

OVERVIEW OF GOVERNOR INSLEE'S 2016 SUPPLEMENTAL OPERATING AND CAPITAL BUDGET PROPOSALS



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Major Features of Governor Inslee's Proposed 2016 Supplemental Operating Budget

Overview of Governor Inslee's Supplemental Budget

The Governor's proposed 2016 supplemental operating budget increases Near General Fund and Opportunity Pathways spending by \$521 million from the 2015-17 enacted spending level of \$38.2 billion. Approximately two-thirds of this \$521 million is associated with maintenance level changes for caseload and other adjustments based on current law requirements and approximately \$190 million in policy level increases and enhancements. Additionally, the Governor proposes using \$178 million from the Budget Stabilization Account for wildfire costs in the 2015-17 biennium.

The Governor's supplemental budget proposal includes a number of fund related actions and one-time fund transfers. These include: (1) \$14 million from higher than expected marijuana funds; (2) \$10 million from Performance Audit Account; (3) \$10 million from the Public Works Assistance Account; and (4) \$5 million from Financial Services Regulation Account.

Based on all the changes proposed in his 2016 supplemental budget, the Governor estimates \$247 million in unrestricted reserves and \$714 million in the Budget Stabilization Account at the end of the 2015-17 biennium. Based on a preliminary estimate of the "bow-wave" of those 2016 supplemental changes and utilizing the four-year budget outlook methodology, the Governor estimates a negative \$816 million in unrestricted reserves with \$1.2 billion in the Budget Stabilization Account at the end of the subsequent 2017-19 biennium.

Outside of his official 2016 supplemental budget proposal, the Governor is submitting legislation that repeals or eliminates certain tax exemptions which is expected to generate \$101 million in fiscal year 2017 (\$110 million per year once fully implemented). This funding is dedicated to K-12 related compensation increases.

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 & K-12 Related Proposal

Overview

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Revenue Components

- **REET Exemption for Foreclosed Properties** – The Real Estate Excise Tax exemption for certain transfers of property through foreclosure or judgment is eliminated. **(\$34.4 million)**
- **Bottled Water** – The sales tax exemption on bottled water is repealed. **(\$25.3 million)**
- **Non-Resident Sales Tax Exemption** - The non-resident sales tax exemption is converted into a refund program of the state (6.5%) portion of the sales tax only. **(\$23.9 million)**
- **Extracted Fuel Exemption** - The use tax exemption for manufactured or extracted fuel is repealed except for hog fuel. **(\$17.7 million)**

K-12 Salary Increase Components

- \$78 million is provided to increase the salary for K-12 staff. Specifically, the salary for first year certificated staff with a Bachelor of Arts (BA) degree would increase from \$35,700 to \$40,000. The salary schedule is also modified to provide increased salaries for teachers with BA degrees in their first eight years of teaching. All other certificated, administrative, and classified staff receive a one percent salary increase beginning in the 2016-17 school year. This amount also includes associated levy equalization costs.
- \$5 million is provided to further expand the existing Beginning Educator Support Team (BEST) program at OSPI. The program provides grants to school districts for enhanced support and professional development for new teachers.

Spending Changes

Maintenance Level Changes - \$371 Million Spending Increase

The Governor's budget provides an increase of \$371.4 million Near General Fund-State and Opportunity Pathways in maintenance level changes for caseload and other adjustments based on current law requirements. The increase represents an almost 1% increase in spending for Near General Fund-State and Opportunity Pathways for the 2015-17 biennium. These costs do not include fire suppression and other fire related activities, which are discussed in the next section.

For low-income health care and human services maintenance level net increases account for \$351 million (or 95%) of the non-fire related maintenance spending, including:

Health Care Authority

- \$197.6 million in managed care rate increases for all covered populations
- \$88.4 million in caseload related increases including Medicare-related changes.
- \$10.1 million for Individual and Family Services (IFS) program. This funding pays for the Medicaid managed care payment for 2,500 clients with developmental disabilities.
- Offset by \$96.8 million in utilization-related savings. This includes reductions related to lower uptake for Hepatitis C treatment than was originally anticipated in the 2015-2017 budget.

Department of Social and Health Services

- \$60.6 million increase to pay individual provider home care worker overtime in accordance with a recent rule from the U.S. Department of Labor and to pay for additional homecare client supports that were previously considered informal supports.
- \$2.5 million general fund cost offset through an increase in the annual per-bed license from \$106 to \$147 for assisted living facilities and \$359 to \$429 for nursing homes.
- \$28 million increase for caseload changes in Temporary Assistance for Needy Families and Working Connections Child Care programs
- \$7.8 million savings for caseload changes in Foster Care and Adoption Support
- \$1 million net increase - \$59 million increase for managed care rate increases based on actuarial recommendations due to the integration of substance abuse services and mental health services in a combined rate. This increase is offset by a \$58 million assumed caseload reductions.

Department of Corrections

- \$23 million increase is provided for costs due to increased caseloads for community supervision and community violators and caseload reduction in prisons.

Other maintenance level adjustments include a \$7.6 million net increase for K-12 public schools.

Fire Related Items & Budget Stabilization Account

The Governor's supplemental budget appropriates \$178.2 million from the Budget Stabilization Account (BSA) for fiscal year 2016 fire suppression costs:

- Department of Natural Resources - \$150.2 million (this amount includes a shift from NGF-P to BSA \$21.1 million appropriated in the biennial budget for fire suppression in fiscal year 2016 and \$129 million in suppression costs from the 2015 fire season.)
- Washington State Patrol (WSP) - \$27.6 million
- Department of Fish and Wildlife - \$432,000

By using the BSA funds, the Governor's budget assumes that Disaster Response Account appropriation of \$5 million to Department of Natural Resources in the biennial budget is unused and available for future fires. The same is assumed for Washington State Patrol's appropriation from Disaster Response Account; however the amount is reduced from \$8 million to \$7.5 million.

The Governor assumes \$53 million in federal recoveries from the FEMA Fire Management Assistance Grants will be deposited into the Disaster Response Account in fiscal year 2017 for the 2015 fire season. This additional federal revenue, along with fund balance, is used to fund the Military Department's fiscal year 2016 fires and storms costs estimated at \$11.5 million and to fund \$28.9 million in costs for previous disasters. In addition, \$50.6 million of Disaster Response Account funds are used in costs fires related spending:

- Department of Natural Resources - Shift \$21.1 million for fire suppression in fiscal year 2017 from Near General Fund-State and Opportunity Pathways to Disaster Response Account.
- Department of Natural Resources - \$12.2 million is provided for increasing firefighting capacity (training, equipment, etc.).
- State Conservation Commission - \$8 million is provided on a one-time basis to assist private landowners with damage caused by fires to agricultural and other property infrastructure such as re-seeding, fencing and soil stabilization.
- Military Department's - \$491,000 for fire training for National Guard soldiers and for a catastrophic emergency planner.
- Department of Fish and Wildlife - \$438,000 on a one-time basis for restoration of fish and wildlife habitat from fires.

Other funding for fire related activities include \$2.5 million from the Forest Fire Protection Assessment Account for increasing firefighting capacity for the Department of Natural Resources. This is in addition to the Disaster Response Account funding above for a total of \$14.8 million.

Policy Level Spending Changes

K-12 Education

- \$16.4 million in General Fund-State is appropriated into the Education Legacy Trust Account for McCleary related fines. In its latest ruling related to the case in August 2015, the Washington Supreme Court issued contempt sanctions of \$100,000 per day until the Legislature submits a plan for fully funding its obligations in the McCleary v. State of Washington lawsuit.
- \$1.1 million is provided to expand funding for Jobs for American Graduates, career and technical education math and science course equivalency frameworks, and language access for parents, which are current budget provisos. Funding is also provided to convene a workgroup to address student discipline. A previous workgroup for this effort was funded on a one-time basis in the 2013-15 biennium.
- \$670,000 is provided for Core Plus, a school to career program aligning school curriculum with workplace skills; and Healthiest Next Generation which provides funding for nutrition services, physical education, and health services through a partnership of OSPI and DOH.

Child Care Collective Bargaining Agreement

- The collective bargaining agreement for family child care providers for the 2015-17 biennium included a provision to "reopener" the agreement for fiscal year 2017. The budget includes \$13.5 million for the negotiated agreement (\$5.8 million for the Department of Early Learning, \$6.8 million for the DSHS - Economic Services, \$841,000 for DSHS - Children Administration). The agreement provides a variable base rate increase by region and age of child between zero percent and 22 percent, with an overall aggregate average increase of eight percent. About 60 percent of the fiscal impact of the agreement comes from the base rate increases. The agreement also revises tiered reimbursement rates, provides for a pilot to fund spaces through contracted slots, and a training fund for licensed family homes in the Working Connection Child Care program. The funding does not include child care center parity.

Department of Early Learning

- The budget provides \$2.2 million to replace lost federal funding for the Early Childhood Intervention Prevention Services (ECLIPSE) program. The program provides early intervention services and treatment in a child care setting for about 350 children, birth through age five, with significant developmental, behavioral and mental health challenges. Use of federal Medicaid dollars to support this program has been prohibited since 2014.

- The budget provides \$1.7 million to allow for 12-month eligibility for the Seasonal Child Care program. The program provides licensed child care for children whose parents work in agricultural settings. This change will align the program with the 12-month eligibility rule for the Working Connections Child Care program.
- The budget provides \$1.1 million for 10 staff to complete annual in-home health and safety checks and fingerprint background checks for unlicensed child care providers in the Working Connections Child Care program.

Higher Education

- \$250,000 in additional funding is provided for the University of Washington to expand the Mathematics, Engineering, and Science Achievement (MESA) pre-college program to reach 1,000 11th and 12th grade students in six regional centers.
- Provides \$450,000 in additional funding for the six MESA Community College Program pilot sites, increasing the base funding for each site by \$67,000. With the additional funding, MESA is estimated to serve 350 more community college students.

DSHS Mental Health

- \$35 million is provided to Western State Hospital to improve federal compliance, staffing and safety issues. This includes:
 - \$11 million in funding for fiscal year 2016 only, for actions taken in response to safety notices from Centers for Medicare and Medicaid Services.
 - \$10.5 million for salary increases for Physicians, Psychiatrists, Nurses and other Hospital staff.
 - \$6.7 million for 51 additional Registered Nurses.
 - \$5 million for 38 staff and focusing on maintaining accreditation and hospital maintenance projects.
 - \$2 million for staff at Western and Eastern State Hospitals to provide backup while staff complete additional safety training.
 - \$8.6 million in one-time savings is taken due to delayed implementation of various initiatives from the 2015-17 budget as a cost offset.
- Approximately \$13 million is provided for community mental health services to relieve pressures on the hospital through diversion and increasing hospital discharge resources.
 - \$8 million for four new 16-bed crisis triage facilities and 3 mobile crisis teams within the state
 - \$4.5 million for four new Housing and Recovery Teams and 22 FTEs to provide peers on Regional Support Network hospital liaison teams.

Low Income Health Care

- Provides \$59.4 million for restoration of unachieved savings from two waivers: \$42.7 million for Healthier Washington primarily dealing with value-based purchasing and integrating physical and behavioral health care and \$16.7 million for a reimbursement methods waiver not approved by the federal government.
- Provides \$15.1 million for the Individual and Family Services (IFS) program. This funding pays for the Medicaid managed care payment for 4,000 clients with developmental disabilities.
- Increases rates by a total of \$4.2 million for skilled home nurses for care for children and adults.
- Reduces costs of inpatient hospitalization by \$4.2 million through increased access to skilled home nurses.

DSHS Children and Family Services

- \$1.9 million is provided for an additional 21.4 staff to improve response times in investigating allegations of abuse and neglect.
- \$1.8 million is provided for an additional 25.8 staff to help meet the requirements of the 2011 Braam v. State of Washington Revised Settlement and Exit Agreement. Additional staff are intended to help the department locate children on the run, reduce teenage runaways, conduct monthly health and safety checks for children in out-of-home care, and provide foster parents with adequate information.
- \$1.4 million is provided for the second year funding for performance based contracting for family support services currently managed by a network administrator in Spokane County.

DSHS Economic Services & Temporary Assistance For Needy Families

- Reduces \$20.5 million of GF-S in the Temporary Assistance for Needy Families (TANF) program by using available federal TANF fund balance.

DSHS Long-Term Care and Developmental Disabilities

- \$ 1 million is provided for 15 staff and eight additional planned respite beds at Yakima Valley School. This service is intended to provide families with a break in caregiving, the opportunity for behavioral stabilization of the individual, and the ability to develop an individual service plan to enable individuals to remain in community settings.

- \$5.9 million in state savings are assumed from the first year of the demonstration project as a result of coordinated health care services. The Centers for Medicare and Medicaid Services (CMS) has notified the Department of Social and Health Services that the Health Home program has achieved savings which are shared between the state and CMS.
- The annual per-bed license fees are raised from \$106 to \$147 for assisted living facilities and \$359 to \$429 for nursing homes. Increased fee revenue will decrease the need for \$2.5 million to cover the cost of licensing and oversight--\$2.5 million savings

DSHS Special Commitment Center

- \$3.2 million is provided for 27 staff to provide treatment and rehabilitative care and increased health care services and supports for approximately 30 high acuity residents.

Department of Corrections

- \$1.2 million is provided to increase salaries for specified positions providing mental health services to offenders in need.
- \$790,000 is provided to expand the Bellingham work release facility by 20 beds.
- A \$2.3 million savings are assumed through a statutory change to change the length of community supervision to the court imposed term which was the practice prior to a Supreme Court decision in State v. Bruch, March 2015.
- A \$1.5 million reduction is assumed by requiring terms of supervision to be served concurrently unless the court specifically orders the terms to be served consecutively.

Natural Resources

- The budget provides \$4.3 million from the Parks Renewal and Stewardship Account to the State Parks and Recreation Commission for park maintenance and promotion. Additional revenue from the Discovery Pass makes this investment possible.
- Provides \$1.4 million from the State Toxics Control Account for the Department of Ecology to implement chemical action plans.
- The budget provides \$706,000 Near General Fund-State and Opportunity Pathways and \$3.3 million from the State Wildlife Account to The Department of Fish and Wildlife to sustain fishing in Washington by maintaining hatchery facilities and production, complying with the Endangered Species Act and monitoring and enforcing recreational and commercial fisheries.

Selected Other Increases

- Provides \$80 million in total funds (\$36.1 GF-S) in settlement of the Moore v. HCA lawsuit originally filed in 2006. The case deals with the provision of employee health care benefits for certain part-time workers.

Governor Inslee's Proposed 2016 Supplemental Capital Budget

Background

The enacted 2015-17 capital budget (2EHB 1115) appropriated \$2.2 billion in state bonds from the net bond authorization (ESHB 1166) of \$2.3 billion; the remaining bond capacity was \$89.4 million.

Summary

Governor Inslee's 2016 supplemental capital budget appropriates \$89.4 million in state bonds; \$1,500 in authority remains. The total appropriation (state bonds, other funds and alternative finance projects) is \$259.7 million.

2016 Supplemental Bond Capacity

	Dollars in Thousands
Net Bond Bill Authorization (ESHB 1166)	2,309,362
2013-15 Appropriations (2EHB 1115)	2,219,964
Amount Remaining Under Existing Bond Authorization Bill	89,398
Governor's 2016 Supplemental Capital Budget Appropriations	89,397
Remaining Supplemental Bond Capacity	1

The larger bond-funded projects include:

- Weatherization Matchmaker Program: \$5 million
- Housing Trust Fund Portfolio Preservation Program: \$2.5 million
- Rapid Rehousing Improvement Program: \$4 million
- Community Behavioral Health Beds (Acute and Residential): \$14 million
- Public Works Assistance Account: \$11 million reduction
- Military Department Tri Cities Readiness Center -- Land: \$2.5 million
- Department of Social and Health Services: \$18.2 million
 - Statewide Minor Works: \$7.2 million
 - McNeil Island Main Dock and Infrastructure: \$3.2 million

- JRA Facilities: \$2.1 million
- State Mental Hospitals: \$2.8 million
- Department of Ecology, toxic site clean-up, decrease MTCA accounts, and increase state bonds: \$25.5 million
- Department of Ecology, Drought Response: \$2 million reduction
- Department of Natural Resources, Trust Land Transfer: \$18.8 million; \$15 million of this bond appropriation goes to the Common School Construction Account
- Office of Superintendent of Public Instruction, School Construction Assistance Program (SCAP): \$3 million; in addition the budget dedicates an additional \$31.7 million Common School Construction Account for SCAP.

The Governor's capital budget provides Certificate of Participation authority for the following projects, totaling \$143.9 million:

- Community and Technical College System
 - Bellevue College Student Housing: \$45.7 million
 - Edmonds Community College: Science, Engineering, Technology Building: \$36.1 million
 - Pierce Fort Steilacoom Student Housing: \$3 million
 - Spokane Falls Gymnasium Renovation and Addition: \$19.5 million
 - Wenatchee Valley Recreation Center: \$6.2 million
 - Whatcom Community College: Learning Commons: \$32.2 million
- Labor & Industry: New Laboratory and Training Facility Acquisition: \$1.3 million