

Washington State Operating Budget

Briefing for the House of Representatives Appropriations Committee

January 2006

Prepared by House Appropriations Committee Staff
Office of Program Research

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House Appropriations Committee

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Walsh, Maureen (R)	7836	JLOB 319	Marge Plumage

HOUSE APPROPRIATIONS STAFF ASSIGNMENTS

Charlie Gavigan Staff Coordinator **786-7340**

David Johnson Asst Coordinator **786-7154**

Kristen Fraser **786-7148**

Committee Counsel

Sundry Claims

Maureen Mueller Legislative Asst **786-7204**

Lisa McCollum Legislative Asst **786-7155**

Tanya Carter Computer Analyst **786-7619**

Bernard Dean **786-7130**

Corrections, Department of
Criminal Justice Training Commission
DSHS - Juvenile Rehabilitation
DSHS - Long Term Care
Home Care Quality Authority
Indeterminate Sentencing Review Board
Sentencing Guidelines Commission
State Patrol, Washington

Amy Hanson **786-7118**

DSHS - Developmental Disabilities
DSHS - Medical Assistance
DSHS - Vocational Rehabilitation
Health Services Account (HSA)
Health, Department of (DOH)
Services for the Blind, Department of

Amy Skei **786-7140**

DSHS - Alcohol & Drug Programs
DSHS - Children & Family Services
DSHS - Economic Services
DSHS - Mental Health
Employment Security, Department of
Violence Reduction & Drug Enf. Acct. (VRDE)

Ben Rarick **786-7349**

Public Schools (K-12 Education)
OSPI (Office of the Superintendent of Public Instruction)
Health Benefits K-12
School for the Blind
School for the Deaf

Brian Enslow **786-7143**

Central Washington University
Community & Technical Colleges
Eastern Washington University
Higher Education Coordinating Board
Spokane Intercollegiate Resrch&Tech Inst.
The Evergreen State College
University of Washington
Washington State University
Western Washington University
Workforce Training & Education Board

Alicia Paatsch **786-7178**

Agriculture, Department of
Columbia River Gorge Commission
Conservation Commission
Ecology, Department of
Environmental Hearings Office
Fish & Wildlife, Department of
Growth Management Hearings Board
Natural Resources, Department. of
Outdoor Recreation, Committee for
Parks & Recreation, State
Pollution Liability Reinsurance, WA

Owen Rowe **786-7391**

Judicial

Administrator for Courts
Court of Appeals
Judicial Conduct Commission
Law Library
Office of Public Defense
Supreme Court

General Government/Revolving Funds

Attorney General
Comm, Trade, & Econ Devel, Dept. of
Convention & Trade Center, State
General Administration, Department of
Information Service, Department of
Licensing, Department of
Office of Financial Management (OFM)
Secretary of State (incl/State Library)
State/Federal Drug Funds (Byrne Grant)
State Printer

Human Services

DSHS - Admin & Support Services
DSHS - Information Services
DSHS - Payments to other Agencies
Industrial Insurance Appeals
Labor & Industries, Department of
Veterans Affairs, Department of

Special Appropriations

Agency Loans
Bond Retirement & Interest
Federal Revenues for Distribution
Special Appropriations to the Governor
State Revenues for Distribution
Treasurer's Transfers

Public Safety & Education Account (PSEA)

David Pringle **786-7310**

Pension Counsel

Actuary, State
Board for Volunteer Firefighters
Employee Compensation, State
Health Benefits State Employees
Health Care Authority
Pension Contributions
Pension Policy
Personnel Appeals Board
Personnel, Department of
Public Employees Relations Commission
Retirement Systems, Department of
State Investment Board

Elisabeth Donner **786-7137**

Administrative Hearings Office
African-American Affairs, Commission on
Arts Commission
Asian-Pacific American Affairs, Commission on
Auditor, State
Board of Accountancy
Caseload Forecast Council
Elected Officials Salaries
Financial Institutions, Department of
Forensic Investigations Council
Gambling Commission
Governor, Office of the
Hispanic Affairs, Commission on
Historical Society, Eastern Washington
Historical Society, Washington State
Horse Racing Commission
House of Representatives
Human Rights Commission
Indian Affairs, Office of
Insurance Commissioner
Joint Legislative Audit and Review Committee
Leg Evaluation & Accountability Program
Legislative Service Center
Lieutenant Governor, Office of the
Liquor Control Board
Lottery
Military Department
Minority/Women's Business Enterprise, Office of
Municipal Research Council
Public Disclosure Commission
Redistricting Commission
Revenue Forecast Council
Revenue, Department of
Senate
State Treasurer
Statute Law Committee
Tax Appeals
Utilities and Transportation Commission

HOUSE CAPITAL BUDGET STAFF ASSIGNMENTS

Susan Howson Staff Coordinator **786-7142**

Nona Snell Analyst **786-7153**

Alicia Paatsch Analyst **786-7178**

Kristen Fraser Counsel **786-7148**

Tanya Carter Computer Analyst **786-7619**

Susan Howson **786-7142**

Coordinator

Government Operations

Office of Financial Management (OFM)

Human Services

Community Justice Training Center

Department of Corrections

Education

Historical Societies

Office of the Superintendent of Public Instruction

State Board of Education

School for the Deaf

School for the Blind

Higher Education

Central Washington University

Community and Technical Colleges

Eastern Washington University

The Evergreen State College

University of Washington

Washington State University

Western Washington University

Nona Snell **786-7153**

Fiscal Analyst

Government Operations

Dept. of Community Trade & Economic Dev.(CTED)

Department of General Administration

Liquor Control Board

Military Department

Secretary of State

State Convention and Trade Center

Washington State Patrol

Human Services

Department of Health

Department of Labor and Industries

Department of Social and Health Services

Department of Veteran's Affairs

Natural Resources

Department of Agriculture

Conservation Commission

Department of Fish and Wildlife

Department of Natural Resources

Interagency Committee for Outdoor Recreation

Alicia Paatsch **786-7178**

Fiscal Analyst

Natural Resources

Department of Ecology

State Parks & Recreation Commission

HOUSE FINANCE STAFF ASSIGNMENTS

Bob Longman Staff Coordinator/Counsel **786-7139**

Mark Matteson Fiscal Analyst **786-7145**

Rick Peterson Fiscal Analyst **786-7150**

Tanya Carter Computer Analyst **786-7619**

June Bulkley Leg Assistant **786-7147**

Bob Longman **786-7139**

Committee Counsel

Tax Issues

Appeals, Audits, Legal Issues

History and General Tax Policy

Department of Revenue (Policy)

Rick Peterson **786-7150**

Tax Issues

Cigarette and Tobacco

Liquor/Beer and Wine Taxes

Property Taxes

Timber Taxes

Mark Matteson **786-7145**

Tax Issues

Business and Occupation Tax

Local Government Taxes

Sales and Use Taxes

Utility Taxes, Gambling Revenue, Other Excise Taxes

Office of Program Research

Budget Overview

Background

Washington State typically adopts three budgets and is on a biennial budget cycle. The Legislature authorizes expenditures for operating, transportation, and capital purposes for a two-year period. The budgets for the 2005-07 biennium cover the period from July 1, 2005 through June 30, 2007. (This is Fiscal Year 2006, from July 1, 2005 through June 30, 2006, and Fiscal Year 2007, from July 1, 2006 through June 30, 2007.) The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget almost always is passed during the even-numbered years.

Operating Budget - The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Employee salaries and benefits, leases, goods and services, and public assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other funding sources. This budget is the primary responsibility of the Appropriations Committee.

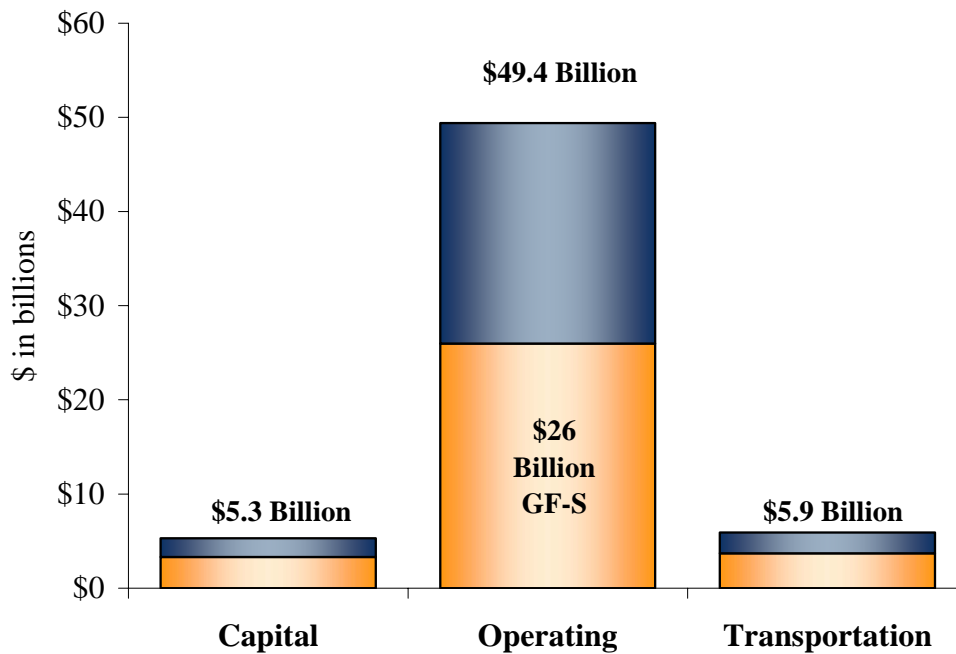
Capital Budget - The capital budget includes appropriations for the construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, farmworkers, and others, and for other capital facilities and programs. Nearly half the capital budget typically is financed by state-issued bonds while the rest primarily is funded by dedicated accounts, trust revenue, and federal funding sources. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take 4 or more years to design and construct. While the proceeds of bond sales are spent under the capital budget, the operating budget pays for the debt service on the bonds. Operating budget and policy decisions can affect the capital budget and vice versa. This budget is the primary responsibility of the Capital Budget Committee.

Transportation Budget - The transportation budget includes the operating and capital costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 85% of the transportation budget is funded by state resources, 1% from local sources, and the balance from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget. This budget is the primary responsibility of the Transportation Committee.

Budget Process

Agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). OFM evaluates these budget requests during the fall and makes recommendations to the Governor. The Governor publishes his or her budget proposals in December and submits them to the Legislature in January as an executive request bill. The Legislature holds hearing, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for action.

Washington State's 2005-07 Budgets



Of the three state budgets, the **Operating Budget** is by far the largest. The State General Fund is the major state funding source, with primary revenues from the retail sales tax (53%), the B&O tax (19%), and property taxes (11%). Federal and other funds appropriated are just under half the total budget.

About half of the **Capital Budget** is funded by state bonds. Bond debt service is paid primarily from the General Fund in the Operating Budget. There is \$3.3 billion in new appropriations and \$2 billion in reappropriations.

The **Transportation Budget** funds both the capital (72%) and operating (28%) costs of state transportation programs. Its primary source of funding is the state gas tax, licenses, fees, and other state revenue (54%), bonds (32%), and federal funds (14%).

Maintenance Level and Policy Items

A new operating budget generally is accomplished by making incremental changes to the current budget. The maintenance level budget is the estimated cost of providing currently authorized services in the new budget period. It is calculated using current appropriations, any bow wave (costs or savings), and adjustments for caseload/enrollment changes to mandatory programs. It is the cost of carrying forward the services/programs funded in the previous biennium into the new biennium.

Once the maintenance level is estimated, the governor and legislature focus on policy changes to the maintenance level budget. These policy level decisions can add funding for new or expanded services/programs or reduce funding for existing services/programs. While the net policy changes (policy additions and reductions combined) can be relatively small, the absolute value of the policy additions and reductions is typically significant. There are also broader views of the operating budget, such as Priorities of Government and performance audits.

Funds and Accounts

Appropriations in the operating budget are authorizations to spend up to a specific amount from a specified state fund or account (legally a fund and account are the same). If a fund or account is located within the state treasury, an appropriation is required for expenditures from that fund/account. Under the constitution, tax revenues must be deposited in appropriated treasury funds/accounts.

Some funds and accounts are nonappropriated; they are deemed in the custody of the State Treasurer, rather than in the treasury itself, and are generally restricted to a particular purpose. In that event, no appropriation is required although the budget documents may still suggest a funding level.

The largest fund/account is the general fund. Revenues not directed otherwise are deposited in the general fund. There are funds/accounts that are similar to the general fund that are for broad purposes like health care (Health Services Account), education (Education Legacy Trust Account and Student Achievement Fund), and public safety (Violence Reduction and Drug Enforcement Account and the Public Safety and Education Account). These account along with the general fund itself, are commonly referred to as near-general fund accounts. Most other funds and accounts are for much more specific purposes.

Mandatory Funding Obligations

A substantial portion of the operating budget must be funded by the legislature as a result of constitutional or contractual requirements. Areas of the budget with little or no funding discretion include K-12 basic education, debt service, and pension contractual obligations. To the extent the state agrees to participate in Medicaid (a joint state-federal health care program), the legislature has little discretion in several entitlement or caseload driven programs in the Department of Social and Health Services such as medical assistance, long-term care, and developmentally disabled services. The state must house prisoners and juveniles subject to rehabilitation provisions when state laws direct their confinement.

Arguably the legislature must fund some amount for constitutionally created agencies such as certain state-wide elected officials, the legislature, and part of the judicial system. In addition, while natural resources is an area that the legislature has discretion, there are federal requirements that the state must comply with. Although higher education is an area that the legislature generally is not mandated to fund under constitutional or contractual requirements, the state historically has allocated a significant portion of the operating budget to higher education.

FTEs (Full Time Equivalent)

Full Time Equivalent (FTE) is a unit of measurement that relates to state employees and students. For state employees, FTE refers to one person working full time for one year. This equates to working approximately 2,088 hours of paid staff time. Two persons working half time count as one FTE. For K-12 and higher education students, FTE refers to the equivalent of one student attending class full-time for one school year based on fixed hours of attendance (which vary depending on grade level).

State FTEs include employees working for state agencies and public higher education institutions. K-12 employees are not state employees, they are employed by the local school district. State funding for K-12 is apportioned to the school districts who then pay the salaries and benefits of K-12 employees.

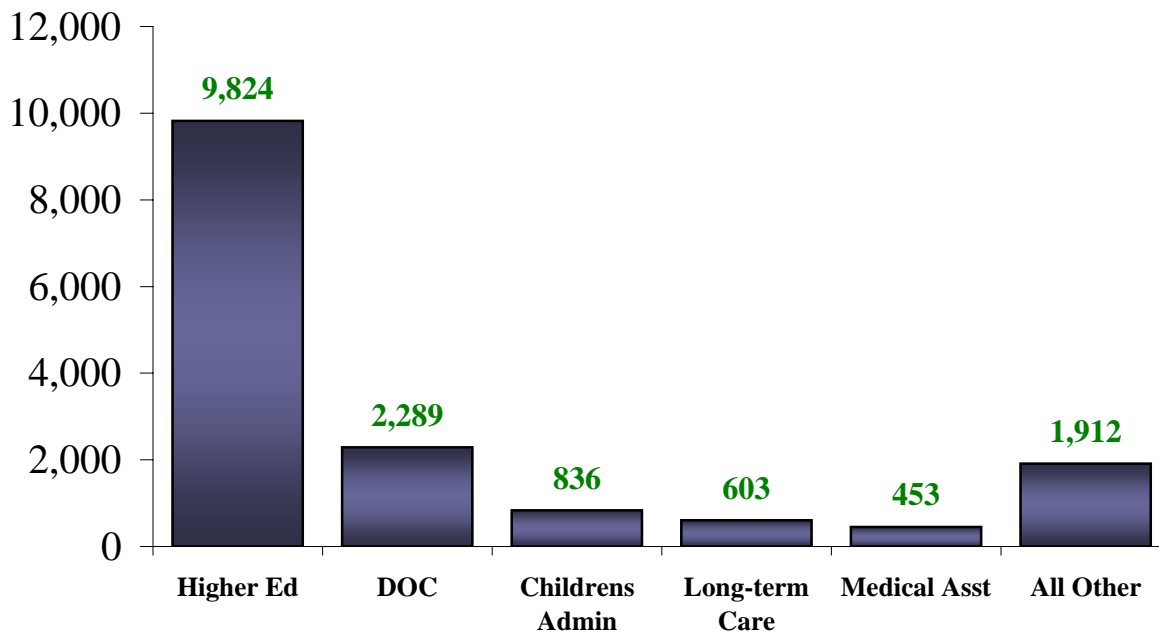
Total budgeted state FTE's for 2005-07, which includes those funded by the operating, capital, and transportation budgets, is 106,638. The operating budget funds 96,038 FTEs.

Since the 1993-95 biennium, state FTEs have grown by 15,917 or about 17.5%. Most of this growth has come in higher education (9,824), corrections (2,289), and several medically-related human services programs in the Department of Social and Health Services.

14-Year History of State Employee FTEs

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Legislative	824.4	793.8	819.1	839.6	839.3	818.4	835.4
Judicial	494.2	513.2	536.6	557.0	575.9	572.3	596.1
Governmental Operations	7,138.9	7,040.0	7,142.8	7,346.6	7,485.8	7,747.1	7,987.5
Other Human Services	12,564.2	13,109.3	13,496.6	14,396.7	15,113.3	15,364.2	15,420.0
Dept of Social & Health Servi	16,536.4	16,855.7	17,801.7	18,302.6	17,859.2	17,802.3	17,984.2
Natural Resources	6,196.4	5,982.7	5,915.6	6,073.1	6,291.3	6,248.7	5,905.3
Transportation	10,010.6	9,819.9	10,000.4	10,254.2	10,472.3	10,461.2	11,051.5
Public Schools	257.4	269.1	280.3	302.6	325.5	355.6	291.6
Higher Education	36,430.0	38,047.0	40,215.5	42,626.0	44,765.1	46,254.3	46,231.4
Other Education	268.4	287.6	304.8	298.4	316.2	299.2	335.6
Statewide Total	90,720.6	92,717.9	96,513.2	100,996.7	104,043.9	105,923.3	106,638.4

Selected FTE Increases Over 14 Years

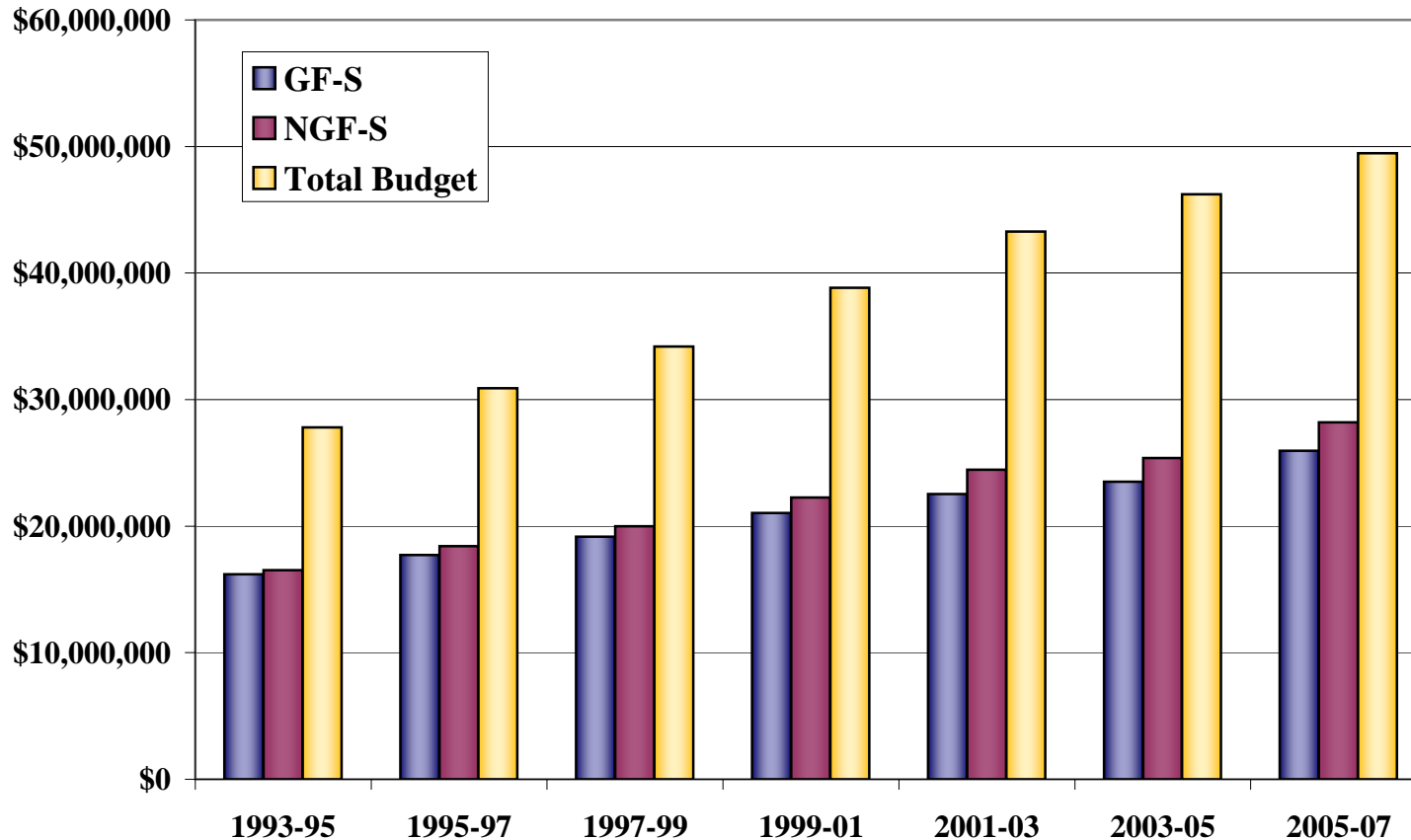


NOTE: Includes FTEs funded in the Operating, Capital, and Transportation budgets.

Operating Budget History

14-Year Operating Budget History

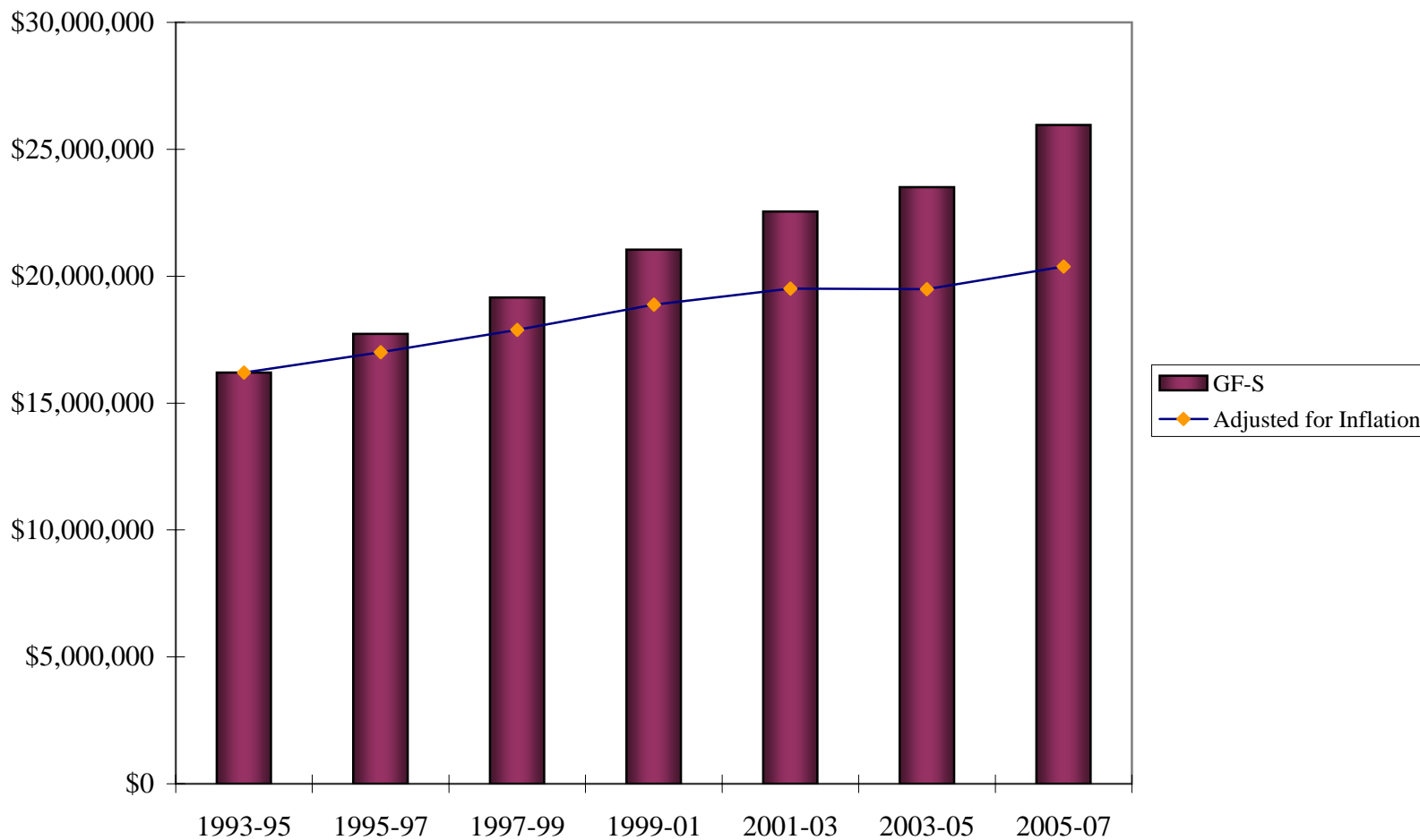
Selected Funds (\$ in 000's)



- NOTE: (1) "GF-S" is General Fund State
- (2) "NGF-S" is Near General Fund-State (General Fund, Health Services Account, Student Achievement Fund, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account, and Education Legacy Trust Account.)
- (3) Total budget includes state, federal, local non-appropriated and other dedicated funds.

General Fund-State Budget

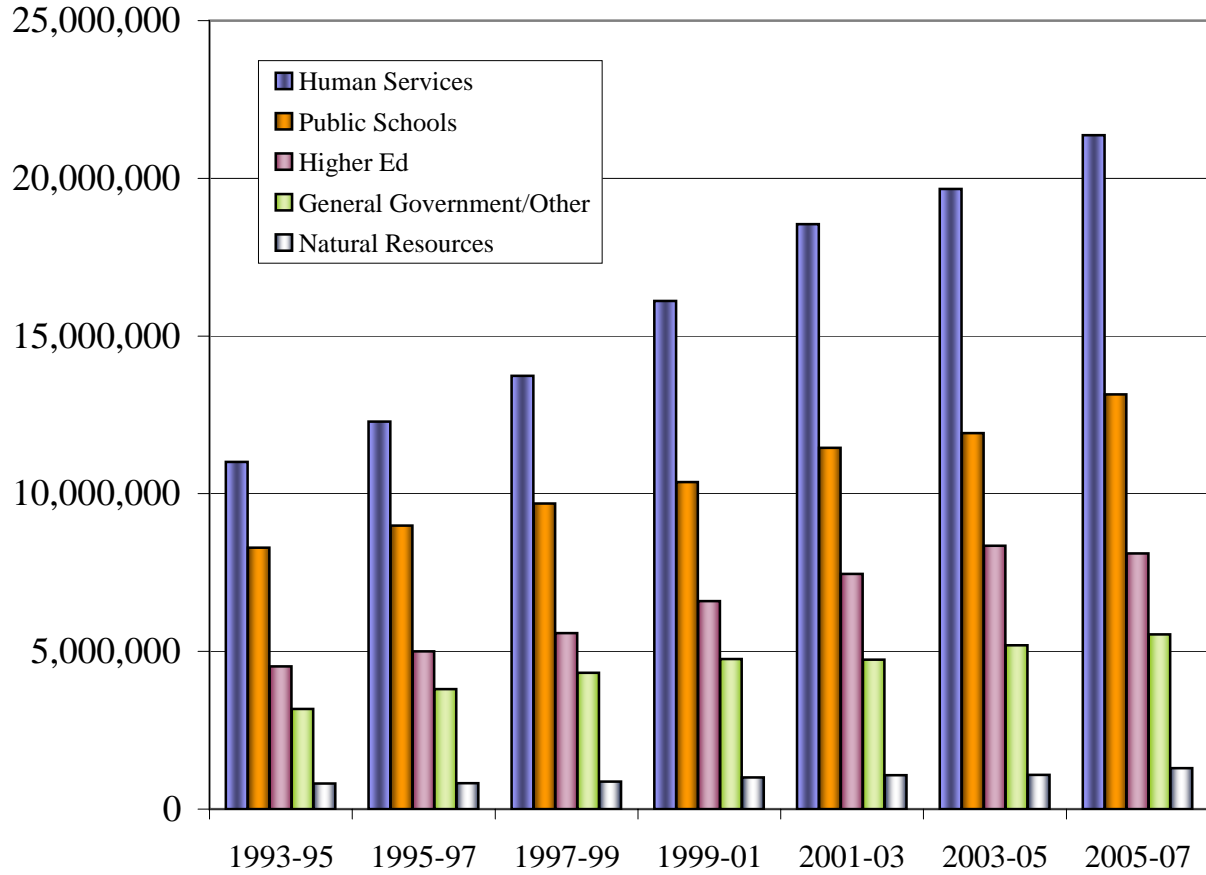
(\$ in millions)



GF-S (\$ in billions)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Total	16.2	17.7	19.2	21.0	22.5	23.5	26.0
Adjusted for Inflation (IPD)	16.2	17.0	17.9	18.9	19.5	19.5	20.4

Total Budget Functional Area History (\$ in thousands)



Total Budget Functional Area History (\$ in millions)

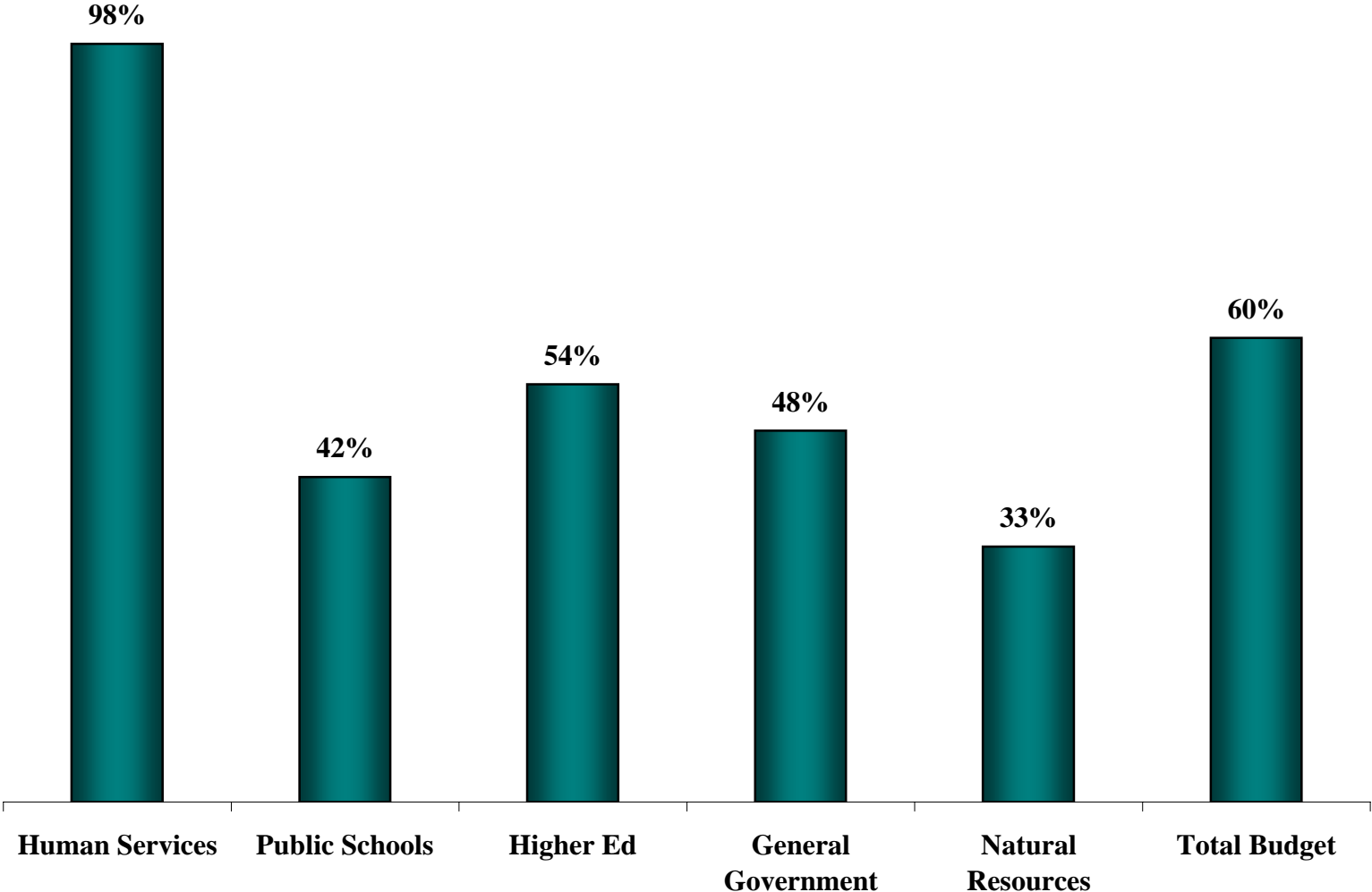
	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Human Services	11,012	12,288	13,734	16,108	18,549	19,664	21,370
Public Schools	8,292	8,987	9,692	10,365	11,455	11,922	13,148
Higher Ed	4,521	5,007	5,580	6,598	7,454	8,345	8,105
Gen Gov't/Other	3,177	3,806	4,320	4,754	4,741	5,196	5,539
Natural Resources	807	823	877	1,001	1,076	1,090	1,297

Functional Areas as Percent of Total Budget

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Human Services	39.6%	39.8%	40.2%	41.5%	42.9%	42.5%	43.2%
Public Schools	29.8%	29.1%	28.3%	26.7%	26.5%	25.8%	26.6%
Higher Ed	16.3%	16.2%	16.3%	17.0%	17.2%	18.1%	16.4%
Gen Gov't/Other	11.4%	12.3%	12.6%	12.2%	11.0%	11.2%	11.2%
Natural Resources	2.9%	2.7%	2.6%	2.6%	2.5%	2.4%	2.6%

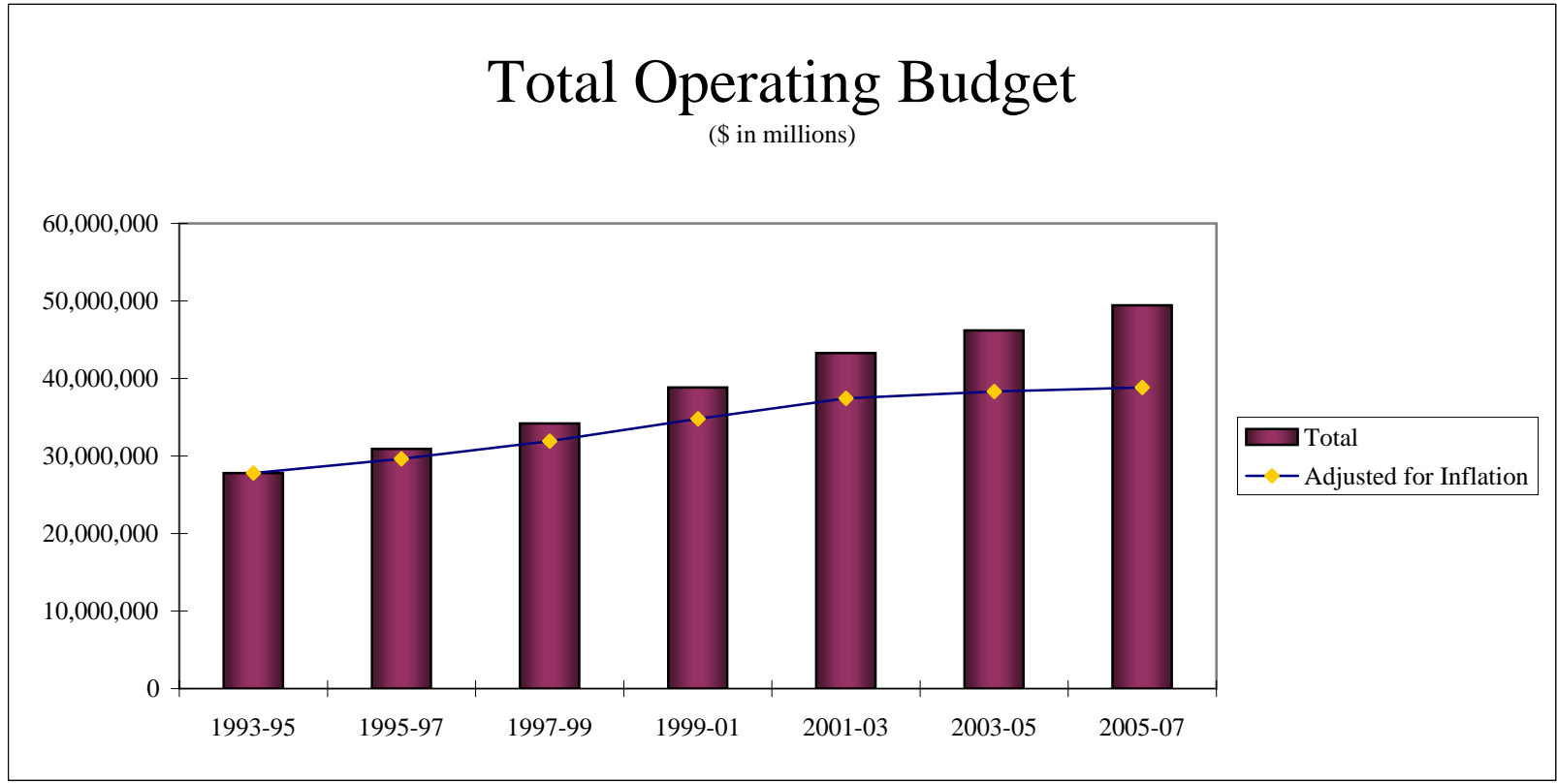
General Fund-State

Functional Area Increases from 1993-95 to 2005-07



General Fund-State History

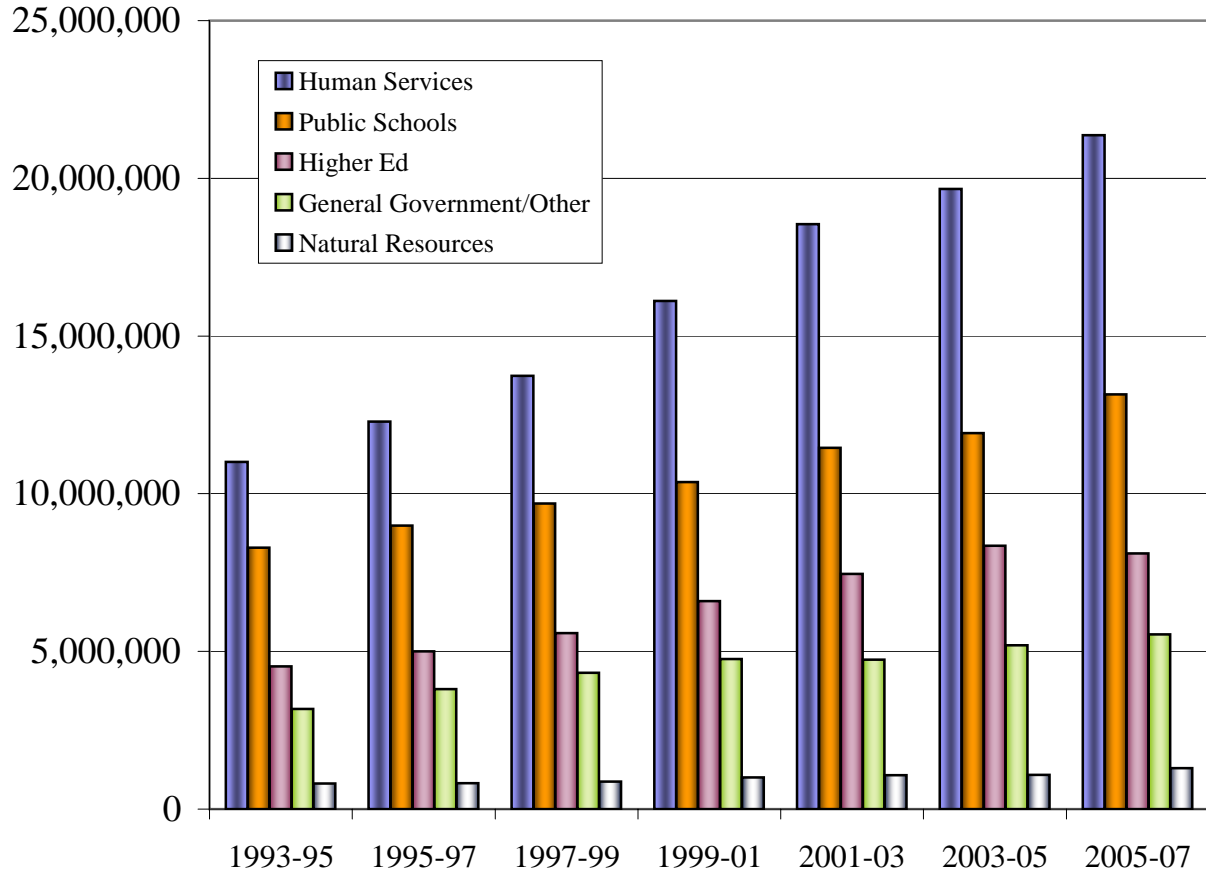
	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Legislative	98,868	100,427	106,272	117,067	125,564	124,829	140,970
Judicial	54,851	55,879	60,118	66,848	75,397	80,111	95,869
Governmental Operations	353,635	397,431	383,575	536,602	484,503	424,857	460,076
Other Human Services	803,214	899,684	1,035,404	1,148,811	1,273,696	1,426,397	1,574,840
Dept of Social & Health Service	3,974,880	4,535,769	4,886,482	5,363,639	6,225,860	6,572,801	7,883,928
Natural Resources	275,334	224,377	258,731	317,383	336,032	336,625	366,902
Transportation	19,525	29,586	40,995	55,953	41,656	49,405	70,464
Public Schools	7,706,082	8,335,497	8,823,837	9,447,098	9,872,280	10,169,949	10,914,763
Higher Education	1,880,198	1,968,836	2,207,042	2,543,226	2,733,469	2,700,516	2,900,607
Other Education	30,211	32,971	35,661	39,147	42,680	40,269	43,974
Special Appropriations	1,002,950	1,149,088	1,320,769	1,410,968	1,337,651	1,586,231	1,500,021
Statewide Total	16,199,747	17,729,545	19,158,885	21,046,741	22,548,787	23,511,991	25,952,414



Total Budget (\$ in billions)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Total	27.8	30.9	34.2	38.8	43.3	46.2	49.5
Adjusted for Inflation (IPD)	27.8	26.9	31.9	34.8	34.7	38.3	38.8

Total Budget Functional Area History (\$ in thousands)



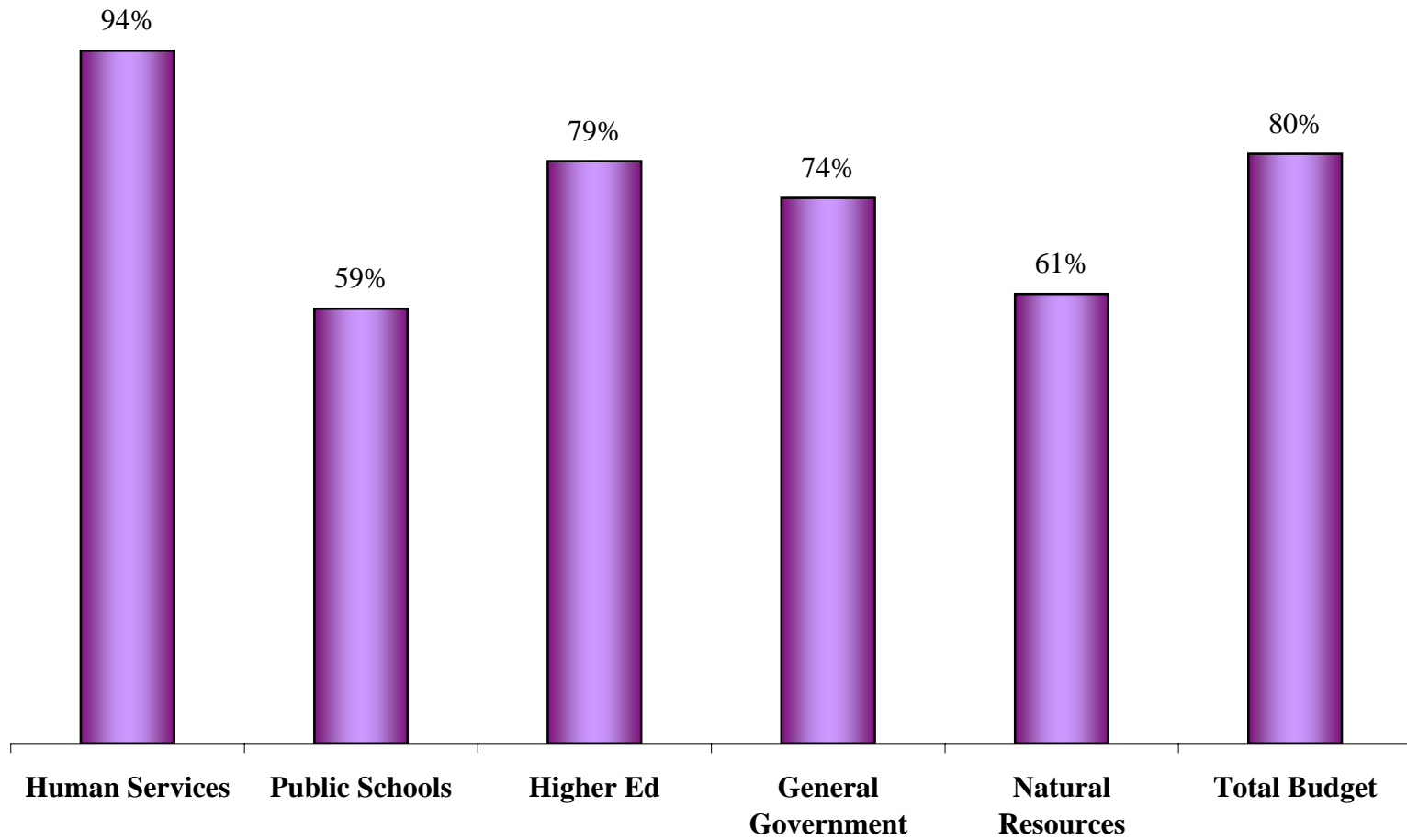
Total Budget Functional Area History (\$ in millions)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Human Services	11,012	12,288	13,734	16,108	18,549	19,664	21,370
Public Schools	8,292	8,987	9,692	10,365	11,455	11,922	13,148
Higher Ed	4,521	5,007	5,580	6,598	7,454	8,345	8,105
Gen Gov't/Other	3,177	3,806	4,320	4,754	4,741	5,196	5,539
Natural Resources	807	823	877	1,001	1,076	1,090	1,297

Functional Areas as Percent of Total Budget

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Human Services	39.6%	39.8%	40.2%	41.5%	42.9%	42.5%	43.2%
Public Schools	29.8%	29.1%	28.3%	26.7%	26.5%	25.8%	26.6%
Higher Ed	16.3%	16.2%	16.3%	17.0%	17.2%	18.1%	16.4%
Gen Gov't/Other	11.4%	12.3%	12.6%	12.2%	11.0%	11.2%	11.2%
Natural Resources	2.9%	2.7%	2.6%	2.6%	2.5%	2.4%	2.6%

Total Budget Functional Area Increases from 1993-95 to 2005-07



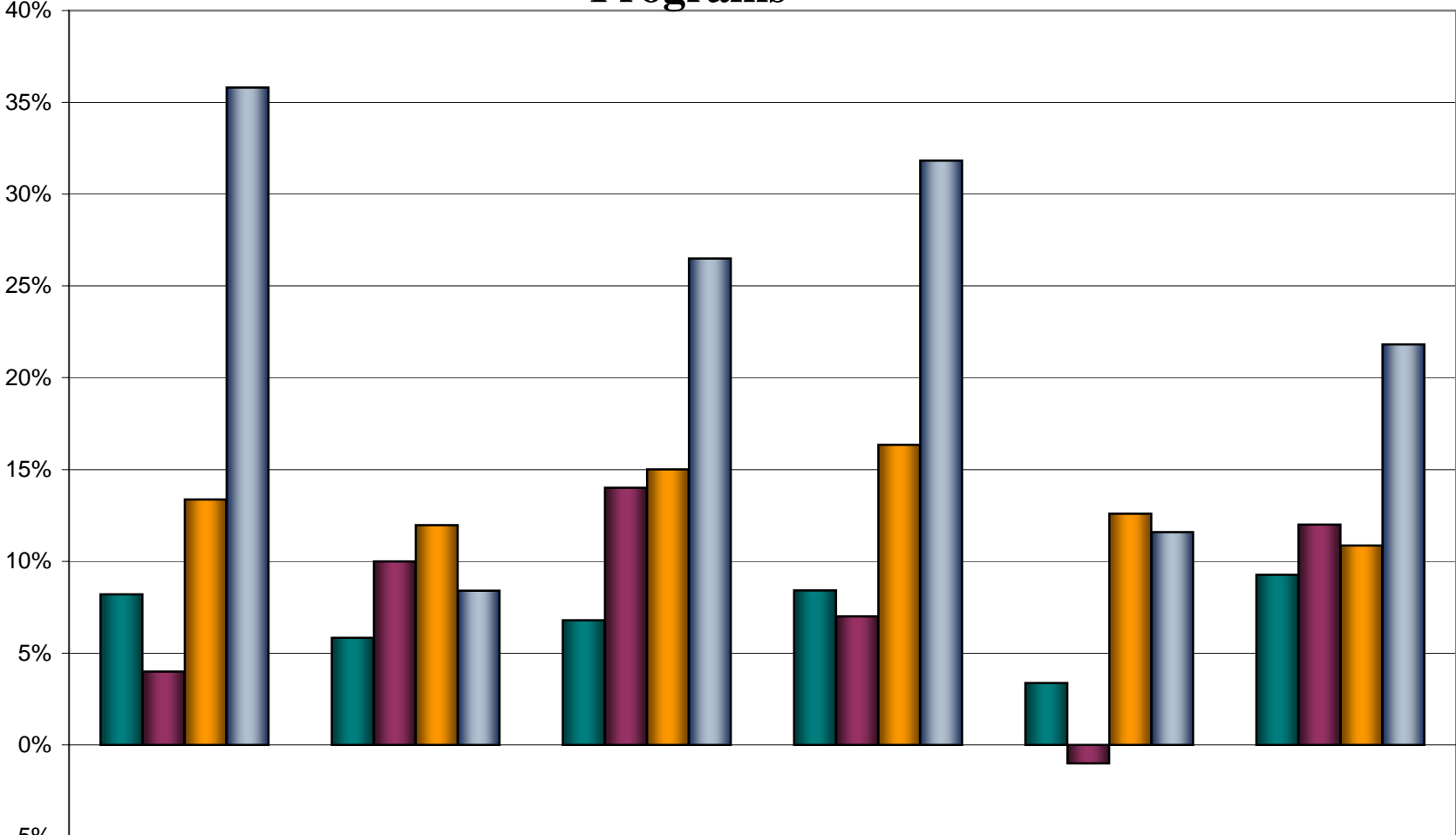
Omnibus Operating Expenditure History

Total Budgeted

(Dollars in Thousands)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Legislative	102,825	103,330	111,378	136,302	133,764	133,415	148,103
Judicial	102,124	111,710	117,533	123,650	139,451	160,846	205,183
Governmental Operations	1,784,882	2,145,693	2,440,615	2,629,738	2,729,032	2,890,200	3,188,651
Other Human Services	2,018,073	2,425,110	2,773,245	3,213,149	3,593,513	3,791,228	4,153,090
DSHS	8,993,549	9,862,595	10,960,282	12,894,505	14,955,481	15,872,531	17,217,073
Natural Resources	807,218	822,672	876,677	1,000,554	1,076,292	1,090,674	1,296,763
Transportation	55,897	68,067	87,027	115,716	107,251	128,295	145,777
Public Schools	8,291,607	8,986,803	9,691,473	10,365,268	11,455,213	11,921,778	13,147,661
Higher Education	4,520,609	5,006,093	5,579,854	6,597,554	7,454,235	8,345,426	8,105,412
Other Education	73,793	76,266	81,322	88,845	96,794	100,932	105,940
Special Appropriations	1,057,259	1,300,508	1,482,454	1,659,374	1,534,925	1,781,812	1,744,962
Statewide Total	27,807,836	30,908,847	34,201,859	38,824,655	43,275,951	46,217,138	49,458,615

Growth In State Spending For Selected Operating Budget Programs

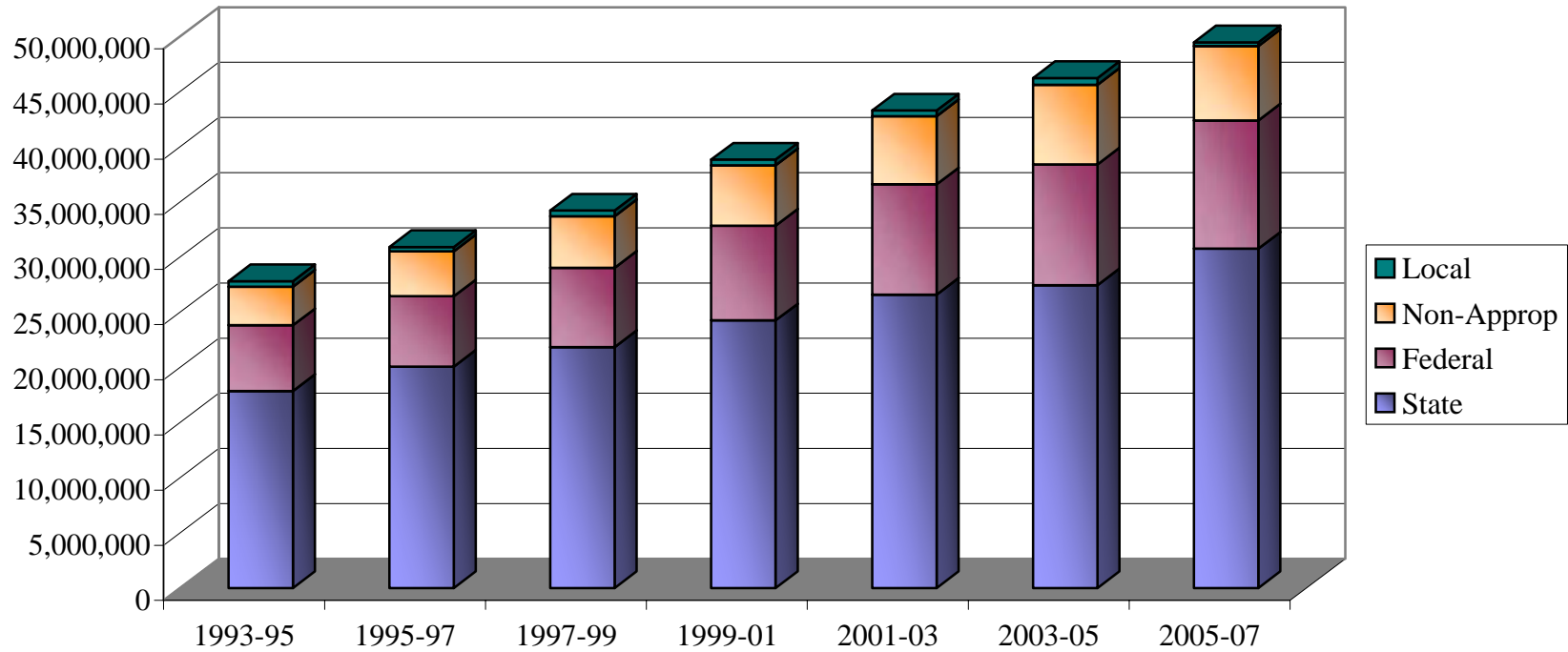


	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
■ K12	8%	6%	7%	8%	3%	9%
■ H. Ed. Inst.	4%	10%	14%	7%	-1%	12%
■ DOC	13%	12%	15%	16%	13%	11%
■ MAA	36%	8%	26%	32%	12%	22%

Notes: Expenditures are from the state general fund and related accounts. Figures in MAA are net of Pro-Share transactions. Higher education reflects institutional budgets only and is adjusted for program transfers to/from the capital budget.

Operating Budget Funding History

(\$ in 000's)



(\$ in 000's)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
State	17,859,810	20,066,460	21,832,834	24,257,362	26,593,757	27,452,077	30,744,946
Federal	5,946,857	6,370,587	7,187,416	8,580,628	9,987,051	10,938,742	11,627,998
Non-Approp	3,500,876	4,080,634	4,681,839	5,475,809	6,180,283	7,216,302	6,742,179
Local	500,293	391,166	499,770	510,855	514,860	610,018	343,492
Total Budgeted	27,807,836	30,908,847	34,201,859	38,824,654	43,275,951	46,217,139	49,458,615

Functional Areas

Overview

State agencies have traditionally been categorized into one of several functional areas for budgeting purposes. While appropriations are made to specific agencies rather than to functional areas, functional areas provide a useful tool for understanding the allocation of state resources and analyzing trends. Functional areas currently used in the operating budget include:

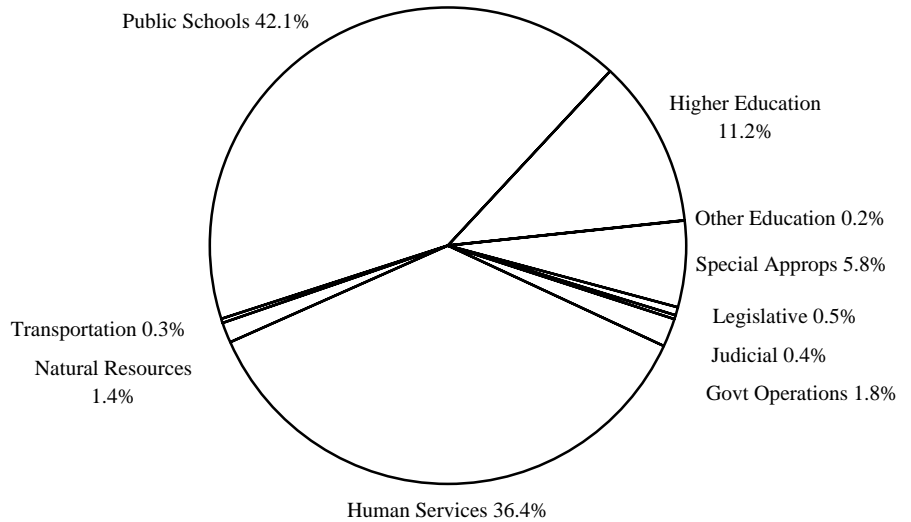
- Legislative includes the state House of Representatives, the Senate, and other legislative agencies. Judicial includes the Supreme Court, the Court of Appeals, and other state judicial agencies. Governmental operations includes most of the state-wide elected officials and a conglomeration of agencies that do not fit neatly into the other functional areas. The largest governmental operations agencies are the Department of Community, Trade, and Economic Development and the Department of Revenue.
- Human services include those agencies charged with serving the health and safety needs of the state's population, such as the Departments of Social and Health Services, Corrections, Veterans Affairs, and Health. The Department of Social and Health Services is often treated as a separate functional area because of its size.
- Natural resources includes those agencies responsible for overseeing environmental quality or resources efforts (e.g., Department of Ecology and Department of Fish and Wildlife), promoting outdoor recreational opportunities (e.g., State Parks and Recreation Commission), and managing state lands and waters for resource production and other benefits (e.g., Department of Natural Resources).
- Transportation is parts of the Washington State Patrol and the Department of Licensing. The majority of these agencies' budgets are appropriated in the Transportation Budget.
- Public Schools is state support for public schools, including the Office of the Superintendent of Public Instruction and funds apportioned to local school districts. Other Education includes the state historical societies, the state schools for deaf and blind children, the Washington State Arts Commission, and the Workforce Training and Education Coordinating Board.
- Higher Education includes support for the state's six four-year institutions and the 34 colleges that make up the community and technical college system, as well as the Higher Education Coordinating Board.
- Special Appropriations includes debt service on state bonds (issued for capital budget projects and programs), sundry claims, special appropriations to the governor, and various adjustments. Global items, things that apply to all of state government such as pensions and health care benefits, typically are considered as one item during budget discussions and then distributed among the state agencies in the budget itself or the allotment process.

Omnibus Operating Budget Comparisons

(Dollars in Thousands)

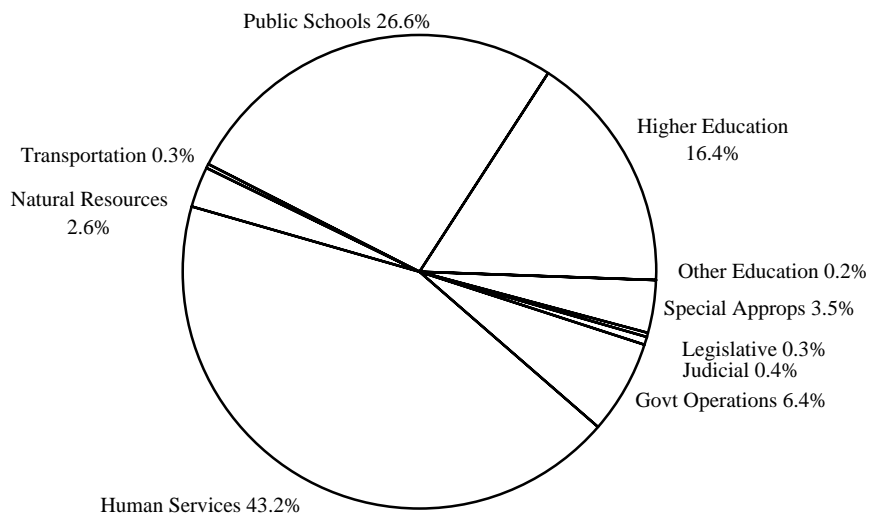
General Fund - State

Legislative	140,970
Judicial	95,869
Governmental Operations	460,076
Human Services	9,458,768
Natural Resources	366,902
Transportation	70,464
Public Schools	10,914,763
Higher Education	2,900,607
Other Education	43,974
Special Appropriations	1,500,021
Statewide Total	25,952,414



Total All Funds

Legislative	148,103
Judicial	205,183
Governmental Operations	3,188,651
Human Services	21,370,163
Natural Resources	1,296,763
Transportation	145,790
Public Schools	13,147,661
Higher Education	8,105,412
Other Education	105,940
Special Appropriations	1,736,187
Statewide Total	49,449,853



Source: LEAP

GENERAL GOVERNMENT

General Government/Governmental Operations

General government agencies include legislative agencies, judicial agencies, and a number of executive agencies. This section will highlight a few of the larger general government executive agencies.

The Office of the Attorney General (AG) - The AG serves as legal counsel to state agencies and higher education institutions, and represents the state when it is sued. The office also assists local prosecuting attorneys in some investigations and prosecutions. The AG includes a Consumer Protection Division, Anti-Trust Division, Medicaid Fraud Unit, and the Public Counsel Section (which represents the public in utility rate cases). Approximately 5% of the AG's operating budget is appropriated directly to the AG from the State General Fund (GF-S), but a significantly larger amount of GF-S moneys are appropriated to state agencies that then pay the AG for legal services.

Office of the State Auditor (Auditor) - The Auditor conducts financial audits of state agencies and local governments. The Auditor also administers the State Employee Whistleblower Act. Recently passed legislation and Initiative 900 give the Auditor authorization to conduct performance audits of state agencies and local governments.

Office of the Secretary of State - Primary duties include supervising state and local elections, filing and verifying initiatives and referendums, producing the state voters pamphlet, registering corporations and charities, and managing the State Archives.

Office of the State Treasurer (Treasurer) - The Treasurer is the primary administrator of the state financial resources as directed by the Legislature. The Treasurer administers issuances and payment of state debt (the agency provides staff assistance to the State Finance Committee and the Treasurer serves on the committee), and manages the state funds and accounts and payment of warrants.

The Department of Community, Trade and Economic Development (CTED) - Provides services through six divisions: (1) Community Services includes the Office of Crime Victims Advocacy, early childhood services, low income and emergency services, and volunteer and other support services; (2) Economic Development services include general business assistance, business recruitment, retention, and expansion services, community economic development, education and training, tourism and film and video promotion; (3) Energy Policy services include developing a state energy strategy, fuel mix disclosure, and sustainability; (4) Housing services include the Housing Trust Fund, rental assistance, homeless services, farmworker housing and manufactured housing services, weatherization services, and home repair and rehabilitation services; (5) International Trade services are provided for Washington exporters and for overseas companies, and CTED administers the Washington State overseas trade offices; and (6) Local Government services include the Public Works Trust Fund, safe and drug free communities, growth management, and community development programs.

CTED provides staff assistance to a variety of boards and commissions.

The Department of Financial Institutions (DFI) and the Office of the Insurance Commissioner (OIC) – These agencies oversee the financial and insurance industries in Washington State. The DFI focuses on state chartered banks and credit unions, securities transactions, and regulates a variety of other consumer lending/financial industries and services. OIC focuses on supervision of insurance companies, insurance rates and forms, and consumer protection.

The **Department of General Administration (GA)** – Services provided include capitol campus building and grounds management, real estate services for state agencies (i.e. leasing), purchasing goods and services and a central buying source for supplies, disposing of surplus property, and operating the state motor pool. GA is administering a strategic purchasing initiative, called the Smartbuying Partnership, directed in the 2005-07 operating budget to save \$50 million (half GF-S) during the biennium.

The **Department of Information Services (DIS)** - Provides information technology services to state agencies, local governments, education organizations, tribes, and qualifying non-profits. DIS also provides staff support to the Information Services Board, created by the legislature to provide coordinated planning and management of state information technology investments and services.

The **Military Department** - Houses the Washington Army National Guard, the Washington Air National Guard, the State Emergency Management Division, and coordinates homeland security for the state.

The **Department of Personnel (DOP)** - Provides human resource related services to state agencies, including recruitment and assessment services and compensation services. DOP also provides training, employee and leadership development programs, organizational development and improvement services, and employee assistance programs. DOP administers the personnel and payroll computer systems that support statewide human resources administration and processes.

The **Department of Revenue (DOR)** - The state's principle tax collection agency, collecting 94% of general fund tax revenues and all local sales tax revenues. In addition to providing a variety of services related to taxes and revenue, DOR handles unclaimed property in Washington.

History of Selected General Government Programs

Total Budgeted Funds

(\$ in 000s)

	<u>1993-95</u>	<u>1995-97</u>	<u>1997-99</u>	<u>1999-01</u>	<u>2001-03</u>	<u>2003-05</u>	<u>2005-07</u>
<u>Department of Community, Trade & Economic Development</u>							
Community Services	97,560	116,226	135,832	154,120	168,869	174,488	207,615
Housing	54,783	50,006	54,010	63,023	78,764	92,350	109,402
Energy Policy	2,520	2,240	2,885	3,596	3,863	3,469	6,144
Local Government Assistance	69,155	65,052	77,497	222,855	206,264	147,753	117,990
Economic Development	44,516	42,787	34,158	34,214	32,280	29,487	32,290
International Trade	4,920	5,364	4,987	6,792	5,015	5,148	5,641
<u>Office of the Attorney General</u>							
Consumer Protection	5,433	7,198	5,867	7,210	7,438	7,043	9,986
Agency Legal Services	86,462	110,580	112,609	125,468	148,992	158,720	186,765
<u>Department of General Administration</u>							
Procurement	11,314	10,979	12,443	14,778	20,241	16,102	15,663
Statewide Operations	26,971	35,891	37,381	40,967	28,591	37,912	31,385
Capital Planning & Management	50,180	61,053	66,394	71,752	37,056	66,790	78,762
<u>Department of Informational Systems</u>							
Telecommunication Services	79,083	87,314	91,623	101,966	99,159	109,442	109,169
Computer Services	48,213	54,865	58,859	73,865	59,032	65,280	66,898
K-20 Technology	0	39,178	38,680	21,797	21,526	26,127	26,698

K-12 PUBLIC SCHOOLS

Introduction

Under the state constitution, it is the state's paramount duty is to make ample provision for the education of all children and to provide for a general and uniform system of public schools. The state has delegated much operational authority to 296 local school districts who are governed by elected school boards. State funding is distributed to local school districts through a variety of formulas and grants. State funding is supplemented with federal and local funding.

Basic Education Programs

Court decisions interpreting the state constitutional provisions have established several funding principles, including:

- It is the responsibility of the Legislature to define and fully fund a basic education.
- Basic education must be funded from "regular and dependable" resources (excess levies are not a regular/dependable tax source and can only be used for enrichment programs).
- The legislature can periodically review and update its definition of basic education.

Under the Basic Education Act, the state funds basic education primarily through funding formulas:

- **General Apportionment** - School districts receive funding primarily based on the number of students (FTEs). A student-to-staff mix ratio for certified instructional staff (such as teachers), certified administrators, and classified staff calculates the number of basic education staff the state will fund. The staff ratios (number and type of staff) and the staff mix (education and experience levels) generate the salaries and benefits funded by the state. A flat amount is provided per certified staff unit for non-employee related costs (NERC). This translates to a basic education (general allocation) amount per student. This amount per student may differ slightly by school district depending on staff mix (education and experience).
- **Special education** - In addition to general apportionment funding, school districts receive funding for special education based on the headcount of students who qualify for special education programs. The district receives an allocation per special education student that is a percentage of the basic education (general apportionment) allocation in addition to the basic education allocation for that student. The current special education allocation is 1.15 percent of the basic education allocation for students through age 2, and 93% of the allocation for students age 3 through 21.
- **Transportation** - Each school district electing to provide transportation to students is entitled to state pupil transportation funding at the rate provided by the state (state formula).

- **Other Basic Education Funding** - The other basic education programs defined and funded by the state are the learning assistance program, the transitional bilingual program, and programs for children housed in state institutions.

Non-Basic Education Programs

In addition to funding mandatory basic education programs, the state funds a variety of non-basic education programs. These include:

- The Student Achievement Fund - I-728 to reduce class size, provide additional professional development funds, and early learning and extended learning programs.
- Levy equalization - Because of uniformity concerns, a district's local levy revenues are limited to a percentage of the district's state and federal revenues. For districts with low assessed property values (and thus high tax rates), the state local effort assistance program (LEA) helps equalize local tax rates.
- Other non-basic education programs include K-4 enhanced staffing rations, I-732 COLAs, and education reform programs.

Current Developments/Issues

- **Implementation of education reform** - This includes implementing state adopted academic standards, criteria based student assessments, and accountability standards for students, schools, and school districts. Students must pass the WASL to graduate beginning in 2008. The Federal No Child Left Behind Act of 2001 requires states that receive federal funding for education to be accountable for student achievement of state standards in reading/language arts, math, and science.
- **Washington Learns study** - The 2005 legislature appropriated \$1.7 million for this study. It includes three advisory groups, one for early learning, one for K-12, and one for higher education. The final report is due in December 2006. The interim report, and more information on Washington Learns, can be found at www.washingtonlearns.wa.gov. One of the key K-12 issues the study is expected to make recommendations on is whether/how the funding structure should be changed to accommodate education reform.
- **Lawsuits** - The state is being sued over whether special education funding is adequate to meet state constitutional and federal requirements
- **Joint Select Committee on State Board of Education Governance** - One of the recommendations of the joint select committee is that the current basic education definition, which includes education inputs like 180 days in a school year, be repealed effective September 2007.

See Appendix 1 for descriptions of the Education Legacy Trust Account created in 2005, and the Student Achievement Fund.

2005-07 BASIC EDUCATION PROGRAMS

(Dollars in Millions)

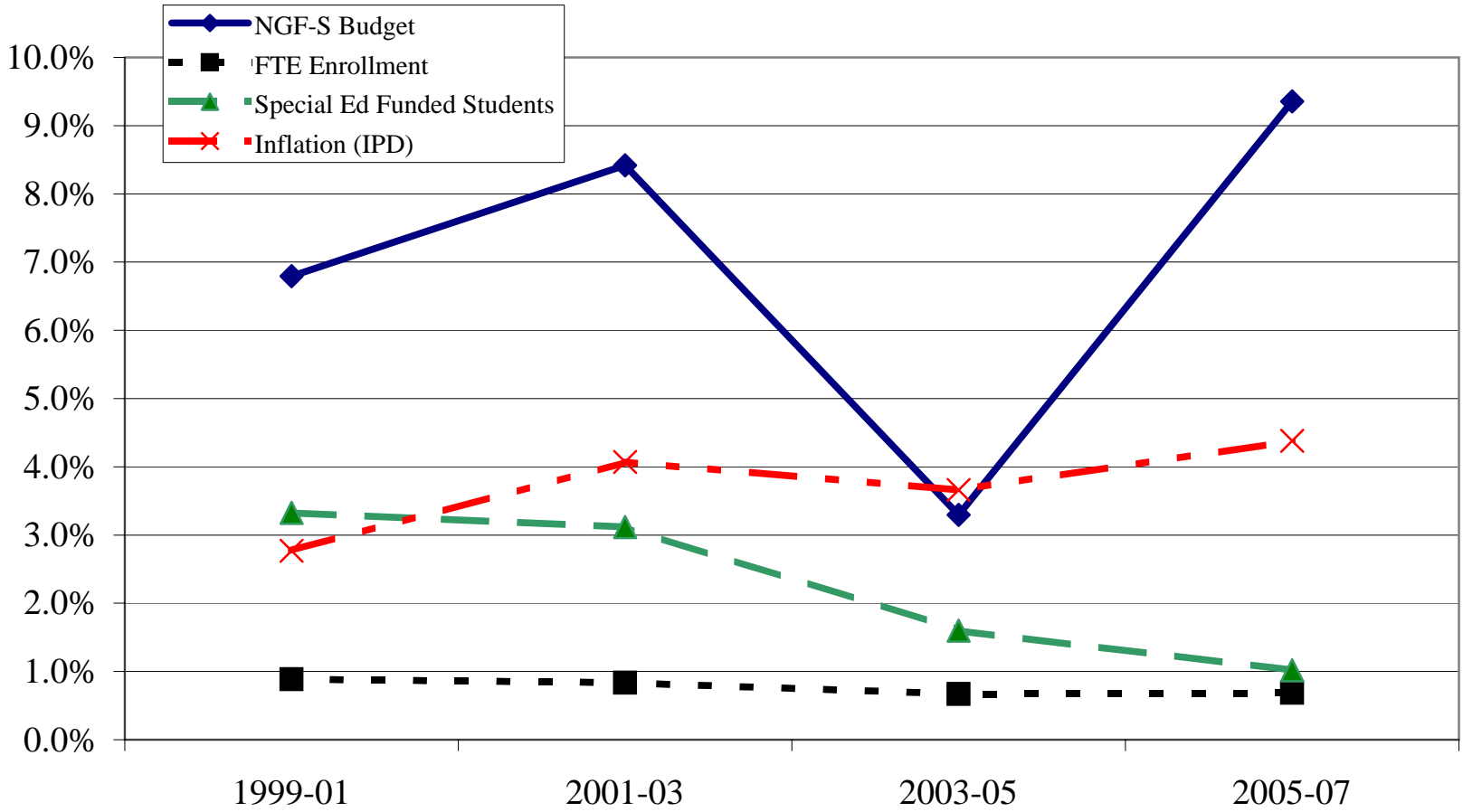
General Apportionment	\$8,154.5	70.5%
Special Education	932.0	8.1%
Transportation	489.1	4.2%
Learning Assistance Program	155.4	1.3%
Bilingual Education	123.2	1.1%
Institutions	<u>38.8</u>	<u>0.3%</u>
SUBTOTAL: BASIC EDUCATION PROGRAMS	\$9,893.0	85.5%

2005-07 NON-BASIC EDUCATION PROGRAMS

(Dollars in Millions)

Student Achievement Fund (I-728)	\$629.4	5.4%
Levy Equalization Assistance	357.2	3.1%
K-12 Enhanced Staffing Ratio	207.2	1.8%
Initiative 732 COLA (1.2%, 1.7%)	135.2	1.2%
Health Care Benefit Increases	126.2	1.1%
Education Reform	82.7	0.7%
Two Learning Improvement Days	56.0	0.5%
State Office and Education Agencies	26.6	0.2%
Statewide Programs/Allocations	20.3	0.2%
Highly Capable	13.8	0.1%
Education Service Districts	7.4	0.1%
Food Services	6.3	0.1%
Summer and Skills Centers	6.2	0.1%
Pupil Transportation Coordinators	<u>1.6</u>	<u>0.0%</u>
Subtotal: Non-Basic Education Programs	\$1,676	14.5%
TOTAL - STATE FUNDS	\$11,569	100.0%

Percent Increase in Selected K-12 Related Items Over 8 Years



	1997-99	1999-01	2001-03	2003-05	2005-07
NGF-S Budget (\$ in 000s)	8,846,020	9,447,098	10,242,272	10,579,559	11,569,194
FTE Enrollment*	941,410	949,759	957,707	964,124	970,730
Special Ed Funded Students*	112,253	115,983	119,598	121,509	122,745
Inflation (IPD)	2.77	4.07	3.66	4.38	5.53

*average of 2 years in the biennium

HIGHER EDUCATION

Introduction

Washington has six public baccalaureate institutions (4-year) and 34 public community and technical colleges (2-year). Each institution has a board of trustees or directors appointed by the governor and confirmed by the Senate. While each baccalaureate institution is treated as a separate entity for budget purposes, with assistance from the Higher Education Coordinating Board (HECB), the budget for the community and technical colleges goes through the State Board for Community and Technical Colleges (also assisted by the HECB). In addition, Washington has approximately 33 private 4-year institutions, several out-of-state institutions authorized to offer courses in Washington, and a number of private career institutions.

Tuition, state support per budgeted student FTEs, and financial aid

The two primary sources of funding at public institutions for the cost of instruction is tuition and state support. Since 1995, tuition is set by the institutions within limits established by the Legislature in the operating budget. In 2005-07, resident undergraduate tuition can be increased by 7% per year at the research institutions, 6% at the regional/comprehensive institutions, and 5% at the CTCs. (The governing boards decide the tuition rate for students other than resident undergraduates). In addition to tuition the institutions receive, the state provides a set amount of support per budgeted student. This typically amounts to about 50% to over 60% of the cost of instruction depending on the institution. For 2005-07, the state support per budgeted student FTE is \$5,400 for CTCs and \$6,303 for undergraduates at the 4-year institutions (\$10,000 for graduate students). Generally, freshman and sophomores are the least expensive to educate and graduate students are the most expensive.

There are a variety of financial aid programs available to students. The largest state financial aid program is the state need grant. This grant provides assistance to students from families with incomes below 65% of the state's median family income (approximately \$43,300 for a family of four). This was increased from 55% of median family income by the 2005 Legislature. Financial aid is administered by the HECB and totaled \$405 million in 2005-07, \$323 million from the state General Fund.

Budgeted versus actual enrollments

Higher education institutions have significant discretion over how they spend the tuition and state funds they receive. The state generally appropriates funds in the state operating budget to institutions on a per student basis for a specified number of students, for facility operating and maintenance expenses based on certain assumptions, and for other purposes. The institutions may choose to allocate these funds for different priorities as determined by the institutions. For instance, actual student enrollments often exceed budgeted enrollments. This is illustrated as follows:

Actual and Budgeted FTE Enrollments

	2004-05 Actual	2004-05 Budgeted	2005-06 Budgeted	2006-07 Budgeted
UW	36,357	35,666	36,021	36,626
WSU	21,157	20,383	20,739	21,320
CWU	8,885	7,999	8,323	8,649
EWU	9,126	8,269	8,593	8,919
WWU	11,713	11,364	11,534	11,704
TESC	4,120	3,933	4,038	4,143
Total 4-Year	91,358	87,614	89,248	91,361
CTCs	131,489	127,855	130,905	133,040
Total Higher Education	222,847	215,469	220,153	224,401

The 2005-07 budget increased budgeted FTEs by 3,684 in 2005-06 and 4,248 in 2006-07.

University of Washington (UW) and Washington State University (WSU)

The two research universities are UW and WSU. In addition to the traditional academic programs, these two schools also focus on research. UW is budgeted for over \$1.3 billion in research in 2005-07 funded by public and private sponsors, particularly the federal government. WSU is budgeted for over \$300 million in research for the biennium. Other institutional programs for the UW include two hospitals (UW Medical Center, owned by UW, and Harborview Medical Center, owned by King County and managed by UW); for WSU, a priority is community outreach with roots in its land grant status, primarily through the Cooperative Extension Program and Small Business Development Center.

Comprehensive/regional universities

There are four comprehensive institutions in different regions of the state, Central Washington University (Ellensburg), Eastern Washington University (Cheney), The Evergreen State College (Olympia), and Western Washington University (Bellingham). These four year schools focus on academic/instructional programs. These schools also have community outreach and research programs, but generally on a scale much smaller than the research universities.

Community and Technical Colleges

The 34 CTCs each have their own Board, but, unlike the 4-year schools, their budget is administered by the State Board of Community and Technical Colleges at the state level. CTCs are two-year schools, providing Associate Degrees in Arts and Sciences and transfer programs to allow students to obtain a baccalaureate degree at a four-year institution. CTCs also provide basic skills education, workforce education and training, student-funded programs, and community services/contract funded courses.

Major Policy and Fiscal Issues

Some of the major policy and fiscal challenges in higher education include:

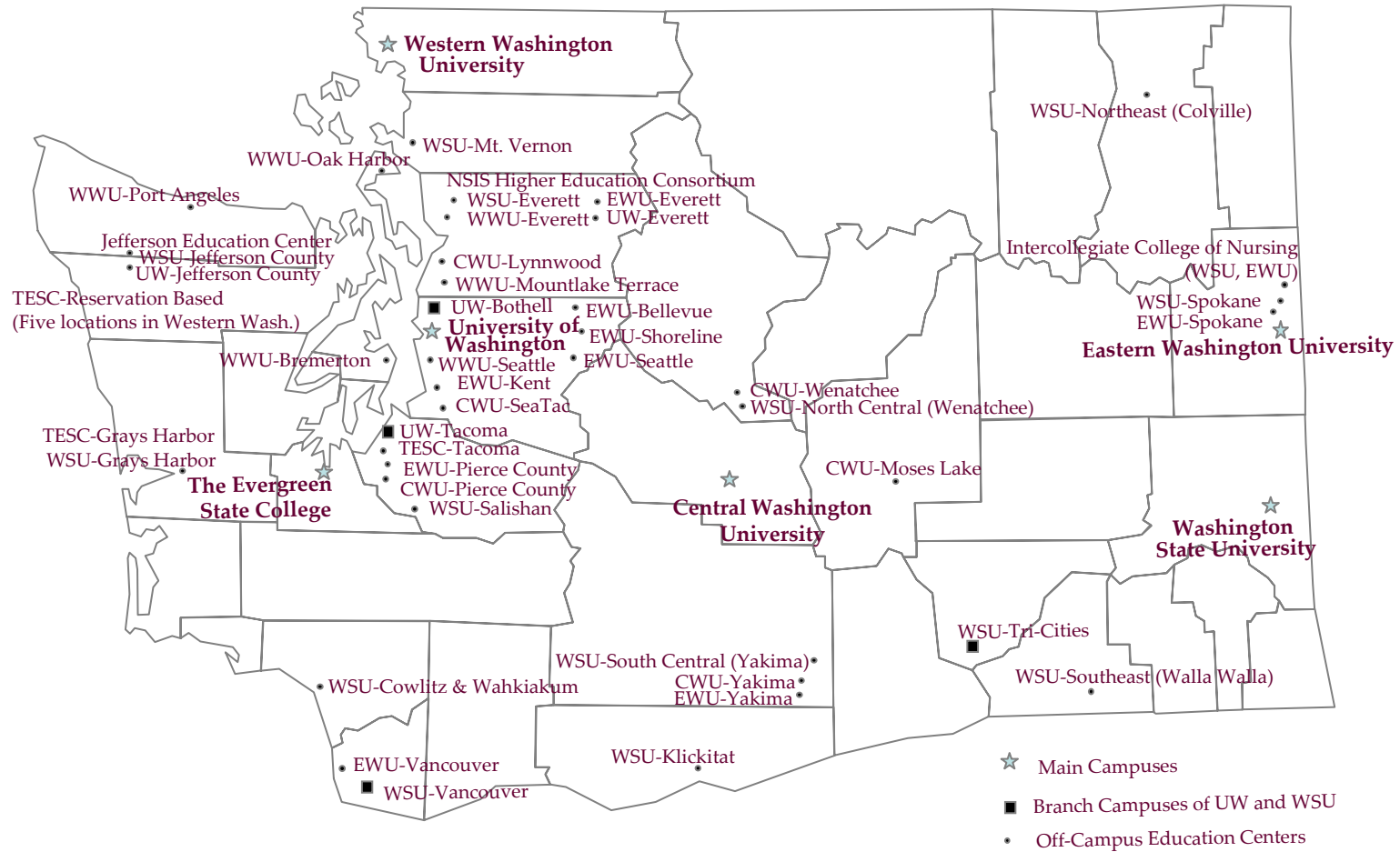
- The traditional question regarding the number of student FTEs the legislature will fund in the budget and at what funding level, and related questions regarding planning for future enrollments (participation rate), accommodating high demand programs, and encouraging pursuit of under-represented degrees.
- Coordinating the addition of lower division enrollments (freshman and sophomores) at UW-Bothell, UW-Tacoma, WSU-Vancouver, and WSU Tri-Cities with the current higher education system.
- Evaluating proposals to establish new 4-year institutions in some areas of the state.
- Balancing the autonomy of the individual 4-year institutions with an integrated state higher education system.

Selected 2005-07 Higher Education Categories

(Total budget - dollars in millions)

	<u>UW</u>	<u>WSU</u>	<u>CWU</u>	<u>EWU</u>	<u>TESC</u>	<u>WWU</u>	<u>CTCs</u>	<u>HECB</u>
Total Budgeted Funds	\$3,775	\$994	\$214	\$182	\$102	\$292	\$2,120	\$422
General Instruction	\$907	\$566	\$153	\$159	\$85	\$206	\$637	
Research	\$1,374	\$314	\$59	\$20	\$8	\$53		
Hospitals	\$858							
Community/Outreach Programs	\$32	\$98			\$6			
Student/Contract Funded Courses							\$496	
Workforce Training (state)							\$531	
Financial Aid								\$405

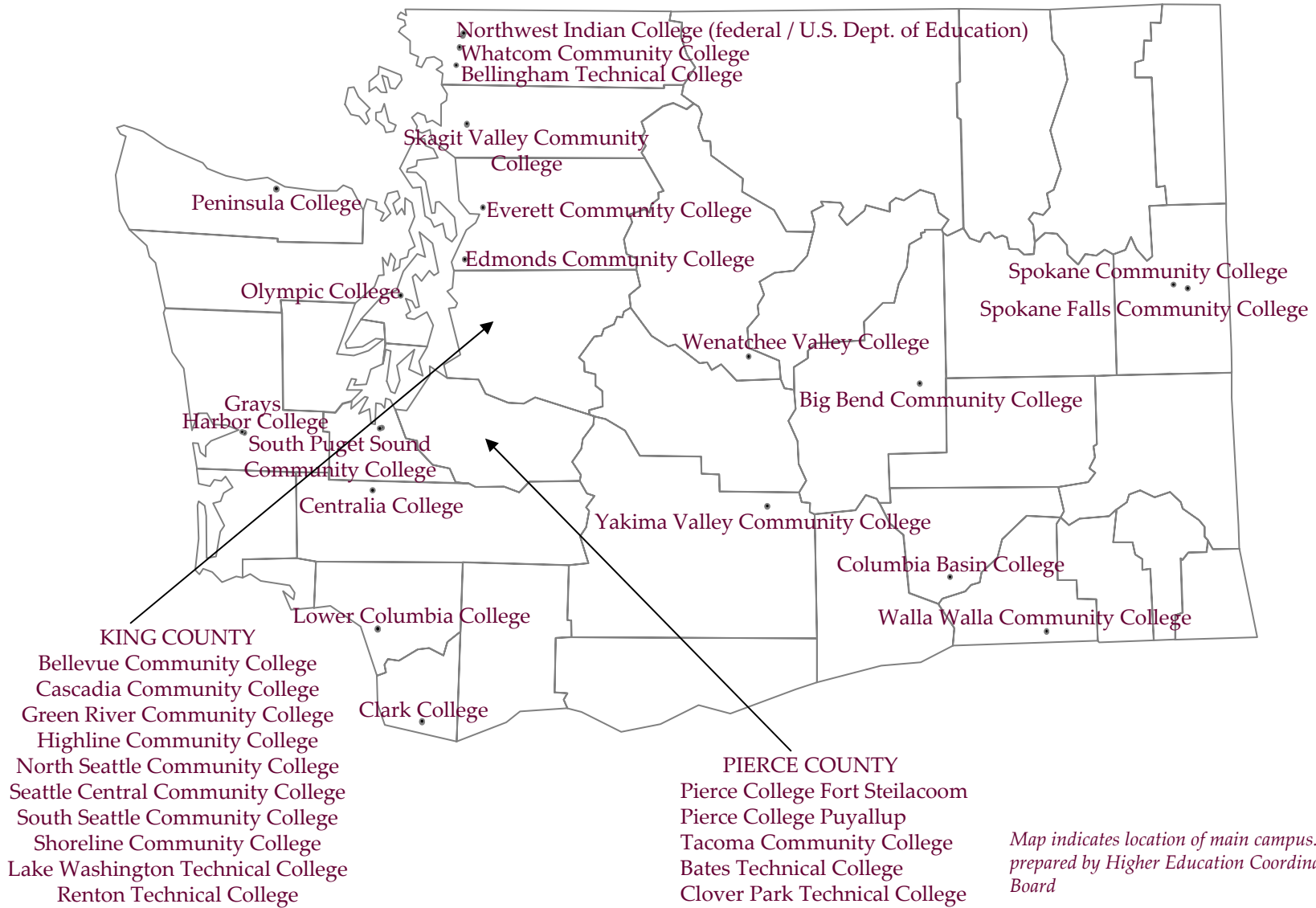
Public Four-Year Institutions Main Campuses, Branches and Centers



Map prepared by Higher Education Coordinating Board

Data Source: Web Sites of each institution

Public Two-Year Colleges



Northwest Indian College (federal / U.S. Dept. of Education)
 Whatcom Community College
 Bellingham Technical College

Skagit Valley Community College

Peninsula College

Everett Community College

Edmonds Community College

Olympic College

Spokane Community College
 Spokane Falls Community College

Wenatchee Valley College

Grays Harbor College
 South Puget Sound Community College

Big Bend Community College

Centralia College

Yakima Valley Community College

Columbia Basin College

Lower Columbia College

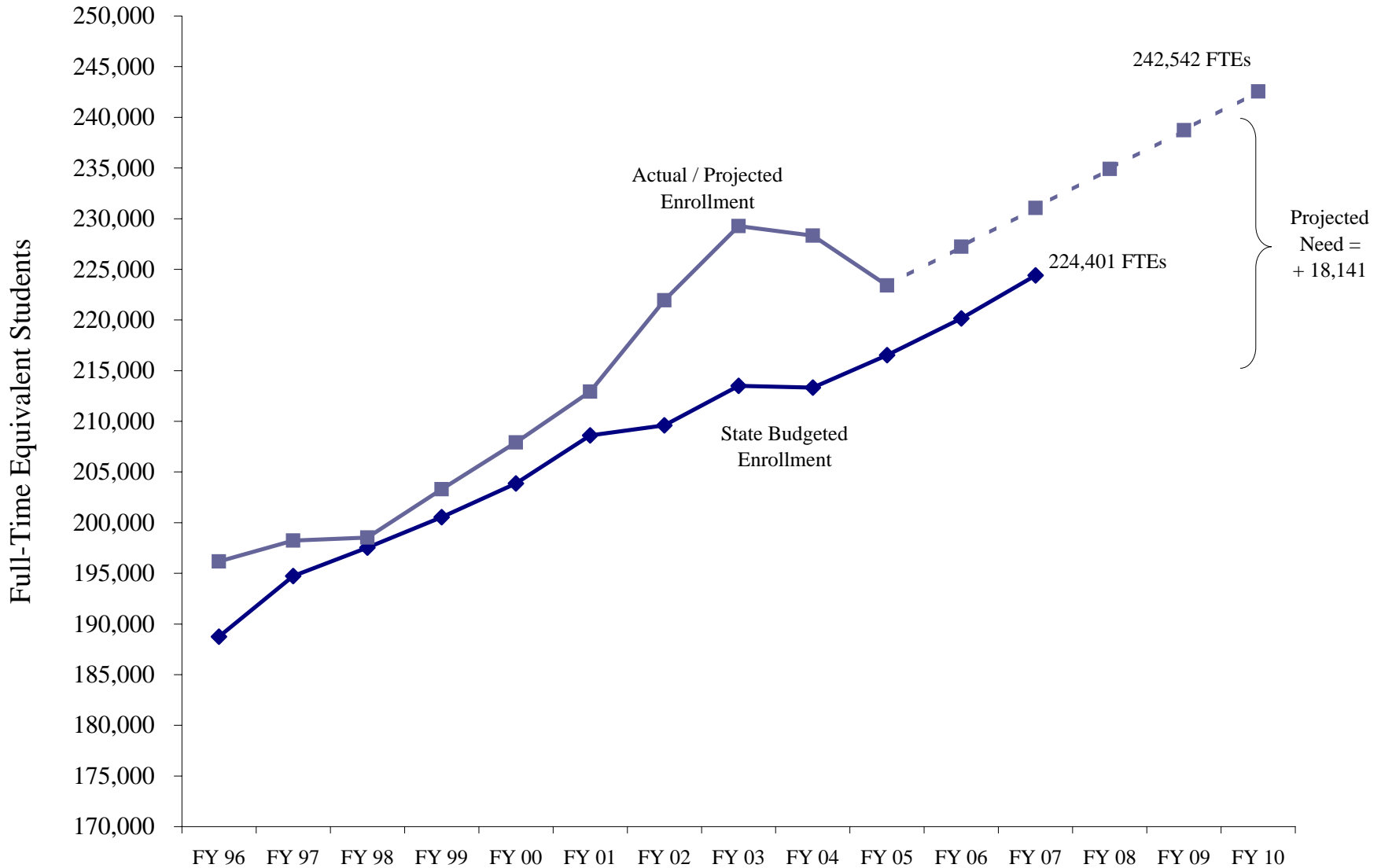
Walla Walla Community College

KING COUNTY
 Bellevue Community College
 Cascadia Community College
 Green River Community College
 Highline Community College
 North Seattle Community College
 Seattle Central Community College
 South Seattle Community College
 Shoreline Community College
 Lake Washington Technical College
 Renton Technical College

PIERCE COUNTY
 Pierce College Fort Steilacoom
 Pierce College Puyallup
 Tacoma Community College
 Bates Technical College
 Clover Park Technical College

Map indicates location of main campus. Map prepared by Higher Education Coordinating Board

Based on the HECB/OFM November 2004 Projected Enrollment (using the then existing participation rate carried forward), by 2010 more than 18,000 additional state-budgeted enrollment slots would be necessary to fully accommodate total projected enrollment.

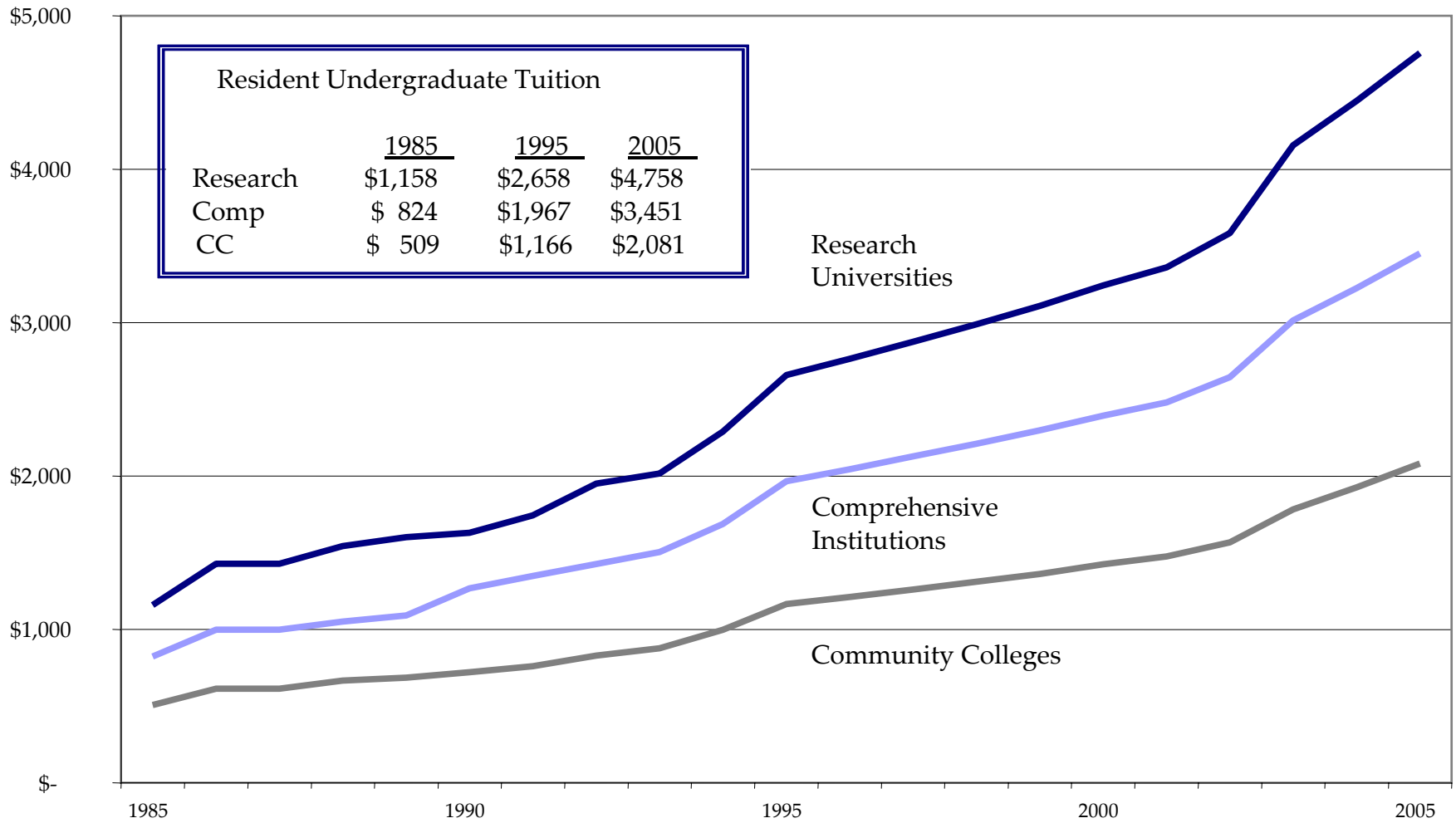


Tuition rates in 2005 are more than four times as much as in 1985.

House Appropriations Committee

55

Office of Program Research



Data Source: HECB Tuition & Fee Report 2003-04, updated

HUMAN SERVICES

➤ *Department of Corrections*

Overview

The Department of Corrections is responsible for the incarceration of felons with sentences longer than one year and for community supervision of felons and misdemeanants convicted in superior courts who have been released from prison or are required to be supervised by court order. In accordance with the 1984 Sentencing Reform Act, the determinate sentencing model provides that offenders are sentenced based on the seriousness level of their crimes and prior convictions (although judges can depart from the standard sentencing range for aggravating or mitigating factors). The department's operating budget appropriation for the 2005-07 biennium is \$1.4 billion, nearly all of which is from the state General Fund.

Housing Felony Offenders

There are 15 state prisons throughout the state costing \$866 million to operate for the 2005-07 biennium, \$861 million which is GF-S. On November 30, 2005, 15,578 offenders were housed in state institutions, 635 in work release facilities, 700 in rented local facilities, and 767 in rented out-of-state beds, for a total offender population of 17,680. The majority of resources are allocated for custody activities such as transportation of offenders, operation and security of offender housing units, perimeter and access control, and other security related activities. Other items include food, laundry, clothing, and janitorial services.

Health Care Services for Offenders

The department is required to provide medical, dental, and mental health services for the incarcerated offender population. \$213 million is appropriated for these services for the 2005-07 biennium, \$210 million GF-S.

Inmate Education

DOC provides offenders a variety of education opportunities, including General Education Development (GED) certificates, vocational certificates, victim awareness education, anger management, and moral reconnection therapy. A basic education is provided to offenders up to age 18, and up to age 22 for those qualifying for special education. \$30 million is appropriated for DOC education related services for the 2005-07 biennium (all GF-S). DOC also administers Correctional Industries, a program to help offenders obtain job skills.

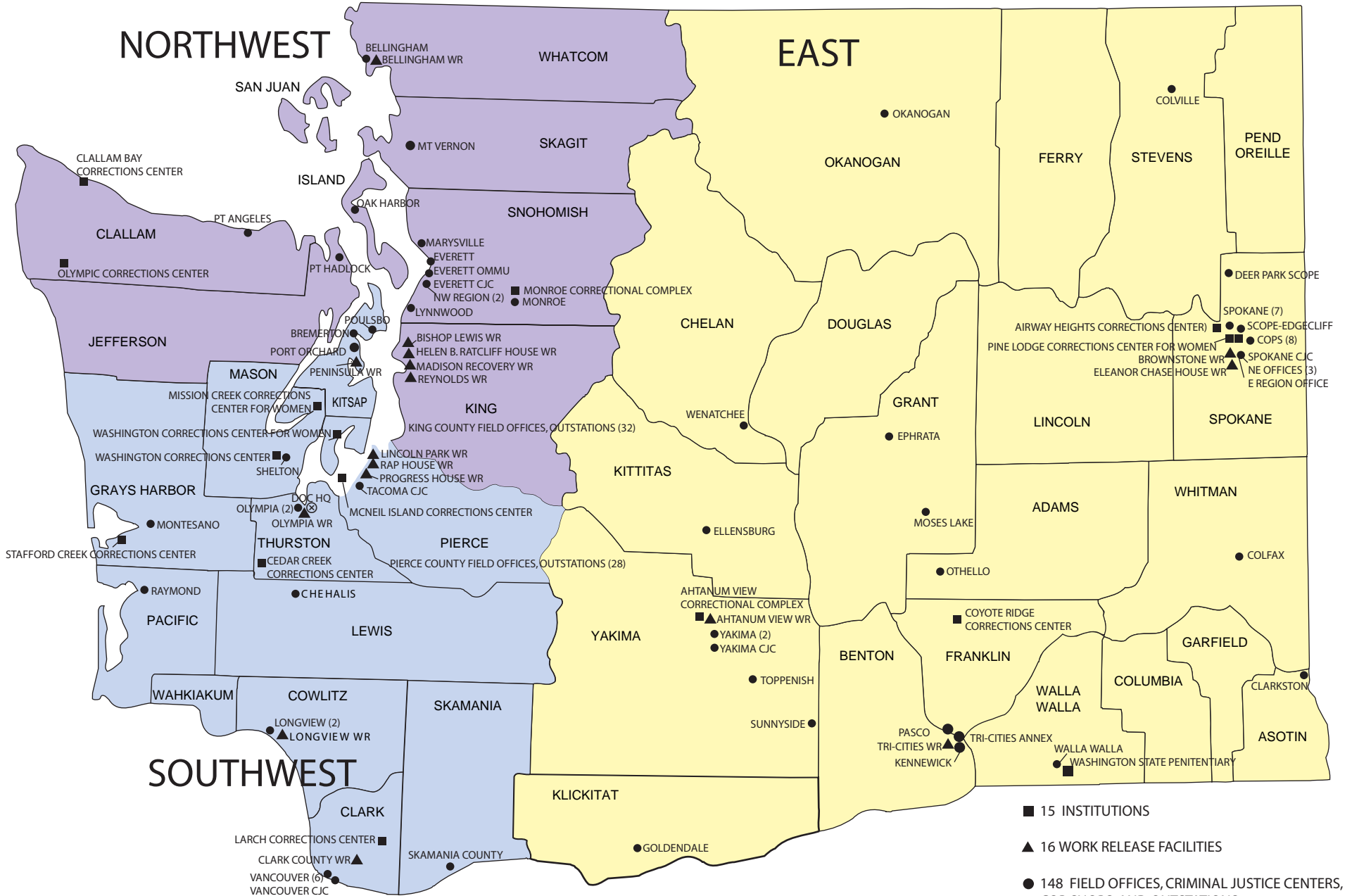
Supervising Offenders in the Community

DOC monitors high risk offenders (about 16,000 per day at a cost of \$171 million for the 2005-07 biennium, \$152 million GF-S), moderate risk offenders (about 7,800 per day at a cost of \$20 million for the biennium, \$18 million GF-S), and low risk offenders (about 5,300 per day at a cost of \$5 million for the biennium, \$4 million GF-S) in the community who have been released from confinement or are required to be supervised by court order.

Policy and Fiscal Challenges include:

- Balancing stricter sentencing laws with the cost of incarcerating offenders
- Rising costs of providing health care
- Balancing the exceeding of facility or system capacity for housing offenders (historically the prison system has exceeded capacity) with safety needs and the need for prison expansion or other alternatives to address capacity issues.

Department of Corrections



- 15 INSTITUTIONS
- ▲ 16 WORK RELEASE FACILITIES
- 148 FIELD OFFICES, CRIMINAL JUSTICE CENTERS, COP SHOPS, AND OUTSTATIONS
- ⊗ 1 DOC HEADQUARTERS

Source: DOC

Chart 253
7/27/2005

NORTHWEST Region:**3 INSTITUTIONS**

Clallam Bay Corrections Center
 Monroe Correctional Complex
 Olympic Corrections Center

5 WORK RELEASE:

Bellingham WR
 Bishop Lewis WR
 Helen B. Ratcliff House WR
 Madison Recovery WR
 Reynolds WR

2 COMMUNITY JUSTICE CENTER

Everett Community Justice Center
 Seattle Community Justice Center

34 FIELD OFFICES

Auburn Field Office
 Bellevue Field Office
 Bellingham Field Office
 Burien Field Office
 Everett Field Unit
 Everett OMMU
 Federal Way Field Office
 Kent Field Office
 Kent Intake Unit
 King County Admin Unit – Seattle
 King County Admin Unit – Kent
 King County OMMU
 King County Work Crew
 Lynnwood Field Office
 Marysville Field Office
 Monroe Field Office
 Mount Vernon Field Office
 Northgate Field Office
 NW Region Intake Unit
 NW Region Hearings Liaison Unit
 NW Region Records Unit
 Oak Harbor Field Office
 Port Angeles Field Office
 Port Hadlock Field Office
 Renton Field Office
 Seattle Day Reporting Center
 Seattle Intake Unit
 Seattle Metro Unit
 Southeast Seattle Field Office
 Special Assault Supervision Unit
 Special Needs Unit
 West Central Record Unit – King
 West Central Risk Management Unit – King
 West Seattle Field Office

14 OUTSTATIONS

Bellevue Outstation
 Bothell Outstation
 Des Moines Police Dept Outstation
 Enumclaw Police Dept Outstation
 Federal Way Police Dept. Outstation
 Kent Police Dept Outstation
 Kenmore Outstation
 King County Courthouse Outstation
 Maple Valley Police Dept Outstation
 Muckleshoot Outstation
 Redmond Outstation
 Seattle Police Dept E. Precinct Outstation
 Seattle Police Dept W. Precinct Outstation
 Shoreline Police Dept Outstation

Miscellaneous

NW Region Administrative Offices

SOUTHWEST Region:**7 INSTITUTIONS**

Cedar Creek Corrections Center
 Larch Corrections Center
 McNeil Island Corrections Center
 Mission Creek Corrections Center for Women
 Stafford Creek Corrections Center
 Washington Corrections Center
 Washington Corrections Center For Women

7 WORK RELEASES:

Clark County WR
 Lincoln Park WR
 Longview WR
 Olympia WR
 Peninsula WR
 Progress House WR
 Rap House WR

2 COMMUNITY JUSTICE CENTERS

Tacoma Community Justice Center
 Vancouver Community Justice Center

32 FIELD OFFICES

Bremerton Field Office
 Chehalis Field Office
 Community Response Unit
 Lakewood Field Office
 Longview Field Office
 Longview Central
 Montesano Field Office
 Olympia Main Field Office
 Olympia Central Field Office
 Parkland South Field Office
 Pierce County Court Unit
 Pierce County DOSA Unit
 Pierce County Intake Unit
 Pierce County OMMU
 Pierce County Sex Offender Supervision Unit-N
 Pierce County Workload Relief Unit
 Port Orchard Field Office
 Poulso Field Office
 Puyallup Field Office
 Raymond Field Office
 Sex Offender Supervision Unit-South
 Shelton Field Office
 Skamania County Field Office
 Tacoma Unit 1 Field Office
 Tacoma Unit 2 Field Office
 Vancouver Central Field Office
 Vancouver East (366) Field Office
 Vancouver East (380) Field Office
 Vancouver West (367) Field Office
 Vancouver West (370) Field Office
 Vancouver West (381) Field Office
 West Central Record Unit - Pierce

20 OUTSTATIONS

Aberdeen Outstation
 Bremerton Police Outstation
 Castle Rock Outstation
 Centralia Outstation
 Fife Police Outstation
 Foothills Detachment (Bonney Lake Outstation)
 Gig Harbor Outstation
 Hilltop Outstation
 Lakewood City Hall Outstation
 Lincoln Bowl Outstation
 Longview Outstation
 McKinley COPS Outstation
 Olympia Police Outstation
 Peninsula Detachment Outstation
 Rochester Community Center (Weed & Seed)
 Roy Outstation
 South Hill Outstation
 Tacoma Police Dept-Special Ops Outstation
 University Place Police Dept Outstation
 Woodland Outstation

Miscellaneous

SW Region Administrative Offices

EAST Region:**5 INSTITUTIONS**

Ahtanum View Correctional Complex
 Airway Heights Corrections Center
 Coyote Ridge Corrections Center
 Pine Lodge Corrections Center for Women
 Washington State Penitentiary

4 WORK RELEASES:

Ahtanum View WR
 Brownstone WR
 Eleanor Chase House WR
 Tri-Cities WR

2 COMMUNITY JUSTICE CENTERS

Spokane Community Justice Center
 Yakima Community Justice Center

26 FIELD OFFICES

Clarkston Field Office
 Colfax Field Office
 Colville Field Office
 Ellensburg Field Office
 Ephrata Field Office
 Goldendale Field Office
 Kennewick Field Office
 Moses Lake Field Office
 DOSA Risk Management Specialist Field Office
 Okanogan Field Office
 Othello Field Office
 Pasco Field Office
 Spokane Valley Field Office
 Spokane Com Placement-Drug-Gang Unit
 Spokane OMMU
 Spokane Intake Unit
 Spokane Sex Offender Unit
 Spokane Warrant-Mapping-Crime Analysis Unit
 Spokane Neighborhood Based Sup Office
 Sunnyside Field Office
 Toppenish Field Office
 Tri-Cities Annex Field Office
 Walla Walla Field Office
 Wenatchee Field Office
 Yakima East Field Office
 Yakima West Field Office

6 OUTSTATIONS

Davenport Outstation
 Douglas County Outstation
 Newport Outstation
 Richland Outstation
 West Richland Outstation
 Wenatchee Outstation

8 COPS SHOPS

COPS East Central
 COPS Logan
 COPS North Central
 COPS Northeast
 COPS Southwest
 COPS West
 North Neva-Wood COPS
 TOP COPS

2 SCOPE OFFICES

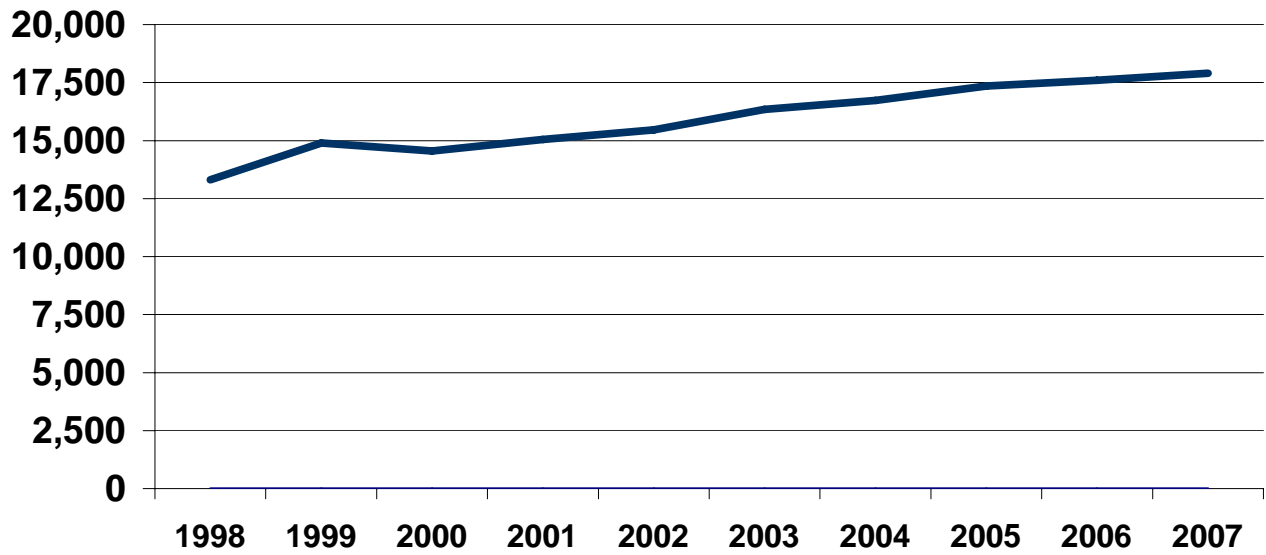
Deer Park SCOPE Office
 SCOPE-Edgcliff

Miscellaneous

E. WA Comm Custody Violator Program - BCJ
 East Region Hearings Office
 NE Hearings Liaison Unit – Brownstone/AHCC
 East Region Administrative Offices

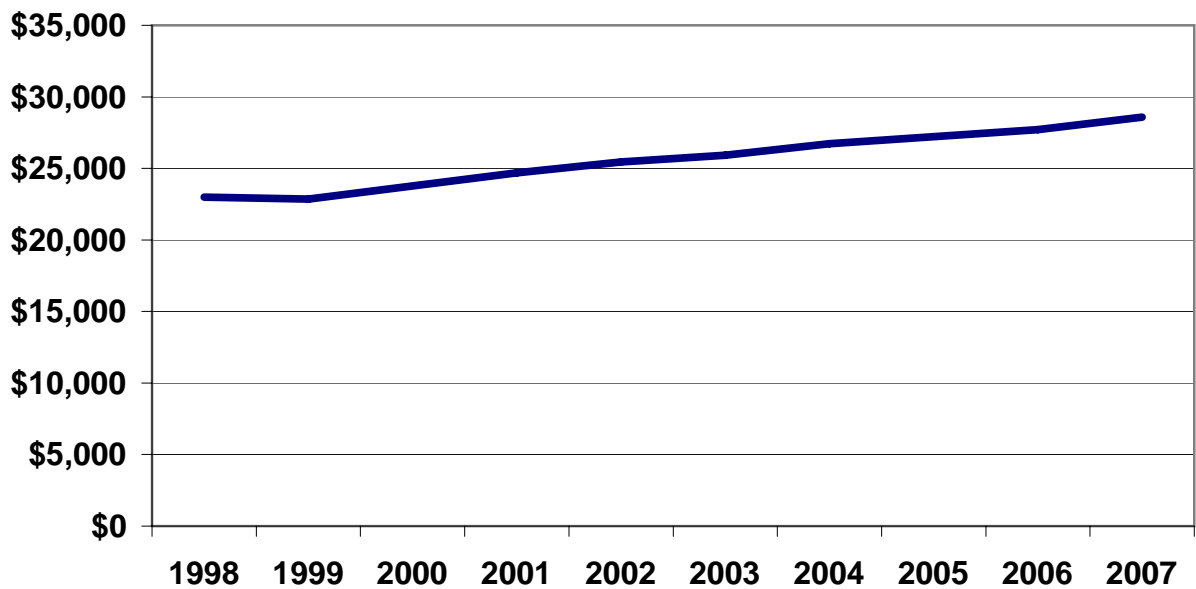
7/27/2005

DOC Incarcerated Offenders



Note: Total is average daily population/month. 2005 - 2007 are estimates.
2004 -2007 includes beds rented from other jurisdictions.

Average cost per inmate



➤ *Department of Social and
Health Services*

Overview

The Department of Social and Health Services is 30% of the state General Fund appropriation for the 2005-07 biennium, and 35% of total budgeted funds. A substantial portion of DSHS's budget provides health care to low income or qualifying persons, much of it in partnership with the federal government through the Medicaid program. Medicaid services are funded half by the federal government and half by the state.

DSHS Major Programs 2005-07

	<u>General Fund-State</u>	<u>Total Budgeted Funds</u>
Medical Assistance	\$3.1 billion	\$7.8 billion
Long-Term Care	\$1.2 billion	\$2.5 billion
Economic Services	\$1.0 billion	\$2.3 billion
Developmental Disabilities	\$0.8 billion	\$1.5 billion
Mental Health	\$0.8 billion	\$1.4 billion
Children & Family Services	\$0.5 billion	\$1.0 billion
Alcohol/Substance Abuse	\$0.1 billion	\$0.3 billion
Juvenile Rehabilitation	\$0.2 billion	\$0.2 billion
Other	<u>\$0.2 billion</u>	<u>\$0.4 billion</u>
DSHS Total	\$7.9 billion	\$17.2 billion

Understanding DSHS programs is complicated because clients often receive services from a variety of programs. Although Medical Assistance is the primary health services program/division, medical services are also funded in many other programs including Long-Term Care, Developmental Disabilities, and Mental Health. While Children and Family Services focuses on protecting children from neglect and abuse and providing foster care and adoption services, children also receive services through Medical Assistance, Developmental Disabilities, Mental Health, and other DSHS divisions/programs. There are 3 divisions/programs that are primarily non-medical: Children and Family Services, Economic Services, and Juvenile Rehabilitation. A summary of selected DSHS activities is listed below.

Children and Family Services

Child Protective Services (CPS) - Provides intake, screening, and investigative services for reports of suspected child abuse and neglect. \$14.6 million is appropriated for the 2005-07 biennium to enable DSHS to investigate emergent cases with 24 hours and non-emergent cases within 72 hours, and to make other improvements. (Total budgeted for 2005-07 is \$145 million, \$55 million GF-S.)

Family Reconciliation Services (FRS) - Provides voluntary services targeted to maintaining the family as a unit and preventing out-of-home placement of adolescents. If more intensive services are necessary, they are contracted through Family Support Services. (The FRS total for 2005-07 is \$24 million.)

Family Support Services - Assistance to children and families in crisis and at risk of disruption. Early intervention services are provided to address abuse and neglect, avoid out-of-home placement, and promote healthy development of children. (\$51 million total for 2005-07, \$32 million GF-S.)

Child Welfare Services (CWS) - Provides permanency planning and intensive treatment services to children and families who need help with chronic problems related to abuse and neglect. CWS generally is applicable when services are needed beyond CPS and Family Reconciliation Services. (\$190 million total for 2005-07, \$79 million GF-S.)

Medicaid Treatment Child Care (MTCC) - Provides families with young children at serious risk of abuse or neglect with intensive child development services and interventions to promote parenting skills (formerly called Therapeutic Child Development). (\$14 million total for 2005-07.)

Crisis Residential Centers (CRC) - Provides temporary safe housing for children who run away from home or are in severe conflict with their parents (stays range from four hours to five days). (\$5 million total in 2005-07).

Secure Crisis Residential Centers (SCRC) - Provides short-term placement of up to five days for runaways placed by law enforcement. SCRCs have locked doors and windows and fenced grounds, but otherwise operate as CRCs with emphasis on assessment of needs and family reunion. (\$9 million total in 2005-07.)

Family Foster Home Care (FFH) - Provides 24 hour care for children who need temporary out-of-home placement due to child abuse, neglect, or family conflict. FFH services are intended to be short term while a more permanent solution is found. (\$159 million total for 2005-07, \$122 million GF-S.)

Other Foster Care - Provides receiving home care, foster care client support services, pediatric interim care for medically fragile infants, and out-of-home placement recoveries. (\$46 million total for 2005-07, \$22 million GF-S.)

Behavioral Rehabilitation Services (BRS) - Contracts with community agencies for rehabilitation services for children with serious emotional, behavioral, or medical disabilities who cannot be adequately served in foster care. Provides a higher level of care for children with the most severe needs. (\$118 million total in 2005-07, \$76 million GF-S.)

Adoption Services and Support - Provides permanent placement and support services for children in foster care where parental rights have been voluntarily relinquished or terminated due to abuse, neglect, or abandonment. (\$124 million budgeted for 2005-07, \$72 million GF-S.) Adoption medical provides medical services to eligible adopted children through the state's Medicaid program (\$27 million total in 2005-07.)

Juvenile Rehabilitation

Institutional Services for Juvenile Offenders - The Juvenile Rehabilitation Administration (JRA) maintains four secure residential facilities for youth committed to state custody. Services focus on rehabilitation, and include counseling, academic education, medical and dental, and vocational training. (\$115 million total in 2005-07, \$99 million GF-S.)

Parole Transition Services for State Committed Juvenile Offenders - JRA coordinates regional services that include state and county-contracted diagnostic services for committable offenders. (\$30 million total in 2005-07, \$26 million GF-S.)

Community Facility Transitional Services for Juvenile Offenders - Includes seven state-operated and four contracted community facilities for up to 162 beds for adjudicated youth who are transitioning back to the community. (\$15 million total in 2005-07, \$8 million)

Community Services for Locally Committed Juveniles - Funds programs on a statewide basis to reduce recidivism for juvenile offenders. These programs target youth who are on county probation and are at moderate to high risk for reoffending. (\$40 million total in 2005-07, \$23 million GF-S.)

Economic Services

Child Support Assistance - The Division of Child Support (DCS) helps collect child support payments for children. DCS collected over \$1.2 billion in child support payments in 2003-05, assisting over 300,000 families. (\$273 million total in 2005-07, \$58 million GF-S.)

Temporary Assistance to Needy Families (TANF) - Provides monthly cash assistance to needy families with children and to low income pregnant women. Eligibility is determined by comparing the family's countable income to the grant payment standard for the applicant's household size. Funding for the program is shared by the state and federal governments. (\$587 million total for 2005-07, with \$347 million GF-S.)

WorkFirst Employment and Training - Provides job search assistance, subsidized employment, job readiness training, basic education, career counseling, and non-salaried work experience to TANF-eligible clients. The program also provides support for vocational education once a client is working 20 hours per week. This is a federally mandated program to move clients from public assistance to self-sufficiency. (\$197 million total in 2005-07, \$31 million from GF-S.)

Working Connections Child Care Program (WCCC) - Provides payments for child care services to all TANF clients, WorkFirst participants and non-TANF low income parents who participate in employment, work activities, and training. Funding is also provided for services through the Early Childhood Education and Assistance Program (ECEAP). ECEAP is a comprehensive school readiness program for three and four-year-old children and their families living in poverty or otherwise at risk for failure in school. (WCCC's total budget is \$653 million for 2005-07, \$143 million GF-S.)

Food Stamp Administration - Determines eligibility for and case management of federal food stamp benefits. (\$72 million total in 2005-07, \$36 million GF-S.)

General Assistance-Unemployable (GA-U) and General Assistance Interim SSI (GA-X) - Provide cash grants to low income individuals and childless couples whose physical, mental, or emotional illness prevents them from working. GA-X recipients appear to meet SSI disability criteria and should be eligible for Medicaid health coverage; DSHS requires and helps GA-X recipients apply for SSI benefits. (\$173 million total in 2005-07, \$171 million GF-S.)

Medical Eligibility Determination Services - Determines eligibility and case management of medical programs in this area. (\$81 million total for 2005-07).

The TANF Box - When the Legislature established the state TANF program in 1997, it put all related revenues into the "TANF box". These are federal TANF and child care block grant funds, the state child care match, and state TANF funds (called Maintenance of Effort or MOE). The governor manages the TANF box. Programs included in the TANF box are TANF cash grants, TANF related child care, support services, and WorkFirst.

Medical Assistance

Mandatory Medicaid Program for Children and Families - Provides Medicaid services for families and children eligible for TANF, persons no longer on TANF for certain reasons, eligible pregnant women and their newborns, individuals receiving SSI or state supplements, and children in foster care or adoption support. Mandatory services for eligible persons include inpatient and outpatient hospital care, rural health clinic services, laboratory and X-ray services, nursing home services for those over 21, EPSDT services (Early and Periodic Screening Diagnosis, and Treatment) for children, family planning, physician care, and home health. (\$5.2 billion total in 2005-07, \$2.4 billion of which is GF-S.)

Medicaid for Optional Children - Provides Medicaid services for children who do not qualify under federal mandatory guidelines, but live in families with income less than 200 percent of the poverty level. (\$948 million total, \$81 million GF-S for 2005-07.)

Medicaid Program for Aged, Blind, and Disabled - Medically Needy (MN) is a federal and state Medicaid program for aged, blind, or disabled individuals with income or resources (assets) that exceed standard eligibility levels (categorically needy). (\$289 million total in 2005-07, \$151 million GF-S.)

Optional Medicaid Health Benefits (Dental, Vision, and Hearing) - Washington covers optional Medicaid dental, vision, and hearing services. (\$266 million total in 2005-07, \$85 million GF-S.)

State Children's Health Insurance Program (SCHIP) - Provides health coverage to about 12,000 children up to age 19 who live in households with income between 200 and 250 percent of the federal poverty level. (\$29 million total in 2005-07).

Medical Care for General Assistance Unemployable (GA-U) and ADATSA - State-funded program provides limited medical care to persons who are physically and/or mentally incapacitated and unemployable for more than 90 days. Limited medical care is also provided for people participating in the state-funded Alcoholism and Drug Addiction Treatment and Support Act (ADATSA) which provides cash and/or medical benefits, treatment, and support for persons who are unemployable due to drug or alcohol abuse. (\$183 million total in 2005-07, \$182 million GF-S.)

Note that in Medical Assistance, the total funding includes funds from the Health Services account.

Long-Term Care

Adult Day Health Community Services - Provides rehabilitative and other services to delay the need for entrance into a 24-hour care setting, or reduce the length of stay in 24-hour care settings. Persons must meet Medicaid eligibility criteria and have a skilled nursing or rehabilitation need. (\$30 million total in 2005-07, \$16 million GF-S.)

In-Home Services - DSHS contracts with agency providers (APs) or individual providers (IPs) to provide care to enable Medicaid eligible individuals to remain at home. These services assist with activities of daily living such as personal hygiene,

toileting, bathing, dressing, cooking, and eating. DSHS also contracts with APs and IPs in other programs as well. (\$927 million total in 2005-07, \$446 million GF-S.)

Adult Family Home Community Services - Private homes that may serve up to six residents provide room, board, laundry, necessary supervision, and assistance with activities of daily living, personal care, and social services. Persons must meet financial and functional eligibility criteria for either the Medicaid Personal Care (MPC) program or the Community Options Program Entry System (COPES) system waver. (\$117 million total in 2005-07, \$59 million GF-S.)

Residential Community Services - Licensed boarding homes provide Adult Residential Care (ARC), Enhanced Adult Residential Care, and Assisted Living services. Persons must be eligible for MPC or COPES programs. ARCs work with clients who are receiving state-provided adult protective services. (\$164 million total in 2005-07, \$83, million GF-S.)

Nursing Home Services - Provides skilled nursing facility health care to Medicaid-eligible persons who need post-hospital recuperative care, require nursing services, or have chronic disabilities necessitating long-term habilitation and/or medical services. Nursing homes provide 24-hour supervised nursing care, personal care, therapy, and supervised nutrition. (\$1 billion total for 2005-07, \$508 million GF-S.)

Developmental Disabilities

Employment and Day Programs - Provides services to developmentally disabled persons through contracts with county governments. Services from birth to three include specialized therapeutic and educational services. Services for adults include training, placement, and follow-up services to help clients obtain and maintain employment, as well as personal growth programs to help clients participate in community activities. (\$120 million total in 2005-07, \$83 million GF-S.)

Personal Care - Funding for personal care services for children and adults with developmental disabilities (Title XIX) in their homes, licensed adult family homes, and boarding homes. Assistance is provided for bathing, feeding, and dressing. (\$344 million total in 2005-07, \$172 million GF-S.)

Family Support Program for Developmentally Disabled Clients - Services are provided primarily by the family or to assist the family in the home, reducing the need for out-of-home residential placement. Services include respite care, attendant care, nursing specialized equipment and supplies, physical therapy, behavior management, and communication therapy. (\$35 million total in 2005-07, \$26 million GF-S.)

Residential Program - Services are provided through contracts with private community providers. These services include residential care, supervision, habilitation training, therapies, medical and nursing care, and recreation. (\$439 million total in 2005-07, \$228 million GF-S.)

Infant Toddler Early Intervention Program - A multi-disciplinary program for early intervention services to infants and toddlers with disabilities and their families.

The program contracts with local organizations and local governments for direct services. (\$17 million total in 2005-07.)

Residential Habilitation Facilities – The state operates five habilitation centers that serve developmentally disabled persons by providing assessment, treatment, training, habilitative programs, and activities. (\$320 million total in 2005-07, \$155 million GF-S.)

Mental Health

Community Mental Health Services – Medicaid - Provides financial support and program direction for community mental health programs delivered by Regional Support Networks (RSN) and prepaid health plans. These programs include mental health services that implement the Involuntary Treatment Act, and mandatory and optional mental health services for voluntary populations that include the acutely mentally ill, chronically mentally ill, and seriously disturbed of all ages. Services include outpatient, inpatient, acute care, emergency, day treatment, consultation and education, employment services, and Medicaid transportation. Community support services include screening of voluntary referrals to state hospitals, discharge planning with the hospitals, crisis response, case management for chronic clients in the community, and residential programs that supervise, support, treat, and rehabilitate adults and children. This program primarily is for Medicaid eligible clients who meet medical necessity standards. (\$561 million total in 2005-07, \$280 million GF-S.)

Community Mental Health Services - Non-Medicaid - Provides financial support and program direction to RSNs for community health programs for non-Medicaid eligible persons and for services that do not qualify for funding under Medicaid. These programs provide services for both voluntary and involuntary populations (through the Involuntary Treatment Act). Services are similar to the Community Mental Health Services program described above. Recently, new federal rules/policies limited the state's community mental health system from using savings achieved through Medicaid managed care on people and services that are not otherwise eligible for Medicaid. (\$207 million GF-S for 2005-07.)

State Mental Health Facilities - State psychiatric hospitals include Eastern and Western State Hospitals and the Child Study and Treatment Center. Services include inpatient psychiatric services for acutely and chronically mentally ill persons, mentally ill legal offenders, geriatric patients at Eastern and Western State Hospitals, and inpatient psychiatric services for severely disturbed children and adolescents at the Child Study Treatment Center. (\$400 million total 2005-07, \$215 million GF-S.)

Other Community Mental Health Services - Include Children's Long-term Inpatient Services (CLIP), the Clark County school project, Community Transition Support Services for former state hospital patients, and a federal Mental Health Block Grant. (\$73 million total in 2005-07, \$33 million GF-S.)

Mental Health Services to Jails - Services are provided to offenders with mental health disorders while they are confined in county or city jails. (\$10 million GF-S in 2005-07.)

Dangerously Mentally Ill Offender Program (DMIO) - Provides mental health services for dangerous mentally ill offenders scheduled to be released from state

prisons into the community. This is a joint program between the Department of Corrections and DSHS. (\$5 million total in 2005-07.)

Civil Commitment of Sexual Predators - The Special Commitment Center (SCC) on McNeil Island houses individuals who have pending petitions for civil commitment or have been civilly committed as sexually violent predators under the law. Services include evaluation, custody, and treatment programs. (\$79 million GF-S in 2005-07.)

Civil Commitment Less Restrictive Alternatives include Secure Community Transition Facilities and community placements. (\$11 million GF-S in 2005-07.)

Alcohol and Drug Abuse

Community Based Drug and Alcohol Treatment Services - DSHS contracts with counties and tribes for outpatient treatment services. Counties contract with provider networks in their communities to provide services including assessment, outpatient treatment, triage services including non-hospital detoxification services, outreach, intervention, referral, and opiate substitution treatment. Medicaid matching funds are used to maximize available services. (\$147 million total in 2005-07.)

Residential Drug and Alcohol Treatment - Residential treatment services are provided to indigent and low-income individuals and their families who are experiencing a range of abuse and addiction problems. (\$100 million total in 2005-07, \$59 million GF-S.)

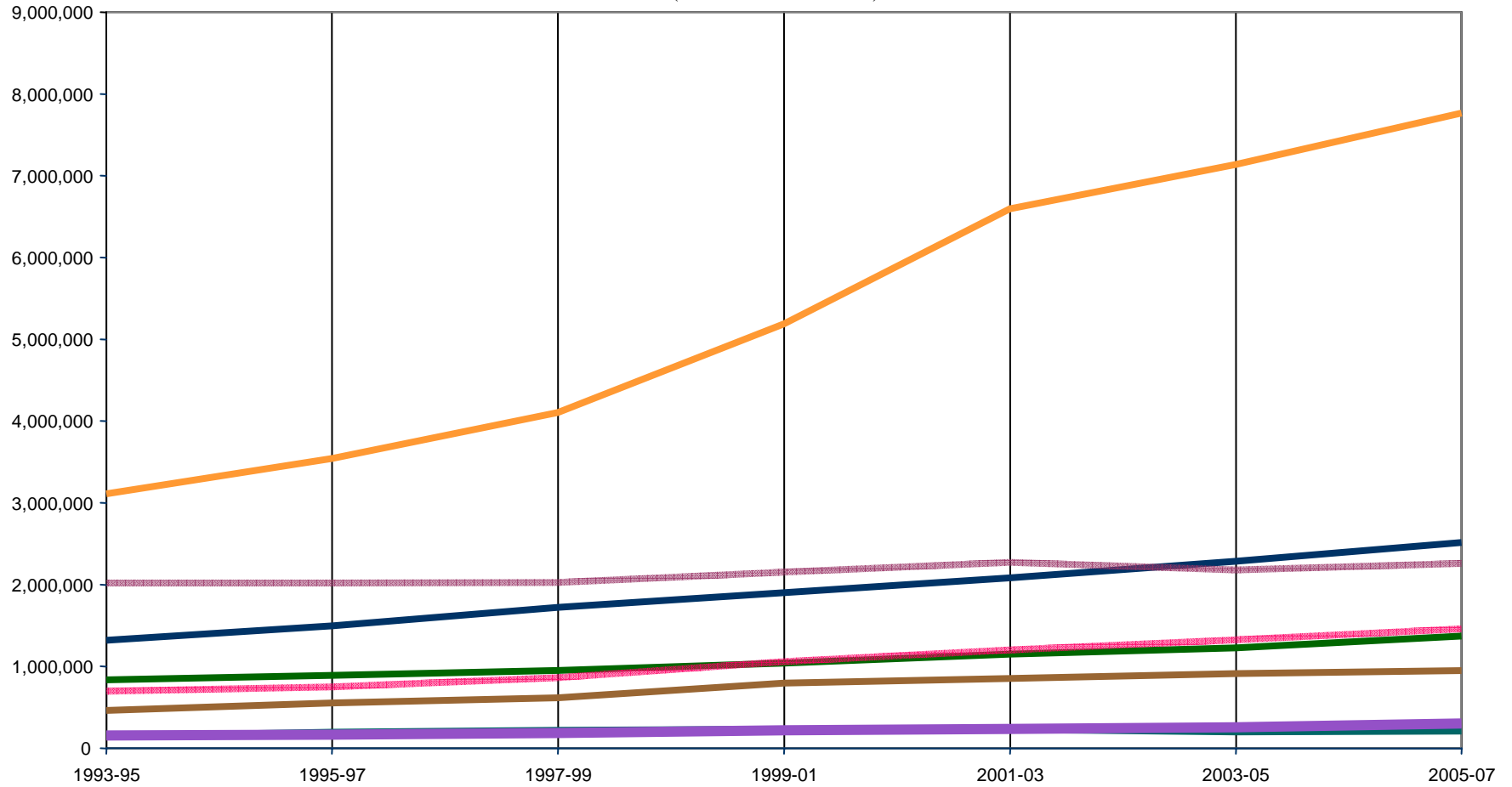
Other Programs

Other programs include various administrative/support services and vocational rehabilitation.

DSHS Expenditure History

Total Budgeted

(Dollars in Thousands)

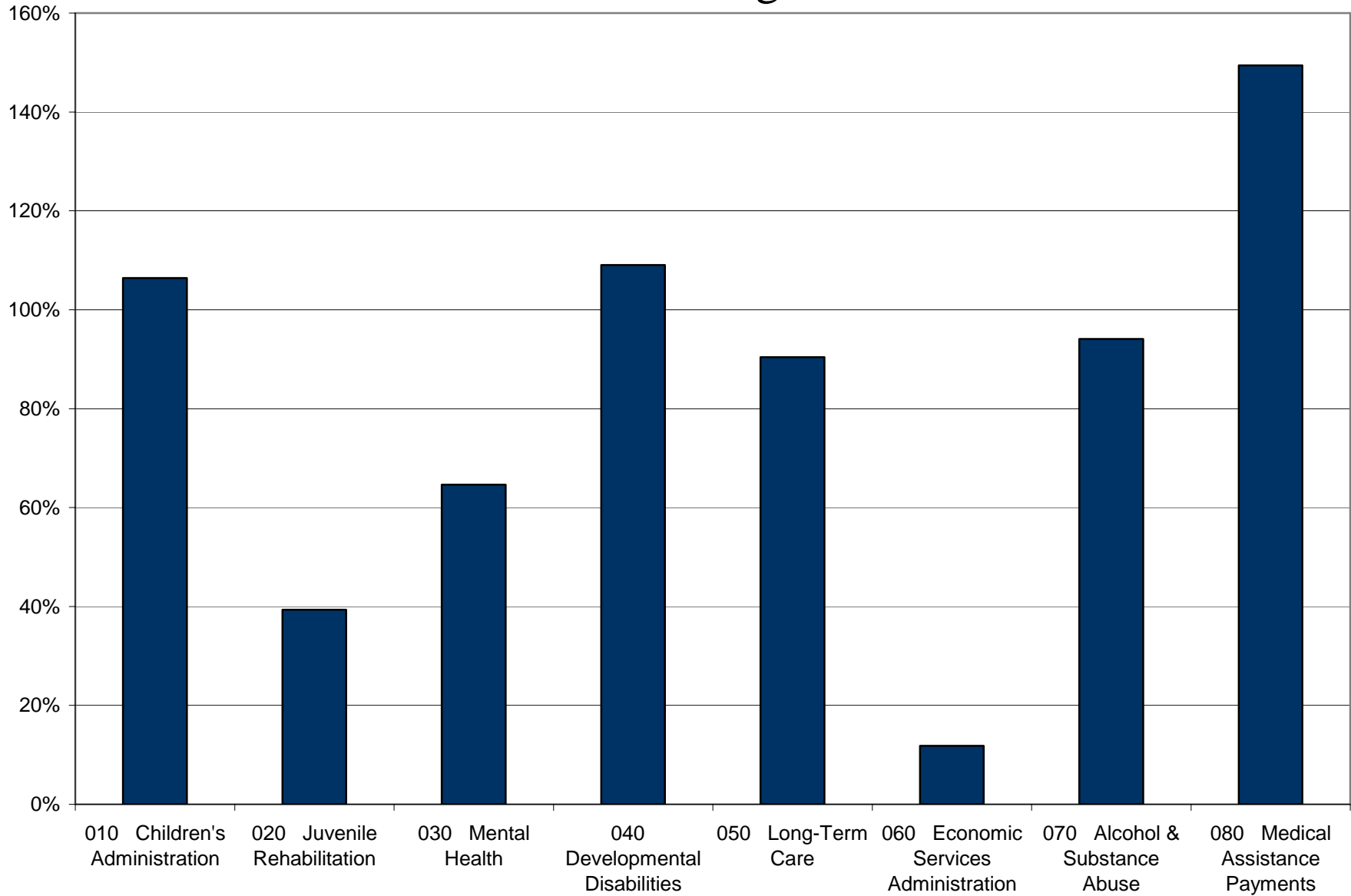


	1993-95	1995-97	1997-99	1999-01	2001-03	Phase III 2003-05	Budgeted 2005-07
010 Children's Administration	460,906	556,875	617,989	798,861	855,779	915,732	951,420
020 Juvenile Rehabilitation	151,169	195,728	219,539	233,254	228,834	199,805	210,670
030 Mental Health	834,093	890,193	952,611	1,042,682	1,151,329	1,227,308	1,373,046
040 Developmental Disabilities	698,741	751,890	864,843	1,059,868	1,204,070	1,326,343	1,460,555
050 Long-Term Care	1,321,929	1,497,148	1,724,163	1,903,515	2,085,898	2,289,605	2,517,105
060 Economic Services Administration	2,022,904	2,023,286	2,029,410	2,155,395	2,274,030	2,181,038	2,262,160
070 Alcohol & Substance Abuse	156,587	167,482	186,282	219,747	236,899	254,461	303,922
080 Medical Assistance Payments	3,114,364	3,546,382	4,107,372	5,192,464	6,598,876	7,141,213	7,767,870

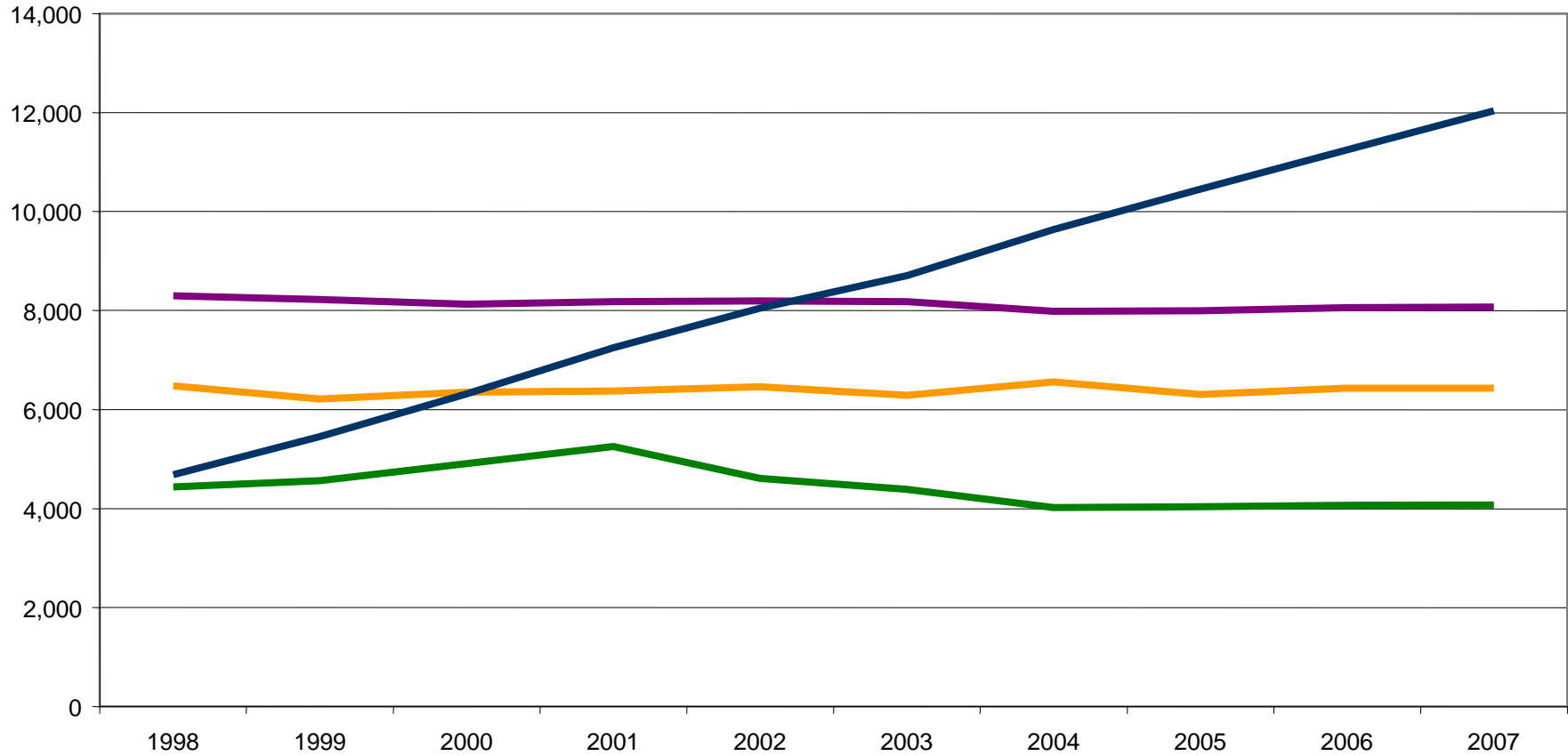
DSHS Expenditure History

Percent Change from 1993-95 to 2005-07

Total Budgeted

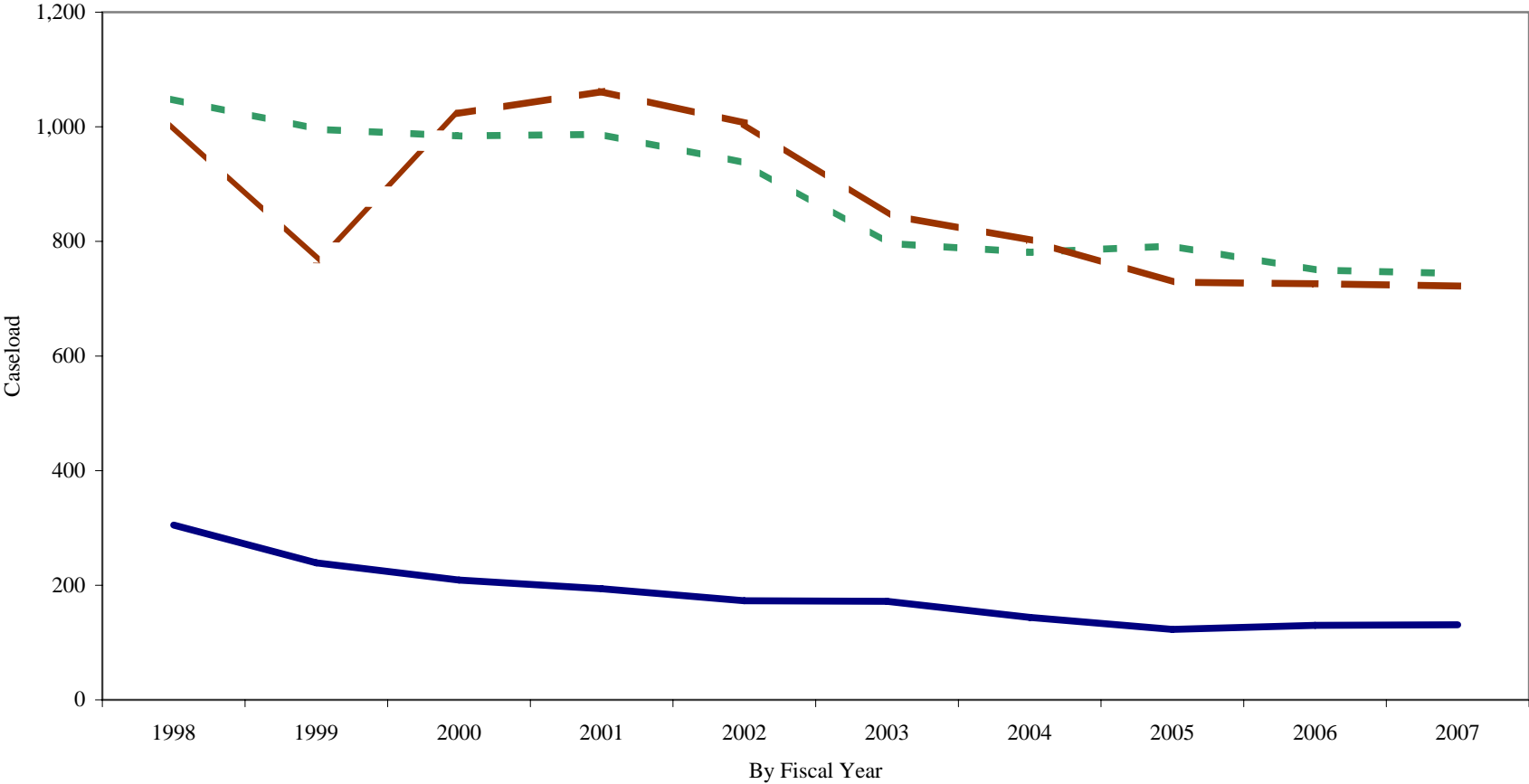


DSHS Children & Family Services Workload History



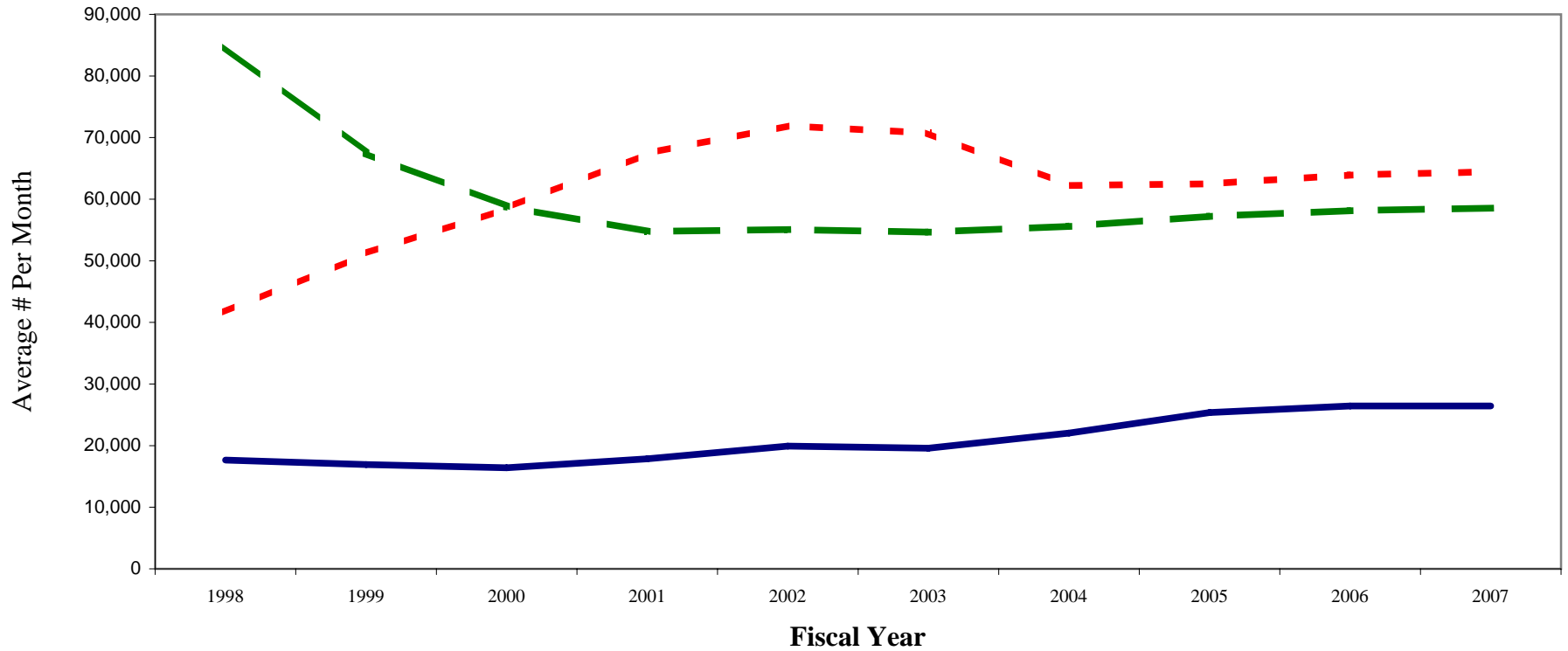
Fiscal Year	1998	1999	2000	2001	2002	2003	2004	Estimated		
	2005	2006	2007							
Foster Care: <i>Avg # Children Served Monthly</i>	8,297	8,219	8,127	8,181	8,193	8,177	7,985	7,994	8,059	8,071
Child Care: <i>Avg # Children Served Monthly</i>	4,435	4,563	4,909	5,253	4,608	4,388	4,021	4,035	4,069	4,075
Child Protective Services: <i>Avg CPS Referrals Monthly</i>	6,477	6,214	6,351	6,375	6,461	6,288	6,558	6,304	6,431	6,431
Adoption Support: <i>Avg Monthly # Eligible</i>	4,683	5,455	6,318	7,247	8,049	8,704	9,632	10,450	11,242	12,034

Juvenile Rehabilitation Workload History



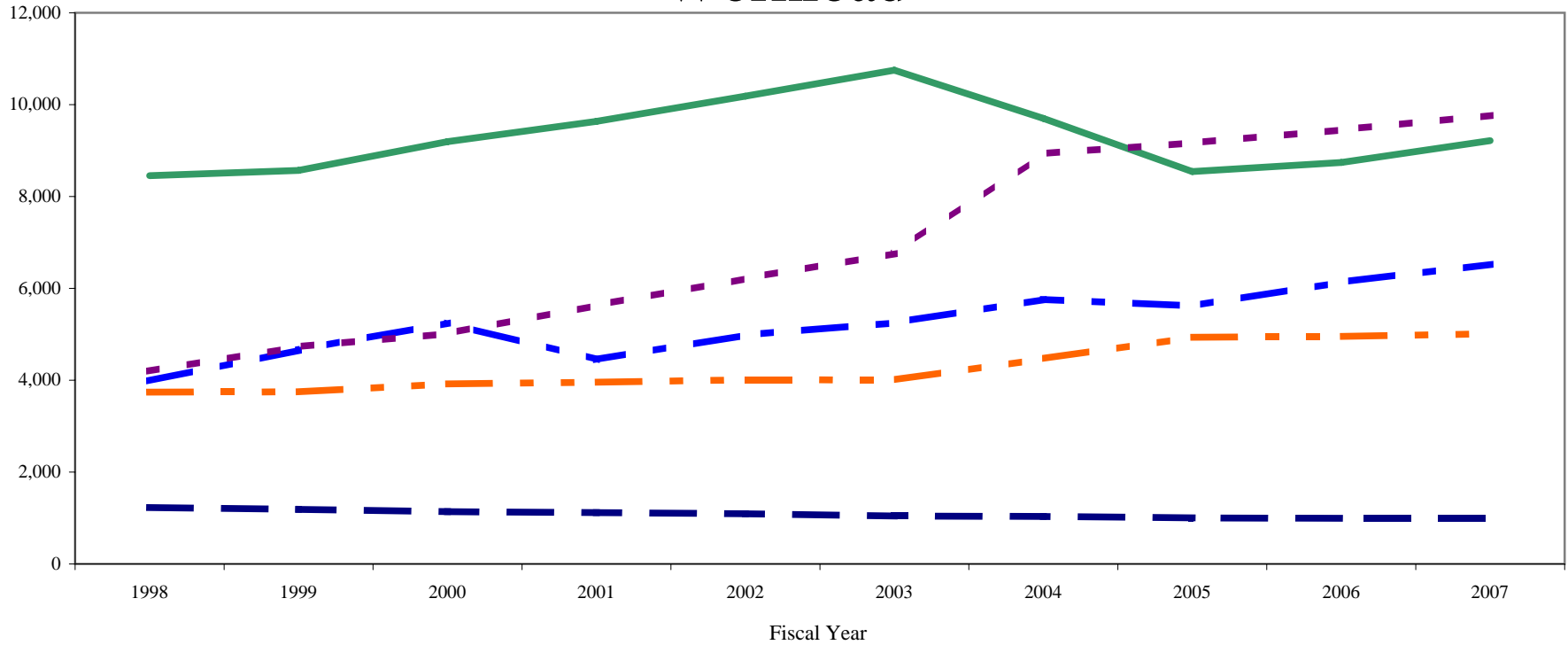
	1998	1999	2000	2001	2002	2003	2004	Estimated		
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Community Residential: <i>Avg Daily Population/Month</i>	305	239	209	194	173	172	144	123	130	131
Institutions: <i>Avg Daily Population/Month</i>	1,048	996	984	987	937	797	781	792	750	744
Parole: <i>Avg Daily Population/Month</i>	1,002	768	1,023	1,062	1,006	847	802	729	726	722

Economic Services Administration



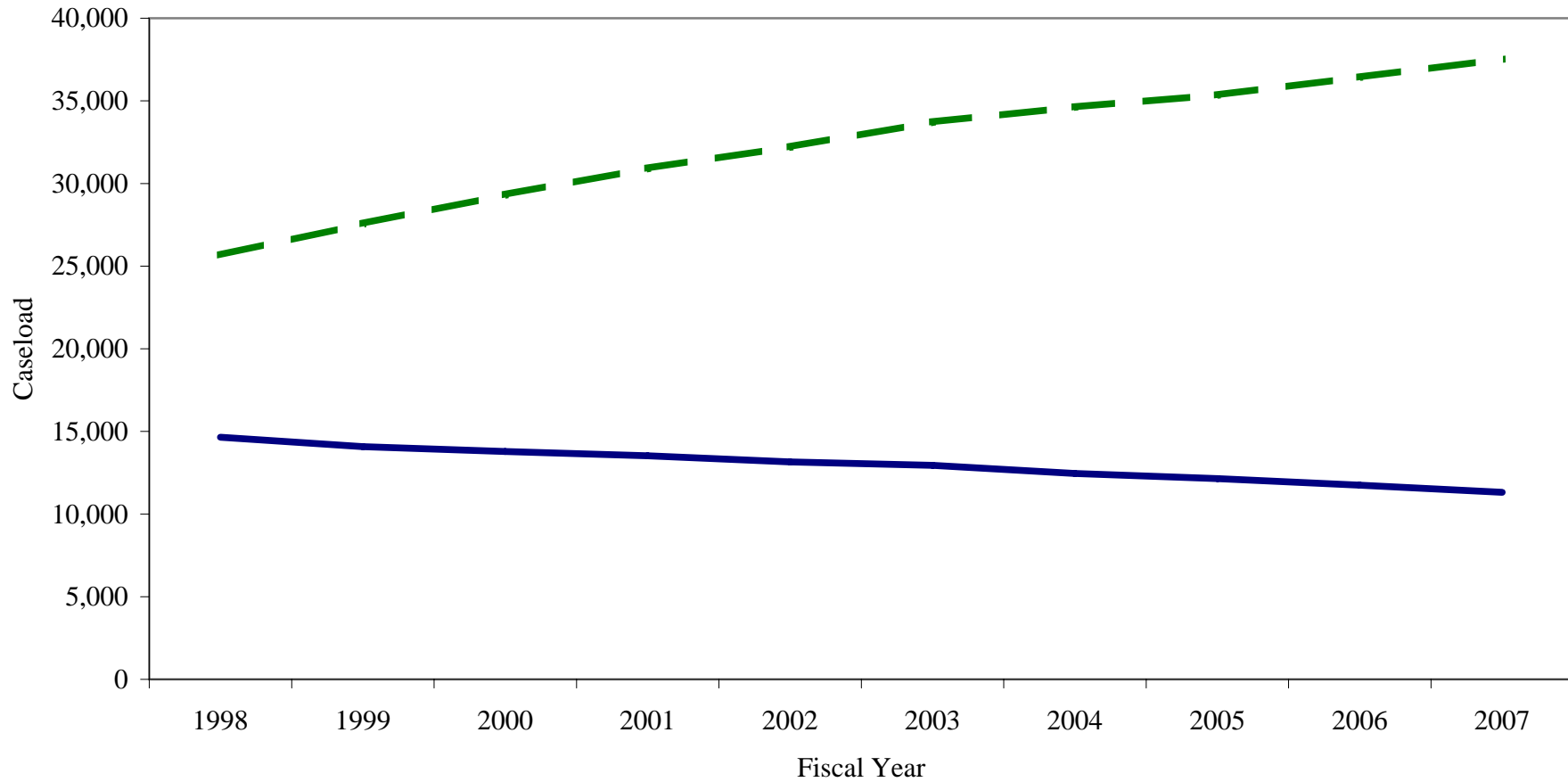
	1998	1999	2000	2001	2002	2003	2004	Estimated		
General Assistance: Avg Monthly Caseload	17,657	16,921	16,416	17,857	19,934	19,582	22,029	25,377	26,434	26,430
TANF Cases: Avg Monthly Caseload	84,685	67,475	58,796	54,758	55,068	54,641	55,606	57,226	58,132	58,542
Child Care: Avg # Children Served/Month	41,677	51,168	58,511	67,425	71,908	70,734	62,216	62,506	63,919	64,439

Developmental Disabilities Workload



	1998	1999	2000	2001	2002	2003	2004	Estimated		
								2005	2006	2007
Institution Population	1,228	1,189	1,139	1,116	1,093	1,044	1,035	1,004	994	994
Community Residential Programs Contracted Beds:	3,742	3,747	3,920	3,957	4,010	4,005	4,469	4,935	4,955	5,012
Employment & Day Programs	8,455	8,567	9,193	9,636	10,186	10,751	9,700	8,544	8,740	9,217
Family Support Clients	3,985	4,658	5,247	4,449	4,986	5,249	5,758	5,616	6,136	6,526
Personal Care Clients	4,199	4,730	5,015	5,630	6,212	6,758	8,934	9,166	9,452	9,764

DSHS Long-Term Care



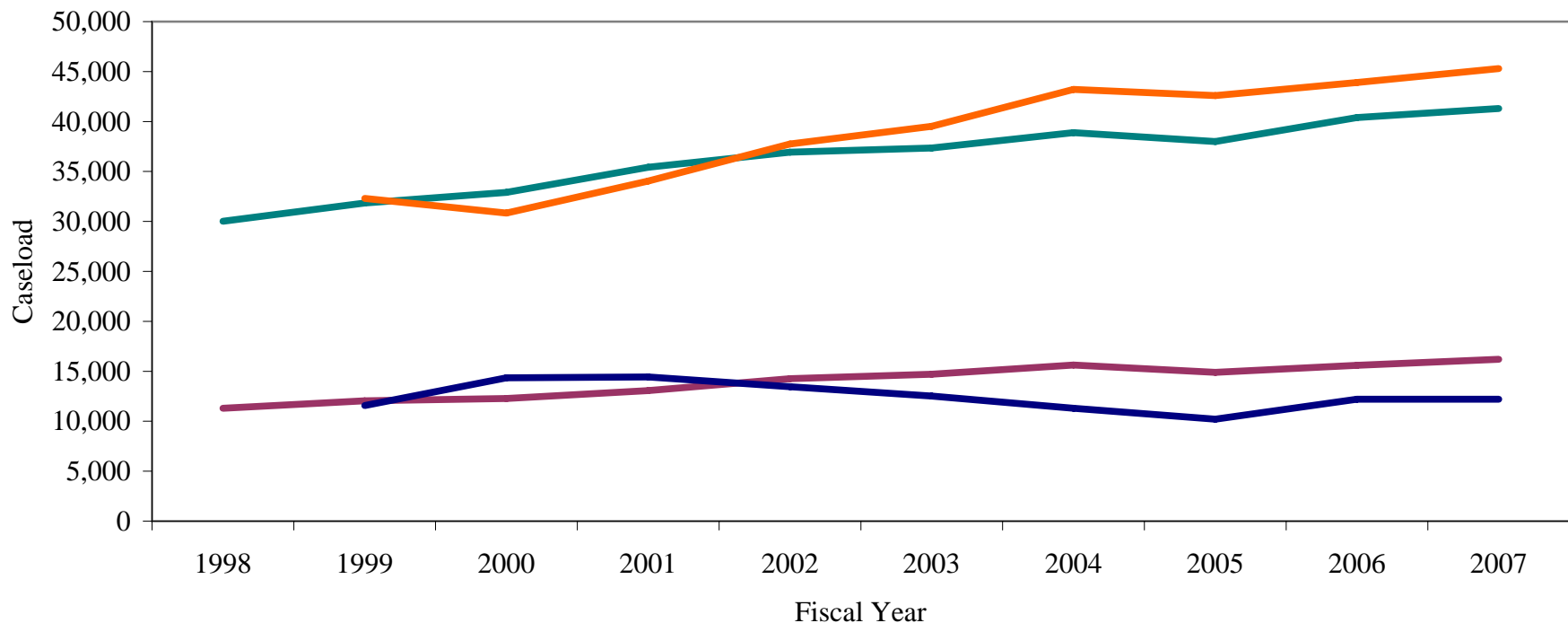
	1998	1999	2000	2001	2002	2003	2004	Estimated		
Nursing Homes: Avg # Served per Day	14,645	14,081	13,783	13,529	13,154	12,945	12,454	12,146	11,744	11,316
Community Care: Avg # Served per Month	25,675	27,567	29,319	30,919	32,213	33,727	34,635	35,359	36,431	37,527
Combined Total:	40,320	41,648	43,101	44,448	45,367	46,672	47,089	47,505	48,175	48,843

State Hospitals



	1998	1999	2000	2001	2002	2003	2004	Estimated		
Avg Daily Census/Month	1,275	1,317	1,343	1,343	1,328	1,231	1,192	1,218	1,247	1,247

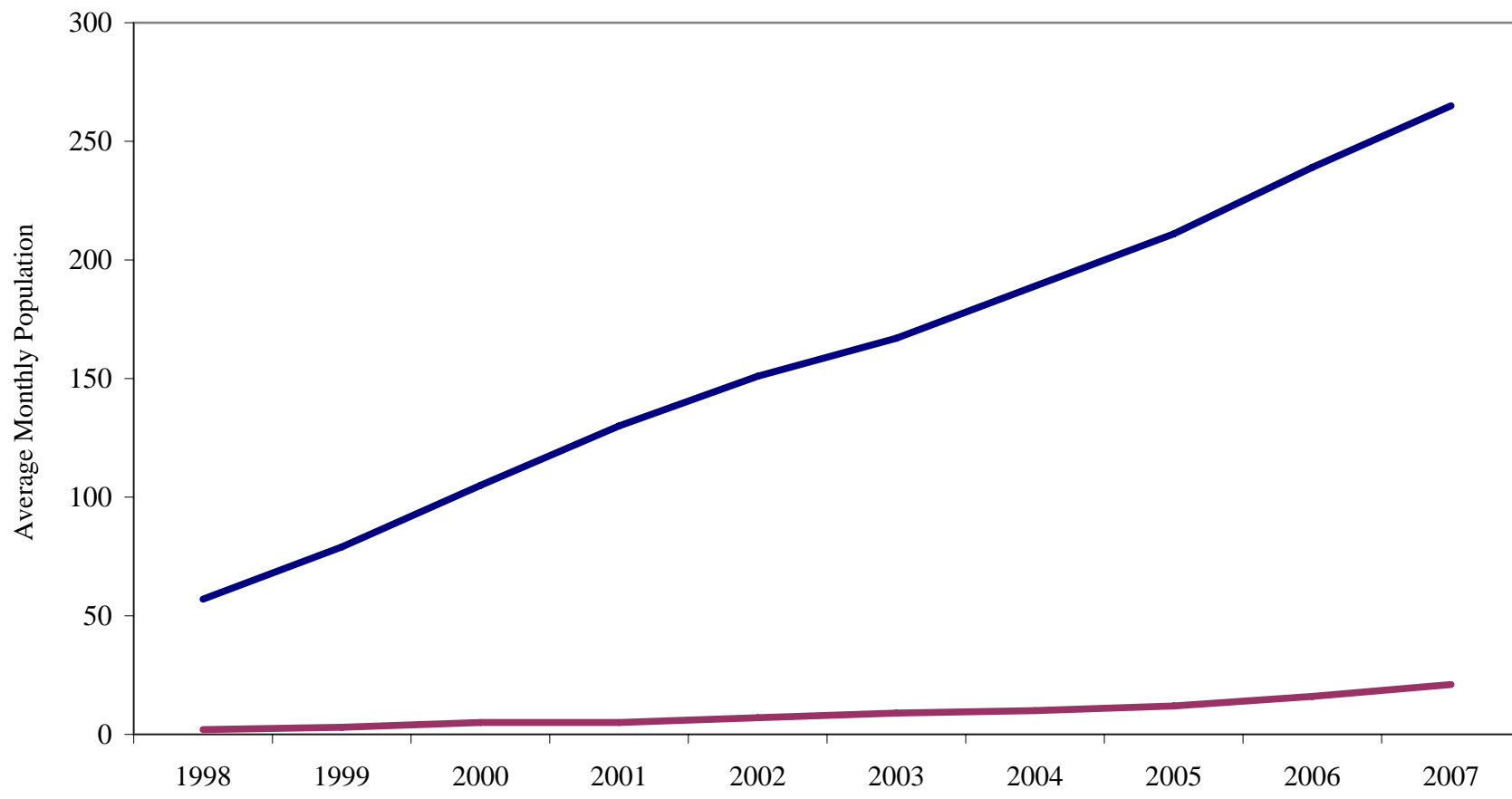
Community Outpatient Services



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Avg # Adults Served/Month	30,024	31,840	32,902	35,420	36,938	37,347	38,882	38,000	40,400	41,300
Avg # Children Served/Month	11,304	12,042	12,272	13,067	14,268	14,700	15,627	14,900	15,600	16,200
Avg # People on Medicaid Served/Month		32,303	30,832	34,048	37,750	39,522	43,213	42,600	43,900	45,300
Avg # People not on Medicaid Served/Month		11,579	14,342	14,439	13,456	12,524	11,296	10,200	12,200	12,200

Estimated

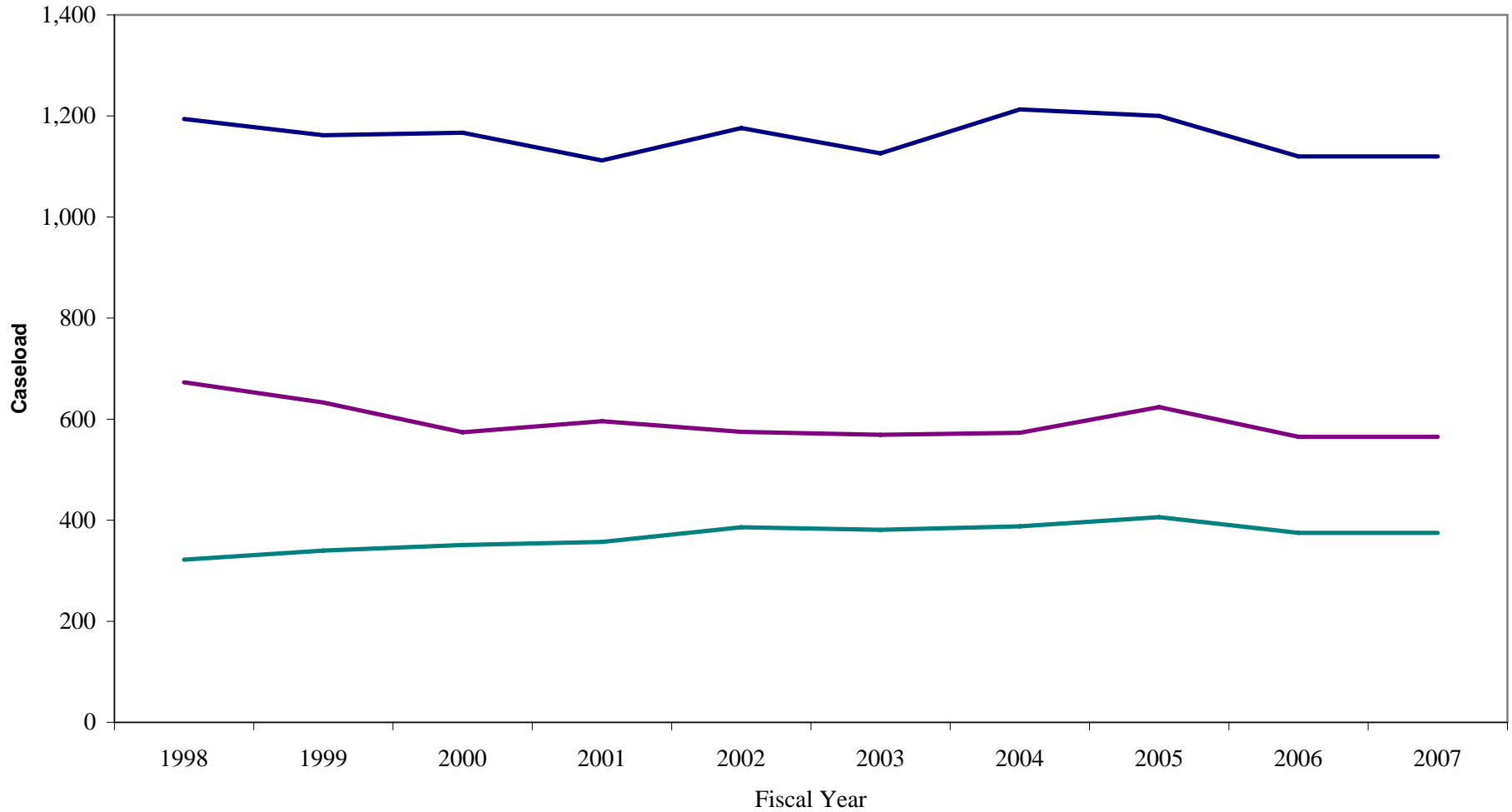
Special Commitment Center



Estimated

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Main Facility:	57	79	105	130	151	167	189	211	239	265
Less Restrictive Alternatives	2	3	5	5	7	9	10	12	16	21

DSHS Alcohol & Substance Abuse



	1998	1999	2000	2001	2002	2003	2004	Estimated		
Assessment: Avg Monthly Assessments	1,194	1,162	1,167	1,112	1,176	1,126	1,213	1,200	1,120	1,120
Outpatient Treatment: Avg Monthly Admissions	322	340	351	357	386	381	388	406	375	375
Residential: Avg Monthly Admissions	673	633	574	596	575	569	573	624	565	565

DSHS Medical Assistance Program

History

	1998	1999	2000	2001	2002	2003	2004	Estimated		
								2005	2006	2007
Categorically Needy	704,900	691,838	718,286	766,349	788,931	825,437	825,167	811,641	860,485	904,870
Medically Needy	11,059	11,596	12,566	13,465	14,528	16,061	16,929	17,892	18,909	19,933
Children's Health Insurance Programs		2	355	3,378	6,049	7,347	9,527	13,545	15,442	16,513
General Assistance/ADATSA	13,179	12,911	11,716	11,987	11,671	10,429	12,076	14,947	16,267	17,485
State Medically Indigent	2,284	2,271	2,457	2,690	3,331	3,997	0	0	0	0
Refugees	1,353	1,319	1,004	1,135	933	677	830	873	873	873

"**Categorically Needy**" is a Medicaid program that covers health and long-term care for certain categories of low income people.

"**Medically Needy**" is a Medicaid program that allows individuals with resources above Categorically Needy limits to spend down excess resources and qualify for Medicaid

NATURAL RESOURCES

Overview

The natural resources budget includes funding for the following agencies:

Department of Ecology

- Environmental Protection
- Water quality and Quantity
- Hazardous Waste Site Clean-up

Fish and Wildlife Commission

- Fish, Shellfish, and Game Harvest
- Hatcheries

Department of Agriculture

- Food Safety and Commodity Control

Department of Natural Resources

- Land and Resource Management
- Forest Standards
- Fire Suppression
- Natural Areas/Preserves

Parks and Recreation Commission

- Camp sites, Trails, Boat Launches

Smaller Agencies/Boards/Commissions

- **Conservation Commission:** Provides non-regulatory outreach to landowners for conservation
- **Columbia River Gorge Commission:** Sets land use policy in the Columbia River Scenic Area
- **Interagency Committee for Outdoor Recreation:** Coordinates outdoor recreation activities
- **Salmon Recovery Funding Board:** Provides funding for salmon recovery efforts
- **Growth Management Hearings Board:** Hears appeals of land use decisions
- **Washington Pollution Liability Insurance Agency:** Provides secondary insurance for oil/gas tanks
- **Puget Sound Action Team:** Coordinates State efforts to protect water quality of Puget Sound and efforts to restore Hood Canal

Potential issues

- Water Supply/Quality
 - Water rights
 - Waste water treatment
- Salmon Recovery
 - Sufficient in-stream flows, water quality, and habitat
- Fire Suppression Funding
 - Fire Suppression funding is the largest GF-S cost in the area of natural resources
- Hanford Cleanup (Initiative-297)
 - Implement regulation of waste at Hanford
- Hood Canal
 - Low dissolved oxygen levels impact on fish and shellfish
- Puget Sound Clean-up
 - Governor proposing using higher than expected revenue for toxics program for Puget Sound clean-up.

State Salmon Recovery Efforts

In anticipation of several species of salmon being listed as threatened or endangered under the Endangered Species Act (ESA), the legislature and governor began a focused effort on salmon recovery with the creation of a legislative task force in 1997 and the governor's Joint Natural Resources Cabinet. Beginning with the 1998 legislative session, several bills were enacted to address declining salmon populations. These bills focused on the development and coordination of local planning efforts to present a state salmon recovery plan to the federal government to meet the requirements of the ESA. Lead entities were created to develop local salmon recovery plans, a salmon recovery funding process was established for planning efforts and local projects, forest and fish agreements and rules were adopted, and watershed health monitoring was enacted. The Governor's Salmon Recovery Office was created to coordinate the local, regional, and state salmon recovery efforts.

Between 1997 and 2004, approximately \$703 million was appropriated directly for salmon recovery, \$293 million in additional operating budget appropriations and \$410 million in the capital budget. It is estimated that 73% of the total operating and capital appropriations related to habitat, 10% to harvesting, 10% to hatcheries, 1% to hydropower, and 6% for other salmon recovery efforts.

The legislature is likely to face several challenges and decisions related to salmon recovery in upcoming sessions, including (1) whether to reauthorize the Governor's Salmon Recovery Office which is scheduled to expire in 2007, (2) funding requests related to implementation of local salmon recovery plans which are nearing completion, (3) appropriate monitoring and benchmarks for reviewing the effectiveness of salmon recovery efforts; and (4) the relationship of salmon recovery efforts to other issues such as water resources/supply, water quality, and the state's economy.

For more information, please see Briefing Paper on Legislation and Funding Related to Salmon Recovery Efforts by the House Office of Program Research.

Water-Related Programs and Funding

- Water efforts generally are divided into water resources and water quality. There is overlap between these, such as in drinking water programs. This is short, general summary of a very complicated area. There are exceptions to almost all the rules in water law.
- Water Availability or Resources. Not enough water to meet all the needs, particularly at certain times of the year.
 - Gives rise to disputes over who has the right to use the water when there is not enough to go around. Dispute resolution in area of water rights becoming a more significant issue.
 - Gives rise to efforts to increase the availability of water:
 - Conservation measures
 - More efficient use of water
 - Stricter regulation to limit unauthorized or overuse of water
 - Storage of water during times of the year when it is more plentiful to use later when it is less plentiful and the demand is higher.
 - Acquiring water through lease/purchase of water rights and creating water banking and water trusts.
- Water law important to understanding water resource issues. This is a very complicated and contentious area.
 - Allocation of water based on prior appropriation doctrine. (1) first in time is first in right (2) must put to beneficial use (3) use it or lose it. There are exceptions to these.
 - Water code allocates water based on permit system through DOE. Surface water code in 1917, groundwater code in 1945.
 - Pre-Code water rights claims are statutorily required to be filed with the Water Rights Claims Registry in DOE.
 - Water rights established under federal law, including reservations for federal agencies or Tribes, must be recognized by the state and often are among the most senior water rights.
 - Under the prior appropriation doctrine, junior water right holder cannot use water if it adversely affects senior water right holder.
 - Often unresolved is whether someone's water right claim is valid and whether one existing water right is impairing another existing right and which one is senior versus junior. Over 167,000 unresolved water claims in the registry. Court has held DOE generally doesn't have authority to resolve disputes between existing water right holders, so courts must do so in a case by case basis or in general adjudication.
 - Federal government has agreed to let its water rights claims be decided in general adjudication. One going on in the state: Yakima River Basin that started in 1977.
 - When not enough water is available to meet the needs of all those claiming a right to the water, water right disputes arise.

- Water Quality. DOE is the primary agency charged with preventing and cleaning up water pollution under federal law (EPA designation under Clean Water Act) and state law.
 - Regulatory/permit system tries to prevent pollution at its source by regulation and limiting discharges at the source. Regulates commercial/industrial discharges, wastewater from other major sources, stormwater, and animal waste from feeding operations.
 - Attempts to clean up bodies of water that fail to meet water quality standards. 303(d) list under CWA. For these bodies of water, a water clean-up plan must be developed and implemented - commonly referred to as total maximum daily loads or TMDLs.
 - Department of Health administers the federal Safe Drinking Water Act for the EPA, and state law for water quality of smaller systems.
 - Public Works Trust Fund provides a significant amount of funds for local government facilities for wastewater treatment, stormwater management, and supplying drinking water.

Between 1997 through 2004, the legislature has appropriated about \$2.2 billion for water programs and projects, with approximately \$1.8 billion in the capital budget and \$370 million in the operating budget. Approximately two-thirds of the \$2.2 billion was for water quality and the other third was for water resources.

Policymakers face a number of significant water issues including water rights disputes, inadequate water resources to meet all the needs throughout the year, meeting federal water quality requirements, and completing and implementing watershed plans.

For more information, please see Briefing Paper on Water Law, Legislation, and Funding by the House Office of Program Research.

Other Budget Items

EXPENDITURE LIMIT

Overview of the State Expenditure Limit (Initiative 601)

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund and placed restrictions on state fees and taxes. The initiative has been amended several times, most recently by SSB 6078 in 2005.

Expenditure limit is based on the fiscal growth factor

The annual growth in state expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. Currently, the fiscal growth factor is defined as the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years. Under SSB 6078, beginning with the 2007-09 biennium, the fiscal growth factor will be based on a ten-year average of state personal income growth.

Funds the expenditure limit applies to

The expenditure limit originally applied only to the State General Fund. Under SSB 6078, beginning with the 2007-09 biennium, the state expenditure limit will apply to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account; Water Quality Account; and Student Achievement Fund.

Adjustments to the expenditure limit

The expenditure limit is adjusted downward annually to reflect the extent to which actual general fund expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit were required when program costs or moneys are shifted out of the State General Fund to other dedicated accounts. Upward adjustments to the spending limit occurred if program costs or moneys are transferred into the State General Fund from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the State General Fund.

As a result of SSB 6078, beginning with the 2007-09 biennium, transferring money to the General Fund will not increase the state expenditure limit, and the shift of program costs to the General Fund will not raise the limit unless the necessary revenues are also transferred.

Required number of votes to raise state revenues

Under the initiative, a two-thirds vote of the Legislature was required for any action of the Legislature that raises state revenue or for an action that constitutes a revenue neutral tax shift. SSB 6078 authorized the Legislature to enact legislation increasing state revenue by a majority vote between April 18, 2005 and June 30, 2007. After June 30, 2007, legislative actions increasing state revenue will require a two-thirds vote of each house of the Legislature.

The Emergency Reserve Fund and transfers to the Multi-modal Account

The emergency reserve fund is an account established in the State Treasury. Each fiscal year, any General Fund revenues in excess of the expenditure limit for that fiscal year are transferred to the emergency reserve fund. Every year, \$35 million is required to be transferred from the emergency reserve fund to the multi-modal transportation account. The requirement was suspended for the 2003-05 and 2005-07 biennia.

Under SSB 6078, beginning in the 2007-09 biennium, when revenue exceeds the state expenditure limit, the excess revenue is transferred from the General Fund to the Emergency Reserve Fund in proportion to the General Fund share of the excess revenue. The requirement that interest earnings of the Emergency Reserve Fund be transferred to the Multimodal Transportation Account is eliminated.

The Expenditure Limit Committee

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee consisted of the Director of Financial Management, a designee of the Attorney General, and the chairs of the Senate Ways & Means and the House Appropriations Committees. SSB 6078, beginning July 1, 2007, added the ranking minority members of the Senate Ways & Means Committee and the Appropriations Committee of the House of Representatives.

Expenditure Limit Summary

FY 2004	\$11.45 billion
FY 2005	<u>\$12.22 billion</u>
2003-05 biennium	\$23.67 billion
FY 2006*	\$12.81 billion
FY 2007*	<u>\$13.32 billion</u>
2005-07 biennium*	\$26.13 billion
FY 2008*	\$15.21 billion
FY 2009*	<u>\$16.01 billion</u>
2005-07*	\$31.22 billion

*Estimated/preliminary. The expenditure limit is subject to change based on rebasing and legislative actions.

Note that additional accounts are included in the expenditure limit calculation beginning in FY 2008.

Additional information can be found on the Expenditure Committee internet site at www.elc.wa.gov.

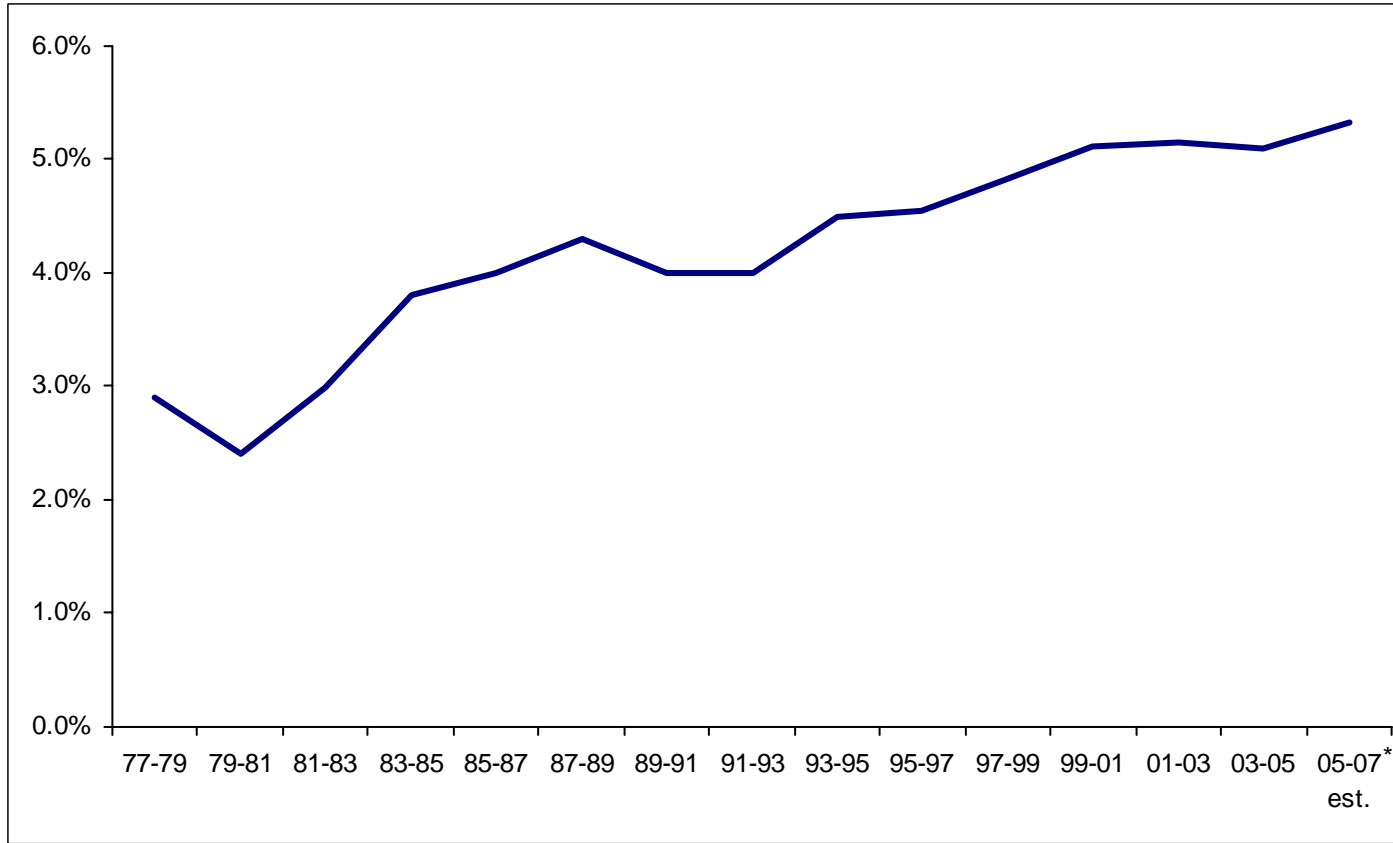
DEBT SERVICE

Debt Service Paid by the Operating Budget

- **Bonds** are issued as needed as projects are completed over about a 4-6 year period.
- The **debt limit** restricts the amount of bonds that can be issued. The Treasurer cannot issue any bonds that would cause the debt service on the new plus existing bonds to exceed the constitutional limit of 9% of general state revenue averaged over 3 years. (Changes to the statutory debt limit calculation in 2003 effectively make the statutory and constitutional limit the same.)
- **Bond capacity** for a given biennium is the amount of new appropriations that can be authorized by the Legislature for which the Treasurer can issue bonds to finance without exceeding the debt limit in the future given forecasted variables and a stable capital budget level in future biennia.
- Interest rates, revenue, and other factors affect bond capacity.

Debt Service Payments

Percent of General Fund



<u>Biennium</u>	<u>GF Debt Service</u> (\$ in millions)
77-79	124
79-81	136
81-83	197
83-85	296
85-87	355
87-89	428
89-91	485
91-93	582
93-95	685
95-97	805
97-99	922
99-01	1,066
01-03	1,159
03-05	1,235
05-07	1,417
* 07-09 est	1,600

General Fund debt service payments are \$1.4 billion in the 2005-07 biennium. This is 5.% of the General Fund. The 2007-09 estimate is 5.5% of the General Fund.

Debt service is adjusted to remove general fund debt service that is reimbursed from other funds.

PENSIONS

Summary of the State Pension System

Retirement systems - The state retirement system is made up of a number of separate systems based primarily on area of employment, with combined assets of approximately \$50 billion, providing or promising retirement benefits to nearly 500,000 persons at the current time. Following is a brief summary of each of the retirement systems:

- The Public Employees Retirement System (PERS) was created in 1947 and includes most state, city, and county employees (about 240,000 members and beneficiaries in 2003).
- The Teachers Retirement System (TRS) was created in 1937 and includes certified school employees including teachers and certified administrators (about 108,000 members and beneficiaries in 2003).
- The School Employees Retirement System (SERS) was created in 2000 and covers non-certified school employees (about 54,000 members and beneficiaries in 2003).
- The Law Enforcement Officers and Fire Fighters (LEOFF) was created in 1969 and covers full-time police, deputy Sheriffs, and firefighters (about 24,000 members and beneficiaries in 2003).
- The Washington State Patrol Retirement System was created in 2003 and covers commissioned officers of the Washington State Patrol (about 1,900 members and beneficiaries in 2003).
- The Public Safety Employees Retirement System (PSERS) was created in 2004 and takes effect in 2006.
- Other systems included in the state system are the Higher Education Retirement Plan (primarily a defined contribution plan open to many college and university employees often referred to as TIAA/CREF), the Judicial Retirement Systems, Judges Retirement System, the First Class Cities (Seattle, Tacoma, Spokane), and the Volunteer Firefighters and Reserve Officers' Relief and Pensions.

Plans - The major Washington State retirement systems generally have had 3 types of plans. Here is a summary of the major plan designs:

	PLAN 1	PLAN 2	PLAN 3
PERS	<p>Closed in 1977</p> <p>Retirement after 30 years of service (yos) or age 55 with 25 yos</p> <p>Members pay fixed 6% of pay</p> <p>Benefit is 2% per yos based on highest consecutive 2 years of pay up to 30 yos</p>	<p>Opened in 1977</p> <p>Normal retirement age is 65</p> <p>Early retirement beginning at age 55 with 20 yos</p> <p>Members pay 50% of actual cost of plan</p> <p>Benefit is 2% per yos based on highest 5 consecutive years, no maximum</p>	<p>Beginning in 2002, option of plan 2 or 3</p> <p>Normal retirement age is 65</p> <p>Early retirement beginning at age 55 with 10 yrs</p> <p>Members choose 5 - 15% contribution rate at employment start date deposited into individual member account</p> <p>Benefit, in addition to individual member account, is employer-funded 1% defined benefit on highest 5 consecutive years</p>
TRS	Similar to PERS 1	Closed in 1996	<p>Mandatory for new TRS members</p> <p>Retirement age/yos, member contribution and benefits very similar to as PERS 3</p>
SERS	None	Closed in 2001	Mandatory for new SERS members
LEOFF	Closed in 1977	<p>Only open plan</p> <p>Retirement age 53</p>	None
WSPRS	Closed at end of 2002	Only open plan	None

Pension Funding Overview

Except for the unfunded liability in PERS 1 and TRS 1, the pension plans currently are adequately funded on an actuarial basis to cover the expected pension costs in the future. The unfunded liability primarily resulted from insufficient contributions and added benefits. The legislature intends to eliminate this unfunded liability by 2024. This does not impact the current solvency of the plans; they are very solvent on a cash basis. When examining the public obligations to the retirement systems, it is worth considering the state's total pension asset base and total obligations to state and local government employees covered by the pension systems. When the combined systems' (all the Plans 1, 2 and 3) funding status is examined using the methods outlined by the governmental accounting standards (not the same methods as we use to calculate contribution rates), the Washington State retirement systems actually have \$2.2 billion in assets in excess of liabilities.

The Office of the State Actuary is responsible for recommending appropriate member and employer contribution rates for the Public Employees', Teachers', School Employees', and Washington State Patrol Retirement Systems to the Pension Funding Council (PFC), which adopts the rates for each fiscal biennium. Included as part of the rates recommended by the State Actuary to the PFC for the 2005-07 biennium was a rate amount for funding future gain-sharing benefits in the Plans 1 and 3 and for contributions towards paying off the unfunded liabilities in the Plans 1. The legislature suspended rates toward funding gain-sharing and the amortization of the Plan 1 unfunded liability payment for the 2005-07 biennium.

Gain-sharing

Gain-sharing was created by the 1998 Legislature as a mechanism to increase member benefits in PERS 1, PERS 3, TRS 1, TRS 3, and SERS 3. These increases occur whenever there are extraordinary investment gains, which are defined as compound average of investment returns on pension fund assets that exceeds 10 percent over a period of four fiscal years. Once each biennium, the state actuary determines whether gain-sharing benefits will be made. Any distributions occur in January of even-numbered years. In Plan 1, half of all extraordinary gains are used to enhance the Uniform Cost-of-Living Adjustment (Uniform COLA) that is given to eligible retirees each year. In Plan 3, half of the extraordinary gains are paid directly into eligible members' and retirees' defined contribution accounts. There have been two gain-sharing distributions since 1998, which resulted in combined benefit improvements costing roughly \$1.1 billion. When the gain-sharing benefit was created by the 1998 Legislature, language was included in the law to reserve the right of the Legislature to amend or repeal the gain-sharing benefits.

The cost of future gain-sharing had never been reflected in the basic contribution rates for the affected systems and was not included in the 2002 actuarial valuation, as the funding methodology and materiality of the gain-sharing provisions were under review. The recent Actuarial Valuation Report (prepared in December 2004) identified gain-sharing as a material liability and included this liability in calculating the basic contribution rates recommended by the State Actuary to the PFC.

Unfunded liability

While the state retirement plans that are currently open to new members (the Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the present value of the plan liabilities, in the form of members' earned benefits to date, exceed the present value of the plan assets. As of the most recent actuarial valuation, the UAAL for PERS 1 is \$2.6 billion and the UAAL for TRS 1 is \$1.4 billion. (Gain-sharing is approximately 25% of the UAAL.) The statutory funding policy for paying off the UAAL in the Plans 1 is codified as a goal within the actuarial funding chapter. Per statute, the funding process for the state retirement systems is intended to fully amortize the total Plan 1 costs by not later than June 30, 2024. The payments towards the Plan 1 UAAL are included in employer rates and are not shared by members. In 2003, EHB 2254 suspended the employer contributions towards the PERS 1 and TRS 1 unfunded liabilities for the duration of the 2003-05 biennium.

2005 Funding Decisions

Recognition of the cost of future gain-sharing benefits in retirement system contribution rates was delayed until after the 2005-2007 fiscal biennium. The Select Committee on Pension Policy is studying the options available to the Legislature for addressing future gain-sharing liability, including: repealing, delaying, or suspending the gain-sharing provisions, making gain-sharing discretionary, or replacing gain-sharing with other benefits. Contributions toward the UAAL in PERS 1 and TRS 1 are suspended for the 2005-2007 fiscal biennium. Annual contribution rates for PERS, TRS, and SERS employers and Plan 2 members are specified for each year of the 2005-2007 fiscal biennium, as part of a four-year phase-in of contribution rate increases projected for the 2005-2009 period. The Pension Funding Council is required, upon completion of the 2005 Actuarial Valuation, to adopt contribution rates that complete the four-year phase-in schedule, adjusted for any material changes in benefits, assumptions, methods or experience.

Ongoing issues

The primary pension issues/challenges in the 2006 session and beyond include:

- Gain-sharing - Should gain-sharing be changed, modified, replaced with other benefits, repealed, or a combination of these options?
- Unfunded liability - The Legislature has skipped the unfunded liability payments for 2003-05 and 2005-07. Should the Legislature commit additional resources to get closer to the original amortization schedule?
- Reviewing requests for new benefits.

Summary of the State Actuary's 2005 Retire-Rehire Study

Cost of current program

The report concludes that the retire-rehire program changes retirement behavior, causing some members (particularly in TRS 1) to retire earlier, generating costs to the system by paying out additional benefits and losing some contributions. The required rate increase to account for these costs are 0.06% in TRS, and 0.01% in PERS. Together, these rates represent increased total employer costs for 2007-09 of \$7.5 million, largely GF-S, as this cost is mostly in TRS.

Without change, the cost of the current retire-rehire program will be incorporated into the rates that the Actuary calculates for next biennium, so those rates will be slightly higher than previous projections. A non-contractual rights clause was contained in the sections that expanded the retire-rehire program, so the recent opinion of the Attorney General on gain-sharing and contractual rights suggests that changes can be made to the retire-rehire program without impairing contract rights.

Key facts identified in the report (excerpted from page 10 of the background summary)

- 75 percent of Plan 1 retirees who retired since the program began have returned to work for the same employer
- 2,799 TRS members and 1,507 PERS members have used the program since 2001
- TRS rehired retirees that work over the prior hour limits are mostly administrators (52 percent), rather than teachers.
- The average retire-rehired employee is age 60, has 29 years of service, a \$5,100 average final salary, and a \$2,400 benefit.

Alternatives to the retire-rehire program are explored in the report. Among the many alternatives examined: eliminating the Plan 1 30-year cap (either entirely or partially); adding additional restrictions on the program, as has been proposed in legislation over the last several years; reducing the retirement benefit paid to a rehired retiree to 50% of normal; replacing retire-rehire with a phased retirement program; or replacing retire-rehire with a deferred retirement option, or "DROP" plan.

Summary of Attorney General Gainsharing Opinion

At the request of the Select Committee on Pension Policy, the State Actuary Matt Smith asked the following question:

Do the provisions in gain-sharing containing "non-contractual rights clauses," negate any contractual obligation of the state to provide gain-sharing benefits?

The Attorney General answered "yes", that the non-contractual rights clauses effectively negate contractual rights to future gain-sharing distributions. He stated that the gain-sharing statutes have always clearly and unequivocally disclaimed contractual rights to future distributions, and the Legislature may amend or repeal them at any time.

The opinion analyzes many prominent pension and contract right cases that support their opinion, including Washington Cases such as *Bakenhus and Retired Public Employees Council v. Charles*, 148 Wn.2d 624, 62 P3d 470 (2003), and also the recent Oregon Supreme Court Decision *Strunk v. Pub. Employees Ret. Bd.*, 338 Or. 145, 108 P.3d 1058 (2005).

The Attorney General concludes both that the "non-contractual rights clauses" are sufficient to negate any contract rights, and that retirement system members are presumed to know the law (and hence the existence of the non-contractual rights disclaimers) by reading the statutes.

State Pension Governance

Prior to 1976, the major state retirement systems were under the oversight of boards of trustees that had such functions as the investment of the retirement funds, hiring the executive director, contracting for actuarial services, and proposing legislation to improve benefits for members and retirees.

In 1976, following a period of rapid increases in pension benefits and costs, the Legislature created the Department of Retirement Systems (DRS), with a director appointed by the Governor, to assume most of the oversight duties of the various retirement boards. The Office of the State Actuary (OSA) was also created in 1976 to provide all retirement system actuarial services for both DRS and the Legislature, including all studies used for setting contribution rates and determining the cost of proposed legislation. The OSA was established as an office in the legislative branch.

In 1981, the State Investment Board (SIB) was created to manage the investment of the assets of the state retirement systems. The SIB has nine voting members and four non-voting members who are investment professionals.

In 1987, the Joint Committee on Pension Policy (JCPP) was created to study pension benefit and funding policies and issues, and to appoint or remove the State Actuary by a two-thirds vote. The JCPP consisted of eight members of the Senate and eight members of the House of Representatives, split evenly between the two largest caucuses of each body. The OSA provided staffing to the JCPP.

In 1998, the Pension Funding Council was created to adopt the long-term economic assumptions and employer contribution rate for most of the state's retirement systems. The PFC also administers audits of the actuarial analysis produced for the PFC by the State Actuary.

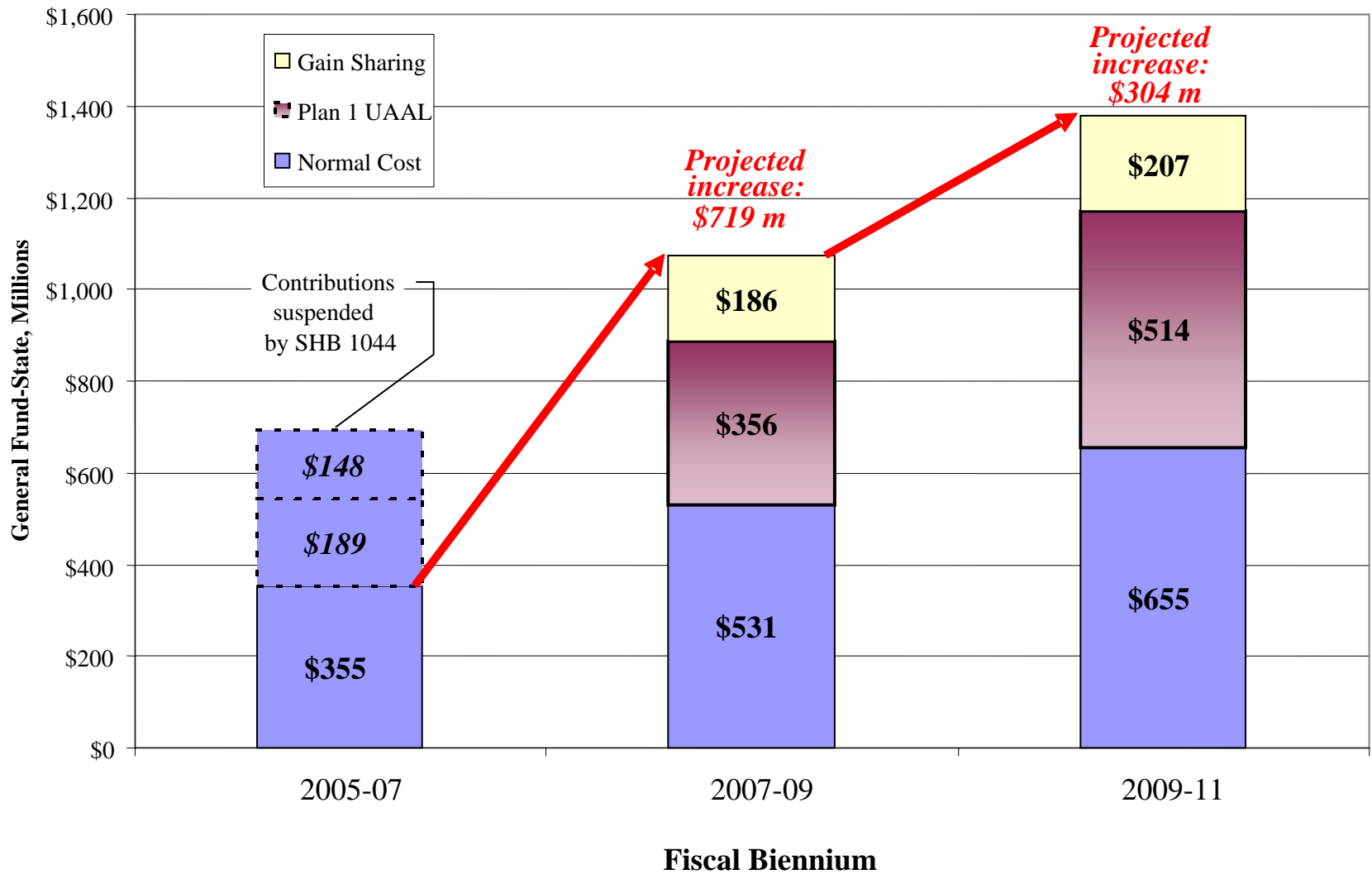
In 2002, the voters passed Initiative 790, creating a Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) board of trustees. The LEOFF 2 Board replaced the functions of the JCPP and the PFC with respect to LEOFF 2.

The 2003 Legislature changed the JCPP to the Select Committee on Pension Policy (SCPP), and changed its makeup to one-half legislative representatives, and one-half employer, employee, and retiree representatives. The SCPP retained all of the functions of the JCPP, except those relating to the appointing and removing of the State Actuary - those functions were vested in a State Actuary Appointment Committee, which convenes upon the request of the chairs of the House Appropriations Committee and the Senate Ways and Means Committee whenever there is a vacancy or on request of four members of the Appointment Committee.

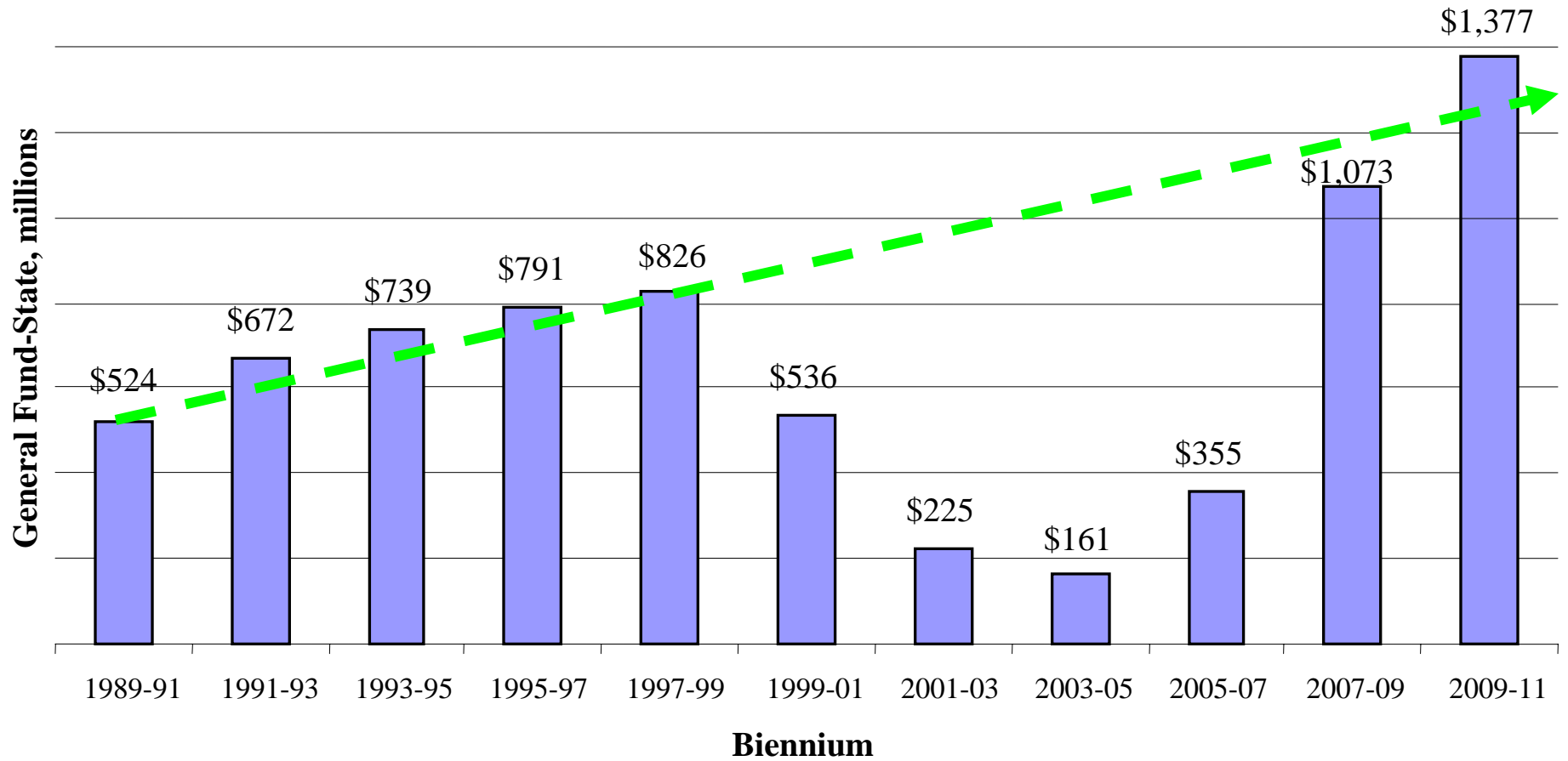
The SCPP has a statutorily-created executive committee that is composed of six members of the SCPP; the chair and co-chair of the SCPP, who are members of the House and Senate; one member representing active members of the state retirement systems; one member representing state retirement system employers; one member representing retired members; and the Director of the Department of Retirement Systems. (In 2005, the legislature added the sixth member to the executive committee of the SCPP from among the committee members representing retired members of the state retirement systems.


The Director of the Office of Financial Management no longer serves on the executive committee in alternate years, instead the Director of the Department of Retirement Systems serves on the SCPP executive committee every year.)

General Fund-State contribution requirements are projected to increase for the next two biennia

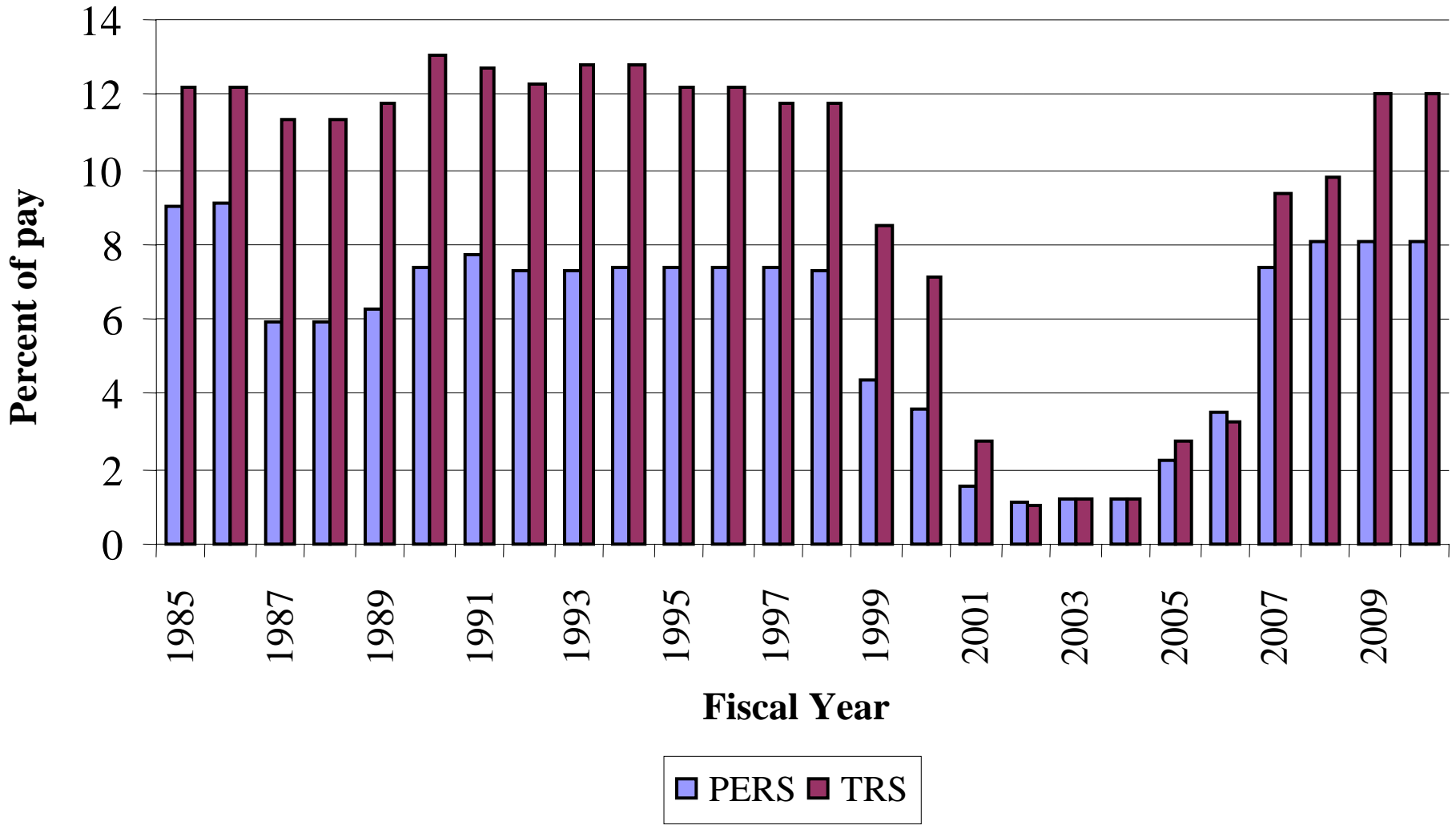


Long-term pension costs rise with salaries, but General Fund-State contributions have dropped since 1999



 4.5% growth trend line, equal to the economic assumption used by the Office of the State Actuary to project growth in salaries. Does not factor growth in enrollment.

Employer contribution rates to PERS and TRS have dropped below historic levels, and are projected to return to historic levels



STATE IT PROJECTS

State Information Technology (IT) Projects

The state takes a portfolio based IT approach, looking at how proposed IT projects support the agency's mission and programs and how they fit with the state's overall IT structure. This approach is intended to focus on such things as:

- coordination of strategies and business plans with IT investments;
- analysis of the risks associated with IT investments to ensure appropriate risk mitigation strategies are developed; and
- ensuring that all state IT infrastructure is effectively integrated.

While the Governor's office, legislature, state agency directors, and the Department of Information Services (DIS) are involved with significant state IT investment decisions, the primary administrator of state IT investments is the Information Services Board (ISB). The ISB develops state IT standards, reviews and approves the statewide IT strategic plans, develops statewide or interagency technical policies, and provides oversight of large IT projects. The ISB has 15 members that include representation of the executive, judicial and legislative branches of government, higher education, and the private sector. The director of DIS is an ex officio member of the board.

Primary phases of a large IT project include planning, design, development, testing, and implementation. Key variables the ISB focuses on in evaluating the implementation of major IT projects are scope, schedule, budget, and other factors.

Due to significant issues with some IT projects over the last several years, including OMNI and HMRS on the current list of projects, the legislature has taken a heightened interest in the process to propose, approve, and implement a major IT project. (See House Appropriations Committee 2005 Interim Plan and September 19, 2005 meeting agenda.) The operating budget requires JLARC to study and report on the budget process for IT projects. A summary of JLARC's preliminary report follows.

**EVALUATION OF
BUDGET PROCESS
FOR INFORMATION
TECHNOLOGY
PROJECTS**

PRELIMINARY REPORT

REPORT DIGEST

JANUARY 4, 2006



STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND
REVIEW COMMITTEE

STUDY TEAM

Karen Barrett, Analyst

LEGISLATIVE AUDITOR

Ruta Fanning

Copies of Final reports and Digests are
available on the JLARC website at:

<http://jlarc.leg.wa.gov>

or contact

Joint Legislative Audit & Review
Committee
506 16th Avenue SE
Olympia, WA 98501-2323
(360) 786-5171
(360) 786-5180 FAX

STUDY BACKGROUND

In the 2005 Operating Budget, the Legislature directed JLARC to evaluate the review and funding processes for state agency information technology (IT) projects. Our assignment has three major parts: (1) a report on IT funding and expenditures across state agencies; (2) an appraisal of the state's current processes for review and funding of state agency IT projects; and (3) a look at the practices of private firms and other governments to see if there are lessons to be learned that could improve Washington's IT processes.

To complete this study, we examined applicable technology laws and policies, and we conducted focus groups and individual interviews with current or former process participants. We also hired an IT consulting firm to support this work and to research industry best management practices.

Information on State Agency IT Expenditures

Within state statute, there is a structure in place that calls for regular reporting of state agency IT expenses and budgets to the Department of Information Services (DIS). It also calls for regular DIS reporting of aggregated IT information to the Legislature and the Governor. However, this reporting is not taking place as envisioned by statute.

Using incomplete information, state agency direct technology program expenses and IT contracts total more than \$1.4 billion for fiscal year 2004 and projected for fiscal year 2005. Without greater compliance and consistency in state agency and DIS reporting, the state does not have the information to assemble a more reliable estimate.

The State's IT Project Review and Budget Processes

State agencies work through a project review process designed by DIS and the Information Services Board (ISB). Under this process, higher risk project proposals undergo additional scrutiny by DIS and the ISB, while lower risk projects may often proceed at the agency's discretion.

As a result of the overlay of the legislative budget process with the project review process, the Legislature may be asked to make significant funding commitments for IT projects at a time when the uncertainty about IT project cost and time estimates are the highest. Agencies may be asking the Legislature for IT project funding before the agency has prepared a detailed investment plan and before the project proposal has received a rigorous evaluation by DIS staff.

This study identifies two shortcomings with the current IT review and funding processes: (1) a need for improved coordination of IT project reviews, especially with regard to the timing of the Legislature's evaluation and funding of state agency IT projects, and (2) a need for greater reliability in the first planning estimates that come forward about IT projects. An additional concern is the ability of the DIS staff unit that supports these processes to meet all of its obligations at its current level of staffing.

Source: JLARC

Lessons from Others' Approaches

It is difficult to conclude whether private companies perform better than state governments with managing IT initiatives. Our consultant contacted several large private corporations but found them reluctant to disclose details on their specific IT practices. Comparisons of Washington's performance to that of other jurisdictions should be viewed with some caution; only a higher-risk subset of Washington's state agency IT projects is being included in national benchmarking studies.

Other states provided some alternative processes Washington may wish to consider. Some other states, such as Illinois, New York, and Pennsylvania, structure the timing of their IT project review and funding decisions to maintain a closer link between financial decisions and technical evaluations. The state of Tennessee also has this closer link, and has a more coordinated review between its equivalent of Washington's Office of Financial Management (OFM) and DIS as well. The state of Victoria, Australia, offers a contract model including hired "scope managers" to help estimate budgets, monitor performance, and arbitrate contract disputes for agency IT projects. Washington's own capital budget processes provide lessons that could carry over to IT projects, such as phased funding, earlier introduction of the project architect, and additional guidance to agencies as they prepare their early cost estimates.

Recommendations

1. The Information Services Board should require all agencies to submit IT project expenses and budgets in complete and consistent portfolio reports.
2. The Department of Information Services should resume submitting a statewide IT performance report biennially to the Governor and to the Legislature, engaging the Office of Financial Management and lawmakers in a review of the content and basis for analysis.
3. The Department of Information Services should undertake a workload study to identify potential gaps in its ability to provide adequate decision support for its various IT project review, funding, and oversight responsibilities, as well as for the state's biennial budget process.
4. The Legislature should consider ways to time funding actions so that they are closer to when the cost and time estimates for IT projects are more reliable.
5. The Information Services Board should investigate other methods to help agencies improve their early IT project cost estimates.

Source: JLARC

*LEGAL AND
OTHER BUDGET
CONSIDERATIONS*

Other Considerations in Writing the Operating Budget

Major applicable state constitutional provisions

One subject rule. Article 2, section 19 requires that a bill contain one subject and that subject be embraced in its title. The first part of the test requires a rational unity between the subparts of a bill; the second part requires that the subject be expressed in the bill title to give legislators notice of what the bill is about. Since budget bills have broad titles, such as "an act related to adopting a capital budget" or "an act relating to fiscal matters," courts traditionally have given the legislature a significant amount of latitude in this area and generally allow any subject reasonably germane to the budget to be included in the bill. However, this constitutional provision also restricts the legislature from making or amending "substantive law" in the budget bill. (The courts generally consider three things when determining if a budget provision is substantive law: (1) whether it affects rights or liabilities; (2) whether it has been included in other legislation; and (3) whether it appears to outlast the biennium covered by the budget.)

Appropriation Requirement. Article 8, section 4 requires an appropriation in legislation before money from funds and accounts in the state treasury may be expended. There are three parts to this: (1) it prohibits expenditures out of the state treasury without an appropriation; (2) it makes an appropriation temporary in nature (for that biennium including a 25th month); and (3) it requires each appropriation to specify an amount and a purpose. A few processes permit state agencies to make expenditures without an appropriation. Some accounts are in the custody of the state treasurer and generally do not require an appropriation if the legislature establishes the account in that manner. Also, a statutory "unanticipated receipts" process permits expenditure of some non-state moneys without an appropriation if not anticipated in the budget and the legislature is notified and given an opportunity to comment.

Lending of credit prohibition. Article 8, sections 5 and 7 prohibit the state and local governments from making gifts, loans, or otherwise providing credit or guarantees to or on behalf of individuals or non-government entities unless it is to assist the poor or infirm. These provisions are in addition to the Article 7, section 1 requirement that tax receipts be spent for a public purpose. When public funds go to non-government entities for purposes other than assisting the poor or infirm, the spending: (1) must be for a fundamental government purpose (such as the welfare of children); or (2) if not for a fundamental government purpose, the expenditure cannot be a gift, loan, or guarantee. To not be a gift, the public expenditure must have adequate consideration. The private benefit must be incidental to the larger public benefit. Generally, public programs and expenditures that benefit a few individuals or businesses are considered more suspect by the courts, while public programs/expenditures that assist a large number of individuals are likely to be upheld by the courts. Expenditures with a clear purpose addressing a clear need, choosing a reasonable fiscal and policy approach with safeguards to ensure the public purpose is accomplished are more likely to withstand a lending of credit challenge. Legislative acts, including appropriations in budget bills, are presumed to be constitutional by the courts.

Governor's Veto. Article 3, section 12 outlines the governor's veto power. Generally, for substantive/policy bills, the governor must veto an entire section. For budget bills, the Governor has an item veto power, but cannot veto less than an entire proviso or subsection. If the Governor vetoes provisos that earmark funds within a lump sum appropriation, the overall appropriation may be reduced.

Other Items

Revenue and Caseload Forecasts. Two councils provide regular revenue and caseload forecasts/updates on which operating budgets are based. The Forecast Council provides various economic and revenue forecasts, while the Caseload Forecast Council forecasts caseloads for public assistance, state prisons, correctional non-institutional supervision, juvenile rehabilitation institutions, public schools, long-term care, medical assistance, foster care, and adoption support. The Forecast Council's November revenue forecast is used for the governor's biennial or supplemental operating budget request, and the November Caseload Forecast Council's report is used to estimate the mandatory programs and entitlements funded in the budget. The legislature uses the March forecasts in odd-numbered years and the February forecasts in even-numbered years to write its budget.

Tort and Sundry Claims Against the State. The Self Insurance Liability Program covers tort claims against the state (claims the state is negligent) for all agencies except the University of Washington and the ferry system (they have their own program/coverage). Premiums for claims and defense costs are charged to state agencies based on a formula that considers agency accountability. Sundry Claims are non-tort claims where the state is alleged to be responsible for an injury, loss, or incident, but where negligence is not the basis of the claim.

Summary of the Governor's 2006 Supplemental Operating Budget Proposal

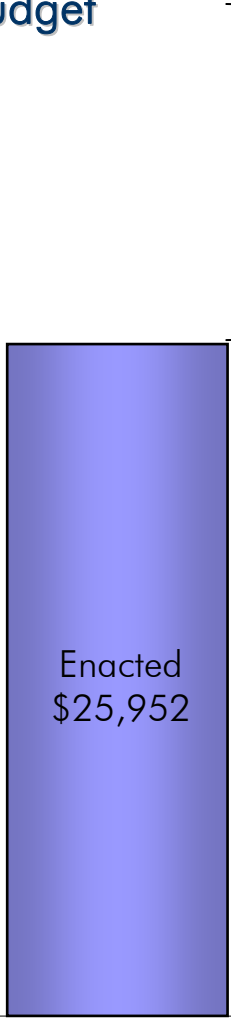
When the Legislature adopted the original 2005-07 budget, the projected ending balance was \$177 million. Since April, the state's economic outlook has continued to improve which has increased available resources.

(All figures in millions)

2005-07 Budget

House Appropriations Committee
135
Office of Program Research

Other*
\$34



Combined Ending Fund Balance & Emergency Reserve Fund
\$1,452

Resources
\$27,405

Expenditures
\$25,952

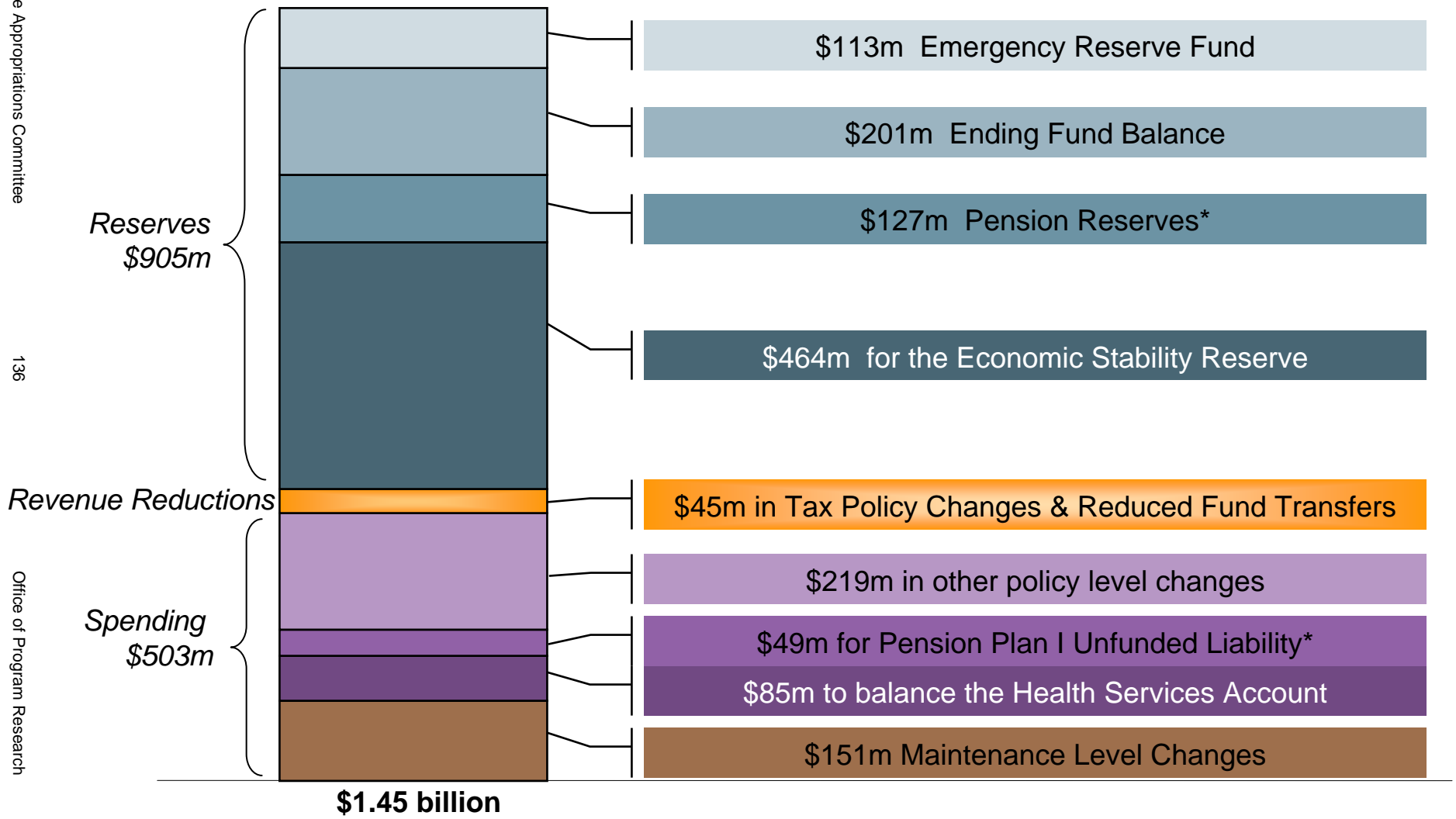
* Change across two bienniums

How did the Governor use the \$1.45 billion in available resources?

House Appropriations Committee

136

Office of Program Research



* Taken together, these total \$176m

**Governor's 2006 Supplemental Appropriations
General Fund - State
(Dollars in Thousands)**

Maintenance Level Spending **150,457**

Policy Level Items

General Fund Support to Health Services **85,000**

K-12 Education/Early Learning

Promoting Academic Success	38,510
Energy Cost Assistance	12,017
Assessment Funding Adjustments	5,074
Math Remediation	3,390
Student Data System	2,896
Health Benefit Changes	2,582
All Other	1,707
Early Learning	1,548
Special Education Lawsuit	1,099
Washington Youth Academy	691

K-12 Education/Early Learning Total **69,514**

Higher Ed

Facilities Maintenance	4,599
Life Sciences Research	2,430
BAs/Upper Division Courses at CCs	1,660
Higher Ed: Other	800

Higher Ed Total **9,489**

Human Services

WorkFirst Funding	46,470
Dept. of Corrections OMNI System	11,250
Mental Health Litigation/Ward Expansion	9,620
Child Welfare Info System Replacement	3,802
Children's Health Program	3,473
Other Health Care	1,636
All Other	1,613
Children's: Supervised Visitation	1,439
Mental Health Forensic Staff/Eastern State	1,327
MAA: Expand Provider Review & Prior Auth	-3,129

Human Services Total **77,501**

Natural Resources

Fire Suppression	2,190
Other Natural Resources	856
Governor's Salmon Recovery Office	500
Puget Sound Restoration	500
Geologic Hazards Program	497

Natural Resources Total **4,543**

**Governor's 2006 Supplemental Appropriations
General Fund - State
(Dollars in Thousands)**

<hr/>	
All Other	
Pension Plan 1 Unfunded Liabilities	48,599 *
Energy Efficiency Grants	17,500
Public Defense Quality Standards	15,965
Dependency & Termination	11,022
Personnel & Other Admin Service Costs	5,242
All Other	4,030
Other Judicial	1,729
CTED: Employment Resource Center	1,600
Life Sciences Discovery Fund Auth	992
Classification Revisions	-203
All Other Total	106,476
Subtotal New Spending	502,980
Plus Create New Pension and Econ. Stability Reserves	
Economic Stability Reserves	464,000
Pension Reserves	127,401 *
Pension and Other Reserves Total	591,401
Grand Total	1,094,381 **
	<hr/> <hr/>

* Taken together, these two items total \$176 million (the amount the Governor indicated that she is setting aside for pension obligations.)

** Reflects total general fund appropriations only. Does not include other items reflected on the balance sheet such as the ending fund balance, revenue policy changes, or the emergency reserve fund.

Governor's 2006 Supplemental

(General Fund State, Dollars in millions)

Maintenance Level Items

Technical Issues

SBCTC Bill Drafting Issue	10
Tourism Bill Drafting Issue	(0)

K-12

Enrollmen/Workload	41
Inflation, Other	15
I-732	31

Human Services

Corrections	48
Long Term Care	26
Juvenile Rehabilitation (JRA)	(3)
Medical Assistance	(47)*
Economic Services	21
Childrens	26
Mental Health	10
Other Human Services	(5)

Other

General Govt/Judicial/Natural Resources/etc.	10
Higher Education: I-732	3
Bond Retirement and Interest	(35)

Subtotal Maintenance Items

151

* In addition, \$87 million is appropriated from the Health Services Account (HSA).

2005-07 State General Fund Balance Sheet

Includes the Governor's 2006 Proposed Supplemental Budget
(Dollars in Millions)

Resources	
Beginning Fund Balance	852.6
November 2005 Revenue Forecast	26,335.7
Legislatively-enacted fund transfers and other adjustments	216.8
Governor's Supplemental Budget:	
Energy Initiative - Utility Tax Credit	(7.5)
Tax penalty and payment date revisions	(18.3)
All other revenue legislation proposals	(2.5)
	26,524.3
Adjustments to fund transfers	(16.8)
Transfer to Emergency Reserve Fund	(112.6)
Total Resources (including beginning fund balance)	27,247.5
Expenditures	
Current 2005-07 Appropriation	25,952.4
Governor's Supplemental Budget:	
Maintenance and Other Expenditures	503.0
Appropriations to Reserves	591.4
	1,094.4
Total Expenditures	27,046.8
Balance	
Unrestricted General Fund-State Balance	200.7

Source: Governors Office of Financial Management Budget Highlights
December 2005

Balance Sheet Detail for Revenues and Fund Transfers

Includes the Governor's 2006 Proposed Supplemental Budget
(Dollars in Millions)

Total Reserves	
Unrestricted General Fund-State Balance	200.7
Initiative 601 Emergency Reserve Account	112.6
Pension Funding Stabilization Account	127.4
Economic Stability Account	464.0
	904.7

Proposed Revenue Legislation	
Energy Initiative - Utility Tax Credit	(7.5)
Tax Penalty and Payment Date Revisions	(18.3)
Excise Tax Relief for Aerospace Businesses	(3.0)
Mortgage Lending Fraud Prosecution Account	0.0
Direct Sale of Wine	0.5
Processing of Liquor Licenses	0.0
	(2.5)
	(28.2)

Proposed Adjustments to Fund Transfers	
Retention of Interest in the Pollution Liability Account	(1.3)
Reduction to Pollution Liability Account Transfer to General Fund	(3.8)
Correction of Error in General Fund Transfer to Tourism Account	0.3
Reduction to Existing Transfer from the Public Employees' and Retirees' Insurance Account	(12.0)
	(16.8)

Source: Governors Office of Financial Management Budget Highlights
December 2005

Non-General Fund Items in the Governor's Budget

- **Maintenance Level Items**

- ♦ \$46 million in anticipated federal funding to the Military Department for additional homeland security activities
- ♦ \$172 million for DSHS caseload and other items (primarily federal and health services account)
- ♦ \$55 million, primarily in federal funding, for K-12

- **Policy Level Items**

- ♦ \$42 million for Puget Sound Clean-up (\$500,000 GF-S, \$6 million in bonds, \$29 million from the state and local toxics accounts, and \$7 million in other funds in the Capital Budget)
- ♦ \$6 million in federal funding to Secretary of State for phase 2 of voter data base
- ♦ \$13.8 million to DOP for HRMS related costs
- ♦ \$7.6 million from a lawsuit settlement for the UTC for the Low Income Home Energy Assistance Program (LIHEAP)

Other Items in the Governor's Budget

- **FTEs**

- ♦ The budget assumes an average increase of 523 FTEs for the biennium
- ♦ 294 of those FTEs are related to maintenance level changes (i.e., increased offenders at DOC, etc.) and 230 related to policy level changes

- **Expenditure Limit**

The expenditure limit statute is modified in the budget bill

- ♦ Appropriations made to the Pension Funding Stabilization and the Economic Stability accounts are not to be included in determining whether expenditures exceed the expenditure limit.
- ♦ Spending from the Pension Stabilization account does not constitute a program cost shift.
- ♦ For purposes of calculating the limit in future years, expenditures include appropriations to the Economic Stability Account and appropriations to the unexpended balance of the Pension Stabilization Account.

2005-07 Enacted Operating Budget

(\$ in thousands)

	General Fund-State	Near General Fund-State	Total Budgeted
Legislative	140,970	140,970	148,103
Judicial	95,869	166,842	205,183
Governmental Operations	460,076	475,979	3,188,651
Other Human Services	1,574,840	2,137,942	4,153,090
DSHS	7,883,928	8,632,477	17,217,073
Natural Resources	366,902	367,537	1,296,763
Transportation	70,464	75,718	145,790
Public Schools	10,914,763	11,569,194	13,147,661
Higher Education	2,900,607	3,050,609	8,105,412
Other Education	43,974	43,974	105,940
Special Appropriations	1,500,021	1,548,091	1,736,187
Statewide Total	25,952,414	28,209,333	49,449,853

Appendix 1:

NEAR GENERAL FUND- STATE FUNDS/ACCOUNTS

Near General Fund- State Funds/Accounts

These are funds/accounts that, while used for specific purposes, are rather broad in nature and similar to those funded in the state General Fund. These accounts together are commonly referred to as "near general fund-state" accounts (NGF-S). In addition to the General Fund, traditional NGF-S accounts include the Health Services Account (HSA), the Student Achievement Fund (SAF), the Violence Reduction and Drug Enforcement Account (VRDE) and the Public Safety and Education Account (PSEA). The Education Legacy Trust Account was created in 2005 and is similar to these other NGF-S accounts.

In 2005, SSB 6078 modified the state expenditure limit by adding the HSA, SAF, VRDE, and PSEA to the General Fund as accounts covered by the state expenditure limit. The Water Quality Account was also included; the Education Legacy Trust Account was not.

Following is a summary of these traditional or expenditure limit related NGF-S accounts.

General Fund (GF)

- Becoming effective in 1907, the GF accounts for all the state resources except those required to be deposited in another fund. The GF is the principle fund supporting the operation of the state.
- Primary sources of revenue include: the sales tax, business and occupation tax, the property tax, and other taxes.
- \$26 billion is appropriated from the GF for the 2005-07 biennium.

Health Services Account (HSA)

- Becoming effective in 1993, the HSA is used for maintaining and expanding health services for low income persons, maintaining and expanding the public health system. Primary programs funded from the account include the Basic Health Plan, funding for local health districts, vaccines, and health care for children (Medicaid and SCHIP)
- Primary sources of revenue are: beer, liquor, and tobacco taxes; proceeds from the tobacco lawsuit (Master Settlement Agreement); and certain health related taxes such as the hospital B&O tax and the insurance premium tax.
- \$1.2 billion is appropriated from the HSA in 2005-07, primarily to DSHS (\$643 million) and the Health Care Authority (\$456 million).

Student Achievement Fund (SAF)

- Becoming effective in 2000, the SAF is used by school districts to lower class sizes, expand learning opportunities for students, provide professional development for educators, and provide early childhood programs.

- Primary sources of revenue are a portion of the state property tax, and transfers from the Emergency Reserve Account and the Education Legacy Trust Account.
- \$629 million is appropriated for 2005-07 from the SAF.

Public Safety and Education Account (PSEA)

- Becoming effective in 1984, the PSEA is used for criminal justice training, crime victims compensation, civil representation of indigent persons, winter recreational parking, judicial education, the judicial information system, and state game programs. The Equal Justice subaccount provides additional funds to be used for criminal indigent defense, representation of parents in dependency and termination proceedings, civil representation of indigent persons, and contributions toward district court judges salaries and eligible municipal court judges salaries.
- Primary sources of revenue include fines, fees, forfeitures, penalties, and reimbursements (especially traffic infractions).
- \$163 million is appropriated for 2005-07 primarily to the Office of Administrator for the Courts (\$50 million), the Department of Labor and Industries (\$27 million), the Department of Corrections (\$20 million), the Criminal Justice Training Commission (\$19 million), DSHS (\$15 million), and the Office of Public Defense (\$13 million).

Violence Reduction and Drug Enforcement Account (VRDE)

- Becoming effective in 1989, VRDE is used to fund services under the 1989 Omnibus Alcohol and Controlled Substances Act.
- Primary sources of revenue include the cigarette tax, syrup (soda) tax, some tobacco products taxes, liter tax on liquor, beer tax, wine tax, and firearms licenses, fees, and permits.
- \$104 million is appropriated in 2005-07 from VRDE, primarily to DSHS (\$91 million) and the Department of Community, Trade, and Economic Development (\$7 million).

Water Quality Account (WQA)

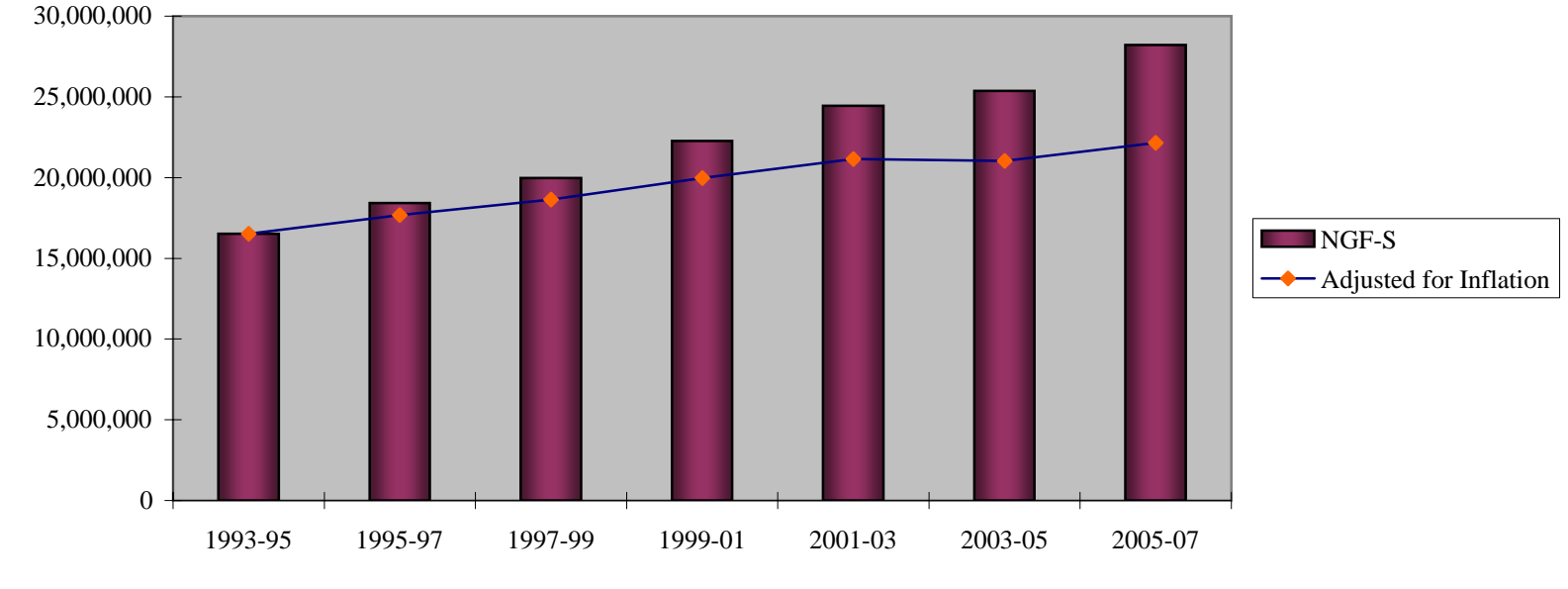
- Becoming effective in 1986, the WQA is used to assist in meeting federal and state water pollution control requirements for protection of the state's waters.
- The primary sources of revenue are cigarette taxes and transfers from the general fund. In 2003-05 and 2005-07, appropriations from the Capital Budget offset some of the general fund required contribution.
- \$32 million is appropriated for 2005-07 to the Department of Ecology.

Education Legacy Trust Account

- Created and effective in 2005, the Education Legacy Trust Account is used for supporting activities in the Student Achievement Fund, for expanding access to higher education, and for other education improvement activities.
- The primary source of revenue is the cigarette tax and estate tax.
- \$175 million is appropriated for 2005-07, \$150 million to higher education for financial aid and enrollments, and \$25 million for K-12 to expand Learning Assistance Programs. Other funds are deposited into the Student Achievement Fund.

Near General Fund-State Budget

(\$ in millions)



GF-S (\$ in billions)

	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07
Total	16.5	18.4	20.0	22.3	24.4	25.4	28.2
Adjusted for Inflation	16.5	17.7	18.6	20.0	21.2	21.0	22.2

Appendix 2:

SUMMARY OF THE 2005-07 OPERATING BUDGET

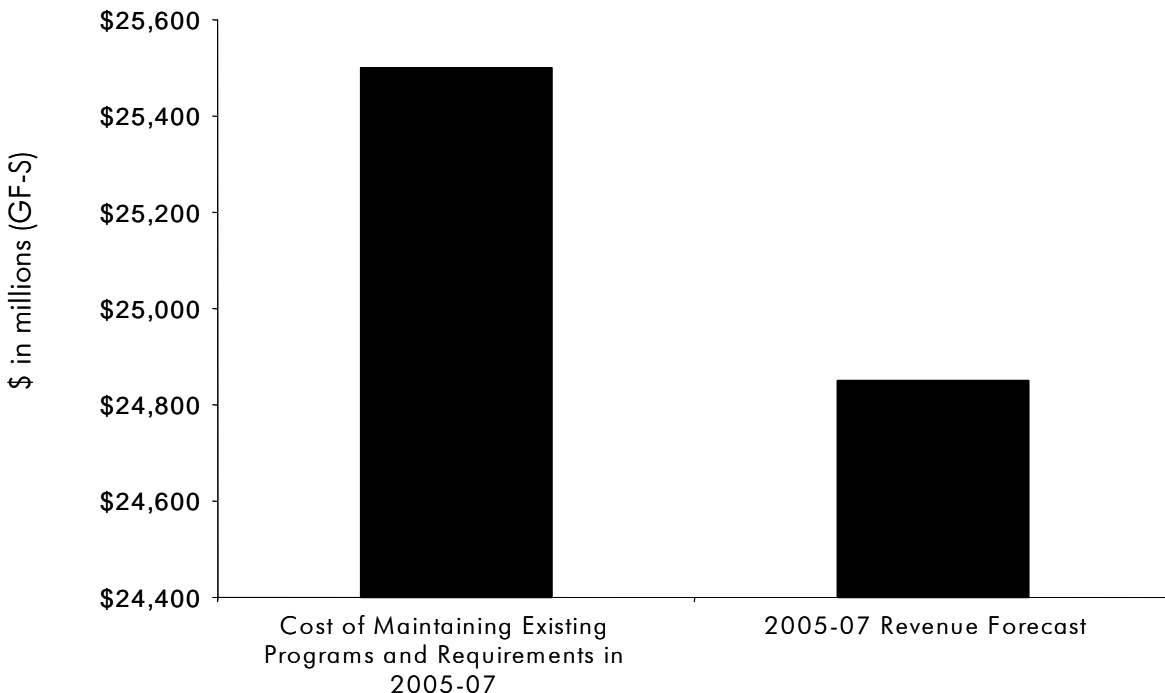
2005-07 Operating Budget Overview

Summary

Even after a positive March 2005 revenue forecast, the legislature faced operating budget challenges for the 2005-07 biennium. The cost of carrying forward into 2005-07 the general fund state programs from the 2003-05 biennium was \$650 million more than the forecasted revenue for the 2005-07 biennium. This is due in part to the cost of maintaining 2003-05 programs increasing by nearly 10%, while revenues increase by approximately 7 percent. In addition, federal funding was reduced in several areas. Here is a summary of some of the budget items putting pressure on the 2005-07 operating budget:

- Maintaining General Fund-State programs and services at the Department of Social and Health Services increased by about 15 percent, led by medical assistance with a 28% increase
- The cost of funding K-12's existing programs increase 8%
- The cost of funding statutory pension costs increased about 300%

This is illustrated as follows:



The Legislature used a combination of new taxes, fund transfers, other resources, and some reductions to address the \$650 million General Fund-State gap between maintaining existing programs/requirements and available revenue, and to provide a net increase in programs and services for 2005-07 of \$425 million.

For 2005-07, General Fund-State appropriations in ESSB 6090 total \$26.0 billion while total budgeted funds, including federal funds, total \$49.5 billion. Appropriations from state funds that are similar to the general fund, commonly referred to as "near General Fund-State," total \$28.2 million. These state funds are the Health Services Account, the Public Safety and Education Account, the Equal Justice Account, the Violence Reduction and Drug Enforcement Account, the Student Achievement Fund, the Education Legacy Trust Account, and the General Fund itself.

Public Schools

Funding in the budget is provided for nearly 1 million students. This includes:

- \$138 million for the I-728 step-up (maintenance level)
- \$139 million for I-732 salary increases of 1.2% and 1.7% beginning September 1st of 2005 and 2006 respectively
- \$29.3 million in additional funding for special education
- \$25.1 million to expand the Learning Assistance Program (based solely on poverty)

Higher Education

Funding is provided for approximately 225,000 students. The major changes for 2005-07 include:

- \$72.5 million for 7,900 additional students
- \$69.7 million in additional state need grants
- Assumes annual tuition increases of 5% at community and technical colleges, 6% at regional universities, and 7% at the two research universities

Health and Human Services

Funding is provided for health care for more than 950,000 needy children and adults, for social services for children, adults, and families, and for public safety, including funding to incarcerate over 17,000 prisoners:

- \$51 million to maintain the Basic Health Plan enrollment at 100,000 (maintenance level)
- \$33 million general fund-state to maintain an annual review of children's eligibility for state medical coverage.
- \$13 million general fund-state for enrollment of approximately 8,500 undocumented children in low-income families
- \$80 million to backfill most of the federal funding reduction for community mental health

- \$14.2 million for child welfare system improvements
- \$29.0 million in increased funding for subsidized child care and early childhood education programs.
- \$31 million for implementation of the home care worker collective bargaining agreement
- \$11.25 million for the Offender-Based Tracking System

State Employees

Funding is provided for salaries and benefits for approximately 100,000 state and higher education employees. The major changes for 2005-07 include:

- Represented employees receive a COLA of 3.2 and 1.6 on July 1st of 2005 and 2006 respectively, while non-represented employees receive a similar COLA on September 1st of 2006 and 2007, respectively.
- \$120.5 million for increased costs of general government and higher education employee health benefits.
- \$327 million in reduced costs resulting from pension funding decisions.

Other Funding

Other funding changes include:

- \$27 million in additional federal funds for the Help America Vote Act
- \$10 million in non-general fund-state dollars for the Homeless Housing Program
- \$25.3 million in additional funding for natural resources

Ending Fund Balance

The estimated ending fund balance is \$179.3 million.

Governor Vetoes

ESSB 6090 includes both the 2005-07 Operating budget and the 2005 Supplemental budget to the 2003-05 Operating budget. The Governor's major vetoes included:

- Reductions of \$16.8 million to DSHS in the 2005 Supplemental budget.
- A transfer of \$13.9 million from the Tobacco Prevention and Control Account in the 2005-07 Biennial Budget.

These vetoes reduced the estimated ending fund balance by \$30.7 million.

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

K-12 Education

Special Education Funding	29,290
Expand LAP	25,075
Other	6,819
Science WASL	4,471
Assessment System	3,155
Focused Assistance	2,000
Reading Model/Early Reading Grants	500
Alternative Routes to Teaching	-1,096
Reading Corps	-5,726
School Bus Depreciation	-6,482
Levy Equalization	-12,922
K-12 Education Total	45,084

Higher Ed

General Enrollments	72,571
State Need Grant	69,659
Faculty Increments	4,500
Part-Time Faculty Equity	4,500
Adult Basic Ed	4,000
Other Financial Aid	3,892
Veterinary Medicine	1,521
Autism Centers	1,125
M&O on Recent Buildings	1,117
Other	1,009
Lower Division Planning Funds	550
Life Science	150
Non-Instruction Reduction	-10,336
Promise Scholarship	-12,617
Maintenance & Operations Shift	-14,999
Tuition Rate Increase	-16,642
Higher Ed Total	110,000

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Health Care

Non-Medicaid Services-Community	80,700
Local Public Health Funding	48,000
Medicaid Eligibility Reviews	32,650
Drug/MH Integration	8,891
Children's Health Premiums	8,753
Children's Health Program	7,878
Mental Hlth Forensic Services	7,400
Expand Alcohol/Drug Trtmnt for Youth	5,045
Expand Preventive Svcs	4,611
Safe Mother, Safe Babies	1,760
Mental Health - Other	1,214
Other	1,007
Lease, Med Inflation and Equip Red	-2,449
Contract Out Drug Rebate Collection	-3,739
Patients Requiring Review	-5,334
Increase Rebates and Recoveries	-6,392
Other MAA	-6,589
IGT Design	-47,163
Health Care Total	136,243

Childrens, Long Term Care & DD

DD Other	13,253
LTC: NH Rates	10,986
CPS/CWS Reform	10,189
Childrens: Enhance Child Welfare SVCS	3,500
Increase Personal Needs Allowance	1,390
Farmers Market Nutrition	932
Education Coordinators	900
Other	658
Childrens: Other	-37
Fircrest School	-1,236
Reduce AAA Funding	-1,413
Childrens: CRCs	-1,712
Lease, Med Inflation and Equip Red	-2,299
Reduce/Elim Family Policy Council	-2,384
Nursing Home Tax Phase-Out	-4,657
Estate Recovery	-4,799
Childrens: Caseload & Rates	-5,006
Childrens, Long Term Care & DD Total	18,265

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Other Human Services

Maintain WorkFirst Program	15,000
DOC: OMNI Computer System	11,250
Other	3,282
Increase ECEAP	2,994
LEP Services Enhancement	1,500
JRA: Maintain Co-Occurring Disorders Pgm	1,428
Naturalization Services	1,000
JRA	-912
Lease, Med Inflation and Equip Red	-3,190
DOC: Leases, Med Inflation, & Equip Reduction	-3,946
DOC: Sentencing & Supervision	-4,396
DOC: Other	-4,884
Reduce DSHS Regional Staff	-5,614
Delay Opening of New Units	-7,385
GAU	-18,010
Other Human Services Total	-11,883

Natural Resources

DNR: Shellfish Settlement	9,000
Shoreline Planning Grants	2,500
DNR: Forest & Fish	2,300
Other	1,695
State Parks	1,693
Dept of Ecology	1,626
Dept of Agriculture	1,411
Hood Canal Water Quality	1,300
Fish & Wildlife	941
DNR: Recreation	596
Ag: Market Access/Trade Barrier	500
DNR: Other	-259
Natural Resources Total	23,303

Compensation

Hlth Benefits K12	126,196
Health Benefits (GG & H.Ed.)	120,496
COLA Represented	108,258
COLA Non-Rep. (H. Ed.)	60,720
COLA Non-Rep. (G.G)	31,819
Salary Survey Non-Rep.	11,336
Classification Revisions	2,264
Other	879
Pension Method Change	-327,212
Compensation Total	134,756

2005-07 Enacted Budget

Policy Level Changes

(Dollars in Thousands)

Vendors including Homecare Workers

MAA: Service Rate Increase	33,995
Home Care Workers (IPs)	31,303
DSHS: Econ Svcs	25,766
DSHS: Mental Health	14,401
DSHS: Alcohol & Substance Abuse	7,114
DSHS: DD	6,166
DSHS: Childrens	5,955
Home Care Workers (APs)	5,935
DSHS: Long Term Care	5,227
CTED/ECEAP	3,198
Other	1,505
DSHS: Juv Rehab	953
Vendors including Homecare Workers Total	141,518

All Other

Debt Service: 05-07 Cap Budget	27,200
Other	10,350
Crime Lab & DNA Costs	4,598
Mission Critical Staffing	4,000
AOC: Equipment Replacement	3,890
Government Performance (HB 1064)	3,020
Revenue Enforcement Enhancement	2,980
LEOFF Disability Allowance	1,900
Justice Funding - SB 5454	1,800
Consumer Protection Expansion	1,566
Emergency Food Assistance	1,450
Community Mobilization	1,154
Individual Development Acct (HB 1408)	1,021
Methamphetamine Initiative	1,000
Community Services Block Grant	1,000
Justice Information Network	684
Create Archaeology Dept (5056)	13
Eliminate INTEC	-968
K-20 Telecommunications Network	-3,420
Eliminate Double-Filled Positions	-4,000
No Code	-4,789
Business & Professions Account	-7,685
Middle Management	-20,724
Strategic Sourcing	-25,000
All Other Total	1,040

Grand Total

598,326

2005-07 Enacted Operating Budget

(\$ in thousands)

	General Fund-State	Near General Fund-	Total Budgeted
Legislative	140,970	140,970	148,103
Judicial	95,869	166,842	205,183
Governmental Operations	460,076	475,979	3,188,651
Other Human Services	1,574,840	2,137,942	4,153,090
DSHS	7,883,928	8,632,477	17,217,073
Natural Resources	366,902	367,537	1,296,763
Transportation	70,464	75,718	145,790
Public Schools	10,914,763	11,569,194	13,147,661
Higher Education	2,900,607	3,050,609	8,105,412
Other Education	43,974	43,974	105,940
Special Appropriations	1,500,021	1,548,091	1,736,187
Statewide Total	25,952,414	28,209,333	49,449,853

Appendix 3:

THE OFFICE OF FINANCIAL MANAGEMENT'S SIX YEAR OUTLOOK

SIX YEAR OUTLOOK--Dollars in Millions

December 20, 2005	2006	2007	2008	2009	2010	2011
Beginning Balance (General Fund-State)	853	386	201	396	(179)	(981)
Revenues						
BASELINE (November 2005 revenue forecast, 5% annual growth after 2007)	12,946	13,389	14,059	14,762	15,500	16,275
Money Transfers	130	87				
Subtotal	13,076	13,476	14,059	14,762	15,500	16,275
<i>Governor's 2006 Supplemental Revenue Proposals</i>	-	(28)	(28)	(24)	(22)	(18)
<i>Governor's 2006 Supplemental Money Transfers</i>	(5)	(12)	-	-	-	-
<i>Pension Funding Stabilization Account set-aside</i>	-		115	12		
<i>Economic Stability Account set-aside</i>			464			
<i>Initiative 601 Transfer to the Emergency Reserve Account</i>	(113)					
TOTAL REVENUE	12,959	13,437	14,609	14,750	15,478	16,257
<i>Biennial Total</i>		<i>26,396</i>		<i>29,359</i>		<i>31,735</i>
Expenditures (see notes on next page*)						
Baseline Expenditures	12,769	13,184	13,431	13,676	13,932	14,212
Pension Costs			147	259	357	389
Pension Costs--Fund Gainsharing			90	96	101	107
<i>K-12 Teacher/staff and Community and Technical Colleges COLA - Initiative 732 (1.85%, 2.2%, 2.0%, 2.0%) **</i>			68	169	247	347
<i>State employee/Higher Education COLA (1.9%, 2.1%, 2.2%, 2.4%)** Implicit Price Deflator</i>			45	96	150	211
<i>Employee health insurance (state government, K-12, higher education) (10% per capita increase)</i>			92	194	306	431
<i>Medical Assistance (6% per capita increase; 3.5% caseload)</i>			148	309	486	680
<i>Health Services Account Backfill</i>			39	119	274	351
<i>Continuation of Education Legacy Programs (Learning Assistance Program/Higher Education)</i>			106	111	117	123
Subtotal	12,769	13,184	14,165	15,029	15,970	16,850
Governor's 2006 Supplemental Budget						
Required New Spending	45	235	134	159	167	175
Optional Additions (Including \$49m to Unfunded Pension Liability)	20	203	116	137	144	151
Appropriation to Pension Funding Stabilization Account	127					
Appropriation to Economic Stability Account	464					
TOTAL EXPENDITURES	13,425	13,622	14,415	15,325	16,281	17,176
<i>Biennial Total</i>		<i>27,047</i>		<i>29,740</i>		<i>33,457</i>
General Fund-State ENDING BALANCE	386	201	396	(179)	(981)	(1,900)
SUMMARY OF POTENTIAL GENERAL FUND SURPLUS/DEFICIT						
Preliminary General Fund-State Budget Surplus/Deficit (from projected ending balances)	386	201	396	(179)	(981)	(1,900)
Provision for General Fund-State Reserve			(300)	(300)	(300)	(300)
Potential General Fund-State Budget Surplus/Deficit (from projected ending balances)	386	201	96	(479)	(1,281)	(2,200)
Pension Funding Stabilization Account set-aside		127				
Economic Stability Account set-aside		464				
Initiative 601 Emergency Reserve Account	113	113	113	113	113	113
TOTAL POTENTIAL SURPLUS/DEFICIT (including Emergency Reserve, Pension & Economic Stability Accounts)	499	905	208	(366)	(1,169)	(2,087)

Source: OFM

EXPENDITURE ASSUMPTIONS

>Assumes enacted 2005-07 budget plus Governor Gregoire's Proposed 2006 Supplemental Budget and November Caseload Forecast Council forecasts.

>Assumes all other programs grow based on OFM population cohort forecast, and Caseload Forecast Council forecasts where applicable.

>Initiative 732 COLA is based on the final November economic forecast for Seattle Consumer Price Index (CPI).

>Assumes vendor rate increase based on Implicit Price Deflator (IPD).

>Assumes 4% inflation for non-Medical Assistance DSHS health care related programs (Developmental Disabilities, Long Term Care, Alcohol and Substance Abuse, Mental Health).

>Assumes average debt service growth of 6.5% per year over forecast period.

>Assumes "all other objects" (excluding salaries, benefits, pensions, vendors) grow by IPD plus one-half associated caseload or population growth.

>Pension funding in FY 2008 is less than the previous 6-year Outlook because of \$50 million paid toward the unfunded liability in FY 2007.

** Does **NOT** include the one-time Fiscal Year 2007 1.6% salary increase in the base for future calculations per negotiated contracts and budget bill language.

Appendix 4:

GLOSSARY OF BUDGET TERMS

Budget Terms

Appropriation – The legislative authorization in a bill to make expenditures and incur obligations from a particular fund. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium – A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year (The 2005-07 biennium begins on July 1, 2005 and ends June 30, 2007).

Budget Notes – A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. The publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal force as appropriation bill language.

Bow Wave – Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not in place for the entire biennium. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a bow wave of \$300,000.

Caseloads – Caseload means the number of persons expected to meet entitlement requirements and utilize the services of state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the public schools (K-12), long-term care, medical assistance, foster care, and adoption support.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and to be spent for a specific purpose.

Entitlement – A service or payment that, under state or federal law, must be provided to all applicants who meet the eligibility requirements.

Fiscal Year – The state fiscal is the 12 month period from July 1 through the next June 30. Fiscal Year (FY) 2007 begins July 1, 2006 and ends June 30, 2007. The federal fiscal year runs October 1 through September 30.

Fiscal Note – A statement of the estimated fiscal impact of proposed legislation. This cost estimate is developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Office of Financial Management.

Full-Time Equivalent (FTE) – *As a unit of measure of state employees:* refers to the equivalent of one person working full-time for one year (approximately 2,088 hours of paid staff time). Two persons working half-time also count as one FTE. *As a unit of measure of students in K-12 or Higher Education facilities:* refers to the equivalent of one student attending class full-time for one school year (based on fixed hours of attendance, depending on grade level).

Fund – An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations and reserves.

Fund Balance – In budget terminology, the difference between estimated resources and budgeted expenditures.

General Fund-State – The general fund represents all financial resources and transactions not required by law to be accounted for in other funds. General Fund-State (GF-S) refers to the basic account that receives revenue from Washington’s sales, property, business and occupation, and other general taxes; and is spent for operations such as public schools, social services, and corrections.

Initiative 601 – An initiative passed in the November 1993 general election dealing with expenditures, taxes, and fees. Its primary requirements are: an *expenditure limit* based on a fiscal growth factor and other provisions; an *emergency reserve account*; a limit on how much state fees can be raised without legislative approval; and a two-thirds legislative vote requirement on certain state tax increases. The two-thirds vote requirement for certain tax increases was suspended for the 2005-07 biennium. Significant changes were made to the expenditure limit in the 2005-07 biennium.

Maintenance Level – A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses.

Nonappropriated Funds – Funds where expenditures can be made without legislative appropriation. Only funds specifically established in state law and that are outside the state treasury may be exempt from appropriation (most notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies in a bill providing for the administrative and service functions of state government, including K-12, higher education, and human services.

Performance Measure – A quantitative indicator of how programs or services are directly contributing to the achievement of an agency’s objectives. These indicators may include measure of inputs, outputs, outcomes, productivity, and/or quality.

Proviso – Language in budget bills that places a specific condition on the use of appropriations. Example: “\$500,000 of the General fund-State appropriation is provided solely for five additional inspectors in the food safety program.”

