

OVERVIEW OF GOVERNOR INSLEE'S 2015-17 OPERATING AND CAPITAL BUDGET PROPOSALS



**PREPARED BY:
SENATE WAYS & MEANS COMMITTEE STAFF**

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Major Features of Governor Inslee's Proposed 2015 Supplemental and 2015-17 Biennial Operating Budget

Introduction

When the Legislature adjourned last spring, the 2014 supplemental operating budget was projected to meet the four-year balanced budget requirements of Chapter 8, Laws of 2012, 1st Special Session (SSB 6636). The projected unrestricted ending fund balance was \$296 million at the end of the 2013-15 biennium and \$20 million at the end of the 2015-17 biennium. This did not include the amounts in the Budget Stabilization Account or "Rainy Day Fund." Pursuant to the provisions of Chapter 8, Laws of 2012, 1st Special Session (SSB 6636), this "balanced" projection also did not include additional K-12 enhancements associated with the phased implementation of SHB 2776 (Chapter 236, Laws of 2010), new collective bargaining agreements, or other discretionary policy additions.

In the three quarterly revenue forecasts since last spring, the Economic and Revenue Forecast Council raised their projections for revenue collections for fiscal years 2015, 2016, and 2017 by a total of \$1.1 billion. Offsetting the higher projected revenue collections are slightly increased caseloads and other cost drivers for a current law budget. Additionally, in November of 2014, the voters approved Initiative 1351 which increases the basic education funding formulas to reduce class sizes and increase other school staff. The Office of Financial Management estimated the fiscal impact of the Initiative 1351 at \$2 billion in the 2015-17 biennium and more in the subsequent biennia as the impacts are fully phased-in.

In terms of the budget problem statement, the size of the "problem" is largely associated with a policymakers decisions about what new items to fund. Based on the assumptions used in the development of the Governor's proposed new revenue or "book 2" operating budget, the budget problem is approximately \$2.7 billion between now and the end fiscal year 2017. This three year budget problem calculation is based on: (1) his proposed \$181 million 2015 supplemental budget; (2) increased funding based on caseloads and other cost drivers under current law for the 2015-17 biennium; and (3) his proposed policy level enhancements and increases for the 2015-17 biennium.

Some of the larger increases are: (1) \$1.3 billion for additional K-12 enhancements associated with the phased implementation of SHB 2776 (Chapter 236, Laws of 2010); (2) \$437 million for state employee and non-state employees collective bargaining agreements, arbitration awards, and non-represented compensation increases; and (3) \$150 million for an additional K-12 salary increase beyond the Initiative 732 increase to correspond to the percentage provided to state employees.

This also includes leaving reserves of approximately \$911 million (\$474 million unrestricted, \$436 million Budget Stabilization Account).

Overview of Governor Inslee’s “Book 1” Budget

The Governor’s 2015-17 budget proposal addresses the budget problem under two different scenarios. He presented a so-called “book 1” budget that does not include any major revenue increases. Under the “book 1” proposal, he would make \$1.3 billion fewer net policy level additions. Some of the major reductions included in his book 1 (not in his “book 2” proposal) include: (1) a \$262 million or 50 percent reduction to K-12 levy equalization payments; (2) a \$256 million reduction to the higher education state need grant; (3) a \$141 million or 10 percent reduction to 4-year schools and the community and technical colleges; (4) a \$115 million savings from implementing a 150-day early release for prison inmates; (5) \$70 million in savings from moving the prison/jail demarcation line to 22 months; (6) \$59 million in savings from delaying nursing home rebasing; and (7) \$33 million in savings from making the weapons enhancement concurrent in prison sentencing.

After reviewing the “book 1” proposal, the Governor stated that he determined that new revenue was needed. For this reason, he proposed a “book 2” budget that included revenue increases. The remainder of this document focuses on the “book 2” proposal.

Overview of Governor Inslee’s “Book 2” Budget

In the Governor’s “book 2” budget proposal, he addresses the budget problem by a combination of revenue increases, making spending reductions or offsets, using a portion of the balance in the Budget Stabilization Account, and utilizing resources in other funds for the operating budget.

In putting forward his budget, the Governor proposes to modify several budget or fiscal related provisions. First, he proposes to change the 50 percent phase-in language of Initiative 1351 so that the funding provided in his 2015-17 budget is declared sufficient to meet the requirements under the initiative. Second, the Governor proposes to exempt Initiative 1351 fiscal impacts from the calculation of the four-year balanced budget requirements. Third, he also proposes a four year suspension of the Initiative 601 spending limit.

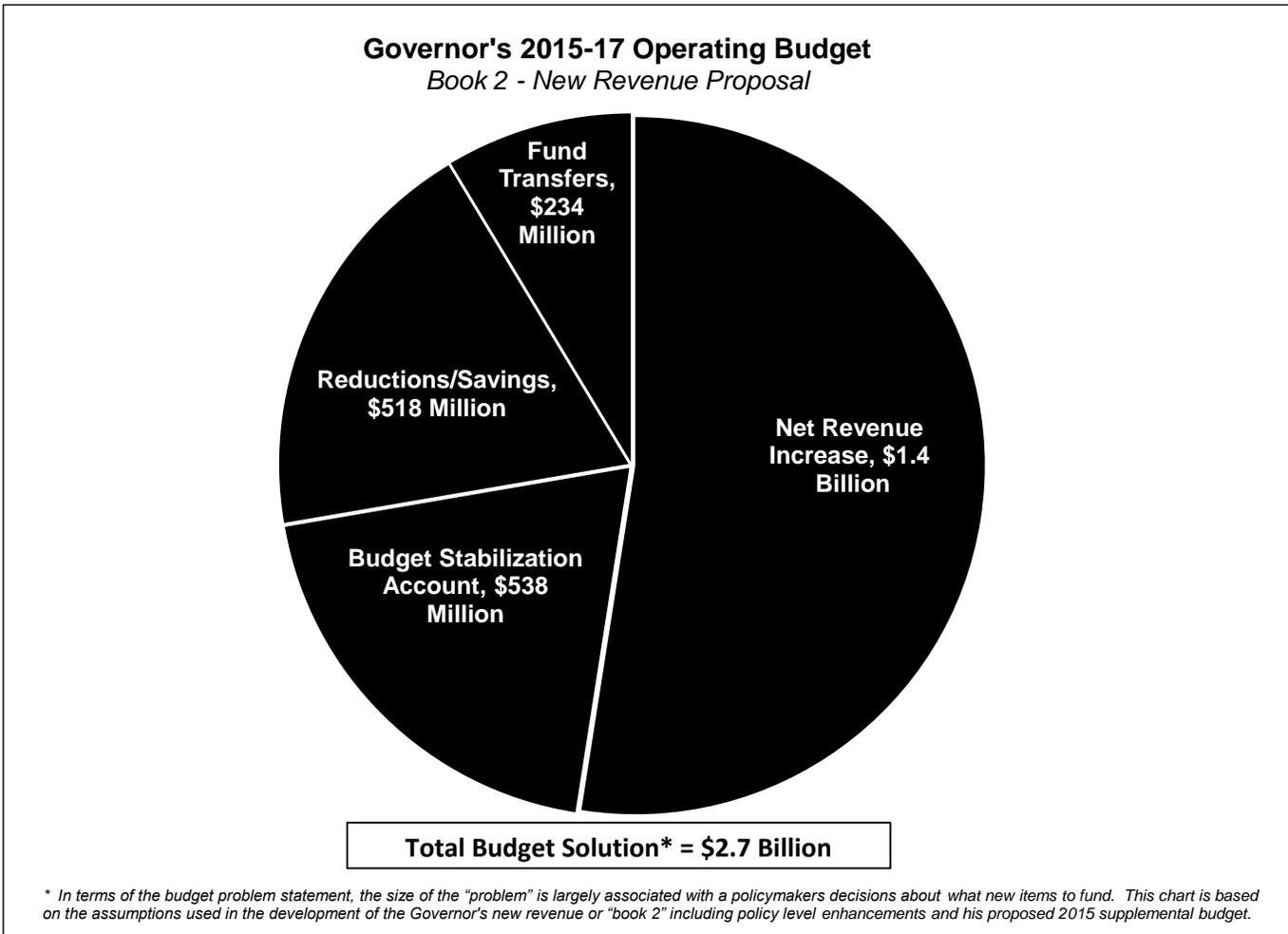
Budget Stabilization Account & Fund Transfers – \$771 Million

The Governor’s budget utilizes \$87.5 million in fiscal year 2015 and \$450 million of the Budget Stabilization Account in the 2015-17 biennium. A number of fund related actions and one-time fund transfers are made in the Governor’s proposed budget. Some of largest include: (1) \$154 million from utilizing Initiative 502 marijuana funds out of the Basic Health Plan Account; (2) \$31 million from the Life Science Discovery Fund; (3) \$20 million from the State Treasurer’s Service Account; (4) \$14 million from unclaimed lottery proceeds; and (5) \$6 million from the Performance Audit Account.

2015 Supplemental Budget – \$181 Million Net Spending Increase

The Governor’s 2015 supplemental budget increases enacted spending for the remainder of the 2013-15 biennium by \$181 million. This includes \$30 million in net spending increases for maintenance law requirements for caseloads and other updates, including the Rekhter homecare worker decision. Some of the largest of his \$150 million in proposed policy level increases are: (1) \$84 million for Department of Natural Resources and State Patrol wildfire firefighting costs; (2) \$13 million to cover costs in the Military Department for wildfires and the Oso landslide; and (3) \$13.8 million for issues related to the single bed certification issue in Mental Health.

The other revenue components, spending changes, and other aspects of his budget proposal are depicted on the chart below and summarized on the pages that follow.



IMPORTANT NOTE: For ease of discussing the budget problem and solution, this document is based on the Near General Fund & Opportunity Pathways Account (which includes the Education Legacy Trust Account) rather than just the State General Fund. 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.

Governor Revenue Recommendations

Overview

The Governor's "book 2" budget assumes a net increase of \$1.4 billion in the 2015-17 biennium from his proposed revenue legislation. The two largest components of his proposal involve establishing a capital gains tax and a new carbon cap and trade system. Because the 7 percent capital gains tax and cap and trade system are imposed in the second year of the biennium, the Governor projects that the net amount from his revenue proposals will grow to \$2.9 billion in the 2017-19 biennium.

Revenue Increases - \$1.5 Billion

- *7 Percent Capital Gains Tax* – A 7 percent tax is imposed on capital earnings above \$25,000 for individuals and \$50,000 for joint filers starting in January 2016. Exemptions are provided for retirement accounts, homes, farms, and forestry. **(\$798 million)**
- *Cap & Trade/Carbon Revenue* – Starting July 1, 2016, a cap and trade program is established on sources that emit more than 25,000 metric tons of carbon. Exclusions are provided for agriculture, waste management, and biofuels/biomass. Revenue will be distributed with 40 percent to transportation projects, 40 percent to the operating budget, and the remainder for the establishment of a Working Families Tax Credit program, and business mitigation of various types. **(\$380 million operating budget portion, \$108 million for Working Families Tax Credit, \$60 million for other mitigation)**
- *Trade-In Exemption* – The trade-in sales tax exemption for items such as cars, boats, and RV's is limited to \$10,000. **(\$105.3 million)**
- *Non-Resident Sales Tax Exemption* - The non-resident sales tax exemption is converted to a refund program of state sales tax only. **(\$51.5 million)**
- *Extracted Fuel Exemption* - The use tax exemption for manufactured or extracted fuel is repealed except for hog fuel. **(\$51.1 million)**
- *Bottled Water* – The sales tax exemption on bottled water is repealed. **(\$44.4 million)**
- *50 Cent Cigarette Tax* – The cigarette tax is increased from \$3.025 to \$3.525 **(\$37.8 million)**
- *E-cigarettes and vapor products* - A tax of 95 percent on the wholesale price of E-cigarettes, E-liquid, and vaporizing paraphernalia. **(\$18.1 million)**
- *Preferential Rate for Royalties* – The preferential rate for royalties is repealed increasing the tax rate from .484 percent to 1.5 percent. **(\$29.6 million)**

Revenue Decreases - \$104 Million

- *High Tech B & O Credit* – The high tech R&D B&O tax credit is extended until 2025, but the maximum amount allowed per business is reduced from \$2 million to \$500,000. **(\$51.3 million)**
- *High Tech Sales & Use Tax deferral* – The high tech sales and use tax deferral is extended and modified to only apply to \$1 million per project per year per business. **(\$15.4 million)**

- *Extend the food processor B&O exemptions* - The B&O tax exemptions for food processors, which were supposed to be taxed at .138 percent beginning on July 1, 2015, are extended until 2025. **(\$15 million)**
- *B&O tax credit for carbon fiber manufacturing* - A credit is provided for 40 percent of the B&O tax due on these activities. Statewide cap of \$4 million. **(\$4.0 million)**
- *Extend the commute trip reduction tax credit* - The credit is set to expire July 1, 2015, but has been extended until July 1, 2020. **(\$3.5 million)**
- *Extend biodiesel, ethanol and biomass tax preferences* - These preferences are set to expire at the end of 2015, but are extended until 2025. **(\$2.1 million)**
- *Simplifying the taxation of amusement and recreation services* - Clears up confusion by specifically listing what is subject to tax. **(\$2.0 million)**
- *Extend exemption for energy conservation payments from BPA* - The B&O tax exemption for energy conservation payments are extended until 2025. **(\$0.6 million)**

Operating Budget Tax and Revenue Changes				
\$ in millions				
Increases				
Description	FY 2016	FY 2017	2015-17	FY 2018
7.0% capital gains tax on individuals		\$798.0	\$798.0	\$875.0
Carbon Pollution Accountability Act Revenue (40% of total)		\$380.0	\$380.0	\$390.4
Increase cigarette tax by 50 cents per pack	\$18.3	\$19.5	\$37.8	\$18.9
Excise tax on e-cigarettes and vapor products	\$4.3	\$13.8	\$18.1	\$28.3
Repeal sales tax exemption for trade-ins valued over \$10,000	\$48.4	\$57.0	\$105.4	\$61.6
Repeal use tax exemption for extracted fuel, except hog fuel	\$24.3	\$26.8	\$51.1	\$27.1
Refund state portion of sales tax to nonresidents	\$24.1	\$27.4	\$51.5	\$28.5
Repeal sales tax exemption on bottled water	\$21.4	\$23.0	\$44.4	\$22.6
Repeal preferential B&O tax rate for royalties	\$13.8	\$15.8	\$29.6	\$16.5
Total	\$154.6	\$1,361.3	\$1,515.9	\$1,468.8
Decreases				
Description	FY 2016	FY 2017	2015-17	FY 2018
Extend high-technology research and development B&O tax credit	(\$25.0)	(\$26.3)	(\$51.2)	(\$27.4)
Extend and modify the high-technology research and development sales/use tax deferral program	(\$7.5)	(\$8.0)	(\$15.4)	(\$8.4)
B&O tax credit for advanced composite manufacturing/wholesaling	(\$1.7)	(\$2.1)	(\$3.8)	(\$2.3)
Extend agricultural processor tax exemptions	(\$7.2)	(\$7.8)	(\$15.0)	(\$7.8)
Extend commute trip reduction tax credit	(\$1.6)	(\$1.9)	(\$3.5)	(\$1.9)
Extend biodiesel, ethanol and biomass incentives	(\$1.0)	(\$1.1)	(\$2.1)	(\$1.1)
Extend exemption for energy conservation payments from BPA	(\$0.3)	(\$0.3)	(\$0.6)	(\$0.3)
Simplify the taxation of amusement, recreation and physical fitness services	(\$0.6)	(\$1.4)	(\$2.0)	(\$1.7)
Total	(\$44.8)	(\$48.8)	(\$93.6)	(\$50.9)
Net New Revenue	\$109.8	\$1,312.5	\$1,422.3	\$1,417.9

Near General Fund Spending Changes

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Near General Fund Spending Changes

State Employee and Non-State Employee Compensation Increases

The Governor provides funding for all collective bargaining agreements and arbitration awards for the 2015-17 biennium, including agreements and awards for non-state employees. The fiscal impact is estimated at \$437 million. Additionally, the Governor proposes an additional increase to K-12 employees to correspond to the percentages provided to state employees.

Major Increases

Salary increases for state and higher education employees:

- Most represented and non-represented employees will receive a 3 percent increase beginning July 1, 2015. Most employees will receive either a 1.8 percent increase beginning July 1, 2016 or an increase of 1 percent plus \$20 per month for monthly salaries below \$2,500.
- Most corrections employees will receive increases provided by an arbitration award of 5.5 percent on July 1, 2015, and 4.3 percent on July 1, 2016, and will no longer be eligible for geographic pay increases.
- Cost: \$228 million increase

Additional salary increases for K-12 and higher education:

- Consistent with the increases provided to state employees, the school employee cost-of-living increases are funded at 3 percent for the 2015-16 school year and 1.8 percent for the 2016-17 school year. These increases are inclusive of the Initiative 732 cost-of-living increase estimated at 1.8 percent for the 2015-16 school year and 1.3 percent for the 2016-17 school year.
- Cost: \$150.1 million for K-12 (plus the approximate \$235 million built into the maintenance level for K-12 for I-732, higher education impacts included in the funding amount in the previous item)

Health insurance contributions increases for state and higher education employees:

- The super coalition bargaining agreement requires employer contributions equal to 85 percent of average premium costs and an annual wellness incentive of at least \$125. It also prohibits increases in Uniform Medical Plan member point-of-service costs (deductibles, etc.) for the purpose of reducing plan costs. The budget assumes the state monthly contribution rate for all employees will increase from \$662 for FY 2015 to \$913 for FY 2016 and to \$947 for FY 2017.
- Cost: \$60 million increase (plus the approximate \$190 million built in at maintenance level for increased rates and restoring reserves).

Wage and benefit increases for non-state employees:

- Increased funding is provided for wages, health benefits, retirement plan contributions, and other benefits for non-state employee groups that bargain with OFM, including home

care workers, agency homecare worker parity, family child care providers, language access providers, and adult family homes.

- Cost: \$149 million increase (increases for individual and agency home care providers account for 80 percent of the cost.)

State and local employee pensions:

- The Governor provides \$5.3 million for proposed legislation to expand the membership in the Public Safety Employees Retirement System.
- The Governor provides \$10 million for transfer to the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) benefits improvement account and to jurisdictions that employ LEOFF Plan 2 members. This is \$10 million less than the amount specified under current law.

K-12 Education

Major Reductions

- With the full expansion of state-funded full-day kindergarten and reduced class sizes in grades kindergarten through three, the Governor's budget assumes at least 30 percent will be new teachers. Staff mix, the state's term for average years of experience and educational credits, is reduced to reflect these new hires in the K-12 system.--\$36 million savings
- Reform high school assessments by allowing students who do not pass one of their assessments a new alternative option, passage of college readiness transition course. The administration of the Collection of Evidence alternative is revised to allow students to submit their credit-bearing coursework as demonstration of high school proficiency. School districts, rather than the state, will assume responsibility for evaluating the Collection of Evidence materials and may count the activities toward a student's annual hours of instruction.--\$23 million savings

Major Increases

- The Governor's budget includes \$1.4 billion in enhancements to basic-education programs, including the program enhancements identified in SHB 2776 (Chapter 236, Laws of 2010). The SHB 2776 enhancements accelerate the deadlines currently in statute for All-Day Kindergarten and K-3 Class Size Reduction. These enhancements include:
 - SHB 2776 requires funding for class sizes of 17 in grades K-3 by the 2017-18 school year. The budget proposal provides the full enhancement beginning in school year 2016-17, one year early--\$448 million increase
 - Full funding for Materials, Supplies, and Operating Costs (MSOC) must be phased –in under SHB 2776 by next school year (2015-16). The Governor meets this deadline by fully funding MSOC in both fiscal years of the biennium.-- \$752 million increase

- Full-day kindergarten must be phased in statewide by the 2017-18 school year. The Governor adds funding to fully implement full-day kindergarten in all schools beginning in school year 2016-17, one year early.-- \$108 million increase
 - The Governor increases guidance counselors by 0.5 FTE for each high-poverty prototypical middle school and increases parent involvement coordinators 0.25 FTE for each high-poverty prototypical elementary school.--\$37 million increase
 - An additional funding formula is added to the Learning Assistance Program to provide 1 hour of additional instructional support for each high school student in a high-poverty school.--\$35 million increase
- Local Effort Assistance is increased to reflect the 2015-17 budget increases to the state formula allocations. Commensurate with the increases for K-3 class size and full-day kindergarten in the 2016-17 school year, the per pupil inflator for calendar year 2017 is adjusted to 7.9 percent. The increases in formula funding and adjustments to the per-pupil inflator expand the levy base, which results in increased school district local levy capacity, as well as state payments for Local Effort Assistance.-- \$29 million increase
 - Increased funding is provided for mentoring and professional development for new teachers, principals, and superintendents.--\$19 million increase
 - The Governor creates and expands a variety of programs related to Career and College Readiness.--\$6.9 million increase
 - Implementation grants are offered for elementary schools to implement breakfast after the bell programs--\$5 million increase
 - Funding to support the continued implementation of Chapter 159, Laws of 2013 (E2SSB 5329), transforming persistently lowest achieving schools, is provided for schools identified as persistently lowest achieving and having been listed by OSPI as a Required Action District.--\$4 million increase
 - Funding is provided to continue the statewide administration of the Washington Kindergarten Inventory and Developing Skills (WaKIDS)--\$2 million increase
 - Funding is provided to give students the opportunity to apply math and science skills and learning in outdoor environments and grants to low income students to participate in outdoor education experiences--\$2 million increase
 - Additional funding is provided for teacher professional development tied to math and science--\$2 million increase

Department of Early Learning

Major Reductions

- Eliminates child care resource and referral network--\$1.3 million savings

Major Increases

- Enhances the Early Childhood Education and Assistance Program (ECEAP) comprehensive preschool program by adding additional slots and additional conversion of 2.5 hour standard slots to six hour full day slots. Chapter 231, Laws of 2010 PV (2SHB 2731) directed expansion of the ECEAP program and created a statutory entitlement beginning in the 2018-19 school year--\$79.8 million increase
- Sustains the state's Early Achievers, quality, rating and improvement system, for early childhood education and childcare providers. Early Achievers was funded with a five-year federal Race to the Top Early Learning Challenge grant, which expires in December 2015. Includes funding for the quality rating and improvement system, professional development incentives and system supports--\$70.5 million increase
- Increases funding for the Working Connections Child Care program to support proposed rule changes related to eligibility verification. The rule change would allow for verbal responses from employers and schools to verify a WCCC client's reported change of circumstance. This change is estimated to maintain WCCC eligibility for families who would have otherwise been terminated from the program--\$7.1 million increase
- Provides state funding to increase the number of children, birth to three years old, identified, evaluated, assessed, and referred for Early Support for Infants and Toddlers (ESIT) services. Funding increases regional client services contracts, which sub-contract with local community-based early intervention programs, neurodevelopmental centers, school districts, and health departments. Currently, ESIT is funded with federal funds--\$4 million increase
- Provides funding and 1.0 FTE to expand home-visiting services for low-income, at-risk families, by 150 children and families per year.--\$2 million increase

Higher Education

The Governor continues the 2013-15 resident undergraduate tuition freeze through the 2015-17 fiscal biennium. The Governor plans to introduce legislation in the 2015 session that will not allow the four-year institutions to have tuition setting authority and to return tuition setting authority back to the legislature.

As discussed in the compensation section, the collective bargaining agreements for higher education institutions are funded as negotiated and the Governor splits the cost of these

agreements between the state and the institutions (tuition) based on historical spending patterns. The Governor assumes that each institution will determine how to implement their portion of the increase without the ability to increase resident undergraduate tuition.

Major Increases

- A total of \$100 million is provided for the Opportunity Scholarship program, which is approximately \$30 million higher than the state match required under current law. The Governor estimates an additional 12,000 students will receive scholarship awards-- \$100 million increase
- Funding is provided for the projected enrollment in the College Bound Scholarship (CBS) program. The Governor directs the Student Achievement Council to better coordinate scholarship awards between the CBS program and the State Need Grant. To the extent savings are achieved as a result of this coordination, savings are transferred from the CBS program the State Need Grant program--\$25.5 million increase
- A total of \$30 million is provided to increase enrollments in STEM fields, adult education, and aerospace training programs. Of this amount, \$10 million will be used for Integrated Basic Education and Skills Training and Adult Basic Education programs. Of the remainder, a total of \$16 million is provided to increase enrollments in STEM related fields and \$4 million to expand aerospace apprenticeships and training programs--\$30 million increase
- New funding is provided for environmental and energy related programs--\$5.5 million increase

Low Income Health Care

Major Reductions

- Increases Hospital Safety Net Assessment funding used in lieu of state general funds. RCW 74.60.020 allows for \$199.8 million per biennium to be used in lieu of state general fund payment for hospitals. This increases that limit--\$82.4 million savings
- Eliminates the four-year incremental phase-down provision of the Hospital Safety Net Assessment that is set to begin in fiscal year 2016. The safety net assessment helps finance the state share of Medicaid expenditures, increase federal financial participation, and provide higher hospital rates--\$60.2 million savings
- Reduces the facility fee paid to hospitals for evaluation and maintenance (E&M) services provided at hospital based clinics. This reduction would make rates for these services equivalent to those received in a physician's office--\$20.8 million savings

Major Increases

- Extends the Primary Care Physician (PCP) Rate Increase originally authorized under the Affordable Care Act (ACA). The ACA funded PCP rate increases to the Medicare rate using federal funds only through December 31, 2014--\$79 million increase (this is not included in the 2015 Supplemental, so there is a 6 month gap in funding)
- Provides additional funding for Health Benefit Exchange (HBE) Operations and shifts responsibility for some HBE functions to Economic Services Administration. HBE operates and maintains the insurance marketplace for Qualified Health Plans under the Affordable Care Act--\$13.8 million increase
- Provides additional funding to continue and expand the health home program. This program is for high-risk, high-cost adults and children and includes dual eligibles--\$13.5 million increase

DSHS Mental Health

Major Reductions

- Eliminates non-Medicaid funding for the Program for Adaptive Living Skills (PALS). This program provides housing resources and other treatments services--\$10.4 million savings

Major Increases

Increases for Mental Health fall into three general categories: Single Bed Certification, Competency Restoration, and Safety and Staffing Enhancements.

- *Single Bed Certification*
Provides staff and funding to implement the terms of the *D.W. vs. DSHS* (single bed certification) lawsuit. This lawsuit was decided by the Washington State Supreme Court in August 2014 and determined the Involuntary Treatment Act does not authorize psychiatric boarding as a method to avoid overcrowding at certified evaluation and treatment facilities. Treatment beds are funded in the community and at state hospitals--\$32.3 million increase
- *Competency Restoration*
Provides staff and funding to open new forensic beds at both state hospitals for court ordered, inpatient competency restoration. Staff are also provided for conducting competency evaluations and data collection--\$9.6 million increase
- *Safety and Staffing Enhancements*
Provides staff and funding to implement safety enhancements and ongoing training at state hospitals. These recommendations were made through an ad hoc safety committee at the state hospitals and include a Psychiatric Intensive Care Unit (PICU), Psychiatric Emergency Response Team (PERT), and staff to provide coverage during ongoing training--\$9 million increase

DSHS Long Term Care and Developmental Disabilities

Major Reductions

- Savings are assumed by modifying the provisions in SSB 6387 by decreasing the proposed program capacity expansion amounts on the Individual and Family Services program from 4,000 to 2,000 and the Basic Plus waiver from 1,000 to 500--\$13.3 million savings
- Rebases nursing home rates, increasing the average daily rate from \$199.45 in fiscal year 2015 to \$203.12 in fiscal year 2016 and \$205.59 in fiscal year 2017. Updates reflect expiring add-ons, and keeping the nursing home assessment fees, that are set to expire, at \$21 per patient day and a \$5.75 rate enhancement for the direct care wage and benefit component--\$5.1 million savings
- Eliminates state-only funded employment, adult day care and community access services for approximately 400 individuals with a developmental disability. Individuals receiving employment and day services funded by a Medicaid waiver are unaffected--\$4.8 million savings
- Increases annual license fees of Adult Family Home from \$225 per bed to \$325 per bed to cover the cost of oversight for licensure--\$1.4 million in savings

Major Increases

- Funding is provided to expand services and supports that keep individuals in home and community settings. These services delay or divert individuals from entering the Medicaid long-term care system--\$19.2 million increase
- Funding is provided to supported living providers to be able to offer medical coverage to employees working more than 30 hours a week as required by the Affordable Care Act. The department will also standardizes administrative rates and develop an electronic rate setting module to reduce payment errors--\$16.7 million increase
- Funding is provided to increase the hourly rate paid to supported living providers who provide in-home care services and skills training by \$0.50 per hour--\$10.3 million increase
- Funding is provided to reduce caseloads for the AAAs from 1:78 to 1:70--\$5.2 million increase
- Funding is provided for a 2.5 percent vendor rate increase for Adult Residential Care, Enhanced Adult Residential Care and Assisted Living Facilities--\$3.6 million increase

- Funding is provided to offset the loss of client participation from clients exempt from contributing to the cost of their care due to Supplemental Security Income-related disregards--\$2.6 million increase
- Funding is provided to implement the ProviderOne Phase 2 payment system for claims affecting approximately 70,000 Medicaid providers--\$2.2 million increase
- Funding is provided to add 9 staff in Adult Protective Services to ensure that in-home investigations for vulnerable adults are completed within 90 days--\$1.6 million increase
- Funding is provided to restore the \$0.13 administrative rate reduction for home care agencies that was enacted in 2010--\$1.4 million increase

DSHS Economic Services - Temporary Assistance for Needy Families

Major Reductions

- Eliminates 27 FTE and funding for the TANF participation incentive, which would provide a \$58.08 bonus payment to TANF clients who participated in mandatory WorkFirst activities for at least 20 hours per week and met the requirements of their Individual Responsibility Plan. This program was funded in the FY14 supplemental with an April 1, 2015 start date. Clients have not yet received a bonus payment--\$15.8 million savings
- Eliminates 40 financial service specialist staff--\$4.4 million savings
- Eliminates the Washington Telephone Assistance program. Provides waivers and discounts on land-line telephone fees and community service voicemail for low-income households who are recipients of public assistance. A federal benefit, called Lifeline, provides discounts on monthly telephone services, land-lines or wireless, for low-income subscribers--\$5.1 million savings
- Reinstates the lifetime limit for the Additional Requirements for Emergent Needs (AREN) cash assistance program. AREN provides a cash benefit to persons eligible for TANF, State Family Assistance, or Refuge Cash Assistance who have a demonstrable need, such as an emergency housing or utility bill. The 2014 supplemental provided funding to change this limit from an annual limit of \$750 per household to a lifetime limit --\$1.7 million savings

Major Increases

- Funding is provided to continue the final two phases of the Eligibility Service and Automated Client Eligibility System (ACES) Remediation (ESAR) project, which is estimated to be completed in FY2018. Phase 1 modified and enhanced the ACES system to allow Medicaid clients to submit applications through the Health Benefit Exchange Healthplanfinder. Phases 2 and 3 shift remaining medical, food and cash

assistance programs from the ACES system to a rules management based system--\$9 million increase.

- Provides funding to procure and implement a new vendor for the Electronic Benefits Transfer contract. The current vendor contract has been discontinued by the existing vendor and will expire in March 2016--\$3 million increase
- Provides funding to purchase an off-the-shelf solution to replace the legacy Client Receivables System (CRS) for the Office of Financial Recovery. The CRS system is used to manage client overpayments and recoveries--\$1.8 million increase
- Provides funding and 32.0 staff to implement recommendations from the Medical and Public Assistance Eligibility Study that was tasked with solving an estimated \$48 million shortfall of federal funds at DSHS. The 2013 Legislature directed the Office of Financial Management to conduct a review of the medical and public assistance eligibility processes under the Affordable Care Act. Financial eligibility staff will be given access to the Healthplanfinder in order to assist Medicaid-eligible clients with the new Medicaid eligibility process. Under the Governor's budget, the \$48 million shortfall will be filled with \$20 million federal Medicaid funds and \$28 million in one-time federal TANF Contingency funds.

DSHS Children's Administration

Major Reductions

- Eliminates funding for Family Reconciliation Services, a voluntary program for youth between 12 and 17 years old, who are in conflict with their families. Services include referrals for substance abuse treatment, family counseling, and psychiatric care for youth--\$3.4 million savings

Major Increases

- Provides funding to increase the basic foster care maintenance payment rate by an average of \$149 per month for licensed foster care families for the preliminary settlement agreement between DSHS and the Foster Parents Association of Washington (FPAWS). FPAWS filed a lawsuit alleging that the foster care basic rate inadequately covered the allowable costs of caring for foster children under Title IV-E of the Social Security Act--\$14 million increase
- Increases Child Protective Services Staffing by 50 FTE in order to reduce the CPS caseload ratio to 1 staff per 15 cases--\$6.3 million increase
- Provides additional staff to meet the requirements of the 2011 *Braam vs. State of Washington* Revised Settlement and Exit Agreement. Additional staff will reduce the worker to family caseload ratio to allow the department to meet the following goals:

completion of monthly health and safety visits; ensure visitations between siblings in different out-of-home care placements; provide new caregivers with critical child information within 24-72 hours; and reduce repeat runaways from foster care--\$5.4 million

- Provides a one-time fund swap of state funds for Reinvestment Account funds in order to continue implementation of Family Assessment Response, an alternative to the investigative pathway for families with low to moderate risk of child maltreatment --\$5.3 million
- Provides funding for performance-based contracts to provide comprehensive services to assist students who are in the foster care system in grades eight through twelve transition through secondary and post-secondary education--\$2.6 million increase
- Provides one-time funding to implement performance-based contracts in as required by Chapter 2015, Laws of 2012. Funding will cover operational costs associated with a network administrator contract for services such as data collection, analysis, and coordinating a network of service providers--\$1.4 million increase

DSHS Juvenile Rehabilitation

Major Reductions

- Closes the 15-bed, 120-day Juvenile Offender Basic Training Camp in Connell, WA-- \$1.7 million savings
- Makes a caseload reduction by allowing some higher risk youth to be released on or closer to their minimum release date-- \$1.4 million savings

Major Increases

- Provides for one additional graveyard staff for a total of two, at each of the eight Juvenile Rehabilitation community facilities and adds some safety equipment-- \$2.0 million increase

DSHS Alcohol and Substance Abuse

Major Increases

- Moves chemical dependency treatment services from a fee for service system into managed care beginning April 2016, per SB 6312--\$33.8 million increase
- Provides short-term rate increases for Medicaid chemical dependency services to keep providers viable until the rates are actuarially certified for the managed care system beginning April 2016-- \$4.2 million increase

Department of Corrections

Major Reductions

- Reduces prison population by allowing earned time credits for good behavior to be applied to confinement ordered pursuant to a weapons sentencing enhancement--\$12.7 million savings
- Reduces prison population by changing the crime of possession of a controlled substance to an unranked felony reducing the sentence range to 0-12 months resulting in a presumptive jail sentence--\$10.1 million savings
- Reduces offender caseload in community supervision by allowing "positive time" calculations based on the offender's compliance and good behavior, reducing the length of their stay on supervision--\$7.0 million savings
- Reduces prison population by reducing the loss of earned time credits as a sanction for certain prison infractions and utilizing more immediate sanctions--\$2.3 million savings

Major Increases

- Funding is provided for 256 medium custody prison beds--\$7 million increase
- Funding is provided to repair, update, and maintain prison safety equipment--\$4.5 million increase
- Adds 86 beds to Work Release program--\$2.4 million increase
- Increases community supervision and programming and reduces prison time for offenders convicted of property crimes as recommended by the Justice Reinvestment Task Force--\$1.4 million increase

Department of Health

Major Reductions

- Eliminates funding for regional genetic clinics which provide genetic evaluation, counseling, and evaluation in rural areas. Funding is also reduced for quality improvement and training efforts contracted for the Early Hearing Loss Detection, Diagnosis, and Intervention Program--\$0.9 million savings
- Funding for Area Health Education Centers is eliminated--\$0.9 million savings

Major Increases

- Provides funding for the prevention of new and emerging communicable diseases. An additional \$5 million will come from federal grants--\$9.1 million increase

- Increases funding for the prevention of tobacco and cigarette use in youth--\$3 million increase
- The Department of Health will facilitate an increase in funding for the Healthiest Next Generation initiative to pay for coordinators with the Office of the Superintendent of Public Instruction and the Department of Early Learning--\$1 million increase

Natural Resources

Major Reductions

- Eliminates state funding for county and local fairs--\$3.4 million savings
- Reduces staff at the Department of Ecology and grants to groups to implement local watershed plans and reduces the shoreline master program--\$2.7 million savings
- Holds payment in lieu of taxes to counties at current levels--\$2.0 million savings
- Reduces three enforcement officer positions at the Department of Fish and Wildlife--\$875,000 savings

Major Increases

- The Governor's budget provides State Parks funding for additional staff and other park maintenance activities--\$18.4 million increase
- Funding is provided to accelerate the DNR's forest practices adaptive management program--\$5.9 million increase
- Grants are provided to help landowners recover from the losses Carlton Complex Fire in Okanogan County this past summer. In addition to the \$3.7 million in state funds, \$4.7 million from federal funds are anticipated-- \$3.7 million increase
- Additional funding is provided for wild land fire response capability--\$2.5 million increase
- Funding is provided for dedicated enforcement officers and support activities for the Teanaway Community Forest management plan--\$2.0 million increase
- Enhancements provided with dedicated natural resources or other funds include: (1) \$14.9 million for safety efforts related to the transport of oil, funded primarily through an expanded and increased oil spill tax and modifying railroad regulatory fees; (2) \$12.2 million for technical assistance, research, monitoring and other activities aimed at reducing toxic substance release into the state's waters; (3) \$7.6 million for grants to counties to implement the Voluntary Stewardship Program; and (4) \$7.0 million in new funding for recreational and commercial salmon fishing improvements, paid for with

increases in recreational and commercial licenses as well as an increase in the salmon landing tax.

Department of Commerce

Major Reductions

- Eliminates funding for environmental permitting grant program added during the 2013 special session addressing the aerospace industry--\$2.5 million savings
- Eliminates funding for State Drug Task Forces--\$1.3 million savings

Major Increases

- Revenue from the Carbon Pollution Accountability Act will be used for forest product marketing efforts and to mitigate the Act's impact of the on transporters of wood and food products and rural communities--\$20 million increase
- Funds grants to National Cancer Institute designated comprehensive cancer centers--\$10 million increase
- Increases for family and youth homelessness funding--\$5.3 million increase

Selected Other Reductions

- Suspends the 2016 Presidential Preference Primary. The Secretary of State savings come from not printing a Presidential Preference Primary Voters Pamphlet and not reimbursing counties for the cost of conducting the primary election-- \$11.5 million savings
- Reduces funding for performance audits. The funding level for performance audits will continue at the reduced level of the current biennium--\$4.9 million shift from the Performance Audits Account.
- Reduces Attorney General state agency legal services by five percent-- \$3.6 million savings

Selected Other Increases

- Besides using a portion of the projected Initiative 502 marijuana revenues for transfer to the general fund, the Governor's budget authorizes approximately \$85 million in spending for purposes specified in the initiative. This includes: (1) \$29 million for youth substance abuse treatment and prevention; (2) \$19.3 million for marijuana education and public health programs; (3) \$9.7 million for community health centers; and (4) \$13.3 million for distribution to local government.

- Funding is provided in the Department of Revenue for financing to complete the next phase of the tax and licensing system. Total cost is expected to be \$61 million--\$18.7 million increase
- Funding is provided to the Department of Revenue for the implementation revenue legislation driven primarily by the capital gains tax--\$7.1 million increase
- For the Administrative Office of the Courts, funding is provided to increase access to telephonic interpreter services (\$5.1 million) and expand the Family and Juvenile Court Improvement Program (\$0.4 million)--\$5.5 million increase
- For the Office of Public Defense, funding is provided for statewide expansion of the Parents Representation program--\$5.0 million increase
- Funding is provided to the Department of Enterprise Services to facilitate the purchasing of electricity for use in state government operations from in-state alternative power sources--\$4.5 million increase
- For the Office of Civil Legal Aid, funding is increased for pass-through to the Northwest Justice Project to address increased caseloads and administrative needs--\$3.0 million increase
- Uses state General Fund to partially replace reductions in federal funding to the Help America Vote Account (HAVA) to maintain the statewide voter registration database -- \$2.0 million increase
- Provides funds for the first two years of a five-year financing plan for replacement of TVW video equipment--\$1.7 million increase

Reorganization

- Information technology (IT) policy, infrastructure, services and applications groups now housed in the Office of the Chief Information Officer (OCIO), Consolidated Technology services (CTS) and Department of Enterprise Services (DES) will be combined into CTS. The state CIO will serve as director of CTS.
- One Washington is created in the Office of Financial Management to manage enterprise system replacement (ERP) projects, including Time, Leave & Attendance Project. The end result is that state agencies will incur additional charges both for One Washington and for project costs.

Governor Inslee's Proposed 2015-17 Biennial Capital Budget

Background

The Governor's capital budget proposes to spend \$3.9 billion in total funds, \$2.2 billion of which is state bonds. The Governor's proposed general state revenue increases boost the projected debt capacity for the 2015-17 biennium by \$171 million for a total of \$2.3 billion. The Governor's budget reserves \$130 million of that capacity for possible supplemental budgets during the ensuing biennium.

The budget is distributed among the functional areas as follows:

(Dollars in Millions)

New Projects	Enacted 2013-15		GOV 2015-17	
	State Bonds	Total	State Bonds	Total
Governmental Operations	\$556	\$959	\$421	\$793
Human Services	\$70	\$106	\$175	\$219
Natural Resources	\$605	\$1,397	\$567	\$1,199
Higher Education	\$427	\$717	\$580	\$963
Public Schools	\$355	\$568	\$413	\$661
Other Education	\$14	\$14	\$16	\$16
Projects Total (Total may not add due to rounding)	\$2,026	\$3,761	\$2,174	\$3,851

Major Projects in the Governor's proposed capital budget include:

Public Schools

- K-12 school construction assistance program--\$596 million
- Skills centers--\$37 million
- Energy efficiency grants for schools--\$10 million
- Grants to support full-day kindergarten--\$10 million
- Small repairs and Healthiest Next Generation grants--\$5 million

Energy

The Governor's budget appropriates a total of \$160 million for energy efficiency and alternative energy programs. This includes:

- Clean Energy and Energy Freedom Program--\$60 million
- Energy Efficiency and Solar grants--\$45 million
- Ultra-Efficient Affordable Housing Demonstration projects--\$5 million
- Weatherization Matchmaker program--\$15 million
- Community Energy Efficiency Program--\$10 million
- ARRA State Energy Program Revolving Loans--\$2.5 million
- UW - Clean Energy Research Test Beds--\$12 million
- Energy efficiency grant in K-12--\$10 million

Higher Education

The Governor's budget appropriates a total of \$963 million for capital expenditures in higher education, with \$580 million of this amount in state bonds. The major construction projects include:

- Computer Science & Engineering Expansion (\$40 million) – Univ. of Washington
- Everett University Center (\$55 million) – Washington State University
- Troy Hall Renovation (\$30 million) - Washington State University
- Samuelson Communications Center (\$59 million) – Central Washington Univ.
- Carver Academic Renovation (\$65 million) -- Western Washington University
- Lecture Hall Remodel (\$16 million) -- The Evergreen State College
- College Instruction Center (\$49 million) – Olympic Community College
- Student Services Building (\$36 million) – Centralia Community College
- Cascade Court (\$28 million) – South Seattle Community College
- Allied Health and Early Childhood Dev. Center (\$24 million) – Peninsula College
- Automotive Complex Renovation (\$15 million) – Renton Technical College
- Social Science Center (\$15 million) – Columbia Basin Community College

Housing, Community Projects and Infrastructure

\$60 million in state bonds and \$15 million in revenue from the Carbon Pollution Accountability Act for the Housing Trust Fund in the Department of Commerce. There are no set-asides for any particular type/category of housing.

\$70 million Public Works Assistance Account to fund 19 projects on the 2016 project list. State bonds in the amount of \$20 million is for the Community Economic Revitalization Board.

\$32.6 million is provided for six local community projects (including \$15 million for Children's Hospital). In addition, \$29 million is provided for the following competitive grant programs:

- Building Communities Fund Grants--\$9.6 million
- Building for the Arts--\$5.4 million

- Youth Recreation Facilities--\$3.4 million
- Youth Athletic Fields and Facilities--\$3 million
- Heritage Grants--\$5 million
- Historic Courthouse Grants--\$2.6 million.

Human Services, Corrections and Other State Facilities

\$27 million for a new kitchen and pharmacy at Western State Hospital

\$69 million for the Department of Corrections includes \$8 million for predesign and partial design of additional medium security capacity

\$69 million in a re-authorized Certificate of Participation (COP) for the new office building at 1063 Capital Way

Natural Resources

\$550 million (\$148 million in state bonds) is provided for Dept. of Ecology, including:

- Toxic clean-up projects--\$165 million
- Storm Water Financial Assistance--\$74 million
- Columbia River Water Supply Development Program--\$11.4 million
- Yakima River Basin Water Supply--\$15 million.

\$85 million is provided for the State Parks and Recreation Commission, and \$78 million for Department of Fish and Wildlife.

Within the Recreation and Conservation Office:

- Salmon Recovery Funding Board--\$100 million (\$60 million is federal funds)
- Puget Sound Acquisition and Restoration--\$50 million
- Puget Sound Estuary and Salmon Restoration--\$10 million
- Washington Wildlife and Recreation Program--\$70 million

\$38 million is provided for the Trust Land Transfer program in the Department of Natural Resources.