Washington State Operating Budget

Briefing Book

January 2014
Office of Program Research

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House Appropriations Committee and Subcommittees

House Appropriations Committee 2014 Roster of Members			
Representative	*Phone*	*Office*	*Legislative Assistant*
Ross Hunter (D), Chair	7936	JLOB 315	Marilyn Pedersen
Timm Ormsby (D), Vice Chair	7946	LEG 122H	Shannon Waechter
Bruce Chandler (R), Assistant Ranking Minority Member	7960	LEG 427B	Melinda Woods
Charles Ross (R), Assistant Ranking Minority Member	7856	LEG 122A	Wanda Brosey
J.T. Wilcox (R), Assistant Ranking Minority Member	7912	LEG 426A	Sharon Trask
Vincent Buys (R)	7854	JLOB 465	Amanda Smith
Reuven Carlyle (D)	7814	JLOB 325	Joseph Peha
Leonard Christian (R)	7820	JLOB 425	Scott Staley
Eileen Cody (D)	7978	JLOB 303	Siobhan Mahorter
Cathy Dahlquist (R)	7846	JLOB 426	Danica Abramson
Hans Dunshee (D)	7804	JLOB 314	Josie Regan
Susan Fagan (R)	7942	JLOB 432	Al Audette
Tami Green (D)	7958	LEG 429A	Michelle Butler
Kathy Haigh (D)	7966	JLOB 320	Kim O'Farrell
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Paul Harris (R)	7976	JLOB 403	Joe DePinto
Zack Hudgins (D)	7956	LEG 438A	Douglas Honma
Graham Hunt (R)	7824	JLOB 406	Barb Peters
Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Laurie Jinkins (D)	7930	JLOB 311	Lynda Foster
Ruth Kagi (D)	7910	JLOB 308	Jessica Puckett
Kristine Lytton (D)	7800	JLOB 310	Ethan Gill
Dawn Morrell (D)	7948	JLOB 306	Mary Sherman
Kevin Parker (R)	7922	JLOB 421	Brittany Johns
Eric Pettigrew (D)	7838	LEG 434B	Lanna Ripp
Joe Schmick (R)	7844	LEG 426B	Pam Kentner
Larry Seaquist (D)	7802	LEG 132C	Cynthia Foley
Larry Springer (D)	7822	LEG 132E	Ariel Taylor
Pat Sullivan (D)	7858	LEG 339A	Lesley Roberts
David Taylor (R)	7874	JLOB 428	Jaime Rowland
Steve Tharinger (D)	7904	JLOB 368	Leanne Horn

House Appropriations Subcommittee on Education
2014 Roster of Members

Representative	*Phone*	*Office*	*Legislative Assistant*
Kathy Haigh (D), Chair	7966	JLOB 320	Kim O'Farrell
Susan Fagan (R), Ranking Minority Member	7942	JLOB 432	Al Audette
Reuven Carlyle (D)	7814	JLOB 325	Joseph Peha
Cathy Dahlquist (R)	7846	JLOB 426	Danica Abramson
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Kristine Lytton (D)	7800	JLOB 310	Ethan Gill
Eric Pettigrew (D)	7838	LEG 434B	Lanna Ripp
Larry Seaquist (D)	7802	LEG 132C	Cynthia Foley
Pat Sullivan (D)	7858	LEG 339A	Lesley Roberts
J.T. Wilcox (R)	7912	LEG 426A	Sharon Trask

House Appropriations Subcommittee on General Government 2014 Roster of Members			
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Leonard Christian (R)	7820	JLOB 425	Scott Staley
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Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Laurie Jinkins (D)	7930	JLOB 311	Lynda Foster
Larry Springer (D)	7822	LEG 132E	Ariel Taylor
David Taylor (R)	7874	JLOB 428	Jaime Rowland

House Appropriations Subcommittee on Health & Human Services *2014 Roster of Members*			
Representative	*Phone*	*Office*	*Legislative Assistant*
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Paul Harris (R), Ranking Minority Member	7976	JLOB 403	Joe DePinto
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Tami Green (D)	7958	LEG 429A	Michelle Butler
Graham Hunt (R)	7824	JLOB 406	Barb Peters
Ruth Kagi (D)	7910	JLOB 308	Jessica Puckett
Timm Ormsby (D)	7946	LEG 122H	Shannon Waechter
Charles Ross (R)	7856	LEG 122A	Wanda Brosey
Joe Schmick (R)	7844	LEG 426B	Pam Kentner
Steve Tharinger (D)	7904	JLOB 368	Leanne Horn

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Fisc. Analyst:	Melissa Palmer	7388	JLOB 216
Fisc. Analyst:	Derek Rutter	7157	JLOB 211

Health & Human Services

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Fisc. Analyst:	Erik Cornellier	7116	JLOB 231
Fisc. Analyst:	James Kettel	7123	JLOB 214
Fisc. Analyst:	Mary Mulholland	7391	JLOB 210
Fisc. Analyst:	Melissa Palmer	7388	JLOB 216

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Clerk:	Kimberly Stringfellow	7067	JLOB B1

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APPH Committee Scheduling
Commerce, Department of
DSHS - Alcohol & Substance Abuse Programs
DSHS - Mental Health

James Kettel **786-7123**
DSHS - Developmental Disabilities
DSHS - Long Term Care
DSHS - Vocational Rehabilitation
DSHS - Special Commitment Center
Services for the Blind, Department of
Veterans Affairs, Department of

Mary Mulholland **786-7391**
DSHS - Admin & Support Services
DSHS - Children & Family Services
DSHS - Consolidated Field Services
DSHS - Information Services
DSHS - Juvenile Rehabilitation Administration (JRA)
DSHS - Payments to other Agencies
Employment Security, Department of
Health, Department of (DOH)
Industrial Insurance Appeals, Board of
Labor & Industries, Department of

Melissa Palmer **786-7388**
DSHS - Economic Services
Economic & Revenue Forecast Council
Life Sciences Discovery Program
Liquor Control Board
Lottery Commission
Revenue, Department of
Special Appropriations (APP & APPH)

Other items
Agency Loans
Approps In Other Legislation
Bond Retirement & Interest
Expenditure Limit
Four-year Budget Outlook
Treasurer's Transfers

David Pringle **786-7310**
Pension Counsel
APPG Committee Counsel
Actuary, State
Compensation, State Employees
Health Benefits, State Employees (PEBB)
House of Representatives
Innovate Washington
Joint Legislative Audit and Review Cmte (JLARC)
Leg Evaluation & Accountability Program
Legislative Service Center
Legislative Support Services, Office of
LEOFF 2 Board
Lieutenant Governor, Office of the
Pension Contribution Rates
Pension Policy
Public Employees Relations Commission
Retirement Systems, Department of
Senate
Statute Law Committee (Code Reviser)
Vol. Firefighters & Reserve Officers, Board for

Jessica Harrell **786-7349**
APPE Committee Scheduling
K-12 Public Schools (including OSPI)
Center for Childhood Deafness & Hearing Loss
Education Legacy Trust Account
Health Benefits K-12
School for the Blind
Special Appropriations (APPE)

Catrina Lucero **786-7192**
Central Washington University
Community & Technical Colleges
Eastern Washington University
Higher Education Compensation
Student Achievement Council (was prev. HECB)
The Evergreen State College
University of Washington
Washington State University
Western Washington University
Workforce Training and Education Board

Early Learning, Department of

Dan Jones **786-7118**
Agriculture, Department of
Columbia River Gorge Commission
Conservation Commission, State
Ecology, Department of
Environmental & Land Use Hearings Office
Fish & Wildlife, Department of
Natural Resources, Department. of
Parks & Recreation, State
Pollution Liability Insurance Agency
Puget Sound Partnership
Recreation and Conservation Office

Derek Rutter **786-7157**
Accountancy, Board of
Administrative Hearings Office
African-American Affairs, Commission on
Archeology & Historic Preservation, Dept. of
Arts Commission
Asian-Pacific American Affairs, Commission on
Attorney General
Auditor, State
Caseload Forecast Council
Consolidated Technology Services
Elected Officials Salaries
Enterprise Services, Department of
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
Human Rights Commission
Indian Affairs, Governor's Office of
Insurance Commissioner
Licensing, Department of
Military Department
Minority/Women's Business Enterprise, Office of
Office of Financial Management (OFM)
Public Disclosure Commission
Redistricting Commission
Secretary of State (including State Library)
Tax Appeals, Board of (budget)
Treasurer, State
Utilities and Transportation Commission

Alex MacBain **786-7288**
APPG Scheduling
Administrative Office of the Courts
Corrections, Department of
Court of Appeals
InformationTechnology, Global Items
Criminal Justice Training Commission (CJTC)
Judicial Conduct Commission
Law Library, State
Office of Civil Legal Aid
Office of Public Defense
Special Appropriations (APPG)
State Patrol, Washington
Supreme Court

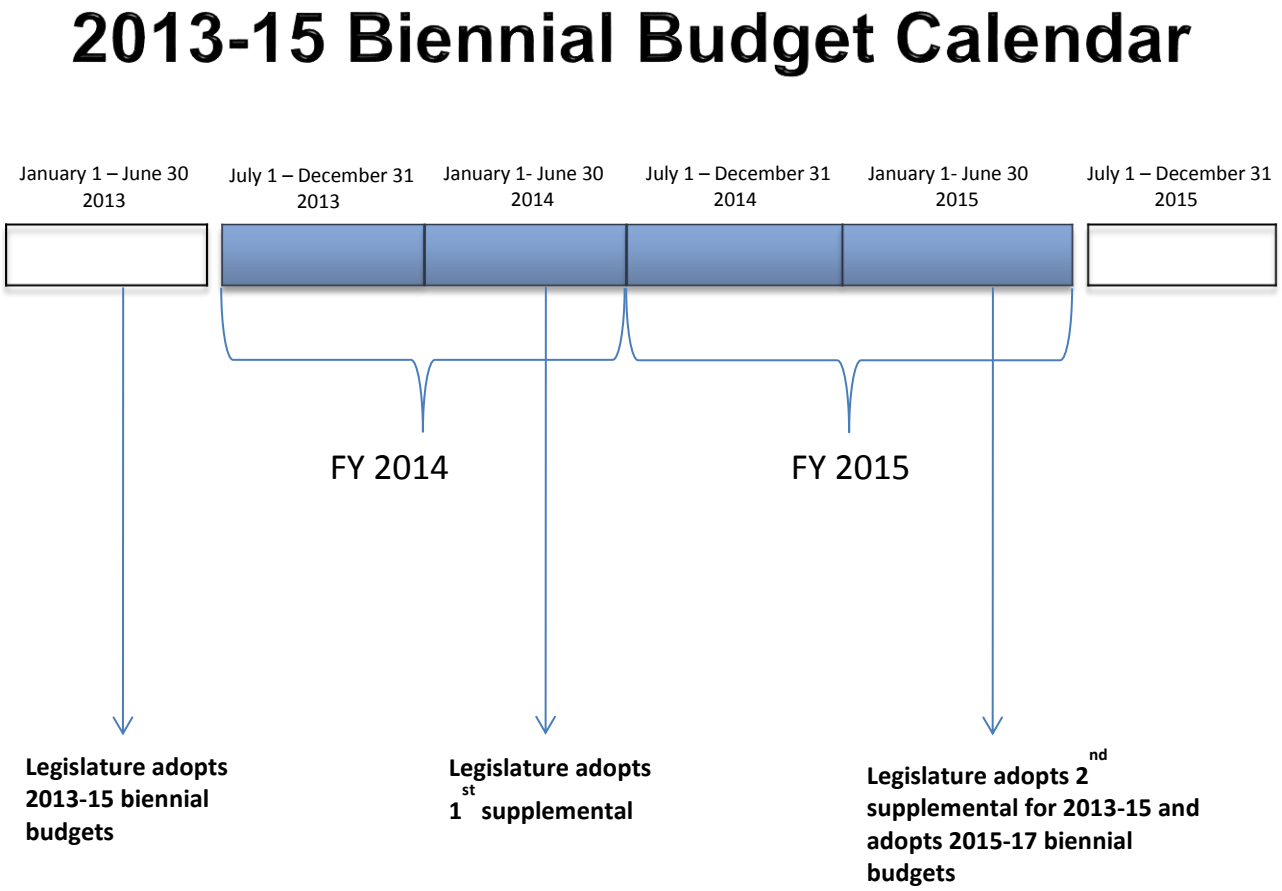
***Appropriations Subcommittees:**
APPE - Appropriations Subcommittee on Education
APPG - Appropriations Subcommittee on General Government and IT
APPH - Appropriations Subcommittee on Health & Human Services

Budget Overview

Background

Washington State is on a biennial (two-year) budget cycle. The budgets for the 2013-15 biennium cover the period from July 1, 2013 through June 30, 2015. (The biennium is Fiscal Year 2014, from July 1, 2013, through June 30, 2014, and Fiscal Year 2015, from July 1, 2014, through June 30, 2015.) The primary two-year budget is enacted in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget almost always is enacted during the even-numbered years (and sometimes a 2nd or 3rd supplemental budget is enacted).

The Legislature authorizes expenditures for operating, transportation, and capital purposes in separate budgets. This document focuses on the Operating Budget.



<u>Operating Budget</u>: The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Apportionments to school districts, leases, goods and services, employee salaries and benefits, and medical 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. The major sources of General Fund-State revenues (forecasted for the 2013-15 biennium) are the retail sales and use tax (51%), the business and occupation tax (20%), and the state property tax (12%).

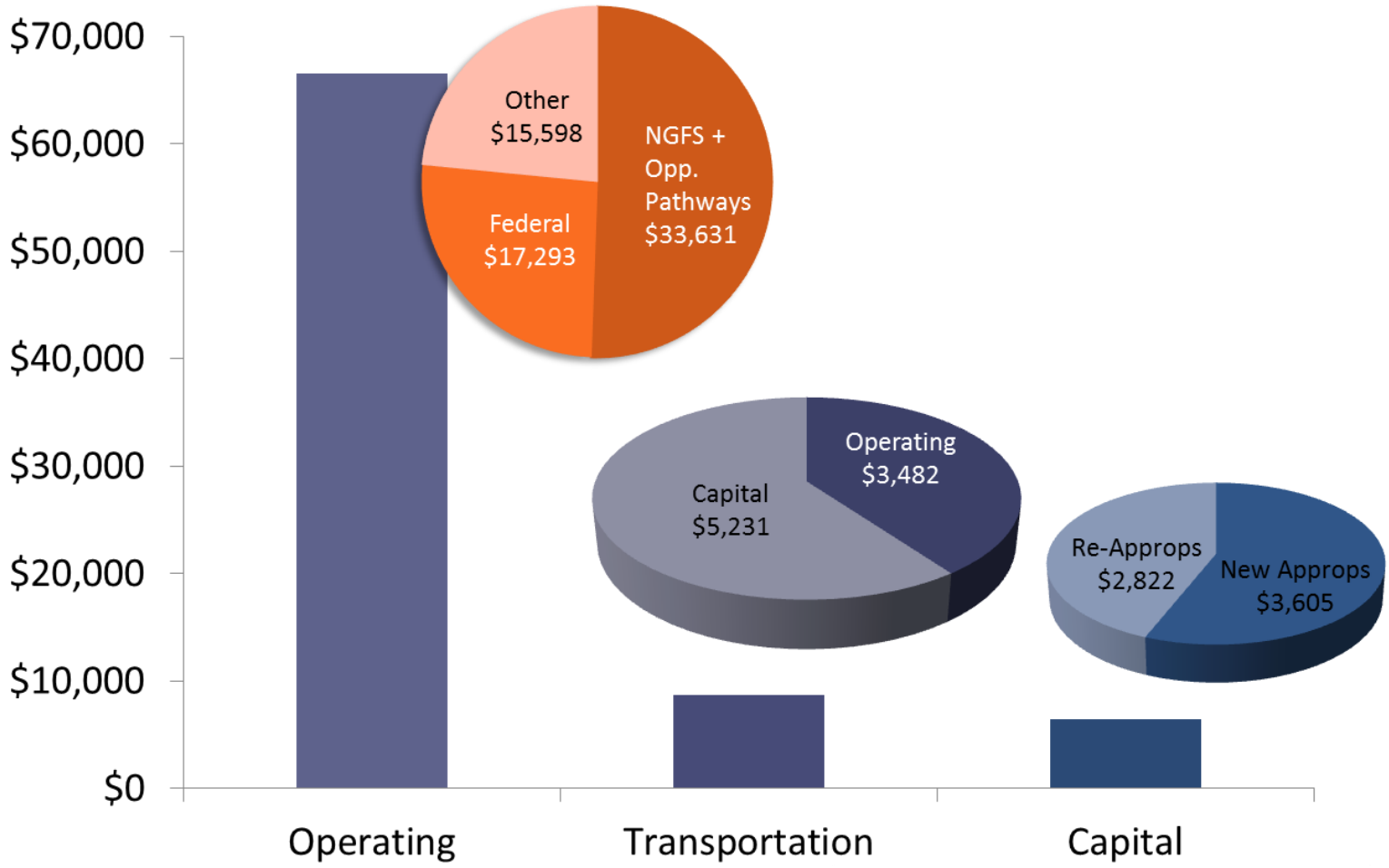
Funding from the Operating Budget:

- K-12 Education – *for one million students*
- Higher Education – *for over 232,000 student FTEs*
- Health Care – *for about 1.4 million children and low income adults*
- Social Services – *for children, adults and families*
- Public Safety – *including prison for more than 17,000 inmates and community supervision for over 15,000 offenders*
- Natural Resource and Recreation Programs
- Government Operations
- Debt Service on bonds for capital projects (including K-12 and higher education)

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, and for other capital facilities and programs. Over half of the capital budget is financed by state-issued bonds, while the rest 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 four 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 decisions can affect the capital budget and vice versa.

Transportation Budget: The transportation budget includes the operating (33%) and capital (67%) costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 76% of the 2013-15 transportation budget is funded by state resources (24% from bonds), 2% from local sources, and about 22% from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget.

Three Washington State Budgets (Data is 2013-15)



Note: Debt Service paid in operating budget.

Budget Development Process

Agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). The 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 hearings, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for consideration.

Maintenance Level and Policy Items

A new operating budget generally is accomplished through 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 ongoing appropriations, any bow wave adjustments (costs or savings), and adjustments for caseload/enrollment changes to **mandatory** programs. The maintenance level budgets for some of the largest programs are calculated using what is effectively a zero-based approach. The caseload forecast (prepared by the independent Caseload Forecast Council) projects the number of persons expected to seek and meet entitlement requirements for services including the K-12 public school system, long-term care, medical assistance, foster care, and adoption support. The mandatory per client costs by fund source (and before any change to statutes or vendor rates) are then calculated for each caseload. Maintenance level then reflects this level of funding.

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. These policy level decisions generally are made after reviewing the activities of agencies and programs in the base budget.

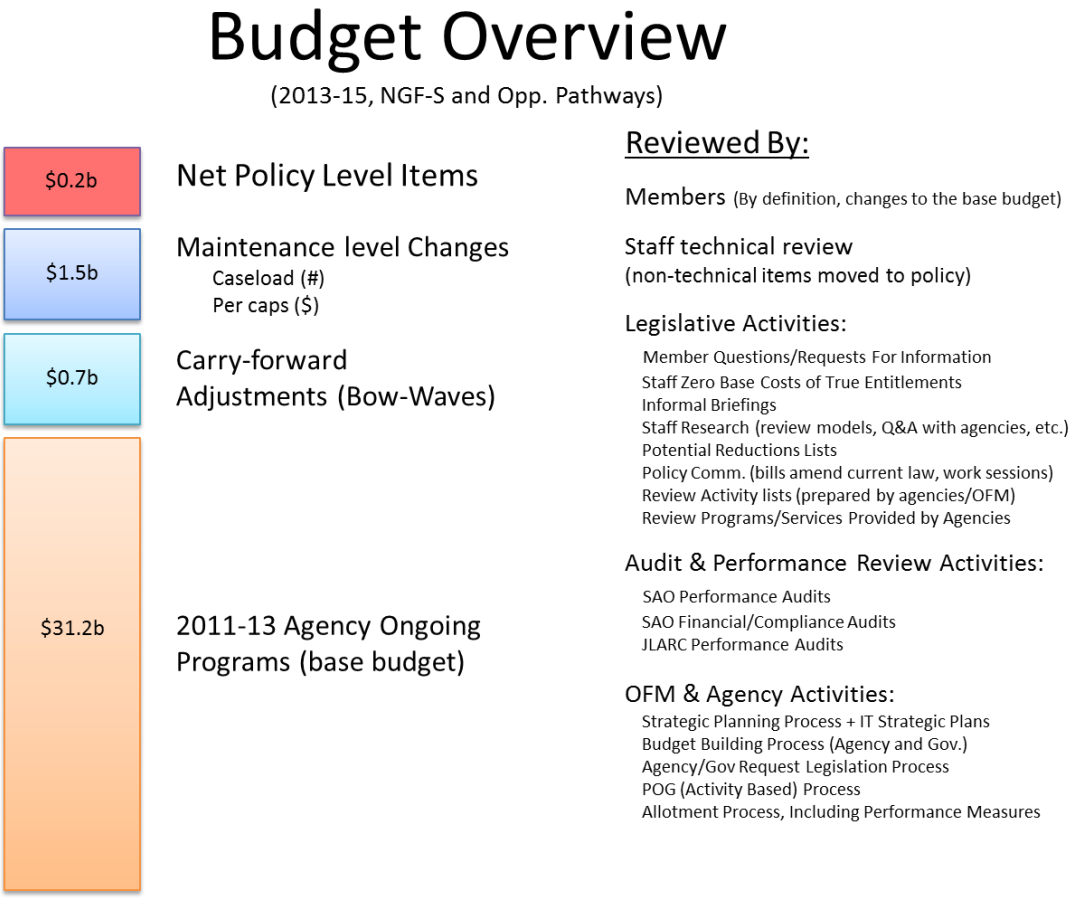
In the end, the Legislature adopts a single funding level for any given program. Previous expenditures, carry-forward, maintenance and policy steps are simply a way of communicating both how the budget was calculated and how it changes previous policy decisions.

Here is a brief outline of the budget development process for a new biennial budget:

- **Start with previous biennial budget**
  - Reverse one-time adds or reductions in the previous biennium.
  - Adjust (biennialize) for ongoing adds or reductions enacted part way through the previous biennium.
  - Adjust for mandatory caseload or per cap (costs per client) changes (per statutory/constitutional entitlements).
  - Adjust for mandatory items that by statute had a delayed effective date or are reactivated (after being suspended in the previous biennium) in the new biennium.
- **Results in the Maintenance Level budget for new biennium**
- **Make Policy Level decisions (changes to Maintenance Level)**
  - Create and fund a new program?

- Enhance an existing program and increase its funding?
- Eliminate an existing program and its funding?
- Reduce an existing program and its funding?
- Make changes to the structure of agencies or programs and related funding implications?

- **Results in the new biennial budget making single appropriations (by fund) for each agency.**



Appropriations, 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). The appropriations are by agency, or by program in the case of the Department of Social and Health Services and K-12 Public Schools, rather than by specific program/service provided or by object of expenditure (such as salaries and travel). The Legislature does place some specific limitations on appropriations through budget provisos, and expects agencies to implement the general appropriations based on the activities required by statute or that are ongoing activities in the maintenance level budget adjusted for policy level decisions in the new budget.

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. The General Fund-State (GF-S) account, the Pension Funding Stabilization Account, and the Education Legacy Trust Account are commonly referred to as Near General Fund-State (NGF-S) accounts. Often, budget documents refer to NGF-S plus the Opportunity Pathways Account. Most other funds and accounts are for much more specific purposes.

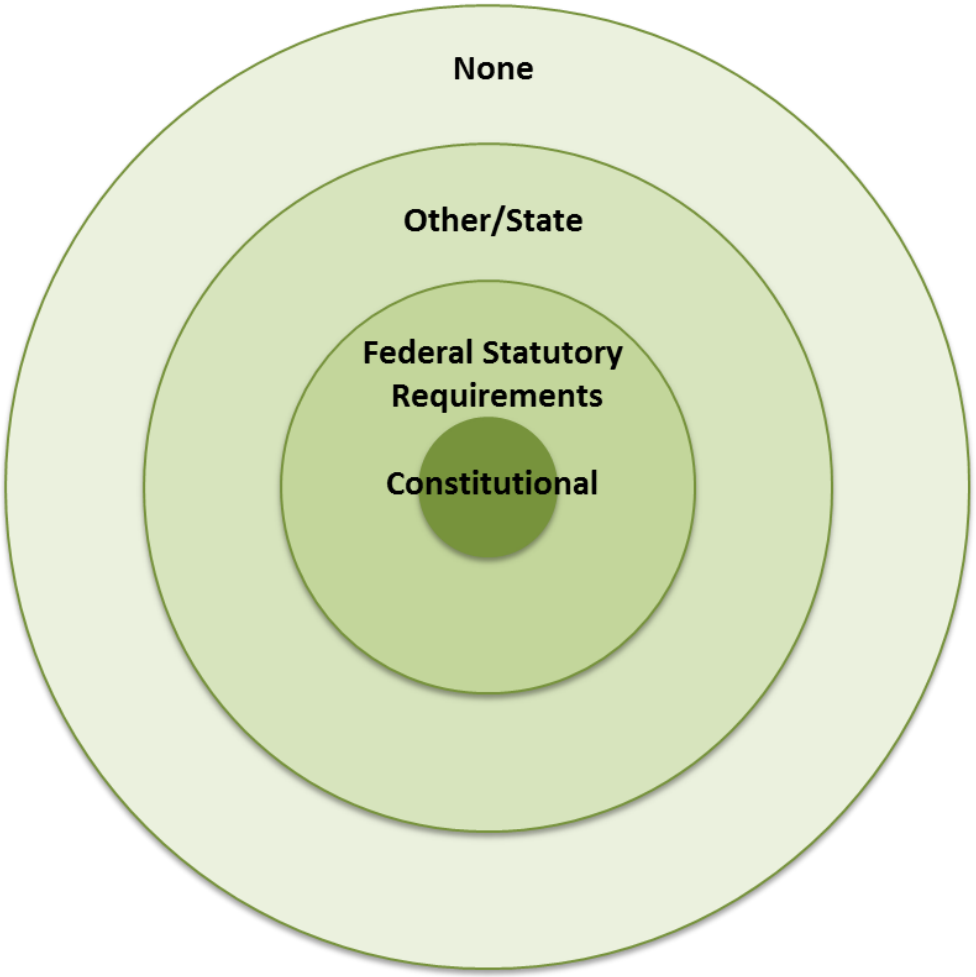
Mandatory Funding Obligations

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 limited discretion in several entitlement or caseload driven programs in the Department of Social and Health Services and the Health Care Authority such as medical assistance, long-term care, and developmentally disabled services. When state law requires the confinement of prisoners and juveniles, certain requirements must be met (safety, health care, etc.).

Arguably the Legislature must fund some amount for constitutionally created agencies such as certain statewide elected officials, the Legislature, and 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. With one very small exception, higher education is an area that the Legislature is not mandated to fund under constitutional or contractual requirements, although the state historically has allocated a significant portion of the operating budget to higher education.

The percentage of the budget considered to be mandatory obligations depends on one's perspectives and the caveat that the Legislature could change the underlying requirements in some cases. For example, if one assumed that the 2013-15 budget funding for K-12 basic education, debt service, pensions, and mandatory Medicaid related provisions were mandatory, that corrections, juvenile rehabilitation, and child protective/welfare services were about two-thirds mandatory, that the judiciary, Legislature and statewide elective offices were about half mandatory, and everything else was discretionary, then over two-thirds of the 2013-15 Near General Fund-State budget would be considered mandatory funding obligations of the state.

Some spending is mandatory and some is discretionary



Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs*
- Approved collective bargaining agreements & other contracts**

Federal Statutory Requirements

- Since the state participates in Medicaid, it must fund:
  - core populations & core services; and
  - other requirements (i.e. rate issues).
- TANF/Maintenance of Effort (MOE)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

State Statutory and Other Requirements

- State-created statutory entitlements ***
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other Statutory Programs

Discretionary

- Programs without a statutory (created in the budget) requirement

Concentric circles are illustrative only and not to scale.

* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

** Contracts may be renegotiated. Also, some contracts have termination and/or fiscal shortfall clauses that may be invoked.

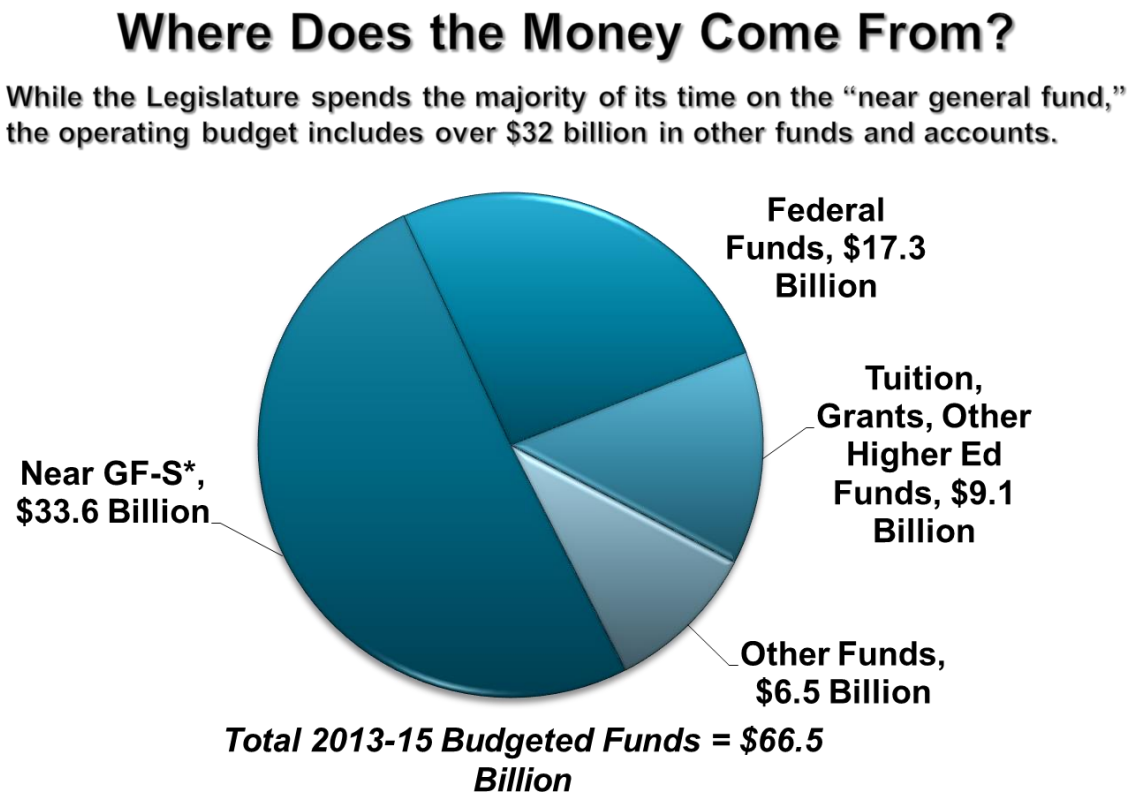
*** Can be changed via legislation.

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).

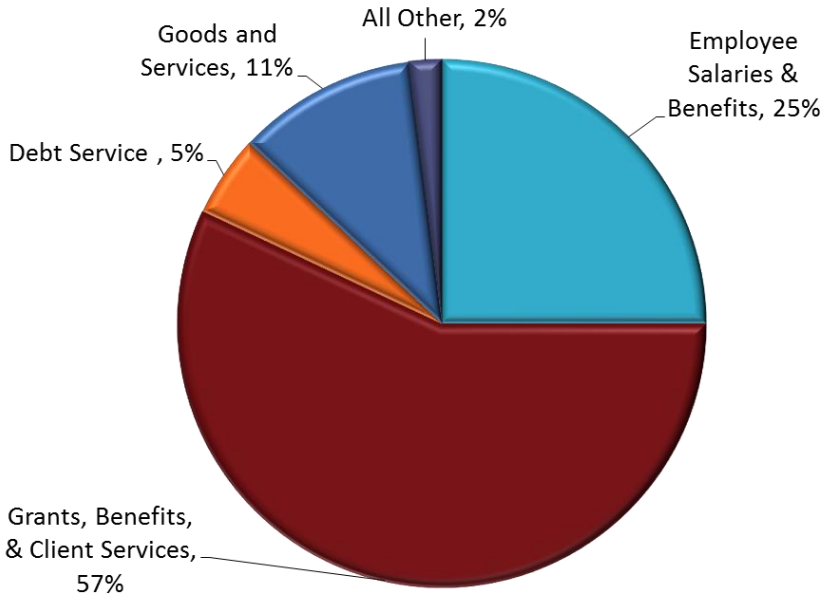
State FTEs include employees working for state agencies and public higher education institutions. Except for the Office of the Superintendent of Public Instruction, K-12 employees are not state employees; they are employed by the local school district. State funding K-12 is apportioned to the school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

Total state FTEs for FY 2013(annual average) was 107,568 (the peak was 112,574 in 2009). The operating budget funded 97,376 FTEs in FY 2013. Excluding transportation and higher education, FY 2013 state FTEs were 47,969. (Higher education had an estimated 49,356 FTEs in FY 2013.)



* Plus Opportunity Pathways

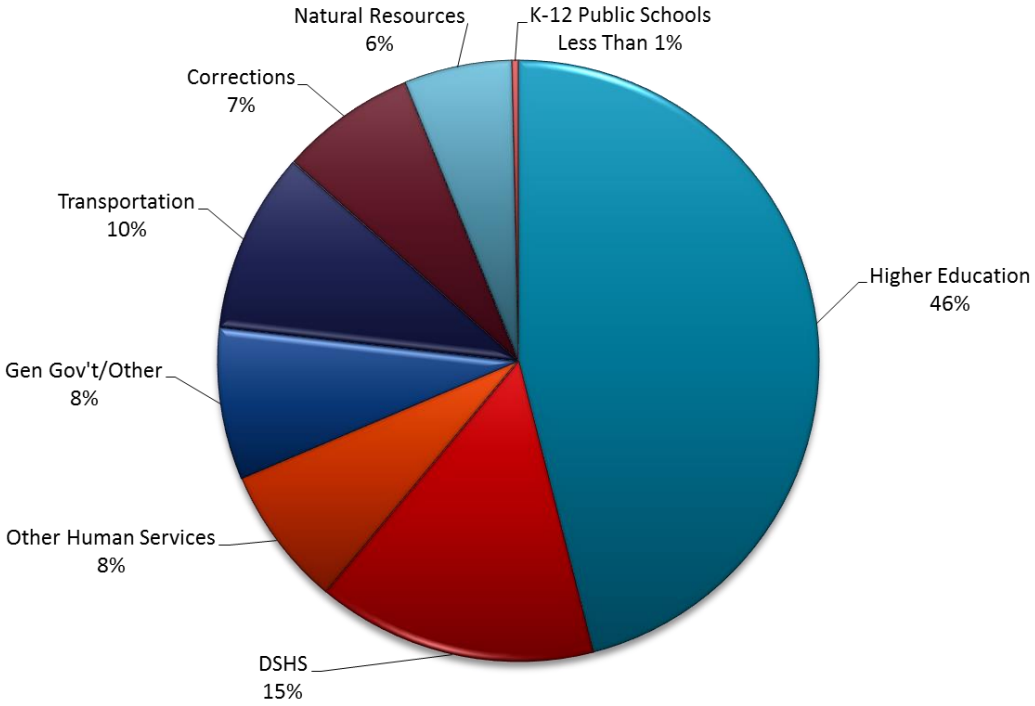
What Did the State Purchase?



Note: Most K-12 spending is displayed as Grants, Benefits, and Client Services

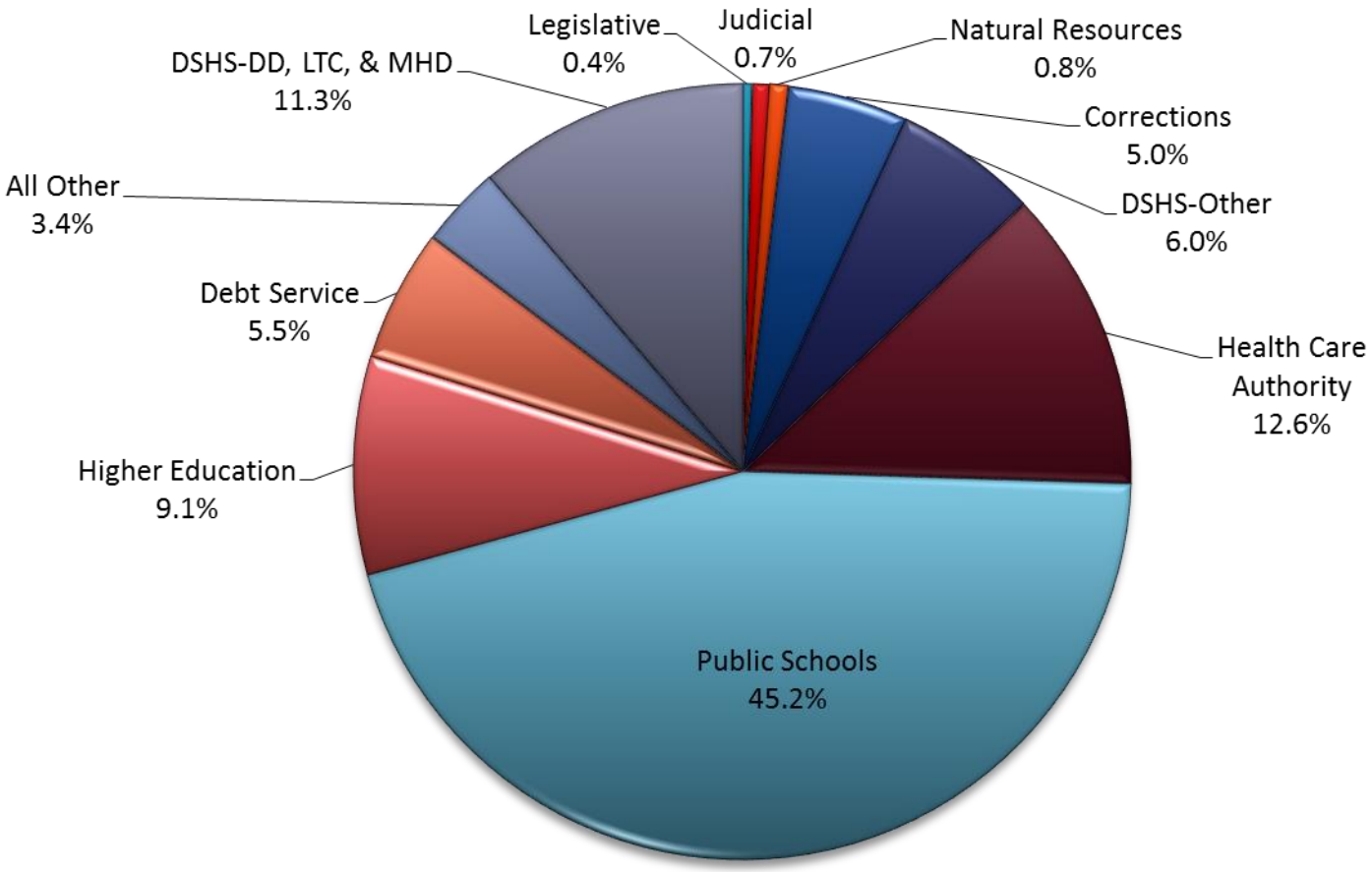
FY 2013: Actual Spending By Object
Total Budgeted Operating Funds

Where Did State Employees Work?



FY 2013: Actual FTEs
(Operating, Capital, and Transportation Total Budgets)

State Operating Budget by Functional Area



2013-15 Operating Budget

Near General Fund-State + Opp. Pathways

Legislative	141,400
Judicial	237,851
Natural Resources	262,680
Corrections	1,665,144
DSHS-DD, LTC, & MHD	3,784,499
DSHS-All Other	2,003,415
Health Care Authority	4,245,757
Public Schools	15,208,877
Higher Education	3,073,070
Debt Service	1,846,874
All Other (Including Governmental Operations)	1,161,707
Total	**$33,631,274**

Operating Budget Drivers
(Covers 88%of the NGFS Budget)

Public Schools (45%)

- Enrollment
- Inflation
- Staff Mix
- Redefining Basic Education

Low Income Health (13%)

- Caseloads
- Utilization & Inflation
- Health Care Reform

Debt Services (6%)

- Capital Budget (size)
- Interest Rates

Higher Education (9%)

- Mostly Discretionary
- Enrollment
- Tuition & Financial Aid

Corrections (5%)

- Inmate Population
- Inmate Mix
- Community Supervision

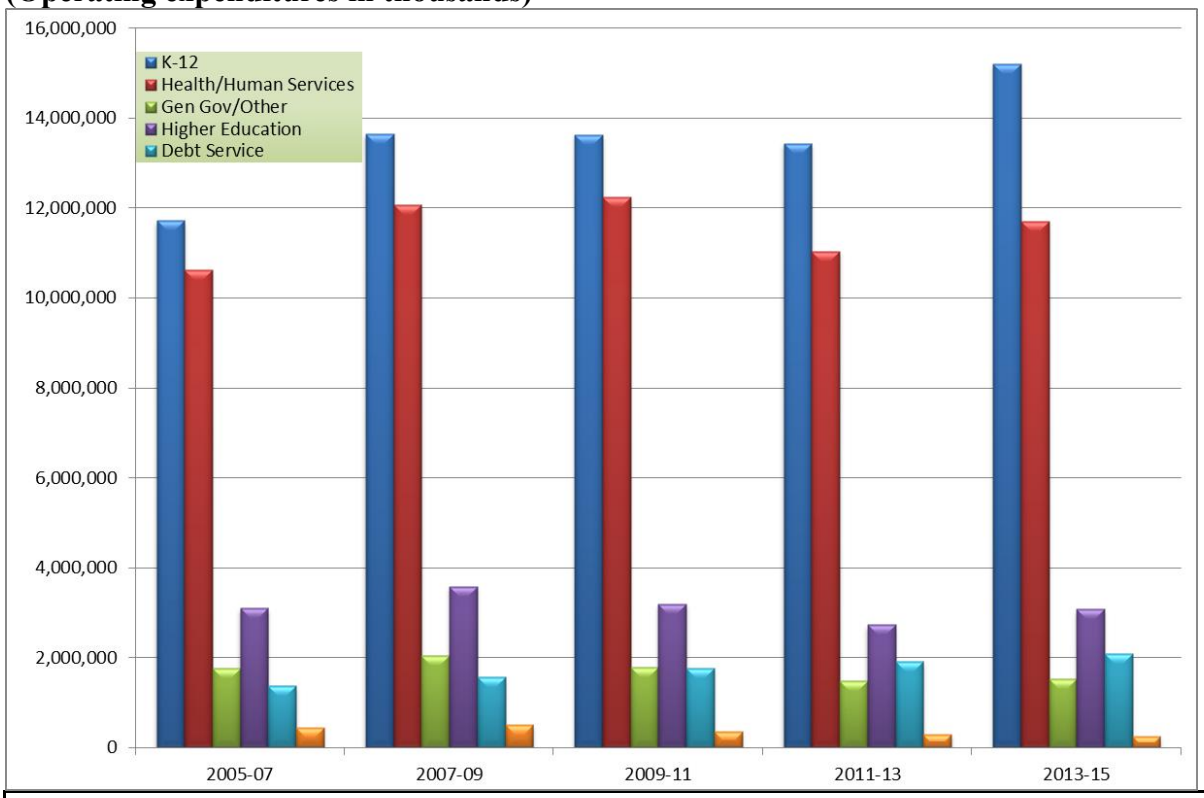
DD, LTC, and MHD (10%)

- Population/Caseloads
- Acuity Mix
- Care Settings

Operating Budget History

NGFS + Opportunity Pathways + ARRA Functional Area History*

(Operating expenditures in thousands)



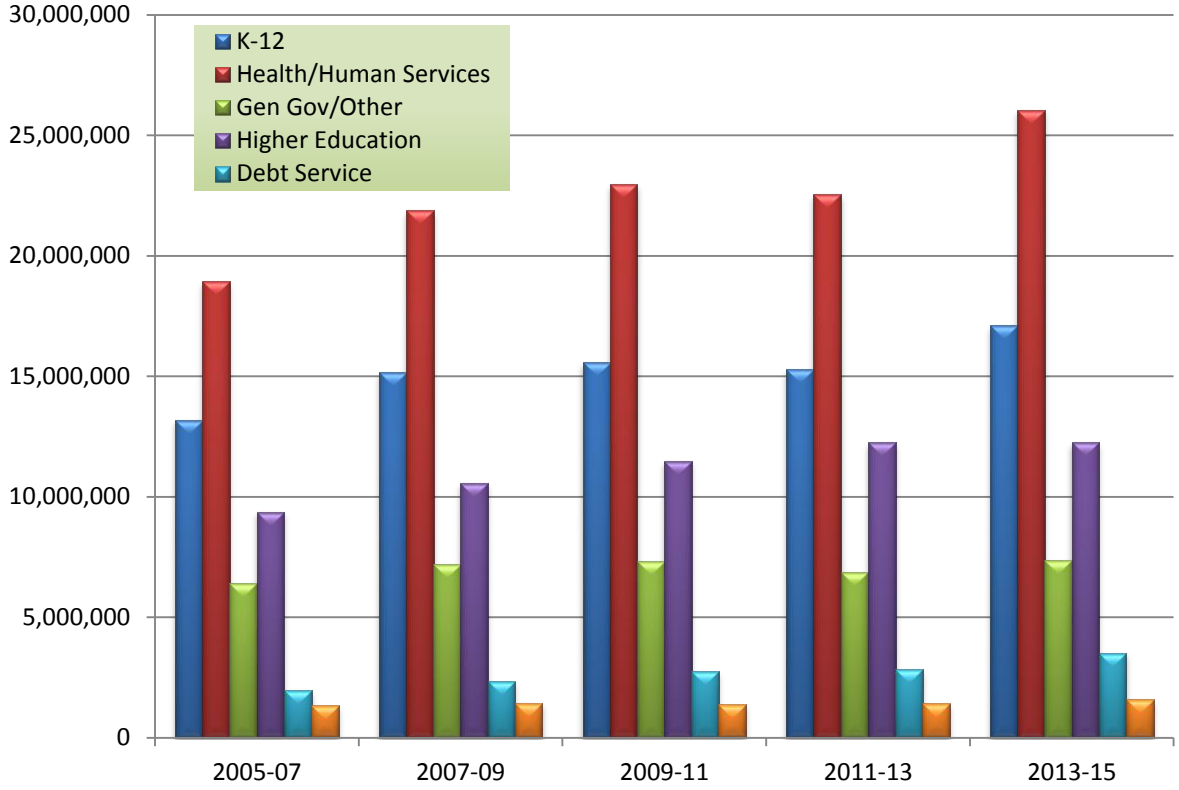
NGFS + Opportunity Pathways Functional Area History ($ in thousands)					
	2005-07	**2007-09**	**2009-11**	**2011-13**	**2013-15**
K-12	11,720,356	13,646,457	13,625,730	13,437,825	15,208,877
Health/Human Services	10,623,951	12,064,489	12,236,082	11,031,532	11,698,815
Gen Gov/Other	1,764,429	2,048,981	1,783,550	1,488,460	1,537,898
Higher Education	3,098,951	3,580,950	3,194,142	2,733,672	3,076,130
Debt Service	1,368,696	1,564,737	1,772,678	1,908,744	2,081,874
Natural Resources	451,622	508,650	353,477	298,942	262,680
Total	**29,028,005**	**33,414,264**	**32,965,659**	**30,899,175**	**33,866,274**

Functional Areas as Percent of Total Budget					
	2005-07	**2007-09**	**2009-11**	**2011-13**	**2013-15**
K-12	40%	41%	41%	43%	45%
Health/Human Services	37%	36%	37%	36%	35%
Gen Gov/Other	6%	6%	5%	5%	5%
Higher Education	11%	11%	10%	9%	9%
Debt Services	5%	5%	5%	6%	6%
Natural Resources	2%	2%	1%	1%	1%

*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into "reserve" accounts. 2003-05 through 2009-11 are actual expenditures; 2011-13 is budgeted expenditures.

Total Budget Functional Area History*

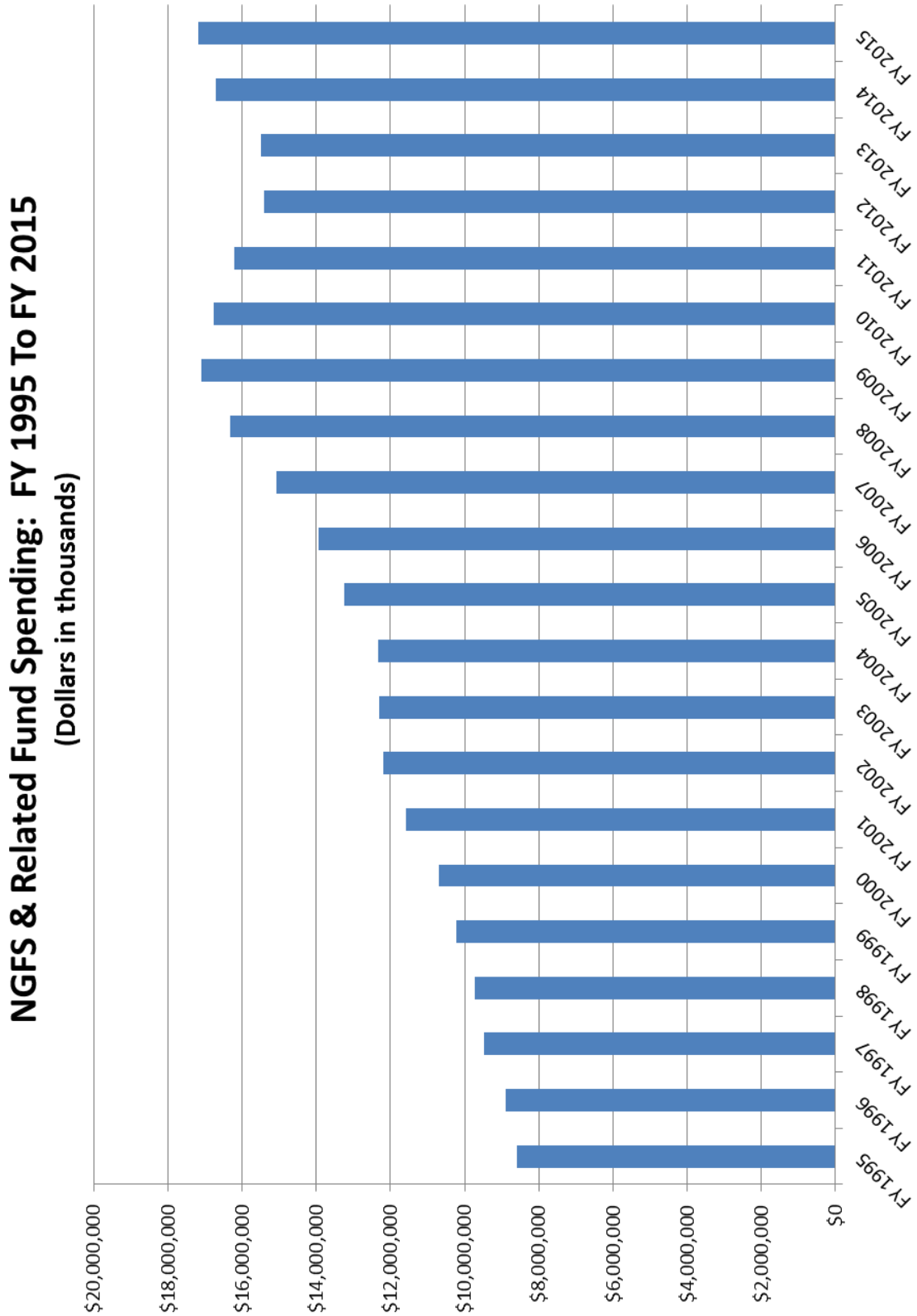
(Operating expenditures in thousands)



Total Budgeted Functional Area History ($ in thousands)					
	2005-07	**2007-09**	**2009-11**	**2011-13**	**2013-15**
K-12	13,173,860	15,158,080	15,559,283	15,290,937	17,097,327
Health/Human Services	18,936,998	21,889,674	22,969,509	22,550,602	26,055,254
Gen Gov/Other	6,412,246	7,191,621	7,323,238	6,862,385	7,341,243
Higher Education	9,375,138	10,560,751	11,487,542	12,242,351	12,261,461
Debt Service	1,959,478	2,334,097	2,744,647	2,826,228	3,522,596
Natural Resources	1,320,066	1,443,207	1,359,062	1,423,034	1,589,930
Total	**51,177,786**	**58,577,430**	**61,443,281**	**61,195,537**	**67,867,811**

Functional Areas as Percent of Total Budget					
	2003-05	**2005-07**	**2007-09**	**2009-11**	**2011-13**
K-12	26%	26%	25%	25%	25%
Health/Human Services	37%	37%	37%	37%	38%
Gen Gov/Other	13%	12%	12%	11%	11%
Higher Education	18%	18%	19%	20%	18%
Debt Services	4%	4%	4%	5%	5%
Natural Resources	3%	2%	2%	2%	2%

*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into "reserves". 2003-05 through 2009-11 are actual expenditures, 2011-13 is budgeted expenditures.



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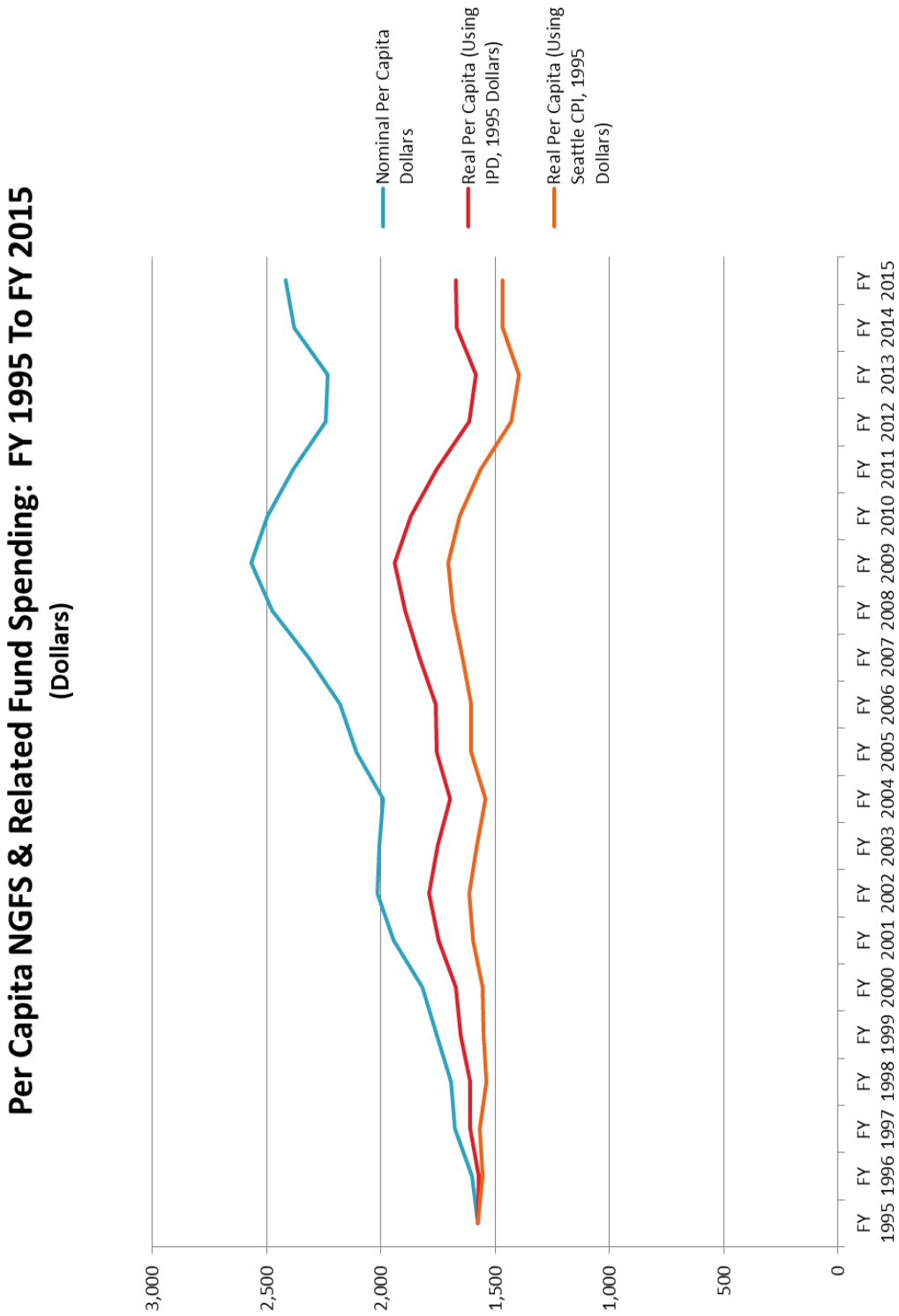

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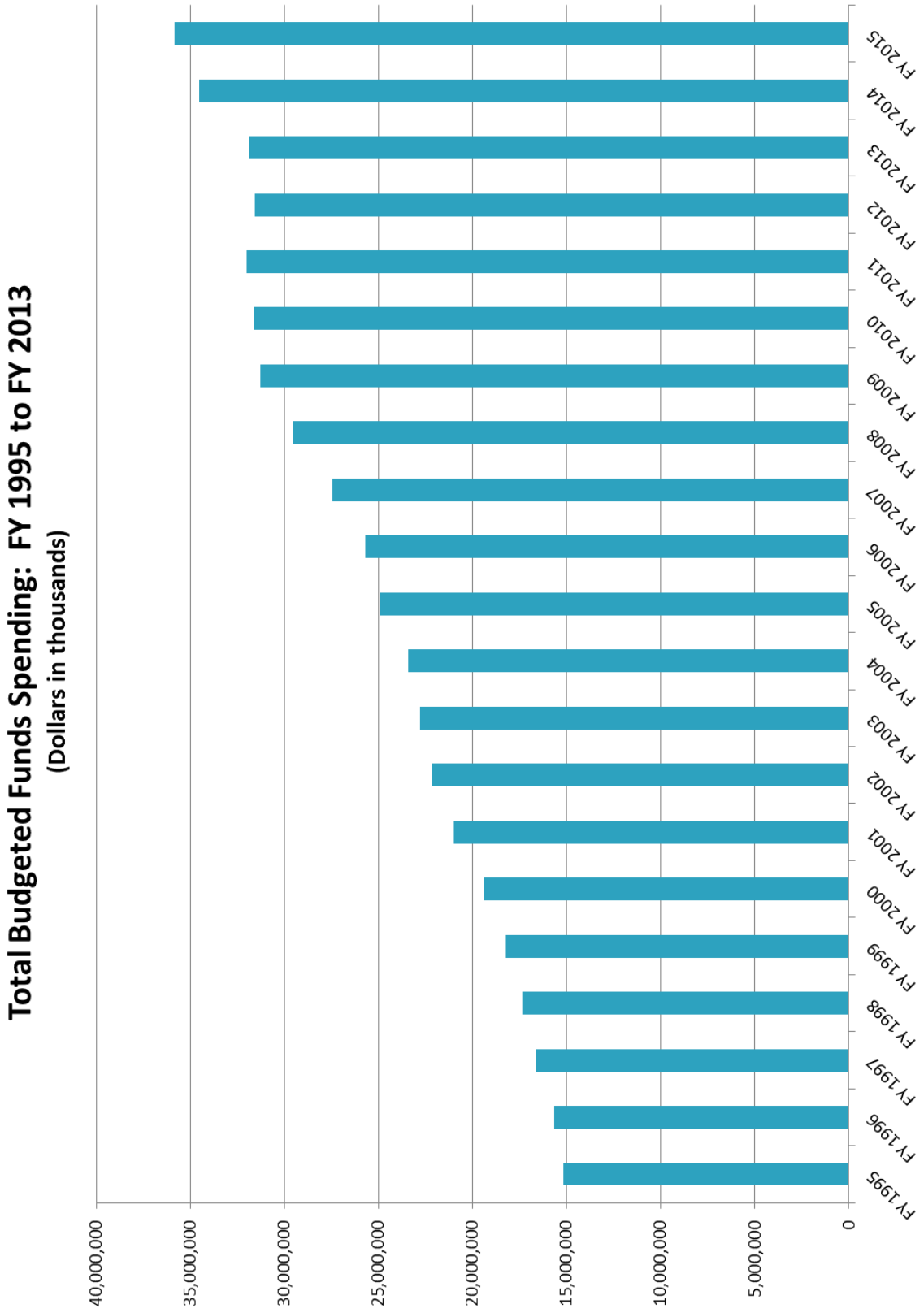

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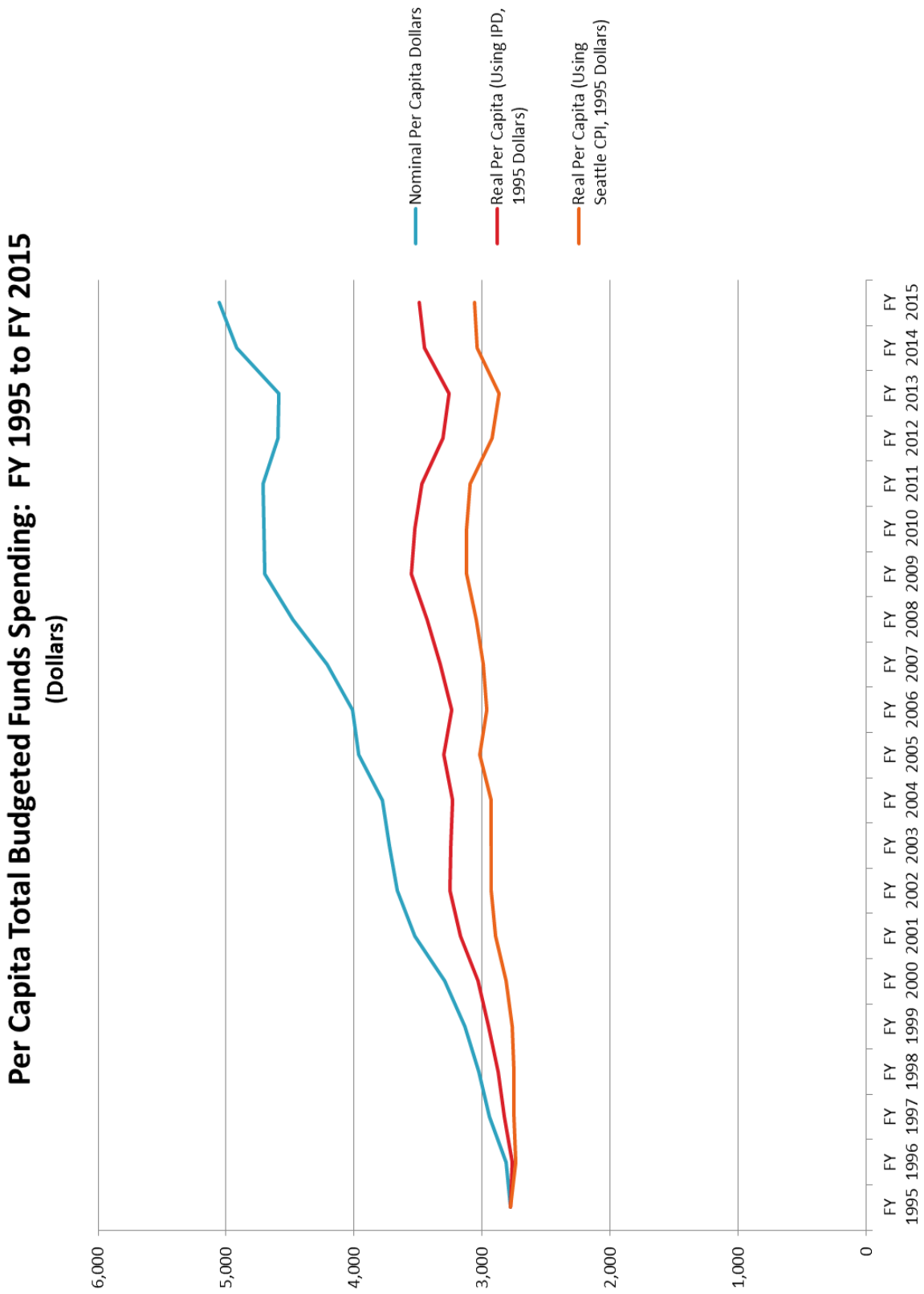


*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into "reserves". 1995 through 2013 are actual expenditures; 2014 and 20153 are budgeted expenditures.

A Brief History of the Budget (With Apologies to Stephen Hawking)

2001-03 Biennium

The 2001-03 budget adopted in 2001 was $25.1 billion Near General Fund-State (the final 1999-01 budget was $22.6 billion). As the Legislature deliberated in 2001, revenue was forecasted to grow a modest 3.8% over the previous biennium. (Average revenue growth historically has been about 9% per biennium.) The maintenance level budget, the cost to continue existing state services, was $1.6 billion above the previous budget, due in large part to increased health care costs and the passage of I-728 ($470 million for the biennium) and I-732 ($348 million for the biennium). Responding to the Nisqually earthquake was also a consideration for the 2001 Legislature.

The 2002 Legislature faced a significant budget challenge in the 2001-03 budget from reduced revenue (9/11 and other economic related issues) and increased caseload related costs in K-12 and health care. In the 2002 Supplemental Budget, the Legislature addressed an approximately $1.5 billion shortfall ($1.2 billion in revenue forecast reductions and $300 million in additional costs) by:

- Making budget reductions of $332 million;
- Increasing ongoing revenue by $88 million;
- Selling a portion of the state's tobacco settlement generated $450 million for deposit into the general fund;
- Transferring $325 million from the Emergency Reserve Account to the general fund; and
- Using $303 million of budget reserves.

In the 2003 Supplemental Budget for the 2001-03 biennium, appropriations were increased by $130 million GF-S. The final biennial appropriations level was $24.6 billion.

2003-05 Biennium

In the 2003 session, the 2003-05 maintenance level budget, the cost to continue existing state services into the new biennium, was $1.2 billion higher than available forecasted revenue. When a shortfall in the Health Services Account and other items are added, the budget problem rises to $2 billion. The Legislature solved the budget problem by:

- Approximately $1.3 billion in budget reductions to maintenance level in all areas of the budget;
- $131 million in new revenue;
- $237 million in I-728 modifications;
- $78 million in additional nursing home fees; and
- $302 million in various transfers.

The enacted budget appropriation level was $25.1 billion NGF-S.

In 2004, revenue was stronger than expected, and with $62 million in fund transfers, the 2004 Supplemental Budget increased the appropriation level for 2003-05 by $190 million NGF-S. The expected GF-S ending fund balance was $279 million.

The 2005 Supplemental Budget increased appropriations for 2003-05 by $314 million NGF-S.

2005-07

Revenue was forecasted to increase by $1.6 billion (7%) for the biennium, while the maintenance level budget increased by $2 billion; the Legislature chose to fund a number of policy enhancements (COLAs, additional higher education capacity, etc.), resulting in a total increased projected spending level of $3.4 billion, $1.8 billion above projected revenue. The Legislature addressed this by:

- Increased revenue of $482 million (including revenue going into the new Education Legacy Trust Account from the re-enacted estate tax and an increase to the cigarette tax);
- Budget reductions of $557 million; and
- Using $774 million of fund balances, fund transfers, and budget driven revenue.

The maintenance level cost increases were primarily driven by medical assistance (over $650 million), pensions ($513 million), and K-12 student enrollment ($354 million). One of the policy level items was $306 million for negotiated collective bargaining agreements; 2005-07 was the first biennium for consideration of these agreements under the new law.

Revenue increased $1.4 billion from March 2005 (forecast used to develop the 2005-07 biennial budget) to February 2006 (forecast used to develop the 2006 supplemental). The 2006 Supplemental Operating Budget increased NGF-S appropriations by $1.3 billion, including setting aside $350 million to the new Pension Funding Stabilization Account, $275 million to the Student Achievement Account, and $200 million into the Health Services Account for future use.

The 2007 Supplemental Budget increased biennial appropriations by $541 million NGF-S, with all but $16 million being set aside for use in the 2007-09 biennium.

2007-09

Forecasted revenues continued to be stronger than anticipated going into the 2007 session, primarily due to the construction and real estate sectors. The 2007-09 biennial budget appropriation level was approximately $3.1 billion more than the final 2005-07 budget, about $1 billion in maintenance level increases and $2.1 billion in net policy enhancements. Approximately half of the policy enhancements went for early learning and K-12 public schools. $440 million went to increasing enrollments and financial aid, among other things, in higher education.

The 2008 Supplemental Budget increased the biennial NGF-S appropriations by $103 million and left $850 million in reserves (GF-S and Budget Stabilization Account).

Economists determined that the recession officially began in December 2007, although unemployment did not significantly begin to increase in Washington State until June 2008. In 2008 and March 2009, negative revenue forecast changes reduced the FY 2009 and biennial 2009-11 revenue forecasts by a combined $5.7 billion.

The 2009 Supplemental Budget shortfall facing the 2009 Legislature was $1.7 billion for the last six months of FY 2009. Three bills enacted during the 2009 session made the 2009 supplemental changes to the 2007-09 biennial budget (ESHB 1694 - relating to fiscal matters,

ESSB 5460 - relating to administrative costs of state government, and a portion of ESHB 1244 - the operating budget). The supplemental changes including use of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of about $900 million, budget reductions of about $300 million, and fund transfers (including the Budget Stabilization Account) of about $500 million, leaving an ending GF-S fund balance of $595 million (plus $31 million in the Budget Stabilization Account).

2009-11

The March 2009 revenue forecast for 2009-11 was $30.4 billion. The NGF-S maintenance level budget was $37 billion, $6.6 billion above the forecasted revenue for the biennium. This, in addition to $300 million in policy additions and leaving $500 million in unrestricted reserves, meant the 2009 Legislature faced a 2009-11 budget problem of approximately $7.4 billion. The Legislature addressed this by:

- Using $2 billion in federal stimulus (ARRA);
- Making $3.6 billion in maintenance level budget reductions;
- Using $700 million in capital budget funds;
- Modifying pension laws saved $450 million; and
- Fund transfers and revenue enhancements.

$739 million was left in reserve (GF-S and Budget Stabilization Account projected ending balances).

After the 2009 session, revenue declined by about $1.8 billion. The 2010 Legislature faced a $2.8 billion budget problem when maintenance level increases ($660 million) and policy additions adopted by the Legislature ($369 million) are added to the reduced revenue. The Legislature addressed this in the 2010 supplemental by:

- $618 million in additional federal funds;
- $721 million in maintenance level budget reductions;
- $761 million in various revenue increases; and
- $690 million in fund transfers and use of reserves.

After the 2010 session, forecasted revenue declined by $1.4 billion total in the June and November forecasts, leaving a $1.1 billion budget problem for FY 2011 when maintenance level changes are included. In a one day special session on December 11, the Legislature enacted $490 million in reductions (including $208 million using federal education jobs funding), $54 million in fund transfers, and $44 million in budget driven and other revenue, cutting the FY 2011 shortfall in half. After the December 11, 2010 special session, there remained a budget problem of about $538 million in FY 2011 to be solved by the 2011 Legislature.

2011-13

As the Legislature began to craft the budget for the 2011-13 biennium, the estimated cost of continuing the current and statutorily required programs into the 2011-13 biennium was about $3.7 billion more than projected revenues. The 2011-13 biennial budget problem increased further when $424 million in additional policy costs were included, such as repaying the delayed June 2011 K-12 apportionment payment, beginning the new education funding formula, increasing the State Need Grant to keep pace with assumed increases in tuition, and leaving projected reserves of $741 million ($282 million of which was in the Budget Stabilization Account). The budget problem statement for the 2011-13 biennium of about $5

billion was addressed through policy level reductions of approximately $4.5 billion and through fund transfers and resource changes.

After the 2011-13 budget was enacted in May 2011, projected revenues for that biennium declined by another $2.2 billion. As of the November 2011 revenue forecast, the $741 million in ending reserves for the 2011-13 biennium had become a negative $1.4 billion.

In a total of four legislative sessions from November 2011 through April 2012, the Legislature took actions that cumulatively improved the budget situation by approximately $1.7 billion, leaving projected reserves of $311 million ($265 million in the Budget Stabilization Account, and $46 million in Near General Fund-State). Legislative actions taken included reducing Near General Fund-State appropriations by approximately $1 billion. Revenue-related legislation was projected to increase Near General Fund-State resources by a net of $228 million. ($144 million from redirecting existing revenues into the state general fund, $51 million from changes in the administration of unclaimed property, and $33 million from a variety of other actions). Finally, Near General Fund-State resources were also increased by a net of $372 million as a result of fund transfers and an adjustment to working capital reserve.

2013-15

The Legislature entered the 2013 session with a slowly improving economy, rising caseload and per capita costs, as well as other fiscal issues to consider including how to address the state Supreme Court's McCleary decision (K-12 funding). In the 2013-15 biennium, the cost of continuing current programs and complying with current laws exceeded forecasted revenue by approximately $800 million. This is sometimes referred to as the maintenance level shortfall.

The operating budget for 2013-15 included $1.7 billion in additional policy enhancements ($1.03 billion of that in K-12 education). Taken together with leaving an ending fund balance and the maintenance level shortfall, the combined budget problem statement was approximately $2.47 billion.

The budget addressed this budget problem statement through:

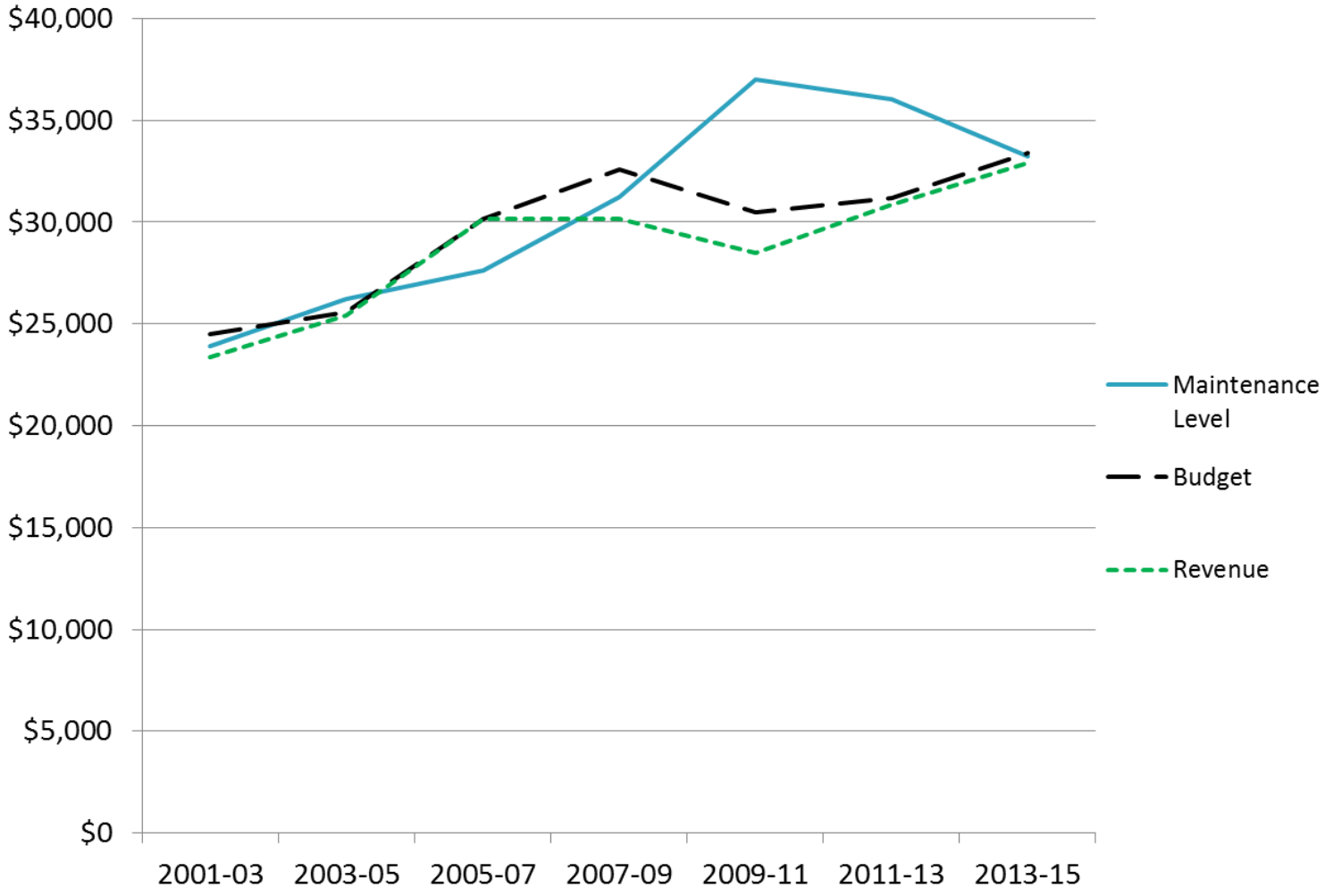
- Fund transfers and revenue redirections of $519 million;
- Reduced spending of about $1.55 billion;
- Assumed reversion of $140 million; and
- Increased revenue of $259 million (primarily Bracken and telecommunications).

The budget proposal leaves $630 million in projected total reserves ($53 million in NGF-S + Opportunity Pathways ending fund balances and the remainder in the Budget Stabilization Account).

Going into the 2014 session, the legislature experienced a better budget situation than the previous session for the first time in several years. The revenue forecast increased since the Legislature finished at the end of June, resulting in projected ending total reserves of $960 million ($379 million in NGF-S + Opportunity Pathways and the remainder in the Budget Stabilization Account).

Revenue and Budget Biennial History since 2001

Near General Fund-State ($ in millions)



Note: Revenue is the biennial collections except that 2013-15 revenue is based on the June 2013 forecast. The budget is the final biennial budget (after supplementals) except that 2013-15 is the original budget. Maintenance level is based on the original biennial budget.

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 Commerce, Department of Enterprise Services, and the Department of Revenue.

- Health and Human Services includes those agencies charged with serving the health and safety needs of the state's population, such as the Health Care Authority and the Departments of Social and Health Services, Corrections, Veterans Affairs, and Health.

- 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 part 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 Department of Early Learning, 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 financial aid through the Student Achievement Council.

- Special Appropriations includes debt service on state bonds (issued for capital budget projects and programs), sundry claims, special appropriations to the Governor, LEOFF and Judicial pensions, 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.

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 9% of the AG's operating budget is appropriated directly to the AG from GF-S, but a significantly larger amount of GF-S moneys are appropriated to state agencies which then pay the AG for legal services. About half of the direct GF-S appropriation is for actions related to civil commitment of sexually violent predators and one-quarter for consumer protection activities. Three-quarters of the AG's 2013-15 total budget of $228 million is for legal services to state agencies.

Office of the State Auditor - The Auditor conducts financial audits of state agencies and local governments. The Auditor also administers the State Employee Whistleblower Act. Legislation and Initiative 900 give the Auditor authorization to conduct performance audits of state agencies and local governments. About 58% of the Auditor's 2013-15 total budget of $76 million is for local government audits, about 11% is for state agency audits, and about 22% goes for performance audits.

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. The State Library and TVW are also funded through the Secretary of State's office. About 22% of the Secretary of State's 2013-15 total budget of $81 million is related to library services, about 25% is related to elections, and about $17 million is related to registering businesses and charities.

Office of the State Treasurer - The Treasurer is the primary administrator of the state financial resources as directed by the Legislature. The Treasurer administers issuance of bonds and payment of state debt (the agency provides staff assistance to the State Finance Committee and the Treasurer serves on the committee). The Treasurer also manages state funds and accounts and payment of warrants. The Treasurers total budget for 2013-15 is $15 million.

The Department of Commerce - Formally the Department of Community, Trade, and Economic development (CTED), its name was changed in 2009 (ESB 2242) and mission refocused in 2010 (2SHB 2658). Six divisions providing services were consolidated into four: (1) Local Government and Infrastructure; (2) Community Services and Housing; (3) Business Services; and (4) Innovation and Policy Priorities, including energy policy. In restructuring the department, a number of programs and services were transferred to other state agencies. Commerce's 2013-15 total budget is $516 million, with about 16% for community development and services, 40% for homeless and affordable housing assistance, 14% for low income energy (heating) assistance, 10% for crime victim assistance, and 8% for business and economic development.

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. DFI's total budget for 2013-15 is $48 million. OIC focuses on supervision of insurance

companies, insurance rates and forms, and consumer protection. The OIC's total budget for 2013-15 is $55 million.

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 Military Department's 2013-15 total budget is $274 million, about 56% for disaster preparedness, response, and recovery and about 18% goes for enhanced 911.

The **Department of Revenue (DOR)** - DOR is the state's principle tax collection agency, collecting most 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. DOR's 2013-15 total budget is $253 million.

The **Department of Enterprise Services (DES) – DES** was created in 2011 by merging the former Department of General Administration and the State Printer, part of the former Department of Information Services (with part becoming the office of the Chief Information Officer and part becoming Consolidated Technology Services), and part of the Office of Financial Management (contracts and statewide vendors, risk management, and small agency client services. The DES 2013-15 total budget is $$451 million.

DES services include:

- Information Technology, printing, and communications support;
- Development and management of contracts for goods and services throughout the state;
- Employee services and human resource support including: Management of the state's central payroll system, training, the Employee Assistance Program, services for small agencies and recruitment services;
- Management of the state's risk-management program;
- Oversight of public facilities and statewide public works projects, provides guidance for long-term design and maintenance of public facilities, and negotiates and manages leases on behalf of state government; and
- Manages and operates the state's mail delivery, motor pool, and surplus programs.

The **Office of the Chief Information Officer** was created in the Office of Financial Management, and is primarily responsible for statewide technology policy and standards.

Consolidated Technology Services operates the State Data Center and the data center located in Office Building 2, and offers the following IT services to state and local governments and tribes: mainframe computing, network operations and telecommunication, shared e-mail, IT security, and storage. CTS' 2013-15 total budget is $230 million.

Central Services Revolving Funds

There are a number of services provided by a single general government agency to state government in general or a significant number of agencies. These services are budgeted using a central services cost allocation system, where there is an appropriation made for the state agency providing the central service and an appropriation in each agencies receiving the service. The receiving agency pays the central service agency for the service. All of the agency's fund sources are used proportionally to pay for the central service. Very roughly, the GF-S portion of services is about 50%. The central services revolving funds include:

- Data Processing Revolving Account (primarily IT and telecom services/software/equipment through DES)
- Enterprise Services Account (primarily master contracting, fleet, consolidated mail, facilities, building and grounds, printing, real estate services, energy services, and small agency services through DES)
- Legal Services Revolving Fund (legal services through the Attorney General)

- Risk Management Revolving Account (primarily for costs related to liability, property and vehicle claims, settlements and judgments, and the purchase of insurance through DES.)

K-12 PUBLIC SCHOOLS

Introduction

Under Article IX of the state constitution, it is the state's paramount duty to make ample provision for the education of all children. Article IX also directs the Legislature to provide for a general and uniform system of public schools. To implement the state's basic education duties, the Legislature has established a program of basic education and funding formulas in statute, but the duties are also affected by court decisions, most recently the ruling and orders in *McCleary v. State* (2012).

The state itself does not deliver the program of basic education that it defines and funds. The state has delegated much operational authority to 295 local school districts that are governed by elected school boards. State funding is distributed to local school districts through a variety of formulas and grants, and the local school districts generally decide how those funds are used. State funding is supplemented with federal and local funding (roughly 66% state, 10% federal, and the remainder local and other funds).

Basic Education Programs

Basic Education as Defined in Legislation

To implement the Article IX duty, the Legislature has defined a program of basic education and the funding formulas to support it. The program of basic education, as defined in ESHB 2261 (2009) consists of:

- The instructional program of basic education, which includes specified instructional hours and instruction in the Essential Academic Learning Requirements (EALRs);
- The Learning Assistance Program (LAP) of supplemental instruction and services for underachieving students;
- The Transitional Bilingual Program of supplemental instruction and services for students whose primary language is not English;
- Special education for students with disabilities;
- Programs for highly capable students;
- Transportation to and from school for eligible students; and
- Education programs for students in residential schools, juvenile detention facilities, and adult correctional facilities.

In enacting ESHB 2261, the Legislature consolidated previous statutory and judicial definitions into a single statutory program. ESHB 2261 required implementation of updated basic education funding formulas focusing on a prototypical school model by the 2018-19 school year, and it provided for a new pupil transportation formula to begin by no later than September 1, 2013. ESHB 2261 also added additional school hours and credits to the definition of basic education once the Legislature funded these items.

In 2010, the Legislature enacted SHB 2776, which provided additional specifics for implementation of ESHB 2261's reforms. SHB 2776 adopted a number of numerical values for the prototypical school funding formulas, including allocations for classroom teachers, building-level staff, health and social services staff, and administrative staff for elementary, middle, and high schools. The legislation also required full implementation of the new pupil transportation formula by the 2013-15 biennium. (Funding was provided in the 2013-15

operating budget to fully implement the defined transportation formula in the 2014-15 school year.)

HB 2776 added four additional elements to the program of basic education, which must be fully implemented and funded beginning on or before the 2017-18 school year. These are: (1) full day kindergarten; (2) a new formula for materials, supplies, and operating costs (MSOC); (3) enhanced pupil transportation funding; and (4) K-3 class size reductions.

General apportionment allocations are the chief component of school funding. School districts receive funding primarily based on the number of students (FTEs) and the resources deemed necessary to make a basic education available to students. The prototypical school funding formula specifies class size; building-level and district wide support staff allocations; allocations for discrete categories of MSOC; and a percentage for central administration.

The funding level is intended to fund at least a minimum instructional program of basic education offered by school districts that includes: at least 1,000 instructional hours as a district-wide average across all grades, to be increased to 1,000 hours in grades 1 - 6 and 1,080 hours in grades 7 - 12; (full day kindergarten to be implemented by 2017-18); 180 school days per year (half-days for kindergarten until full day kindergarten is implemented); instruction in the state EALRs; and an opportunity to obtain 24 credits for high school graduation to be phased in (from 20 credits) as provided by the State Board of Education and when authorized by the Legislature.

In addition, the Legislature has enacted statutory funding formulas for the categorical basic education programs: LAP, Transitional Bilingual, Special Education, Transportation, and Highly Capable.

Basic Education in Judicial Decisions

The Legislature enacted this statutory definition against a background of court decisions that interpret the Article IX duty. Principles drawn from these decisions include:

- Under Article IX, it is the responsibility of the Legislature to define and fully fund a basic education.
- The funding duty is placed on the state, and the Legislature may not cause school districts to use local levies to support the basic education program.
- Basic education must be funded from "regular and dependable" resources. Excess levies are not a regular or dependable tax source and may only be used for enrichment programs.
- The Legislature must periodically review and update its definition of basic education, but revisions to the program must be accompanied by an educational policy rationale. The Legislature may not reduce a basic education program for mere expediency or budget reasons.
- Article IX creates a positive right to an educational opportunity, but it does not require the state to guarantee outcomes.

In January 2012, the Supreme Court issued a major education decision, *McCleary v. State (McCleary)*. In *McCleary*, the court ruled that the state was not adequately funding its definition of basic education, causing school districts to rely on local levies to support the basic education program. The court determined that the Legislature had enacted a "promising reform package" in ESHB 2261 and SHB 2776, which, if fully implemented and funded by

the statutory date of 2018, would constitute compliance with the state's constitutional duty. As described below, the court retained jurisdiction over the case to monitor the Legislature's compliance with the ruling.

Non-Basic Education Programs

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

- Local Effort Assistance (LEA) - 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 LEA helps equalize local tax rates.
- Other non-basic education programs, such as I-732 COLAs (suspended for 2009-11, 2011-13, and 2013-15), and a variety of education reform programs.

Current Developments/Issues

- ***Implementing McCleary.*** In its January 2012 *McCleary* ruling, the state Supreme Court took the unusual step of retaining jurisdiction over the case in order to monitor legislative compliance with meeting funding requirements. To respond to the Court's decision and provide a means for the Legislature to better participate in an inter-branch dialog, a Joint Select Committee on Article IX Litigation was created (HCR 4410). In a July 2012 order, the Court exercised its continuing jurisdiction by requiring the Joint Select Committee to report to the court at least annually on legislative progress toward implementing ESHB 2261, with judicial review focusing on whether the state has demonstrated "steady progress." The committee made its initial report to the Supreme Court on September 17, 2012 and its second report on August 29, 2013. It can be found at:
  http://www.leg.wa.gov/jointcommittees/efTF/Pages/default.aspx.

  On January 9th, 2014, the Supreme Court issued an order in response to the Legislature's August 2013 report and plaintiff's response. The court ordered the Legislature to file a complete plan by April 30, 2014 fully implementing its program of basic education. The legislature will consider this and other aspects of the court order in the 2014 session. The order can be found at:
  http://www.courts.wa.gov/appellate_trial_courts/SupremeCourt/

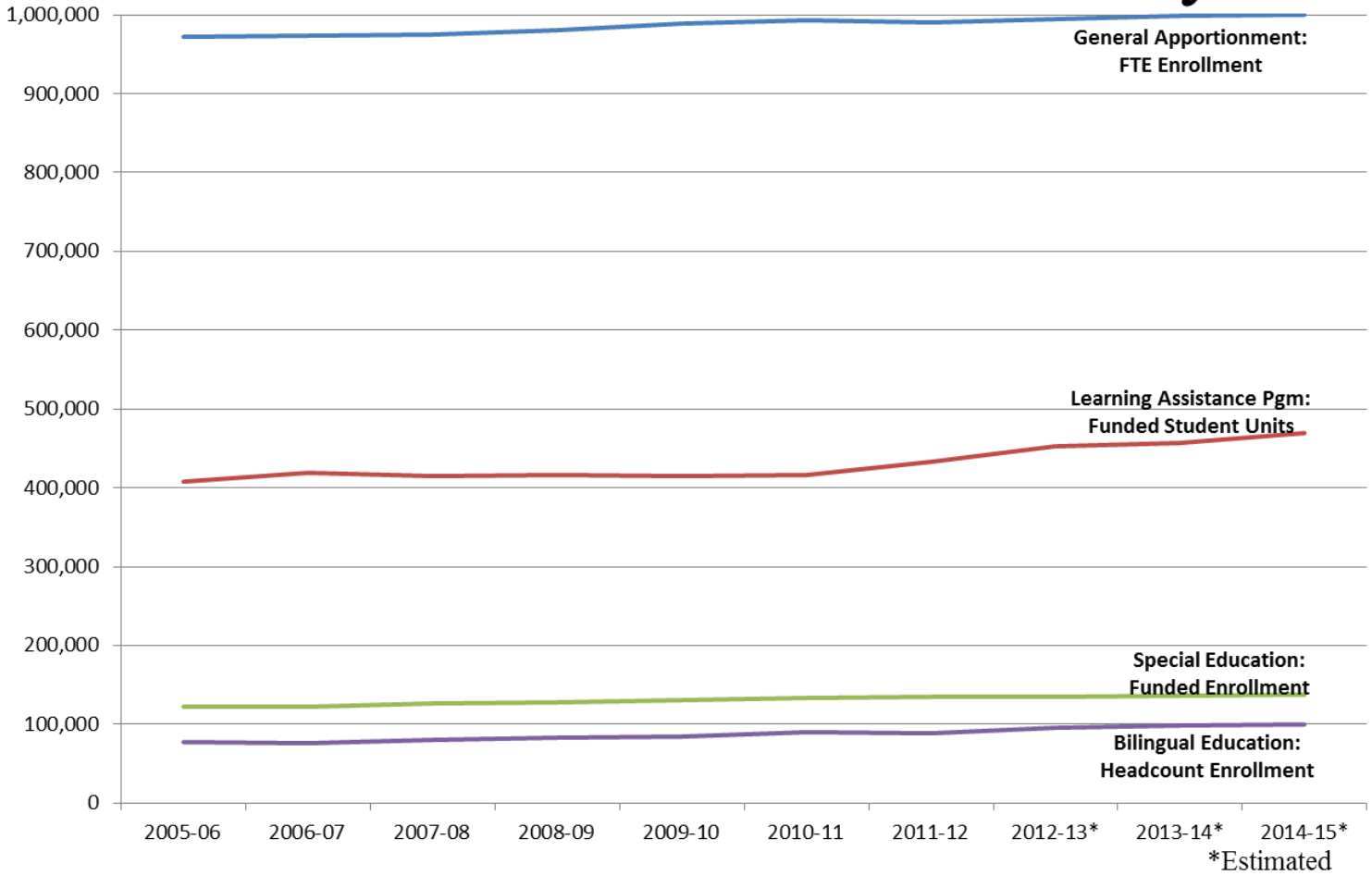
- ***Joint Task Force on Education Funding (JTFEF).*** In 2012, the Legislature created the JTFEF to make recommendations to the Legislature on funding and implementing the basic education enhancements in ESHB 2261 and SHB 2776. The task force met several times and focused on K-12 public education programs, the operating budget, state revenues, and other items. The meeting materials and final report can be found at:
  http://www.leg.wa.gov/Senate/Committees/WM/Documents/Report%20to%20Supreme%20Court%20with%20Date%20Stamped%20Cover%20Letter.pdf

- ***Charter Schools.*** Initiative 1240 was enacted by the voters in November 2012 and took effect in December 2012. Among other things, it: (1) authorizes up to 40 charter schools over a five year period; (2) defines charter schools as tuition-free public schools within the state system of common schools; (3) specifies the nature, powers and responsibilities of charter applicants, charter school boards, and charter authorizers; (4) requires that only qualifying nonreligious and nonprofit organizations may operate a charter school; (5) outlines minimum content for charter applications and charter contracts based on a performance framework; (6) requires the State Board of Education to approve and oversee charter authorizers; and (7) provides for the allocation of state funds to support charter schools and exempts them from most state laws pertaining to other public schools. The initiative is currently being litigated in court. In December 2013, King County Superior Court upheld the initiative on all challenges (at least as far as facial challenges) except the court help that charter schools are not "common schools." This means charter schools, under the Superior Court's ruling, are not eligible for state school construction matching funds and may not receive funding allocations from the state property tax. The state property tax is less than one-third of state funds apportioned to school districts each year. The Charter School Commission is created in the Office of Financial Management to administer the charter schools program under the initiative.

2013-15 Basic Education Programs Third Engrossed Substitute Senate Bill 5034 *(Dollars in Millions)*		
General Apportionment (RCW 28A.150.260)*	$11,304.3	76.3%
Special Education (RCW 28A. 150.390)	$1,486.3	9.7%
Transportation (RCW 28A.160.150)	$790.7	4.4%
Learning Assistance Program (RCW 28A.165)	$414.7	1.9%
Bilingual (RCW 28A.180)	$201.6	1.2%
Highly Capable (RCW 28A.185)	$19.2	0.1%
Institutions (RCW 28A.190)	$30.8	0.2%
Subtotal: Basic Education Programs	**$14,247.7**	**93.7%**
2013-15 Non-Basic Education Programs *(Dollars in Millions)*		
Local Effort Assistance	$646.7	4.4%
Education Reform	$228.0	1.2%
OSPI State Office and Education Agencies	$32.2	0.2%
OSPI Statewide Programs/Allocations	$21.1	0.2%
Educational Service Districts	$16.3	0.1%
Food Service	$14.2	0.1%
Summer Vocational & Other Skills Center	$0.9	0.0%
Pupil Transportation Coordinators	$1.8	0.0%
Initiative 732 COLA & Other Comp Increases	$0.0	0.0%
Subtotal: Non-Basic Education Programs	**$961.1**	**6.3%**
Total - Near General Fund State Funds	**$15,208.9**	**100.0%**

**Students attending school more than full-time (e.g., student FTEs exceeding 1.0 through enrollment at skill centers, running start programs, or similar dual enrollment programs) represent instructional costs not considered a basic education program entitlement within the General Apportionment program.*

Public Schools Workload History



*Estimated

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*	2013-14*	2014-15*
General Apportionment: FTE Enrollment	972,079	973,612	975,540	980,982	988,501	992,905	990422	994058	998,205	1,000,714
Learning Assistance Pgm: Funded Student Units	408,477	419,033	414,238	416,753	414,238	416,753	433108	452281	457,232	470,136
Special Education: Funded Enrollment	121,758	121,691	126,053	128,180	130,314	132,950	134,116	135,193	136,128	136,924
Bilingual Education: Headcount Enrollment	76,716	76,505	80,689	82,915	84,855	89,920	88,719	95,283	97,712	100,382

HIGHER EDUCATION

Introduction

Washington has six public baccalaureate institutions (four-year) and 34 public community and technical colleges (two-year). Each institution has a board of trustees or directors appointed by the Governor and confirmed by the Senate. Each of the four-year institutions receives its own appropriation. Branch campus funds are included in appropriation to the main campus. The legislature makes one appropriation to the two-year institutions as a whole. The State Board for Community and Technical Colleges (SBCTC) is then authorized to allocate funds to each of the 34 CTCs individually.

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, and financial aid

The two primary sources of funding at public institutions for the cost of instruction are tuition and state support. Beginning in 1999, the legislature set tuition caps for resident undergraduate students in the operating budget. Institutions and the SBCTC were authorized to raise tuition up to but not exceed these caps. Institutional governing boards set tuition rates for all categories of students other than resident undergraduates.

In 2011 (E2SHB 1795), the Legislature gave tuition-setting authority to the four year institutions for all students for eight years (through the 2018-19 academic year). Tuition-setting authority for resident undergraduate students reverts back to the Legislature in the 2019-20 academic year. Tuition for community and technical college students is set by the Legislature in the operating budget.

E2SHB 1795 requires institutions that increase tuition above the tuition increases assumed in the operating budget to remit 5 percent of operating fees back to students in the form of financial aid. Four-year institutions that do not increase tuition beyond levels assumed in the operating budget must remit 4 percent of operating fees in the form of financial aid.

The Legislature also authorized four-year institutions to charge differential tuition for more expensive courses. This authority was originally suspended in the 2012 supplemental operating budget and re-suspended in the 2013-15 operating budget.

Institutions receive direct state support in addition to tuition revenues. This support has decreased as a result of budget reductions and been made up in part with higher tuition. State support currently accounts for approximately 38 percent of the total cost of instruction for the four-year institutions and 65 percent of the total cost of instruction for two-year institutions. Ten years prior, in 2003, state support covered approximately 67 percent of the total cost of instruction for the four-year institutions and 77 percent for the two-year institutions.

The chart below provides a comparison between current resident undergraduate tuition rates and rates for the 2003-04 academic year (includes only building and operating fees). The 2013-15 operating budget assumes no increase in resident undergraduate student tuition for the 2013-14 and 2014-15 academic years.

Institution	2003-04 Academic Year	2013-14 Academic Year
University of Washington	$ 4,458	$ 11,305
Washington State University	$ 4,435	$ 10,874
Central Washington University	$ 3,240	$ 7,245
Eastern Washington University	$ 3,183	$ 6,745
The Evergreen State College	$ 3,240	$ 7,258
Western Washington University	$ 3,238	$ 7,503
Community and Technical Colleges	$ 2,142	$ 3,590

There are a variety of financial aid programs available to students. The state provided approximately $683 million from various state funds for financial aid programs during the 2013-15 biennium. The largest of these programs is the State Need Grant (SNG) which accounts for almost 89 percent ($606.2 million) of all state financial aid funds. This grant provides assistance to students from families with incomes below 70% of the state's median family income. This was increased from 65% of median family income by the 2005 Legislature. A number of smaller programs were suspended during the 2013-15 biennium due to budget constraints. These included: the Future Teachers Program, Health Professionals Scholarship, Washington Scholars, Washington Vocational Excellence Scholarship, Washington Promise and WICHE. The Washington Student Achievement Council (WASC) is responsible for administering most state financial aid programs. However, the College Success Foundation and SBCTC do administer some state programs as well.

Washington students received approximately $1.8 billion in need based financial aid during the 2012-13 academic year. Of this, 39 percent was in loans, 60 percent was in grants, and 1 percent was in workstudy funds (state, federal, and institutional).

Budgeted versus actual enrollments

Institutions of higher education have significant discretion over how they spend the tuition and state funds they receive. The operating budget lists the budgeted enrollments for each institution and the community and technical colleges. Institutions are allowed to enroll more students than are budgeted, referred to as over enrollment. During the 2012-13 academic year, actual enrollments exceeded budgeted enrollments by 12,184 FTEs at the four-year institutions and 8,196 FTEs at the two-year institutions. No additional state support is provided for over enrollments but institutions generate and retain additional tuition revenues.

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. WSU is budgeted for over $74.7 million in research for the biennium. Other institutional programs for the UW include two hospitals (The UW Medical Center, owned by the UW, and Harborview Medical Center, owned by King County and managed by the 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 (CTCs)
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 vocational training, basic skills education, workforce education and training, student-funded programs, applied baccalaureate degrees, and community services/contract funded courses.

Potential Major Policy and Fiscal Issues

Some of the major policy and fiscal issues 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.
- Balancing the autonomy of the individual four-year institutions with an integrated state higher education system.
- Maintaining access to higher education.
- Connecting higher education with employer demands, providing worker training and re-training opportunities as well as discussing the general role of higher education in relation to workforce demands.
- Maintaining the financial stability of the GET tuition program over time given recent larger than average tuition increases and negative investment returns in the financial markets, and GET implications of differential tuition (which is suspended again for the 2013-15 biennium).

2013-15 Higher Education Funding Summary ($ in thousands)

	UW	WSU	CWU	EWU	TESC	WWU	CTCs	WSAC	WTECB	Total
Total Budgeted	**6,359,033**	**1,404,880**	**325,152**	**297,749**	**130,596**	**368,287**	**2,592,935**	**724,990**	**57,839**	**12,261,461**
NGF+Opporunity Pathways	506,095	348,312	78,328	78,763	41,512	101,969	1,234,634	683,457	3,060	3,076,130
Tuition	944,998	482,484	120,222	139,906	67,493	162,549	652,391	0	0	2,570,043
Hospital Account	1,697,926	0	0	0	0	0	0	0	0	1,697,926
Other: Grants, Contracts, Local	3,210,014	574,084	126,602	79,080	21,591	103,769	705,910	41,533	54,779	4,917,362

Historical Summary of Selected Higher Education Budget Items

($ in millions)

	2001-03	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15
Tuition Revenue	953	1,179	1,351	1,575	1,940	2,530	2,570
% Change from previous biennium		24%	15%	17%	23%	30%	2%
State Support with Fin Aid	2,731	2,750	3,161	3,642	3,275	2,799	3,149
% Change from previous biennium		1%	15%	15%	-10%	-15%	13%
State Financial Aid	264	313	394	472	486	618	683
% Change from previous biennium		19%	26%	20%	3%	27%	11%
State support without Fin Aid	2,467	2,437	2,767	3,170	2,789	2,181	2,466
% Change from previous biennium		-1%	14%	15%	-12%	-22%	13%

NOTE: State support includes NGF-S, Opportunity Pathways, Opportunity Express, ARRA federal stimulus, and selected M&O funding.

Budgeted FTE Enrollments (2nd year of the biennium)							
4-year institutions	85,290	97,639	91,686	95,670	92,928	92,907	94,274
2-year institutions	128,222	128,885	133,304	139,237	143,047	139,237	139,237
Total	213,512	226,524	224,990	234,907	235,975	232,144	233,511

NOTE: Budgeted enrollments exclude running start students (for comparability)

HUMAN SERVICES

➢ *Department of Corrections*

Overview

The Department of Corrections (Department) is responsible for the incarceration of felons with sentences longer than one year and for community supervision of offenders sentenced in superior courts who meet the criteria for supervision. 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 2013-15 biennium is $1.67 billion Near General Fund-State.

Confine Felony Offenders

As of September 30, 2013, there are 12 state prisons throughout the state housing 16,824 offenders, with another 696 in work release facilities, 483 in rented local facilities, and zero in rented out-of-state beds, for a total offender population of 18,003. 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. The average annual cost per inmate is approximately $32,500. Approximately $.1billion NGF-S is expended for confining offenders in 2013-15.

The Department also provides a correctional industries program to help offenders obtain job skills and re-entry programs targeted to reduce recidivism.

Health Care Services for Offenders

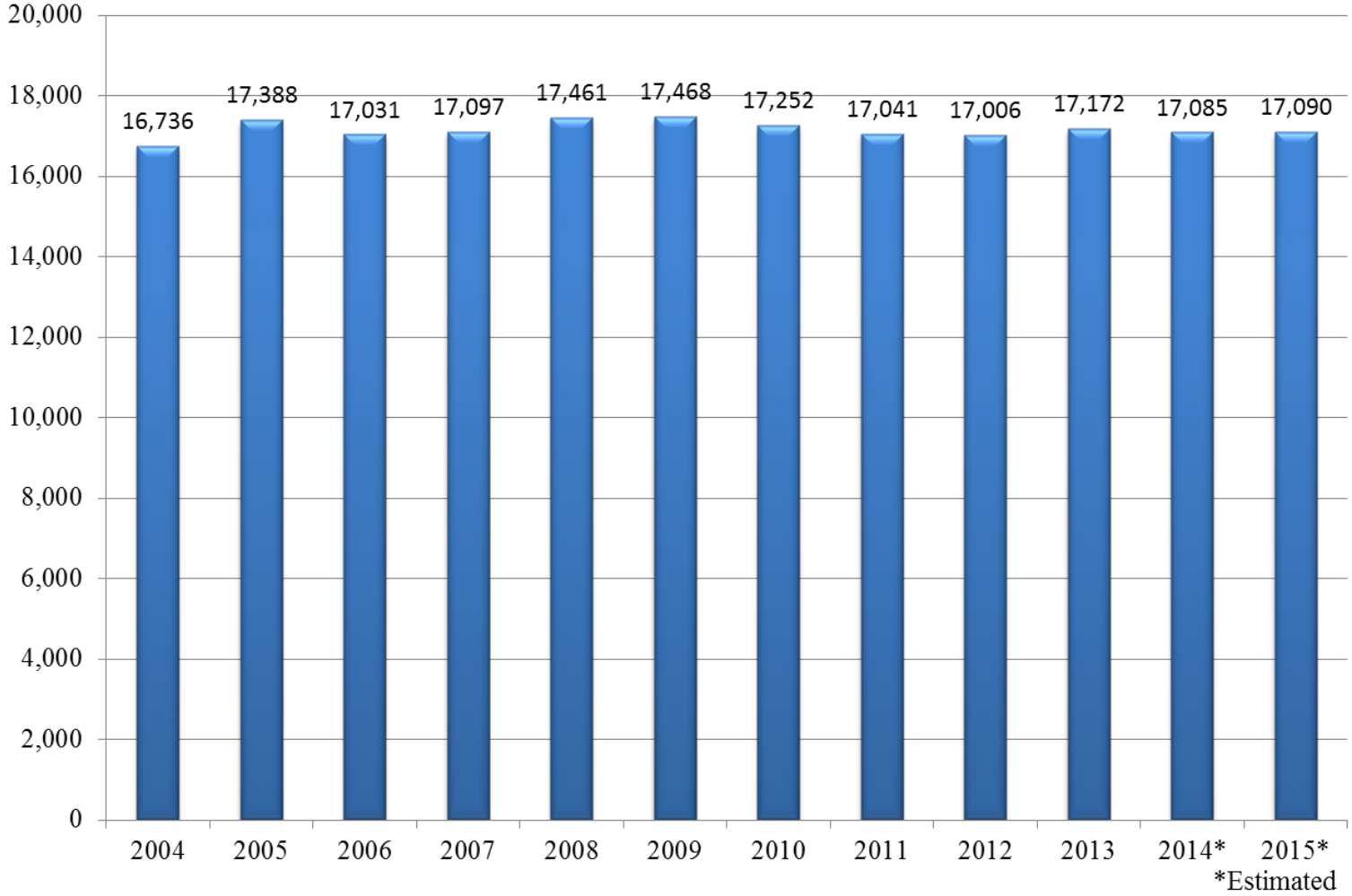
The Department is required to provide medical and dental services for the incarcerated offender population. About $232 million NGF-S is expended for these services for the 2013-15 biennium.

Supervising Offenders in the Community

The Department monitors felony and certain gross misdemeanor offenders in the community who have been released from confinement and meet the criteria for supervision, or are required to be supervised by court order. The Department uses a validated risk assessment tool to estimate an offender's risk to reoffend. As of September 30, 2013, there were approximately 6,600 offenders on supervision classified as high risk to reoffend with a violent offense, 3,881 offenders classified as high risk to reoffend with a non-violent offense, 2,346 classified as medium risk, and 2,515 classified as low risk to reoffend for a total supervision population of 15,467. About $277 million NGF-S is for these activities in 2013-15.

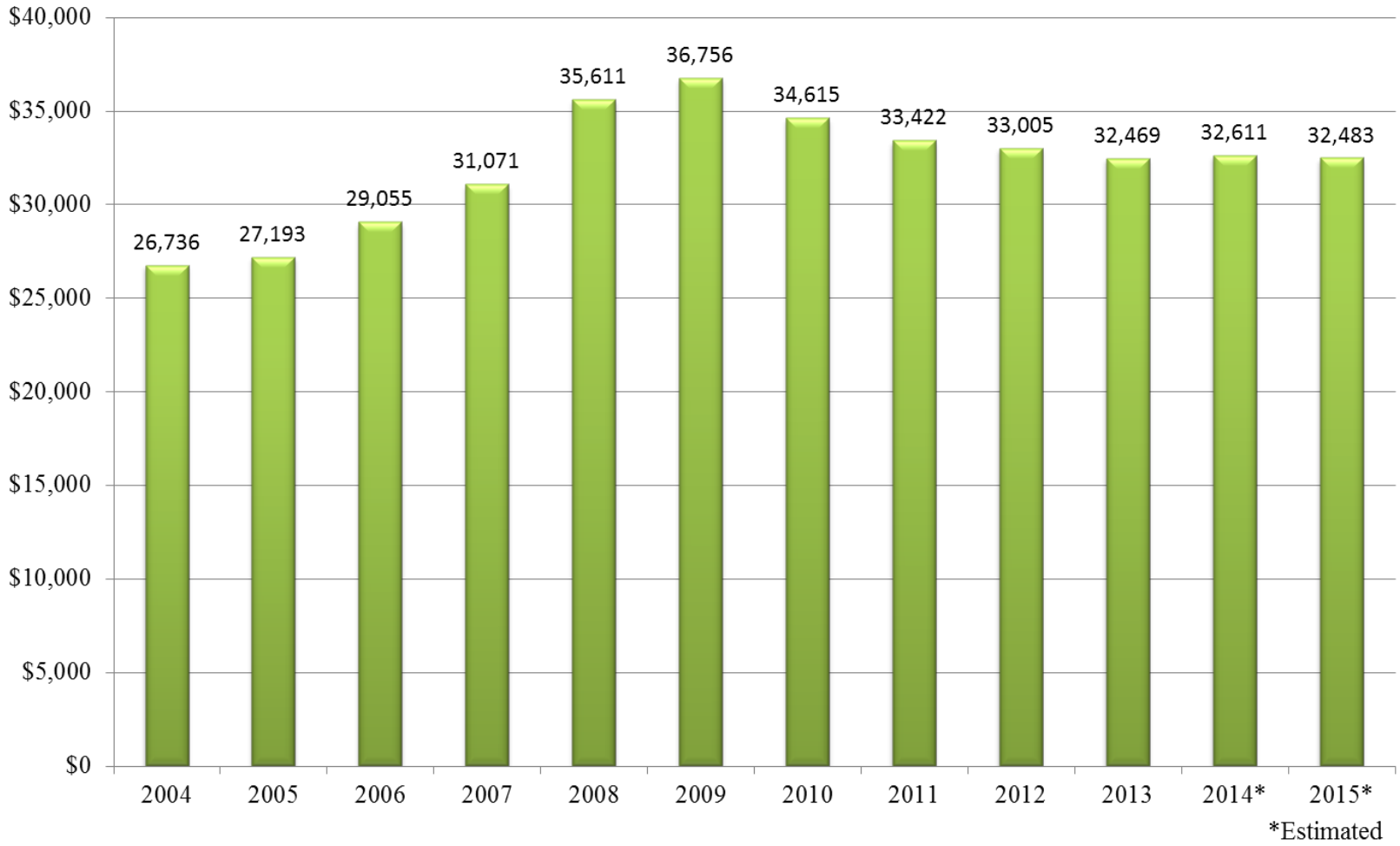
DOC Incarcerated Offenders

Average Daily Population



DOC Incarcerated Offenders

Average Annual Cost Per Inmate



- *Department of Social and Health Services*

Overview

The Department of Social and Health Services (DSHS) is 17% of the Near General Fund-State appropriation for the 2013-15 biennium, and 18% of total budgeted funds. A substantial portion of the DSHS's budget, along with medical assistance in the Health Care Authority, provide health care to low income or qualifying persons, much of it in partnership with the federal government through the Medicaid program. Medicaid services generally are funded half by the federal government and half by the state, although the federal stimulus funding provided an enhanced federal match rate for fiscal years 2009- 2010, and 2011, and the federal Affordable Care Act (ACA) provides an enhanced match rate for certain eligible populations.

DSHS Programs
2013-15

	Near General Fund-State	Total Budgeted Funds
Long-Term Care	$1.8 billion	$3.8 billion
Economic Services	$0.8 billion	$2.0 billion
Developmental Disabilities	$1.1 billion	$2.1 billion
Mental Health	$0.9 billion	$1.7 billion
Children & Family Services	$0.6 billion	$1.1 billion
Alcohol/Substance Abuse	$0.1 billion	$0.4 billion
Juvenile Rehabilitation	$0.2 billion	$0.2 billion
Other	$0.3 billion	$0.6 billion
DSHS Total	$5.8 billion	$11.9 billion

Clients often receive services from a variety of programs. While Medical Assistance was moved from DSHS to the HCA in 2011, medical services are funded in many DSHS 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. Following is a summary of major DSHS activities with an estimate of the 2013-15 budget for that activity by the Office of Financial Management.

Children and Family Services

Family Support Services - Provides services to help children and families safely avoid out-of-home placement such as parent coaching, evidence-based programs, and short-term child care. Services include those provided through Family Assessment Response (FAR), an alternative to investigation for cases screened-in for low to moderate-risk child maltreatment, and voluntary services to help stabilize families. ($76 million total budgeted for 2013-15, $55 million NGF-S.)

Foster Care Payments - Provides monthly maintenance payments for children in licensed family foster care and other services to children in out-of-home placement. Services include child care for employed foster parents and supervised visits between children and their birth parents. ($190 million total budgeted for 2013-15, $94 million NGF-S.)

Behavioral Rehabilitative Services - Contracts with community agencies for rehabilitation services for children and youth with intensive emotional, behavioral, or medical needs that cannot be met in family foster care. ($109 million total budgeted for 2013-15, $75 million NGF-S.)

Adoption Support - Provides monthly maintenance payments for adopted children with special needs, coverage of non-recurring adoption costs, counseling reimbursement, and recruitment of adoptive parents. ($189 million total budgeted for 2013-15, $106 million NGF-S.)

Field Staff - Administers child welfare programs throughout the state. Includes case workers who screen referrals of potential child abuse or neglect, respond to screened-in cases of potential child abuse or neglect through investigation or FAR, and manages cases of children in foster care, in adoptive homes, or in voluntary or preventative services. ($355 million total budgeted for 2013-15, $177 million NGF-S)

Transitional Services for Youth - Contracts with community-based agencies to provide temporary shelter, needs assessments, and other services to youth who are in conflict with their families, have run away from home or are living on the street, or need assistance developing independent living skills. ($13 million total budgeted for 2013-15, $2 million NGF-S).

Victim Assistance - Provides support of community-based shelters, emergency counseling, and legal advocacy to children and families who have experienced domestic violence and/or sexual assault. ($15 million total budgeted for 2013-15, $14 million NGF-S).

Division of Licensed Resources - Licenses and monitors foster family homes, group homes, child placing agencies, and crisis residential centers or overnight shelters for youth. Responds to cases of potential child abuse or neglect of children in licensed out-of-home care. ($33 million total budgeted for 2013-15, $20 million NGF-S).

Juvenile Rehabilitation

Institutional Services for Juvenile Offenders - Operates four secure residential facilities for state-committed juvenile offenders. Services focus on rehabilitation and include counseling, academic education, medical and dental services, work activities, and vocational training. ($98 million total in 2013-15, $97 million NGF-S.)

Parole Transitional Services for State-Committed Juvenile Offenders - Provides parole services to eligible juvenile offenders released from state commitment. ($20 million NGF-S in 2013-15.)

Community Facility Transitional Services for Juvenile Offenders - Operates eight group homes for state-committed juvenile offenders who are completing a state disposition and preparing to transition to the community. ($16 million NGF-S in 20113-15.)

Community Services for Locally-Committed Juveniles - Provides funding to juvenile courts for programs indicated by research to reduce recidivism and be cost-beneficial. Funding is directed towards disposition alternatives and evidence-based, research-based or promising programs for youth on probation who are at a moderate- to high-risk to reoffend. ($38 million NGF-S in 2013-15).

Economic Services

Child Support Enforcement - The Division of Child Support **(DCS)** helps collect child support payments for children. DCS collects and distributes over $50 million each month in child support payments. ($278 million total in 2013-15, $79 million NGF-S.) This is partially offset by the state's TANF share returned by the state ($154 million total, $77 million NGF-S).

The TANF Box - When the Legislature established the Workfirst program in 1997, practice led to all related revenues being administered as one "TANF box". These are federal Temporary Assistance for Needy Families (TANF), federal Child Care Development Fund (CCDF), state CCDF match, and state TANF funds (called Maintenance of Effort or MOE). Programs included TANF cash grants, Working Connections Child Care, support services, and WorkFirst employment services. The approach to TANF was modified by EHB 2262 in 2012, focusing on transparent tracking of spending for the programs themselves and development of a spending plan based on legislative policy. This basically makes TANF no longer the box it previously was.

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. ($416 million total for 2013-15, $97 million NGF-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. ($201 million total in 2013-15, $44 million NGF-S.)

Child Care Subsidy Program (CCSP) - Helps families with low incomes pay for child care while working or participating in WorkFirst. DSHS staff determine eligibility and authorize child care services for the Working Connections Child Care (WCCC) and Seasonal Child Care (SCC) programs while the Department of Early Learning administers the CCSP. (Total budget is $395 million for 2013-15, $158 million NGF-S.)

Supplemental Nutrition Assistance Program (SNAP) - Determines eligibility for federal food stamp benefits. The federal government pays the benefits. ($148 million total in 2013-15, $75million NGF-S.)

Medical Eligibility Determination Services –The Economic Services Administration determines eligibility for state and federal medical programs, while the Health Care Authority establishes policy and administers medical assistance programs. ($124 million total for 2013-15, $41 million NGF-S.)

Aged Blind, or Disabled (ABD) and Pregnant Women Assistance Program - The ABD program provides financial grants to low-income adults who are 65 year s or older, blind, or likely to meet Supplemental Security Income (SSI) disability criteria. This also includes the cost of incapacity exams and SSI consultative evaluations. The Pregnant Women Assistance Program provides financial grants to eligible women who are pregnant and ineligible for TANF and State Family Assistance for reasons other than refusing to cooperate with program requirements. ($66 million NGF-S.)

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. ($22 million total in 2013-15, $11 million NGF-S.)

In-Home Services - Medicaid eligible individuals may receive care in their homes through contracted services with Agency Providers (APs) and Individual Providers (IPs). Services include assistance with activities of daily living such as meal preparation, shopping, laundry, housekeeping, and transportation. Services may also include personal care such as eating, bathing, personal hygiene, toileting, and dressing. Other DSHS programs besides Long-Term Care also contract with APs and IPs for services. Additional in-home services include home-delivered meals, nutrition programs, and skilled nursing care. ($1.7 billion total in 2013-15, $873 million NGF-S.)

Adult Family Home Community Services - Providers are private homes that may serve up to six residents. They provide room, board, laundry, residential supervision, assistance with activities of daily living, personal care, and nurse delegation services. Some providers also offer skilled nursing or special care. 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 waiver. ($272 million total in 2013-15, $138 million NGF-S.)

Residential Home Community Services - Providers are licensed to care for seven or more residents. Service settings include Adult Residential Care (ARC), Enhanced Adult Residential Care (EARC), and Assisted Living facilities. Boarding Homes provide shared and private rooms, meal service, some assistance with activities of daily living, some residential supervision, and nurse delegation. Persons must be eligible for MPC or COPES programs. ARCs work with clients who are receiving state-provided adult protective services. EARCs require intermittent skilled nursing and some provide specialized dementia care. ($187 million total in 2013-15, $94 million NGF-S.)

Nursing Home Services - Skilled nursing facility health care is provided to Medicaid-eligible persons who need post-hospital recuperative care, 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. ($1.1 billion total for 2013-15, $485 million NGF-S.)

Investigations/Quality Assurance Services - Reviews licensed facilities, staff, and others that come in contact with vulnerable adults requiring provision of appropriate services and quality care ($84 million total in 2013-15, $12 million NGF-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. ($146 million total in 2013-15, $85 million NGF-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. ($579 million total in 2013-15, $289 million NGF-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. ($11 million NGF-S in 2013-15.)

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. ($758 million total in 2013-15, $382 million NGF-S.)

Residential Habilitation Facilities – The state operates four habilitation centers that serve developmentally disabled persons by providing assessment, treatment, training, habilitation programs, and activities. ($353 million total in 2013-15, $169 million NGF-S.)

Other programs include:

1. State Operated Living Alternatives (SOLAs) is similar to Residential Services except staffing supports are provided the state employees ($37 million total in 2013-15, $19 million NGF-S); and
2. Other community programs including background checks, diversion beds, and crisis intervention services to assist the community in supporting DD clients experiencing a mental health crisis ($61 million total in 2013-15; $38 million NGF-S.)

Mental Health

Community Mental Health Services – Medicaid - Provides financial support and program direction for community mental health programs delivered through Regional Support Networks (RSN). Services are provided to Medicaid clients who meet medical necessity standards. Services include outpatient, inpatient, crisis, residential, day treatment, consultation and education, and Medicaid transportation. ($963 million total in 2013-15, $416 million NGF-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 provided within available resources and are similar to the Community Mental Health Services program described above. ($186 million NGF-S for 2013-15.)

State Mental Health Facilities - State psychiatric hospitals include Eastern and Western State Hospitals and the Child Study and Treatment Center. Services include civil and forensic psychiatric evaluation and treatment for adults with mental disorders at Eastern and Western State Hospitals, and for children and adolescents with severe emotional disturbances at the Child Study Treatment Center. ($482 million total in 2013-15, $267 million NGF-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 federal Mental Health Block Grant programs. ($46 million total in 2013-15, $27 million NGF-S.)

Mental Health Services to Jails - Services are provided to offenders with mental health disorders while they are confined in county or city jails. ($9 million NGF-S in 2013-15.)

Offender Reentry Community Safety Program (formerly the Dangerously Mentally Ill Offender Program) - 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. ($4 million NGF-S in 2013-15.)

Children's Long-term Treatment Programs (CLIP) - Provides long-term treatment, to children under 18 years of age with severe psychiatric impairment who require intensive services in a restricted setting. There are non-profit CLIP facilities in Tacoma, Seattle, and Spokane; the Child Study and Treatment Center is also considered a CLIP facility (funded under State Mental Health Facilities). ($14 million total in 2013-15, $8 million NGF-S.)

Alcohol and Substance 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. ($212 million total in 2013-15, $71 million NGF-S.)

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 2013-15, $47 million NGF-S.)

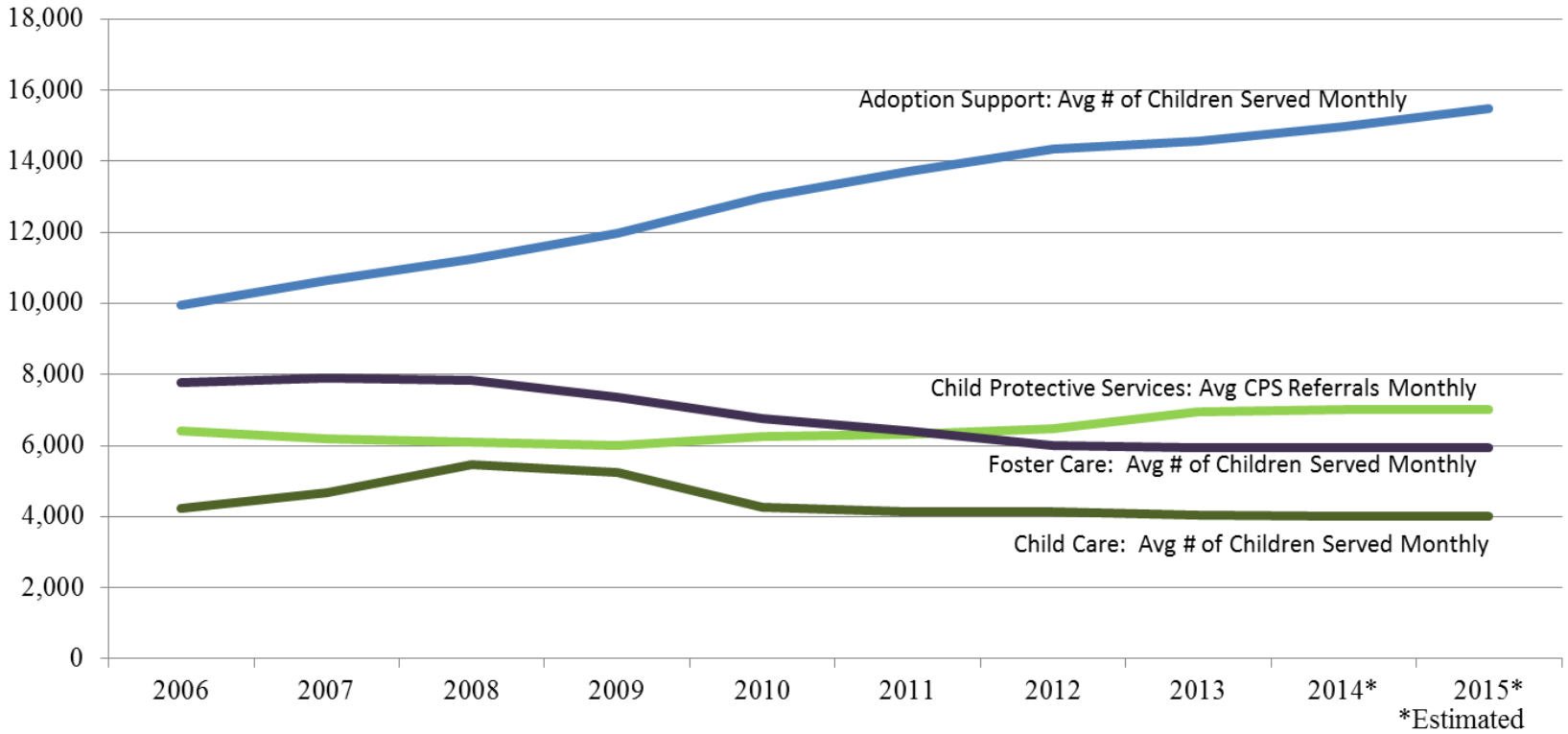
Other Programs

Other programs include various administrative/support services, vocational rehabilitation, and the Special Commitment Center..

Vocational rehabilitation includes counseling and guidance ($62 million in 2011-13) and direct client services ($59 million in 2013-15.)

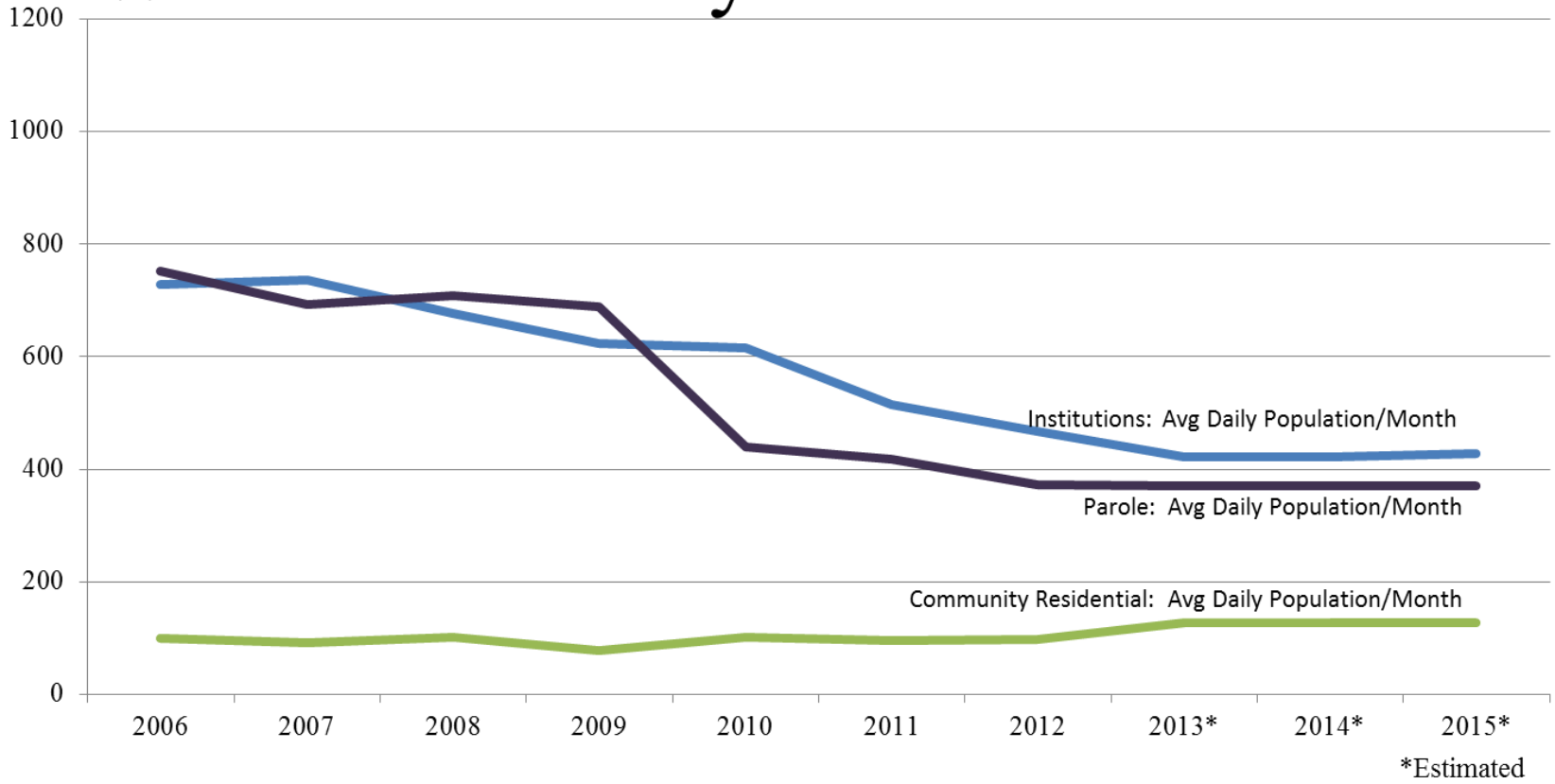
The Special Commitment Center (SCC) confines and provides treatment to adult sexually violent predators that have been civilly committed. The primary facility is on McNeil Island, with a less restrictive alternative in Pierce County (with a capacity or 24) and in King County (with a capacity of 6). ($72 million NGF-S in 2013-15.)

DSHS Children & Family Services Workload History



	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015*
Adoption Support: Avg # of Children Served Monthly	9,964	10,632	11,254	11,978	12,981	13,701	14,334	14,557	14,961	15,487
Child Protective Services: Avg CPS Referrals Monthly	6,426	6,206	6,109	6,009	6,260	6,305	6,470	6,940	7,000	7,000
Foster Care: Avg # of Children Served Monthly	7,769	7,909	7,829	7,347	6,754	6,424	5,992	5,939	5,945	5,943
Child Care: Avg # of Children Served Monthly	4,235	4,687	5,457	5,245	4,248	4,143	4,134	4,033	4,000	4,000

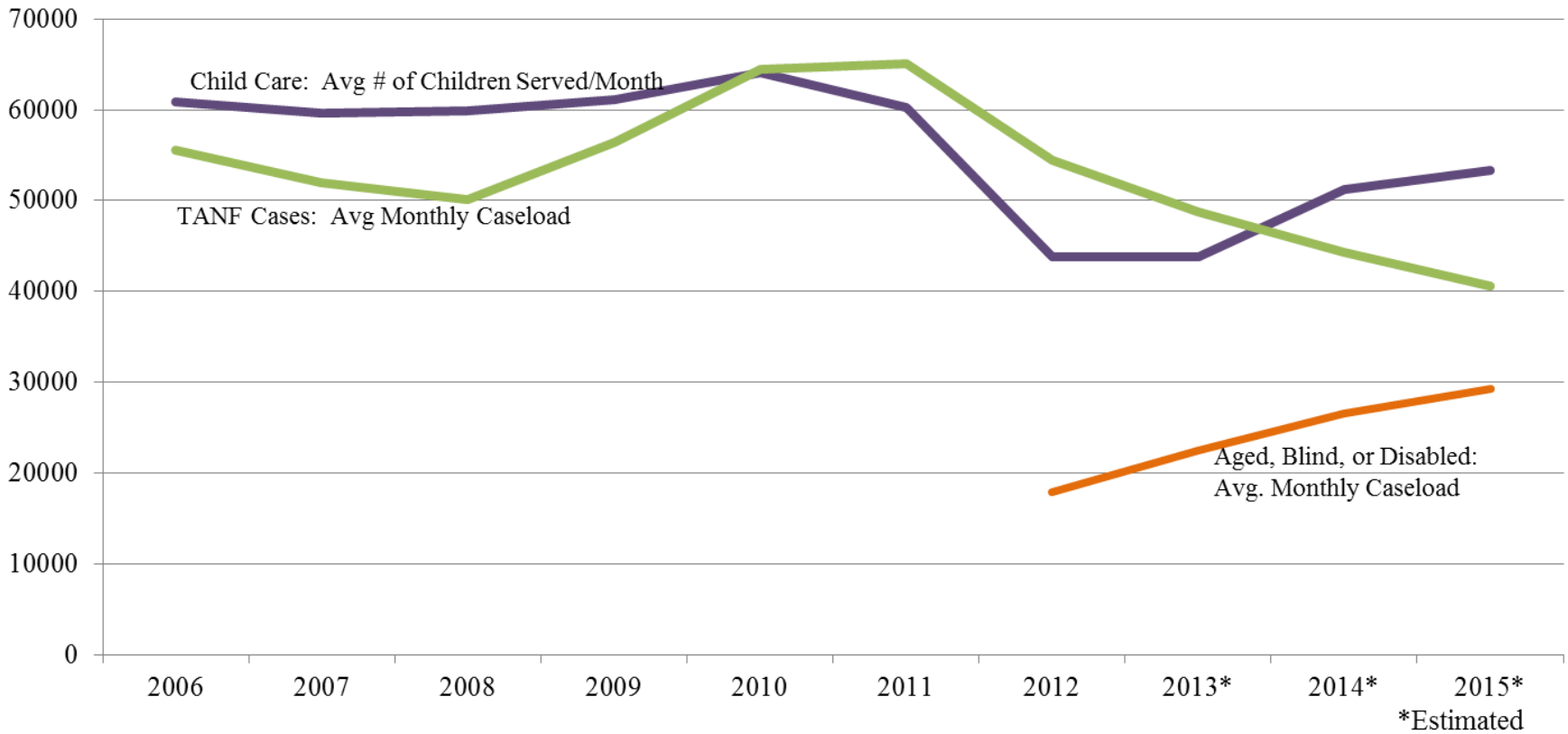
DSHS Juvenile Rehabilitation Workload History



*Estimated

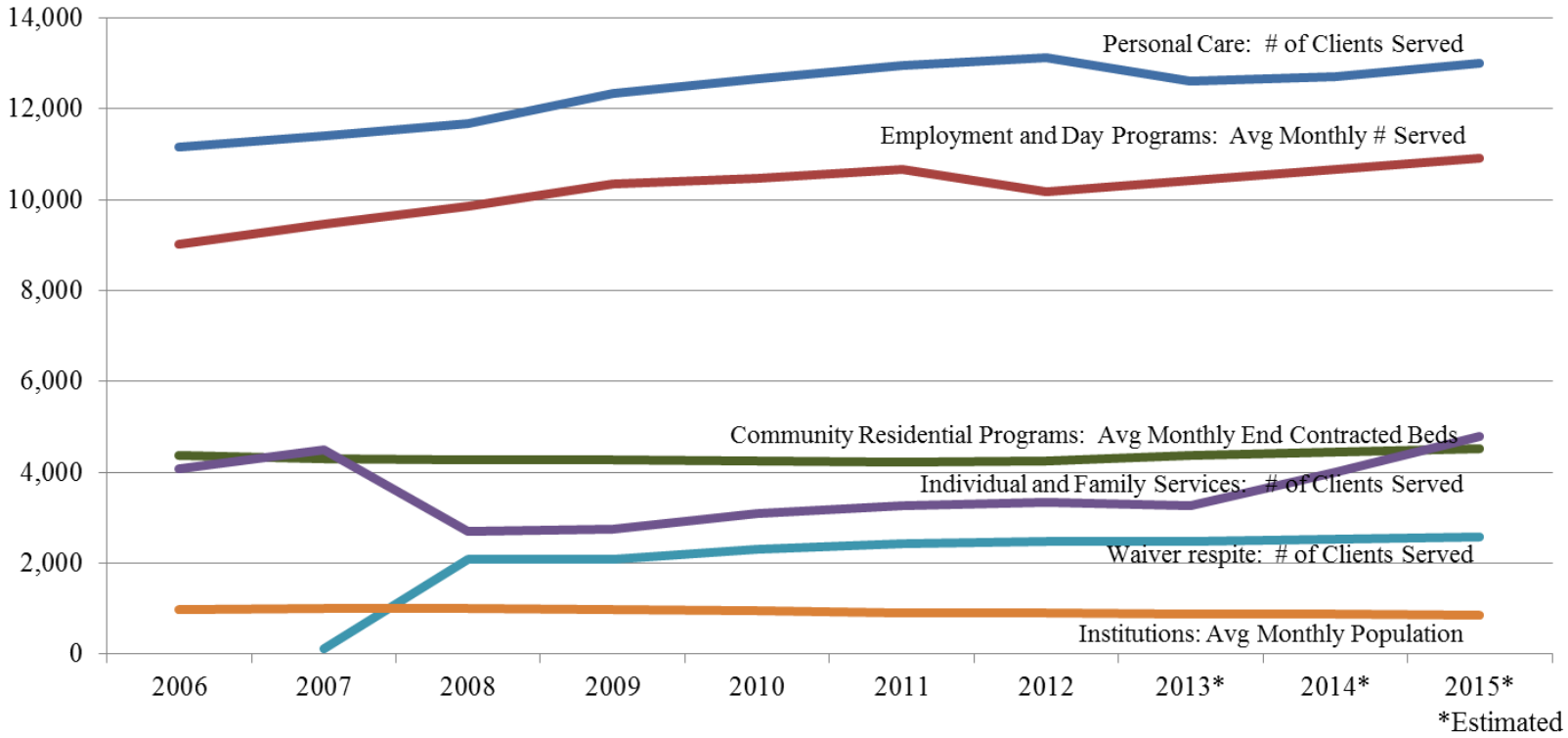
	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Institutions: Avg Daily Population/Month	728	736	676	624	615	514	468	421	421	427
Parole: Avg Daily Population/Month	751	692	708	689	440	418	373	371	371	371
Community Residential: Avg Daily Population/Month	99	92	102	78	101	96	98	128	128	128

DSHS Economic Services Administration Workload History



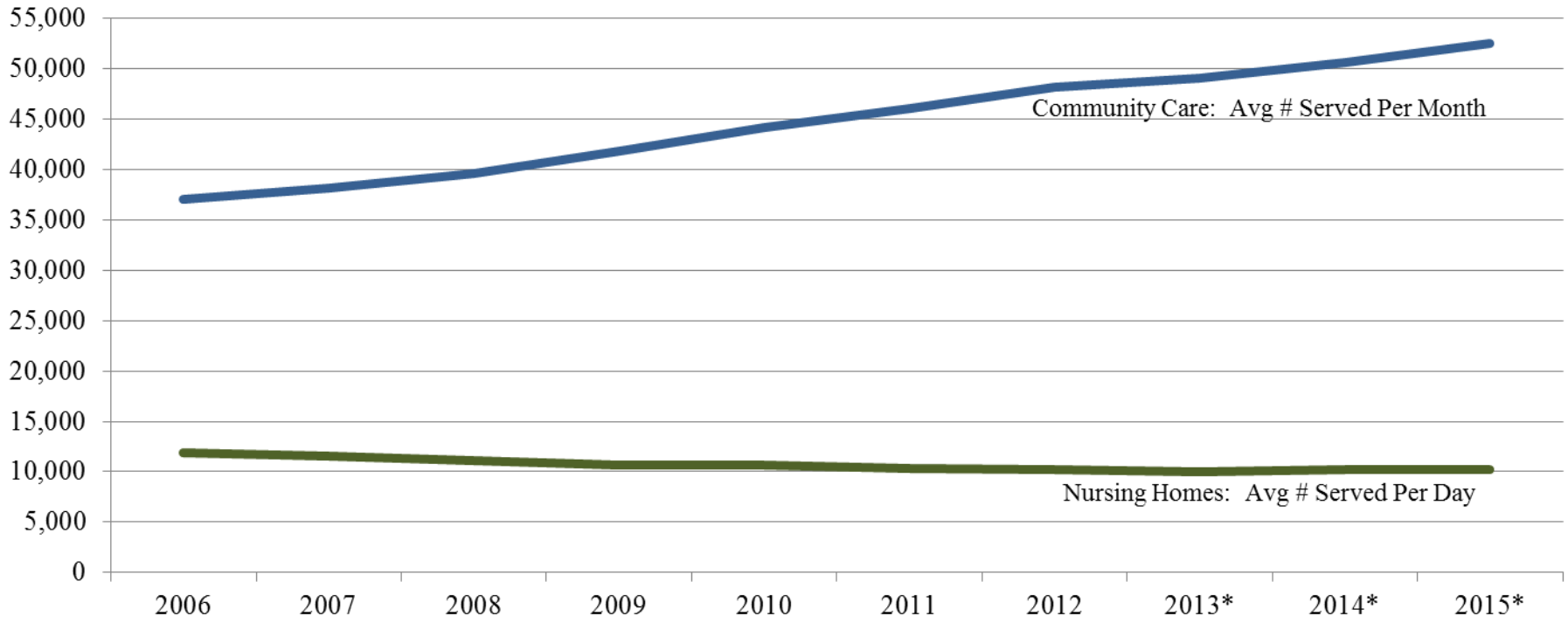
	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Child Care: Avg # of Children Served/Month	60,860	59,593	59,829	61,113	64,127	60,312	43,765	43,821	51,174	53,323
TANF Cases: Avg Monthly Caseload	55,520	51,936	50,119	56,458	64,450	65,137	54,434	48,709	44,359	40,566
Aged, Blind, or Disabled: Avg. Monthly Caseload							17,953	22,445	26,597	29,247

DSHS Developmental Disabilities Workload History



	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Personal Care: # of Clients Served	11,150	11,391	11,662	12,338	12,663	12,943	13,126	12,609	12,706	12,995
Employment and Day Programs: Avg Monthly # Served	9,021	9,454	9,853	10,344	10,479	10,667	10,179	10,407	10,660	10,921
Community Residential Programs: Avg Monthly End Contracted Beds	4,379	4,300	4,269	4,269	4,252	4,230	4,261	4,377	4,437	4,509
Individual and Family Services: # of Clients Served	4,089	4,493	2,708	2,742	3,088	3,265	3,337	3,276	4,000	4,800
Waiver Respite: # of Clients Served		129	2,097	2,098	2,316	2,440	2,469	2,471	2,540	2,590
Institutions: Avg Monthly Population	982	996	997	982	951	914	905	891	878	865

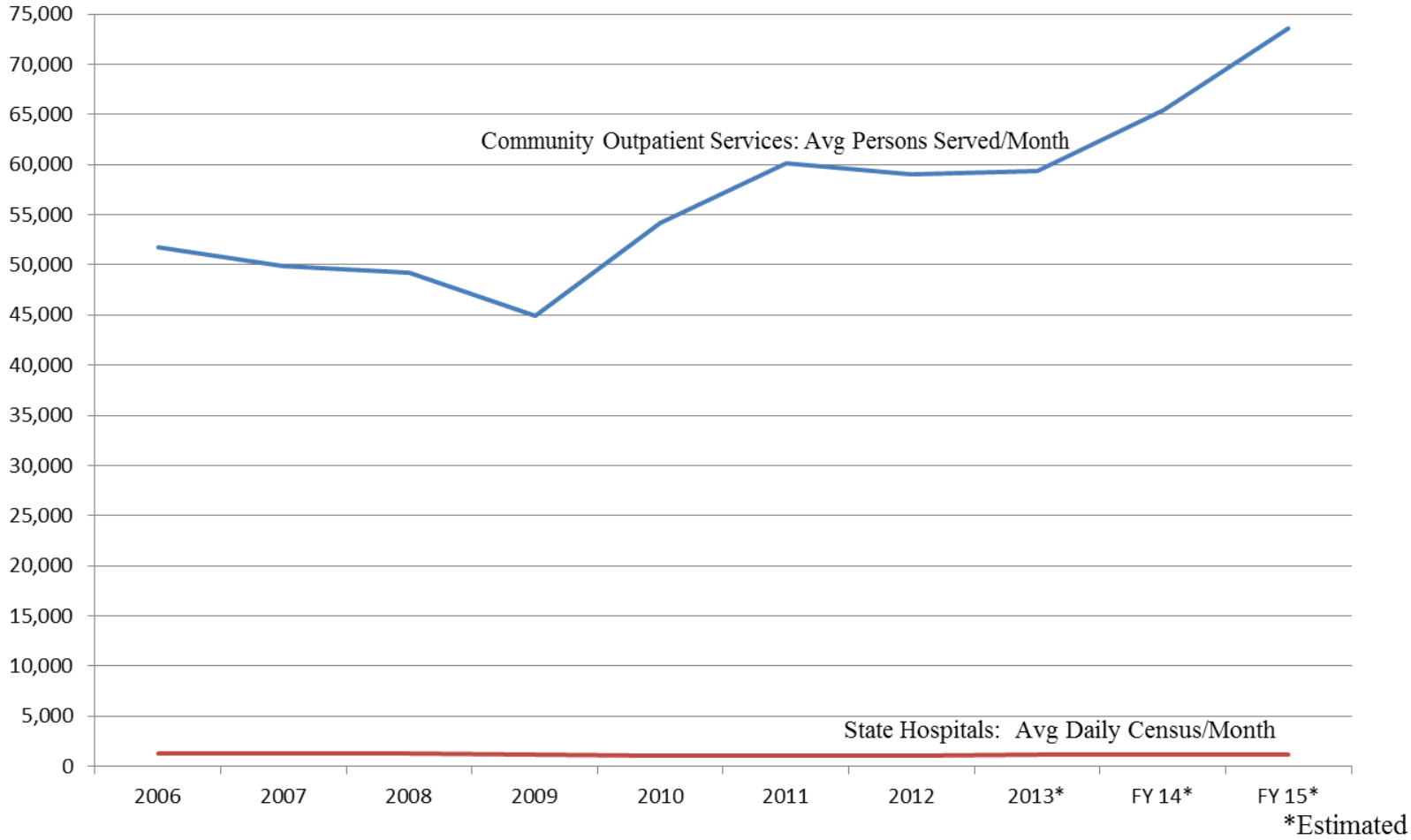
DSHS Long-Term Care Workload History



*Estimated

	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Community Care: Avg # Served Per Month	37,044	38,098	39,523	41,778	44,080	46,025	48,143	49,077	50,602	52,485
Nursing Homes: Avg # Served Per Day	11,928	11,546	11,057	10,699	10,682	10,358	10,171	10,052	10,256	10,228
Combined Total:	48,969	49,644	50,580	52,477	54,762	56,383	58,314	59,128	60,858	62,713

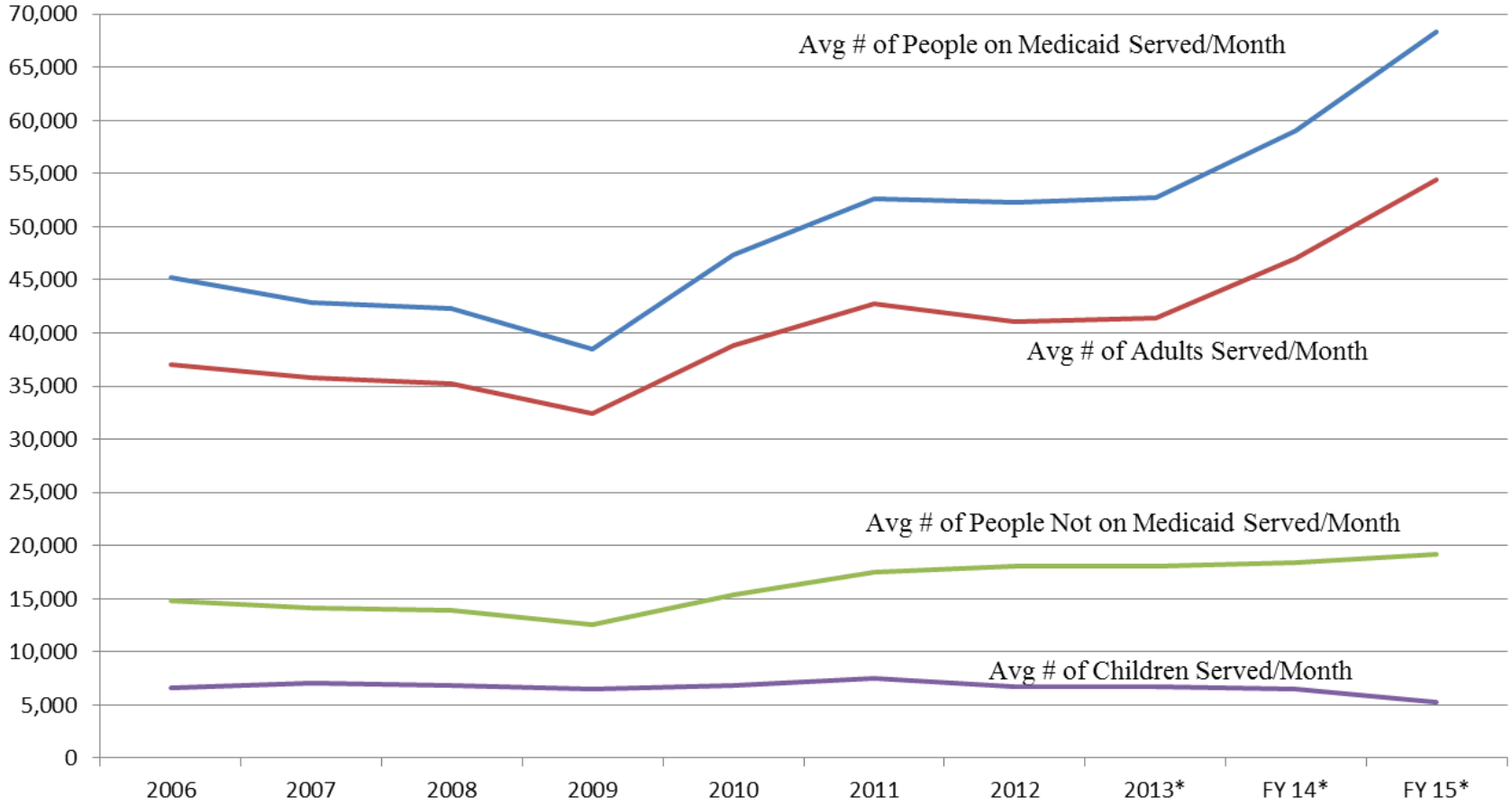
DSHS Mental Health – State Hospitals & Community Outpatient Services Workload History



*Estimated

	2006	2007	2008	2009	2010	2011	2012	2013*	FY 14*	FY 15*
Community Outpatient Services: Avg Persons Served/Month	51,779	49,874	49,203	44,953	54,166	60,137	59,050	59,403	65,450	73,618
State Hospitals: Avg Daily Census/Month	1,262	1,292	1,251	1,172	1,101	1,078	1,077	1,161	1,161	1,161

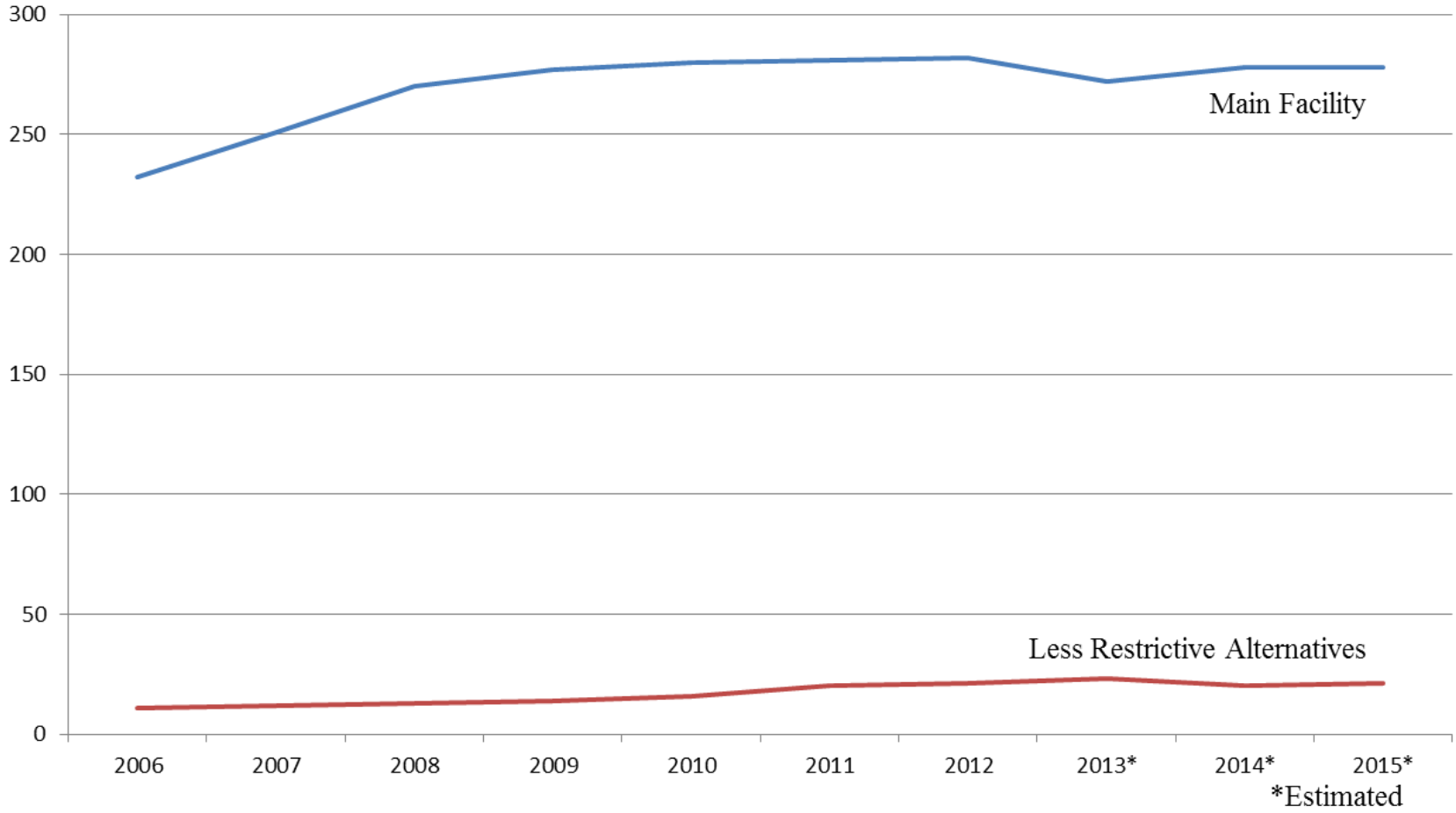
DSHS Mental Health & Community Outpatient Services Workload History



*Estimated

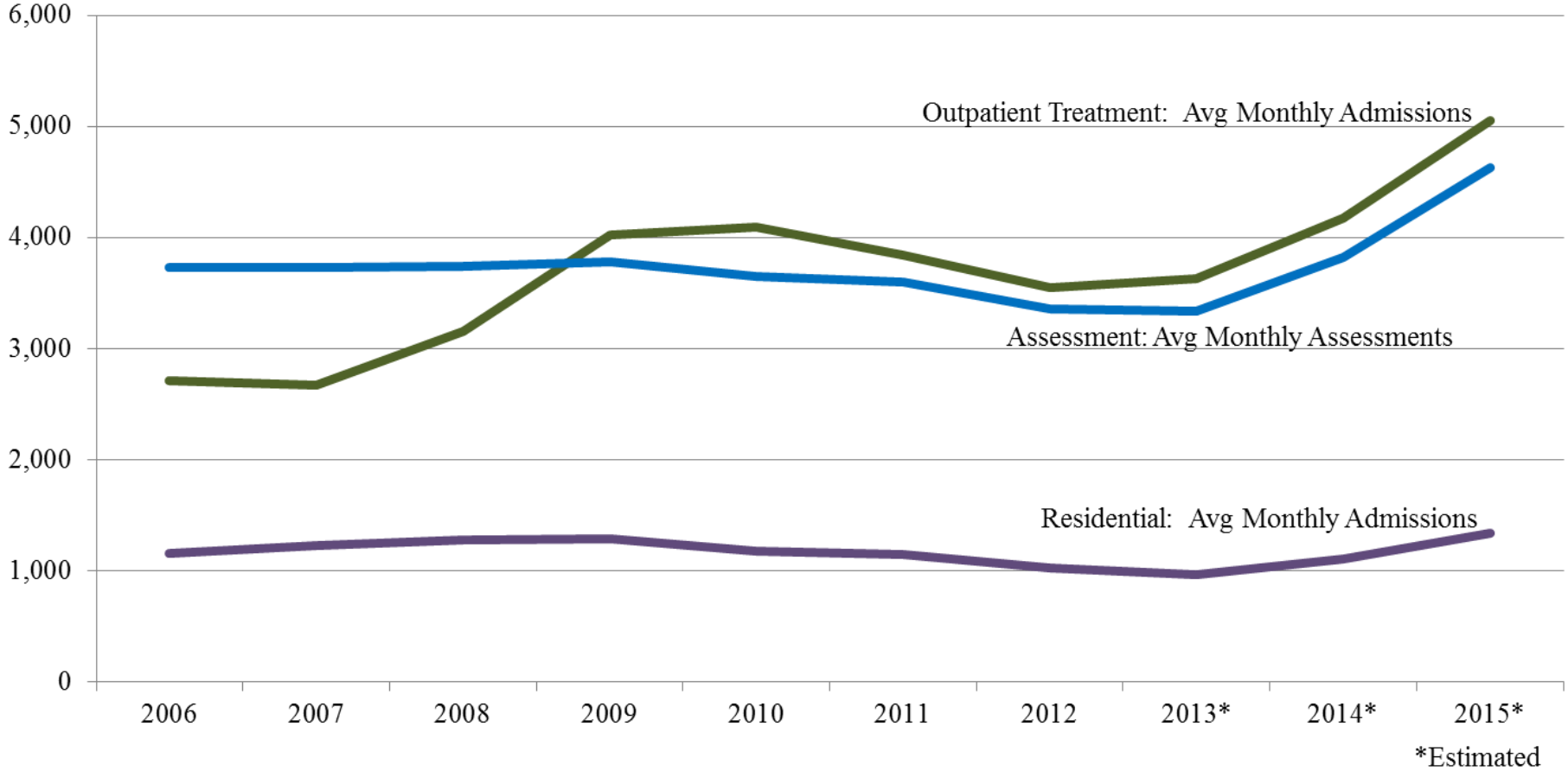
	2006	2007	2008	2009	2010	2011	2012	2013*	FY 14*	FY 15*
Avg # of People on Medicaid Served/Month	45,219	42,802	42,322	38,512	47,306	52,625	52,326	52,678	58,992	68,335
Avg # of Adults Served/Month	36,979	35,738	35,278	32,432	38,846	42,691	41,030	41,390	47,029	54,441
Avg # of Children Served/Month	14,800	14,136	13,925	12,521	15,319	17,445	18,020	18,013	18,421	19,177
Avg # of People Not on Medicaid Served/Month	6,560	7,072	6,881	6,441	6,859	7,512	6,725	6,725	6,458	5,283

DSHS Special Commitment Center Workload History



	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Main Facility	232	251	270	277	280	281	282	272	278	278
Less Restrictive Alternatives	11	12	13	14	16	20	21	23	20	21

DSHS Alcohol & Substance Abuse Workload History



	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Outpatient Treatment: Avg Monthly Admissions	2,713	2674	3162	4028	4096	3845	3549	3636	4172	5,052
Assessment: Avg Monthly Assessments	3,736	3,729	3,741	3,779	3,653	3,605	3,362	3,334	3,826	4,633
Residential: Avg Monthly Admissions	1,156	1,228	1,284	1,291	1,180	1,149	1,029	963	1,106	1,339

- *Health Care Authority*

Overview

The Health Care Authority's (HCA) primary programs are Public Employees Benefits Board (PEBB) plan management and customer service, and medical assistance programs for low income persons. Following is a summary of major HCA activities with an Office of Financial Management estimate of the 2013-15 budget for those activities.

PEBB

PEBB Customer Service – Manages eligibility and administration of state health benefits. ($30 million in dedicated non-NGF-S funds for 2011-13.)

PEBB Plan Management – Manages the design and delivery of PEBB plans, including health care, dental, life insurance, disability, and home and auto insurance. PEBB covers more than 300,000 persons: Washington State agency employees (including higher education), retirees, and dependents; K-12 retirees; and employees and retirees of participating K-12 public school districts, educational service districts, and political subdivisions. ($144 million in dedicated non-NGF-S funds for 2013-15.)

Medical Assistance

Healthy Options (Medicaid managed care) - Health care provided to Medicaid clients through the Healthy Options managed care program. Wrap around services are also included that are paid for on a fee-for-service basis for these clients. ($6.2 billion total in 2013-15, $2.4 billion of which is NGF-S.)

Non-Healthy Options Medicaid Mandatory Services (Fee for Service) - Provides mandatory Medicaid services for all other eligible clients not enrolled in the Healthy Options managed care program. ($2.3 billion total, $986 million NGF-S for 2013-15.)

Non-Healthy Options Optional Medicaid Services (Fee-for-Services) – Optional Medicaid services are provided to eligible clients who are not enrolled in the Health Options managed care programs. ($346 million total in 2011-13, $179 million NGF-S.)

Supplemental Medicare Insurance Buy-in - Premiums are paid to the Social Security Administration on behalf of recipients eligible for Medicare. ($742 million total, $371 million NGF-S for 2013-15.)

Childrens Health Program - Health care coverage is provided for children who are not eligible for Medicaid because their families do not meet medical income eligibility criteria or are unable to qualify for other reasons. ($61 million total, $46 million NGF-S for 2013-15.)

State Program Clients - Limited health care coverage is provided through state programs for clients who are not covered by Medicaid. These programs include Kidney Disease, Alien Emergency Medical, and General State Only. ($264 million total, $124 million NGF-S for 2013-15.)

Health Care Authority – Low Income Medical Assistance

(Moved from DSHS in 2011)

	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015*
Categorically Needy	838,443	844,805	855,043	908,403	992,061	1,042,904	1,062,140	1,077,887	1,118,256	1,171,843
Medically Needy	16,536	13,590	13,567	12,984	12,337	12,856	13,141	12,775	11,871	10,164
Children's Health Insurance Program	11,786	11,406	11,974	14,469	19,290	23,807	25,154	26,323	34,323	46,328
Basic Health Plan	100,444	102,118	104,792	103,590	76,079	52,274	36,955	30,014	13,011	0
State Medical Care Services	18,511	27,219	41,443	47,078	47,220	46,166	37,630	32,855	25,968	18,616
Total Eligibles per Month	986,472	999,871	1,027,493	1,087,282	1,147,916	1,178,794	1,175,735	1,180,644	1,291,750	1,469,141

NATURAL RESOURCES

Overview

$1.59 billion is budgeted for natural resources in 2013-15; $263 million of this is NGF-S. The natural resources budget includes funding for the following agencies and activities:

The Department of Ecology administers environmental laws covering:

- Air Quality
- Water Quality and Water Resources
- Hazardous, Toxic, and Nuclear Waste
- Shoreline and Wetlands Protection
- Oil and Hazardous Material Spills
- Solid Waste Management

The Department of Fish and Wildlife manages the state's fish and wildlife resources, which include:

- Operation of 83 fish hatcheries (there are an additional 51 tribal and 12 federal hatcheries)
- Fishing, hunting, and shellfish licensing and permitting
- Conservation including fish and wildlife management and research
- Habitat preservation
- Fish and wildlife law enforcement
- Land management
- Wildlife viewing

Department of Agriculture activities include:

- Commodity inspection
- Food safety
- Pesticide management
- Plant protection
- International market development for state agriculture products
- Animal health

Department of Natural Resources activities include:

- Upland and aquatic lands
- Forest Practice standards
- Fire prevention and suppression
- Recreation & natural areas
- Geology

State Parks and Recreation has about 40 million visits per year through operation of:

- 117 parks, 5 heritage sites, 13 interpretive centers, and more than 600 historic properties.
- 4,000 miles of trails, including 700 miles of hiking trails, mountain biking trails in nearly 3 dozen parks, equestrian trails in 10 parks and many ocean beaches, and a few water trails
- 140 boat launches covering over 40 parks
- Manages over 120,000 acres

Smaller Agencies/Boards/Commissions

- **Conservation Commission**: Provides non-regulatory outreach and grants to landowners for conservation and environmental restoration.
- **Columbia River Gorge Commission**: Sets land use policy in the Columbia River Scenic Area.
- **Recreational Conservation Office**: Administers grant programs for outdoor recreation, habitat, and farmland protection, provides administrative support for five boards, and provides policy and planning for development of outdoor recreation for the state.
- **Washington Pollution Liability Insurance Agency**: Provides secondary insurance for oil/gas tanks.
- **Environmental and Land Use Hearings Office:** Supports four independent and impartial boards that resolve appeals related to natural resources regulations, and land disputes related to the Growth Management Act.
- **Puget Sound Partnership**: Coordinates state efforts to protect water quality of Puget Sound and efforts to restore Hood Canal.

Other Budget Items

EXPENDITURE LIMIT

Overview of the State Expenditure Limit

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund (GF-S). The initiative has been amended several times since then. (I-601 also enacted restrictions on legislation raising taxes and fees, which are covered in the next briefing section.)

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. Previously, the fiscal growth factor was the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years. Beginning with the 2007-09 biennium, the fiscal growth factor is based on a 10-year average of state personal income growth.

Funds the expenditure limit applies to

The expenditure limit originally applied only to the State General Fund. Beginning with the 2007-09 biennium, the state expenditure limit applied to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account (including the Equal Justice Sub Account); Water Quality Account; and Student Achievement Fund). These related funds merged with the General Fund-State effective July 1, 2009.

Adjustments to the expenditure limit

The expenditure limit is adjusted downward annually to reflect the extent to which actual 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 are required when program costs or moneys are shifted out of the State General Fund or related accounts to other dedicated accounts. Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund or related accounts 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.

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 consists of the Director of Financial Management, the Attorney General or designee, the chairs of the Senate Ways & Means and the House Appropriations committees, and the ranking minority members of the Senate Ways & Means and the House Appropriations committees of the Legislature.

Expenditure Limit Summary

FY 2012	$16.12 billion
FY 2013*	$15.88billion
2011-13 biennium*	$32.00 billion
FY 2014**	$16.09 billion
FY 2015**	$16.64 billion
2013-15 biennium**	$32.73 billion
FY 2016**	$17.34 billion
FY 2017***	$18.06 billion
2013-15 biennium**	$35.40 billion

*Actual GF-S spending for FY 13 ($15.48 billion) is used to calculate the limit for FY 14.
**Estimated/preliminary. The expenditure limit is subject to change based on rebasing, changes to the fiscal growth factor, and legislative actions.
*** Unofficial calculation for planning purposes.

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

RESTRICTIONS ON LEGISLATION THAT RAISES TAXES AND FEES

History

These restrictions were first enacted by the voters in 1993 as Initiative 601. Among other things, I-601 required a two-thirds vote of both houses in the Legislature to increase state revenue. In 1994 the state Supreme Court rejected a challenge to I-601, concluding that it lacked jurisdiction over the case. The Legislature temporarily suspended the super-majority requirement from March 2002 through June 2003 and again from April 2005 through June 2006.

Initiative 960, enacted by the voters in 2007, re-imposed the super-majority requirement to increase taxes, and stated that the Legislature may refer tax increases to the voters through the referendum process. I-960 also required prior Legislative approval of new or increased fees. It established publicity and cost projection requirements for legislation that increased taxes or fees, and required an advisory vote for legislation that raises taxes without appearing on the ballot as a referendum.

In 2010, the Legislature suspended until July 1, 2011, the two-thirds vote requirement for tax increases and the requirement for an advisory vote.

In 2010, voters enacted Initiative 1053, which reinstated the statutory requirement that any action by the Legislature that increases taxes must be approved by at least two-thirds of the members in both houses or by referral to the voters. I-1053 also re-imposed the requirement that new fees or fee increases must be approved by a majority legislative action both houses.

In May 2012 King County Superior Court Judge Bruce E. Heller ruled that the super-majority requirement for tax increases under I-1053 is unconstitutional on the ground that the state constitution's legislative majority vote provision prevents a statute from imposing a higher vote requirement (*League of Education Voters, et al. versus State of Washington*). In July 2012 the state Supreme Court accepted direct and expedited appeal of Judge Heller's decision but did not stay his order, meaning that I-1053's requirement for a super-majority to raise taxes is unconstitutional pending the Supreme Court's decision on the matter. During the 2013 Legislative session, the State Supreme Court held that the two-thirds supermajority vote requirement was unconstitutional.

In November 2012 voters approved Initiative 1185 which reinstated I-1053 using virtually the same language. The Supreme Court's 2013 decision makes the two-thirds supermajority requirement in Initiative 1185 ineffective.

Summary of Current Tax and Fee Restrictions

Tax vote requirements. Based on the Supreme Court's ruling a constitutional (simple) majority is required to raise taxes. Legislation that raises state taxes is subject to the publicity and cost projection requirements.

Advisory votes. Legislation that raises taxes must appear on the ballot for a non-binding advisory vote if the legislation is not otherwise placed on the ballot for voter approval.

Fee increases. New fees or fee increases imposed by a state agency require prior legislative approval. A two-thirds vote is not required for fee increases. Legislation that imposes or increases state fees is subject to the publicity and cost projection requirements.

Publicity and cost projection requirements. When legislation that increases or creates taxes or fees is introduced, the OFM must prepare 10-year cost projections, and it must publicize this information to legislators, news media, and the public, along with contact information for the legislators sponsoring the legislation. When this legislation is scheduled for a committee hearing or voted out of committee, OFM must update and re-publicize the cost projection, along with committee members' contact information and votes on the bill. Likewise, when a bill passes off the floor of either chamber, OFM must update and re-publicize the cost projection, along with legislators' contact information and votes on the legislation.

Examples of when these tax and fee restrictions do not apply. These provisions do not apply to local government taxes or fees, or to governmental charges that are neither taxes nor fees (for example, fines and penalties, or charges for commercial transactions).

DEBT SERVICE

Debt Service Paid by the Operating Budget

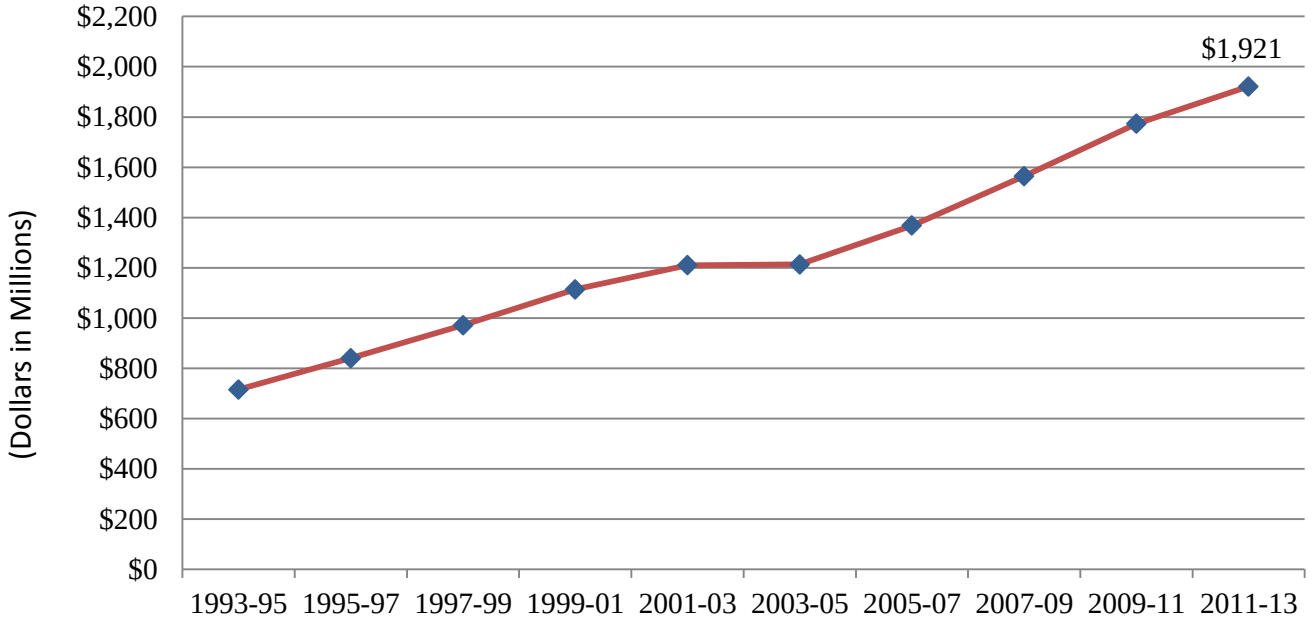
- **Bonds** to finance the capital budget are issued as needed as projects are completed over about a 4-6 year period**.**

- 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 six years. Under Engrossed Senate Joint Resolution 8221, adopted by voters in November 2012, the constitutional limit of 9% of general state revenue (GSR) is phased down to 8% of GSR by 2034, and the state portion of property tax is added to the definition of GSR.

- **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.

General fund debt service payments are $1.92 billion in the 2011-13 biennium or 5.9% of near general fund and related account expenditures



Debt Service as % of NGFS & Related Accts	4.3%	4.6%	4.9%	5.0%	4.9%	4.7%	4.5%	4.8%	5.7%	5.9%

Federal Patient Protection and Affordable Care Act

Federal Patient Protection and Affordable Care Act (ACA)

Background - Originally the ACA required all states to expand Medicaid in 2014 or lose all federal Medicaid matching funds. The U.S. Supreme Court held that mandatory Medicaid expansion is an unconstitutionally coercive use of federal spending authority by Congress on the states. The court retained the Medicaid expansion provisions but made it optional for states. Washington had to decide, among other things, whether to expand Medicaid under the ACA, and did so in the affirmative.

Eligibility Changes - The ACA changes the eligibility requirements for Medicaid, going to a Modified Adjusted Gross Income (MAGI) standard. Under MAGI, the adjusted gross income is calculated under federal income tax provisions plus any foreign income or tax exempt interest received. This applies to families, children, pregnant women, and to newly eligible clients under the expansion. There is a 5% income disregard and there is no longer an asset test.

Federal Match - The regular Medicaid federal match (FMAP) for Washington is 50% (the state covers the other 50%). Under the ACA Medicaid expansion, for states that opt-in, newly eligible populations receive 100% federal match beginning in 2014 and gradually decreasing to 90% in 2020.

Health Insurance Exchanges - All states must establish an affordable health insurance exchange to provide information on health insurance plans and subsidies depending on level of income, or the federal government will provide the exchange in states that do not establish their own. Washington established an exchange called the Washington Healthplanfinder.

"Welcome Mat" Outreach, the individual mandate (upheld by the court), and the "no wrong door" interface in the Washington health benefits exchange are expected to increase enrollment of currently eligible Medicaid clients by 60,000. The Healthplanfinder began taking applications October 1, 2013. Coverage began on January 1, 2014.

Other ACA Items - The following items are unrelated to the expansion:

- The Children's Health Insurance Program (CHIP) receives enhanced federal matching funds from October 1, 2015 through September 30, 2018;
- The primary care physician rate increase, in which states pay Medicare rates in 2013 and 2014 and the federal government pays for the enhancement; and
- The federal government matches administrative costs to implement MAGI.

Washington Opts in to Medicaid Expansion - In the 2013 session, Washington chose to participate in the Medicaid expansion under the ACA effective January 1, 2014. During the first three years of Medicaid expansion, the federal government will provide a 100% match for the newly eligible groups' medical costs. The Health Care Authority and other state agencies will phase out various state-funded programs or streamline and reduce duplicate coverage and services provided under the ACA. Approximately $351 million in state savings is anticipated in the 2013-15 biennium as a result of the Medicaid expansion.

PENSIONS

Summary of the State Pension System

Pension Funding – The primary goal of a pension system is to accumulate enough money during a member's working career to pay retirement benefits after the member retires. Actuaries use actuarial funding methods to determine how much employers and employees need to contribute to pensions currently to pay for future retirement benefits. Investment returns play an important role in pension funding and impact the necessary contribution amount of employers and employees over time. Pension funds are invested by the State Investment Board.

The actuarial status or soundness of pension plans depends over time on appropriate employer and employee contribution rates which are impacted by investment returns and future plan/benefit provisions.

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 $61 billion (as of June 2011). As of December 2012, there are 291,000 active members paying into the system, 138,000 receiving benefits, and 220,000 inactive members (left employment, not yet receiving benefits). Approximately $2.9 billion is paid out annually in retirement benefits.

- The Public Employees Retirement System (PERS) was created in 1947 and includes most state, city, and county employees (about 232,000 active members and retirees in 2011). There are three plans under this system, PERS 1 (closed), PERS 2, and PERS 3.

- The Teachers Retirement System (TRS) was created in 1937 and includes certified school employees including teachers and certified administrators (about 108,000 active members and retirees in 2011). There are three plans under this system, TRS 1 (closed), TRS 2 (closed), and TRS 3.

- The School Employees Retirement System (SERS) was created in 2000 and covers non-certified school employees (about 59,000 active members and retirees in 2011). There are two plans under this system, SERS 2 (closed) and SERS 3.

- The Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) was created in 1969 and covers full-time police, deputy sheriffs, and firefighters (about 27,000 active members and retirees in 2011). There are two plans under this system, plan LEOFF 1 (closed) and LEOFF 2.

- The Washington State Patrol Retirement System was created in 2003 and covers commissioned officers of the Washington State Patrol (about 2,000 active members and retirees in 2011). There are two plans under this system, WSPRS 1 (closed) and WSPRS 2.

- The Public Safety Employees Retirement System (PSERS) was created in 2004 and took effect in 2006. It currently has about 4,200 active members and retirees. There is one plan under this system, PSERS 2.

- 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.

Actuarial status

While the state retirement plans that are currently open to new members (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 (June 2011), the UAAL for PERS 1 and TRS 1 combined is $5.5 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified within the actuarial funding chapter. The payments towards the Plan 1 UAAL are included in employer (state) rates and are not shared by members.

The most recent actuarial evaluation by the State Actuary finds that Washington State has an actuarially sound pension system given the fully funded open plans and the statutory plan to address the UAAL in PERS 1 and TRS 1. The significant negative investment returns in recent years will put upward pressure on contribution rates even as these losses are smoothed over 8 years based on the asset valuation method used by the state.

Gain-sharing lawsuit

Gain-sharing was created in 1998 as a mechanism to increase member benefits in several retirement plans by sharing extraordinary investment gains. Gain-sharing was not expected to impact contribution rates. Language was included when gain-sharing was created to reserve the right of the Legislature to amend or repeal gain-sharing benefits. There have been three gain-sharing distributions which resulted in combined benefit improvements costing roughly $2.0 billion. In 2004, gain-sharing was determined to be a material liability to be included in the calculation of basic contribution rates recommended by the State Actuary to the Pension Funding Council. In 2007, the Legislature repealed gain-sharing. This repeal is being challenged in court; a recent trial court decision on the main gain-sharing question ruled largely against the state. It is currently on appeal. Related issues in the case are still before the trial court.

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 Ways & Means 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.)

LEGAL AND OTHER BUDGET CONSIDERATIONS

Other Considerations in Writing the Operating Budget

The State Constitution

The state constitution contains many restrictions on legislation and the process of legislating. Many of these restrictions are mainly procedural--in other words, they affect *how* the Legislature enacts the laws rather than *what* types of laws the Legislature may enact. For the Appropriations Committee, these procedural requirements generally affect what may be included in the operating budget, what types of restrictions may be placed on appropriations, and which appropriation items the governor may veto.

In other cases, the constitution places substantive limits on what the Legislature may enact. In other words, the constitution prohibits the Legislature from enacting certain types of legislation. Substantive restrictions most frequently discussed in the context of the operating and capital budget are lending of credit and special legislation.

The Title/Subject Rule (Procedural)

Article II, section 19 requires that a bill contain only one subject and that this subject be expressed in the bill's title. The first part of the test requires a rational unity among the subparts of a bill; the second part requires that the bill's subject matter be expressed in its title. The purposes of the title/subject rule are preventing "logrolling" and informing legislators and the public of the subject matter of pending legislation. Because budget bills have broad titles and subjects, courts traditionally have given the Legislature a significant amount of latitude in this area and generally allow any subject reasonably germane to the appropriations to be included in the bill. The courts have ruled, however, that this constitutional provision prevents the Legislature from making "substantive law" in the budget bill. The courts generally consider three criteria when determining whether 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 (Procedural)

Article VIII, section 4 establishes the Legislature's authority over the budget process. This section has three main provisions: (1) Before state agencies may spend money from accounts in the state treasury, they must receive an appropriation in law. In other words, appropriations must be made in bills that pass both houses and are approved by the Governor. (2) Appropriations are temporary in nature. They may be enacted only for made only for the two-year budget cycle and they expire at the end of that cycle. (3) All appropriations must specify an amount, an account, and a purpose.

In some cases, agencies may make expenditures without an appropriation. First, some accounts are non-appropriated and in the custody of the State Treasurer rather than the state treasury. These accounts do not require a specific appropriation if the Legislature establishes the account in that manner. Second, a statutory "unanticipated receipts" process permits expenditure of some non-state moneys without an appropriation if the moneys were not anticipated in the budget and the legislators are notified and given an opportunity to comment.

Governor's Item Veto Powers (Procedural)

Article III, section 12 establishes the Governor's veto power. Generally, for policy bills, the Governor may veto only entire sections of the bill--the Governor may not veto words, sentences, or subsections. In budget bills, the Governor may veto appropriation "items." Items include dollar appropriations and provisos that condition or limit appropriations. In general, the Governor may not veto less than an entire proviso or subsection. If the Governor vetoes a proviso that directs funds within a lump sum appropriation, the veto results in a reduction of the overall appropriations.

Prohibition on Lending of Credit/Gifts of Public Funds (Substantive)

Article VIII, sections 5 and 7, along with Article XII, section 9, prohibit the state and local governments from: (1) making gifts or loans of public funds to private individuals or corporations; (2) investing in private corporations (subject to specified exceptions); or (3) otherwise lending public credit to private individuals or corporations. These prohibitions apply equally to for-profit and non-profit corporations. In addition, Article VII, section 1 requires that tax revenues be spent only for public purposes.

Court decisions interpreting these provisions have established several criteria to determine whether state actions are a prohibited lending of credit or gift of public funds. First, governments may provide assistance to the poor or infirm, or to entities whose purposes are wholly public (such as local governments). Second, governments may lend credit or use public funds for fundamental purposes of government, even if these actions result in private benefit. Third, if public funds are otherwise provided to a private individual or corporation, the expenditure cannot be a loan, gift, or guarantee and must have adequate consideration--that is, legally sufficient compensation to the public in exchange for the benefit received. In addition, courts ask whether the private benefit is incidental to the larger public benefit, and whether public funds have otherwise been placed at risk.

Legislative acts, including appropriations in budget bills, are presumed to be constitutional by the courts. Expenditures with a clearly public purpose that address clear needs, that use a reasonable fiscal and policy approach, and that contain safeguards to ensure the public purpose is accomplished and public funds are protected are more likely to withstand a lending of credit challenge.

Special Legislation (Substantive)

Article I, section 12 and Article II, section 28 may prohibit the Legislature from enacting "special laws"--that is, laws operating on only one individual, private corporation, or municipal corporation. To avoid violating these restrictions, a law must operate on categories or classes rather than specific individuals or entities. A class may consist of one person or corporation, so long as the law applies equally to all members of that class and the law's exclusions are rationally related to the purpose of the statute.

Balanced Budget and Four-year Outlook Requirements

SSB 6636, enacted in 2012, requires that, beginning with the 2013-15 biennium, the legislature adopt a balanced operating budget appropriations bill that leaves a projected positive ending fund balance at the end of the current biennium in the General Fund-State and related accounts. In addition, the projected maintenance level budget cannot exceed the

available fiscal resources for the ensuing biennium as calculated for purposes of the balanced budget requirement based on the provisions of SSB 6636.

The Economic and Revenue Forecast Council oversees the preparation of and approves the state budget outlook. A state budget outlook must be published each November based on the November caseload and revenue forecasts, each January based on the Governor's proposed operating budget, and 30 days after a budget is enacted by the Legislature.

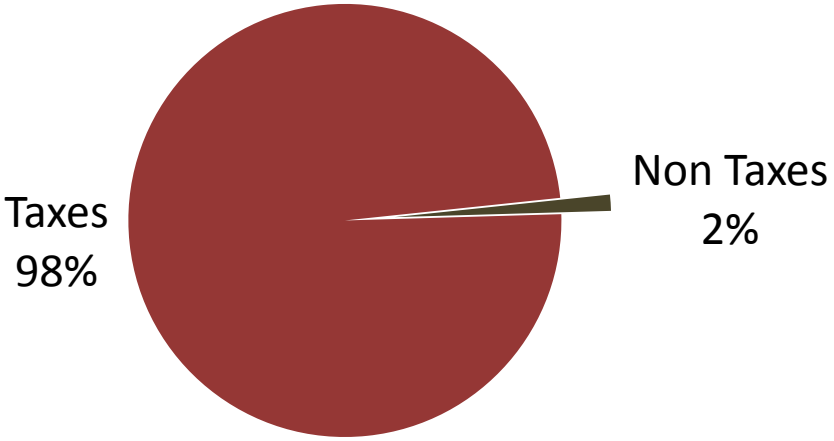
Additional details and previous outlooks can be found on the Economic and Revenue Forecast Council's website at:

http://www.erfc.wa.gov/forecast/budgetOutlook.shtml

Appendix 1:
Revenue Overview

Most General Fund Revenue Comes From Taxes:

General Fund State



General Fund Revenue by Source:

Forecast by Source	2013-15 Biennium	
Tax	**Amount (in Millions)**	**Percent of GF**
Retail sales & use	$16,350.03	50.2%
Business & occupation	$ 6,658.32	20.4%
Property (state school levy)	$ 3,945.08	12.1%
Other	$ 1,377.98	4.2%
Real estate excise	$ 969.89	3.0%
Insurance premiums	$ 948.94	2.9%
Cigarette & tobacco products	$ 908.53	2.8%
Public Utility	$ 859.72	2.6%
Liquor, beer and wine	$ 542.17	1.7%
Total:	**$32,560.67**	**100.0%**

Retail Sales Tax

- State Rate: 6.5% of selling price.
  - Plus local option rates.
  - Total (state + local) rate ranges from 7.0 to 9.5%.
- Applies to: Retail sales and use of goods, and services such as construction and repair.
- Major exemptions: Food, prescription drugs, many services, manufacturing machinery and equipment.

Business and Occupation Tax

- State Rate: Ranges from 0.138% to 3.3%.
  - Most common rates: 0.471% - Retailing; 0.484% wholesaling/manufacturing; 1.8% services and other activities.
- Applies to: Business gross receipts.
- Major exemptions: Investment income, rental of real estate, real estate loans, manufacturing equipment, agriculture, very small businesses.

Property Tax

- Rate: Varies each year.
  - State rate for 2013: $2.31 per $1000 assessed value.
  - Local: Varies by district.
  - State and local average combined rate for 2013: $12.48
- Applies to: Assessed value of property.
- Assessed value = market value, with some exceptions.
- Major exemptions: Government property, property of some nonprofit organizations, seniors' residences (partial exemption), household goods, business inventories.
- Oldest and most complex.
- Assessed value has less impact on collections than one might think.
- State collections may grow 1% plus new construction.

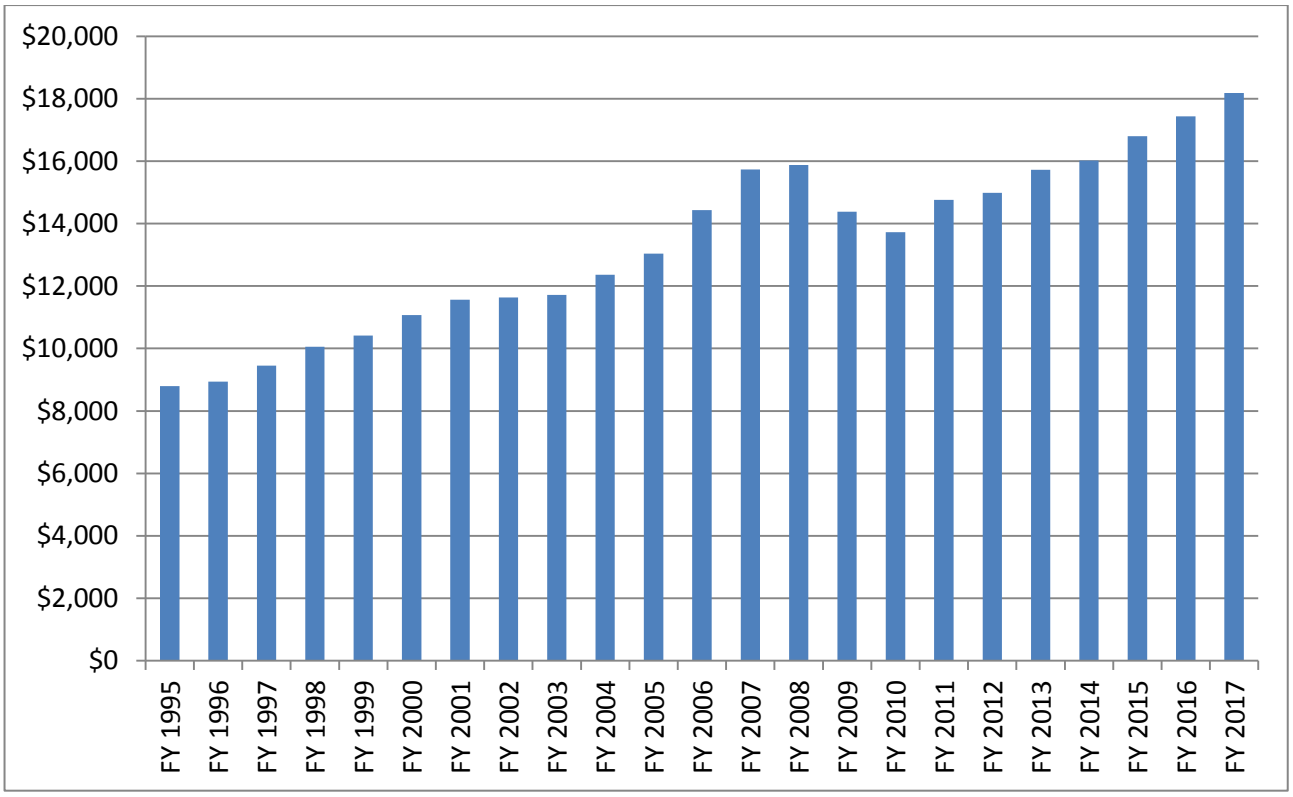
Property Tax: Constitutional Restrictions

- Constitutional uniformity requirement:
  - Assessed values must be a uniform percentage of market value.
- Constitutional 1% limit:
  - Tax rates must not exceed 1% of value, unless voter approved (e.g. school levies).
  - 1% = $10 per thousand dollars of value.

Revenue Forecast Process

- Revenue Forecast is updated four times a year
  - March (February in even-numbered years)
  - June
  - September
  - November (basis for Governor's budget proposal)
- Economic and Revenue Forecast Council
  - Employs forecast supervisor
  - Six members, one member from each caucus of House and Senate plus two Governor appointees

Historical and Projected NGFS Revenue Collections Since 1995:



Appendix 2:
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 2013-15 biennium begins on July 1, 2013 and ends June 30, 2015).

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. Entitlement program caseloads are forecasted by the Caseload Forecast Council.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and that may only 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 year is the 12-month period from July 1 through the next June 30. Fiscal Year (FY) 2013 begins July 1, 2012 and ends June 30, 2013. 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 Governor's 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:* 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.

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 (one notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies, typically 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."