House Capital Budget Committee

2009 Briefing Book

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House Capital Budget Committee

2009 CAPITAL BUDGET COMMITTEE

Members

Representative	Leg Assistant	Office	Phone
Hans Dunshee, Chair	Ann Seabott	JLOB 239	7804
Timm Ormsby, Vice Chair	Shannon Waechter	LEG 122F	7946
Judith Warnick, Ranking Minority	Kyle Lynch	JLOB 403	7932
Kirk Pearson, Assist Ranking	Cameron Bailey	LEG 132C	7816
Brian Blake	Shirley Wilcox	JLOB 304	7870
Maralyn Chase	Marylyn Hawkins	JLOB 433	7880
Mike Hope	Blair Anderson	JLOB 439	7892
Jim Jacks	Becky Hellman	JLOB 322	7924
Marcie Maxwell	Robert Knoll	JLOB 324	7894
Jim McCune	Amy Cruver	JLOB 413	7824
Tina Orwall	Mary Soderlind	JLOB 332	7834
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COMMITTEE STAFF

Nona Snell, Staff Coordinator		JLOB 212	7153
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Community, Trade & Economic Development
Convention and Trade Center
Ecology
Office of Financial Management
Department of Health - Drinking Water
Local and Community Projects
Debt Limit/Bond Model

Steve Masse 786-7115

Corrections
Employment Security
General Administration
Higher Education
- Community & Technical Colleges
- Western Washington University
- Eastern Washington University
- Central Washington University
- The Evergreen State College
- Washington State University
- University of Washington

Information Services
Dept of Health (Except Drinking Water)
Military Department
Labor and Industries
Secretary of State
Social and Health Services
Veterans' Affairs
Washington State Patrol
Alternative Financing

Annie Pennucci 786-7142

Agriculture
Archaeology & Historic Preservation
Conservation Commission
Criminal Justice Training Commission
Fish and Wildlife
Eastern Washington State Historical Society
Department of Natural Resources
Parks and Recreation Commission
Personnel
Puget Sound Partnership
Recreation and Conservation Office
School for the Blind
School for the Deaf
Office of the Superintendent of Public Instruction
Washington State Historical Society

CAPITAL BUDGET COMMITTEE POLICIES
2009 SESSION

1. **Hearing Schedule**

   a) All committee meetings are normally published in the Weekly Legislative Meeting Schedule. Updated agendas will be emailed to members and staff upon approval by leadership.
   b) There is typically a minimum of three days between a Public Hearing and Executive Session on bills.

2. **Draft Bills**

   Draft bills will not be heard in committee. If a member wishes to have a bill before the committee, the bill must be introduced on the floor of the House and referred to the committee, allowing time for public notice and distribution.

3. **Amendments to Bills in Committee**

   a) Oral amendments will not be accepted, with the exception of very short and simple clarifying amendments, with the consent of the committee chair.
   b) All amendments must be prepared by committee staff.
   c) All requests for amendments must be given to committee staff by noon on the day prior to committee vote.
   d) Requests for amendments must be made by a member or other legislative staff at the request of the member. Amendments will not be prepared at the request of a lobbyist.
   e) Only committee members may sponsor an amendment.

4. **Committee Reports**

   All committee reports must be signed by members before leaving the hearing room after committee meetings. Absent members may not sign committee reports after the committee has adjourned.

5. **Role of Committee Staff**

   Committee staff are employees of the Office of Program Research (OPR), a non-partisan office that was created by the House in 1973. The purpose of committee staff is to provide objective information and analysis to assist House members in making informed judgments about issues before the Legislature. The types of staff work products may include: drafting bills, preparing bill analysis for bills referred to committee, forecasts of expected consequences, pros and cons of various alternatives, comparisons with other states, and research on specific issues.

   Committee staff work for all members of the House. For this reason, it is essential that staff provide neutral, nonpartisan information and maintain confidentiality and a relationship of trust with all House members.

There are three types of Capital Budget Committee staff positions:

1) Fiscal Analysts: The analysts provide written and oral reports to the committee, research and analysis of issues, and prepare bills and amendments to bills, including the capital budget bill.

2) Counsel: The counsel provides legal assistance for bill and amendment drafting and responds to questions on legal issues.

3) Legislative Assistant: The legislative assistant provides the necessary support functions for the committee and committee staff, including agenda production, Electronic Bill Book (EBB) management, committee correspondence, hearing room coordination for committee meetings, maintain committee records, and recording committee action.

Committee business is the staff's primary responsibility and this work comes first in the event of time conflicts with non-committee work. Most of the staffs' day-to-day workload is determined by the committee agenda, which is established by the committee chair. The priority given to staff work assignments is as follows:

1) Agenda items for committee meetings.
2) Work requests from committee members.
3) Work requests from other House members.

6. Role of Staff During Committee Meetings

Committee staff participate in committee meetings when requested to do so. Typically the chair will ask staff to make oral presentations, and the staff will respond to questions raised by the chair or other committee members. When making presentations or responding to member questions the staff will not:

1) express his or her personal opinion;
2) defend or take an advocacy position of any organization, agency, or political party;
3) question individuals who testify before a committee; or
4) violate the confidential trust of a member.

In addition, staff are not to make determinations on parliamentary procedure. It is the prerogative of the chair to make rulings on parliamentary procedures. It is not appropriate for staff to engage in any of the activities mentioned above; members please don't ask them to do so.

7. Staff Confidentiality

Committee staff assume all requests for information, bill drafts, and amendments are confidential unless specifically told otherwise by the member. If a member wants information about another member's bill or research, please contact the member directly. It is helpful to identify the name of the requesting member on requests for information from state agencies or other organizations. In

these circumstances the staff will ask the member if their name can be used to expedite the information gathering process.

Generally the following events cause a confidential document to become public:

1) A bill is introduced and becomes a public record.
2) An amendment is specifically released by the sponsor or once there is a motion to adopt the amendment.

Often the committee will hold a Republican and Democratic caucus (non-public) to discuss a bill or an amendment prior to voting on the measure. Staff will make all amendments available at the caucus meetings unless specifically requested otherwise by the sponsor.

Remember, all meetings are recorded for the public record and all conversations that can be picked up by the microphones are broadcast throughout the capitol campus on the black speaker boxes and are recorded/broadcast by TVW.

Representative Hans Dunshee
Chair, Capital Budget Committee

Budget Overview

Background

Washington State typically adopts three budgets on a biennial budget cycle. The Legislature authorizes expenditures for operating, capital, and transportation purposes for a two-year period, and authorizes bond sales through passage of a bond bill associated with the capital budget. The capital budget for the 2009-11 biennium covers the period from July 1, 2009 through June 30, 2011. The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two–year budget often is passed during the even-numbered years.

Operating Budget - The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and public schools. Employee salaries and benefits, leases, goods and services, and public assistance payments are typical operating expenses. More than half of the operating budget is funded by the State General Fund with the balance from federal and other funding sources. The House committee primarily responsible for the operating budget is the House Ways and Means Committee.

Capital Budget - The capital budget includes appropriations for construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, farmworkers and others, and for other capital facilities and program. Approximately half the capital budget typically is financed by state-issued bonds while the rest primarily is funded by dedicated accounts, trust revenue, and federal funding sources. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take four or more years to design and construct. The House committee primarily responsible for the capital budget is the Capital Budget Committee.

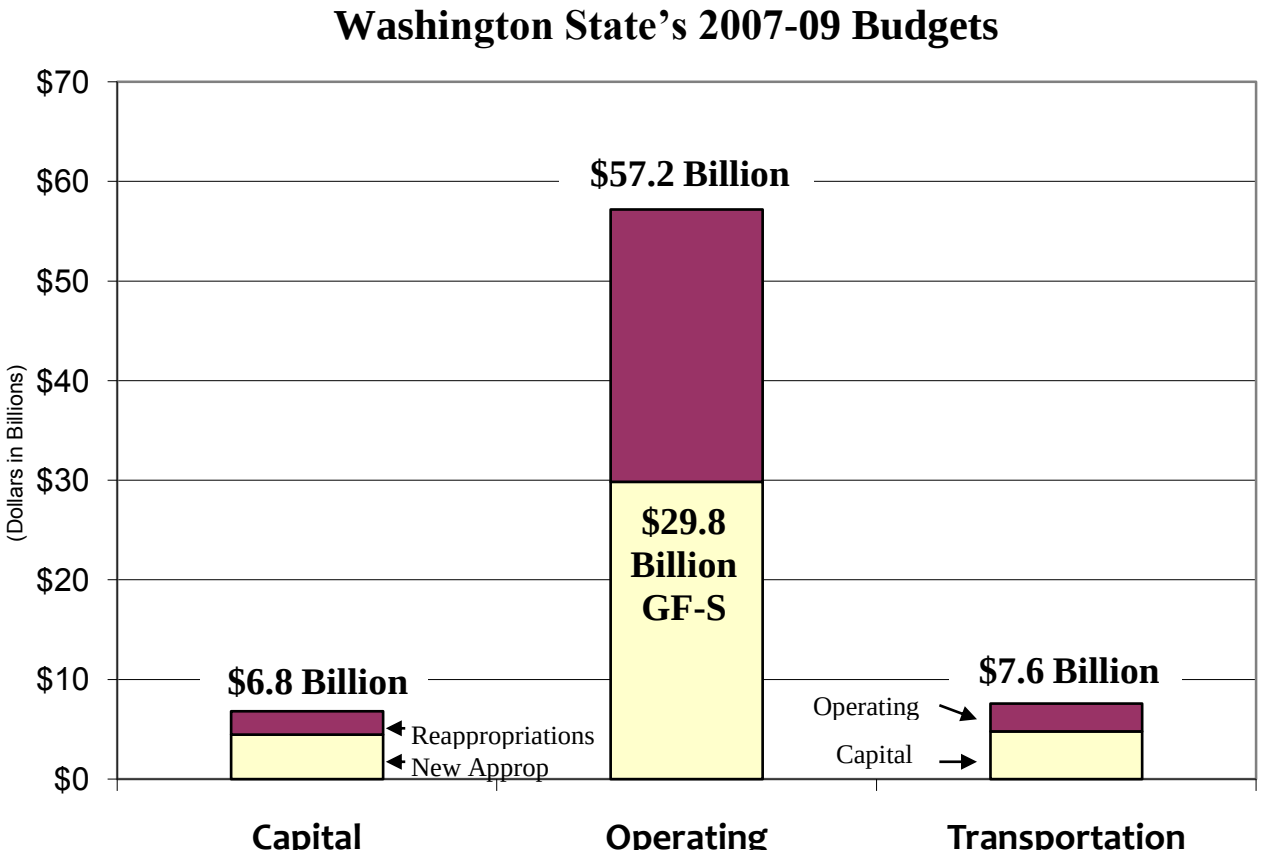
Transportation Budget - The transportation budget includes the operating and capital costs of state and local highways, ferries, motor vehicle registration and enforcement. About 81 percent of the transportation budget is funded by state resources, 1 percent from local sources, and the balance from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget. The House committee primarily responsible for the transportation budget is the Transportation Committee

Relationship between the Capital Budget and the Operating Budget

While the proceeds of bond sales are appropriated in the capital budget, the operating budget pays the debt service on the bonds. Debt service for the 2007-09 biennium is approximately $1.6 billion, or 5.3 percent of the State General Fund in the operating budget. Operating budget decisions can affect the capital budget and visa versa.

Budget Process

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



Source: Legislative Evaluation and Accountability Program Committee, December 2008.

Of the three state budgets, the **operating budget** is by far the largest. For the 2007-09 biennium, the State General Fund is the major state funding source, with primary revenues from the retail sales tax (53%), the B&O tax (19%), property taxes (10%), and the real estate excise tax (5%). Federal and other funds appropriated are under half the total budget.

About half of the **capital budget** is funded by state bonds. There is $4.5 billion in new appropriations of all fund sources, $2.2 billion funded by bonds. In addition, there are $2.4 billion in reappropriations of all fund sources.

The **transportation budget** funds both the capital (75%) and operating (25%) costs of state transportation programs. Its primary source of funding is the state gas tax, licenses, fees, and other state revenue (82%, including 25% bonds), federal funds (17%), and local funds (1%).

Capital Budget Overview

Size of the Capital Budget

The size of the capital budget typically is determined by the available bond capacity and by the moneys available from dedicated accounts, trust revenue, and other funding sources.

Bond debt limit - The amount of state bonds that can be issued in any year is limited by a constitutional debt limit and a statutory debt limit. The annual debt service (principal and interest payments) on outstanding bonds cannot exceed 9% of the three year average of general state revenues under the constitutional limit, and 7% under the statutory limit. General state revenues are not the same as State General Fund revenues (used in the operating budget). General state revenues typically are about 87% of State General Fund revenues. The debt limit refers to the amount of annual debt service, which limits the amount of bonds that may be issued (state's bond capacity).

Bond debt model - A model administered by the State Treasurer is used to calculate the available bond capacity or debt limit for the current budgeting period and for future biennia for planning purposes. The model calculates the actual debt service on outstanding bonds and estimates the debt service for the future based on certain assumptions. These assumptions include revenue, interest rates, rate of repayment, rate of issuance of the bonds, and other factors. The two primary considerations regarding bond capacity for any given year/biennium are: (1) maintaining the debt service, including the new bonds, below the debt limit in the future; and (2) maintaining a consistent bond capacity over time so that all the capacity is not used in one biennium, resulting in little capacity being available in following biennia. Typically the Legislature and the Governor, in consultation with the State Treasurer, agree on the assumptions and the bond capacity for the biennium so that the discussion focuses on policy and projects and not on bond capacity. Regardless of Legislative authorization, the Treasurer cannot issue bonds that would result in debt service exceeding the debt limit.

What is the Capital Budget?

1. The capital budget appropriates money for the construction and repair of the following:

    - Public school buildings
    - College and university buildings
    - Prison facilities and juvenile rehabilitation facilities
    - Mental health institutions
    - State office buildings
    - Parks and recreation facilities
    - Low-income housing
    - State and local museums and cultural facilities
    - Local government infrastructure improvements, including water and sewer systems

- Wastewater and toxic waste cleanup facilities
- Wildlife habitat conservation and open space projects

2. The capital budget also appropriates money for state land purchases.

3. Typically, capital projects funded by the capital budget have a useful life of more than 13 years and cost more than $25,000. This may include:

   - Acquisition of land and buildings
   - Construction of new buildings
   - Major repairs, reconstruction, and additions to an existing building
   - Utility, landscaping and infrastructure work
   - Equipment that is necessary for the operation of a particular facility if the equipment is part of a construction or reconstruction project. Does not include: commodities, replacement parts, cars and trucks, or maintenance supplies.
   - Architectural planning and design and engineering studies for a specific capital project
   - Administrative costs directly related to the capital project

4. The gray area between the capital and the operating budget includes:

   - Building repairs and building maintenance
   - Long-range development plans and feasibility studies
   - Administrative costs
   - Equipment purchases for new facilities
   - Employees

   The shade of gray sometimes depends on the fund source. The Office of Financial Management and the Legislature are traditionally stricter with general obligation bond money than other funding sources.

The Capital Budget Bill

Article 8, section 4 of the state constitution requires an appropriation in legislation before money from funds and accounts in the state treasury may be expended.

> "No moneys shall ever be paid out of the treasury of this state, or any of its funds, or any of the funds under its management, except in pursuance of an appropriation by law."

Major elements of the capital budget bill include:

- The agency to whom the appropriation is made.
- The purpose of the appropriation.
- The fund source and amount of the appropriation.
- The time period of the appropriation.
- Conditions or limitations on the appropriation, if any.
- Reappropriation, if any.

Sample Capital Budget Appropriation

NEW SECTION. **Sec. 807. FOR THE COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

South Seattle: Training Facility (05-1-854)

The appropriation in this section is subject to the following conditions and limitations: The appropriation is for the construction of a training facility and a separate academic/ administrative facility to replace light wood frame structures.

Reappropriation:

Gardner-Evans Higher Education Construction Account--State $710,002

Appropriation:

Gardner-Evans Higher Education Construction Account--State $9,272,283

Prior Biennia (Expenditures) $11,998

Future Biennia (Projected Costs) $0

TOTAL $9,994,283

Sources of Funding for the Capital Budget

- **Bonds** – The state issues General Obligation (GO) bonds to fund capital projects. Debt service is paid from the State General Fund (operating budget).

- **Trust Revenues** – State trust lands (primarily granted by the federal government) provide timber, mineral and lease revenue. This revenue is dedicated to K-12 school construction, higher education, and the state capitol. Prisons and mental health institutions also have dedicated trust lands.

- **Other Funds** – There are a number of dedicated funds from fees and taxes that are appropriated in the capital budget. Federal funds are also appropriated in the capital budget.

Phases of a Capital Project

Phases of a Capital Project	Who Performs the Work
Initial Planning/Predesign	Agency staff or consultants with active participation of agency staff for large projects
Design and Engineering	Private architectural and engineering firms (agency staff may work on small projects)
Construction	Private contractors (small projects under $25,000 may be completed by agency staff)
Land Acquisition	Department of General Administration, agency staff, or by consultants for large projects

Initial Planning/Predesign

Predesigns are an important part of the construction process and are required by statute on all projects that exceed $5 million. A predesign provides information on the project proposal including an analysis of alternatives to meet the need or solve the problem identified by the proposal. The predesign process includes data collection, analysis, organization, communication, and evaluation through which all the elements of a preliminary design or planning solution are explored. A predesign also provides cost estimates, and helps ensure that the completed project follows legislative intent. The complete project sometimes takes six or more years; typically a predesign is completed in one biennium, the design is approved in the next biennium, and construction in the third biennium. The predesign often is prepared by architectural consultants and usually includes a detailed space plan. A Project Request Report is required for a predesign. It focuses on the relationship of the proposed project to the mission, strategic planning, and program needs of the agency or institution, and cost implications.

Design and Engineering

The design and engineering phase takes place after the predesign is approved. The design is completed by a consulting firm specializing in that type of project proposed for construction. For example, the Department of Corrections may contract with a consultant with experience designing a prison complex. The design phase provides the drawings and specifications to construct the building, and a final cost estimate. Design typically takes 6-12 months depending on the complexity of the project.

Construction

After the design is completed and the construction phase of the project is authorized, the project is advertised for bidding. Private contractors will bid on the project, and for projects other than alternatively financed, the low responsive bidder is awarded the contract. The construction contract is between the state agency and the contractor. The agency must have the contract amount and a contingency in their appropriation to award the contract. Construction of a building can take 12-24 months depending on the size of the project. An office building may take approximately 12 months for construction, whereas a prison complex may take 24 months.

LEED Certification

All major facility projects funded in the capital budget, or projects financed through a financing contract are required by statute to be designed, constructed, and certified to at least the Leadership in Energy and Environmental Design (LEED) silver standard, to the extent appropriate LEED silver standards exist for a project type. This requirement applies to any entity, including public agencies and public school districts, although the school districts may use the Washington Sustainable School Design Protocol. Affordable housing projects funded in the capital budget must comply with the Evergreen Sustainable Standard adopted by the Department of Community, Trade and Economic Development.

Bills Referred to the Capital Budget Committee

The following are categories of bills typically referred to the Capital Budget Committee:

1. Bills that include appropriations for capital purposes including:

    - The capital budget bill
    - Other bills that make appropriations for facilities, land acquisition, grants for local facilities such as parks, art organizations, museums, and other cultural or recreational activities

2. Bills that affect or amend current programs funded by the capital budget, including:

    - Housing assistance
    - Water quality programs
    - Wildlife and recreation programs
    - Infrastructure programs

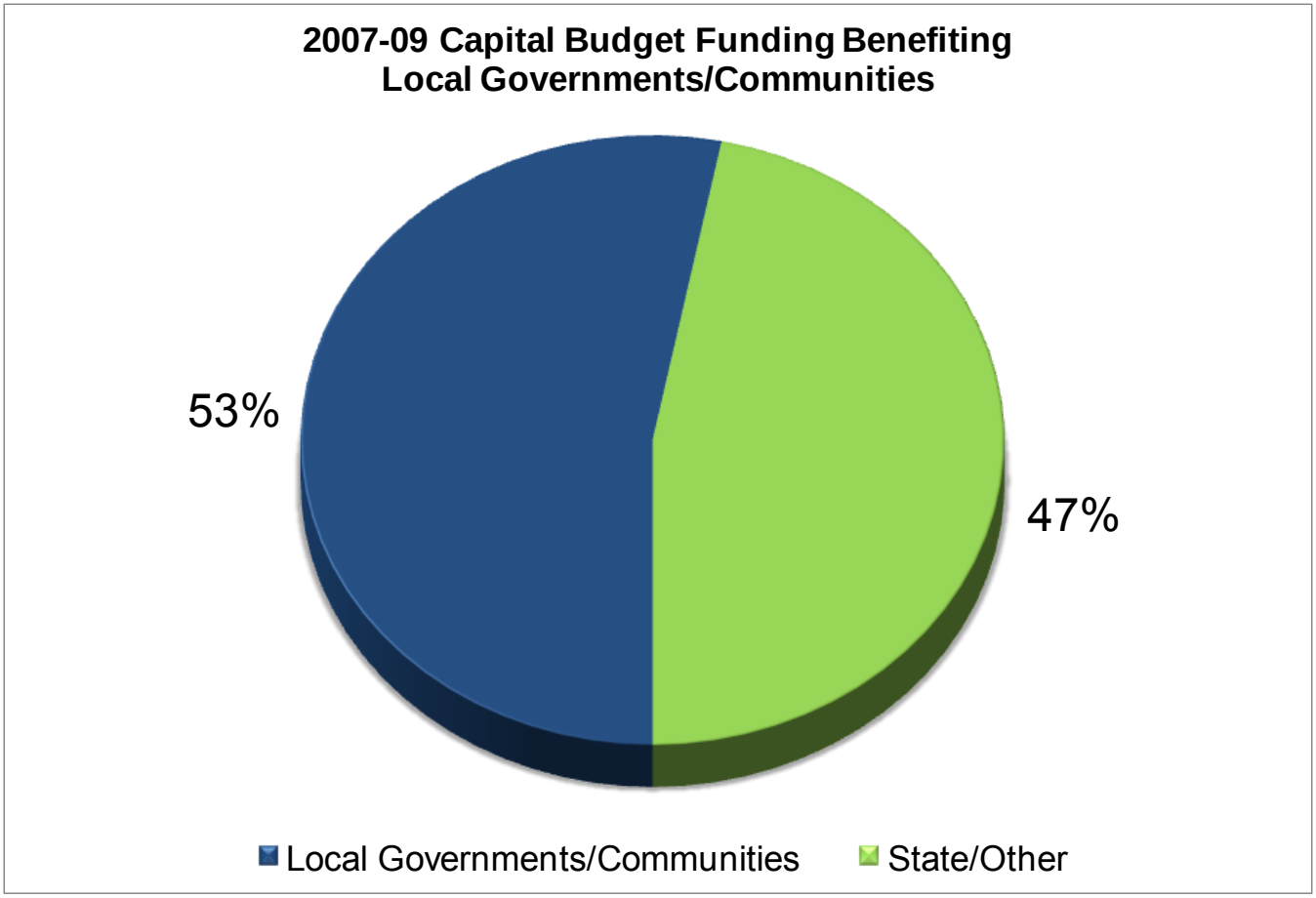
3. Bills that create or amend accounts used for capital purposes.

4. Bills that create new programs that obligate or create an expectation for future state capital appropriations.

5. Bills that relate to the ability of state or local governments to issue debt.

6. Bills that relate to facility management or to the state and local construction process.

Appropriations in the capital budget benefit local governments and communities, as well as state agency facilities and programs.



Programs benefiting local governments and communities are administered by the Department of Community, Trade and Economic Development; the Department of Ecology, the Recreation and Conservation Office (RCO); the K-12 School Construction Assistance program; and other programs.

Source: Office of Program Research, December 2008.

Bonds and the Debt Limit

Debt Limit and Bond Capacity

The Bond Bill

Under the State Constitution, the passage of a bond bill requires a 60 percent majority vote in both houses of the Legislature. The bill authorizes the State Treasurer to issue bonds that fund capital appropriations.

Major elements of the bond bill include:

1. Purpose of bonds.
2. Authorization for the State Finance Committee to issue bonds.
3. Amount of bonds to be issued.
4. The requirement for legislative appropriation of bond proceeds.
5. Identification of security for payment of bonds.

    - Pledges full faith and credit of the state to pay the obligation.
    - Identifies sources of payment.
    - Creates a special fund for payment of bonds.
    - Directs the State Treasurer to make payment into special fund on specific dates.

The capital budget has limited purpose if there is no bond bill to finance appropriations.

The Role of the State Finance Committee

The State Finance Committee is composed of the Governor, Lieutenant Governor, and the State Treasurer. The committee's responsibilities include the following:

1. Offers state bonds for sale in the bond market
2. Prepares "Official Statement" for each bond sale
3. Applies for bond rating from bond rating agencies
4. Performs reporting requirements to federal regulatory agencies
5. Makes principal and interest payments to bondholders

State bonds are normally sold two or four times each year depending on the cash needs of construction projects.

Bond Capacity

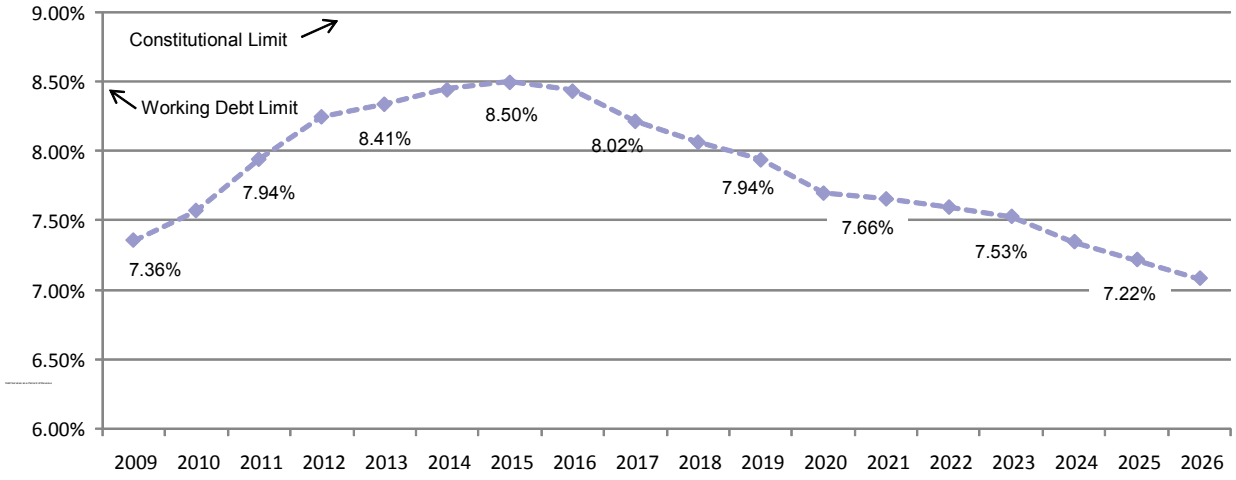
Bonds are issued as needed for projects as they are completed over about a four to six year period**.**

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 new bonds plus existing bonds to exceed the constitutional limit of 9% of general state revenue averaged over three years. (Changes to the statutory and constitutional debt limit calculations in 2003 and 2005 effectively make the constitutional limit the constraining limit.)

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 capital projects 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. *(See **Capital Budget Overview** for more information about the debt limit.)*

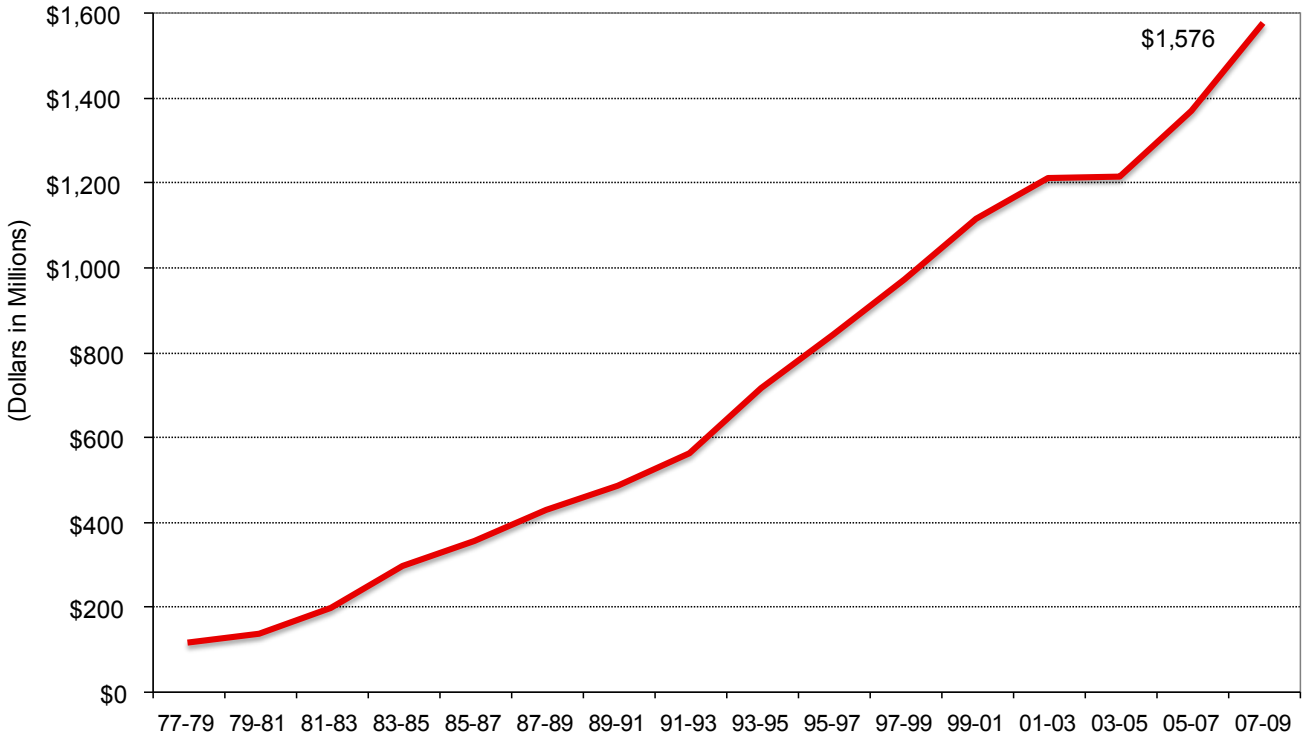
Bond Capacity under the 9% Constitutional Debt Limit



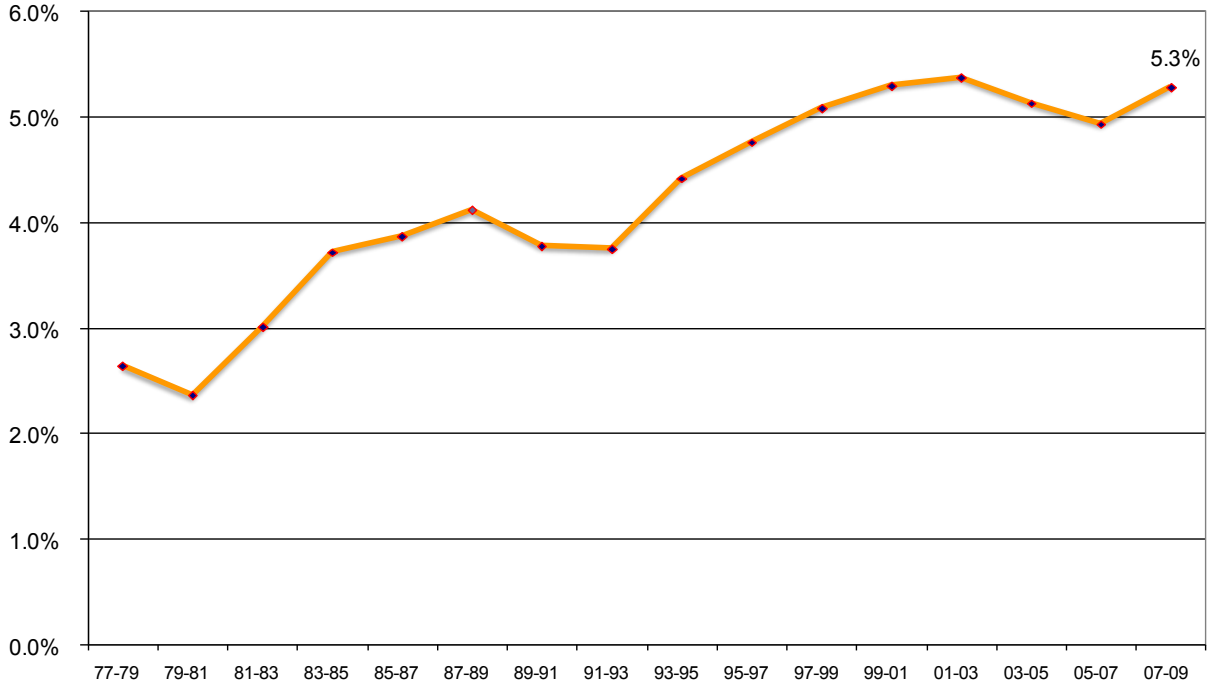
Amounts based on projected bond sales *Dollars in Millions*	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21	2021-23
General Obligation Bonds	$1,932	$1,589	$1,653	$1,719	$1,788	$1,859	$1,934	$2,011
Gardner-Evans HigherEd Bonds	222	0	0	0	0	0	0	0
Columbia River Basin Water Bonds	0	16	16	30	30	30	35	40
Chehalis River Basin Bonds	50	0	0	0	0	0	0	0
Total Debt LimitBonds Issued	**$ 2,204**	**$ 1,605**	**$ 1,669**	**$ 1,749**	**$ 1,818**	**$ 1,889**	**$ 1,969**	**$ 2,051**

Source: Office of Program Research, December 2008.

Debt Service Paid from the State General Fund



Debt Service Payments
Percent of State General Fund



Source: Office of Program Research, December 2008.

Washington's Bond Rating

There are three primary bond rating companies: Moody's, Standard & Poor's, and Fitch. In addition to rating government bonds, these companies provide a wide range of credit services related to the financial markets throughout the world. These activities include rating a variety of corporate and government securities, providing financial research and risk analysis reports, and publishing credit opinions and other financial information.

The three bond rating companies rate Washington's bonds using the same criteria they use for all states. The rating is an indication, but is not necessarily definitive, of how the rating analysts view the repayment risk. The rating then impacts what interest rate investors will require when purchasing the bonds. Typically, the better the bond rating, the better (lower) the interest rate. It is important to remember that several factors influence the interest rate Washington must pay on the bonds it issues; while the bond rating is one factor, other factors also may impact the rate significantly in a particular sale (such as economic outlook). A major downgrade in bond rating by one or more of these rating companies could cause investors to demand a higher interest rate on the bonds than they otherwise would.

Each of the rating companies use an alphabetical rating system, with AAA or Aaa being best, then AA or Aa, followed by A, BBB or Baa, BB or Ba, etc. Each rating company has a modifier for all but the top rating (AAA). For Moody's, a "1" following the letter rating means it is in the high end of the rating category, a "2" means it is in the middle of the category, and a "3" means it is in the lower end of the rating category. For Standard & Poor's and Fitch, a "+" signifies it is in the top half of the rating category, while a "-" indicates the lower half. Therefore, Moody's has 25 different ratings, Standard & Poor's has 19, and Fitch has 22. The agencies also assign outlooks (positive, stable or negative), which are indications of the direction that they expect the rating to go in the near term. Washington's rating, and outlooks, are as follows:

Moody's	Standard & Poor's	Fitch
Aa1 stable outlook	AA+ stable outlook	AA positive outlook
(2nd highest category)	(2nd highest category)	(2nd highest category)

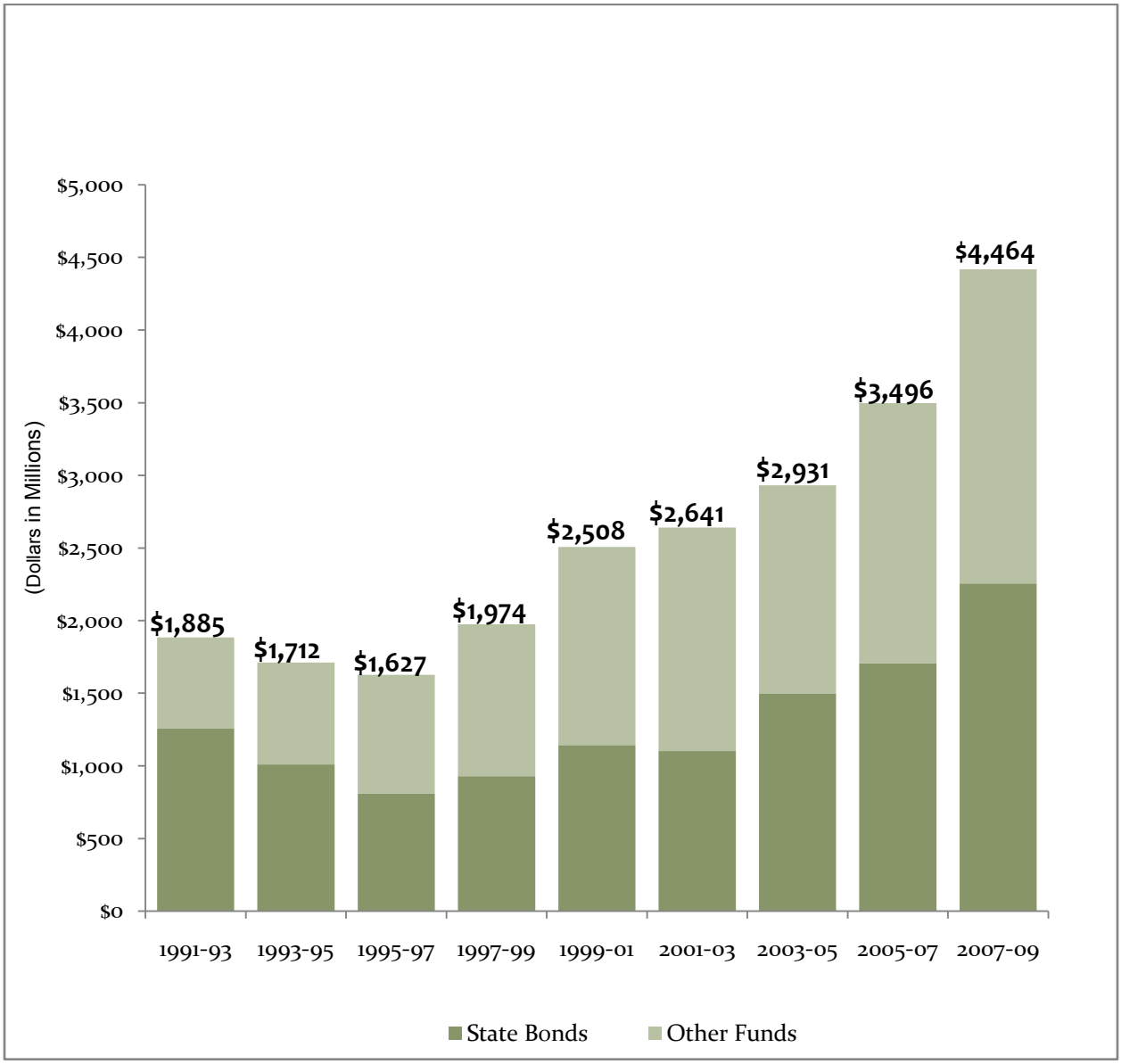
The bond rating companies generally indicate the reasons for Washington's good bond rating include its significant economic resources, strong demographics (education and wealth levels), conservative fiscal practices and improved financial flexibility, with the existence of the recently passed Rainy Day Fund being a major positive credit factor;. The primary reasons generally given by the rating companies for the rating not being higher are economic concerns relating to concentration of employment in the cyclical commercial aerospace industry and the information sector (Microsoft), above average state debt levels, which are expected to increase due to a large planned capital program, spending pressures for healthcare, caseload-driven costs, and employee wages and benefits, and a degree of fiscal uncertainty associated with voter initiatives.

According to Moody's Investor Service, Washington's 2007 net tax-supported debt was $1,908 per capita which is more than twice the national median of $889 per capita.

While Washington State's bond ranking is not the top rating for any of the rating companies, the interest rate on Washington's bond issuances charged by the bond market has basically been close to a top rating in recent years.

History

Total New Appropriations in the Capital Budget

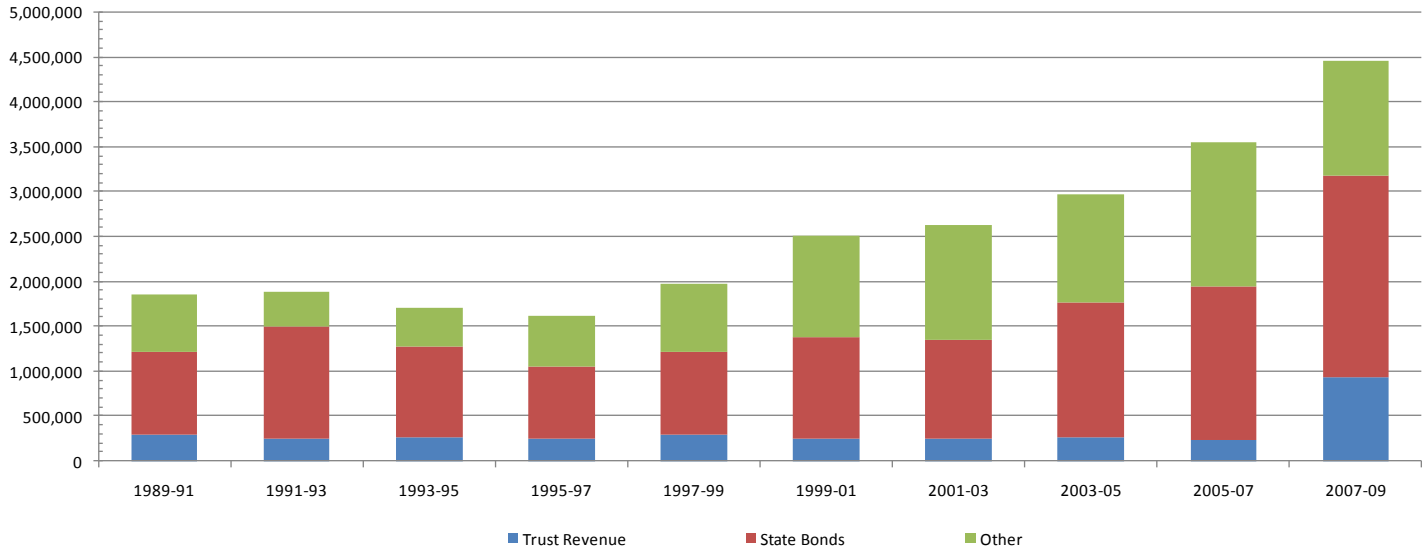


Note: Total appropriations for the 2003-05, 2005-07, and 2007-09 biennia exclude a shift of higher education operating maintenance to the capital budget ($52.7 million in 2003-05, and $67.8 million in 2005-07 and 2007-09).

Source: Legislative Evaluation and Accountability Program Committee, December 2008.

History of Capital Budget by Fund Source

(Dollars in Thousands)



	1989-91	1991-93	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09
Trust Revenue	303,758	247,079	274,248	245,921	294,424	246,827	247,605	275,139	245,056	934,472
State Bonds	922,598	1,259,547	1,010,648	808,938	929,047	1,143,296	1,101,972	1,494,398	1,707,687	2,254,758
Other	631,319	378,158	426,719	571,807	751,021	1,117,492	1,291,418	1,210,111	1,610,868	1,275,152
Total	1,857,675	1,884,785	1,711,615	1,626,665	1,974,492	2,507,614	2,640,995	2,979,648	3,563,611	4,464,382
Trust Revenue	16.4%	13.1%	16.0%	15.1%	14.9%	9.8%	9.4%	9.2%	6.9%	20.9%
State Bonds	49.7%	66.8%	59.0%	49.7%	47.1%	45.6%	41.7%	50.2%	47.9%	50.5%
Other	34.0%	20.1%	24.9%	35.2%	38.0%	44.6%	48.9%	40.6%	45.2%	28.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Legislative Evaluation and Accountability Program Committee, December 2008.

Functional Areas

The Functional Areas of State Government

State agencies have traditionally been categorized into 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 in the capital budget include human services, natural resources, education, higher education, and government operations.

HUMAN SERVICES

Human Services include those agencies charged with serving the health and safety needs of the state's population. Most human resource capital projects involve construction and repair of state institutions such as mental health facilities, prisons, juvenile rehabilitation facilities, and veterans homes.

The agencies included under Human Services:

- Washington State Criminal Justice Training Commission (CJTC)
- Department of Social and Health Services (DSHS)
- Department of Health (DOH)
- Department of Veterans Affairs (DVA)
- Department of Corrections (DOC)
- Department of Employment Security (ESD)

NATURAL RESOURCES

Natural Resources includes those agencies responsible for environmental quality or resources (e.g., Department of Ecology and Department of Fish and Wildlife), providing outdoor recreational opportunities (e.g., State Parks and Recreation Commission and the Recreation and Conservation Office), and managing state lands and waters for resource production (e.g., Department of Natural Resources). Natural resource capital projects range from repairing forest roads to grants for sewage treatment plants to recreational trail construction to salmon recovery efforts.

The agencies included under Natural Resources:

- Department of Ecology (DOE)
- State Parks and Recreation Commission (Parks)
- Recreation and Conservation Office (RCO)
- State Conservation Commission (CC)
- Department of Fish and Wildlife (DFW)
- Department of Natural Resources (DNR)
- Department of Agriculture (WSDA)

EDUCATION

Education includes state support for the construction of kindergarten through grade 12 public schools by local school districts, as well as funding for the museums operated by the state historical societies. Funding is also provided to support the facilities used by the state schools for deaf and blind children. The biennial appropriation for school construction assistance grants to local school districts is generally the single largest appropriation in the capital budget.

The agencies included under Education:

- K-12 Public Schools (OSPI)
- State School for the Blind (WSSB)
- State School for the Deaf (WSD)
- Washington State Historical Society (WSHS)
- Eastern Washington State Historical Society (EWSHS)

HIGHER EDUCATION

Higher Education encompasses the main and branch campuses of the state's six four-year universities and the numerous facilities utilized by the 34 individual community and technical colleges.

The agencies included under Higher Education:

- University of Washington (UW)
- Washington State University (WSU)
- Eastern Washington University (EWU)
- Central Washington University (CWU)
- The Evergreen State College (TESC)
- Western Washington University (WWU)
- Community & Technical College System (CTCs)
- Higher Education Coordinating Board (HECB)

GOVERNMENTAL OPERATIONS

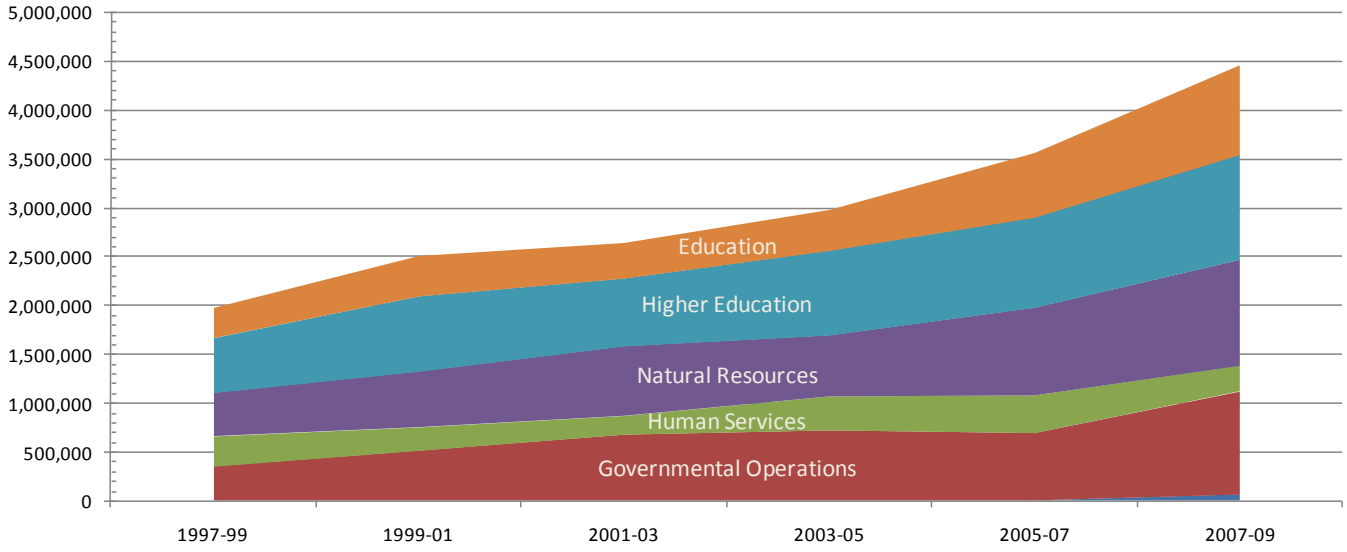
Governmental Operations includes general government agencies and the agencies headed by elected officials and agencies providing central services for the state (the Department of General Administration); and several other agencies. The largest governmental operations agency is the Department of Community, Trade and Economic Development, which administers capital programs related to local government infrastructure, economic development, and housing. Governmental Operations represents a wide assortment of capital projects, ranging from state office construction to historic preservation to local infrastructure.

The agencies included under Governmental Operations:

- Department of Community, Trade, & Economic Development (CTED)
- Office of Financial Management (OFM)
- Department of General Administration (GA)
- Department of Information Services (DIS)
- Washington State Patrol (WSP)
- Military Department (MIL)
- Department of Archaeology & Historic Preservation (DAHP)
- State Convention and Trade Center (SCTC)
- Secretary of State (SOS)

Capital budget Functional Area History

(Dollars in Thousands)



	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09
	0	0	0	0	0	60,021
Governmental Operations	352,201	512,938	676,828	720,501	693,052	1,058,753
Human Services	306,622	237,840	189,969	344,789	382,401	259,449
Natural Resources	445,290	571,512	713,509	626,053	899,134	1,085,835
Higher Education	561,599	769,688	694,413	867,959	924,586	1,078,635
Education	308,779	415,637	366,276	420,345	664,438	921,689
Total	1,974,492	2,507,614	2,640,995	2,979,648	3,563,611	4,464,382
	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%
Governmental Operations	17.8%	20.5%	25.6%	24.2%	19.4%	23.7%
Human Services	15.5%	9.5%	7.2%	11.6%	10.7%	5.8%
Natural Resources	22.6%	22.8%	27.0%	21.0%	25.2%	24.3%
Higher Education	28.4%	30.7%	26.3%	29.1%	25.9%	24.2%
Education	15.6%	16.6%	13.9%	14.1%	18.6%	20.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Total appropriations for the 2003-05, 2005-07, and 2007-09 biennia exclude a shift of higher education operating maintenance to the capital budget ($52.7 million in 2003-05, and $67.8 million in 2005-07 and 2007-09).
Source: Legislative Evaluation and Accountability Program Committee, December 2008.

School Construction

K-12 School Construction

The Office of The Superintendent of Public Instruction administers the K-12 School Construction Programs. http://www.k12.wa.us/SchFacilities/default.aspx Much of the funding awarded to the K-12 School Construction programs is in the form of grants that are sent to the school districts. Programs include:

- K-12 Education Construction Assistance Grants
- Small Repair Grants
- Vocational Skills Centers
- School for the Deaf
- School for the Blind

K-12 Education Construction Assistance Grants

Washington State provides financial assistance to school districts in the capital budget for constructing new and remodeling existing school buildings. The state assistance program is based on two principles: (1) state and local school districts share the responsibility for the provision of school facilities; and (2) there is an equalization of burden among school districts to provide school facilities regardless of the wealth of the districts. To be eligible for state funding through the state's School Construction Assistance Grants Program, a school district must have a space or remodeling need and must secure voter approval of a bond levy or other source for the local share of a school project. Once the local share is secured, the state money is allocated to districts based on a funding formula comprised primarily of a set of space and cost standards/allocations and a matching ratio based on the relative property wealth of the district.

The state program does not reimburse all costs related to a school project. Costs not eligible for reimbursement by the state include, but are not limited to the following:

- Area in excess of the space allocations per student
- Site acquisition costs
- Maintenance and operations costs (including deferred maintenance)
- Central administration buildings
- Stadiums/grandstands
- Most bus garages
- Sales and/or use taxes levied by local government agencies other than those taxes generally levied throughout the Washington
- Portable classrooms

State assistance is provided for the following project costs:

- Architect and engineering fees
- Construction management
- Value engineering studies and constructability reviews

- Building commissioning
- Furniture and equipment
- Energy conservation reports
- Inspection and testing.
- Preparation of school district studies, surveys, and educational specifications
- Project signs and plaques
- Construction of school facilities
- Art as required by statute for "Art in Public Places"

The need for state grant assistance provided to local school districts for construction and modernization of school facilities is based on four main factors:

- Student enrollment
- Building age and condition
- Changes in education programs
- Local funding capabilities

School districts receiving state assistance must expend the total amount of their local share for the project before receiving the state funds for the construction project.

Calculating the State Match for School Construction

1. Local Funding – State assistance helps finance certain space and remodeling needs of local school districts. The school district must pass a bond levy or obligate other local revenue to be eligible for state assistance.

2. Eligible Area - A specific amount of square feet per student is eligible for state funds and is based on the state funding formula. The Office of the Superintendent of Public Instruction (OSPI) is requesting that this be increased:

Grade	Current rule	Proposal for FY 2011	Proposal for FY 2013
K-6	90 sq ft/student	100 sq ft/student	110 sq ft/student
7-8	117 sq ft/student	124 sq ft/student	130 sq ft/student
9-12	130 sq ft/student	140 sq ft/student	150 sq ft/student
Special Education	144 sq ft/student	147 sq ft/student	150 sq ft/student

3. Area Cost Allowance – The Area Cost Allowance (ACA) is the maximum cost per square foot of construction that the state will match. It's not the actual cost of construction paid by the school districts. The ACA is established annually. After the eligible square footage is determined, the ACA is applied to determine the maximum construction dollar amount eligible for state assistance for new construction and modernization. The area cost allowance for fiscal year 2008 is $162.43 per square foot, and $168.79 for fiscal year 2009.

4. State Match. The construction costs based on eligible square feet per student and area cost allowance are multiplied by a percentage factor to determine the statewide match. However, the state's share of the cost varies by district. Part of the purpose of the match ratio differentiation

applied to school districts is equalization between wealthy districts (based on property valuation) and poor districts. For example, the match ratio for the wealthiest districts is 20%, while the match ratio may approach 100% for poorer districts.

5. Other Costs – Finally, other allowable related costs are added. These include architect and engineering fees, construction management, value engineering studies, furniture and equipment, energy conservation reports, and inspection and testing.

Permanent Common School Fund and Common School Construction Fund

Washington State is a land grant state. When Washington entered the Union, the federal government granted two sections of land in every township as a trust dedicated to support the common schools. The state generally retained these trust lands, and the 1.8 million acres of school trust lands are managed by the Department of Natural Resources for the purpose of generating revenue for the support of school construction.

A constitutional amendment was passed in 1967 which dedicated school trust land revenues to support school construction. Article IX of the Constitution established two funds:

The Permanent Common School Fund: This fund was created in the original state constitution, and it received all the income from the sale of school trust lands and non-renewable resources from the trust lands. The principal of the permanent common school fund is irreducible, and only the interest income from the investment of the permanent fund was available for payment of current expenses for the common schools. The 1967 amendment dedicated the use of the interest income to school construction and to pay debt service on state bonds used for school construction. The principal in the fund, approximately $145 million, remains irreducible, and the interest income is used to pay debt service on bonds. Any remaining income is deposited into the common school construction fund. Approximately 40% of the earnings ($4 million) from the permanent common school fund are used to pay debt service on bonds issued in 1985 and are obligated until those bonds are paid off in the year 2010.

The Common School Construction Fund: This fund was created by the 1967 amendment for the exclusive purpose of financing the construction of facilities for the common schools. Revenue to this fund is from the harvest of timber on school trust lands, from agricultural and real estate leases on school trust lands, and interest income from the permanent fund. The common school construction fund is used to fund school construction projects on a cash-in-hand basis and is not used to finance state bonds to pay for school construction projects in eligible school districts.

Prior to the 1967 constitutional amendment, which dedicated school trust land revenues to school construction; the state share of school facilities was paid from a variety of sources. Up to 1951, the state general fund was used to pay the state share of school construction. Between 1951 and the constitutional amendment making school trust revenues available for school construction, the state share of school facilities was provided by state bonds supported by cigarette and motor vehicle taxes.

In 2007, the Legislature passed House Budget 2396, which clarifies the law authorizing investment of the Common School Fund in equities when the investment is in the best interest of the state and the Common School Fund. The bill clarifies that the Washington State Investment Board has the authority

to invest the Common School Fund to achieve a balance of long-term growth and current income. The State Treasurer calculates the irreducible principal. The irreducible principal does not include investment gains, and the Washington State Investment Board may retain or distribute income and investment earnings to achieve a balance between growth and income.

Trust Land Transfer Program

The Trust Land Transfer program is a mechanism to transfer School Trust land with low income potential but high recreational and environmental value to other public agencies while reimbursing the school trust for the value of the land and associated timber. The program identifies trust lands with statewide natural, park or recreational significance that are difficult to manage for timber production. The identified trust lands are transferred into protected status with the state agency that is the most appropriate public owner, and the school trust is compensated without actually harvesting the timber.

The Trust Land Transfer program operates in the following manner:

1. State agencies receive a bond appropriation to purchase school trust lands.
2. Trust lands are transferred to state agencies at appraised market value.
3. Proceeds from the sale and appropriation of trust land are used in two ways:

    - The value of the timber on the land is deposited in the Common School Construction Account where it becomes available for school construction;

    - The value of the land is used to purchase replacement land for the trust.

4. The lands transferred out of trust status are managed for conservation, wildlife habitat, or recreational purposes.

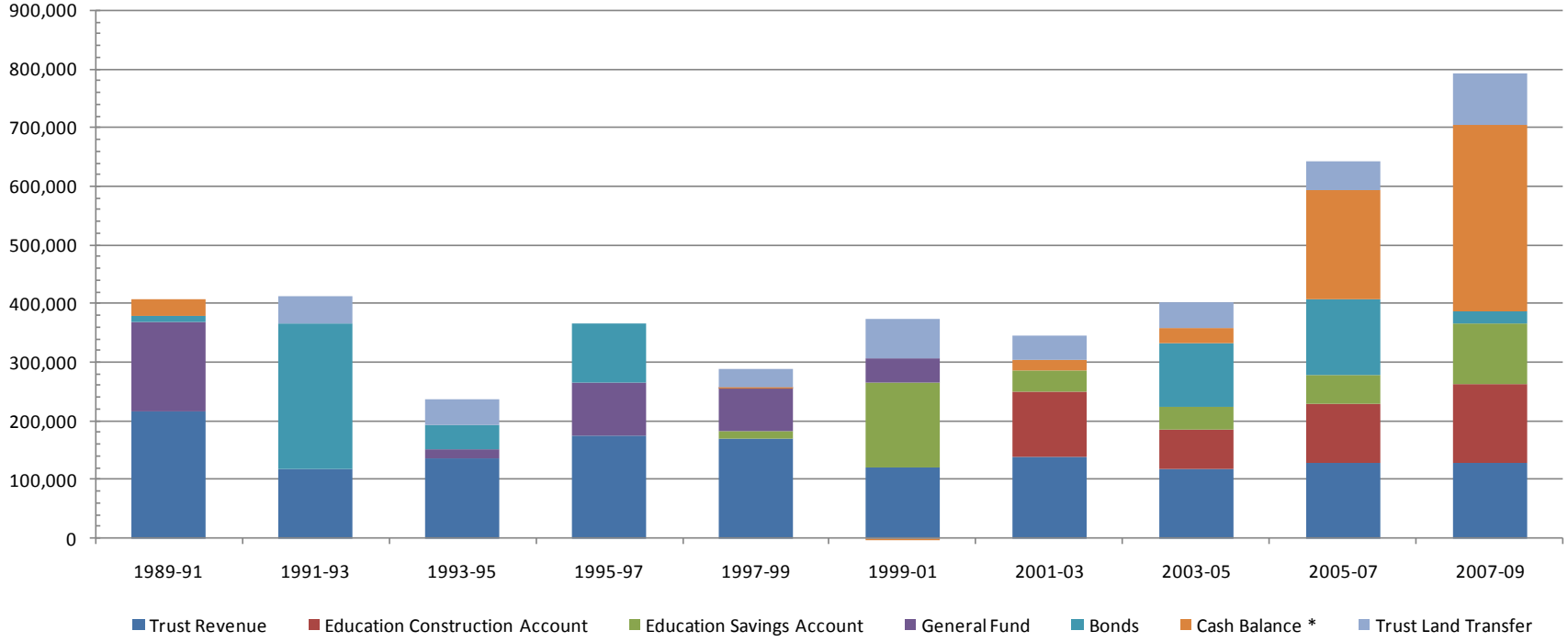
The Trust Land Transfer program has been implemented through language in the capital budget; the provisions of the program are not codified elsewhere in state law.

History of Major Events in School Construction Since 1951

>1951	General Fund support for school construction.
1951-69	Funding from bonds paid from cigarette and motor vehicle taxes.
1967	Amendment to Constitution creating Common School Construction Fund and dedicating trust land revenues to school construction.
1979	Trust revenues insufficient and Legislature approves $105 million in General Obligation Bonds.
1980	$105 million bond bill flawed and instead $27.5 million is provided as compensation for land transferred to Parks.
1981	Surplus forecast in Common School Construction Fund. Legislature appropriates the surplus ($52.3 million) for operating purposes.
1982	Timber defaults occur. Surplus vanishes and Legislature cancels $52.3 million appropriation for operating purposes.
1983	Beginning of trust revenue shortfalls. State Board of Education reduces sq. ft./student allocation 20% and $/sq. ft. by 15%.
1985	State Board cancels "first come, first served" policy and adopts priority system.
1987-89	Backlog develops - reaches $410 million at its peak.
1990	Legislature considers various solutions: Candy tax, out-of-state catalog sales tax, state property tax, dedication of lottery revenues.
1991	Legislature directs State Board to develop new priority system.
1992	New priority system implemented.
1989-97	Legislature supplements trust land revenue with $795 million of state bonds and cash to eliminate the backlog of unfunded school construction projects.
1994	I-601 creates the Education Construction Account.
1995-96	Problems with quality of school construction raised and investigated by AG results in recommendations and efforts to address construction problems.
1997	The Education Savings Account is created.
2000	The Legislature places excess Emergency Reserve Fund (ERF) balance in the Education Construction Account annually rather than biennially. I-728 eliminates the excess ERF balance going into the Education Construction Account and replaces them with a portion of the lottery proceeds.
2001	The Legislature doubles the eligible square feet for Kindergarten, and authorizes the SBE to increase the area cost allowance and eligible square feet by a specified amount if the bill expanding the lottery passes adding $30.5 million in available revenue. The bill did not pass.
2003	The Legislature increased funding to enable the area cost allowance in the state formula for calculating state assistance to be increased from $110 to $125 in 2004 and $129 in 2005.
2005	The Legislature increased funding to enable the area cost allowance in the state formula for calculating state assistance to be increased from $129 to $141.95 in 2006 and $154.22 in 2007. In addition, the Legislature increased the amount of eligible square feet per student at all grade levels and provided an increase in the amount paid for modernization projects (from 80% to 100% of the area cost allowance).

State Funds Appropriated for School Construction by Fund Source

(Dollars in Thousands)



	1989-91	1991-93	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09
Trust Revenue	217,500	118,100	137,100	175,600	169,000	122,200	138,500	117,600	129,500	128,490
Education Construction Account	0	0	0	0	0	0	111,800	67,400	99,737	133,930
Education Savings Account	0	0	0	0	13,000	144,600	36,700	40,500	48,766	103,100
General Fund	151,000	0	15,300	90,000	75,000	39,000	0	0	0	0
Bonds	10,000	247,500	41,800	100,000	0	0	0	107,100	130,200	22,394
Cash Balance *	30,000	0	0	0	1,000	-2,000	18,000	25,700	183,863	316,245
Trust Land Transfer	0	46,200	43,800	0	31,500	68,100	40,000	44,000	49,700	87,600
Total	408,500	411,800	238,000	365,600	289,500	371,900	345,000	402,300	641,766	791,759

* *Cash Balance - this is an estimated cash balance that may not be reflective of the amount of utilized cash in a particular biennium.*

Source: Legislative Evaluation and Accountability Program Committee, December 2008.

Small Repair Grants

The Small Repair Grant program started in 2002 with one time federal funds. In 2005-07 the state provided $3,000,000 and in 2007-09 provided $4,000,000. The Small Repair Grant program consists of a competitive selection process used to evaluate and prioritize requests from school district applications. In 2007, 125 applications were submitted and 47 projects were funded. Each application is evaluated on the merit of the project being proposed and the ability of the school district to complete the project. Strong consideration is given to the financial condition of the school district. The evaluation team consists of preselected individuals with strong experience in school district administration, financing and maintenance. The projects are reviewed and given a rating of 1 through 50, with 50 representing the projects of highest need. The criteria includes projects for urgent health and safety problems, school districts with an ongoing and effective facility maintenance plan, a limit of up to $100,000 in every three year period. Examples of projects are roof repairs and boiler replacements.

Vocational Skills Centers

Washington State Skills Centers are part of the K-12 system, operating as an extension of the high schools within a local region by providing high school students with job preparation skills. There are currently 10 skills centers located throughout the state. The 2008 Legislature authorized the State Finance Committee to issue $100 million in state general obligation bonds to finance capital improvements related to skills centers and school construction. The bonds will be repaid from investment income on the Common School Construction Fund.

Higher Education

Overview of Higher Education

Capital Budget appropriations for higher education generally fall into three policy categories:

1. **Access** - Adequate facilities are necessary to provide students access to education. This has been a priority of the Legislature over the last decade. Access is provided primarily through new and renovated facilities on campuses.

2. **Preservation** - Ongoing maintenance and small repairs funded by the operating budget are necessary along with capital budget funding for major repairs, renovations, and minor works to preserve facilities, allowing the building to be functional beyond the expected useful life.

3. **Mission** - Some facilities may be necessary to enable the institution to carry out its unique mission. The research universities (UW and WSU), the regional universities (CWU, EWU, TESC, and WWU), and the Community and Technical Colleges are general examples of different missions in the higher education system.

There are a variety of sources of funding for higher education capital facilities. Generally: (1) research space at the research institutions may be funded from state, federal, or private funds; (2) instructional space and related general space typically is funded using state funds; (3) student auxiliary services (e.g. dining and housing) are funded through student fees and not the state, as are student recreational facilities; and (4) other mixed use facilities often have mixed sources of funding.

Higher Education Institutions

Four-Year Public Institutions (6)

University of Washington
- Seattle
- Tacoma
- Bothell

Washington State University
- Pullman
- Tri Cities
- Vancouver
- Spokane (with EWU)

Central Washington University (Ellensburg)

Eastern Washington University (Cheney)

The Evergreen State College (Olympia)

Western Washington University (Bellingham)

Two-Year Public Colleges (34)

Bates Technical College
Bellevue
Bellingham Technical College
Big Bend
Cascadia
Centralia
Clark
Clover Park Technical College
Columbia Basin
Edmonds
Everett
Grays Harbor
Green River
Highline
Lake Washington Technical College
Lower Columbia
North Seattle
Olympic
Peninsula
Pierce
Renton Technical College
Seattle Central
Seattle Vocational Institute
Shoreline
Skagit Valley
South Puget Sound
South Seattle
Spokane
Spokane Falls
Tacoma
Walla Walla
Wenatchee
Whatcom
Yakima Valley

Higher Education Inventory

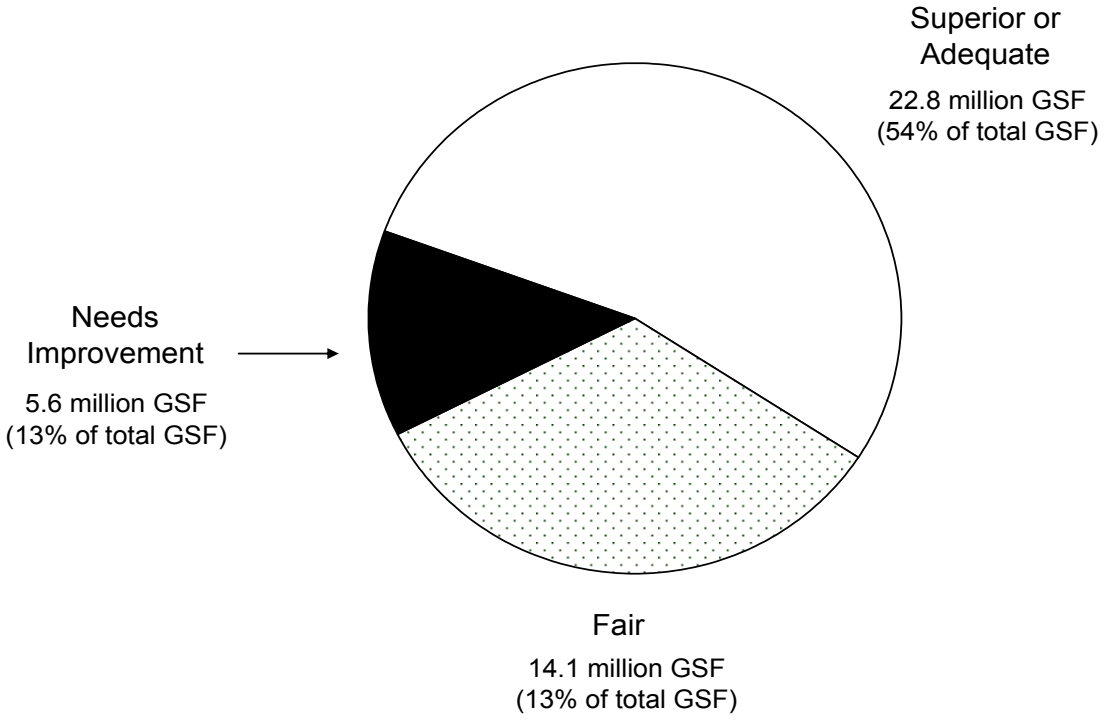
Total Higher Education Inventory	State Capital Budget Supported Inventory
Over 2,500 buildings	1,377 buildings
54 million gross square feet	42.5 million gross square feet
State-Supported Inventory = $14.6 billion current replacement value	
$1.8 billion preservation backlog	

Source: JLARC's Refresh of Preservation Information in Comparable Framework, Report 06-5, March 29, 2006

2006 Data	Facilities Owned Total Space Gross Square Feet (GSF)	State Capital-Supported Space as % of Total Space	Preservation Backlog on State Capital-Supported Buildings over 1,999 GSF
University of Washington	17,506,536	69%	$497,196,451
Washington State University	11,660,842	73%	$394,654,931
Eastern Washington University	2,488,270	79%	$69,065,497
Central Washington University	2,915,235	62%	$64,377,997
The Evergreen State College	1,581,008	82%	$45,502,517
Western Washington University	3,044,865	63%	$99,823,101
Community & Tech. Colleges	15,325,095	97%	$627,865,226

Source: JLARC's Refresh of Preservation Information in Comparable Framework, Report 06-5, March 29, 2006

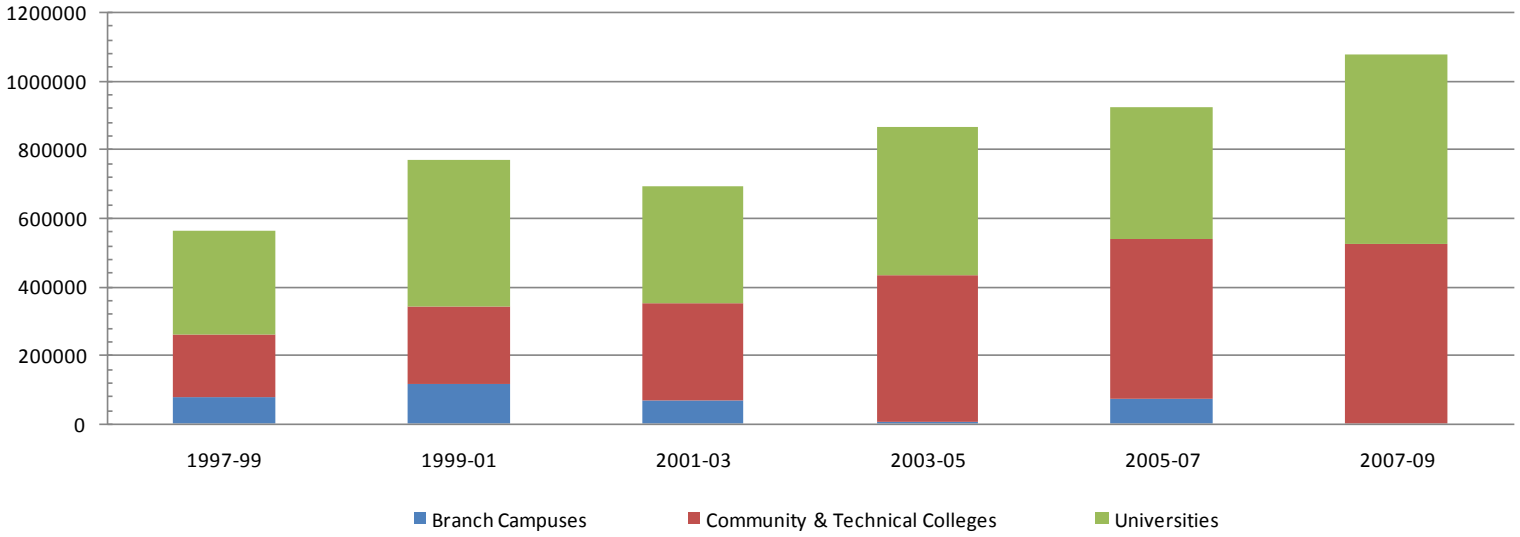
Higher Education Facility Condition



Source: JLARC's Refresh of Preservation Information in Comparable Framework, Report 06-5, March 29, 2006

Total Capital Budget Appropriations for Higher Education

(Dollars in Thousands)



	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09
Branch Campuses	79,310	114,520	66,799	6,950	70,600	0
Community & Technical Colleges	183,179	228,555	285,113	425,960	471,196	524,554
Universities	299,110	426,613	342,501	435,050	382,790	554,081
Total	561,599	769,688	694,413	867,959	924,586	1,078,635

Source: Legislative Evaluation and Accountability Program Committee, December 2008.

Gardner-Evans -- Higher Education Bonds

A 2003 bill, ESSB 5908, authorized the issuance of $750 million in bonds for higher education construction projects over three biennia, beginning in 2003-05. The purpose of the bonds was to finance additional higher education construction while maintaining the historical funding levels in the underlying capital budget. The new bonds authorization was for deferred preservation, replacement, and maintenance needs, additional space for instruction and research capacity, and renovation, replacement or modernization of facilities to enhance access. Gardner-Evans bonds were entirely appropriated by 2007-09.

Prioritizing Higher Education Capital Projects

In 2003, the Legislature directed the Council of Presidents and the Higher Education Coordinating Board (HECB) to develop a method to guide capital appropriation decisions by rating and individually ranking all major capital projects for public four-year institutions. The resulting list of ranked projects was to be approved by the governing boards of each four-year institution.

In 2005, the Legislature provided additional guidance to refine the method used for the ranking of four-year institutions construction project requests. Greater emphasis was to be placed on early critical review of project proposals, scoring and ranking of projects could not be based on assigning an equal number of overall points to each four-year institution, the ranking was to address statewide priorities, and the process was to use the facility condition index established by JLARC.

In 2008, the prioritization process was again modified by requiring the Office of Financial Management (OFM) to complete an analysis and scoring of all four-year institutions construction projects. Each of the proposed projects must be scored within a single project category according to its primary purpose. The five project categories are enrollment growth, replacement and renovation, major campus infrastructure, research projects that promote economic growth and innovation, and other project categories as determined by the OFM and the legislative fiscal committees.

The State Board for Community and Technical Colleges also uses a process for evaluating and prioritizing the project requests of 34 community and technical colleges around the state.

Project Categories	Scoring Factors
Preservation • Matching fund • Renovation • Replacement • Growth	• Age • Condition • Institutional growth • Density/utilization • Consequences of doing nothing • Type of space • Consistency with strategic and facility master plan • Reasonableness of cost

Government Operations

Overview of Governmental Operations

Government operations include, but are not limited to, the following agencies and programs:

Department of Community, Trade and Economic Development

- Provides assistance to local government and communities to meet housing and infrastructure needs (Housing Trust Fund, Public Works Assistance Account, drinking water assistance in cooperation with the Department of Health).
- Provides grants for facilities providing cultural and community services (Building for the Arts, Youth Recreational Facilities, and Building Communities Fund grant programs).
- Assists with economic development-related infrastructure through the Community Economic Revitalization Board and other programs.

Office of Financial Management

- Develops capital budget proposals from agency request for submission to the Legislature by the Governor (both for the upcoming biennium and a 10-year capital plan).
- Administers the adopted capital budget and oversees agency capital planning, spending, projects, and decisions.
- Analyses agency space needs through facilities oversight.
- Participates in the scoring and ranking higher education capital requests.

Department of General Administration

- Provides Engineering and Architectural Services to non-higher education agencies and community and technical colleges including design and construction services.
- Manages capital planning and programs for over five million square feet of state-owned property, including the capitol campus, Capital Lake, and Heritage Park in Olympia.
- Provides maintenance and custodial services to the capitol campus and satellite campuses.
- Provides real estate services to agencies leasing space in privately-owned and state-owned facilities in conjunction with the Office of Financial Management.
- Assists agencies to relocate, acquire, and dispose of property.

Military Department

- Manages capital programs for readiness centers throughout the state to respond to local emergencies/disasters and accommodate the state's military mission.

Human Services

Overview of Human Services

Most human services capital projects involve construction and repair of state institutions such as mental health hospitals, prisons, juvenile rehabilitation facilities, veterans' homes, and facilities for developmentally disabled persons. Human Service agencies include the departments of Social and Health Services, Corrections, Veterans Affairs, and Health.

Department of Social and Health Services

http://www1.dshs.wa.gov/

The Department of Social and Health Services (DSHS) maintains and operates facilities that provide care and treatment for persons with mental illness, sex offenders, youth committed by the juvenile courts for criminal behavior, and persons with developmental disabilities that require intensive care.

Mental Health Facilities

http://www1.dshs.wa.gov/mentalhealth/hospitals.shtml; http://www1.dshs.wa.gov/mentalhealth/cstc.shtml

The DSHS Division of Mental Health operates three psychiatric centers: the Child Study and Treatment Center, Eastern State Hospital and Western State Hospital. Future challenges include (1) reductions in state hospital and in community hospital bed capacity; (2) an ongoing requirement that state hospitals must serve those patients considered too acute or too dangerous for community based services; and (3) preservation and renovation of aging facilities. The Mental Health Reform Act of 1989 requires that state hospitals serve the most complicated, long-term care patients. The care at the state facilities require a high staff to patient ratio, high square footage space needs, and increased space for on-site rehabilitation due to increasing acuity of the patients.

Division of Developmental Disabilities

http://www1.dshs.wa.gov/ddd/

The Division of Developmental Disabilities (DDD) provides a broad range of services and support to over 30,000 eligible clients while maintaining five Residential Habilitation Centers (RHCs) that house approximately 1,000 individuals.

The RHCs are 24-hour facilities certified as either Intermediate Care Facilities for the Mentally Retarded (ICF/MR) offering habilitation services, intensive nursing, therapy services, and work-related assistance or Nursing Facilities (NF) providing an extensive array of services for persons requiring daily nursing care.

Reductions in the number of clients served in institutional settings will continue to affect the capital resource projects that the DSHS will propose for funding.

The Developmental Disabilities Community Trust Account, also known as the Dan Thompson Memorial Trust Account, was established in 2005 to community based services for people with developmental disabilities. The source of revenue in the account is income from leased land, conservation easements, sale of timber, or other activities, except the sale of excess Rainier School and Lakeland Village property. The disposal of excess property cannot impact current residential habilitation center operations. All of the current RHCs may receive funding from the account except for Fircrest School.

Juvenile Rehabilitation Administration
http://www1.dshs.wa.gov/jra/

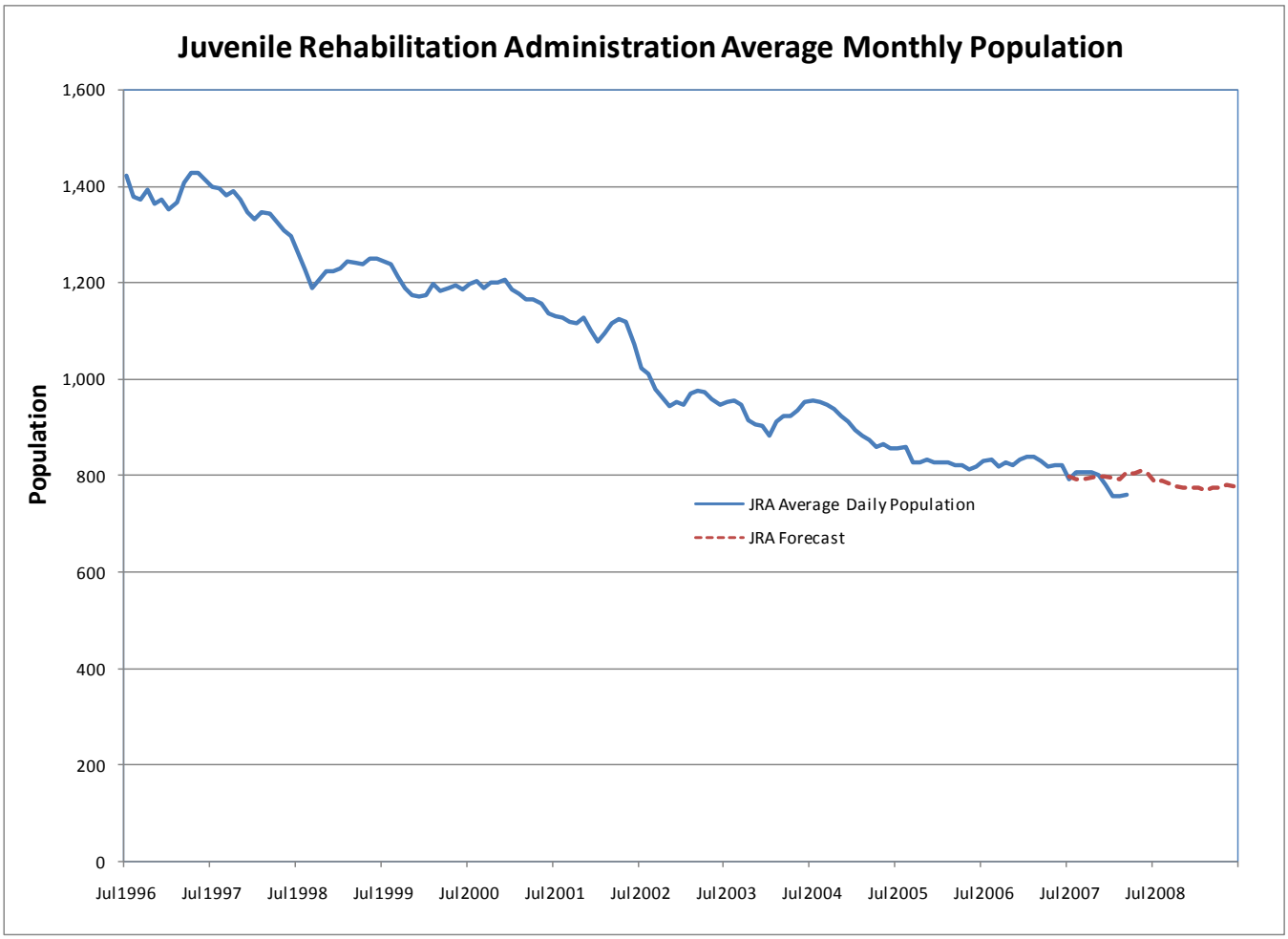
The Juvenile Rehabilitation Administration (JRA) provides care, custody and treatment for juvenile offenders committed to the state by juvenile courts. JRA serves offenders ranging between 10 and 21 years of age. While the state owns and operates six community residential and treatment facilities, a small number of residential community-based programs are provided by private group care contractors in leased facilities.

The JRA residential and treatment facilities include the following:

- Echo Glen Children's Center, a medium/maximum facility that serves younger males and the older female offenders, in Snoqualmie.
- Green Hill School, a medium/maximum security fenced facility that provides older, male offenders academic education and prevocational training, in Chehalis.
- Maple Lane School, a medium/maximum security fenced facility that provides serious and middle offenders an academic program as well as on-campus work experience, in southern Thurston County.
- Naselle Youth Camp, an unfenced facility that serves male and female offenders in a medium security setting, in Naselle.
- Camp Outlook, a boot camp style basic training camp, in Connell.

The state-operated community residential and treatment programs are charged with main-streaming youth at the end of commitment and also have become increasingly involved with specific treatment efforts such as the certified drug and alcohol programs offered at the Parke Creek Community Facility and the Canyon View Community Facility.

Nationally juvenile justice populations peaked and juvenile crime has declined in recent years. However, juvenile justice populations with mental health and substance abuse or addiction problems are anticipated to continue to rise. State master plan findings mirror those national trends: a population declining in numbers but more highly complex in terms of behavioral and service needs, particularly mental health issues.



Special Commitment Center
http://www1.dshs.wa.gov/hrsa/scc/

DSHS operates the Special Commitment Center (SCC), a 299 bed secure treatment facility located on McNeil Island, for civilly committed sexual offenders. The SCC is operating under a federal district court injunction that requires separation between the SCC program and offenders held by the Department of Corrections. Until May 2004, the SCC was located within the secure perimeter of the McNeil Island Corrections Center.

The SCC provides a specialized mental health treatment program for civilly committed sex offenders who have completed their prison sentences. Only sex offenders whom the court finds to meet the legal definition of a sexually violent predator may be civilly committed to the SCC.

Secure Community Transition Facility
http://www1.dshs.wa.gov/hrsa/scc/

Under the U.S. Constitution, sex offenders who remain dangerous and who have served time cannot be detained unless they are receiving treatment. The DSHS, under the federal district court injunction, has developed a less restrictive alternative housing known as a Secure Community Transition Facilities (SCTF) on McNeil Island and in Seattle. Only SCC residents who have successfully completed the required levels of treatment in the institutional program and receive DSHS' recommendation are eligible for placement in a Secure Community Transition Facility. The SCC currently operates 24 beds at the Pierce County SCTF on McNeil Island and 6 beds at the King County SCTF in Seattle.

Department of Veterans Affairs

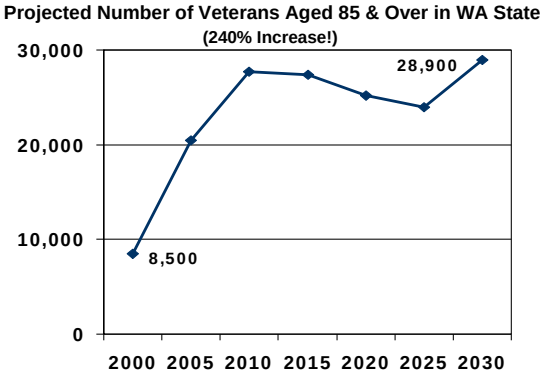
http://www.dva.wa.gov/

The Washington State Department of Veterans Affairs (WDVA) supports three veteran homes.

The three state veteran homes (the Washington Soldiers Home and Colony, the Washington Veterans Home, and the Spokane Veterans Home) provide long-term health care for honorably discharged veterans, and possibly their spouses, who are disabled and indigent or likely to become indigent due to the cost of their health care.

According to U.S. Department of Veterans Affairs projections, the number of veterans age 85 and over will increase by 35% between 2005 and 2010. This significant growth in the very elderly reflects the aging of World War II and Korean War veterans. The number of veterans aged 85 and over will then exhibit small declines until 2025, when another large increase, reflecting the aging of Vietnam-era veterans, will be evident.

The growth in the number of elderly veterans has increased the demand for long-term care, including special needs such as hospice care and care for Alzheimer's and other dementias. The U.S. Department of Veterans Affairs national study on prevalence rates for Alzheimer's, estimates that approximately 16,000 Washington veterans aged 65 and over will be diagnosed with the disorder by 2010, representing an increase of almost 100%. Increased demands are also likely for short-term sub-acute care and geropsychiatric services.



Department of Corrections
http://www.doc.wa.gov/

The Legislature created the Department of Corrections (DOC) in 1981. Prior to 1981 DOC was part of the DSHS. DOC manages adult convicted law violators in multi-custody facilities, minimum security facilities, a special population facility, pre-release facilities, and work release facilities.

Multi-Custody Facilities
Nine multi-custody facilities house maximum, close, medium and minimum custody offenders. (A close custody facility houses inmates that require a high level of supervision and tight control of boundaries and programs.) The DOC provides a variety of targeted intervention and treatment programs that are designed to change offender behavior to prevent them from reoffending. These facilities are:

Airway Heights Corrections Center (AHCC), Spokane Minimum Custody Medium Custody Correctional Industries Department of Natural Resources' Crews	**Stafford Creek Corrections Center (SCCC), Aberdeen** Medium Custody Intensive Management Unit Correctional Industries
Clallam Bay Corrections Center (CBCC), Forks Close Custody Medium Custody Intensive Management Unit Correctional Industries Youthful Offender Program	**Washington Corrections Center (WCC), Shelton** Reception Medium Custody Intensive Management Unit Correctional Industries
Coyote Ridge Corrections Center (CRCC), Connell Minimum Custody Medium Custody Community Service Crews	**Washington Corrections Center for Women (WCCW), Gig Harbor** Minimum Custody Medium Custody Close Custody Mentally III Offenders Correctional Industries Special Commitment Center Community Service Crews

McNeil Island Corrections Center (MICC) Medium Custody Mentally Ill Program Special Commitment Center Correctional Industries	**Washington State Penitentiary (WSP), Walla Walla** Minimum Custody Medium Custody Close Custody Intensive Management Unit Death Row Mentally Ill Offenders Correctional Industries
Monroe Correctional Complex (MCC) - Twin Rivers Unit (TRU) - Special Offender Unit (SOU) - Washington State Reformatory Unit (WSR) Close Custody Medium Custody Minimum Custody Sex Offender Treatment Program Mentally III Offenders Correctional Industries	

Minimum Security Facilities

The five minimum security facilities including three forestry camps and an assisted living facility for offenders who need help with daily living. The focus of minimum institutions is to promote accountability and develop a work ethic. Mission Creek was acquired from DSHS and pending approval of water rights may be reopened by the DOC in 2005.

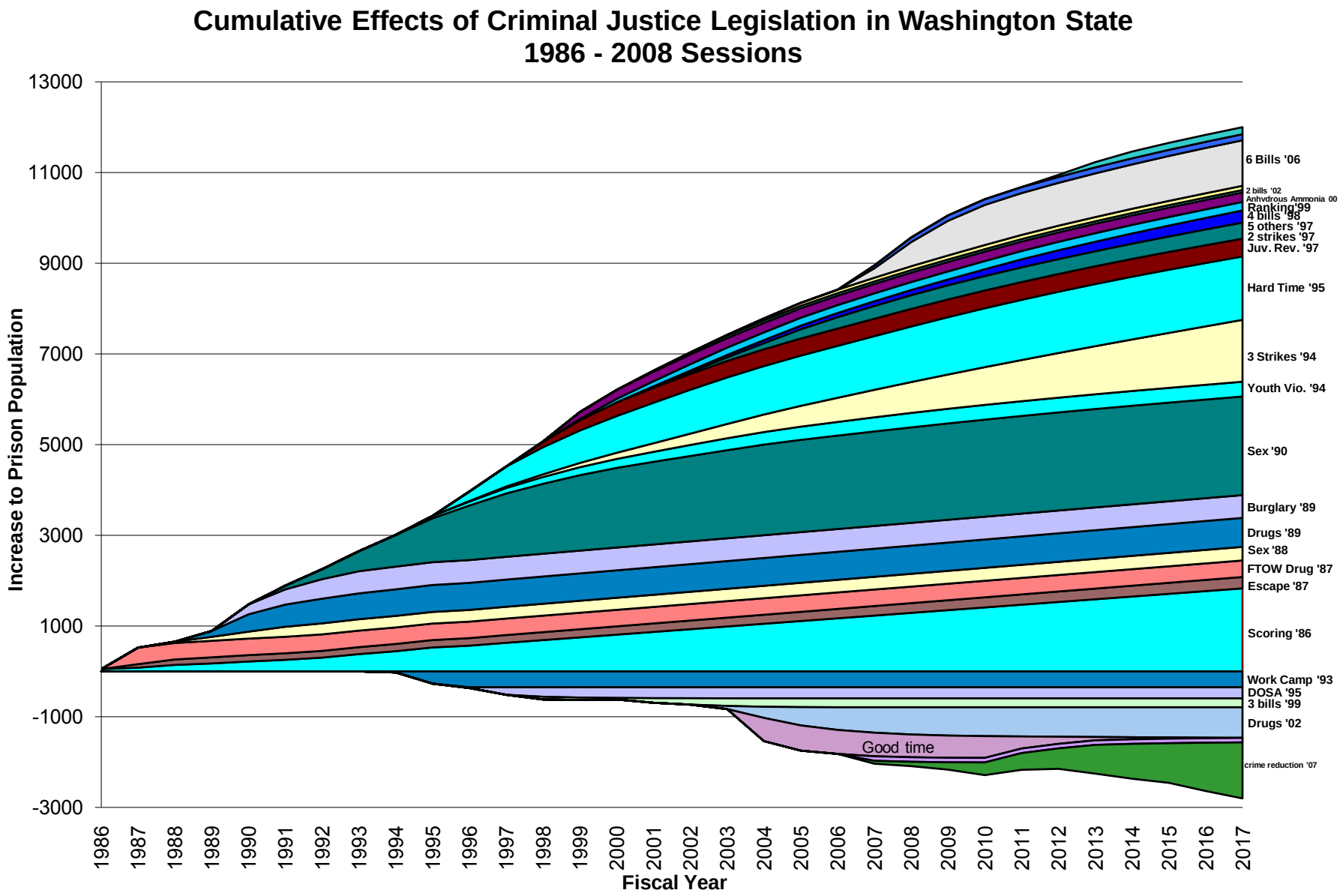
Cedar Creek Corrections Center (CCCC) and Mission Creek, Thurston County Minimum Custody Department of Natural Resources' Crews	**Larch Corrections Center (LCC), Yacolt** Minimum Custody Department of Natural Resources' Crews
Pine Lodge Correctional Center for Women, Medical Lake Minimum Custody	**Olympic Corrections Center (OCC), Jefferson County** Minimum Custody Department of Natural Resources' Crews

	Mission Creek Corrections Center for Women, Belfair Minimum Custody

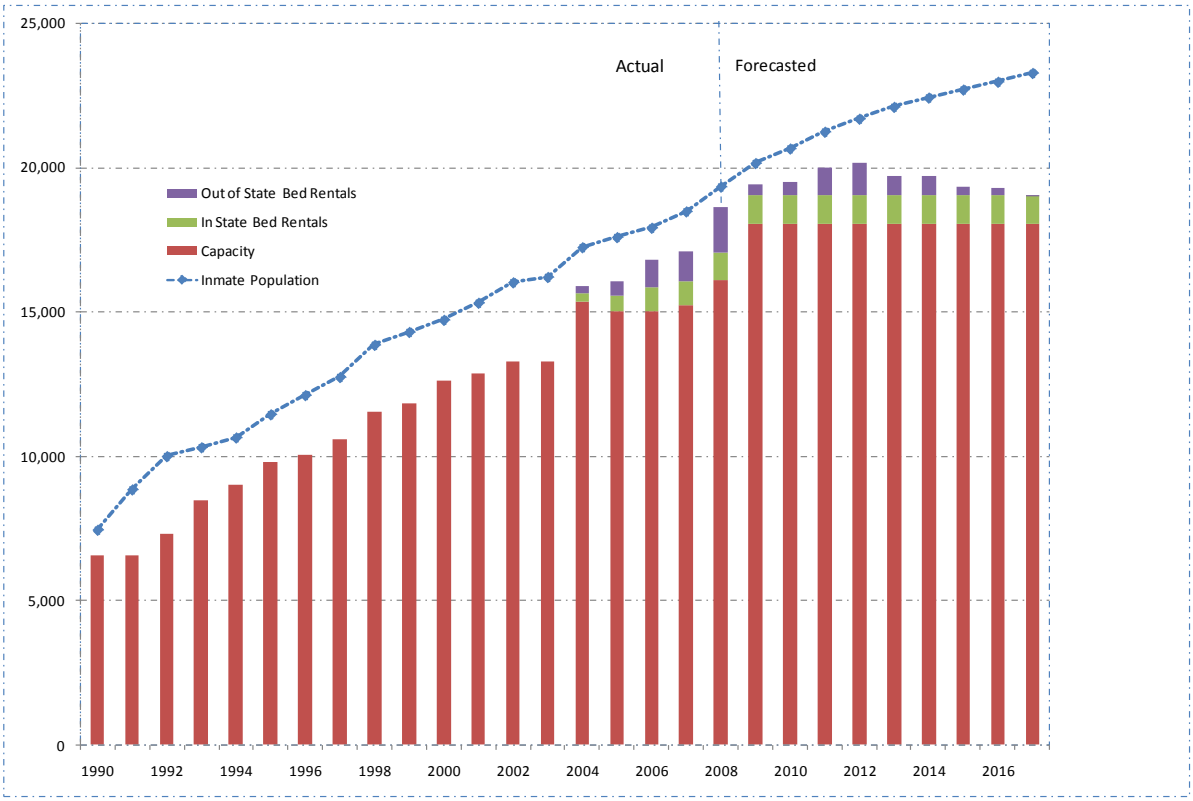
Special Population Facility
Assisted living care is provided to elderly and disabled offenders at Ahtanum View Correctional Complex's special population facility located about 15 minutes outside Yakima.

Work Release Facilities
The DOC operates 15 work release facilities that provide offenders the opportunity to assimilate back into the community with employment and an approved residence. The 2007-09 Capital Budget authorized the DOC to use Certificate of Participation in amount of $18 million to purchase new work release beds if needed. The Governor's 2009-11 Capital Budget recommends re-authorization. The following list includes the 15 facilities:

Facility Name	Location	Male Beds	Female Beds	Total
Ahtanum View Work Release	Yakima	52	8	60
Bellingham Work Release	Bellingham	21	4	25
Bishop Lewis Work Release	Seattle	69	0	69
Brownstone Work Release	Spokane	80	0	80
Clark Work Release	Vancouver	25	5	30
Eleanor Chase House Work Release	Spokane	0	55	55
Helen B. Ratcliff Work Release	Seattle	0	47	47
Longview Work Release	Longview	54	6	60
Madison Recovery House	Seattle	28	0	28
Olympia Work Release	Olympia	22	3	25
Peninsula Work Release	Port Orchard	54	6	60
Progress House Work Release	Tacoma	69	6	75
Rap/Lincoln Park Work Release	Tacoma	41	9	50
Reynolds Work Release	Seattle	99	0	99
Tri-Cities Work Release	Kennewick	34	6	40

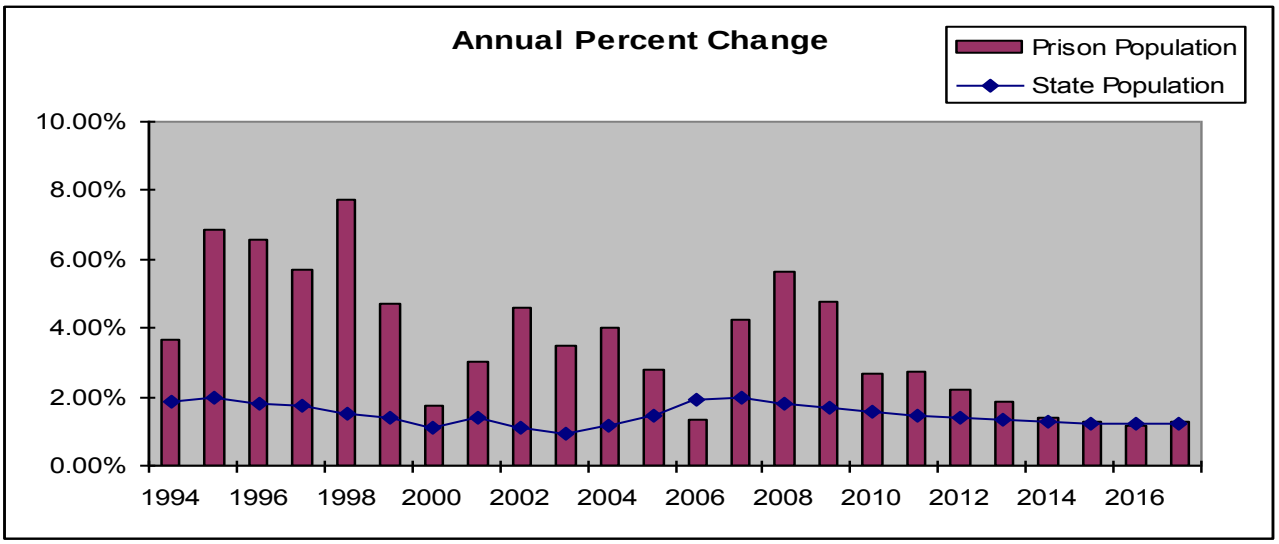

Cumulative Effects of Criminal Justice Legislation in Washington State
1986 - 2008 Sessions
Increase to Prison Population
13000
11000
9000
7000
5000
3000
1000
-1000
-3000
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Fiscal Year
6 Bills '06
2 bills '02
Anhydrous Ammonia 00
Ranking '99
4 bills '98
5 others '97
2 strikes '97
Juv. Rev. '97
Hard Time '95
3 Strikes '94
Youth Vio. '94
Sex '90
Burglary '89
Drugs '89
Sex '88
FTOW Drug '87
Escape '87
Scoring '86
Work Camp '93
DOSA '95
3 bills '99
Drugs '02
Good time
crime reduction '07

Population vs Beds



- Maintaining current capacity levels will result in a projected shortage of 5,730 beds by 2017.
- Meeting all current capacity requests will result in a projected shortage of 2,041 beds by 2017.
- As of October 2006, the Department of Corrections rents a total of 1,856 beds: 896 in WA and 960 out of state (MN & AZ).

Source: Department of Corrections, November 2008



- State population growth has averaged 1.52% since 1993.
- Prison Population growth has averaged 3.56% since 1993.
- Legislation passed since 1986 is projected to have a net impact of adding more than 10,000 inmates to the total prison population by 2017. This will equal roughly 42% of the total 2017 prison population.

Source: Department of Corrections, November 2008

Natural Resources

Overview of Natural Resources

The natural resources functional area of the capital budget includes funding primarily for environmental protection, pollution prevention and clean-up; water quality and quantity including availability of clean water for drinking, farming, fish, recreational, commercial and other purposes; salmon recovery and wildlife management and protection; and land and resource management including trust lands and state parks.

Department of Ecology
http://www.ecy.wa.gov

The Department of Ecology administers environmental regulations with the goals of preventing pollution, cleaning up polluted sites, and supporting sustainable communities and natural resources. Since the Departments creation in 1970, it has worked to track and issue water right permits, test and regulate water quality, monitor and improve air quality, reduce toxic industrial discharges and the generation of hazardous waste, modernize landfills and support recycling programs, reduce the number and size of oil spills, and clean up contaminated sites.

Three issues that have recently come to the forefront are (1) development of new water supplies and storage in the Columbia River Basin, (2) the protection and restoration of water quality in Puget Sound and (3) addressing low dissolved oxygen levels in Hood Canal.

Columbia River Basin Water Supply

The 2006 Legislature authorized the issuance of $200 million in bonds to the Columbia River Basin Water Supply Development Account to implement a program to provide additional water supplies and to alleviate the interruption of existing water rights for economic growth and municipalities, make existing water uses more efficient, and improve stream flow conditions for endangered fish. The purpose of the program is to (1) expand available water supply that will be allocated to a variety of new off-stream water uses, (2) provide replacement supplies for some existing uses with problematic sources of water, and (3) improve stream flows conditions within the Columbia and Snake Rivers.

Puget Sound
http://www.pugetsoundpartnership.org/

The capital budget provides funding to support activities that protect and restore the water quality of Puget Sound and grants for the cleanup of toxic sites within and near Puget Sound. Funding supports activities such as; (1) restoring fish and wildlife habitat, (2) controlling the release of toxic chemicals to Puget Sound, (3) cleaning up toxic sites within and around Puget Sound, (4) replacing or restoring failing sewers and septic systems, (5) reducing polluted storm water runoff, and (6) restoring damaged shorelines.

Washington State Parks and Recreation Commission
http://www.parks.wa.gov

The Washington State Parks and Recreation Commission acquires, operates, enhances and protects a diverse system of recreational, cultural, historical and natural sites, which includes:

- 121 parks, approximately 7,000 traditional and 100 group campsites.
- 200 miles of long distance trails and hundreds of miles of in-park hiking trails.
- 140 boat launches and 21 marine parks.
- Manages 120,000 acres of lands and 60 miles of ocean beach.
- 7,000 traditional campsites; 100 group campsites.
- 17 historic areas.
- 14 interpretive centers.

The commission consists of a board of seven volunteer citizens that are appointed by the governor and serve for staggered, six-year terms, setting public policy and guiding the agency.

The commission adopted a State Parks Centennial 2013 plan to prepare state parks for its next century of operation. The plan includes requesting funding to eliminate the current facility maintenance backlog, maintaining and repairing the current park system to avoid adding to the backlog list, and proposes adding three new parks to the system.

State Conservation Commission
http://www.scc.wa.gov/

The Conservation Commission manages multiple conservation programs. Unless otherwise specified by legislation, the agency can only provide funds to conservation districts. Therefore, most of their programs consist of grants to fund conservation work performed by local conservation districts, including:

- Puget Sound Water Quality Grants that promotes and supports implementation of water quality programs.
- Water Quality Implementation Grant Program that provides funding for outreach and plan design as well as project implementation.
- Conservation Reserve Enhancement Program (CREP) that improves salmon habitat by removing livestock and agricultural activities from the riparian area of salmon-bearing streams.

Recreation and Conservation Office

http://www.rco.wa.gov

The Recreation and Conservation Office (RCO), formerly known as the Interagency Committee for Outdoor Recreation (IAC), administers grant programs for recreation and habitat conservation purposes. Depending on the program, eligible applicants include municipal subdivisions of the state (cities, towns, and counties, or port, utility, park and recreation, and school districts), tribes, state agencies, and in some cases, federal agencies and nonprofit organizations. RCO programs include:

- Washington Wildlife and Recreation Program (WWRP)
- Aquatic Lands Enhancement Account Program
- Boating Improvement Grants
- Boating Facilities Program
- Family Forest & Fish Passage Program
- Non-highway Off-Road Vehicle Activities (NOVA)
- Salmon Recovery Grants
- Firearms & Archery Range Program
- Youth Athletic Facilities
- National Recreational Trails Program
- Land & Water Conservation Fund Program

Department of Fish and Wildlife
http://wdfw.wa.gov/

The Washington Fish and Wildlife preserves, protects, and manages the state's fish and wildlife resources by promoting conservation practices and commercial and recreational opportunities that result in economic benefit to local communities.

Department of Agriculture
http://agr.wa.gov/

The Department of Agriculture carries out more than 25 distinct programs that support the agricultural community and promote consumer and environmental protection, including:

- Market development
- Animal health services
- Commodity inspection
- Food safety and consumer services
- Pesticide management
- Plant protection.

Department of Natural Resources (DNR)
http://www.dnr.wa.gov/

The DNR manages more than five million acres of state land including: three million acres of upland trust lands—forests, agricultural and commercial lands that support public schools, state institutions or county services; 2.4 million acres of aquatic lands along the shores and beneath the waters of the state; and 120,000 acres of natural areas that protect high-quality examples of Washington's natural heritage.

State Trust and Other Lands

Trust or Type of Public Lands	Description	Acres
Aquatic Lands	DNR manages the state's aquatic lands, mostly underwater, for all the people as a public trust. Aquatic lands include beaches, tidelands, and beds of marine waters, navigable lakes, and rivers.	2,600,000 acres
Common School Trust	Trust benefiting public K-12 schools	1,758,000 acres
Forest Board Trust Lands	Trust benefiting county governments	593,000 acres
Agriculture and Scientific School Trust	Trust benefiting Washington State University	154,000 acres
Capitol Building Trust	Trust benefiting the state capitol campus	109,000 acres
Natural Area Reserves and Natural Resource Conservation Areas	Generally small parcels with high quality native ecosystems and plant and animal communities acquired by the state as natural areas. They are protected and used for scientific and educational study, and light public use, where appropriate.	121,000 acres
University Original and Transferred Trusts	Trust benefiting the University of Washington	87,000 acres
Charitable, Educational, Penal, and Reformatory and Institutions Trust (CEP&RI)	Trust benefiting the Dept. of Social and Health Services, the Dept. of Corrections, and other state institutions	70,000 acres
Normal School Trust	Trust benefiting Central Washington University, Eastern Washington University, Western Washington University	64,000 acres
New Trust Lands	Trust benefiting the community and technical colleges	3,000 acres
State Parks	121 developed public state park sites	120,000 acres

Alternative Financing

Overview of Alternative Financing Contracts

Background

Alternative financing generally refers to Certificates of Participation (COPs) and 63-20 financing.

Prior to 1989, state agencies purchased equipment and real estate independently with bank loans, vendor contracts, and through other finance companies. This activity was fragmented and financial reporting and accountability did not exist. There was no legislative oversight of the financing nor was there a mechanism to insure proper budget authority for these types of financing.

In 1989, the Legislature enacted chapter 39.94 RCW, which provided specific authority for state agencies to enter into financing contracts for the acquisition of real and personal property. These financing contracts have the following controls:

- The Legislature must approve all contracts for the purchase of buildings and land.
- The State Finance Committee must make rules for and administer the issuance of financing contracts.
- The State Finance Committee must approve all contracts, including the dollar amount and form of the contracts. State university facilities operated from non-appropriated funding sources such as dormitories and dining halls do not require approval, but must be reported to the State Finance Committee.
- The State Finance Committee can consolidate existing and new financing contracts into a master contract.

Certificates of Participation

Certificates of Participation are financing instruments used to facilitate lease/purchase contracts. COPs are similar to bonds in that they are sold as securities to private investors. A third party trustee (usually a bank) administers payments between the agency and COP holders. Two COP programs are managed by the Office of the State Treasurer: Real Estate COPs and Equipment COPs.

There are four important distinctions between alternative financing contracts and bonded projects appropriated in the capital budget:

- Payments on alternative financing (lease/purchase) contracts come from agency operating budgets. Bond debt service payments are appropriated in the operating budget as a whole.

- The contracts are not a general obligation of the state, as are bonds. Rather, payments are subject to the availability of funds within an agency's operating budget during any given time period.
- Because the full faith and credit of the state are not pledged toward lease/purchase payments, interest rates may be higher than for general obligation bonds.
- Debt on lease/purchase contracts does not fall under the state debt limit.

63-20 Financing

Another financing mechanism is known as 63-20 financing (based on IRS Ruling 63-20). Under 63-20 financing, a single-purpose nonprofit corporation issues bonds for the projects. Using bond proceeds, the nonprofit funds a capital project and contracts with a developer for construction. The State then leases the completed building from the nonprofit owner and when the bonds expire, the State takes ownership of the building.

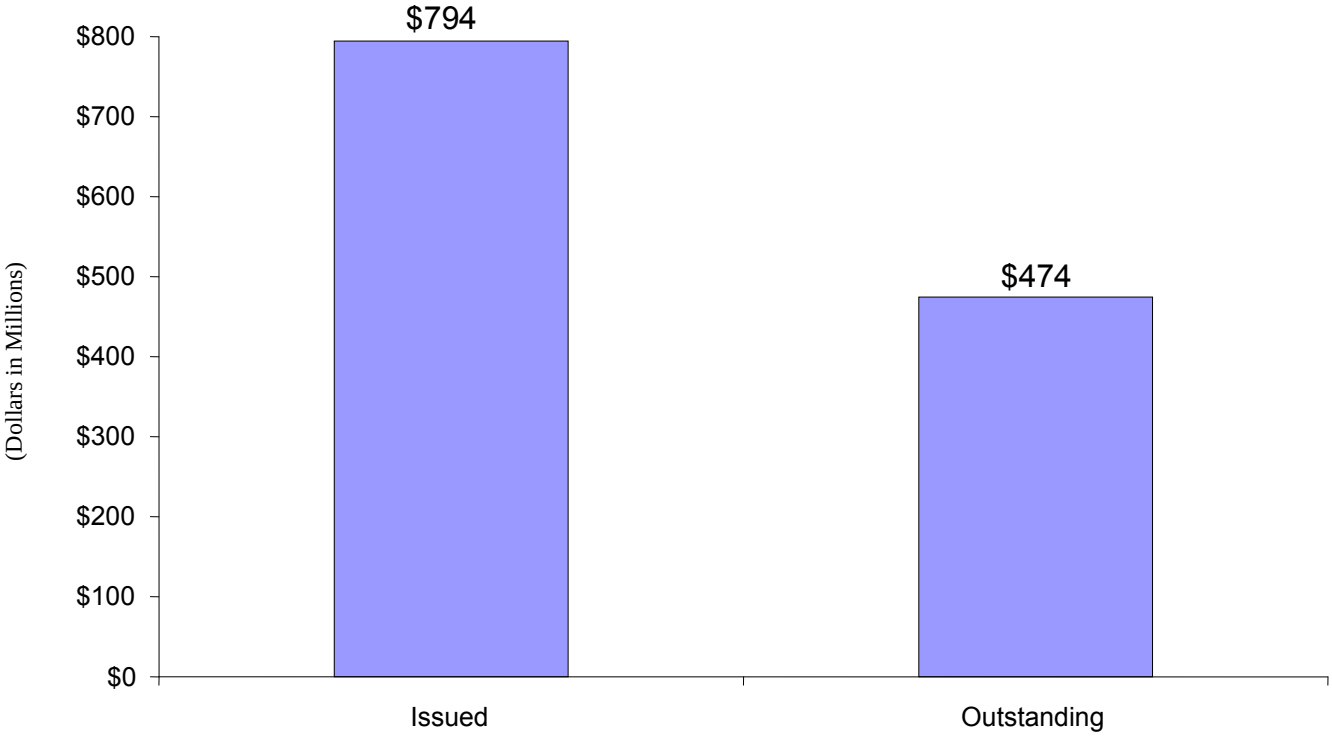
Local Option Capital Asset Lending Program
http://tre.wa.gov/LOCAL/local.htm

In 1998, the Legislature expanded the state lease/purchase program to include local governments. The program, Local Options Capital Asset Lending (Local), is similar to a state administered loan program for local governments. The State Treasurer's office charges a fee to ensure the program is self-supporting and may withhold state revenue distributions if the entity defaults on any debt payment. All local government debt incurred by the lease/purchase program is included in the debt limits of the local government entity.

Approval in the Capital Budget

All real estate (land and buildings) acquired by agencies through alternative financing (lease/purchase contracts, COPs, and 63-20 financings) must be authorized by the Legislature, however, equipment acquired by agencies through COPs does not need specific legislative approval.

Summary of Real Estate
Certificates of Participation (1991-2006)



Source: Office of the State Treasurer, December, 2008.

Facility Inventory

Inventory of State-Owned and Leased Facilities

State agencies currently utilize approximately 82.5 million gross square feet of facility space. About 78% of this space is owned by the state, while 22% is leased from the public and private sectors. Office and warehouse space makes up about 19 million square feet of the total facilities square footage, all other spaces is approximately 63 million square feet (educational, client services, laboratory, hospital, prison). In addition, office and warehouse space is 68% leased, 32% owned, and other space is 7% leased, 93% owned

State Agency Facility Oversight

http://www.ofm.wa.gov/budget/facilityoversight.asp

The 2007 Legislature passed Substitute House Bill 2366, which directs the Office of Financial Management (OFM) to strengthen its oversight role in state facility analysis and decision making. The OFM works with the Department of General Administration to provide space analysis for agency programmatic needs. Facility Oversight is taking the following steps to fulfill the role as the facility oversight agency:

- Implementing a long-range strategic facility planning process;
- Linking the six-year long-range strategic facility plans to operating and capital budgets;
- Instituting a new lease review, approval and oversight system;
- Developing and maintaining a comprehensive facility inventory and asset management system;
- Strengthening accountability, communication, and reporting on facility planning and decision-making; and
- Developing organizational capacity to support improved facility planning and oversight.

State-Owned Facilities

The costs associated with state-owned facilities and funded in the capital budget include acquisition, construction, rehabilitation and major repairs. Normal maintenance costs; e.g., small repairs and preventive maintenance tasks, and operating expenses; e.g., utilities and lease payments, are funded in the operating budget.

Leased Facilities

State agencies either own or lease office, programmatic, and storage space. They may lease space in a state-owned or a privately-owned facility. The costs associated with leasing (rent, repairs and other operating expenses) are included in the operating budget.

Lease versus Own Cost

In 1995 the Joint Legislative Audit Review Committee (JLARC) developed the Life-cycle Cost Model, a financial analysis tool used to compare the long-term costs of leasing versus owning state facilities. The 2006 Capital Budget provided funding for JLARC to update and enhance the model's ability to inform decision-makers about the current and long-term capital and operating impacts of facility leasing options compared to state ownership. The model allows comparisons of alternative financing approaches, including certificates of participation, 63-20 financing, and state general obligation bond funding.

Local and Community Projects

Local and Community Projects

History of State Grants for Local and Community Projects

Through statutory programs such as Building for the Arts, Heritage Projects, and Youth Recreational Facilities, the legislature has historically appropriated grant funding for local and community projects. These grant programs are administered by the Department of Community, Trade & Economic Development (CTED). Most recipients of local and community project grants are non-profit organizations, and the remainder are local governments

These grant programs use a competitive application process that the Department of Community, Trade and Economic Development (CTED) uses when recommending a prioritized list to the legislature for funding. In 2008, House Bill 6855 eliminated the Community Services Facilities program, and created the Building Communities Fund program. The CTED reviews Building Communities Fund projects for eligibility but it does not rank or recommend projects for funding.

Local and Community Projects and Prohibitions on Lending of Credit/Gift of Public Funds

The state constitution prohibits the state from lending its credit or making gifts of public funds. In general, these provisions prevent the state from making expenditures without receiving a public benefit in return, and from placing state funds at risk without adequate protection. (The lending of credit/gift of public funds restrictions are discussed in more detail below under "Other Considerations.") These prohibitions do not prevent the state from providing grants to entities whose purposes are wholly public, such as local governments, but the restrictions do limit the state's ability to provide grants to individuals and private corporations, whether for-profit or non-profit.

In the case of local and community projects, the state grants appropriated in the capital budget provide funding to construction, purchase or renovate a facility that the non-profit organization or local government will then use to provide services to the public. The public benefit is the services that the public receives. This benefit is more indirect than, for example, contracts with non-profits that are funded in the operating budget, where the compensation for the public expenditure is the services that are directly and contemporaneously provided.

Given these lending of credit/gift of public funds restrictions, grant programs for local and community projects contain a number of safeguards to ensure that the grants comply with the constitution.

The competitive application process and other state requirements for the statutory grant programs significantly reduce the risk of lending of credit/gift of public funds violations. Under the programs' processes and requirements: (1) a competitive application process means the public benefit is clearly defined and highly ranked; (2) the financing is secured and the state grant is generally 25 percent or less of total project financing; (3) the project is well underway and will be completed in a short timeframe, meaning the facility can start providing the public services/benefits soon; (4) the project or a phase of the project will be usable to the public for its intended purpose once the state funds are expended; and (5) the nonprofit organization or local government has entered into a contract to ensure the facility will be used for its intended purpose for a sufficient period of time in the future to justify the state investment in the project.

These criteria ensure that the state receives a benefit in the form of services provided to the public in the near term, and they protect public funds by avoiding expenditures for projects that are still in the early stages or for which financing still needs to be raised.

In addition, the state must recover the investment from any projects that do not provide the public services or benefits for a sufficient period of time or from projects that are not completed within a reasonable period of time (generally five years).

Other Considerations

Other Considerations in Writing a Capital Budget

Major Applicable State Constitutional Provisions

The Title/Subject Rule. Article 2, section 19 requires that a bill contain only one subject and that this subject be embraced 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 subject be expressed in the bill 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 also prevents the legislature from making "substantive law" in the budget bill. The courts generally consider three criteria when determining whether budget provision is substantive law: (1) whether it affects rights or liabilities; (2) whether it has been included in other legislation; and (3) whether it appears to outlast the biennium covered by the budget.

Appropriation Requirement. Article 8, section 4 establishes the legislature's role in 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--budget legislation passed by the legislature and signed by the governor. (2) Appropriations are temporary in nature and do not outlast the biennium for which they were made. (3) All appropriations must specify an amount 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 legislature is notified and given an opportunity to comment.

Prohibition on Lending of Credit/Gifts of Public Funds. Article 8, sections 5 and 7, along with Article 12, 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; 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 7, section 1 requires that tax revenues be spent only for public purposes. These restrictions arose from concerns about public subsidies and loans to speculative private ventures--risks that placed public funds in jeopardy and left taxpayers holding worthless stock or liable for inadequately secured debts.

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 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 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.

Governor's Item Veto Powers. Article 3, section 12 establishes the governor's veto power. Generally, in for policy bills, the governor must 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 vetos a proviso that directs funds within a lump sum appropriation, the veto results in a reduction of the overall appropriations.

Court decisions about the item veto power are based on the operating budget, which is generally structured as lump sum appropriations, in contrast to the capital budget, which is generally structured as item appropriations. It is unclear whether item veto principles may apply differently to the capital budget.

Special Legislation. Article 1, section 12, and Article 2, 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 to all members of that class and the law's exclusions are rationally related to the purpose of the statute.

Debt Limit. Article 8 section 1 establishes a state debt limit. The debt limit is described in detail in other areas of this briefing book.

Other Items

Operating Expenses in the Capital Budget. There are several gray areas regarding whether a specific expenditure is more appropriately an operating expense or a capital expense. These areas include project administration expenses and FTEs, some building maintenance expenses, equipment, capital-related studies and planning efforts, etc. While there are some items in the capital budget that could be categorized as operating expenses, this appears to be a small part of the overall budget (except for the $68 million appropriated for higher education facility

maintenance), especially for those projects funded using state bonds. One of the areas of concern raised in the 2003 session was equipment. At the legislature's request, the Office of Financial Management developed criteria it recommends to be used for decisions on funding equipment in the capital budget.

Minor Works Appropriations. Minor works appropriations are lump sum appropriations to cover similar small projects costing less than $1 million or under $2 million for higher education institutions. Minor works appropriations fall into four categories: 1) health, safety, and code requirements; 2) facility preservation; 3) infrastructure preservation; and 4) program improvement. These projects are intended to improve existing facilities or related infrastructure. The agency must file minor works lists with OFM and cannot expend or obligate funds until OFM has approved the lists. Minor works appropriations are not to be used for studies unless specifically authorized in the capital budget.

Capital Budget Related Committees

Department of Archaeology and Historic Preservation (Executive Order 05-05) - Governor Chris Gregoire signed Executive Order 05-05 in November of 2005. The executive order requires state agencies with capital improvement projects to integrate the Department of Archaeology and Historic Preservation, the Governor's Office of Indian Affairs and concerned tribes into their capital project planning process. http://www.dahp.wa.gov/

Affordable Housing Advisory Board (RCW 43.185B.020) – The Affordable Housing Advisory Board is a 21-members that review, evaluate, and make recommendations to the Department of Community, Trade and Economic Development regarding existing and proposed housing programs and initiatives including tax policies, land use policies, and financing programs. http://www.cted.wa.gov/site/718/default.aspx

State Building Code Council (RCW 19.27.070) – The State Building Code Council is a 15-member council created to advise the Legislature on building code related matters. The council adopts and amends Uniform Codes, Historic Building Code, and Energy Code in accordance with the Administrative Procedures Act, reviews and approves or denies Local Residential Amendments, employs permanent and temporary staff and contracts for services. http://www.sbcc.wa.gov/sbccindx.html

State Capitol Committee (RCW 43.17.070) - The State Capitol Committee oversees the capitol campus master plan and other issues affecting the capitol campus, approves the construction of all state buildings in Thurston County, and approves acquisition of real estate for state government in Thurston County. Committee members include the Governor or Governor's designee, the Lieutenant Governor, the Secretary of State, and the Commissioner of Public Lands.

Capitol Campus Design Advisory Committee (RCW 43.34.080) – The advisory committee to the State Capitol Committee and the Director of General Administration to review programs, planning, design, and landscaping of state capitol facilities and grounds, the committee makes recommendations that will contribute to the architectural, aesthetic, functional, and environmental excellence in design and maintenance of capitol facilities on campus and located in neighboring communities.

Capitol Furnishings Preservation Committee (RCW 27.48.040) - The 19-member committee promotes and encourages the recovery and preservation of the original and historic furnishing of the state capitol group, prevent future loss of historic furnishings, and review and advise future remodeling and restoration projects as they pertain to historic furnishings. http://www.governor.wa.gov/boards/profiles/022.asp

Community Economic Revitalization Board (CERB) (RCW 43.160) - The 19-member board represents private and public sectors from across the state. The Board sets policy and selects projects to receive the investment of CERB funds. http://www.cted.wa.gov/portal/alias__CTED/lang__en/tabID__64/DesktopDefault.aspx

Capital Projects Advisory Review Board (CPARB) RCW 39.10 - The 2005 Legislature created CPARB to review alternative public works contracting procedures and provide guidance to state policy makers on ways to enhance the quality, efficiency, and accountability of public works contracting methods. http://www.ga.wa.gov/CPARB/index.html

Washington Economic Development Finance Authority (WEDFA) (RCW 42.163) – WEDFA is an independent agency with a 17-member board that created by the legislature to issue bonds for qualifying projects, including manufacturing and processing facilities and projects categorized as

exempt facilities under federal tax law. These may include wastewater, solid waste disposal, mass commuting, and some types of recycling and cogeneration projects, but do not including retail http://www.wedfa.wa.gov/

Washington Economic Development Commission (RCW 43.162) - Created in 2002 and restructured in 2007, the Economic Development Commission is charged with the creation of a comprehensive statewide economic development strategic plan to guide the operation of the state's economic development programs, infrastructure, workforce training, small business assistance, technology transfer, and export assistance.

State Finance Committee (RCW 43.33.010) - The State Finance Committee is responsible for the authorization and issuance of all state debt. Committee members include the State Treasurer, the Lieutenant Governor, and the Governor. http://www.wa.gov/tre/

Fish and Wildlife Commission (RCW 77.04.030) - The commission consists of nine members serving six-year terms. Members are appointed by the Governor and approved by the Senate. Three members must reside east of the summit of the Cascades, three west of the Cascades, and three may reside anywhere in the state. The commission's role is to review and prescribe basic goals and objectives to preserve, protect, and perpetuate fish and wildlife and their habitat, review the performance of the department, and have final approval authority for the department's budget proposals. http://wdfw.wa.gov/com/comintro.htm

Facility Oversight (Chapter 506, Laws of 2007) – The Office of Financial Management provides state facility space needs analysis. http://www.ofm.wa.gov/budget/facilityoversight.asp

Housing Finance Commission (RCW 43.180.040) - The Housing Finance Commission, with a 12-member board, develops and administers financing programs that encourage and make possible the production of affordable rental housing throughout the state and provide home ownership opportunities. Additionally, Commission programs assist nonprofit organizations in the creation of facilities that address a broad spectrum of needs. http://www.wshfc.org/

Hood Canal Coordinating Council (RCW 90.88.030) - The Hood Canal Coordinating Council is a watershed-based Council of five governments. It was established in 1985 in response to community concerns about water quality problems and related natural resource issues in the watershed. http://www.hccc.wa.gov/

Higher Education Coordinating Board (RCW 28B.76) - The board consists of ten members appointed by the Governor and confirmed by the Senate. The board provides planning, coordination, monitoring, and fiscal policy analysis for higher education in the state, including the preparation of a master plan. http://www.hecb.wa.gov/

Higher Education Facilities Authority (RCW 28B.75) – The Authority is a self-supported agency that issues tax-exempt bonds to enable Washington's nonprofit, independent colleges and universities to build, improve, and equip higher education facilities in a manner that will minimize capital costs. http://www.whefa.org/

Board of Natural Resources (RCW 43.30.030) - The board consists of six members, the Governor or designee, the Superintendent of Public Instruction, the Commissioner of Public Lands, the dean of the College of Forest Resources of the University of Washington, the dean of the College of Agriculture of Washington State University, and a representative of those counties that contain state forest lands managed by the Department of Natural Resources. The board establishes polices on land acquisition and disposition and acta as the Board of Appraisers as

provided in Article 16, Section 2 of the state constitution.
http://www.dnr.wa.gov/AboutDNR/BoardsCouncils/WBNR/Pages/Home.aspx

Public Works Board (RCW 43.155.030) - The 13-member board is authorized to make low-interest or interest-free loans from the Public Works Assistance Account to finance the repair, replacement, or improvement of the following public works systems: bridges, roads, water and sewage systems, and solid waste and recycling facilities. http://www.pwb.wa.gov/

Recreation and Conservation Funding Board (RCW 79A.25.110) - The board's mission is to create and implement a state-wide strategy for meeting the recreational needs of Washington's citizens and administer recreational grant programs. Membership on the committee consists of five citizen members appointed by the Governor and confirmed by the Senate. State agency representation consists of the Commissioner of Public Lands, the director of the Department of Fish and Wildlife, and the Parks and Recreation Commission. http://www.iac.wa.gov/default.asp

State Board for Community and Technical Colleges (RCW 28B.50.050) - The board consists of nine members appointed by the Governor and confirmed by the Senate. The board has general supervision and control over the community and technical colleges, including budgeting, distributing funds, and preparing a master plan. http://www.sbctc.ctc.edu/

State Parks and Recreation Commission (RCW 79A.05.015) - The commission consists of seven members appointed by the Governor for staggered, six-year terms. The commission has powers to manage state parks including the authority to acquire lands for parks and adopt rules to guide visitor conduct. http://www.parks.wa.gov/

Salmon Recovery Funding Board (RCW 77.85.110) - The board is responsible for making grants and loans for salmon habitat projects and activities. Membership on the board consists of five voting citizen members appointed by the Governor and confirmed by the Senate and five non-voting state agency directors. State agency representation includes the Commissioner of Public Lands, the director of the Department of Fish and Wildlife, the director of the Department of Ecology, the executive director of the Conservation Commission, and the Secretary of Transportation. http://www.iac.wa.gov/srfb/default.asp