



# **FINAL 2009-11 OPERATING & CAPITAL BUDGET**

## **OVERVIEW**

# **AS PASSED LEGISLATURE**

**SENATE WAYS & MEANS COMMITTEE  
MAY 7, 2009**

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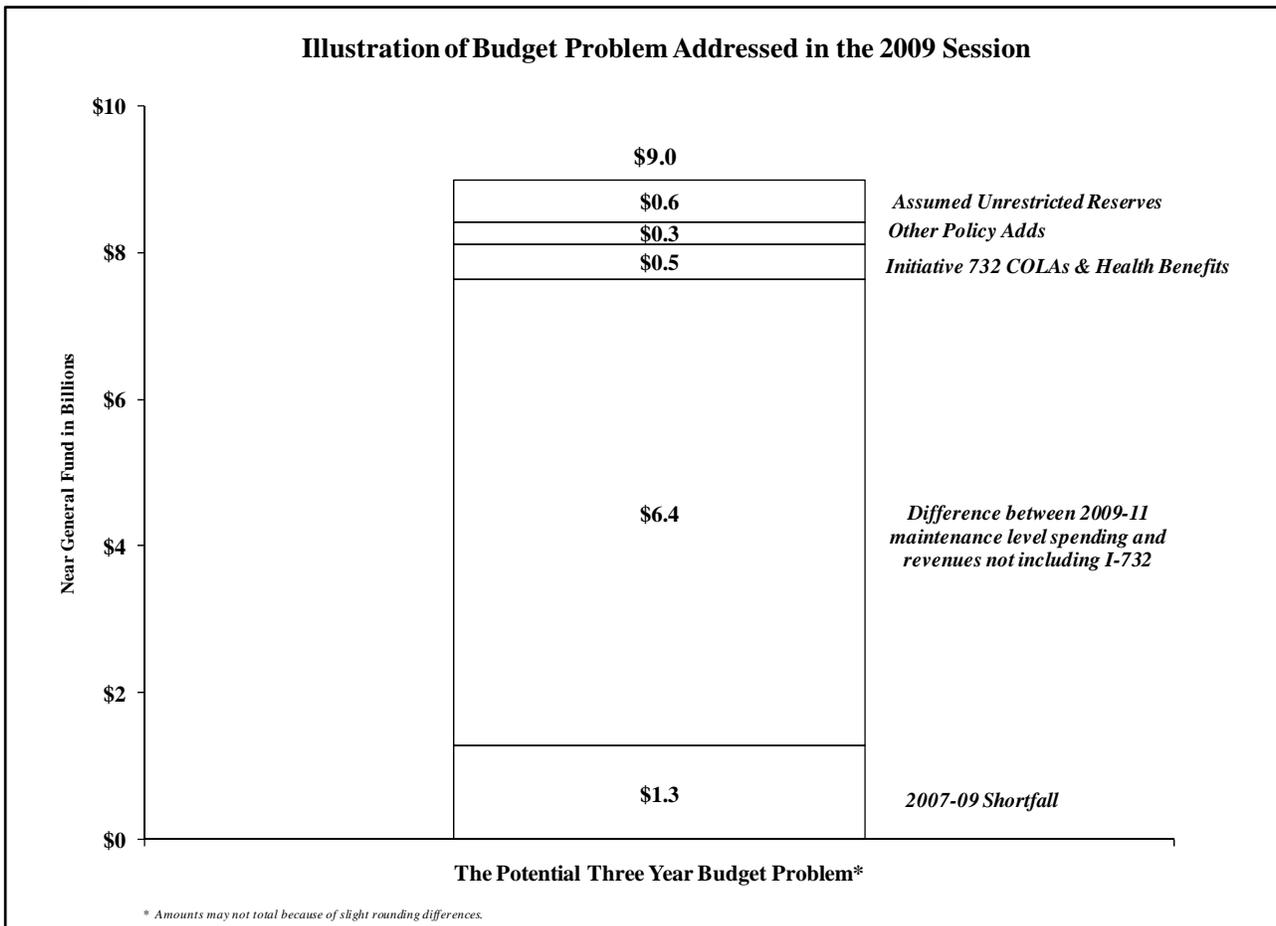
# HOW THE 2009-11 BIENNIAL BUDGET WAS CONSTRUCTED

## STATE FISCAL PICTURE FOR 2009-11

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

Approximately \$1 billion of this potential budget shortfall is calculated based on assuming that the Legislature would fund some additions, such as providing cost-of-living adjustments for teachers and increased costs of employee health care benefits. The state budget would have a deficit over \$8 billion based on just maintaining current service levels.

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



## **ECONOMIC AND REVENUE OUTLOOK**

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

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

The revenue forecast for the 2007-09 biennium is for near general fund revenues of \$30.4 billion. This downward projection from previous estimates includes anticipated 8 percent lower revenue collections from fiscal year 2008 to fiscal year 2009.

The revenue forecast for the 2009-11 biennium is for near general fund revenues of \$30.5 billion. This means that there is no revenue growth to support any increase in spending.

## **EXPENDITURE OUTLOOK**

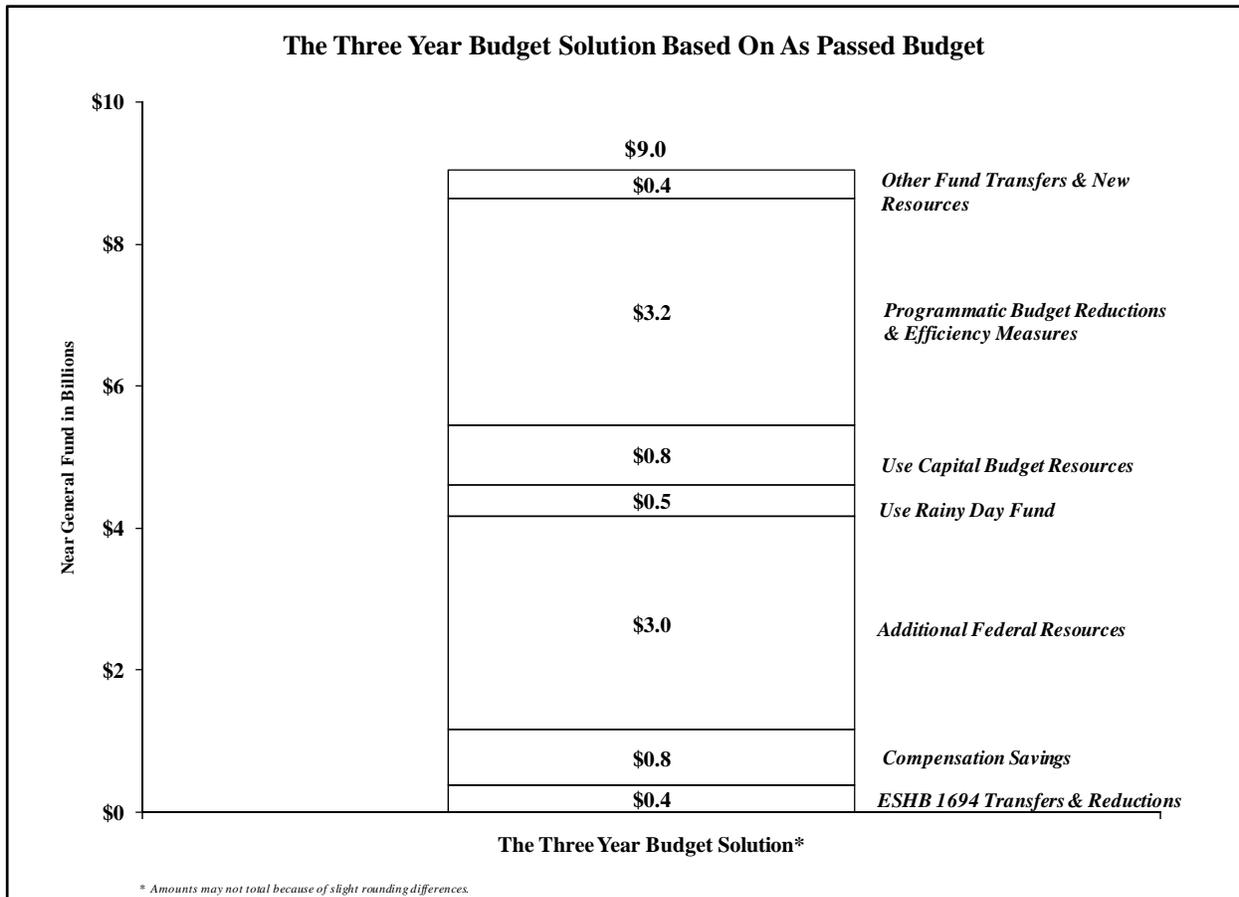
On the expenditure side, partially as a result of increased caseloads and fire related costs, there is projected increased spending demand of approximately \$170 million for the 2007-09 biennium. As a result of revenue downturn and even after utilizing the \$2.1 billion in reserves available, the difference between available resources and spending demands is \$1.3 billion for the 2007-09 biennium which ends June 30<sup>th</sup> of this year.

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

The budget adds \$94 million for additional costs of K-12, higher education, and state employee health care coverage. Additionally, the budget adds \$303 million in the operating budget for new spending items. Some of the most significant include: \$82 million for maintaining current higher education financial aid policy; \$55 million for debt service associated with the capital budget; and \$20 million for the final phase of an information technology project improving the efficiency of payments for Medical Assistance vendors. With these 2009-11 policy enhancements and maintaining unrestricted reserves at approximately \$600 million, the total size of the operating budget problem over the next three years increases to approximately \$9.0 billion.

## SOLVING THE \$9 BILLION BUDGET PROBLEM

The budget takes a seven-step approach to solving the state's \$9.0 billion budget problem as shown on the chart below:



## EMPLOYEE COMPENSATION - \$834 MILLION

As a result of suspending the Initiative 732 requirement for the 2009-11 biennium, the budget does not include \$388 million in funding for cost-of-living adjustments (COLA) for K-12 and certain community and technical college staff.

The budget also saves \$449 million by modifying the actuarial assumptions and methods used for determining public employee retirement contributions. The changes include: (1) phasing in the adoption of a new funding method for the Plan 1 unfunded liabilities; (2) changes to assumed salary growth assumptions; (3) temporarily suspending the minimum contribution rates; and (4) delaying the adoption of new mortality tables until the 2011-13 biennium.

With respect to funding for state employee health benefits in general government and higher education, the budget provides increases of 3 percent each fiscal year, which is less than the

expected rate of medical inflation of approximately 7 percent under current policy. Similar adjustments are made to the rate provided for K-12 employees through state funding formulas. The net result of these changes is a \$94 million increase in the costs for state, higher education, and K-12 employee health benefit coverage for the 2009-11 biennium.

While not included in the budget problem, no funding is provided for COLAs for represented or non-represented state and higher education employees.

## **FEDERAL STIMULUS FUNDS - \$3.0 BILLION**

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

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

Second, the state will receive \$1 billion of “fiscal stabilization” funding. The budget uses these funds to avoid making further reductions to K-12 public schools, higher education, and the Department of Corrections. Specifically, with this federal funding, the state will avoid making further reductions to the higher education system and avoid raising resident undergraduate tuition by more than 14 percent annually at the four year institutions and 7 percent annually at community and technical colleges. In K-12 public schools, the federal funding will restore a portion of the Initiative 728 allocations to school districts and avoid further reductions to assistance for property poor school districts. Finally, in the Department of Corrections, the budget avoids making reductions to programs designed to reduce recidivism and other actions that might be necessary without the additional federal funding.

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

## **BUDGET REDUCTIONS - \$3.2 BILLION**

Besides compensation savings, the budget makes slightly over \$3.2 billion in programmatic reductions in all areas of state government. Some of the major reductions include: (1) a \$600 million reduction in the Initiative 728 per student allocations to school districts; (2) a \$557 million reduction from the amount needed to continue the current level of programs and activities at the state's public colleges and universities; (3) achieving \$255 million in savings through administrative reductions and efficiencies in state agencies; (4) a \$255 million savings by making over a 40 percent reduction to the Basic Health Plan which provides low income health coverage; (5) a \$127 million savings in amounts provided for hospital reimbursement; (6) \$68 million by implementing additional Temporary Assistance to Needy Families caseload management strategies and reducing administrative costs; and (7) \$63 million in sentencing and community supervision changes.

While these are some of the larger reductions, the budget makes reductions in all areas of state government. Given the magnitude of the budget problem, one of the guiding principles employed by the legislative budget writers was that all areas of state government be subjected to review for reduction and ultimately no area can be spared from helping to solve the budget problem.

## **CAPITAL RELATED TRANSFERS - \$777 MILLION**

The operating budget utilizes \$777 million of cash related funds typically appropriated in the capital budget. This includes: (1) \$194 million (including \$11 million from additional lottery earning from multi-state games) of Education Construction Account that is back-filled with state bonds to fully fund the school construction assistance program; (2) \$180 million of State and Local Toxic Account revenue; and (3) \$368 million from the Public Works Assistance Account (PWAA) partially backfilled with a temporary grant program for local government infrastructure projects. In addition to the \$368 million of PWAA transferred to the general fund, \$10 million of PWAA is transferred to the City and County Assistance Account to increase aid to 15 mostly rural counties and 174 small cities.

## **USE OF RAINY DAY FUND - \$445 MILLION**

In fiscal years 2009 and 2010, the budget transfers a total of \$445 million from the budget Stabilization Account (aka "Rainy Day Fund") to the state general fund. After these transfers, the ending fund balance in the Rainy Day Fund is expected to be \$250 million.

## **OTHER FUND TRANSFERS - \$160 MILLION**

The budget makes \$160 million in additional transfers from various funds to increase general fund-state reserves as well. Some of the largest transfers include: \$29 million from the Performance Audit Fund; \$26 million from the Life Science Discovery Fund; \$22 million from the Convention Center Account; \$21 million from the Treasury Service Account; \$20 million from the Tobacco Prevention and Control Account; and \$10 million from the Judicial Information Systems Account.

## **NEW RESOURCES - \$243 MILLION (NET INCREASE)**

The proposal assumes several revenue-related measures that on net will increase general fund revenues by a combined total of \$101 million. Some of the measures projected to increase revenues include: (1) \$103 million from restructuring the resale certificate program pursuant to Senate Bill 6173; and (2) \$8.8 million from Substitute Senate Bill 6169 which changes provisions related to the Department of Revenue collections of unpaid tax warrants. The largest tax reduction measure assumed in the budget is Engrossed Second Substitute Senate Bill 6170 (environmental tax incentives) which is estimated to result in a \$4 million net revenue decrease for the 2009-11 biennium by repealing the hybrid vehicle tax exemption and creating several tax incentives to renewable energy sources, log hauling, radioactive waste cleanup and livestock nutrient management programs.

The proposal assumes \$141 million in “budget driven” revenue. These measures include: (1) the Department of Revenue implementing additional strategies related to out-of-state auditing and compliance, the purchase of third party data sources for enhanced audit selection, and increased traditional auditing and compliance efforts; (2) transferring a portion of the lottery unclaimed prizes to the general fund; (3) the Liquor Control Board opening new state stores and contract stores, opening nine additional state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season; and (4) transferring \$62 million from the Liquor Revolving Account that will likely result in a liquor price increase.

## **ESHB 1694 TRANSFERS & REDUCTIONS - \$381 MILLION**

In early action fiscal legislation (ESHB 1694) passed in mid-February, the Legislature transferred \$91 million from various funds to increase general fund-state reserves in fiscal year 2009. Additionally, in ESHB 1694, the Legislature also adopted approximately \$290 million in various reductions or savings measures. Many of these reductions were the result of the Governor's hiring, travel, equipment, and goods and services freeze implemented in the fall of 2008.

The early action fiscal legislation (ESHB 1694) assumes and utilizes funding from the federal American Recovery and Reinvestment Act to offset state costs. This includes: (1) enhanced Medicaid funding; (2) \$362 million which is used to restore Initiative 728 allocations so that school districts have time to transition to significantly reduced funding from this source in the 2009-11 biennium; and (3) \$166 million from Temporary Assistance for Needy Families (TANF) contingency funds. Since this federal funding is described elsewhere in this document, the amount of state offset is not included in the net effect discussed in this section.

**Potential Final Budget Two Biennia Balance Sheet\***  
*Near General Fund in Millions*

	<b>2007-09</b>	<b>2009-11</b>
<b>Beginning Balance</b>	<b>2,105</b>	<b>596</b>
<b>Revenue</b>		
November Revenue Forecast	31,214	32,765
March Revenue Change	(776)	(2,262)
Transfer to Budget Stabilization Account	(125)	(263)
Revenue Changes	-	101
<b>Total Revenue</b>	<b>30,312</b>	<b>30,341</b>
<b>Other Resource Changes</b>		
Prior Fund Transfers (2007 & 2008)	117	-
ESHB 1694 Fund Transfers	91	-
Use Budget Stabilization Account	400	45
Use Capital Budget Resources	77	700
Other Fund Transfers	25	136
Budget Driven Revenue	(1)	142
Other Changes	19	1
<b>Other Resource Changes</b>	<b>728</b>	<b>1,024</b>
<b>Total Resources</b>	<b>33,145</b>	<b>31,962</b>
<b>Spending</b>		
Enacted Budget in 2007-09/2009-11 Budget	33,655	31,390
2008 Actual Spending Adjustment	(16)	
ESHB 1694 (Early Action)	(635)	
2009 Supplemental	(456)	
<b>Total Spending</b>	<b>32,549</b>	<b>31,390</b>
<b>Ending Balance &amp; Reserves</b>		
Unrestricted Ending Fund Balance	596	572
Budget Stabilization Account Balance	114	250
<b>Total Reserves</b>	<b>710</b>	<b>822</b>

\* This balance sheet reflects the passage of all legislation assumed in the final budget. In the regular session, the Legislature failed to enact several bills that were necessary to implement the budget. The bills that did not pass include: SHB 1776 (Levy Related Provisions); SSB 6160 (Criminal Justice Sentencing); and SHB2188/ESB6183 (Illegal Alien Offender Release). If these bills are not passed in a potential special session or other action is not taken to achieve savings, the total reserves are projected at approximately \$750 million at the end of the 2009-11 biennium.

# FUNCTIONAL AREAS OF GOVERNMENT

## STATEWIDE CHANGES

### **ADMINISTRATIVE REDUCTIONS - \$254.9 MILLION GENERAL FUND-STATE SAVINGS; \$2.3 MILLION OTHER FUNDS SAVINGS**

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

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

## EMPLOYEE COMPENSATION

### **SUSPEND INITIATIVE 732 COLA - \$387.9 MILLION GENERAL FUND-STATE SAVINGS**

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

### **STATE AND SCHOOL EMPLOYEE HEALTH BENEFITS - \$93.7 MILLION GENERAL FUND-STATE; \$42.9 MILLION OTHER FUNDS**

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

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

## PENSION SAVINGS

### **PENSION FUNDING CHANGES - \$448.6 MILLION GENERAL FUND-STATE SAVINGS, \$90.7 MILLION OTHER FUNDS SAVINGS**

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

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

	<b>PERS</b>	<b>TRS</b>	<b>SERS</b>	<b>PSERS</b>	<b>WSPRS</b>
<i>Employer rate - PFC</i>	7.84%	10.79%	8.12%	10.06%	8.57%
<i>Employer rate - Adopted</i>	5.13%	5.98%	5.27%	7.68%	6.17%
<i>Employee rate - PFC</i>	4.61%	4.93%	4.00%	6.94%	6.95%
<i>Employee rate - Adopted</i>	3.89%	3.36%	3.14%	6.55%	4.85%

# K-12 PUBLIC SCHOOLS

## OVERVIEW

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

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

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

Second, the budget uses available federal stimulus resources to mitigate the impact of the state budget reductions on K-12 public schools. As part of this strategy, the budget utilizes \$376.6 million in federal "fiscal stabilization" funds to avoid having to make further K-12 reductions, in addition to \$362 million in federal fiscal stabilization funds for the 2009 supplemental budget. Additionally, it is estimated that the K-12 school districts in Washington state will receive \$410 million in enhanced funding for special education, remedial education, school improvement, and technology that will offset some of the state budget reductions. As a result of the budget, it is estimated that the net reduction on school district funding will average approximately 2.6 percent, not including compensation changes.

This is reflective of the budget making approximately \$793 million in non-compensation related reductions and partially offsetting these reductions with the additional federal resources. The major K-12 reductions are detailed below.

## MAJOR SAVINGS

### **REDUCE INITIATIVE 728 ALLOCATIONS - \$600 MILLION GENERAL FUND-STATE SAVINGS**

Initiative 728, approved by voters in 2000, created allocations for school districts to reduce class sizes, offer extended learning opportunities, provide early learning programs, or provide professional development. In the 2008-09 school year, per student allocations are \$458 per student. The budget reduces these per allocations to \$131.20 per student for the 2009-10 school year and to \$99.32 per student for the 2010-11 school year. These figures include the use of \$200.3 million of federal fiscal stabilization funds, as well as regular Student Achievement funds.

**LOCAL EFFORT ASSISTANCE PROGRAM - \$60 MILLION GENERAL FUND-STATE SAVINGS**

The local effort assistance (LEA) program, also known as levy equalization, provides additional resources to mitigate the impact that local school district levies can have on property poor school districts. Pursuant to Engrossed Substitute House Bill 1776 (levy collections), the budget reduces funding for LEA by approximately 16 percent beginning in calendar year 2010. **(Note: this bill did not pass in the 2009 regular session)** Additionally, the budget uses \$176.3 million in federal fiscal stabilization funds to avoid making further reduction to LEA allocations.

**ELIMINATE PROFESSIONAL DEVELOPMENT ACTIVITIES - \$75.4 MILLION EDUCATION LEGACY TRUST-STATE AND GENERAL FUND-STATE SAVINGS**

In the 2007-09 biennium, funding was provided for additional math & science professional development activities. Funding for most of these activities is eliminated for the 2009-10 and 2010-11 school years. Specifically, funding is eliminated for math and science professional development in grades four and five, and math professional development in high school. Included in this reduction is the elimination of one of two Learning Improvement Days (LIDs) for savings of \$35.7 million.

**OTHER NON-BASIC EDUCATION REDUCTIONS - \$63.9 MILLION GENERAL FUND-STATE SAVINGS**

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

## **DEPARTMENT OF EARLY LEARNING**

### **OVERVIEW**

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

### **MAJOR INCREASES**

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

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

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

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

**MAJOR SAVINGS**

**EARLY CHILDHOOD EDUCATION AND ASSISTANCE PROGRAM REDUCTIONS (ECEAP) - \$3.1 MILLION GENERAL FUND-STATE SAVINGS**

ECEAP is Washington's state funded pre-school program for families 110 percent the federal poverty limit. The budget reduces DEL's administrative expenditures for ECEAP by \$818,000. The budget temporarily reduces ECEAP slots by 2 percent for the biennium in locations that serve both ECEAP and Head Start to achieve a no net reduction in pre-school slots statewide. This is estimated to save \$2.3 million. Washington anticipates receiving \$10 million in federal Head Start from the American Recovery and Rehabilitation Act. Head Start is the federally funded pre-school program. Head Start providers are also expected to see a total increase of five percent in their vendor rates.

**SMALL PROGRAM REDUCTIONS - \$5.4 MILLION GENERAL FUND-STATE SAVINGS**

Savings are achieved through reducing the Parent, Family, Caregiver Support (\$1.2M), Early Childhood Apprenticeships (\$200k), Rule Making (\$150k), Child Care Quality Improvement Specialists (\$870k), and administrative reductions (\$4.2M).

# HIGHER EDUCATION

## OVERVIEW

As it is in all areas of state government, the severe and prolonged economic recession is requiring reductions in the state's investment in its colleges and universities. As shown below, despite allocation of \$81.5 million of federal stimulus funding, total proposed 2009-11 state and federal appropriations to the public colleges and universities are \$557 million (17 percent) below the amount needed to continue the current level of programs and activities. Approximately \$230 million of those reductions in public funding are offset by tuition increases, which are expected to total 14 percent per year for resident undergraduates at the public baccalaureate institutions, and 7 percent per year at the community and technical colleges. After accounting for those increases, the University of Washington and Washington State University will have about 7 percent less revenue for their core educational missions in 2009-11 than they do this year; the four public comprehensive universities will each have about 6.5 percent less; and the community and technical colleges will experience a 6.0% reduction.

*dollars in millions*

	UW	WSU	EWU	CWU	TESC	WWU	CTCs	TOTAL
Public \$ Reduction	-\$189.4	-\$96.6	-\$26.6	-\$29.9	-\$14.1	-\$34.9	-\$164.8	-\$556
Change from State Funds Base	-23%	-19%	-22%	-24%	-22%	-23%	-11%	-17%
Net Reduction After Tuition Increase	-\$99.8	-\$54.2	-\$12.8	-\$12.7	-\$7.2	-\$16.6	-\$121.5	-\$324.7
Change from State + Tuition Base	-7.0%	-7.0%	-6.5%	-6.5%	-6.5%	-6.5%	-6.0%	-6.5%

## TUITION AND FINANCIAL AID

To maintain access to public higher education, preserve current high-demand programs, and assure that there are sufficient course offerings for students to graduate in a timely fashion without incurring the cost of additional months or years of attendance, the public colleges are provided additional tuition revenue to partially offset the reductions in state tax support.

The final legislative budget authorizes the public four-year institutions to increase resident undergraduate tuition by a maximum of 14 percent each year, and the community and technical colleges to increase tuition by up to 7 percent each year. The costs of these tuition increases will be largely offset for many students and families by two factors:

- A \$57 million increase in state funding for need-based financial aid which, together with \$13 million of increased federal Pell Grant and work-study funding, will offset all of the cost of the tuition increases for students and families with incomes below 50 percent of the state median (\$37,500 for a family of 4), and most of the cost for those with incomes up to 70% of the median (\$52,500 for a family of 4).
- The new federal American Opportunity Tax Credit, which provides additional refundable educational tax credits of \$700-\$2,500 per year for married persons with incomes up to \$180,000 per year.

## ACCESS TO HIGHER EDUCATION

To provide as much opportunity for current and prospective students as possible, the Legislature expects colleges and universities to sharply reduce expenditures in other areas in order to preserve capacity for direct student instruction and academic support services. Expenditures on institutional and academic administration are expected to be reduced by \$118 million, and other non-instructional activities -- such as extension and other public service programs, state-sponsored research, library hours and acquisitions, and plant operations -- are likely to be reduced by about \$127 million. As a result of these actions, coupled with increased tuition revenue, and with increased productivity in the delivery of instructional services through methods such as online learning, fewer small-course offerings, and more faculty time in the classroom, the public colleges and universities are budgeted to enroll an average of 231,000 full-time-equivalent students each year. As shown below, this is 3,500 (1.5 percent) fewer students than budgeted for the current academic year, and 13,000 (5 percent) fewer than are actually enrolled.

	Current Enrollment		2009-11 Enrollment	
	Budgeted	Projected Actual	Budgeted Average	Change from Current Budgeted
University of Washington	38,526	39,629	36,854	(1,672)
Washington State University	22,250	23,425	22,250	-
Central Washington University	9,322	9,060	8,606	(717)
Eastern Washington University	9,184	9,298	8,639	(546)
The Evergreen State College	4,213	4,406	4,213	-
Western Washington University	12,175	12,365	11,568	(608)
<i>Sub-Total, 4-Year Institutions</i>	<i>95,670</i>	<i>98,183</i>	<i>92,129</i>	<i>(3,542)</i>
Community & Technical Colleges	139,237	146,305	139,237	-
<b>TOTAL Public Higher Education</b>	<b>234,907</b>	<b>244,488</b>	<b>231,366</b>	<b>(3,542)</b>

## HIGH-DEMAND FIELDS

The budget requires the public colleges and universities to maintain, and to the extent possible expand, their current enrollment levels and degree production in these fields. Because it is often more expensive to prepare students to excel in these fields than in others, the public colleges and universities will need to accomplish still more productivity increases and may need to eliminate instruction in other fields in order to achieve this goal within the level of resources available to them.

# LOW-INCOME HEALTH CARE

## OVERVIEW

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

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

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

## MAJOR SAVINGS

### **BASIC HEALTH PLAN (BHP) - \$255.1 MILLION GENERAL FUND-STATE SAVINGS**

The Basic Health Plan provides health care coverage to individuals under 200 percent of the federal poverty level. The program is reduced by roughly 43 percent to achieve an enrollment level of approximately 60,000

### **GENERAL ASSISTANCE-UNEMPLOYABLE (GA-U) - \$40.1 MILLION GENERAL FUND-STATE REDUCTION**

The GA-U program serves adults who are physically or mentally incapacitated and expected to be unemployable for more than 90 days but less than 12 months. Savings are expected from moving clients to managed care and initiatives being pursued on the GA-U grant side, summarized on page 23.

**HOSPITAL REIMBURSEMENT - \$127.0 MILLION GENERAL FUND-STATE SAVINGS**

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

The budget reduces inpatient and outpatient rates by approximately five percent of total expenditures for a state savings of \$64.3 million, reduces DSH payments by \$33.2 million, eliminates Healthy Options Graduate Medical Education (GME) payments by \$19.6 million, and pursues the equalization of and efficiencies around reimbursement structures for about \$12.4 million in savings. A one-time increase in the low-income DSH program of \$2.5 million in state funds is provided to mitigate the impact of the transition to the Outpatient Prospective Payment System (OPPS).

**OTHER PROVIDER RATES - \$84.3 MILLION GENERAL FUND-STATE SAVINGS**

Premium payments to managed care organizations accounted for roughly 24 percent of state medical assistance expenditures for the 2009-11 biennium. A premium rate reduction of one percent for CY 2009 and holding premiums at no growth for the 2009-11 biennium achieves a state savings of \$32.6 million. Additionally, the 48 percent rate increase provided to pediatric office visits in the 2007 legislative session is reduced to a 15 percent increase for a savings of \$17.9 million. Healthy Options enhanced payments to Federally Qualified Health Centers (FQHCs) are also reduced by \$25.0 million. Rate reductions to other services result in an additional \$8.8 million in savings.

**PHARMACY INITIATIVES - \$84.1 MILLION GENERAL FUND-STATE SAVINGS**

The budget assumes these savings will be achieved via a comprehensive package of pharmacy cost containment and efficiency-promoting initiatives. Among these initiatives are increasing the use of a 90-day supply for low-risk pharmaceutical refills, reducing coverage of some over-the-counter (OTC) drugs, and increasing the generic prescription drug utilization rate by 20 percent.

**OPTIONAL SERVICE UTILIZATION - \$44.3 MILLION GENERAL FUND-STATE SAVINGS**

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

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

The recently enacted federal Children's Health Insurance Program Reauthorization Act (CHIPRA) contains a number of provisions that allow Washington state to leverage additional federal match on a permanent basis. The state can now receive an enhanced match (\$2 federal for every \$1 state) for Medicaid-eligible children between 133 and 200 percent of the federal poverty level rather than the regular (\$1 for \$1) Medicaid match. Additionally, interpreter services will receive an enhanced match and legal immigrant children will be eligible for regular Medicaid or enhanced match rather than state-only funds.

**OTHER HEALTH CARE**

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

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

**FUNDING PUBLIC HEALTH WITH TOBACCO PREVENTION FUNDS - \$16 MILLION HEALTH SERVICES ACCOUNT SAVINGS**

Savings are achieved by suspending the public awareness activities, which include television and radio advertisement, to promote awareness of the harmful effects of tobacco by targeting both adult and youth audiences. These resources are then utilized to support a portion of the broader public health distributions to local public health jurisdictions. After this action, over \$31 million is still retained within the Department of Health to continue its other tobacco prevention and control activities.

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

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

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

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

# LONG TERM CARE AND DEVELOPMENTAL DISABILITIES

## OVERVIEW

The Aging and Disability Services Administration (ADSA) administers the Long Term Care (LTC) and [Division of] Developmental Disabilities (DDD) programs. These two programs combined account for approximately \$2.1 billion in general fund-state (GF-S) expenditures for the 2009-11 biennium. The budget provides \$820 million GF-S (\$1.9 billion all funds) for DDD clients and services, including continued operation of all residential habilitation centers. The budget also provides \$1.3 billion GF-S (\$3.1 billion all funds) to provide in-home, residential, institutional and skilled nursing facility care to over 53,000 individuals.

## MAJOR INCREASES

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

- \$10.7 million GF-S (\$26.4 million all funds) is provided to fund over 2,500 waiver placements in DDD for clients currently receiving supported employment and day services.
- \$4.8 million GF-S (\$11.5 million all funds) is provided for additional community placements for DDD clients who are assessed as having an immediate need for increased services--this includes youth from the Children's Administration or Juvenile Rehabilitation Administration programs--and for new clients with community protection issues.
- The LTC budget includes \$3.9 million GF-S (\$9.8 million all funds) for community residential and support services for persons who are older adults or who have co-occurring functional and behavioral impairments and who have been discharged or diverted from a state psychiatric hospital.
- Health insurance benefits for individual and agency providers are funded, including assumed three percent per year inflation. The total value of the additional funding for inflation increases is \$4.3 million GF-S (\$6.1 million all funds).
- Initiative 1029 required additional long-term care worker background check, training and certification requirements. The budget includes funding for these items per ESSB 6180. The total funding provided in ADSA is \$5.2 million GF-S (\$11.4 million all funds). \$7.5 million GF-S (\$11.9 million all funds) is provided for contributions to a training trust per RCW 74.39A.360.

## MAJOR SAVINGS

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

The 2009-11 statewide weighted average daily Medicaid rate for nursing homes is set at \$156.37 for fiscal year 2010 and \$158.74 for fiscal year 2011. These rates assume continued funding of the low-wage worked add-on; however, no certificates of capital authorization are funded for either year. The 2010 rate is a 4.6 percent reduction from the current year and the 2011 rate is a 3.0 percent reduction from the current year.

**MEDICAID PERSONAL CARE REDUCTIONS - \$32.7 MILLION GENERAL FUND-STATE SAVINGS**

The personal care benefit provided to Medicaid clients is reduced by an average of 3.5 percent. The department is provided with the flexibility to adjust the reduction to ensure sufficient care is maintained for all clients.

**ADULT DAY HEALTH REDUCTIONS - \$19.3 MILLION GENERAL FUND-STATE SAVINGS**

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

**AGENCY PROVIDER DEFINITION - \$12.0 MILLION GENERAL FUND-STATE SAVINGS**

Pursuant to SHB 2361, family members providing Medicaid-paid personal care will be paid as individual providers rather than agency providers.

**COMMUNITY RESIDENTIAL VENDOR RATE REDUCTIONS - \$18.4 MILLION GENERAL FUND-STATE SAVINGS**

Base daily Medicaid rates for boarding homes, adult family homes, group homes, and supported living facilities are reduced from current levels. . The reduction is applied to vendor base rates and varies between 3.0 and 4.0 percent. Exceptional care rate add-ons for HIV/AIDS, dementia, and enhanced community services remain unchanged from fiscal year 2009 levels.

## **MENTAL HEALTH**

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

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

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

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

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

**STATE PSYCHIATRIC HOSPITAL STAFFING - \$5.9 MILLION GENERAL FUND-STATE SAVINGS**

In culmination of a three-year community investment strategy initiated in 2006, the number of civil commitment beds at Eastern and Western State Hospitals is being reduced by 120 (13 percent) during the year ending September 2009, for a state savings of \$29.0 million in the 2009-11 budget base. In addition to that reduction, staffing enhancements authorized in the 2007-09 biennium are partially rescinded, for the additional savings identified above.

**DEMONSTRATION AND PILOT PROJECTS - \$4.0 MILLION GENERAL FUND-STATE SAVINGS**

State funding that has been used to demonstrate and test new approaches to mental health service delivery is discontinued. Such funding is presently supporting eight different projects. These include four of the 22 consumer-run "clubhouses" that provide work-ordered days and other support services for persons recovering from mental illness; two projects that provide consumer-focused services to minority populations; one that supports integration of mental health and primary care services; and one, that since 1998, has provided intensive services for mentally ill offenders following their release from jail or prison.

**LIMIT CHILDREN'S PILOT PROJECTS - \$1.9 MILLION GENERAL FUND-STATE SAVINGS**

Funding for six children's "evidence-based practice" pilot projects is reduced to more accurately reflect the actual dollar amounts spent and the number of children being served. These programs currently serve 148 high intensity children (unduplicated) per year. The reduction allows services to continue to the same number of children being served by these programs in FY 2009.

## **OTHER HUMAN SERVICES**

### **DSHS - ECONOMIC SERVICES ADMINISTRATION**

#### **OVERVIEW**

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

#### **MAJOR INCREASES**

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

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

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

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

#### **MAJOR SAVINGS**

##### **GENERAL ASSISTANCE - UNEMPLOYABLE CASH PROGRAM -- \$24.8 MILLION GENERAL FUND STATE SAVINGS**

The General Assistance-Unemployable (GA-U) program provides health care and a cash stipend for adults who are physically or mentally incapacitated and expected to be unemployable for more than 90 days but less than 12 months. Savings are achieved by moving: GA-U recipients into federal Social Security Income (SSI), legal aliens into citizenship for SSI eligibility, veterans to Veteran's Administration services, and recipients into drug and alcohol treatment if addiction is a co-occurring condition. The savings also assumes a policy change in how earned income is calculated.

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

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

## **DSHS – ALCOHOL AND SUBSTANCE ABUSE**

### **OVERVIEW**

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

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

### **MAJOR SAVINGS**

#### **LOW-INCOME TREATMENT AND DETOXIFICATION PROGRAMS - \$7.4 MILLION GENERAL FUND-STATE SAVINGS**

Savings are achieved by reducing the funding available for low-income treatment contracts and detoxification services. Treatment programs are provided in both residential and out-patient settings and can vary in length. DASA contracts with counties, tribes, and directly with private agencies to provide treatment services. Detoxification is a short-term residential service for persons withdrawing from the effects of excessive or prolonged alcohol or drug consumption and always includes supervision.

#### **ADMINISTRATIVE SAVINGS - \$3.4 MILLION GENERAL FUND-STATE SAVINGS**

Savings are achieved by reducing administrative funding for DASA operations and through assumed vacancy savings.

## **DSHS - CHILDREN'S ADMINISTRATION**

### **OVERVIEW**

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

## **MAJOR INCREASES**

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

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

## **MAJOR SAVINGS**

### **BEHAVIORAL REHABILITATIVE SERVICES (BRS) - \$7.6 MILLION GENERAL FUND-STATE SAVINGS**

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

### **PILOTS AND SMALL PROGRAMS - \$12.1 MILLION GENERAL FUND-STATE SAVINGS**

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

## **DSHS – ADMINISTRATION & SUPPORT SERVICES**

### **MAJOR SAVINGS**

#### **FAMILY POLICY COUNCIL AND COUNCIL ON CHILDREN AND FAMILIES - \$4.3 MILLION GENERAL FUND-STATE SAVINGS**

Savings are achieved by reducing the funding available for the Family Policy Council (FPC) and the Council for Children and Families (CCF). The FPC will continue to operate the Community Public Health and Safety Networks and funding is provided for the CCF visiting nurse program.

# CORRECTIONS & OTHER CRIMINAL JUSTICE

## OVERVIEW

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

## MAJOR SAVINGS

### CHANGES IN SENTENCING/SUPERVISION LEGISLATION - \$62.8 MILLION GENERAL FUND-STATE SAVINGS

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

- Substitute House Bill 2188/Senate Bill 6183 (early deportation of offenders) - reduced demand for 362 prison beds; \$8.3 million (**Note: this bill did not pass in the 2009 regular session**)
- Substitute Senate Bill 6160 (sentence discretion) - reduced demand for 134 prison beds; \$375,000 (**Note: this bill did not pass in the 2009 regular session**)
- Engrossed Substitute Senate Bill 5288 (supervision of offenders) - community supervision savings; \$47.8 million
- Senate Bill 6167 (crimes against property) - reduced demand for 385 prison beds; \$4.3 million
- Senate Bill 5525 (state institutions release) - reduced demand for 278 prison beds, but increased community supervision costs; \$4.09 million net savings
- Engrossed House Bill 2194 (offender medical placement) - reduced demand for 44 prison beds; with the costs in DSHS (long term care and medical assistance) the net costs are \$700,000
- Increased DOSA Beds: While no legislation is required, \$11.1 million savings and reduced demand for 386 prison beds are achieved by expansion of the Drug Offender Sentencing Alternative (DOSA)

### CLOSE STATE INSTITUTIONS- \$24 MILLION GENERAL FUND-STATE SAVINGS

\$500,000 is provided for the Office of Finance Management to conduct a study of the feasibility of closing Department of Corrections institutions/facilities, DSHS-Juvenile Rehabilitation Administration institutions (Maple Lane School or Green Hill School) and residential habilitation centers operated by DSHS. With the declining prison population as a result of sentencing legislation, the Department of Corrections is able to close a major institution, minor institutions or housing units. The study assumes closures to result in the elimination of 1,580 prison beds; savings in the 2009-11 biennium are assumed at \$12 million. At DSHS-JRA, a total of 235 beds will be eliminated at one of the two schools; savings are assumed at \$12 million in the 2009-11 biennium. 250

funded beds are to be eliminated at the RHCs. The report is due to the Governor and the Legislature on November 1, 2009.

**REDUCE OFFENDER RE-ENTRY - \$10.6 MILLION GENERAL FUND-STATE SAVINGS**

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

**HOME DETENTION OF VIOLATORS - \$11.2 MILLION GENERAL FUND-STATE SAVINGS**

The budget assumes savings by offering home detention instead of jail as an alternative sanction for community custody violators. The savings are based on the assumption that 25 percent of violators in jails would be sanctioned to home detention instead of jail.

**ELIMINATE ENHANCED PAROLE OF JUVENILES - \$5.3 MILLION GENERAL FUND-STATE SAVINGS**

Funding for parole services is reduced. Approximately 30 percent of JRA youth receive enhanced parole. Parole services for sex offenders and the highest risk youth are not affected by this change.

# NATURAL RESOURCES

## OVERVIEW

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

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

## MAJOR INCREASES

### **CONTINUED OPERATION AND MAINTENANCE OF STATE PARKS - \$26.0 MILLION PARKS RENEWAL AND STEWARDSHIP ACCOUNT**

The budget assumes passage of legislation that facilitates a voluntary donation of five dollars at the time of vehicle registration initial applications or renewals. Revenue produced as a result of these donations will allow all state parks to remain open and will produce an additional \$1.7 million investment to address ongoing maintenance needs, such as camp site improvements; dock and boat launch maintenance; and fencing, signage, and trail improvements. Funds collected from this source will be used solely for the operation and maintenance of state parks. The Commission will also actively pursue transferring ownership of state parks to local governments, tribes, or other entities that have expressed interest in operating the park.

### **STANDBY EMERGENCY RESPONSE TUG - \$3.6 MILLION OTHER FUNDS**

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

### **PROTECT PUGET SOUND SHORELINES - \$3.6 MILLION OTHER FUNDS**

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

### **CLIMATE CHANGE - \$612,000 GENERAL FUND-STATE; \$696,000 OTHER FUNDS**

Funding is provided for ongoing support of the emissions report program enacted in 2008, and to develop a comprehensive and coordinated climate change adaptation strategy and to establish a state agency climate leadership (E2SSB 5560).

## **MAJOR SAVINGS**

### **GENERAL REDUCTIONS AND EFFICIENCIES - \$37.6 MILLION GENERAL FUND-STATE SAVINGS**

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

### **SPECIES MANAGEMENT AND ENFORCEMENT - \$15.8 MILLION GENERAL FUND-STATE SAVINGS**

Savings are achieved by a variety of reductions in the management of species and enforcement activities. Reductions will be made to the collection of harvest and non-harvest related data, the number of enforcement officers, and hunter and other educational programs.

### **WATER MANAGEMENT - \$12.1 MILLION GENERAL FUND-STATE SAVINGS**

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

### **LAND MANAGEMENT - \$11.2 MILLION GENERAL FUND-STATE SAVINGS**

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

### **FIRE SUPPRESSION - \$3.1 MILLION GENERAL FUND-STATE SAVINGS**

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

## REVENUE ADJUSTMENTS

### PASSED REVENUE LEGISLATION

(DOLLARS IN THOUSANDS)

<b>Bill</b>	<b>Title</b>	<b>FY09-11</b>
SB 6173	Sales tax compliance	102,550
ESSB 6108	Lottery multi-state games*	11,463
ESSB 6169	Enhancing tax collection tools	8,755
SHB 1067	Limited Partnership Act	1,164
SSB 5571	Electr methods/revenue dept	241
ESSB 5321	Local & state sales & use tx	0
SSB 5368	Annual property valuation	0
2SSB 5433	Local option tax provisions	0
2SHB 1290	Tourism Promotion	0
SHB 1751	Rural county credit	0
EHB 1815	Current use ag products	0
SB 5511	City-county assistance accts	0
SSB 5566	Excise and sales & use taxes	0
SB 5568	Tax collection tools	0
SB 5680	Nonprofit organizations	0
SB 5909	High tech sales & use tax	0
SB 6096	Vessels in foreign commerce	0
SHB 1733	Horse boarding	(27)
HB 1579	Noprofit legal services	(55)
HB 1287	Commuter airplanes	(93)
SB 5470	Low-income senior housing	(149)
SHB 1062	Electrolytic process tx exem	(313)
2SHB 1481	Electric vehicles	(316)
EHB 2122	Taxation of newspapers	(2,500)
2SSB 5045	Community revitalization	(2,250)
ESHB 2075	Taxation of electronic products	(2,635)
ESSB 6170	Environmental tax incentives	(4,037)

\*The lottery multi-state game is also depicted in the capital transfer section of this document.

## **REVENUE ADJUSTMENTS**

### **IMPROVING SALES TAX COMPLIANCE - \$102.6 MILLION GENERAL FUND-STATE INCREASE**

Senate Bill 6173 (sales tax compliance) eliminates the resale certificate for businesses that make purchases for resale. Instead, the Department of Revenue will issue seller's permits, only to businesses that make purchases for resale in their normal course of business. This, and several other provisions of the legislation, will provide the department with additional oversight of sales tax free purchases for resale.

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

Substitute Senate Bill 6108 (state lottery agreements) allows the Washington State Lottery Commission to enter into an agreement for a second multi-state lottery game known as Powerball. After distributions to the Education Construction Account, net revenues from Powerball game will be transferred to the State General Fund for the Student Achievement Program.

### **ENHANCING TAX COLLECTION TOOLS TO PROMOTE FAIRNESS AND ADMINISTRATIVE EFFICIENCY- \$8.8 MILLION GENERAL FUND-STATE INCREASE**

Engrossed Substitute Senate Bill 6169 (enhancing tax collection tools) authorizes the Department of Revenue to issue a notice and order to withhold and deliver property to any financial institution by providing a partial or full list of unpaid tax warrants.

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

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

### **REQUIRING THE USE OF ELECTRONIC METHODS FOR FILING TAXES, PAYMENT OF TAXES, ASSESSMENT OF TAXES, AND OTHER TAXPAYER INFORMATION - \$241,000 GENERAL FUND-STATE INCREASE**

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

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

Engrossed Substitute Senate Bill 5321 (local sales and use tax) extends the sales tax credit for cities annexing an area until 2015. The city of Seattle may qualify for a credit at the rate of 0.85 percent up to a maximum of \$5 million per year. Any city exceeding the maximum credit before 2010 may receive an additional 0.1 percent credit.

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

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

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

Substitute Senate Bill 5433 (local option tax provisions) allows counties to partially supplant existing funds until January 1, 2015, for the county public safety sales and use tax and the mental health/chemical dependency sales and use tax. Multi-year property tax lid lifts may also be used to supplant existing funds; however, in King County, this is allowed only for lid lifts approved in 2009, 2010, and 2011. The ferry district property tax rate in King County is lowered to 7.5 cents per \$1,000 of assessed value. An additional property tax in King County is authorized to fund transit projects at a rate of 7.5 cents per \$1,000 assessed value. Certain public transportation systems may seek voter approval for an annual congestion reduction tax of up to \$20 per vehicle.

**CONCERNING LOCAL TOURISM PROMOTION AREAS - NO IMPACT TO GENERAL FUND-STATE**

Second Substitute House Bill 1290 (tourism promotion) allows counties with populations greater than one million to create tourism promotion areas if two or more jurisdictions operating under an interlocal agreement seek the establishment of the tourism promotion area. Within a tourism promotion area a tax of up to \$2 per night may be charged for lodging.

**CONCERNING THE TIME PERIOD DURING WHICH SALES AND USE TAX FOR PUBLIC FACILITIES IN RURAL COUNTIES MAY BE COLLECTED - NO IMPACT TO GENERAL FUND-STATE**

Substitute House Bill 1751 (rural county credit) allows a rural county to impose the rural county sales and use tax for 25 years from the date the county changes the tax rate from 0.08 percent to 0.09 percent as long as the 0.09 rate is first imposed before August 1, 2009.

**CONCERNING CURRENT USE VALUATION UNDER THE PROPERTY TAX OPEN SPACE PROGRAM - NO IMPACT TO GENERAL FUND-STATE**

Engrossed House Bill 1815 (current use agriculture products) amends the current use farm and agriculture category for parcels of land between 5 and 20 acres by modifying income requirements for standing crops that have an expectation of harvest within 7 years, or 15 years in the case of short-rotation hardwoods. Such crops will meet income eligibility requirements if at least \$100 or more per acre of investment is made in the current or previous year. Also, it provides that when an assessor notifies a property owner that the property no longer qualifies for current use assessment, then the assessor will provide information on appeal procedures, including timelines, petition forms, and county board of equalization contact information.

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

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

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

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

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

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

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

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

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

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

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

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

**CONCERNING THE PROPERTY TAX CURRENT USE VALUATION PROGRAMS - \$27,000  
GENERAL FUND-STATE DECREASE**

Substitute House Bill 1733 (horse boarding) allows land used for equestrian activities such as, stabling, training, riding, clinics, schooling, shows, or grazing for feed to be eligible for current use valuation as farm and agricultural land. Also allows an exception from the requirement to pay additional tax upon removal of property from a current use classification when the classification was originally granted in error through no fault of the owner.

**CONCERNING A BUSINESS AND OCCUPATION TAX EXEMPTION FOR NONPROFIT  
ORGANIZATIONS THAT PROVIDE LEGAL SERVICES TO LOW-INCOME INDIVIDUALS -  
\$55,000 GENERAL FUND-STATE DECREASE**

House Bill 1579 (nonprofit legal services) creates a business and occupation tax exemption for nonprofit organizations which primarily provide legal services to low-income individuals from whom no charge for services is collected.

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

House Bill 1287 (intrastate commuter aircraft) provides a sales and use tax exemption for the sale of airplanes for use in providing intrastate air transportation by a commuter air carrier.

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

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

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

Substitute House Bill 1062 (electrolytic process tax exemption) extends the Public Utility Tax exemption for sales of electricity by a utility chlor-alkali or a sodium chlorate chemical business until December 31, 2018.

**REGARDING ELECTRIC VEHICLES - \$316,000 GENERAL FUND-STATE DECREASE**

Second Substitute Senate Bill 1481 (electric vehicles) provides a sales and use tax exemption for electric vehicle batteries and for electric vehicle infrastructure. In addition a leasehold excise tax exemption is provided for electric vehicle infrastructure. The bill also contains several other provisions to promote electric vehicle infrastructure within the state.

**REGARDING THE TAXATION OF NEWSPAPERS - \$2.5 MILLION GENERAL FUND-STATE  
DECREASE.**

Engrossed House Bill 2122 (newspaper taxation) reduces the business and occupation tax rate on newspapers and printers of newspapers from 0.484 percent to 0.2904 percent.

**REGARDING COMMUNITY REVITALIZATION FINANCING - \$2.3 MILLION GENERAL FUND-STATE DECREASE**

Substitute Senate Bill 5045 (community revitalization) allows local governments to create “revitalization areas” and use certain tax revenues which increase within the area to finance local public improvements, including a state contribution in the form of a local sales and use tax credited against the state tax. The following areas are "demonstration projects" which may establish revitalization areas and finance local public improvements: Whitman County, University Place, Tacoma, Bremerton, Auburn, Vancouver, and Spokane. These demonstration projects may impose the new local tax credited against the state tax beginning July 1, 2010 and the maximum state contribution is \$2.25 million per fiscal year. Other projects may apply to the Department of Revenue starting September 1, 2009. These projects may impose the new local tax credited against the state tax beginning July 1, 2011 and the maximum state contribution is \$2.5 million per fiscal year. The maximum state contribution per project is \$500,000 per fiscal year.

**CONCERNING THE EXCISE TAXATION OF CERTAIN PRODUCTS AND SERVICES PROVIDED OR FURNISHED ELECTRONICALLY - \$2.8 MILLION GENERAL FUND-STATE DECREASE**

Engrossed Substitute House Bill 2075 (taxation of electronic products) codifies the current tax treatment of digital goods. In addition, the bill provides for broad based taxation of digital products and services while providing many exemptions for certain types of business related digital products and services.

**CONCERNING ENVIRONMENTAL TAX INCENTIVES. - \$4.0 MILLION GENERAL FUND-STATE DECREASE**

Engrossed Second Substitute Senate Bill 6170 (environmental tax incentives) repeals the hybrid vehicle tax exemption. Additionally, it provides several tax incentives to renewable energy sources, log hauling, radioactive waste cleanup and livestock nutrient management programs.

## **BUDGET DRIVEN REVENUE**

*(IN MILLIONS)*

Department of Revenue Enhancement	\$60.1
Liquor Control Board Transfer	62.0
Liquor Control Board Enhancement	8.3
<u>Lottery Unclaimed Prizes</u>	<u>11.0</u>
<b>Total</b>	<b>\$141.4</b>

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

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

### **LIQUOR CONTROL BOARD TRANSFER - \$62 MILLION GENERAL FUND-STATE INCREASE**

\$62 million is transferred from the liquor revolving account to the general fund. This provision also includes an additional \$18.6 million appropriated for distribution to local government. This can be accomplished through a variety of mechanisms including potential liquor price increases or efficiency measures. If the Liquor Control Board uses a price increase to fully supplant the transfer and additional appropriation to local government, it is estimated that the increase would be one dollar per liter of spirits.

### **OTHER LIQUOR CONTROL BOARD CHANGES - \$8.3 MILLION NEAR GENERAL FUND-STATE INCREASE**

Several revenue enhancing measures were implemented in the budget including opening five new state stores and ten new contract stores. Additionally, appropriations are provided for new retail strategies including opening nine state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season. Also, included in the total is other minor policy level changes impacting revenues.

### **LOTTERY UNCLAIMED PRIZES - \$11.0 MILLION GENERAL FUND-STATE INCREASE**

The budget assumes that a portion of the unclaimed prizes will be transferred to the general fund rather being retained in the State Lottery Account.

# CAPITAL BUDGET

## OVERVIEW

The capital budget for the 2009-11 biennium is 30 percent less than the current biennium in total funds and a 17 percent less in state bonds. The total fund reduction is due to less debt capacity resulting from the decline in general revenues and the shift of \$777 million to the operating budget of cash typically spent in the capital budget. The reduced bond capacity of \$1.8 billion would have been \$638 million less without three changes that expand debt capacity:

1. The elimination of four dedicated accounts expands the amount of general revenue for purposes of calculating the debt limit (Health Services Account, Water Quality Account, Public Safety and Education Account and Violence Reduction and Drug Enforcement Account).
2. A shift of \$100 million of general obligation bond authority from the transportation budget to the capital budget; and
3. Legislation with a net increase of \$50 per year in general revenue.

## Comparison of 2007-09 and 2009-11 W&M Chair Budget

\$ Millions	2007-09		2009-11		Difference	
	Bonds	Total	Bonds	Total	Bonds	Total
Governmental Operations	523	1,235	247	446	(275)	(739)
Human Services	228	336	73	154	(155)	(182)
Natural Resources	509	1,097	407	849	(102)	(248)
Higher Education	796	1,126	576	926	(221)	(200)
Other Education	278	922	627	892	349	(29)
<b>Total</b>	<b>2,239</b>	<b>4,716</b>	<b>1,931</b>	<b>3,345</b>	<b>(404)</b>	<b>(1,399)</b>

## **K-12 EDUCATION CONSTRUCTION**

A total of \$690 million is appropriated for K-12 construction assistance grants, which fully funds the state's contribution to school construction projects projected for the 2009-11 biennium. The budget also provides \$137 million for construction projects authorized in the 2007-09 biennium. The budget provides \$20 million for projects that increase health, safety and energy efficiency in public schools. \$23 million is provided for skills centers.

## **HIGHER EDUCATION**

The capital budget includes \$926 million for new capital projects at the public colleges and universities. This total includes \$576 million of new state bond authorizations; \$133 million of other new construction borrowing that will be financed by trust land revenues and student building fees; \$149 million of routine repair and maintenance projects that would also be funded by trust revenues and building fees; and \$68 million of locally-financed community college projects.

A total of \$469 million of new projects are authorized in the community and technical college system. Some of the largest include:

- \$34 million for a new business and humanities building at Peninsula College in Port Angeles
- \$31 million for a new technical education facility at Spokane Community College
- \$27 million for a new humanities and general classroom building at Green River Community College
- \$30 million for a new instructional resource center at Bellingham Technical College
- \$28 million for a new life sciences and chemistry building at Spokane Fall Community College
- \$26 million for a new allied health care facility at Lake Washington Technical College
- \$25 million for a new wood industries construction center at Seattle Central Community College; and
- \$20 million for a new vocational building at Columbia Basin College in the Tri-Cities.

A total of \$457 million of new projects are authorized at the five public universities and The Evergreen State College. The largest include:

- \$55 million to totally renovate the College of Education building at Western Washington University
- \$54 million to construct a new Molecular Engineering research facility at the University of Washington Seattle campus
- \$37 million to construct a new electronics engineering instructional facility at the Washington State University Vancouver campus.

\$34 million to develop a new undergraduate classroom facility at the University of Washington Tacoma campus

- \$27 million to construct a new industrial engineering technology and construction management facility at Central Washington University; and
- \$27 million to renovate and expand the largest instructional facility at Eastern Washington University.

## **HOUSING TRUST FUND**

The capital budget provides \$100 million for affordable housing. Specific set-asides include \$10.5 million for farm worker housing and infrastructure, \$3 million for housing for persons with special needs related to developmental disabilities, and \$5 million for projects in underserved communities.

## **PUBLIC WORKS ASSISTANCE TO LOCAL GOVERNMENT**

The operating budget transfers \$368 million of the Public Works Assistance Account to the general fund, and \$10 million to the City-County Assistance Account. The capital budget partially backfills those transfer with \$60 million of bonds and \$108 million of federal stimulus money for a total of \$168 million. At least \$110 million of that amount will be provided as grants. The temporary public works grant program provides:

- \$15 million for grants to rural communities to create jobs and improve public safety, environmental quality, recreation and community life, and economic development.
- \$24 million for grants to urban communities for projects that will decrease per capital vehicle miles driven by increasing access to mass transit, supporting residential development in proximity to employment, and improving the safety and appeal of walking and biking routes.
- \$15 million for grant to mitigation the risk of floods and droughts.
- \$2 million for emergency public works loans.

Grants for rural communities, and urban communities will be administered by the Public Works Board. The Drought and Flood grants will be administered by the Department of Ecology.

## **NATURAL RESOURCES**

The capital budget funds the following projects to protect our natural resources and outdoor recreation opportunities.

- \$209 million in state and federal funds to improve water quality.
- \$48 million is provided for grants to local governments for managing, preventing, recycling and cleaning up toxic and solid waste.
- \$43 million is provided for the State Parks and Recreation Commission for maintenance and infrastructure improvements, wastewater improvements, trail development, and other projects.

- \$70 million for WWRP grants to acquire or develop sites for wildlife conservation and outdoor recreation
- \$53 million for Puget Sound habitat restoration and acquisition, Puget Sound estuary and salmon restoration projects and the Salmon Recovery Funding Board program..
- \$100 million in funds for the trust land transfer program, which moves ownership of trust lands that are determined to be more suitable for natural or wildlife areas, parks, recreation, or open space out of trust status. Revenue is provided to trust beneficiaries by depositing the timber or lease value of transferred parcels into the appropriate beneficiary account.

## **HERITAGE CENTER/EXECUTIVE OFFICE BUILDING**

Due to declining revenues and an uncertain bond market, the existing plan to finance the construction of the Heritage Center and Executive Office Building is not feasible without considerable investment of general obligation bonds. The budget directs the Department of General Administration to revise the predesign for the project to reduce the scope of the building so that it can be finance within the available revenue. This will also allow two years for the bond market and the dedicated revenue for the project to stabilize.

# APPENDIX A

## Final Budget Fund Transfers to GF-S

*Dollars in Millions*

<b>Capital Budget Related Fund Transfers</b>	<b><u>To GF-S</u></b>
Public Works Assistance Account	368.0
School Construction Account/Lottery (includes muti-state)	193.8
Local Toxics Account	148.1
State Toxics Account	31.7
CEPRI Account	11.1
Aquatic Lands Enhancement Account	10.1
Thurston County Capital Facilities Account	8.4
Energy Freedom Account	6.0
<b>Capital Budget Related Fund Transfers</b>	<b>777.1</b>
 <b>ESHB 1694 (Early Action Supplemental)</b>	
Education Savings Account	51.1
Treasury Service Account	10.0
Savings Incentive Account	9.2
Streamline Sales Tax	8.6
Retirement Systems Expense	6.2
Family Leave Insurance Transfer	4.5
Reading Achievement Account	1.7
<b>ESHB 1694 (Early Action Supplemental)</b>	<b>91.3</b>
 <b>Other Fund Transfers</b>	
Performance Audit Account	29.2
Life Sciences Discovery Account	26.0
Convention & Trade Center Account	22.0
Treasurer's Account	20.8
Tobacco Prevention & Control Account	20.0
Judicial Information Services (JIS) Account	10.0
Economic Development Strategic Reserve	5.0
Wa. Distinguished Professorship Trust Account	5.0
College Faculty Awards Trust Account	4.9
Waste Reduction & Recycling Account	4.0
Natural Resources Equipment Revolving Account	3.3
Customized Training Account	3.0
Flood Control Assistance Account	2.0
GET Ready for Math and Science Scholarship Account	1.9
DRS Expense Account	1.5
Wa. Graduate Fellowship Trust Acct.	1.4
State Emergency Water Projects Account	0.4
<b>Other Fund Transfers</b>	<b>160.4</b>
<b>Total Fund Transfers</b>	<b>1,028.8</b>