap of \$1.2 billion (based on the latest revenue forecast) developed for fiscal year 2011. The Legislature passed "early action" legislation in December 2010 and February 2011 designed to partially address the budget gap for the current fiscal year. The "early action" measures enacted by the Legislature included \$726 million in spending reductions and \$230 million in resource changes, primarily fund transfers.

As the state's economist said of the current economic period: "The economic outlook remains clouded with a great deal of uncertainty." As evidence of this uncertainty and weaker than expected economic activity, the March 2011 revenue forecast was reduced by over \$800 million for the remainder of fiscal year 2011 and for upcoming 2011-13 biennium.

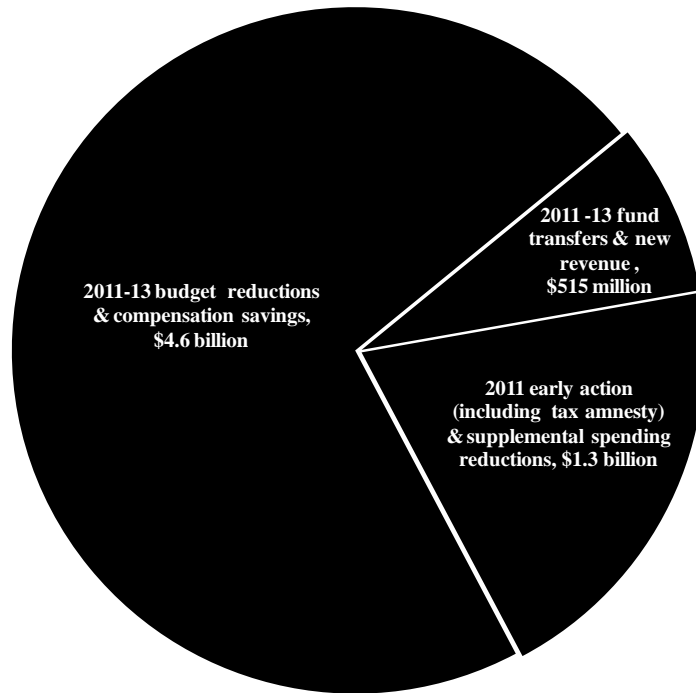
Based on the lowered March 2011 revenue forecast of the 2009-11 and 2011-13 biennia, the shortfall for fiscal year 2011 accrued to a total of \$1.2 billion. Further, lower revenue estimates, combined with the other assumptions used in the development of the budget, resulted in a projected \$5.1 billion deficit for the upcoming 2011-13 biennium. This deficit projection was based on the anticipated spending needs of current law, including the costs of maintaining current programs and services and as well as some selected policy level increases. The shortfall also included the backfill of over \$2.3 billion in one-time stimulus funds provided by the federal government during the 2009-11 biennium that are no longer available to support education and human service programs. In recognition of the volatile revenue situation, the budget solution for the 2011-13 biennium includes leaving approximately \$723 million in reserves.

SOLVING THE \$6 BILLION BUDGET PROBLEM

In addition to solving the remainder of the budget gap for fiscal year 2011 (which were not addressed in the December and February "early action" legislation), the budget proposal solves the \$5.1 billion shortfall in the 2011-13 biennium via: (1) \$4.6 billion in spending and compensation reductions; (2) \$458 million in fund transfers; (3) \$57 million in budget driven revenue; and (4) \$200 million in unanticipated revenues from the tax amnesty program which exceeded amounts estimated when the legislation was enacted in December 2010.

In other words, the budget solves the majority of the budget problem through spending reductions (see "Proposed Three Year Budget Solution" chart on the following page).

Proposed Three Year Budget Solution



Total Budget Solution = \$6.3 Billion

MAKING THE BUDGET SUSTAINABLE

The actions taken in the budget recognize the fiscal reality that necessitates making significant reductions in state services and programs. At the same time, the approach is to partially use the fiscal downturn as an opportunity to put the state on more sound fiscal footing. While some of these initiatives will have an immediate impact on the state budget, many of these efforts are designed to make state budgeting more sustainable in the future.

Initiatives in the approach include: (1) looking at ways to reduce bonded construction debt and provide more predictable debt service payments associated with the capital budget; (2) Senate Joint Resolution 8206 (extraordinary revenue growth) which sets aside extraordinary revenue growth into the Budget Stabilization Account; (3) ending the automatic cost of living increase for retirees in the older pension plans which reduces long term liability; (4) reforming the Guaranteed Education Tuition Program to make it more sustainable and less likely to need general fund-state support; (5) modifying the retire-rehire program; and (6) changing tuition policy to provide additional flexibility and to allow for longer term fiscal planning by institutions of higher education.

2011-13 BUDGET REDUCTIONS - \$4.6 BILLION

Major reductions in the budget include: (1) \$861 million by suspending the Initiative 728 class size distributions to school districts; (2) \$215 million by eliminating K-4 class enhancement which is partially offset by maintaining the funding for high poverty schools; (3) \$535 million in reductions to state higher education institutions which is partially offset by tuition increases; (4) \$356 million by making salary reductions to state, higher education and K-12 employees; (5) \$344 million from ending future automatic cost of living increases for Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 plan members; (6) a \$130 million reduction to the Basic Health Plan; (7) \$110 million from reducing hospital payments by seven to eight percent; (8) \$98 million from a 10 percent reduction to Medicaid personal care hours; and (11) \$116 million by reforming the Disability Lifeline cash program to a housing and essential needs program.

These examples are some of the largest reductions, but the budget reduces all areas of state government. Given the magnitude of the budget problem, one of the guiding principles is that all areas of state government need to be subjected to review for reduction. Ultimately no area of the budget could be spared from sharing in the budget solution.

FUND TRANSFERS & NEW REVENUE - \$515 MILLION

The budget makes \$458 million in transfers from various funds to maximize General Fund-state resources. Some of the largest transfers to the General Fund-State include: (1) \$204 million from suspending the transfer to the Education Construction Account for the 2011-13 biennium; (2) \$85 million from Liquor Revolving Account by continuing the markup on distilled spirits; (3) \$50 million from the Public Works Trust Fund; (4) \$45 from the Education Savings Account; (5) \$25 million from Treasurers Service Account; and (6) \$10 million from a 3.4 percent reduction to various distributions to local governments.

The budget includes additional actions that are expected to result in \$57 million in additional revenue. These include: (1) \$53.5 million from continued and new revenue collection efforts by the Department of Revenue; and (2) \$3.6 million from changes in liquor retail operations, such as opening six new contract stores and five new co-located stores.

During the December 2010 special session, the Legislature established a temporary tax amnesty program through April 2011. At that time, the program was estimated to generate approximately \$44 million in near GF-S revenue in fiscal year 2011. However, there was more demand for the program than estimated, and it is now estimated to generate approximately \$244 million in near GF-S revenue. The budget incorporates this additional revenue in its spending plan. This funding is depicted in the 2011 "early action" section of the pie chart on the previous page.

Near General Fund-State and Opp Pathways Balance Sheet
Proposed Striking Amendment to ESHB 1087 (May 24th)
(Dollars in Millions)

	<u>2009-11</u>	<u>2011-13</u>
Beginning Balance	310	111
Revenue		
November Revenue Forecast	28,566	33,211
December 2010 Legislation With Revenue Impacts	70	(30)
March Forecast Change	(143)	(654)
2011 Budget Driven Revenue	-	57
2011 Revenue Legislation (Net Change)	-	(23)
Interest & Penalty Deferral (Update)	200	-
Merge Portion of Education Legacy Account	-	-
Total Revenue	28,693	32,560
Other Resource Changes		
Transfers To The Budget Stabilization Account	(246)	(281)
Use of Budget Stabilization Account	267	-
Other Previously Enacted Fund Transfers	1,251	(204)
Prior Period Adjustments	19	-
Fund Transfers HB 3 225 & ESHB 1086	185	-
Capital Fund Transfers	-	273
Public Works Trust Fund	-	50
2011 Other Fund Transfers	21	136
Other Resource Changes	1,496	(27)
Total Resources	30,499	32,645
Spending		
2009-11 Enacted Budget/2011-13 Maintenance Level	31,085	36,253
December 2010 (HB 3225)	(492)	-
February 2011 (ESHB 1086, including vetoes)	(234)	-
2011 Supplemental	29	-
2011-13 Policy Level Changes (Net)	-	(4,050)
Total Spending	30,388	32,203
Ending Balance & Reserves		
<i>Unrestricted Ending Fund Balance</i>	<i>111</i>	<i>441</i>
<i>Budget Stabilization Account Balance</i>	<i>-</i>	<i>282</i>
Total Reserves	111	723

FUNCTIONAL AREAS OF GOVERNMENT

EMPLOYEE COMPENSATION

MAJOR SAVINGS

ELIMINATE FUTURE PLAN 1 COST-OF-LIVING ADJUSTMENTS - \$344.4 MILLION GENERAL FUND-STATE SAVINGS, \$74.8 MILLION OTHER FUNDS SAVINGS

Savings are achieved by ending future automatic benefit increases in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 (PERS 1 and TRS 1) under the Uniform Cost-of-Living (Uniform COLA) provisions established in 1995. The basic minimum benefit amount in the plans (currently \$42.63 per month per year of service) will continue to be increased by the Uniform COLA increase amount, and the alternative minimum benefit for members retired at least 20 years is raised to \$1,500 per month rather than \$1,194 per month, effective July 1, 2011. As a result of these changes, the unfunded accrued actuarial liability in PERS and TRS Plans 1 is reduced by approximately \$4 billion.

SUSPENSION OF INITIATIVE 732 - \$295.6 MILLION NEAR GENERAL FUND-STATE SAVINGS

Initiative 732 (I-732) was approved by voters in the November 2000 general election. It required the state to provide an annual cost-of-living adjustments (COLA) for K-12, community college and technical college academic employees and classified employees at technical colleges. During the 2009-11 biennium, the Legislature suspended the I-732 COLA but mandated a catch-up cost-of-living adjustment to be provided in equal increments during the 2011-13 and 2013-15 biennia. These requirements are suspended for 2011-13 biennium and the catch-up provisions are permanently removed.

K-12 EMPLOYEE SALARY REDUCTION - \$179.0 MILLION NEAR-GENERAL FUND-STATE SAVINGS

Allocations to school districts for K-12 employees' salaries will be reduced by 3 percent for administrators and by 1.9 percent for classified and certificated instructional staff for each of two upcoming school years. These reductions are intended to be consistent with the salary reductions for general state employees.

THREE PERCENT SALARY REDUCTION FOR STATE EMPLOYEES - \$177.1 MILLION NEAR GENERAL FUND-STATE SAVINGS, \$85.5 MILLION OTHER FUNDS SAVINGS

Expenditures on state employee salaries are reduced through a 3 percent reduction in employee salaries, excluding employees earning less than \$2,500 per month. The reduction is temporary through the 2011-13 fiscal biennium only. The reductions will be implemented consistent with collective bargaining agreements ratified for the 2011-13 biennium. Employees subject to the 3 percent reduction in salary will receive temporary salary reduction leave of up to 5.2 hours per month. State institutions of higher education are similarly required to implement compensation reductions equivalent to the 3 percent salary reduction.

NATIONAL BOARD FOR PROFESSIONAL TEACHER STANDARDS BONUSES - \$61.1 MILLION NEAR GENERAL FUND-STATE SAVINGS

Funding is adjusted to reflect two changes to the National Board for Professional Teaching Standards (NBPTS) bonus program: 1) adopting a bonus payment date of July 1st of each school year, beginning in the 2011-12 school year; and 2) prorating the first year national board bonus by 60 percent (a 40 percent reduction), to reflect the percentage of the school year newly NBPTS-certified teachers are certified.

NO LOCAL PUBLIC SAFETY BENEFIT ENHANCEMENT ACCOUNT TRANSFER - \$5.0 MILLION GENERAL FUND-STATE SAVINGS

Under legislation enacted in 2008, the state treasurer must transfer money to the Local Public Safety Enhancement Account (LPSEA) starting in calendar year 2011, and every two years thereafter, if the prior fiscal biennium's general state revenues exceed the previous fiscal biennium's revenues by more than 5 percent, subject to appropriation. Funds in the LPSEA may be used for public safety programs and retirement benefit increases for law enforcement officers and fire fighters. No transfer is required in 2011.

RETIREMENT INCENTIVE SAVINGS - \$4.4 MILLION GENERAL FUND-STATE SAVINGS

K-12 salary expenditures due to additional retirements expected among experienced teachers as a result of the \$250 per month health benefit subsidy provided by Senate Bill 5846 (health benefit subsidies) to members of the Teachers' Retirement System Plan 1 (TRS 1). The subsidy, which lasts for up to three years, is available to TRS 1 members who elect to retire before the end of October 2011. It is assumed that the retiring teachers will be replaced by less experienced teachers who receive lower salaries, resulting in savings in excess of the incentive payment and other costs.

K-12 PUBLIC SCHOOLS

OVERVIEW

The budget preserves funding for programs of basic education and funds growth of student enrollment and inflationary cost increases, providing \$179 million more in state funds in the 2011-13 biennium than were provided for such programs in the 2009-11 biennium. The budget fully funds several important non-basic education programs including the gifted program, full-day kindergarten for the 20 percent of students in the poorest schools, and levy equalization payments to school districts with high local tax rates. The budget retains funding for teacher bonuses for certification by the National Board for Professional Teaching Standards but makes modification to when the bonuses are paid.

The budget also provides educational enhancements in several key areas. For example, the budget maintains the momentum of public school funding improvements by restoring reductions to class-size funding in the lower grades in schools with high rates of poverty, enhancing funding for pupil transportation, all day kindergarten, and accelerating the launch of the new statewide system of principal and teacher evaluations that was approved by the Legislature in 2010.

Many budget changes are aimed toward reform as well as achieving spending reductions. Examples include changing the alternative learning system funding system, restructuring bilingual education funding formulas to provide transition assistance for successful exit from the program, and reviewing methods for improving the procurement of K-12 employee health benefits purchasing.

INCREASES

K-3 CLASS SIZE FUNDING - \$33.6 MILLION NEAR GENERAL FUND-STATE

Funding for lower class sizes in grades kindergarten through four was eliminated in the December, 2010 early action supplemental with the policy carried into the 2011-13 biennium. The budget provides \$33.6 million to partially restore lower-class sizes for schools with more than 50 percent of students eligible for free- or reduced-price lunch. The maximum average K-3 class size under the definition of basic education is 25 full-time equivalent students per teacher. The budget provides funding to achieve 24 students per teacher in high poverty schools.

PUPIL TRANSPORTATION ENHANCEMENT - \$5.0 MILLION NEAR GENERAL FUND-STATE

A new funding formula will take effect September 2011 with the beginning of the next school year. The budget, in addition to providing for maintenance-level growth in areas such as ridership and employee pension costs, adds \$5 million to enhance funding for pupil transportation.

FULL DAY KINDERGARTEN PHASE-IN - \$5.0 MILLION NEAR GENERAL FUND-STATE

Funding is provided to continue phasing-in full-day kindergarten programs in high poverty schools. Approximately 21 percent of eligible students will be served in the 2011-12 school year, and 22 percent in the 2012-13 school year.

PRINCIPAL & TEACHER EVALUATION SYSTEM - \$3.0 MILLION NEAR GENERAL FUND-STATE

In 2010, the Legislature enacted legislation to make significant changes in teacher and principal evaluation systems, including the introduction of a four-level evaluation ranking rather than the current two-level satisfactory and unsatisfactory system used by most districts currently. The budget adds \$3 million to increase the number of school districts participating on a pilot basis to lead up to statewide implementation in school year 2013-14.

MAJOR SAVINGS

INITIATIVE 728 STUDENT ACHIEVEMENT PROGRAM - \$860.7 MILLION NEAR GENERAL FUND-STATE SAVINGS

The Student Achievement Fund was authorized by voter approval of Initiative 728 in 2000. Districts use funds, primarily, to lower class sizes by hiring more teachers and providing professional development. The per-student allocation was reduced in the budget for school year 2009-10 and eliminated for school year 2010-11. The elimination of the per-pupil distribution is extended in the budget with the intention of incorporating the funding into a revised financial plan for implementation of basic education reforms.

K-3 CLASS SIZE FUNDING REDUCTION - \$214.7 MILLION NEAR GENERAL FUND-STATE SAVINGS

Funding for lower class sizes in grades kindergarten through grade 4 was eliminated in the December, 2010 early action supplemental. This policy is carried forward into the 2011-13 biennium. The reduction increased class sizes in grades K-3 from 23 full-time equivalent students per teacher to the maximum required size under the definition of basic education of 25 students per teacher; and increased class sizes in grade 4 to the maximum of 27 students per teacher from a class size of 26.15. The budget provides to partially restore and enhance smaller class sizes for schools with more than 50 percent of students eligible for free- or reduced-price lunch.

STUDENT ASSESSMENT CHANGES - \$51 MILLION NEAR GENERAL FUND-STATE

The budget assumed a variety of savings from efficiencies and reductions in the student assessment system. These include: (1) getting savings through the execution of renewal clause options and other state contracting efficiencies; (2) changes in assessment requirements for science for the 2011-13 biennium; (3) restructuring the collection of evidence rates and method of payment; (4) suspending the development of diagnostic assessments due to the joining of the SMARTER Balanced Assessment Consortium; and (5) reducing administrative staff and overhead costs associated with the assessment system.

ALTERNATIVE LEARNING EXPERIENCE FUNDING - \$41.1 MILLION NEAR GENERAL FUND-STATE SAVINGS

Funding for alternative learning experience programs is adjusted to reflect savings assumed from the implementation of Substitute House Bill 2065 (alternative learning funding) and formula changes for ALE programs.

EARLY LEARNING

OVERVIEW

The Early Childhood Education and Assistance Program (ECEAP) is the largest state funded program in the Department of Early Learning and the highest early learning priority. The budget fully preserves the ECEAP program using state funds and expands the number of slots available with \$2.2 million in new federal funds.

The budget provides \$1.8 million in state funds to expand evidence based home visiting services. The state funds allow the state to draw down \$2.6 million in federal funds. The public-private partnership of Thrive by Five has pledged private matching funds as a result of the state and federal investment.

MAJOR SAVINGS

ADMINISTRATIVE AND SMALL PROGRAM REDUCTIONS - \$3.5 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved through an administrative cut in the 2011-13 biennium (\$0.5 million) as well as discontinuing state funding for the Career and Wage Ladder (\$3 million).

HIGHER EDUCATION

OVERVIEW

The continued difficult state fiscal situation necessitates additional reductions in the state's investment in higher education. The 2011-13 state appropriations to the public colleges and universities are \$617.5 million (22.1 percent) below the amount needed to continue the current level of programs and activities. Of this amount, state appropriations to community and technical colleges are \$200.3 million (14.4 percent) below the state maintenance level and state appropriations to the four year institutions are \$417.3 million (29.8 percent) lower.

To offset this reduction in state funds, the budget proposes to increase tuition using a differential method that recognizes the unique missions and student populations of the state's two- and four-year institutions. As a result, the budget proposes to increase tuition by 16 percent each year at the University of Washington, Washington State University, and Western Washington University; by 14 percent each year at Central Washington University and The Evergreen State College; by 11 percent each year at Eastern Washington University; and by 12 percent each year at the community and technical colleges. After accounting for tuition increases anticipated in the 2011-13 biennium, the higher education system will experience an overall net reduction in academic functions of 5.1 percent.

Additionally, the Legislature provides the four-year institutions greater flexibility in the future by granting them full tuition setting authority beginning in the 2011-13 biennium through the 2017-19 biennium pursuant to Engrossed Second Substitute House Bill 1795 (higher education opportunity act). With this legislation, institutions will be required to negotiate a performance plan with the Office of Financial Management. Additionally, four year institutions that plan to increase tuition beyond the levels assumed

in the budget will be required to mitigate any tuition increase, as prescribed in the legislation, for those students with incomes below 125 percent of the median family income.

INCREASES

MAINTAIN FINANCIAL AID POLICY - \$124.4 MILLION GENERAL FUND-STATE

Funding is provided for the State Need Grant and State Work Study programs to offset the cost to recipients of resident undergraduate tuition increases of 16 percent each year at the University of Washington, Washington State University, Western Washington University; 14 percent each year at Central Washington University and The Evergreen State College; 11 percent at Eastern Washington University; and 12 percent each year at the community and technical colleges.

WORKER RETRAINING - \$9.0 MILLION GENERAL FUND-STATE

Ongoing funding is provided for an additional 970 worker retraining slots each year at community and technical colleges. Worker Retraining programs provide financial aid and other support services to jobless workers who need to change careers in order to re-enter the workforce.

OPPORTUNITY SCHOLARSHIP BOARD - \$5.0 MILLION GENERAL FUND-STATE

Pursuant to Engrossed Substitute House Bill 2088 (opportunity scholarship board), state matching funds are provided to match private contributions to the Opportunity Scholarship Program, which provides scholarships to low- and middle-income students who pursue a four year degree in a high-demand field of study.

WWAMI MEDICAL EDUCATION PROGRAM - \$900,000 GENERAL FUND-STATE

Funds are provided for development of integrated medical curriculum for the Washington/Wyoming/Alaska/Montana/Idaho (WWAMI) Medical Education Program at the University of Washington and for expansion of the program at Washington State University.

AEROSPACE TRAINING SCHOLARSHIPS AND LOANS - \$500,000 GENERAL FUND-STATE

Funds are provided to implement a loan program for students in certain aerospace training or educational programs pursuant to Engrossed Substitute House Bill 1846 (aerospace student loans).

APPLIED SCIENCES LABORATORY - \$500,000 GENERAL FUND-STATE

Funds are provided for the Spokane-based Applied Sciences Laboratory, which emphasizes applied research, technology transfer, and the development of spin-off companies in the physical sciences and engineering.

MAJOR SAVINGS

INSTITUTIONAL REDUCTIONS - \$535.5 MILLION NEAR GENERAL FUND-STATE SAVINGS

Two- and four-year institutions will experience a 22.1 percent reduction from their maintenance level funding. These reductions will be partially offset by tuition increases for an overall net reduction to the higher education system of 5.1 percent. Included in these reductions is a savings of \$82.1 million, as a result of a 3 percent salary reduction. For additional information on these reductions, please see the compensation section on page 6.

STATE WORK STUDY REDUCTIONS - \$31.0 MILLION GENERAL FUND-STATE SAVINGS

Funding for the State Work Study program is reduced. Changes made during fiscal year 2011 will become permanent, including increasing the required employer share of wages and discontinuing non-resident student eligibility for the program. Additionally, the Higher Education Coordinating Board/Office for Student Financial Assistance will adjust employer

match rates and revise distribution methods to institutions by considering other factors such as off-campus job development, historical utilization trends, and student need.

ADDITIONAL FINANCIAL AID REDUCTIONS - \$18.8 MILLION GENERAL FUND-STATE SAVINGS

State funds are reduced for a variety of smaller financial aid programs administered by the Higher Education Coordinating Board including suspending new awards in the Washington Scholars and Washington Award for Vocational Excellence (WAVE) programs; suspension of new awards from the health professionals and future teacher conditional scholarship programs; elimination of the funds for the Educational Opportunity Grants pursuant to Chapter 215, Laws of 2009, partial veto, which placed the eligibility of this program into the State Need Grant; and suspension of Community Scholarship Matching Grant Program, the Foster Care Endowed Scholarship, and student support fees provided via the Western Interstate Commission for Higher Education. Students who are currently receiving awards through Washington Scholars, WAVE, the health professionals conditional scholarship program, or the future teacher conditional scholarship program will not be impacted by this reduction.

STATE NEED GRANT REDUCTIONS - \$16.7 MILLION GENERAL FUND-STATE SAVINGS

Funding for the State Need Grant program is reduced by: 1) aligning increases in awards given to private institutions with their average annual tuition increase experience of 3.5 percent each year; and 2) reducing the awards given to for-profit institutions by 50 percent, although students currently receiving these awards will be held harmless for the length of their program.

COMMUNITY AND TECHNICAL COLLEGES EFFICIENCIES - \$7.5 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved from various efficiencies implemented in the community and technical college system including: consolidation of college districts; consolidation of administrative and governance functions including, but not limited to, human resources, budget and accounting services, and president's offices; consolidation of student service functions including, but not limited to, financial aid services, student advising, and libraries; compensation reductions; and other administrative efficiencies including, but not limited to, greater use of telephone and videoconferencing and reduced travel costs.

ELIMINATION OF THE HIGHER EDUCATION COORDINATING BOARD - \$2.6 MILLION GENERAL FUND-STATE SAVINGS

Pursuant to Engrossed Second Substitute Senate Bill 5182 (student financial assistance), in fiscal year 2013 the Higher Education Coordinating Board is eliminated and replaced with two state agencies, the Council for Higher Education and the Office of Student Financial Assistance. Savings are achieved as a result of eliminating, or shifting to other entities, a number of policy, planning, coordination, and research activities previously conducted by the Higher Education Coordinating Board.

DISPLACED HOMEMAKER PROGRAM - \$824,000 GENERAL FUND-STATE SAVINGS

Funding is eliminated for the Displaced Homemaker program, also known as the Life Transitions Program, which assists individuals who are dealing with the challenges of re-entering the workforce after a divorce or the death or disability of a spouse or partner.

LOW-INCOME MEDICAL ASSISTANCE

OVERVIEW

The budget authorizes \$10.7 billion of expenditures on medical assistance for low-income persons during the 2011-13 biennium. Of the total amount, \$4.5 billion is provided from state general funds, comprising 14 percent of total General Fund-State expenditures; \$400 million is provided from the hospital safety net assessment enacted in 2010; and the remaining balance consists of federal funding, primarily from Medicaid. These expenditures will pay all or part of the cost of medical and dental care for an average of 1.25 million children and adults each month during the biennium, which is 18 percent of the state population.

Total authorized expenditures are \$697 million (6.5 percent) more than will actually be expended upon low income medical assistance during the current biennium, but \$975 million (8 percent) less than the amount needed to maintain current service coverage and payment policies through 2013. Of the \$975 million of medical expenditure reductions in the budget, \$552 million are from state funds - a 10 percent reduction from the program maintenance baseline.

The budget recognizes that 2011-13 is a critical transition period for Washington's publicly funded health care system. Tens of thousands of additional residents who have lost jobs and income in the deep economic downturn have sought coverage under the public safety net at a time when funding for that net is severely constrained. The major expansion of federally-funded, state-administered medical coverage planned for 2014 promises to provide more secure coverage for them and hundreds of thousands more Washingtonians, but requires major new efforts on behalf of state government and all parts of the delivery system to serve them efficiently and well.

Therefore, the budget seeks to maintain publicly funded coverage for as many eligible persons as possible during the transition to 2014. It does this by employing a broad range of benefit- and cost-management strategies to reduce costs without reducing the number of persons covered. These include identifying other payers to share in the cost of coverage; implementing new approaches to care management in order to reduce unnecessary service utilization; no longer paying for services such as adult dental care and hearing aids; asking recipients to pay more toward the cost of the services they receive; and asking hospitals and clinics to find ways to operate with less state payment.

Despite these efforts, about a quarter (\$130 million) of state general fund reductions will be from continuing to cap enrollment in the state-subsidized Basic Health Plan, resulting in payment for about 24,000 fewer people per month than would otherwise be covered.

INCREASES

RURAL HEALTH CENTER PRENATAL & WELL-CHILD VISITS - \$2.9 MILLION GENERAL FUND-STATE, \$2.9 MILLION OTHER FUNDS

Qualified rural health clinics (RHCs) will be paid their standard cost-related encounter rate for prenatal and well-child services provided to women and children enrolled in the state Medicaid and State Children's Health Insurance programs.

MEDICAID DEMONSTRATION WAIVER - \$350,000 GENERAL FUND-STATE, \$350,000 OTHER FUNDS

As provided in Senate Bill 5596, the state will seek greater flexibility from the federal government in design and management of its Medicaid program. The project design is to include the ability to provide a modified benefit package modeled on the essential benefits package proposed for national health reform; flexibility to differentiate benefits based on enrollee age and

medical condition; authority to implement reasonable and enforceable cost-sharing; and the adoption of new payment mechanisms that contain costs while improving health.

MAJOR SAVINGS

BASIC HEALTH PLAN - \$129.6 MILLION GENERAL FUND-STATE SAVINGS, \$74.6 MILLION OTHER FUND SAVINGS

New admissions to the state-subsidized Basic Health Plan will continue to be frozen through the end of the 2011-13 biennium. As a result, enrollment in the program is expected to decrease by about 3,000 persons per year, to an average of 37,000 people per month in fiscal year 2012, and an average of 34,000 per month in fiscal year 2013.

HOSPITAL PAYMENT RATES - \$110.5 MILLION GENERAL FUND-STATE SAVINGS, \$110.6 MILLION OTHER FUND SAVINGS

In 2010, Medicaid inpatient payment rates were increased by 17.7 percent for most hospitals, and outpatient payment rates were increased by an average of 42 percent. For non-rural, non-governmental hospitals, effective July 1, 2011, inpatient rates are reduced by 8 percent and outpatient rates by 7 percent. These reductions are based upon an analysis showing that Medicaid inpatient payment rates for such hospitals are presently an average of 6 percent higher, and outpatient payment rates an average of 5 percent higher, than the federal Medicare program would pay for the same service.

COMMUNITY CLINIC PAYMENT RATES - \$42.0 MILLION GENERAL FUND-STATE SAVINGS, \$44.3 MILLION OTHER FUND SAVINGS

In order to promote access to primary care for low-income people, federally-qualified health centers and rural health clinics receive enhanced payments under the federal/state Medicaid program. These payment rates, which increased by about 32 percent between 2008 and 2010, are reduced by approximately 10.6 percent.

HOSPITAL SAFETY NET FUND BALANCE - \$40.0 MILLION GENERAL FUND-STATE SAVINGS, \$40.0 MILLION OTHER FUND EXPENDITURE

A portion of the state's expenditures on hospitals that would otherwise be paid from the state general fund will instead be covered with funds available in the Hospital Safety Net Assessment Fund.

INCREASED THIRD-PARTY LIABILITY AND AUDIT RECOVERIES - \$41.6 MILLION GENERAL FUND-STATE SAVINGS, \$37.7 MILLION OTHER FUND SAVINGS

The medical assistance program has contracted with a private firm on a contingency basis to identify additional recipients who have other private or public insurance coverage that can pay for their medical care. This is expected to result in an approximately 10 percent increase in the number of recipients for whom such coverage is identified, for a net state savings of approximately \$24 million. Funding is also provided for additional audit and coordination of benefits staff that are expected to recover and avoid roughly \$14 million of state medical expenditures, an approximate 7:1 net return on investment.

NON-EMERGENT USE OF EMERGENCY ROOMS - \$33.0 MILLION GENERAL FUND-STATE SAVINGS, \$38.8 MILLION OTHER FUND SAVINGS

Effective July 1, 2011, the medical assistance program will pay for no more than three emergency room visits for a non-emergent condition per enrollee per year. Hospitals may directly bill enrollees for the fourth and subsequent visits for non-emergent conditions, and are encouraged to work with enrollees and primary care providers to avoid earlier such visits. Non-emergent

conditions include ear infections, colds, sore throats, sinusitis, dermatitis, sunburn, migraines and other headaches, and joint or back pain.

ADULT DENTAL CARE - \$28.6 MILLION GENERAL FUND-STATE SAVINGS, \$28.9 MILLION OTHER FUND SAVINGS

The medical assistance program will pay for restorative and preventive dental care only for those adults who are pregnant, residing in a nursing home or intermediate care facility, or receiving services through a developmental disabilities or long-term care home- and community-based services waiver. Emergency dental care will continue to be available for all adults covered by state medical assistance programs.

SUSPEND COMMUNITY SUPPORT GRANTS - \$25.6 MILLION GENERAL FUND-STATE SAVINGS

The Health Care Authority provides grants to low-income community clinics and to community groups seeking to devise local solutions to health care access problems. No grants will be provided during the 2011-13 biennium.

HEALTHY OPTIONS MANAGED CARE RATES - \$27.0 MILLION GENERAL FUND-STATE SAVINGS, \$30.4 MILLION OTHER FUND SAVINGS

The medical assistance program will place significant emphasis upon price in the 2012 competitive procurement for health insurers to deliver services under the existing Healthy Options managed care program for non-disabled children and adults. This is expected to result in lower payments than would occur under the baseline system of negotiated rate-setting.

DISPROPORTIONATE SHARE HOSPITAL GRANTS - \$14.4 MILLION GENERAL FUND-STATE SAVINGS, \$14.4 MILLION OTHER FUND SAVINGS

Three grant programs that assist hospitals cover the cost of care for low-income under- and uninsured persons are each reduced by 40 percent.

MEDICARE PART D CO-PAYMENTS - \$14 MILLION GENERAL FUND-STATE SAVINGS

The state will no longer cover the cost of their drug co-pays for persons who are enrolled in both the federal Medicare and the state/federal Medicaid programs.

REDUCE MATERNITY SUPPORT SERVICES - \$12.0 MILLION GENERAL FUND-STATE SAVINGS, \$11.9 MILLION OTHER FUND SAVINGS

The Maternity Support Services program provides assessment, education, intervention, and counseling for pregnant and postpartum women who are at risk of poor birth outcomes. Funding for this program is reduced by approximately 30 percent. The department is to prioritize evidence-based practices, and to continue to target the available funds toward pregnant women at the highest risk of poor birth outcomes.

DRUG CO-PAYS - \$10.3 MILLION GENERAL FUND-STATE SAVINGS, \$10.3 MILLION GENERAL FUND-FEDERAL SAVINGS

The medical assistance program will seek a federal Medicaid waiver to allow implementation during the second year of the 2011-13 biennium of enforceable co-payments that will promote more cost-effective use of prescription drugs. The co-payments are expected to apply to all medical assistance enrollees and are expected to include a tiered strategy under which there would be no co-pay for most generic drugs; a \$15 co-pay for preferred brand-name drugs and; 50 percent co-insurance for non-preferred drugs.

SUPPLEMENTAL SECURITY INCOME (SSI) MANAGED CARE - \$7.7 MILLION GENERAL FUND-STATE SAVINGS, \$8.5 MILLION OTHER FUND SAVINGS

During the second year of the 2011-13 biennium, all elderly and disabled SSI recipients are expected to transition into either fully-capitated medical managed care, or into primary care medical homes operating on a risk-sharing basis. This is expected to result in reduced expenditures through more cost-effective care management, coordination, and delivery.

INCREASED UTILIZATION MANAGEMENT - \$7.2 MILLION GENERAL FUND-STATE SAVINGS, \$6.2 MILLION OTHER FUND SAVINGS

The medical assistance program will initiate increased medical necessity review and prior authorization of advanced imaging; certain orthopedic, spinal, and nerve surgeries; and drugs where there is evidence of over-utilization, off-label use, excessive dosing, duplicative therapy, or opportunities to shift utilization to less expensive, equally effective formulations.

EYEGASSES AND HEARING AIDS - \$4.6 MILLION GENERAL FUND-STATE SAVINGS, \$4.6 MILLION OTHER FUND SAVINGS

The medical assistance program will no longer pay for adult hearing aids and eyeglasses during the 2011-13 biennium. As provided in Senate Bill 5352 (providing eyeglasses to medicaid enrollees), medical assistance recipients will be able to purchase eyeglasses from optical providers at the discounted correctional industries production rate. Children will continue to receive coverage for both eyeglasses and hearing aids.

ADULT THERAPIES - \$4.1 MILLION GENERAL FUND-STATE SAVINGS, \$4.1 MILLION OTHER FUND SAVINGS

The medical assistance program will limit coverage of occupational, physical, and communication disorder therapies to 12 visits per year for adults with injuries to the brain, hips, knees, or spine, and to six visits per year for persons with all other injuries.

SELECTIVE CONTRACTING FOR EQUIPMENT AND SUPPLIES - \$3.6 MILLION GENERAL FUND-STATE SAVINGS, \$3.6 MILLION GENERAL FUND-FEDERAL SAVINGS

The medical assistance program will competitively contract with manufacturers and/or distributors of incontinence supplies, nutritional supplies, and wheelchairs.

INTERPRETER SERVICES - \$2.8 MILLION GENERAL FUND-STATE SAVINGS, \$5.4 MILLION OTHER FUND SAVINGS

By January 1, 2012, the medical assistance program will replace the current system for delivery of spoken-language interpreter services with a more cost-effective one. Under the new system, specialty contractors, operating within state-defined protocols for service quality, appropriateness, and timeliness, will be responsible for selecting and arranging the most cost-effective method for delivery of spoken-language interpretation appropriate to the patient's medical needs and the service-delivery setting. Such methods may include telephonic or video remote services for which the contractor sub-contracts with a qualified provider of such services, or face-to-face interpreter services for which the contractor sub-contracts with or employs an interpreter resident in and certified by the state.

IMMIGRANT CHILDREN'S HEALTH PROGRAM - \$1.5 MILLION GENERAL FUND-STATE SAVINGS

State subsidies will no longer be provided for coverage of children whose family incomes exceed 200 percent of the federal poverty level. Families and community groups may purchase coverage for such children by paying a premium equivalent to the average state cost for children eligible for state subsidy.

LONG TERM CARE, DEVELOPMENTAL DISABILITIES

OVERVIEW

The Aging and Disability Services Administration (ADSA) administers the Long Term Care (LTC) and [Division of] Developmental Disabilities (DDD) programs. In the budget, these two programs combined accounts for approximately \$2.6 billion in General Fund-State expenditures for the 2011-13 biennium.

INCREASES

Funding is provided for increasing caseloads for the LTC and DDD forecasted populations - nursing home residents, Medicaid personal care, and COPES waiver clients - as well as increases in per capita costs for all forecasted populations and DDD residential clients.

HEALTH BENEFIT INFLATION FOR INDIVIDUAL PROVIDERS - \$5.5 MILLION GENERAL FUND-STATE

The budget provides funding for health benefit inflation of 7 percent in fiscal year 2012 for individual providers. The health care contribution for individual providers will increase from \$620 per member per month to \$663 per member per month. The contribution will remain the same for fiscal year 2013.

MAJOR SAVINGS

REDUCTION IN MEDICAID PERSONAL CARE (MPC) HOURS - \$98 MILLION GENERAL FUND-STATE SAVINGS

The MPC program utilizes a client assessment to determine an individual's need for assistance with activities of daily living - such as bathing, meal preparation, toileting, medication management, and others. Based on the client's need, hours of personal care assistance are authorized on a monthly basis. The budget assumes that the total hours will be reduced an average of ten percent; however, the reduction will be tiered such that the most acute clients receive the smallest percentage reduction.

ESTABLISH NURSING FACILITY SAFETY NET ASSESSMENT - \$41 MILLION GENERAL FUND - STATE SAVINGS

The budget assumes the creation of a nursing facility safety net assessment pursuant to Substitute Senate Bill 5581 (nursing home safety net). The safety net assessment utilizes a new revenue stream and leverages additional federal funding for skilled nursing facility Medicaid payments. All revenues from the safety net assessment are utilized for payments to nursing facilities - totaling \$88 million in expenditures from a newly created trust account and matching federal funds for new net payments of \$170 million.

DELAY ENHANCED TRAINING REQUIREMENTS - \$27 MILLION GENERAL FUND-STATE SAVINGS

A full delay of the enhanced training requirements of Initiative 1029 is assumed. Enhanced training requirements including basic training, continued education, advanced training, enhanced background checks and other requirements of the Initiative are assumed to be delayed for all long-term care workers.

REFORM DDD EMPLOYMENT AND DAY PROGRAMS - \$11 MILLION GENERAL FUND-STATE SAVINGS

DDD clients typically receive supported employment services as a component of their Medicaid waiver. Additionally, clients may qualify for adult day health services. The Legislative budget assumes the adult day health program is added to the LTC COPES waiver; thus, making it inaccessible for DDD waiver clients. DDD clients will work with the contracted employment vendor for nine months to seek employment. After nine months, the client will be provided with a choice of the community access in lieu of supported employment. However, the budget assumes the DDD community access program will be restructured accessible to clients over age 21. Savings are realized in both the adult day health and employment programs.

MENTAL HEALTH

SAVINGS

COMMUNITY NON-MEDICAID FUNDING - \$8.7 MILLION GENERAL FUND-STATE SAVINGS

The "state-only" funding provided to Regional Support Networks (RSNs) for services and individuals not eligible for the federal Medicaid program is reduced by 3.5 percent. This results in a cumulative 14.5 percent reduction from the level of funding initially budgeted for such services in fiscal year 2009. RSNs are to prioritize use of the remaining funds for crisis response, involuntary commitment, emergency hospitalization, and residential support services.

COMMUNITY MEDICAID FUNDING - \$8.7 MILLION GENERAL FUND-STATE SAVINGS, \$8.7 MILLION OTHER FUND SAVINGS

The managed care payments that the state's 13 Regional Support Networks receive to provide mental health services to children and adults covered by the state Medicaid program are reduced by an average of 2.3 percent.

STATE HOSPITAL STAFFING - \$8.1 MILLION GENERAL FUND-STATE SAVINGS

Staffing at Western State Hospital is reduced by approximately 1.5 percent. Staffing at Eastern State Hospital and at the Child Study and Treatment Center are each reduced by 3 percent. Savings are to be achieved through managing vacancies, limiting overtime, and staff reorganization.

WESTERN STATE HOSPITAL CIVIL COMMITMENT WARD CLOSURE - \$6.6 MILLION GENERAL FUND-STATE SAVINGS

A 30-bed ward serving patients civilly committed for treatment was closed in October 2010, and the patients relocated to vacancies on other hospital wards.

OTHER HUMAN SERVICES

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) AND CHILD CARE

OVERVIEW

The TANF, child care, and WorkFirst program, known as the TANF Box, was estimated to have a \$400 million deficit for the 2011-13 biennium. To address this deficit the Governor made several eligibility, benefit level, and administrative reductions. After these Governor directed reductions, the TANF box was still estimated to have a shortfall of \$50 million. The Legislature makes several reforms to the TANF Box through the budget and legislation.

REFORM

All families receiving TANF cash benefits must participate in work or work activities as a condition of benefit receipt. The budget suspends mandatory work or work activity participation for a single parent family with a child under the age of two and any family with two or more children under the age of six (school age) for one year and then phases these families back in during the second year. During fiscal year 2012 the WorkFirst programs are to be restructured and become performance based. This includes funding and providing services beyond the state partner agencies. The budget also increases the number and visibility of fraud detection in public assistance programs through more staff and increased technology. The Working Connections Child Care program will also move to electronic form of time and attendance.

SAVINGS

TANF REDUCTIONS - \$62.9 MILLION SAVINGS

The proposed budget makes several changes to the cash benefits program including: (1) implementing an income eligibility test for a care giver who is providing for a child outside of the child's home; and (2) applying the sixty-month time limit to any family where the parent is in the home. Major child care reductions include: (1) reduced child care for those whose WorkFirst participation is suspended; (2) moving to six-month certifications; and (3) requiring child support for Working Connections Child Care participants. WorkFirst savings is found through suspension of services and moving to performance based contracts. The budget estimates an \$11.8 million ending fund reserve to pay for any unforeseen costs.

DSHS - ECONOMIC SERVICES ADMINISTRATION

OVERVIEW

Economic Services is the main entry point for all DSHS services such as cash assistance, medical, food, and other social services. To achieve savings the budget reforms the Disability Lifeline (DL) program, continues several reductions made in the 2009-11 biennium into the 2011-13 biennium, and reduces state-only funded programs.

MAJOR SAVINGS

DISABILITY LIFELINE PROGRAM - \$115 MILLION GENERAL FUND-STATE SAVINGS

The budget reforms the Disability Lifeline cash programs. The cash benefit and entitlement for the Disability Lifeline-Unemployable (DL-U) clients is eliminated and is replaced with a limited essential needs and housing support program. This program provides housing support services to homeless DL-U clients. The budget also provides for a contingency fund to prevent clients who are at imminent risk of becoming homeless.

STATE FOOD ASSISTANCE PROGRAM - \$30.3 MILLION GENERAL FUND-STATE

The state food assistance program provides a basic food benefit to individuals not eligible for the federal food stamp program. The budget reduces the benefit amount by 50 percent. This savings is based on resolution of legal issues that would allow this reduction to be implemented at that time.

CHILD SUPPORT PASS-THROUGH PAYMENTS AND IRS REDISTRIBUTION - \$25 MILLION GENERAL FUND-STATE SAVINGS, \$25 MILLION FEDERAL SAVINGS

Savings are achieved by suspending the child support pass-through provision allowed under the Federal Deficit Reduction Act and using IRS distributions to pay for state administrative costs.

DSHS - CHILDREN'S ADMINISTRATION

OVERVIEW

The budget for Children's Administration is focused on transitioning to performance based contracting and preserving as many of the current programs as possible.

MAJOR SAVINGS

PERFORMANCE BASED CONTRACT SERVICES - \$5 MILLION GENERAL FUND-STATE SAVINGS, \$2.6 MILLION GENERAL FUND-FEDERAL SAVINGS

The proposed budget reduces performance based contracting services, including: (1) Behavioral Rehabilitative Services (\$1.2 million General Fund-State); (2) in-home intervention services (\$1.3 million); and (3) foster care related programs (\$5 million General Fund-State).

CHILDREN'S ADMINISTRATION DIRECT SERVICES - \$26 MILLION TOTAL FUND SAVINGS

The budget reduces services outside of performance based contracting. These services include foster parent child care and reduced foster care caseload costs through expediting permanency and voluntary placement agreements.

ADMINISTRATIVE REDUCTIONS - \$7 MILLION GENERAL FUND-STATE SAVINGS, \$10 MILLION GENERAL FUND-FEDERAL SAVINGS

The proposed budget reduces administrative expenditures and 249 full time equivalent staff positions by regional consolidation and other efficiency efforts.

CORRECTIONS & OTHER CRIMINAL JUSTICE

OVERVIEW

The proposed budget implements a strategic crime reduction policy of releasing from community supervision offenders with a low and moderate risk profile and retaining supervision for offenders in treatment programs. Evidence-based studies show that supervision without treatment is not effective at reducing crime.

INCREASES

PRISON SAFETY ENHANCEMENTS - \$6 MILLION GENERAL FUND-STATE

Funding is provided for prison safety enhancements, including: a study to standardize a body alarm or proximity card system statewide; a pilot body alarm and proximity card system; upgrades to the radio system adding panic buttons; expanded use of pepper spray; developing and implementing training for supervisors on enhanced security awareness; increased staff counselor positions; and to add custody staff at the Monroe Correctional Complex and the Washington State Penitentiary that are responsible for ensuring the whereabouts of all prison employees.

EXPANSION OF TREATMENT - \$1 MILLION GENERAL FUND-STATE

The budget makes investments in evidence-based treatment programs in the Juvenile Rehabilitation Administration and in local juvenile courts.

HOUSING VOUCHER EXPANSION - \$844,000 GENERAL FUND-STATE

Housing vouchers will be increased from 165 to 238 each month. This facilitates the release of offenders on their earned release date and mitigates homelessness, which is a risk factor in offender recidivism.

MAJOR SAVINGS

CONTINUE 2011 SUPPLEMENTAL SAVINGS - \$53.6 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved by continuing reductions begun in fiscal year 2011 as a result of the Governor's across-the-board reductions. These continued savings include: eliminating staff positions (\$18.6 million); reducing administrative costs (\$2.8 million); changing agency staffing structure (\$7.2 million) holding positions vacant (\$7.9 million); reducing DOSA bed utilization (\$3.4 million); and achieving additional program savings (\$7.8 million).

CLOSE MCNEIL ISLAND/OPEN LARCH UNIT - \$18.3 MILLION GENERAL FUND-STATE SAVINGS

The budget captures the 2011-13 savings associated with the closure of McNeil Island Corrections Center on April 1, 2011. The savings are partially offset by the opening of the second unit at the Larch Corrections Center in Yacolt.

REDUCE RENTAL RATE FOR VIOLATORS - \$15.5 MILLION GENERAL FUND-STATE SAVINGS

The Department will negotiate lower contract amounts for housing offenders in local and tribal government jails. The rate must not exceed \$85 per day per offender, saving \$7 million. In addition, the budget assumes a lower demand for violator beds attributable to the reduction in the number of offenders on supervision and the elimination of tolling, saving \$8.5 million.

SUPERVISION SAVINGS - \$9.4 MILLION GENERAL FUND-STATE SAVINGS

Engrossed Substitute Senate Bill 5891 (criminal justice cost savings) generates savings related to community supervision through the following actions:

- The Department will reduce their supervision of offenders from jail and court, saving \$1.8 million. Excluded from this group are offenders in treatment programs, offenders with a high risk profile, and offenders with a conviction of a domestic violence offense.
- Tolling of offenders on community supervision is eliminated, saving \$5.3 million. The length of an offender's supervision will run continuously regardless of whether an offender is incarcerated for violating the terms of their supervision.
- Community supervision of offenders on the First Time Offender Waiver program is reduced saving \$2.4 million, affecting 2,550 offenders.

EARLY DEPORTATION OF ALIEN OFFENDERS - \$2.5 MILLION GENERAL FUND-STATE SAVINGS

Engrossed Substitute House Bill 1547 (criminal alien offenders) authorizes the deportation of alien offenders, except those serving a sentence for a violent offence, sex offense or a crime against a person.

DSHS-SPECIAL COMMITMENT CENTER

INCREASES

MCNEIL ISLAND OPERATIONS - \$6.0 MILLION GENERAL FUND-STATE

McNeil Island Corrections Center closed on April 1, 2011. Prior to its closure the Department of Corrections provided the staff necessary for marine and island operations. The staff necessary to continue these functions are transferred to the Department of Social and Health Services.

MAJOR SAVINGS

REDUCE SECURE COMMUNITY TRANSITION FACILITY (SCTF) STAFFING RATIOS - \$3.8 MILLION GENERAL FUND-STATE SAVINGS

Substitute House Bill 1247 (secure transition facilities) modifies the staffing ratios at SCTFs to a more efficient staffing workload.

OTHER CRIMINAL JUSTICE

INCREASES

RURAL DRUG ENFORCEMENT - \$2 MILLION GENERAL FUND-STATE

Funding is provided through the Criminal Justice Training Commission for grants to counties historically underserved by federally funded narcotics task forces.

DEPARTMENT OF HEALTH

MAJOR SAVINGS

LOCAL PUBLIC HEALTH FUNDING - \$10 MILLION GENERAL FUND-STATE SAVINGS

In 2007, the Legislature provided an additional \$20 million in funding to local public health jurisdiction based on the recommendation of the Blue Ribbon Commission on Health Care. The funding was accompanied by a mandate to define core public health functions and for local public health jurisdictions to report on outcomes. Local public health jurisdictions will still receive \$73.2 million in funding from the Department of Health for the 11-13 biennium.

FAMILY PLANNING GRANTS - \$2.3 MILLION GENERAL FUND-STATE SAVINGS

The Department of Health provides family planning funding to a network of local providers throughout the state. These funds can be used for a variety of family planning activities and serves clients who earn 250 percent or less than the federal poverty level. The budget assumes a 11.25 percent reduction to these grants.

NATURAL RESOURCES

OVERVIEW

The total 2011-13 biennial natural resources budget is approximately \$1.49 billion and represents roughly 2.4 percent of the overall budget. Of this \$1.49 billion, the state general fund accounts for less than 21 percent or approximately \$309 million. The budget reduces natural resources by approximately \$95 million overall. 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.

Given the current economic forecast, the General Fund-State appropriations for the natural resource agencies were reduced and crafted with the following goals:

1. Protect and preserve the health of the state's natural resources;
2. Continue to provide public access to the state's natural resources; and
3. Transition, as much as possible, to a user-supported funding structure.

INCREASES

PROTECT AND RESTORE PUGET SOUND - \$18 MILLION GENERAL FUND-FEDERAL

The budget provides \$18 million for the US Environmental Protection Agency and the Department of Fish and Wildlife to enter into an agreement to protect and restore near shore habitats in the Puget Sound. Funding will be distributed to improve the efficiency of existing stewardship programs.

MAJOR SAVINGS

MAKING NATURAL RESOURCES AGENCIES USER-SUPPORTED - \$68 MILLION OF NEW REVENUE

The Parks and Recreation Commission, the Department of Fish and Wildlife (DFW), and the Department of Natural Resources (DNR) will all transition to a more user-supported funding structure. The agencies will issue annual passes that cost \$30 and will allow purchasers to access all state parks and DFW and DNR recreational areas. The agencies will also offer \$10 passes that will afford purchasers the same access for a single day. Campers, hunters, and fishers, off-road vehicle owners, and recreational boaters who already pay for access to specific recreation areas

through existing permit and registration fees will not be required to purchase either the annual or day-use permits for those specific recreation areas.

HUNTING AND FISHING LICENSES - \$4 MILLION GENERAL FUND-STATE SAVINGS, \$18.5 MILLION STATE WILDLIFE ACCOUNT

The Department of Fish and Wildlife will be changing its hunting and fishing license fees. The department has reviewed its fee structure as compared to other states and in consultation with stakeholders. Forty percent of current fees will either decrease in value or be eliminated. The remaining 60 percent will increase. On average, the fees will increase by 16 percent for residents; 12 percent for non-residents, 2 percent for youths; and decrease by 4 percent for persons with disabilities and veterans.

ADMINISTRATIVE SAVINGS AND CONSOLIDATION - \$2.8 MILLION GENERAL FUND-STATE SAVINGS

Back-office functions will be reduced in the Parks and Recreation Commission, the Department of Fish and Wildlife, the Department of Natural Resources, the Department of Agriculture, and the Department of Ecology. Agency General Fund-State appropriations for administration will be reduced by approximately 12 percent in the second fiscal year and executive administration will be reduced by approximately 15 percent accordingly. The agencies are encouraged to work together to achieve efficiencies in managing the natural resources of the state.

OTHER CHANGES

MAJOR SAVINGS

MANAGEMENT EFFICIENCIES - \$14.2 MILLION GENERAL FUND-STATE SAVINGS

Agencies are required to implement management and administrative reforms, such as delayering and streamlining of support functions that will result in increased efficiency. For most agencies, management reductions of 7 to 10 percent are expected to be achieved over the course of the biennium. State agencies can anticipate continuous legislative policy and fiscal committee examination of the architecture and cost of the state's career and executive workforce, and shall be prepared to provide relevant information in hearings and work sessions.

MASTER LICENSE SERVICE (MLS) PROGRAM - \$14.3 MILLION MASTER LICENSE FUND TRANSFER

Substitute House Bill 2017 (master license service prog.) transfers all powers, duties, and functions of the MLS program from the Department of Licensing to the Department of Revenue (DOR) by July 1, 2011. DOR is able to simplify the licensing process by combining multiple functions of registering and renewing business licenses. Through their well established relationships with businesses and local governments and improvements through technology, DOR will be able to expand access to the MLS system as well as streamline functions of the system.

SUSPEND PRESIDENTIAL PRIMARY - \$10 MILLION GENERAL FUND-STATE SAVINGS

Reimbursement is provided to counties for the state's share of expected presidential primary costs in 2012 as required by statute.

JUDICIAL STABILIZATION FUNDS - \$9 MILLION GENERAL FUND-STATE SAVINGS

Additional surcharges on some court fees originally authorized in the 2009 legislative session will be extended until July 1, 2013. Seventy-five percent of the funding comes to the state while 25 percent is retained by local courts. The state portion of the funding will be deposited into the Judicial Stabilization Trust Account and used to support the Administrative Office of the Courts,

Office of Civil Legal Aid, and Office of Public Defense. These additional surcharges are estimated to raise \$9 million in additional revenue for the state and \$12 million in total.

ARTS COMMISSION AND HISTORICAL SOCIETIES - \$14.4 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved at the State Arts Commission, Washington State Historical Society, Eastern Washington State Historical Society, and the Department of Archaeology and Historic Preservation through a combination of administrative efficiencies, reduced operations, and the replacement of General Fund-State funding with Washington State Heritage Center Account funding. It is expected that historical society expenses will be reduced in part by opening the Washington State History Museum in Tacoma and the library of the Eastern Washington State Historical Society in Spokane one day less each week.

CENTRAL SERVICE EFFICIENCIES - \$1.9 MILLION GENERAL FUND-STATE SAVINGS

The Legislature directs the Department of Enterprise Services, created in Engrossed Substitute Senate Bill 5931, to find savings from delivering central services to agencies more efficiently. Savings may be generated from eliminating under-utilized services, reviewing rates charged to agencies, eliminating or merging duplicated services, contracting out for services, and other efficiency measures.

APPENDIX A

2011 Supplemental & 2011-13 Fund Transfers

(Dollars in Millions)

	<u>2009-11</u>	<u>2011-13</u>
2011 Supplemental: Transfers To GFS		
<i>HB 3225</i>	54.0	-
<i>2011 ESHB 1086 Supplemental: Transfers From GFS w-o BSA</i>	(12.4)	-
<i>ESHB 1086</i>	143.4	-
Capital Fund Transfers		
Suspend GFS transfer to Education Construction Acct.	-	204.0
Education Savings Account	-	45.0
CEP&RI Acct.	-	9.0
Thurston County Capital Facilities Acct.	-	8.0
Aquatic Lands Enhancement Acct.	-	7.0
Capital Fund Transfers	-	273.0
Other Fund Transfers		
Liquor Revolving Account (Continue Liquor Mark-up)	-	85.0
Treasurers Service Account	-	25.0
City & County Distributions (Varied)	-	10.0
Waste Reduction/Litter Acct.	-	7.0
Economic Development Strategic Reserve Account	-	4.2
Flood Control Assistance Acct.	-	2.0
Liquor Control Board Construction and Maintenance Account	-	1.0
Fair Fund-Reduce Statutory Transfer	-	0.5
Department of Retirement Systems Expense Account	-	0.5
Foster Care Endowed Scholarship Account	-	0.4
Other Fund Transfers	-	135.6
Public Works Trust Fund	-	50.0
Grand Total - Transfers to GF-S	185.0	458.6

APPENDIX B

2011 Supplemental & 2011-13: Revenue Legislation & Budget Driven Revenue

(Dollars in Millions)

Bill	2009-11	2011-13	
December 2010 Legislation			
	70.3	(30.1)	
2011 Revenue Reduction Legislation			
2SSB 5539 Motion pictures	0.0	(7.0)	
ESB 5873 Server equipment businesses	0.0	(2.4)	
ESHB 1902 Child welfare service/B&O tx	0.0	(1.9)	
SB 5083 Real estate firms B&O tax	0.0	(1.8)	
2ESHB 1224 B&O deduction/mental health	0.0	(1.4)	
SB 5289 Property management/B&O tax	0.0	(0.6)	
SB 5501 Taxation of employee meals	0.0	(0.7)	
HB 1347 Sales & use tax exemptions	0.0	(0.1)	
SSB 5534 Newspapers B&O taxation	0.0	(0.0)	
2SSB 5458 Medicaid Fraud	0.0	(8.6)	
2011 Revenue Reduction Legislation	0.0	(24.5)	
2011 Revenue Increase Legislation			
ESHB 1087 Child Care Licensing	0.0	1.0	
2011 Revenue Increase Legislation	0.0	1.0	
2011 Revenue Legislation Net Change			
	0.0	(23.5)	
Budget Driven Revenue			
<u>Agency</u>	<u>Other Revenue Adjustments</u>	<u>2009-11</u>	<u>2011-13</u>
Liquor	Budget Related	0.0	3.6
DOR	Continue Actions From HB 3225	0.0	39.0
DOR	Budget Related	0.0	14.5
Budget Driven Revenue		0.0	57.1
Total Net GFS Impact		0.0	33.6
<i>SSB 5542</i>	<i>Cigar Lounges for Deposit in Tobacco Prevention</i>	-	4.0

BUDGET DRIVEN REVENUE

LIQUOR CONTROL BOARD - \$3.6 MILLION GENERAL FUND-STATE INCREASE

Budget driven revenue by the Liquor Control Board is increased by several revenue generating initiatives and administrative cuts.

DEPARTMENT OF REVENUE - \$53.5 MILLION GENERAL FUND-STATE INCREASE

Funding is provided for additional staff to collect state tax revenues. The Department of Revenue (DOR) will add tax collection staff, including taxpayer account administrators, compliance staff, and auditors. On average, each employee will bring in an additional \$420,000 per fiscal year in revenue. The budget also includes an extension of funding for out-of-state auditors originally provided in HB 3225 (2010).

REVENUE ADJUSTMENTS

Revenue Bills & Other Revenue Actions		
<i>(dollars in thousands)</i>		
Bill	Title	FY11-13
ESHB 1087	Childcare Licensing Fees	\$993
2ESHB 1224	B&O deduction/mental health	(\$1,415)
HB 1239	Delinquent excise taxes/lien	\$0
ESHB 1346	Tax law changes	\$0
HB 1347	Sales & use tax exemptions	(\$129)
EHB 1357	Taxes/electronic means	\$0
ESHB 1826	Taxpayer appeal protections	\$0
ESHB 1902	Child welfare service/B&O tx	(\$1,871)
EHB 1969	Flood control zone districts	\$0
HB 2019	Cigarette tax revenue deposits	\$145,700
SB 5044	Tax preference review	\$0
SB 5083	Real estate firms B&O tax	(\$1,773)
SSB 5167	Tax statute clarifications	\$0
SSB 5222	Public port districts/levies	\$0
SB 5289	Property management/B&O tax	(\$582)
SSB 5359	Contiguous land/property tax	\$0
SB 5501	Taxation of employee meals	(\$666)
SSB 5525	Hospital benefit zones	\$0
SB 5526	Stirling converters	\$0
SSB 5534	Newspapers B&O taxation	(\$17)
2SSB 5539	Motion pictures	(\$7,000)
SSB 5587	Low-income property tax deferral	\$0
2SSB 5595	PUD privilege tax	\$0
SB 5628	Emergency medical services levy	\$0
2ESB 5638	Flood control zone districts	\$0
2ESSB 5742	Public ferry fuel exemption	\$0
SB 5763	Nonresident sales tax exemption	\$0
SB 5806	Veteran lottery raffle	\$0
SB 5849	Estates and trusts	\$0
ESB 5873	Server equipment businesses	(\$2,384)
SSB 5942	Spirits distribution	\$0
SJR 8206	Extraordinary revenue growth	\$0
	Total	\$129,863

CHILDCARE LICENSING FEE - \$993,000 GENERAL FUND-STATE INCREASE

Engrossed Substitute House Bill 1087 (2009-2011 and 2011-2013 fiscal biennia operating appropriations) authorizes the Department of Early Learning to increase licensing fees for childcare centers and in-home family providers to partially offset the cost of regulation.

ALLOWING A TAX DEDUCTION FOR AMOUNTS RECEIVED WITH RESPECT TO MENTAL HEALTH SERVICES - \$1,467,000 GENERAL FUND-STATE DECREASE

Second Engrossed Substitute House Bill 1224 (concerning a business and occupation (B&O) tax deduction for amounts received with respect to mental health services) allows nonprofit mental health service providers a deduction from B&O tax for amounts they receive from a Regional Support Network (RSN) for services provided under a government funded health program. Further, 2ESHB provides a deduction to RSNs for amounts received from a government for distribution to a nonprofit health or social welfare organization for mental health services.

ALLOWING A LIEN TO SECURE PAYMENT OF DELINQUENT EXCISE TAXES IN LIEU OF A WARRANT - NO IMPACT TO GENERAL FUND-STATE

House Bill 1239 (concerning a notice of lien to secure payment of delinquent excise taxes in lieu of a warrant) allows that, in lieu of filing a tax warrant with a superior court that encumbers all real and personal property, DOR may file a notice of lien for any specific real property in which the taxpayer has an ownership interest if the total amount of the warrant exceeds \$25,000 and DOR determines that issuing the notice of lien would best protect the state's interest in collecting the amount due on the warrant.

TAX LAW CHANGES - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute House Bill 1346 (tax law changes) makes several adjustments to the tax code, including: clarifications to the trailing nexus statutes; removal of two redundant annual tax incentive accountability report and survey statutes; clarification that a seller has no obligation to collect use tax if federal law prohibits collection; and reduction of the scope of the January 2012 tax exemption study to include only those tax exemptions which are likely to increase state revenue if the exemption was repealed.

CONCERNING THE SALES AND USE TAX EXEMPTION FOR MANUFACTURING, RESEARCH & DEVELOPMENT, OR TESTING OPERATIONS - \$129,000 GENERAL FUND-STATE DECREASE

House Bill 1347 (concerning sales and use tax exemptions for manufacturing, research and development, or testing operations) limits the sales and use tax exemption for machinery and equipment to businesses that are taxed under the manufacturing category. HB 1347 also allows a sales and use tax exemption for machinery and equipment used for research and development operations at public research institutions (the University of Washington, Washington State University, Western Washington University, Central Washington University, Eastern Washington University, and The Evergreen State College).

ACHIEVING OPERATIONAL EFFICIENCIES AT THE DEPARTMENT OF REVENUE THROUGH THE EXPANDED USE OF ELECTRONIC MEANS TO REMIT AND REPORT TAXES - NO IMPACT TO GENERAL FUND-STATE

Engrossed House Bill 1357 (achieving operational efficiencies at DOR through the expanded use of electronic means to remit and report taxes) achieves \$906,000 in administrative savings in the 2011-13 biennium and thereafter by reducing the processing of returns by requiring electronic filing and payment of taxes taxpayers filing on a quarterly basis. The existing 10 percent penalty for disregarding specific written instructions applies to taxpayers who must e-file, but fail to comply with written instructions to do so. E-filing may be waived for taxpayers who make a request and show "good cause" (such as lack of equipment or internet access).

PROVIDING TAXPAYERS ADDITIONAL APPEAL PROTECTIONS FOR VALUE CHANGES - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute House Bill 1826 (providing taxpayers additional appeal protections for value changes) requires that a county Board of Equalization must waive the property tax valuation appeal deadline if a request is made within a reasonable time after the normal filing deadline under the following circumstances: the taxpayer's property was in the revaluation area; the taxpayer was not sent a property value change notice; and the property value did not change from the previous year.

CONCERNING A B&O TAX DEDUCTION FOR CHILD WELFARE SERVICES - \$1,871,000 GENERAL FUND-STATE DECREASE

Engrossed Substitute House Bill 1902 (concerning a B&O tax deduction for child welfare services) allows a deduction from B&O tax for amounts received as compensation for providing child welfare services provided under a government funded program. ESHB 1902 also allows a deduction for amounts passed through a for-profit or nonprofit entity to a health or social welfare organization.

FLOOD CONTROL DISTRICTS - NO IMPACT TO GENERAL FUND-STATE

Engrossed House Bill 1969 (flood control zone districts) allows flood control districts with boundaries that are coextensive with a county of greater than 775,000 persons to protect up to 25 cents of their 50 cent levy from pro-rationing under the \$5.90 levy limit for taxes levied in collection in 2012 through 2017.

DEPOSITING CIGARETTE TAX REVENUE INTO THE GENERAL FUND - \$145,700,000 GENERAL FUND-STATE INCREASE

House Bill 2019 (cigarette tax deposits) provides that the \$0.60 cigarette tax, which was previously deposited into the Education Legacy Trust Account, will be deposited into the general fund.

CONCERNING THE TAX PREFERENCE REVIEW PROCESS - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5044 (concerning the tax preference review process) replaces the requirement that the Citizen Commission for Performance Measurement of Tax Preferences must schedule tax preferences in the order in which tax preferences were enacted with a more flexible approach. The modified approach allows the Joint Legislative Audit and Review Committee (JLARC) to consider the date of enactment as one factor, as well as other factors including, but not limited to, grouping preferences for review by type of industry, economic sector, or policy area in determining the schedule. The requirement that an expedited review may only be applied to preferences with a biennial fiscal impact of \$10 million or less is eliminated. The Commission is authorized to recommend an expedited review for any tax preference. In evaluating tax preferences, JLARC may determine which factors should be included in the review of a particular preference based on the factor's relevance to that preference.

BASING THE B&O TAX FOR REAL ESTATE FIRMS ON THE COMMISSION AMOUNT RECEIVED BY EACH FIRM IN A TRANSACTION - \$1,773,000 GENERAL FUND-STATE DECREASE

Senate Bill 5083 (clarifying that the basis for B&O tax for real estate firms is the commission amount received by each real estate firm involved in a transaction) provides that any real estate firm which receives a commission at the time of closing on a real estate transaction must pay the B&O tax only upon their respective shares of the commission.

TAX STATUTE CLARIFICATIONS AND TECHNICAL CORRECTIONS - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5167 (concerning tax statute clarifications and technical corrections, including for the purposes of local rental car taxes) makes technical corrections and clarifications to the tax code, including updating statutory references, merging double amendments, and combining redundant statutes. Further, SSB 5167 removes the requirement that 75 percent of the receipts from the local 1 percent tax on car rentals be used for three of the four statutory purposes permitted: to acquire, construct, maintain, or operate a public sports stadium; to pay for services incidental to a public sports stadium facility; and debt service for the construction of a public sports stadium facility. The fourth statutory purpose for which tax receipts may be used is for youth or amateur sport activities or facilities.

INCREASING FLEXIBILITY FOR INDUSTRIAL DEVELOPMENT DISTRICT LEVIES FOR PUBLIC PORT DISTRICTS - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5222 (increasing the flexibility for industrial development district levies for public port districts) amends the provisions of Industrial Development District levies for port districts. SSB 5222 allows port districts to extend the multiyear annual IDD levy, for a period that does not exceed 20 years from the date the initial levy is assessed. The maximum aggregate revenue amount that can be collected is the same as the maximum allowable amount that could have been collected in six years.

CONCERNING A B&O TAX DEDUCTION FOR PAYMENTS MADE TO CERTAIN PROPERTY MANAGEMENT COMPANIES FOR PERSONNEL PERFORMING ON-SITE FUNCTIONS - \$582,000 GENERAL FUND-STATE DECREASE

Senate Bill 5289 (concerning a B&O deduction for payments made to certain property management companies for personnel performing on-site functions) permits a B&O tax deduction for the following: amounts which a nonprofit property management company receives for compensating on-site employees from the owner of property; amounts which a property management company receives for compensating on-site employees from a housing authority; and amounts which a property management company receives for compensating on-site employees from a limited liability company or limited partnership of which the sole managing member or sole general partner is a housing authority.

SAME OWNERSHIP OF CONTIGUOUS PARCELS UNDER THE CURRENT USE PROPERTY TAX PROGRAMS - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5359 (concerning contiguous land under current use property tax programs) provides that "same ownership" for purposes of the farm and agricultural classification in the current use property tax program includes a single operation that is owned by the members of the "same family," such as legal entities wholly owned by members of the same family, or a combination of individuals and entities that are wholly owned by members of the family.

EXEMPTING EMPLOYEE MEALS PROVIDED BY RESTAURANTS WITHOUT SPECIFIC CHARGE - \$666,000 GENERAL FUND-STATE DECREASE

Senate Bill 5501 (exempting employee meals provided by restaurants without specific charge) provides a B&O tax and sales and use tax exemptions to restaurants for meals provided to employees without a specific charge to the employee.

MODIFYING THE PROVISIONS OF THE HOSPITAL BENEFIT ZONE PROGRAM - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5525 (modifying the provisions of the Hospital Benefit Zone (HBZ) Program) makes several modifications to the existing HBZ program, such as: amending the definition of public improvements to include state highways connected to the zone; allowing the

sponsoring local government to modify the public improvements to be financed, so long as the project cost does not increase; including amounts expended by a hospital to be considered "local public sources"; excluding from the calculation of "local public sources" such funds derived from the state-subsidized portion loans or grants; and removing requirements that the local tax credited against the state taxes imposed under zone be expended in the fiscal year in which the taxes are received.

TAX INCENTIVES FOR STIRLING CONVERTERS - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5526 (tax incentives for stirling converters) allows businesses that manufacture stirling converters to be eligible to receive a lower B&O tax rate of 0.275 percent. Individuals, businesses, local governments, or community solar project participants that generate electricity from a stirling converter manufactured in Washington are eligible to receive an incentive payment for each kilowatt-hour produced.

NEWSPAPER B&O TAXATION - \$17,000 GENERAL FUND-STATE DECREASE

Substitute Senate Bill 5534 (newspaper taxation) permanently amends the definition of a newspaper to include the online addition of the newspaper. The effect is to continue to tax advertising revenue from the online versions of newspapers at the same rate as the traditional newspaper. The B&O rate for newspapers is .365 percent until July, 2013 and .35 percent thereafter.

EXTENDING THE MOTION PICTURE TAX INCENTIVE PROGRAM - \$7,000,000 GENERAL FUND-STATE DECREASE

Second Substitute Senate Bill 5539 (motion pictures) extends the motion picture competitiveness tax credit, which provides a B&O tax credit for businesses' donation to the program, from June 30, 2011 until 2017.

EXPIRING THE LOW-INCOME PROPERTY TAX DEFERRAL PROGRAM - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5587 (expiring the low-income property tax deferral program) ends the low-income property tax deferral program in 2011. This action results in \$591,000 in savings from reduced expenditures in the 2011-13 biennium.

CONCERNING THE DISTRIBUTION OF THE PUBLIC UTILITY DISTRICT PRIVILEGE TAX - NO IMPACT TO GENERAL FUND-STATE

Second Substitute Senate Bill 5595 (concerning the distribution of the public utility district privilege tax) provides that if a county receives privilege taxes because a public utility district is operated by another county which owns fee title to property in a city or town in the county, but the district has no sales of electrical energy in that city or town, the county may retain 70 percent of the tax proceeds and each city or town where property is owned shall divide the remainder equally. This only applies when the city or town is adjoins a reservoir on the Columbia river wholly or partially created by such district's hydroelectric facility which began power generation in 1967.

ADDRESSING OVERLAPPING EMERGENCY MEDICAL SERVICE DISTRICTS - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5628 (concerning a limited property tax exemption from the emergency medical services levy) addresses the City of Milton, which lies in King and Pierce County. The residents of Milton have paid two different EMS levies as a result of overlapping jurisdictions. SB 5628 makes the EMS levy uniform for Milton residents by providing an exemption for real and personal property from King County's EMS levy, allowing a city-wide single EMS tax rate.

EXEMPTING FLOOD CONTROL ZONE DISTRICTS THAT ARE COEXTENSIVE WITH A COUNTY FROM CERTAIN LIMITATIONS ON REGULAR PROPERTY TAX LEVIES - NO IMPACT TO GENERAL FUND-STATE

Second Engrossed Senate Bill 5638 (exempting flood control zone districts that are coextensive with a county from certain limitations on regular property tax levies) allows Metropolitan Park Districts in King County, by a vote of the people, to move a portion of their levy outside the \$5.90 aggregate limit if it would otherwise have been pro-rated.

SALES TAX EXEMPTION FOR FUEL USED FOR PUBLIC FERRIES - NO IMPACT TO GENERAL FUND-STATE

Second Engrossed Substitute Senate Bill 5742 (exempting fuel used for ferries from the sales tax) exempts fuel purchased for Washington State Ferries and county ferry vessels from the state retail and use tax as of July 1, 2013.

MODIFYING THE NONRESIDENT SALES TAX EXEMPTION - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5763 (modifying the sales and use tax exemption for certain nonresidents) provides that no resident of Canada may take the nonresident sales tax exemption if their home province has any type of tax at retail of more than 3 percent.

AUTHORIZING AN ANNUAL, STATEWIDE RAFFLE TO BENEFIT VETERANS AND THEIR FAMILIES - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5806 (authorizing an annual, statewide raffle to benefit veterans and their families) authorizes the Lottery Commission to conduct a statewide raffle to benefit veterans and their families. All net revenues received (estimated to be \$660,480 in the 2011-13 biennium) will be deposited into the Veterans Innovations Program Account for purposes of serving veterans and their families.

CONCERNING ESTATES AND TRUSTS - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 5849 (concerning estates and trusts) provides the following for the estates of decedents dying after December 31, 2009 and before December 18, 2010: an allowance for the introduction of extrinsic evidence in order to determine what was the testator's or grantor's intent regarding a formula clause based on the federal estate tax or generation-skipping transfer tax exemptions, even if the will is not ambiguous; the removal of the presumption created by Substitute Senate Bill 6831 (2010) that the formula amount is \$3.5 million, allowing for construction of the formula as meaning \$3.5 million or \$5 million based on the decedent's intent; a change in the time limit for bringing a judicial construction action under RCW 11.108.080 to two years following the death of the decedent's death, as opposed to one year; and, in order to conform to federal disclaimer law, an extension of the time to make a qualified disclaimer of property passing from an estate of decedent dying after December 31, 2009, and prior to December 18, 2010, to the later of nine months following the date of death or September 17, 2010.

SALES AND USE TAX EXEMPTIONS FOR SERVER EQUIPMENT - \$2,384,000 GENERAL FUND-STATE DECREASE

Engrossed Senate Bill 5873 (sales and use tax exemptions for server equipment) extends the deadlines for commencing construction for projects eligible for the sales tax exemption on servers used in qualifying data centers, which were set to expire by July 1, 2011, until July 1, 2014.

LEASING AND MODERNIZATION OF THE STATE'S LIQUOR WAREHOUSING AND DISTRIBUTION FACILITIES - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 5842 (leasing and modernization of the state's liquor warehousing and distribution facilities) requires the Office of Financial Management to conduct a request for proposals for a long-term lease to a private entity of the state's liquor warehousing and distribution system. The state is not required to make a selection of a business if it is not beneficial to the state.

REQUIRING EXTRAORDINARY REVENUE GROWTH TO BE TRANSFERRED TO THE BUDGET STABILIZATION ACCOUNT - NO IMPACT TO GENERAL FUND-STATE

Senate Joint Resolution 8206 (transferring extraordinary revenue growth to the Budget Stabilization Account) is a proposed constitutional amendment. If approved by voters, SHB 8206 requires that, at the end of each fiscal biennium, three-fourths of any extraordinary growth in state revenue be transferred to the Budget Stabilization Account. "Extraordinary revenue growth" is the amount by which the growth in general state revenues exceeds by one-third the average biennial growth in general state revenues over the prior five biennia.

APPENDIX C

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
Employee Compensation			
Plan 1 Annual Increases/Min. Benefit	-344,312	-362,798	-361,786
K12/CTC: Suspend I-732	-295,586	-289,950	-299,221
K12: Employee Salary Reduction	-179,044	-253,531	0
3% Salary Cut for State Employees	-177,067	-177,081	-177,075
K12: National Board Bonus	-61,134	-75,827	-61,208
Teacher Retirement Incentive	-4,378	-3,247	0
Retire-Rehire Changes	-343	-1,843	-1,900
Temporary Layoffs	0	-40,894	0
Actuarial Recommended Rates/LEOFF 2	0	-15,000	-15,000
LEOFF 2 Benefits Enhancement Fund	0	-5,000	-5,000
K12: Freeze Steps	0	0	-56,351
Average Final Compensation Adjust	685	0	0
Employee Compensation Total	-1,061,179	-1,225,171	-977,541
K-12 Education			
Suspend I-728	-860,716	-860,716	-860,716
K-4 Class Size	-214,739	-212,312	-215,651
Student Assessment System Changes	-50,546	-51,925	-48,433
Alternative Learning Exp Adjustment	-41,055	-25,816	-53,055
Other OSPI/Statewide Pgrm Savings	-10,422	-10,669	-8,866
Other Ed Reform Savings	-9,947	-16,011	-9,952
Running Start	-6,004	-6,004	-6,004
Food Service Related	-6,000	-6,318	-6,000
Summer Vocational Skills	-4,770	-4,770	-4,770
Alternative Routes	-3,184	-3,184	-3,496
Repay FY11 Conting Funds	-2,500	-2,500	-2,500
BEST Program	-2,000	-400	-4,000
Readiness to Learn	-719	-719	0
Highly Capable Program/Items	-350	-350	-420
Bilingual Formula Restructure	-284	-284	0
Revise Bus Depreciation Formula	0	-91,880	0
Incentives for Evaluations Systems	0	0	5,000
K-12 Health Benefit Procurement	1,200	-534	250
Other Increases	1,889	2,453	2,100
PASS Act Program	3,000	0	6,566
Teacher and Principal Evaluations	3,000	3,000	3,000
Washington IT Academy	4,000	4,000	2,000
HB 2776 - Transportation Enhancement	5,000	5,000	5,000
Kindergarten Phase-In	5,023	0	6,420
K12 Formula Conversion	25,024	41,500	19,180
K-3 Class Size in High Pov Schools	33,592	64,330	25,008
Other	-10,479	-11,430	-13,601
K-12 Education Total	-1,141,987	-1,185,539	-1,162,940

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
Higher Education Institutions			
4 Yr/2Yr Reductions (including HERP limit)	-535,495	-535,495	-531,816
CTC: Efficiency Savings	-7,500	-15,000	0
Running Start	0	-7,544	0
CTC: Student Achievement Initiative	0	0	7,500
STEM Enrollments	0	0	1,414
Other Increases	2,529	2,778	2,161
Worker Retraining	9,000	15,000	0
Other	-824	0	-824
Higher Education Institutions Total	-532,290	-540,261	-521,565
Higher Education Financial Aid & Other			
State Work Study Reductions	-30,988	-23,720	-45,042
Suspend/Reduce Other Fin Aid Programs	-19,275	-19,275	-20,472
SNG Awards to Private Institutions	-14,227	-14,227	-19,331
For Profit SNG	-2,500	0	-5,000
Elimination of HECB	-1,312	-2,625	0
EOG to State Need Grant	0	0	5,200
Other Increases	1,100	500	1,000
Opportunity Scholarships (HB 2088)	5,000	0	0
Maintain State Need Grant	124,368	124,368	103,106
Other	-2,202	-315	-3,524
Higher Education Financial Aid & Other Total	59,964	64,706	15,937
Early Learning & Child Care			
Eliminate Career and Wage Program	-3,000	-3,000	-3,000
Other Increases	941	941	762
Home Visiting	1,268	1,266	1,268
Other	-541	-3,110	-2,611
Early Learning & Child Care Total	-1,332	-3,903	-3,581
Health Care			
Basic Health Plan	-129,602	-122,041	-107,925
Hospital Rate Changes	-110,474	-110,474	-110,474
Basic Health Stabilization	-44,000	0	0
FQHC Payment methodology	-42,035	-48,262	-89,461
Increase MAA Audit/Recoveries	-41,631	-39,774	-39,774
Hospital Safety Net Assessments	-40,000	-40,000	-30,000
Emergency Room Utilization	-32,960	-32,960	-32,960
Adult Dental Services	-28,631	-28,631	-28,607
Healthy Options Rates	-27,022	-27,022	-5,609
Community Clinic & Grant Funding	-25,550	-25,550	-13,550
Alien Medical/Federal Funds	-23,908	-23,908	-23,908
DSH Changes	-14,441	0	-21,900
Medicare Part D Subsidy (co-pay)	-13,297	-12,516	-13,309
Public Health Support/Assistance	-12,542	-15,052	-9,180

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
Maternity Support Program	-12,048	-14,095	-10,000
School Based Services	-10,750	-8,233	-18,078
Client Cost Sharing	-10,324	-20,998	0
Reimbursement Methods Waiver	-8,805	0	0
SSI Managed Care	-7,679	-7,679	-7,670
Other Medical Services	-6,149	-6,149	-6,149
Medicaid Fraud Enforcement	-5,860	-5,860	0
Medical Assistance Drug Savings	-5,671	-6,560	-1,652
Eliminate Adult Vision & Hearing	-4,567	-4,625	0
Utilization Management/Prior Auth.	-4,419	-4,419	-4,419
Othr Leg: Take Charge Fam Planning	-3,850	0	-3,967
Durable Medical Equipment	-3,565	-3,565	-667
Other Medical Assistance	-3,365	-6,005	-1,430
Medical Interpreter Services	-2,758	-2,758	-4,633
Family Planning Capacity Grants	-2,250	-2,250	0
DOH Maternal & Children's Health	-1,825	-3,006	-2,264
Children's Health Program	-1,524	-6,289	-1,524
Disability Lifeline	0	-50,610	0
ADATSA	0	-2,536	0
HIV Prevention and Client Services	0	0	-1,780
ProviderOne	0	470	5,564
Medicaid Demonstration Waiver	351	351	0
Tobacco Cessation Activities	4,778	4,813	5,774
Other Increases	7,623	8,769	4,472
Other	-8,074	-7,101	-6,782
Health Care Total	-676,824	-674,525	-581,862
 Long Term Care, DD, and Mental Health			
Personal Care Hours	-98,102	-98,102	-97,507
Nursing Home Quality Incentive Pmt & Rates	-41,388	-30,000	-53,212
Delay Mandatory Training (I-1029)	-27,289	-22,125	-22,125
DD Employment & Day Items	-11,519	-11,519	-16,906
RSN Medicaid Rates	-8,729	0	-8,729
RSN Non-Medicaid	-8,695	-17,390	-8,695
Reduce State Hospital Staff Costs	-8,148	-8,148	-8,200
Close Western State Hospital Ward	-6,644	-6,644	-6,644
DD/Staff & Services	-4,722	-4,722	-4,722
License Fees & Oversight	-3,320	-3,852	-6,776
DD/Other	-3,255	-3,255	-3,248
Reduce DD Residential Services	-3,220	-3,220	-3,220
LTC/Other	-3,116	-3,456	-3,074
Agency Provider Health Benefits	-2,910	-10,391	-10,455
Other Mental Health	-2,821	-1,649	-2,821
Alien Medical Long Term Placements	-2,174	-2,174	-2,174
MHD/Maximize Federal Funds	-1,900	-1,900	-1,900
LTC/Expand Family Caregiver Diversion	-573	-1,446	-4,596

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
RHC Consolidation/Community Transition	0	-8,940	-2,356
Jail-Based Competency Evaluations	0	-4,350	0
Other Increases	1,941	2,186	566
Home Care Worker Collective Bargaining	2,783	2,783	2,979
New DD Placements	5,580	5,580	5,580
Long Term Care, DD, and Mental Health Total	-228,221	-232,734	-258,235
Corrections and Other Criminal Justice			
Other DOC Related Items	-48,430	-48,555	-47,067
Close McNeil/Open Elkhorn	-12,253	-12,253	-12,253
Early Release & Supervision Changes	-9,366	-16,945	-31,168
SCC Savings	-8,596	-8,596	-8,596
Violator Bed Savings	-8,552	0	0
Reduce Rental Rate for Violators	-7,035	-8,737	-5,747
WSP Savings	-5,568	-5,304	-4,858
JRA Institutional Costs	-4,642	-4,174	-5,110
Use Auto Theft Funds	-4,610	-4,656	-3,680
Juvenile Parole Services	-4,303	-4,993	-4,303
Early Deportation	-3,975	-2,515	-3,062
Reduce DOSA Bed Utilization	-3,400	-3,400	-3,400
Close Maple Lane School	-3,272	-3,272	-3,272
Reduce Electronic Home Monitoring	-3,012	-3,012	-3,012
Reduce Juvenile Court Funding	-2,328	-2,328	-2,328
CJTC Related Items	-1,848	-1,848	-1,848
Local Share in Training Costs	-1,617	-2,200	-1,617
Reduce Offender Programming	-1,397	0	-4,397
Other JRA Related Items	-560	-560	-560
Release Offenders on ERD	0	-4,158	0
Sell King Air airplanes	0	-1,058	0
NIC Report Recommendation Funding	0	1,009	0
SCC Trial/Hearings	0	19,034	22,500
Housing Voucher Expansion	844	844	0
Expansion of Treatment	1,000	5,000	0
WSP Increases	1,391	1,391	1,886
Rural Drug Task Forces	2,000	2,000	0
Other Increases	2,411	1,246	2,211
Corrections and Other Criminal Justice Total	-127,118	-108,040	-119,681
Other Human Services			
Disability Lifeline Cash Grant	-179,890	-184,303	-183,578
Family Leave Insurance	-33,177	-33,177	-33,177
State-Only Food Assistance Program	-30,283	-16,801	-30,283
Child Support Pass Through	-18,776	-18,776	-18,776
DL & ADATSA-Impl Fed Waiver 1115	-16,110	-16,110	-16,110
Economic Svcs/Other Savings	-9,499	-9,499	-9,499
Childrens/Other	-8,877	-27,006	-19,262

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
Chemical Dependency Services	-7,060	-12,000	-7,060
Childrens/Regional Staffing	-6,408	-6,408	-6,408
Refugee Employment Services	-5,002	-5,002	-5,002
Crime Victim Compensation	-4,115	-3,965	-4,115
Family and Children Councils Reform	-3,026	-3,176	-4,426
Childrens/Expedite Permanency	-3,000	-3,000	-3,000
Childrens/Foster Parent Child Care	-2,607	-2,607	-2,607
Naturalization Services	-2,370	-2,370	-3,684
DSHS/Central Administrative Costs	-2,072	-2,072	-2,072
License Fees & Oversight	-1,454	-1,454	-1,454
Childrens/Voluntary Placement	-1,440	-2,400	-2,400
Other DASA	-871	-871	-871
AG Agency Legal Svc Billings	0	0	3,278
Performance Risk Pool	0	6,460	0
Fund Source Chg (Trans Youth Svcs)	0	10,279	0
Disability Lifeline Treatment Funding	424	3,782	424
Other Increases	919	119	760
Essential Needs and Housing Suppt	64,132	0	83,235
Other	-3,612	-3,091	-3,836
Other Human Services Total	-274,174	-333,448	-269,923
Natural Resources			
Discover Wa. Pass/Land Access Fees	-68,687	-68,687	-68,687
Dept of Ecology/Other	-11,886	-11,507	-12,445
Fish & Wildlife/Other	-9,505	-8,537	-8,241
Dept of Ecology/Fund Shift	-9,500	-9,500	-9,500
DNR/Other	-8,912	-8,197	-10,354
Agriculture Related	-1,548	-855	-3,468
DNR/Fund Shift	-750	-750	-750
Fish & Wildlife/HPA Fees	0	-2,551	-2,000
Increase Fee Support to Ag Programs	0	0	-4,775
Reduce Fair Funding	0	0	2,000
Other Increases	75	349	45
State Parks/Maint & Access	20,000	20,000	20,000
Other	-3,952	-4,048	-4,392
Natural Resources Total	-94,665	-94,283	-102,567
Agency Reorganizations and Transfers			
Health Care Related	-3,329	0	-3,329
Criminal Justice	-1,513	-1,644	-2,320
Enterprise Services	-20	-20	0
Education Governance	0	-105	0
Education Data Center	0	0	0
Agency Reorganizations and Transfers Total	-4,862	-1,769	-5,649

2011-13 Omnibus Operating Budget
NGF-S + Opportunity Pathways
(Dollars in Thousands)

	E2SHB 1087		
	As Passed	Senate	House
All Other			
Management Efficiency	-14,204	-17,214	0
Commerce Reductions	-13,439	-12,879	-24,712
Department of Revenue	-11,945	-11,945	-11,372
Arts & Heritage Programs	-11,456	-2,658	-10,945
Other/Presid. Primary	-10,032	-10,032	-10,032
Legislative	-9,845	-9,491	-7,129
Judicial/Utilize JST Account	-9,002	-6,001	-12,074
Workers Comp Rates	-6,029	-16,076	0
JIS Funding Shift for IT	-6,011	-3,000	-6,011
Interagency Charges	-5,804	-4,988	-14,028
Shift Audit Costs	-5,372	-5,372	0
Judicial Agencies	-4,770	-6,725	-6,162
Central Service Efficiencies	-1,875	-1,875	0
Eliminate Funding for Becca/Truancy	0	0	-13,998
Transitional Housing Operating Rent	0	8,500	0
Judicial Increases	265	490	265
Increase Revenue Compliance	1,454	1,454	3,188
Other Increases	3,461	3,485	2,541
State Data Center Rate Increase	5,385	10,894	5,447
SERA Account Repayment	10,974	12,161	10,974
Debt Service	28,234	28,234	28,234
June 2011 Apportionment	115,000	240,000	240,000
Other	-22,603	-14,530	-18,919
All Other Total	32,386	182,432	155,267
Grand Total	-4,050,302	-4,152,535	-3,832,340