Overview of Governor Inslee's 2014 Supplemental Operating and Capital Budget Proposals

Prepared by:
Senate Ways & Means Committee Staff

December 18, 2013

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Major Features of Governor Inslee's Proposed 2014 Supplemental Operating Budget

Introduction

Based on the 2013-15 operating budget enacted in June 2013, total reserves were anticipated to be approximately $635 million ($58 million unrestricted and the remainder in the Budget Stabilization Account).

In the two forecasts since June 2013, the Economic and Revenue Forecast Council increased their projections for Near General Fund-State and Opportunity Pathways revenue for the 2013-15 biennium. Combined with small technical updates, projected resources increased by approximately $277 million. Actual spending for fiscal year 2013 was also about $60 million less than originally anticipated, which further increases available resources. This means that for the first time in years, the anticipated fiscal situation going into the 2014 legislative session is more positive than when the previous budget was enacted.

Overview of Governor Inslee's Budget

The Governor's proposed 2014 supplemental operating budget increases Near General and Opportunity Pathways spending by $252 million (excluding the $10.5 million in aerospace related additions made in the November 2013 special session). Of the $252 million, $149 million is associated with maintenance level changes for caseload and other adjustments based on current law requirements. The Governor's 2014 supplemental budget then provides $103 million in net policy enhancements and increases. It should be noted that the Governor's budget includes a $23 million double appropriation and therefore the true policy level increase is approximately $80 million.

The Governor's budget also makes a variety of resource changes. To build resources, the Governor's budget redirects $109.3 million in State and Local Toxic Funds from the capital budget to the operating budget (which are backfilled with state bonds). Resources are decreased by two tax policy changes. The first is a one-year extension of two tax preferences related to high technology research and development at a cost of $26.2 million. The second is a permanent increase to the business and occupation tax filing threshold at a cost of $3.4 million.

Based on all the changes proposed in his supplemental budget, the Governor estimates $811 million in total reserves ($229 million unrestricted and the remainder in the Budget Stabilization Account).

IMPORTANT NOTE: Unless otherwise noted, this document describes the Near General Fund & Opportunity Pathways Account (which includes the Education Legacy Trust Account). This is done because ultimately this is the best reflection of the entire budget situation that needs to be considered by the Legislature. For this reason, the amounts may differ slightly from the ones depicted by the Office of Financial Management.

Revenue & Resource Changes

Capital Budget Redirection - $109 Million Increased Resources
The Governor's budget transfers to the Education Legacy Trust Account $41.9 million from the State Toxics Control Account and $67.4 million from the Local Toxics Control Account. These Model Toxic Control Act funds are made available by replacing toxic clean-up project reappropriations in the 2013-15 capital budget with new state bond appropriations.

One Year Extension High Tech Research & Development Tax Credits - $26.2 million revenue reduction
The research and development business and occupation tax credit and the sales tax deferral/exemption for facilities of certain high technology businesses are set to expire January 1, 2015. These tax incentives are available to businesses in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. The Governor's proposal extends the expiration dates until January 1, 2016. During this time, the Governor will convene a work group of industry experts and higher education leaders to make recommendations on state investment priorities in the high tech industry.

Increase of the business and occupation tax filing threshold - $3.4 million revenue reduction
The filing threshold in which a business is required to file a business and occupation tax return is currently $28,000 per year in gross income, unless you are a business that files at least 50% of taxes under the highest 1.5 business and occupation tax rate, in which case the threshold is $46,667. The Governor proposes increasing the filing threshold to $50,000 for all businesses with no differentiation based on tax rate.

Spending Changes

Maintenance Level Changes - $149 Million Spending Increase
The Governor's budget provides an increase of $148.7 million Near General Fund-State and Opportunity Pathways in maintenance level changes for caseload and other adjustments based on current law requirements. Approximately $30 million (or 20% of the increase) is from caseload changes approved by the Caseload Forecast Council.

For human services, major maintenance level increases include $46.9 million for the Health Care Authority and $32.6 million for the Department of Corrections. For the Department of Social and Health Services, maintenance level funding is a net increase of $23 million, including:

(1) $4.1 million in caseload savings in Children and Family Services;
(2) $23.5 million in savings in TANF/WCCC and other caseload adjustments and a $6.2 million increase for incapacity exams in Economic Services Administration;
(3) $14.7 million increase for caseloads, electronic medical records and security enhancements in Mental Health;

(4) $16.4 million in caseload and utilization increases in Division of Developmental Disabilities; and
(5) $8.8 million in caseload and utilization savings in the Division of Long Term Care.

For K-12 education, total maintenance level funding increases a net of $11.6 million. Although increased enrollment and workload changes add $62.7 million in costs, this amount is offset by $51.1 million in savings:

(1) $33.3 million of salary savings from staff mix;
(2) $7.8 million Federal Forest Revenues reauthorized by Congress generating savings to general apportionment; and
(3) $10 million in savings from adjustments to assessment costs.

Other maintenance level adjustments include: (1) $10.5 million for the Departments of Fish and Wildlife and Natural Resources for fire suppression costs in fiscal year 2014; (2) $4 million for caseload increases for the College Bound Scholarship program in the Student Achievement Council; and (3) $1.3 million for maintenance of two King Air aircraft, including a complete engine overhaul of the 1983 King Air. The Governor's budget also shifts $38.2 million in debt service payments from fiscal year 2015 to fiscal year 2014.

Spending Reductions - $50 Million net Decrease

- State Employee Health Insurance - Utilizes additional Public Employee Benefits Board fund balance to save $36 million by lowering state employee health insurance contribution rates in FY 2015 from $763 to $703. This does not impact health care benefits provided to state employees.

- Medicaid Managed Rate - Saves $10 million by reducing the calendar year 2015 growth trend for managed care rates. The base budget assumes a two percent cost growth related to managed care rates for inflation and utilization factors. The Governor's budget assumes a zero percent growth trend and as a result assumes the 2015 rates will equal the 2014 rates.

- Provider Compensation System Delay - The implementation of changes to the Long Term Care and Developmental Disabilities Individual Provider (IP) payment system is delayed by six-months saving $3.2 million.

K-12 Education

- $3 million is provided to expand the existing Beginning Educator Support Team (BEST) program at the Office of the Superintendent of Public Instruction. The program provides grants to school districts for enhanced support and professional development for new teachers.

- $1.9 million in additional funding is provided to increase certain K-12 formula factors. The 2013-15 budget provided an allocation of additional classroom teacher units to increase instructional hours for grades seven through twelve by 2.2222 hours per week beginning in the 2014-15 school year. The calculations relied on general education class sizes, and did not include smaller class sizes for career and technical education and skill center courses. It also did not include funding for substitute teachers or central administration. A change is made to the formula providing funding for the additional hours of instruction by adjusting the

planning time assumption for classroom teachers in the basic education funding allocation. This automatically accommodates differences in class sizes, substitute teachers and administrative services.

Department of Early Learning & Child Care

- The Early Childhood Education and Assistance Program (ECEAP) is expanded by 500 slots from 10,091 to 10,591 in fiscal year 2015. The budget provides $4 million for the additional slots at a per slot cost of $7,579 and includes funding for classroom start-up costs.

- The budget provides $10.3 million for a new collective bargaining agreement for child care workers which includes a 4 percent base increase effective July 1, 2014 and an additional 4 percent effective January 1, 2015. This increase impacts child care rates at Department of Early Learning, Children's Administration and Economic Services Administration. The budget does not assume parity for child care centers.

- $1 million is provided for a pilot program for child care centers to determine appropriate payment increases related to Early Achiever's quality rating and improvement system. The pilot will run concurrently with the pilot for the family home child care providers.

Higher Education

- An additional $7.2 million is provided to meet commitments in the College Bound Scholarship Program. The additional funding is needed due to: 1) eligible students attending during the summer when other state-based financial aid (e.g. State Need Grant) is unavailable (approximately 1,500 in 2013 and 2,000 in 2014); and 2) savings estimated for prioritization of State Need Grant funds will not be realized in fiscal year 2014.

- $1.8 million in additional funding is provided for aerospace-related endeavors, including the following:
    - $500,000 for the University of Washington to establish an Advanced Materials Manufacturing Institute, which will conduct research and provide equipment to private companies to develop new products and manufacturing processes. Funding provided will be used to further define and develop a business plan for the Institute's operation.
    - $500,000 for Washington State University to establish a School of Advanced Manufacturing at the University Center of North Puget Sound with the first classes to be offered in the 2015-16 academic year.
    - $750,000 in state matching funds is provided to the Washington State University for the administrative costs and graduate research assistants associated with the new Jet Fuels Center of Excellence.

- $1.0 million is provided to the University of Washington in support of the Institute for Protein Design and will be used to support the commercialization of protein design research projects.

Low Income Health

- Provides $3.9 million in additional funding for the ProviderOne computer system to finish implementation of Phase 2, align to federal operating rules, implement Affordable Care Act enhancements, and for ongoing operations and maintenance.

- An increase of $2.7 million is provided to implement a portion of Bright Futures Benefit. The additional funded services to include autism screenings for children 19 and 24 months of age as well as to add developmental screenings for children ages 9, 18, and 24 months.

- $1.2 million in state funding is provided to develop a five-year state innovation plan based on the $1 million federal grant the state received to develop the State Health care Innovation Plan.

- Provides $200,000 for staff and actuarial analysis to support the procurement and integration of mental health and chemical dependency within physical health services for those patients that do not meet access to care standards.

DSHS Long Term Care and Developmental Disabilities

Long Term Care

- The Nursing Home Safety Net Assessment Fee is increased from the current level of $14.00 per patient day to the maximum available level of $21.75 per patient day. The revenue generated provides a five percent rate increase in nursing home Medicaid rates, a portion of which is directed to increase the low wage worker payment add-on. This item increases Safety Net Assessment revenue by $14.6 million in FY 2015.

- $800,000 is provided for two items presented to the Joint Legislative Executive Committee on Aging and Disabilities (Executive Committee) over the 2013 interim. Additional staff are provided to create a viable plan to refinance Washington's personal care delivery system to a Community First Choice Option and contract funds are provided for an actuarial study to examine options for leveraging private resources and delaying or diverting Medicaid utilization for long-term care services. Formal recommendations from the Executive Committee are due to the legislature December 10, 2014.

Developmental Disabilities

- A certification fee is established for Supported Living providers to generate $1.8 million in local funds to pay for complaint and neglect investigations for vulnerable clients.

- $1.9 million and 41.1 staff are provided to perform preadmission screening and resident review to nursing home clients living in Residential Habilitation Centers (RHCs). This is based on a recent corrective action finding by the Center for Medicare and Medicaid Services that individuals were being moved within RHCs to certified skilled nursing beds without full compliance to Preadmission Screening and Resident Review (PASRR) requirements.

DSHS Mental Health

- $8.3 million is provided to develop infrastructure for intensive mental health services for high needs youth in conjunction with the children's mental health lawsuit *T.R. v Dreyfus.*

- $2.2 million is provided for workplace violence prevention activities in the state mental health hospitals.

- $1.8 million is provided for staff and actuarial analysis in support of a procurement of the mental health and chemical services. This is part of a two-phased integration proposal for systems that provide medical services to Medicaid participants.

DSHS Economic Services & Temporary Assistance For Needy Families

- The budget provides $1.4 million related to design, development and implementation of Eligibility Service System for the Health Benefit Exchange and to modify the Automated Client Eligibility System (ACES) which supports and maintains other program eligibility rules.

- The disaster recovery contract for the ACES eligibility system will no longer be effective January 1, 2014 and the Enterprise Service Bus (ESB) system, which facilitates communication between ACES and the Health Benefit Exchange, does not currently have a disaster recovery plan. $1.5 million is provided to develop and implement a disaster recovery strategy for ACES and ESB.

Department of Corrections

- The budget provides $5.1 million to open the remaining medium security unit at Washington State Penitentiary, increasing Male Prison capacity by 256. The budget assumes the unit opens April 2014.

- $1.6 million in funding is provided for contracting with county jails to house 64 female offenders that would otherwise be incarcerated in a state prison facility; the funding is limited to no more than $65 per offender per day.

Natural Resources

- The budget provides $1.4 million for the Department of Fish and Wildlife to meet its obligations under federal court order to assess, clear and maintain fish passage through previously blocked by culverts.

- The budget provides $982,000 for the Department of Natural Resources to develop a management plan for the Teanaway Community Forest Trust.

Selected Other Increases

- The original 2013-15 budget assumed $30 million in savings by implementing lean management practices. The Governor's budget restores $15 million or 50 percent of this reduction.

- The original 2013-15 budget assumes $10 million in savings associated with coordination of public health insurance benefits with the federal Affordable Care Act exchange and premium subsidies. The Governor's proposed budget eliminates this savings item.

- $11.3 million Near General Fund-State is transferred to the Disaster Response Account. $5.6 million is to fund new expenses in fiscal year 2015 related to completing projects necessary to recover from seven previously declared disasters. $5.7 million is transferred to cover expenses in fiscal year 2014.

- Provides a total of $5.2 million for costs related to current and future parental rights termination proceedings and adoption cases. The funding includes the following: (1) $3.2 million to the Department of Social and Health Services to reimburse the Attorney General's Office through the Legal Services Revolving Fund; (2) $1.9 million in one-time funding to the Office of Public Defense (OPD) for parent's representation program; and (3) increased spending authority to the Attorney General's office related to this issue.

- $4.6 million (Liquor Revolving Fund) is provided for the administration and implementation of Initiative 502. Additional funds are provided for IT tax systems and additional staff for marijuana licensing, enforcement, and auditing.

- $3.3 million (Legal Services Revolving Fund) is provided for salary increases in the Attorney General's Office to address recruitment and retention issues.

- Legislation will be proposed to eliminate Innovate Washington as a state agency. Instead, Commerce is provided $1.95 million to contract with an experienced non-profit entity in Washington (a competitive procurement, but assumed to be Innovate Washington) for activities such as providing loans and grants for technology innovation and to receive and administer federal grant funds for technology development efforts. It is assumed that the legislation will move the non-appropriated Investing in Innovation Account from Innovate Washington to Commerce; the fund contains $3.38 million.

- $1 million is provided to enhance science, technology, engineering, and math (STEM) alliances (OFM).

- $1.1 million is provided for increased litigation to enforce the Tobacco Master Settlement Agreement by the Attorney General's Office.

- $982,000 is provided for additional technical assistance staff to assist cities and counties with Growth Management Act comprehensive plan updates.

- $750,000 is provided to partially restore the Entrepreneurs-in-Residence (EIR) program that assists efforts to increase commercialization of research and development projects at higher education institutions.

Governor Inslee's Proposed 2014 Supplemental Capital Budget

Background

The 2013-15 capital budget (ESSB 5035) appropriated $1,915.8 million in state bonds from the net bond authorization (ESSB 5036) of $2,015.2 million. In the November special session, $6.5 million was appropriated via EHB 2088. The remaining bond capacity was $92.8 million.

Summary

Governor Inslee's 2014 supplemental capital budget appropriates $90.5 million in state bonds; this includes a number of technical adjustments in the Department of Commerce ($5.4 million savings) and K-12 Construction ($47.9 million savings). $2.3 million in bond authority remains. The total appropriation (state bonds + other funds) is $180.5 million.

2014 Supplemental Bond Capacity

	Dollars in Thousands
Net Bond Bill Authorization (ESSB 5036)	2,015,185
2013-15 Appropriations (ESSB 5035)	1,915,833
November 2013 Supplemental Appropriations (EHB 2088)	6,500
Total Appropriations/Adjustments	1,922,333
Amount Remaining Under Existing Bond Authorization Bill	92,852
Governor's 2014 Supplemental Capital Budget Appropriations	90,520
Remaining Supplemental Bond Capacity	2,332

The Governor's budget transfers to the Education Legacy Trust Account $41.9 million from the State Toxics Control Account and $67.4 million from the Local Toxics Control Account; these Model Toxic Control Act funds are made available by swapping toxic clean-up project reappropriations in the Recreation and Conservation Funding Board and the Department of Ecology with new state bond appropriations.

In addition, the larger bond-funded projects include:

- Department of Commerce High Energy Efficient Housing Demonstration: $5 million
- Office of Financial Management Catastrophic Flood Relief: $5 million
- DSHS Fircrest School Electrical Service Repairs: $2.5 million
- Department of Corrections Prison Capacity Predesign: $1.8 million
- Department of Ecology Headquarters Emergency Generator Replacement: $4.9 million
- Recreation and Conservation Funding Board, Boating Facilities Program: $2 million
- Department of Natural Resources

    - Replace Culverts on DNR Land: $3.4 million
    - Olympic Region Shop Fire Recovery: $1.7 million
    - Teanaway Community Forest Trust: $1.6 million
- Central Washington University Buried Oil Storage Tank Remediation: $2 million
- Western Washington University Carver Academic Renovation: $5 million
- Washington State Historical Society History Museum Membrane System Replacement: $1.7 million

The Governor's capital budget provides Certificate of Participation (COP) authority for the following projects, totaling $37.5 million:

- Eastern Washington University, Washington Street Facilities Improvement: $19 million
- The Evergreen State College: Tacoma Campus Acquisition: $12.5 million
- Community and Technical Colleges, Lower Columbia College
    - Main Building Renovation: $3 million
    - Student Housing: $3 million

The budget modifies the conditions for the 1063 Capitol Way South, Olympia building development; a COP for this project is authorized in the 2013-15 capital budget. The supplemental budget eliminates the requirement that the Office of Financial Management report the budget impacts for tenant agencies and the restriction that rents can't exceed $26 per square foot.