

Special Appropriations

Initiative-695 (I-695) Assistance to Public Health Districts, Cities, and Counties

The budget provides funding of \$192 million for assistance to public health districts, cities, and counties to address the impacts of I-695. This funding continues the legislative intent set forth in the 2000 supplemental budget, which was affirmed by the legislative task force, for backfill of public health and local government losses due to I-695 with state resources. An increase in funding is provided at the Initiative 601 growth rate.

Ferry Assistance

The sum of \$30 million from the State Surplus Assets Account is appropriated to the Puget Sound Ferry Operations Account to support ferry operations in the 2001-03 biennium, however, there are no moneys to support this appropriation. Second Engrossed Substitute Senate Bill 6166, which would have established the State Surplus Assets Reserve Fund and transferred assets from the Law Enforcement Officers Fire Fighters Plan 1 pension account, was not enacted.

Technology Pool

Funding is provided for a competitive information technology pool for state executive branch agencies, excluding schools and institutions of higher education. Agencies may apply to the Department of Information Services to receive a share of these funds. Funds are to be distributed to state agencies by the Office of Financial Management (OFM). OFM shall not distribute funding unless specific operational budget savings are identified for any ongoing operating costs resulting from the information technology project.

Extraordinary Criminal Justice

A total of \$975,000 is provided for financial assistance to Franklin, Klickitat, Cowlitz, Skagit, Yakima, Thurston, and Spokane counties for extraordinary criminal justice costs incurred in the adjudication of aggravated homicide cases.

Torts

Initially, it was assumed that \$144 million would be available for tort claims and defense in the 2001-03 biennium, but the actual funding level is \$106 million. Tort appropriations come from several sources. State agencies' revolving fund appropriations include a base amount of \$75 million plus an increase of \$38 million to pay for tort claims and defense. However, \$13 million of the \$38 million increase is unfounded, because the transportation budget did not include \$13 million to pay for the increase in the Department of Transportation's tort premium. There is a \$6.4 million appropriation from the General Fund-State to pay for torts. Another \$25 million appropriation is from the State Surplus Assets Reserve Account; however, there are no moneys to support this appropriation. Second Engrossed Substitute Senate Bill 6166, which would have established the State Surplus Assets Reserve Fund and transferred assets from the Law Enforcement Officers Fire Fighters Plan 1 pension account, was not enacted.

Salaries

State Employees Cost-of-Living Adjustment (COLA) – \$115.1 million General Fund-State

The budget funds an across-the-board salary increase of 3.7 percent on July 1, 2001. Funding is also provided for an increase for fiscal year 2003, in an amount to be determined by the 2002 Legislature. All classified and exempt employees who are subject to the jurisdiction of the Washington Personnel Resources Board (WPRB) will receive both increases. Employee groups that are not under WPRB, such as Washington State Patrol commissioned officers, assistant attorneys general, and judicial employees, will receive increases that average 3.7 percent beginning July 1, 2001, and that average the same level of increase provided for classified employees in fiscal year 2003.

The budget includes a total of \$629 million General Fund-State to provide COLAs for all employee groups and vendors: \$115 million for state agencies; \$107 million for higher education; \$318 million for K-12; and \$89 million for vendors.

Recruitment and Retention Priorities – \$27.5 million General Fund-State

The budget provides funding for nine highest priority salary increase proposals adopted by the WPRB as part of the “6767” process. The job classes that will receive increases effective January 1, 2002 include: psychiatrists, psychologists, information technology positions, forensic scientists, social workers, campus police, financial classifications, insurance examiners, registered nurses, and licensed practical nurses.

Assistant Attorneys General – \$3.1 million General Fund-State, \$3.1 million Other Funds

The budget provides funding to increase beginning salaries, to provide merit-based salary increases, and to address recruitment and retention problems in certain specialty areas of practice, such as torts, revenue, utilities, and other high-demand fields.

Health Benefits

State Agency Employee Health Benefits Cost Increases – \$27.2 million General Fund-State

The budget increases the monthly state contribution for health insurance and related benefits for state agency and higher education employees from a current level of \$436.16 to \$457.29 in fiscal year 2002 and to \$497.69 in fiscal year 2003, an increase of \$61.53 over two years, or 14 percent. This funding level reflects the following expected changes in state employee health benefits:

- Increases in employee co-payments for ambulance service, emergency room visits, and in-patient and out-patient hospital care;
- Elimination of double premium payments to health plans where married employees are both state employees; and
- An increase in the employee share of the total monthly contributions for health insurance related benefits. The current employee premiums pay about 6 percent of the cost of the total benefit package; this would increase to about 8 percent in 2002 and to 10 percent in 2003.

The average state employee premium is expected to increase from about \$28 per month to \$52 per month in calendar year 2002, and to \$58 in 2003. The portion of the premium collected for administrative expenses is adjusted for various employee and retiree groups to more accurately reflect the administrative costs associated with each group. The funding level assumes no increase in the current \$10 co-pay for office visits and no changes to the current pharmacy benefit co-pays.

In addition to the \$27 million General Fund-State provided to state agencies for health insurance funding rate increases, an additional \$23 million was provided to higher education institutions and \$81 million to K-12 for such increases.

Medicare Retirees Health Insurance Premium Subsidy

Approximately \$10 million of the increase in funding for state, higher education, and K-12 employee health benefits will be used to increase the Medicare retiree subsidy from \$69.98 for calendar year 2001, to \$85.84 for 2002, and to \$102.55 for 2003. This is a \$32.57 increase (47 percent) over two years.

Pensions

Pension Contribution Rate Adjustments – \$43 million General Fund-State Savings

The budget includes reductions in employer and state contributions for the Public Employees’ Retirement System (PERS), School Employees’ Retirement System (SERS), Teachers’ Retirement System (TRS), and Law Enforcement Officers’ and Fire Fighters’ (LEOFF) Retirement Plan 2 – contained in Chapter 11, Laws of 2001, 2nd

sp.s., Partial Veto (ESSB 6167). The new funding provisions increase the long-term salary growth assumption to 4.5 percent and the long-term investment return assumption to 8 percent; re-establish the June 30, 2024 target date for full funding all PERS 1 and TRS 1 liabilities; and provides a four-year period for smoothing investment gains and losses.

The changes to the state's long-term economic assumptions bring the state's assumptions for pension funding into closer alignment with the average assumptions used by the majority of other state retirement plans. The extension of the Plan 1 funding target date returns it to the date originally established in 1989; the implementation of the smoothing period will provide greater rate predictability and stability. These changes will result in \$198 million total state general fund savings: \$143.9 million for K-12 (\$136.8 in base savings plus \$7.1 in reduced COLA costs), and \$11.5 million in higher education, \$8 million in LEOFF 2, and \$35 million in state agencies.

As a result of the 1999 valuation studies and the changes in the long-term economic assumptions, the member contribution rate for PERS Plan 2 will be reduced by 1.55 percent of pay, from 2.43 percent to 0.88 percent. This reduction will more than offset the proposed average increase in employee health premiums for the great majority of state employees. The TRS Plan 2 member rate will be reduced by 1.78 percent, from 3.01 percent to 1.23 percent.

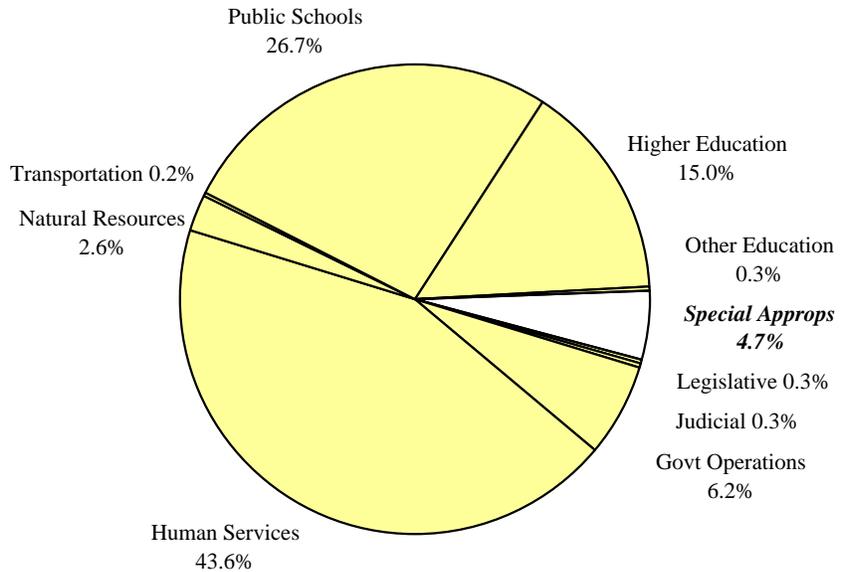
Reducing Local Government Pension Costs – \$162 Million Local Funds

The budget provides for lower local employer pension contribution rates in PERS, SERS, TRS, and LEOFF 2 – contained in Chapter 11, Laws of 2001, 2nd sp.s., Partial Veto (ESSB 6167). These lower rates yield \$119.9 million in savings for PERS and SERS employers, \$28.5 million in savings for TRS employers, and \$13.6 million in savings for LEOFF 2 employers.

2001-03 Washington State Operating Budget Total Budgeted Funds

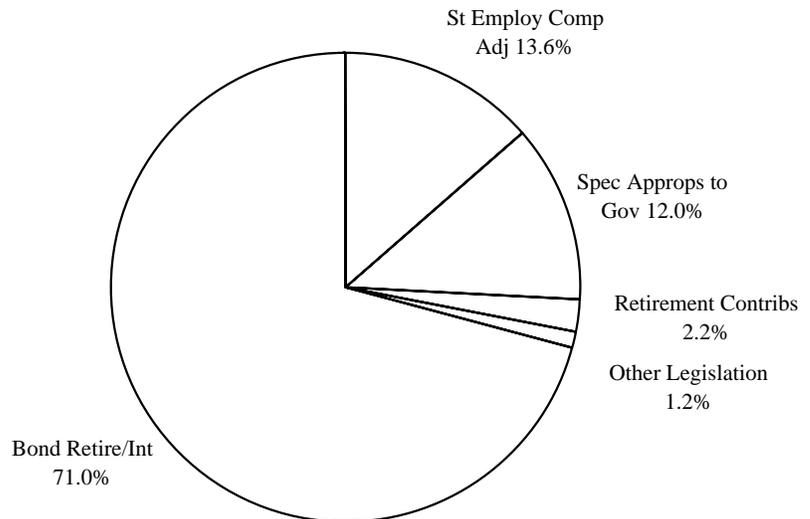
(Dollars in Thousands)

Legislative	139,285
Judicial	141,697
Governmental Operations	2,707,559
Human Services	18,911,595
Natural Resources	1,123,648
Transportation	104,494
Public Schools	11,571,857
Higher Education	6,502,726
Other Education	116,415
<i>Special Appropriations</i>	<i>2,036,571</i>
Statewide Total	43,355,847



Washington State

Bond Retire/Int	1,445,279
State Employee Comp Adj	277,302
Special Approps to Governor	244,170
Retirement Contributions	44,720
Other Legislation	25,100
<i>Special Appropriations</i>	<i>2,036,571</i>

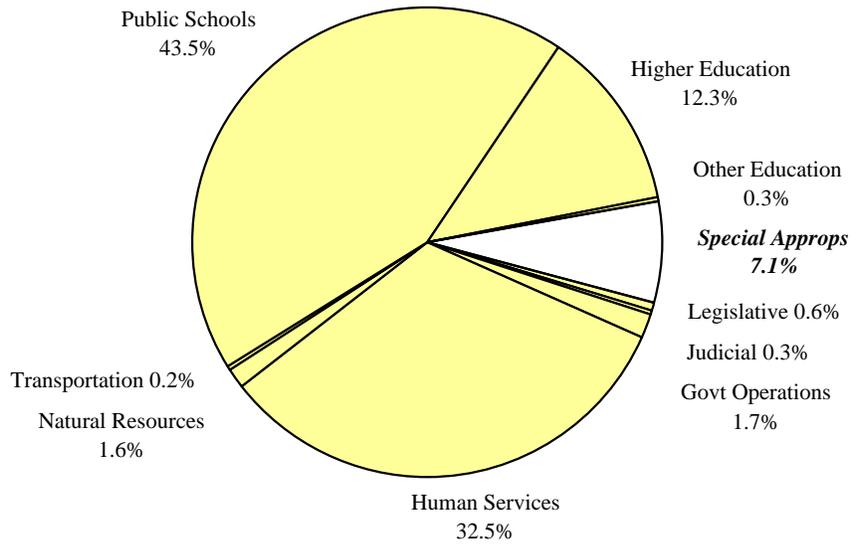


Special Appropriations

2001-03 Washington State Operating Budget General Fund-State

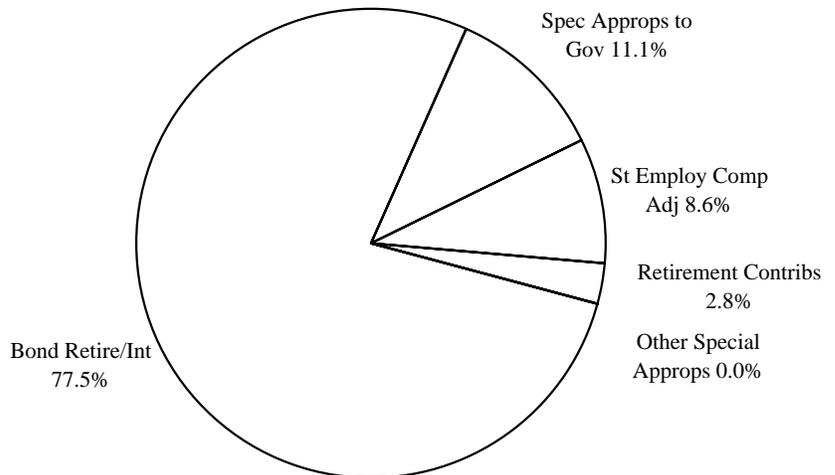
(Dollars in Thousands)

Legislative	133,124
Judicial	71,679
Governmental Operations	392,304
Human Services	7,415,303
Natural Resources	355,477
Transportation	40,722
Public Schools	9,903,086
Higher Education	2,800,460
Other Education	59,988
<i>Special Appropriations</i>	<i>1,611,095</i>
Statewide Total	22,783,238



Washington State

Bond Retire/Int	1,248,770
Special Approps to Governor	179,406
State Employee Comp Adj	138,099
Retirement Contributions	44,720
Other Special Approps	100
<i>Special Appropriations</i>	<i>1,611,095</i>



Special Appropriations

Bond Retirement and Interest

(Dollars in Thousands)

	<u>GF-S</u>	<u>Other</u>	<u>Total</u>
1999-01 Expenditure Authority	1,118,176	177,687	1,295,863
2001 Supplemental *	1,066	-2,900	-1,834
Total 1999-01 Biennium	1,119,242	174,787	1,294,029
2001-03 Maintenance Level	1,227,146	185,581	1,412,727
Policy Changes			
1. New Issuance 2001-03 Exist Auth	0	10,134	10,134
2. New Debt 2001-03 Capital Budget	21,624	794	22,418
Total 2001-03 Biennium	1,248,770	196,509	1,445,279
Fiscal Year 2002 Total	654,206	99,581	753,787
Fiscal Year 2003 Total	594,564	96,928	691,492

Comments:

1. **New Issuance 2001-03 Exist Auth** - New issuance in the 2001-03 biennium from existing authorizations (previous bond bills) and reimbursable bonds newly authorized in the 2001 session including the bonds for the plaza garage, the University of Washington, and the Legislative Building.
2. **New Debt 2001-03 Capital Budget** - Debt service and bond sale expenses will be incurred for the new debt issued to fund the 2001-03 biennium capital plan. (General Fund-State, various debt service accounts)

NOTE: Amounts shown here reflect only the omnibus appropriations act. The remainder of the Bond Retirement & Interest's budget is shown in the Transportation Budget Section of this document.

* Please see the 2001 Supplemental Operating Budget Section for additional information.

Special Appropriations to the Governor

(Dollars in Thousands)

	GF-S	Other	Total
1999-01 Expenditure Authority	307,014	106,291	413,305
2001 Supplemental *	1,000	73,336	74,336
Total 1999-01 Biennium	308,014	179,627	487,641
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2001-03 Maintenance Level	206,914	46,158	253,072
Policy Changes			
1. DCTED-County Public Health Assist	0	2,113	2,113
2. Digital Government	0	5,000	5,000
3. Fire Contingency Initiative	2,000	3,000	5,000
4. Extraordinary Criminal Justice Cost	0	975	975
5. Ferry Assistance	-40,000	30,000	-10,000
6. Technology Pool	0	7,518	7,518
7. Liability Account	6,392	25,000	31,392
8. Digital Government Revolving Acct	4,100	0	4,100
9. Forest Development Account	0	5,000	5,000
10. Lapse	0	-55,000	-55,000
11. Governor Veto	0	-5,000	-5,000
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Total 2001-03 Biennium	179,406	64,764	244,170
Fiscal Year 2002 Total	86,460	32,515	118,975
Fiscal Year 2003 Total	92,946	32,249	125,195

Comments:

1. **DCTED-County Public Health Assist** - In order to consolidate replacement of local public health funding associated with the loss of local revenue following the passage of Initiative 695, funds for King County Public Health are transferred from the Department of Community, Trade, and Economic Development's budget to Special Appropriations. The amount is reduced by 10 percent to align King County funding with other public health districts. (Health Services Account)
2. **Digital Government** - The implementation of on-line services for agencies with dedicated funds will be provided from a funding pool in order to facilitate consideration of multiple individual project requests from various state agencies. (Digital Government Revolving Account-State)
3. **Fire Contingency Initiative** - A fire contingency pool was created in the 1999 Supplemental Budget to address fire mobilization costs and fire suppression costs in excess of the amounts appropriated to the Military Department and the Department of Natural Resources. During the 2000 fire season, this pool was completely depleted. Funds are appropriated from the general fund to the Disaster Response Account to replenish this contingency pool. (General Fund-State, Disaster Response Account-State)
4. **Extraordinary Criminal Justice Cost** - Funding is provided for assistance to Franklin, Klickitat, Cowlitz, Skagit, Yakima, Thurston, and Spokane counties for extraordinary criminal justice costs incurred in the adjudication of aggravated homicide cases. (Public Safety and Education Account)
5. **Ferry Assistance** - Support to the Puget Sound Ferry Operations Account is provided from the State Surplus Assets Reserve Account. Support is reduced from \$20 million in FY 2002 to \$10 million in FY 2003; however, there are no moneys to support these appropriations. Second Engrossed Substitute Senate Bill 6166, which would have established the State Surplus Assets Reserve Fund and transferred assets from the Law Enforcement Officers Fire Fighters pension 1 plan account, was not enacted.
6. **Technology Pool** - Funding is provided for a competitive information technology pool for state executive branch agencies, excluding schools and institutions of higher education. Agencies may apply to the Department of Information Services to receive a share of these funds. Funds are to be distributed to state agencies by the Office of Financial Management (OFM). OFM shall not distribute funding unless specific operational budget savings are identified for any ongoing operating costs resulting from the information technology project. (Digital Government Revolving Account-State)
7. **Liability Account** - Amounts of \$6.4 million from General Fund-State and \$25 million from the State Surplus Assets Reserve Account are appropriated for deposit to the Liability Account to pay increased costs associated with tort claims and defense. There are no moneys, however, to support these appropriations. Second Engrossed Substitute Senate Bill 6166, which would have established the State Surplus Assets Reserve Fund and transferred assets from the Law Enforcement Officers Fire Fighters pension 1 plan account, was not enacted.

Special Appropriations to the Governor

8. **Digital Government Revolving Acct** - General Fund-State is appropriated to Digital Government Revolving Account for an information technology pool.
9. **Forest Development Account** - Provides funding for distribution of state forest land revenues to taxing authorities that received such revenue from FY 1996 through FY 2000.
10. **Lapse** - The State Surplus Assets Reserve Fund was to be established by 2ESSB 6166 which failed to pass. Therefore, the appropriations from this fund lapse.
11. **Governor Veto** - The Governor vetoed Section 710 of Chapter 7, Laws of 2001, 2nd sp.s., Partial Veto (ESSB 6153), which directed the distribution to local taxing authorities of \$5 million of state forest land revenues in the Forest Development Account.

NOTE: Amounts shown here reflect only the omnibus appropriations act. The remainder of the Special Appropriations to the Governor's budget is shown in the Transportation Budget Section of this document.

* Please see the 2001 Supplemental Operating Budget Section for additional information.

State Employee Compensation Adjustments

(Dollars in Thousands)

	GF-S	Other	Total
1999-01 Expenditure Authority	161,024	192,147	353,171
2001-03 Maintenance Level	0	0	0
Policy Changes			
1. Health Benefit Changes	28,775	30,313	59,088
2. Attorney Salary Increases	3,071	3,071	6,142
3. State Employee Salary Increase	115,070	132,436	247,506
4. Salary Reclass Implementation	27,538	13,127	40,665
5. Pension Savings/Economic Assumption	-34,745	-38,047	-72,792
6. FICA Savings	-1,610	-1,697	-3,307
Total 2001-03 Biennium	138,099	139,203	277,302
Fiscal Year 2002 Total	41,852	42,581	84,433
Fiscal Year 2003 Total	96,247	96,622	192,869

Comments:

1. **Health Benefit Changes** - Employee and non-Medicare retiree health benefit costs are expected to increase by 9.1 percent for managed care plans and 10.7 percent for the Uniform Medical Plan (UMP) in calendar year 2002 and by 12 percent for all plans in calendar year 2003. Medicare retiree health benefit costs are expected to increase by 20 percent each year for managed care plans and 21 percent each year for UMP. The monthly employer contribution rate is increased from \$436.16 in FY 2001 to \$457.29 in FY 2002 and \$497.69 in FY 2003. At these rates, the employer contribution is approximately 92 percent of the total premium rate in FY 2002 and 90 percent of the total premium rate in FY 2003. These rates assume an increase in co-payments for certain medical services, but assume no increase in the current office co-pays, and no change to the current co-pays for prescription drugs. Funding is also provided for additional benefits specified in Chapter 321, Laws of 2001 (ESHB 1364 - General Anesthesia Services). The Health Care Authority estimates the average employee monthly premium rate would increase from \$27.78 in calendar year 2001 to approximately \$52 in 2002 and \$58 in 2003. The Medicare retiree subsidy is increased from \$69.98 to \$85.84 in 2002 and to \$102.55 in 2003. The monthly K-12 employee remittance, to fund the cost of K-12 retiree subsidies, would increase from \$25.06 to \$32.41 for the 2001-02 school year and to \$37.48 for the 2002-03 school year. (General Fund-State, General Fund-Federal, General Fund-Local, Salary and Insurance Increase Revolving Fund)
3. **State Employee Salary Increase** - A cost-of-living adjustment (COLA) of 3.7 percent effective July 1, 2001, is provided to all state classified employees, with the exception of the certificated staff at the state schools for the Deaf and Blind. Funds are also available sufficient for a 2.6 percent increase effective July 1, 2002, but the adoption of a specific salary increase is left to the 2002 Legislature. Funding is also included to provide similar average COLAs to exempt personnel at the discretion of agency directors. (General Fund-State, General Fund-Federal, General Fund-Local, Salary and Insurance Contribution Increase Revolving Account)
2. **Attorney Salary Increases** - The budget provides funding for the following targeted salary increases for assistant attorneys general: (1) increases in beginning salaries; (2) merit-based increases to recognize outstanding performance; and (3) increases to address critical recruitment and retention problems in specialty practice areas such as torts, revenue, utility regulation, and other high-demand fields. Increases shall be effective July 1, 2001, and July 1, 2002. (General Fund-State, Legal Services Revolving Account)
4. **Salary Reclass Implementation** - Specific salary increases are funded, effective January 1, 2002, for the listed priorities through item number 8B adopted under the 6767 process by the Washington Personnel Resources Board. Classifications receiving adjustments are: psychiatrists; psychologists; various higher education information technology classes; forensic document examiners and forensic scientists; social workers; campus police; various financial classifications in both higher education and general government; insurance examiners; all classes requiring licensure as a registered nurse; and licensed practical nurse classes, including mental health LPNs. (General Fund-State, General Fund-Federal, Salary and Insurance Contribution Increase Revolving Account)
5. **Pension Savings/Economic Assumption** - The Public Employees' Retirement System (PERS) employer contribution rate adopted by the Pension Funding Council for the 2001-03 biennium was 3.21 percent and the Teachers' Retirement System (TRS) employer contribution rate was 5.38 percent. The PERS rate is further reduced to 1.54 percent, effective July 1, 2001, and the TRS employer contribution rate is further reduced to 2.75 percent, effective September 1, 2001. The new rates are based on the 1999 plan year valuation studies conducted by the Office of the State Actuary in 2000, but are adjusted to reflect the changes

State Employee Compensation Adjustments

made by Chapter 11, Laws of 2001, 2nd sp.s., Partial Veto (ESSB 6167), which increases the long-term economic assumptions for future wage growth and investment returns, and re-establishes the June 30, 2024 deadline for funding all of the liabilities of PERS 1 and TRS 1. (General Fund-State, General Fund-Federal, General Fund-Local, Special Retirement Contribution Increase Account)

6. **FICA Savings** - The budget reduces the level of agency allocations for health insurance rate increases to recognize the agency FICA (social security) savings from payment of employee premiums on a pre-tax basis. The funding rate is reduced by \$2.00 per month for FY 2002, and by \$3.00 for FY 2003, to reflect most of the agency savings resulting from the increase in average employee premiums from \$28 per month in 2001, to \$52 in 2002, and to \$58 in 2003. Additional state agency savings equal to \$1.00 per month for both years is left with the agencies to cover the cost of the Human Resource Information Systems Division rate increases for payroll system changes needed to implement PERS Plan 3 and other costs. (General Fund-State, General Fund-Federal, General Fund-Local, Salary and Insurance Contribution Increase Revolving Account)

Contributions to Retirement Systems

(Dollars in Thousands)

	GF-S	Other	Total
1999-01 Expenditure Authority	51,712	0	51,712
2001-03 Maintenance Level	52,700	0	52,700
Policy Changes			
1. Pension Savings/Economic Assumption	-7,980	0	-7,980
Total 2001-03 Biennium	44,720	0	44,720
Fiscal Year 2002 Total	21,802	0	21,802
Fiscal Year 2003 Total	22,918	0	22,918

Comments:

1. **Pension Savings/Economic Assumption** - The Law Enforcement and Fire Fighters Retirement System Plan 2 state contribution rate adopted by the Pension Funding Council for the 2001-03 biennium was 2.31 percent. The rate is further reduced to 1.80 percent effective July 1, 2001. The new rate is based on the 1999 plan year valuation study conducted by the Office of the State Actuary in 2000, but is adjusted to reflect the changes made by Chapter 11, Laws of 2001, 2nd sp.s., Partial Veto (ESSB 6167), which increases the long-term actuarial assumptions for future wage growth and investment returns.

Sundry Claims

(Dollars in Thousands)

	GF-S	Other	Total
1999-01 Expenditure Authority	215	0	215
2001 Supplemental *	92	221	313
Total 1999-01 Biennium	307	221	528
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2001-03 Maintenance Level	0	0	0
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Total 2001-03 Biennium	0	0	0
Fiscal Year 2002 Total	0	0	0
Fiscal Year 2003 Total	0	0	0

Comments:

* Please see the 2001 Supplemental Operating Budget Section for additional information.