

# OVERVIEW OF GOVERNOR INSLEE'S 2017-19 OPERATING AND CAPITAL BUDGET PROPOSALS

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DECEMBER 15, 2016

<http://www.leg.wa.gov/Senate/Committees/WM/Pages/default.aspx>

# Overview

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## Introduction

Based on the latest revenue forecast and the enacted 2015-17 biennial operating budget before any changes, the unrestricted ending fund balance is projected at approximately \$780 million at the end of the 2015-17 biennium with an additional \$1.3 billion in the Budget Stabilization Account or “Rainy Day Fund.”

In crafting the 2017-19 biennial operating budget, the Legislature will be considering both the increased costs associated with maintaining current law requirements and proposed policy increases or enhancements. Additionally, pursuant to the 4-year balanced budget provisions, the Legislature is required to leave a positive unrestricted balance for both the 2017-19 and 2019-21 biennia. In terms of the “budget problem” statement to meet this requirement, a major determining factor is related to policymakers decisions about any new policy items to fund and how to pay for them.

## Governor Inslee’s “Book 1” Budget

The Governor’s 2017-19 budget proposal released on December 14<sup>th</sup> addresses the budget problem under a scenario sometime referred to as “book 2” which allows for proposed revenue increases to meet the balanced budget requirements. He is also required to submit a current law budget or “book 1” budget that does not include any major revenue increases. This proposal has not been submitted to the Legislature yet, but the Office of Financial indicated that the “book 1” proposal will be submitted by the statutorily required December 20<sup>th</sup> date.

## Overview of Governor Inslee’s “Book 2” Budget

Based on the assumptions used in the development of the Governor’s proposed new revenue or “book 2” operating budget, the Governor’s budget problem is slightly more than \$5 billion at the end of the 2017-19 biennium. This problem statement is based on: (1) his proposed \$133 million 2017 supplemental budget; (2) \$2.5 billion in increased funding based on caseloads and other cost drivers under current law or maintenance level for the 2017-19 biennium; and (3) his proposed \$4.8 billion of policy level enhancements and increases for the 2017-19 biennium. This also includes leaving unrestricted reserves of approximately \$384 million at the end of the 2017-19 biennium.

The \$2.5 billion in maintenance level increases include: (1) \$485 million to complete the phased implementation of the K-3 class size reduction of SHB 2776 (Chapter 236, Laws of 2010); (2) \$500 million in other K-12 caseload and other adjustments; (3) \$406 million for Initiative 732 cost-of-living increases for K-12 and higher education staff; (4) \$369 million in net increased costs for low income health care services; (5) \$239 million for pension rate increases associated with the phase-in of assumed lower investment returns and mortality assumptions; and (6) \$161 million in increased mental health funding.

Some of the larger policy level increases are: (1) \$3.4 billion for a variety of K-12 enhancements including to teacher, administrative, and classified staff compensation, recruitment, and retention and staffing increases; (2) \$695 million for state employee and non-state employees collective bargaining agreements, arbitration awards, and non-represented compensation increases; (3) \$166 million for staffing and other increases in the state mental health hospitals and for developing additional community options; and (4) \$146 million for maintaining and expanding the state need grant.

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.

The Governor's proposal includes suspending the four-year balanced budget for six years.

#### Budget Stabilization Account & Fund Transfers – \$778 Million

The Governor's budget utilizes \$407 million from the Budget Stabilization Account by assuming legislation that would transfer the amount of the 1% transfer back to general fund in the 2017-19 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) \$252 million from the Public Works Assistance Account from loan repayments; (2) \$92 million from a transfer from the Carbon Pollution Reeducation Account based on the new carbon tax; (3) \$12 million from the State Treasurer's Service Account; and (4) \$6.5 million from the Performance Audit Account.

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

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## Overview

The Governor's "book 2" budget assumes a net increase of \$5.2 billion in near general fund state in the 2017-2019 biennium from his proposed revenue legislation. The three largest components of his proposal involve establishing a capital gain tax, a carbon tax, and increase to the B&O service rate. Because the capital gains tax and the carbon tax are imposed in the second year of the biennium, the Governor project that the amount from his revenue proposals will grow to \$8.7 billion in the 2019-21 biennium.

## Revenue Increases - \$5.3 Billion

*B&O Service rate increase* - The rate of the business and occupation tax on services is increased from 1.5% to 2.5%. **(\$2.3 billion)**

*Carbon Tax* - Beginning July 1, 2018 a \$25/ton carbon tax on fossil fuels sold or used in this state and on the consumption or generation of electricity generated by the consumption of fossil fuels. \$806 million of the revenue generated from the carbon tax is invested in clean energy and transportation, water infrastructure and forest health, and offsets to business and low-income households to help with increased energy costs. **(\$1.1 billion in revenues reflected on the balance sheet and \$806 million deposited into the Carbon Pollution Reduction Account)**

*Capital Gains Tax* - A 7.9% tax is imposed on capital earnings above \$25,000 for individuals and \$50,000 for joint filers starting fiscal year 2019. Exemptions are provided for all residences, retirement accounts, farms, and forestry. Amounts received above \$900 million in a year are placed in a School Investment Reserve Fund. **(\$821 million)**

*Trade-in allowance* - The trade-in allowance on like kind items such as automobiles and boats is limited to \$10,000. **(\$91 million)**

*Nonresident sales tax exemption*- The nonresident sales tax exemption is replaced with a refund of state sales taxes paid. **(\$49.2 million)**

*Bottled water sales tax exemption* - The bottled water sales tax exemption is repealed. **(\$57.1 million)**

*Extracted/manufactured fuel* - The use tax exemption on manufactured or extracted fuel used by the producer is narrowed to only include fuel from biomass. Effectively this will apply the use tax to fuel used by the petroleum industry. **(\$51.8 million)**

*REET foreclosure exemption*- Applies the real estate excise tax to certain transactions made by banks and other lenders. **(\$59.4 million)**

*Eliminate Streamlined Sales tax mitigation*- Streamlined sales tax mitigation is eliminated in the 2019-21 biennium. Beginning in 2008, this mitigation was given to local jurisdictions who were negatively impacted by sales tax sourcing changes made to comply with the national streamlined sales tax agreement. **(\$45.1 million in the 2019-2021 biennium)**

*Interest rates on refunds and assessments*- Currently the interest rates on refunds and tax assessments made by the department of revenue are set at the federal short-term rate plus two percent. This proposal would set the rate for tax assessments at the federal short-term rate plus four percent and at the federal short term rate for refunds. **(\$16.5 million)**

*Expand Trust Fund Accountability* - The state can hold certain corporate officers liable for sales taxes collected but not remitted to the state. **(\$10.3 million)**

*Extend economic nexus to retailing activities*- Economic nexus standards, instead of just a physical presence requirement, apply to retailing activities for purposes of B&O tax liability instead of just a physical presence requirement. Currently economic nexus standards apply to wholesaling and service activities. **(\$12.1 million)**

**Revenue Decreases - \$122 million**

*Small business credit and filing threshold* - The filing threshold for business taxes is raised to \$100,000 a year and the small business credit is increased to \$125 a month. **(\$91.9 million)**

*High-tech R&D tax incentives* - The R&D incentives for life sciences, environmental sciences, and space technologies are restored at lower levels. The B&O credit is limit to \$500,000 per year and the sales tax deferral is limited to \$1 million per year per company. **(\$30.2 million)**

Governor Proposed Revenue						
§ in millions						
	FY 2018	FY 2019	2017-19	FY 2020	FY 2021	2019-21
<b>B&amp;O Tax on Services</b>			-			-
Increase rate to 2.5% (all services)	1,062.0	1,214.0	2,276.0	1,273.0	1,336.0	2,609.0
<b>Carbon Tax (Net for Education)</b>						
\$25/ton plus inflation plus 3.5%	\$28.1	\$1,875.6	1,903.7	\$1,976.9	\$2,088.3	4,065.2
<b>Capital Gains Tax</b>						
7.9% (\$25,000/\$50,000 threshold, exempt residential property)	-	821.0	821.0	901.0	947.0	1,848.0
School Investment Reserve Fund				(1.0)	(47.0)	(48.0)
<b>Loophole Closures</b>						
Limit trade-in exclusion to \$10,000	43.3	47.5	90.8	47.4	46.8	94.2
Refund nonresident sales tax exemption	23.1	26.1	49.2	26.9	27.7	54.6
Repeal bottled water sales tax exemption	27.0	30.1	57.1	30.8	31.5	62.3
Repeal extracted fuel (except hog fuel)	23.3	28.6	51.8	32.0	35.4	67.4
Limit REET foreclosure exemption	29.4	30.0	59.4	31.0	32.0	63.0
<b>Local Distributions/Fees/Other</b>						
Eliminate Streamlined Sales/Use Tax Mitigation			-	22.6	22.5	45.1
Increase interest rate on assessments/reduce interest rate on refunds	5.0	11.5	16.5	14.1	15.5	29.6
Expand Trust Fund Accountability	4.8	5.5	10.3	5.7	6.0	11.7
Extend Economic Nexus to Retailing B&O Activities	4.4	7.7	12.1	10.9	11.6	22.5
			-			-
<b>Revenue Reductions</b>						
High-Technology R&D Tax Incentives	(8.8)	(21.4)	(30.2)	(21.8)	(22.8)	(44.7)
Small Business Tax Filing Threshold/B&O Credit Increase	(22.7)	(69.2)	(91.9)	(74.7)	(76.6)	(151.3)
<b>Total</b>	<b>1,218.8</b>	<b>4,007.0</b>	<b>5,225.8</b>	<b>4,274.8</b>	<b>4,453.9</b>	<b>8,728.7</b>

# Near General Fund Spending Changes

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**Contents**

K-12 Education .....7

State Employee and Non-State Employee Compensation Increases ..... 8

Department of Early Learning .....9

Higher Education .....10

Low Income Health Care .....11

DSHS Mental Health .....12

DSHS Long Term Care And Developmental Disabilities .....13

DSHS Economic Services .....14

DSHS Children's Administration .....15

DSHS Juvenile Rehabilitation .....16

Department of Corrections .....16

Department of Health .....16

Natural Resources .....17

Department of Commerce .....18

Department of Labor and Industries .....18

Information Technology .....18

Capital Budget .....19

# Near General Fund Spending Changes

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## K-12 Education

The Governor's proposed current law or maintenance level budget includes \$485 million to complete for the implementation of the K-3 class size reduction required under SHB 2776 (Chapter 236, Laws of 2010) and \$380 million for Initiative 732 cost-of-living adjustments for K-12 employees. The Governor's budget would provide approximately \$3.4 billion in additional K-12 policy level increased for the 2017-19 biennium.

### *Major Increases*

**Teacher Compensation, Recruitment, Training, and Retention** – The Governor's budget provides approximately \$3 billion of additional funding in the 2017-19 biennium related to teacher, administrative, and classified staff compensation, recruitment, and retention. These funding items include:

- Increasing salaries for teachers, administrative staff, and classified staff. The beginning certificated instructional staff salary would be increased to \$44,975 in SY 2018 and \$54,587 in school year 2019; the minimum certificated administrative staff salary would be increased to \$78,395 in school year 2018 and \$114,612 in school year 2019; and the minimum classified staff salary would be increased to \$39,457 in school year 2018 and \$52,908 in school year 2019. -- \$2.4 billion increase.
- Providing a salary allocation for certificated instructional staff of 30 hours in school year 2018 and 80 hours in school year 2019 for professional development. (This change is included within the individual teacher salaries for school year 2018 and 2019 reflected in the prior paragraph.) -- \$333 million increase
- Increasing the state-funded health benefit rate for certificated instructional staff and certificated administrative staff from \$780 per month to \$849 and increasing the health benefit rate for classified staff from \$899 per month to \$978. The increases are phased in over the biennium -- \$139 million increase
- Expanding the Beginning Educator Support Team Program by increasing the salary of existing full-time mentors to \$90,112 in school year 2018 and \$92,664 in school year 2019. Also, in school year 2019, an additional 80 mentors would be funded. -- \$50 million increase

**Staffing Increases** – The Governor's budget provides an additional \$382 million in the 2017-19 biennium for other staff enhancements, including the following major items:

- Funding a 1.0 FTE per school increase for student support staff, i.e. nurses, psychologists, social workers, counselors, etc. Fifty percent of the increase would be funded in school year 2018, starting with high poverty schools, and fully-funded in school year 2019. (The 1.0 FTE is based on the staffing allocations under the prototypical school model.) -- \$325 million increase
- Increasing the weekly instructional allocation for the Learning Assistance Program from 2.3975 hours per week to 2.5 hours in school year 2018 and 2.75 hours in school year 2019 -- \$50 million increase

**STEM, Career and Technical, and Highly Capable Education** – The Governor’s budget provides \$26 million of additional funding in the 2017-19 biennium for students in STEM, CTE, and highly-capable programs. These funding changes include:

- Increasing the state allocation for materials, supplies, and operating costs (MSOC) for students enrolled in career and technical education programs and skills centers. The MSOC rates are increased to be 20 percent higher than the general education rate in school year 2018 and 30 percent higher in school year 2019 -- \$12 million increase
- Providing additional funds for the development of computer science and work integrated programs -- \$10 million increase
- Increasing the state allocation for the highly capable program. Currently, the state assumes that 2.237 percent of students are eligible. The Governor’s budget increases this allocation to 2.5 percent in school year 2018 and 2.75 percent in school year 2019 -- \$4 million increase

**Local Levies** -- The Governor’s budget proposal would reduce the levy lid percentage to 15 percent beginning in calendar year 2019. The levy lid percentage would be uniform for all school districts, i.e. there would be no grandfathering. Local levy collections are projected to decrease by approximately \$250 million per year beginning in calendar year 2019.

### **State Employee and Non-State Employee Compensation Increases**

The Governor provides funding for all collective bargaining agreements and arbitration awards for the 2017-19 biennium, including agreements for non-state employees. The total fiscal impact for salaries and benefits is estimated at \$695 million. Additionally, the Governor proposes increases to K-12 employee salary and health benefit allocations which are described in the K-12 section of this document.

#### *Major Increases*

Salary increases for state and higher education employees:

- Provides most represented and non-represented employees with three general wage increases of 2.0 percent on July 1, 2017, July 1, 2018 and January 1, 2019.
- Provides certain job classes with targeted increases that are greater than and in lieu of general wage increases.
- Provides most corrections employees with increases provided by arbitration award of 4.5 percent on July 1, 2017, and 3.0 percent on July 1, 2018, and another 3.0 percent on January 1, 2019.
- Funds Orca passes for all employees that work in King County.
- Cost: \$432 million increase

Health insurance contributions increases for state and higher education employees:

- Continues to fund employer contributions equal to 85 percent of average premium costs.
- Continues the annual wellness incentive of at least \$125 and funds a new \$25 gift certificate for eligible program participants.
- Continues a prohibition on increases in Uniform Medical Plan member point-of-service costs (i.e. deductibles) for the purpose of reducing plan costs.

- Assumes monthly contribution rate for all employees will increase from \$888 for FY 2017 to \$970 for FY 2018 and to \$1,029 for FY 2019.
- Cost: \$121 million increase

Wage and benefit increases for non-state employees:

- Provides increased funding 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: \$141 million increase.

Proposed Pension Changes:

- Suspends the \$50 million statutory transfer for Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) benefits improvement account.
- Requires local employers to pay the state portion of LEOFF contributions for certain activities, such as voluntary overtime.

**Department of Early Learning**

*Major Reductions*

- Reduces funding for the Early Achievers, quality rating and improvement system, which will impact resources available for support services, technical assistance, and professional development--\$4.6 million savings

*Major Increases*

- Provides \$43.7 million in enhancements to the Early Childhood Education and Assistance Program (ECEAP) by:
  - Funding 2,708 additional slots (20 percent partial day, 70 percent full day, and 10 percent extended day), which represents 36.5 percent of what is needed at full implementation. ECEAP is a statutory entitlement beginning in the 2020-21 school year and the November 2016 official caseload forecast anticipates an additional 7,429 children will need to be served at that time--\$27.8 million increase
  - Funding a rate increase for ECEAP providers of 6.1 percent, which will increase the slot rate for partial day by \$447, full day by \$610, and extended day by \$953--\$13.8 million increase
  - One-time funding for a pilot program for 4-year olds to attend the preschool program during the summer before they will be enrolled in Kindergarten--\$2.0 million increase
- Increases funding paid to licensed child care centers participating in the Working Connections Child Care program by establishing a flat, per child, tiered reimbursement rate for providers at the different levels within the Early Achievers program--\$13.6 million increase
- Since 2005, there have been successive state audit findings of inadequate internal controls to detect and prevent overpayments and fraud related to child care payments. Recently, DEL received notice of a federal penalty in the amount of \$23.3 million as a result of this issue. Funding is provided to develop an electronic time and attendance tracking system for the child care program--\$10.6 million

- Continues the 2015-17 enacted biennial budget's one-time funding backfill of lost Medicaid funding for the Early Childhood Intervention Prevention Services (ECLIPSE), a program that provides early intervention and treatment for children exposed to environmental, familial, and biological risk factors that impact development, behavior, and mental health--\$2.2 million increase
- Provides additional funding to hire 5 full-time employees to monitor over 100 licensed exempt military and tribal child care facilities and to investigate unlicensed child care providers--\$1.0 million increase

#### *Family Child Care Providers Collective Bargaining Agreement*

- Funding is provided (ESA--\$8.1 million; DEL--\$5.3 million; and CA--\$500,000) for the Collective Bargaining Agreement negotiated with Service Employees International Union, Local 925 for family child care providers, which provides a 2 percent subsidy rate increase for licensed providers; a \$2.50 per hour increase for license-exempt providers; increased health insurance funding; and a variety of professional development options, including state-approved training, higher education scholarships, and community outreach and partnerships to increase engagement and professional growth of providers--\$13.9 million increase

#### Department of Children, Youth, and Families

- In fiscal year 2019, establishes the Department of Children, Youth, and Families (DCYF), which is comprised of the Children's Administration, Juvenile Rehabilitation, and the Office of Juvenile Justice from DSHS, and the Department of Early Learning. The mission of this new agency will be centered on child safety, early learning, and the social, emotional, and physical well-being of children, youth, and families.

#### *Major Increases*

- Provides funding for administrative functions needed to support the new agency--\$9.4 million
- Provides funding to establish an Office of Innovation and Alignment within the Office of the Governor in fiscal year 2018 to identify the programmatic changes, information technology needs, data analytic support, budget and client services necessary to implement recommendations of the Blue Ribbon Commission. In fiscal year 2019, this office will be transferred into the DCYF--\$400,000 increase

#### **Higher Education**

As discussed in the compensation section, the collective bargaining agreements for the public institutions of higher education are funded as negotiated, and the Governor splits the cost of these agreements between the state and the institutions (tuition). The Governor assumes that each institution will determine how to implement their portion of the increase without the ability to increase resident undergraduate (RUG) tuition operating fees.

### *Major Increases*

- Provides additional funding for the State Need Grant (SNG), including \$18 million to maintain FY 2015 service levels, \$12.1 million for projected increases in College Bound Scholarship recipients, who are prioritized to receive the SNG, and \$116.3 million to expand the SNG to serve an additional 14,000 eligible students. Currently, about 24,000 eligible students are on the SNG unserved waiting list -- \$146.4 million increase
- Freezes the RUG tuition operating fee inflationary adjustment for all the public colleges and universities in the 2017-19 biennium, and provides state funding to backfill the estimated revenue from a 2.2 percent and a 2.0 percent RUG tuition operating fee inflationary increase, respectively, in each year of the biennium -- \$56.4 million increase
- Additional funding is provided for medical student education, including \$10 million for the continuation and expansion of the University of Washington's Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) medical education program in Spokane, and \$10 million to support the first class of 60 medical students at Washington State University's Elson S. Floyd College of Medicine -- \$20 million increase
- A total of \$18.5 million is provided for Student Success Initiatives and Guided Pathways. Of this amount, \$10 million is provided to the regional four-year institutions for academic advising, tutoring, and other educational supports that improve retention and graduation rates. The remaining \$8.5 million is provided to community and technical colleges for curriculum redesign, student advising, and student support using the Guided Pathways model -- \$18.5 million increase
- Expands the Opportunity Scholarship program to include professional-technical certificates or degrees. The Governor intends the additional state funds will leverage a 50 percent private match -- \$3.0 million increase

### **Low Income Health Care**

#### *Major Reductions*

- 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*

- Transfers mental health and substance abuse programs from DSHS to Health Care Authority as part of physical and behavioral health integration--\$954.3 million transfer
- Provides additional local and federal authority for healthcare innovation under a federal waiver for three initiatives Health Care Authority (HCA), DSHS Long Term Care (LTC), and DSHS Behavioral Health Administration (BHA)—\$526.2 million (federal and local funds only). The three initiatives of the waiver include:
  - Accountable Communities of Health (HCA)--\$447.7 million
  - Long Term Support Services (DSHS LTC)--\$58.9 million
  - Supportive Housing and Employment (DSHS BHA)--\$19.6 million

- Restores savings assumed under Healthier Washington (HB 2572) due to delays in integrating behavioral and physical health care models--\$61 million increase
- Continues funding for Hepatitis C treatment for patients with savings at maintenance level achieved through lower drug costs. Additional costs are realized as a result of a lawsuit requiring treatment of patients with a lower fibrosis score, resulting in a net increase in spending—Net \$19.3 million increase

## **DSHS Mental Health**

Both the Governor's 2017 supplemental and 2017-19 proposed budget makes several changes to the current mental health system. Approximately \$166 million is provided to the Department of Social and Health Services (DSHS), Department of Commerce and Health Care Authority (HCA) to increase community options for individuals likely to end up in the state hospitals or transitioning out of the state hospitals. The funding provided in the 2017-19 budget fall into three categories: State Hospital Overspend, State Hospital Investments, and Community Investments.

This budget also transfers \$883 million for the portion of the Behavioral Health Administration responsible for the community mental health system (managing the Behavioral Health Organizations) from DSHS to HCA beginning July 1, 2017, in an effort to better integrate behavioral health services and physical health services under a single managed care system by 2020.

### ***2017 Supplemental Budget***

- The 2017 supplemental budget provides funding to cover cost overruns at the state hospitals due to increased staffing due to statutory requirements, Centers for Medicaid and Medicare Services (CMS) conditions, and safety issues -- \$23 million increase
- The 2017 supplemental budget provides funding for state hospital compliance with the Systems Improvement Agreement (SIA) with CMS to make changes at the state hospitals in order to maintain federal funding levels after July 2017 -- \$21 million increase

### ***2017-19 Budget***

- *Community Investments (\$88.9 million increase)*
  - Provides funding for jail and hospital diversion strategies to include three new mobile crisis teams, two crisis walk-in centers and funding within the Department of Commerce to implement an Adult Street Outreach program -- \$7.7 million increase
  - Provides funding for stepdown options upon leaving the state hospitals and other housing supports -- \$15.5 million increase
  - Provides funding for transitioning clients ready for discharge from the state hospitals into home and community based settings -- \$63 million increase
  - Provides funding to begin operating three 16-bed community behavioral health hospitals with a goal of opening nine community hospitals over the next three biennia -- \$2.7 million increase

- *State Hospital Investments (\$85.2 million increase)*
  - Provides funding and 137 FTE to meet the needs identified by an independent consultant required by the SIA -- \$52.7 million increase
  - Provides funding and 43 FTE to implement substance abuse treatment, increase discharge case management, and implement a time, leave and attendance system -- \$11.5 million increase
  
- *State Hospital Overspend (\$71.4 million increase)*
  - Provides funding for anticipated continued cost overruns at the state hospitals -- \$48.4 million increase
  
- *Other Items (\$65.6 million increase)*
  - Funding is provided to replace lost federal funding created by a reduction in disproportionate share hospital (DSH) payments. DSH payments are used to fund uncompensated care costs. The Affordable Care Act (ACA) included a provision reducing overall DSH payments to states beginning in 2017 -- \$27.8 million increase
  - Funding is provided to replace lost federal funds with state dollars for Medicaid-covered individuals, for whom Medicaid will no longer cover treatment over 15 days in an Institute for Mental Disease based on a rule issue by CMS -- \$18.1 million increase
  - Funding is provided to continue services to reduce the waitlist for the state hospitals funded in fiscal year 2017 with funds from the Governor's Behavioral Health Innovation fund -- \$17.9 million increase
  - Funding is provided to cover unanticipated costs associated with inpatient evaluations and competency restorations at two community locations -- \$9.6 million increase
  - Funding is reduced on a one-time basis to the Behavioral Health Organizations non-Medicaid reserves -- \$7.8 million decrease

## **DSHS Long-Term Care and Developmental Disabilities**

### *Major Reductions*

- Funding for employment and day programs is reduced, based on historical underspending, during the 2017-19 biennium -- \$5 million savings

### *Major Increases*

### **Collective Bargaining Agreements**

- Funding is provided for an agreement with individual providers of in-home personal care services. The agreement includes phased-in changes to the wage scale; increases in contributions to health care, training and retirement trusts; an increase in paid time off; and a health and safety benefit study -- \$77 million increase
  
- Funding is provided for an agreement with owners of adult family homes. The agreement includes an increase in the daily rate scale, payments for providing meaningful home-based activities, supporting clients in community integration, and reimbursing for mileage under certain circumstances -- \$28 million increase

- As required by statute, funding is provided for homecare agency providers to ensure wage and benefit parity with the individual provider homecare agreement -- \$21 million increase

#### Vendor Rate Adjustments

- As mandated by Initiative 1433, funding is provided for the minimum wage increases scheduled to occur during the 2017-19 Biennium. The minimum wage increases will primarily impact employees within adult family homes, assisted living, nursing facilities, supported living, and group homes -- \$30 million increase
- The hourly rate paid to residential service providers, for services such as personal care and habilitation training, is raised by \$1 dollar per hour (a roughly 6% vendor rate increase) -- \$23 million increase

#### Client Services

- Funding is provided for extending employment services to roughly 800 individuals with a developmental disability who will transition out of high school during the 2017-19 Biennium -- \$4 million increase
- Funding is provided for Medicaid waiver clients accessing respite care -- \$2 million increase

### **DSHS Economic Services Administration**

#### *Major Reductions*

- Available federal contingency funding for the Temporary Assistance for Needy Families (TANF) program is used in place of state funds--\$34.0 million savings
- Beginning in fiscal year 2019, a portion of the revenue from the proposed carbon tax is utilized to free up state funds in the TANF spending plan and are appropriated to the Children's Administration for the Family Assessment Response (FAR) program to backfill for insufficient funds in the Child and Family Reinvestment Account--\$9.8 million increase

#### *Major Increases Funded with State Funds*

- Washington faces an estimated \$67.9 million penalty for not meeting the federal Work Participation Rate (WPR) for federal fiscal years 2012-2015 in the TANF program. Funding is provided to continue a monthly \$10 payment to eligible working clients who are not receiving TANF benefits to assist in meeting the WPR as part of the state's corrective compliance plan with the federal government--\$9.5 million increase

#### *Major Increases Funded with the Carbon Pollution Reduction Account*

- Beginning in fiscal year 2019, increases the monthly cash grant recipients receive in the Aged, Blind, and Disabled (ABD) program from \$197 to \$400--\$29.6 million increase
- Beginning in fiscal year 2019, increases by 7.5 percent the monthly cash grant for the TANF and State Family Assistance Program (SFA), increasing the monthly grant for a

family of four from \$613 to \$659; and the Refugee Assistance program--\$14.0 million increase

- Beginning in fiscal year 2019, utilizes a portion of the revenue from the proposed carbon tax to free up state funds in the TANF spending plan and appropriates these funds to the Children's Administration for the Family Assessment Response (FAR) program to backfill for insufficient funding in the Child and Family Reinvestment Account--\$9.8 million increase
- Beginning in fiscal year 2019, increases eligibility in the TANF, SFA, and ABD programs by eliminating asset limits--\$9.8 million increase
- Beginning in fiscal year 2019, provides additional funding to assist clients in the Basic Food, Housing and Essential Needs, and Working Connections Child Care (WCCC) programs with transportation expenses. Transportation funds for the WCCC program will be used to help individuals expand their search area in order to locate child care providers--\$6.9 million increase
- Beginning in fiscal year 2019, expands eligibility for the Child-Only TANF caseload by eliminating means testing for kinship caregivers--\$2.5 million increase
- Beginning in fiscal year 2019, implements a pilot program to assist non-custodial parents with education and employment services in order to improve their financial situation so that additional child support can be collected--\$1.2 million increase
- Expands eligibility for the Additional Requirements for Essential Needs program by changing the \$750 lifetime limit to a \$750 annual limit (\$863,000) and provides funds to replace lost federal dollars in the Low-Income Home Energy Assistance Program for individuals in the Food Assistance Program (\$320,000)--\$1.2 million increase

### **DSHS Children's Administration**

#### *Major Reductions*

- Reduces funding by aligning anticipated spending with the pattern of spending realized in fiscal year 2016--\$22.1 million savings

#### *Major Increases*

- Provides state funding, made available by utilizing a portion of the revenue from the proposed carbon tax to free up state funds in the Temporary Assistance for Needy Families (TANF) spending plan, for the Family Assessment Response (FAR) program to backfill for insufficient funding in the Child and Family Reinvestment Account--\$9.8 million increase
- Additional staff (56.3 FTEs by fiscal year 2019) and funding are provided to lower caseload ratios to 18 for child and family welfare social workers to align with the Braam settlement standards--\$6.8 million increase

## **DSHS Juvenile Rehabilitation**

### *Major Reductions*

- Savings is achieved through the closure of Naselle Youth Camp and transferring approximately 76 residents to Echo Glen Children's Center and Green Hill School -- \$7.5 million savings

## **Department of Corrections**

### *Major Increases*

- Funding is provided for caseload increases in community supervision and violator populations both the Governor's 2017 Supplemental budget (\$9.6 million) and the 2017-19 budget (\$32.9 million) -- \$42.5 million total increase
- Funding is provided for a 15% rate increase for contracted vendors that manage Work Release facilities for the department and an increase in capacity at one contracted facility-- \$4.1 million increase
- Funding is provided for a pilot project to cover expenses related to attorney representation for offenders at violation hearings following a the Grisby v. Herzog case, which mandates representation when the offender could be returned to prison -- \$3.6 million increase
- Funding is provided to increase records staffing (18 FTE) to review court orders and determine confinement times, release dates, and supervision periods -- \$2.7 million increase

### *Major Reductions*

- The prison population is reduced by allowing earned time credits to be applied to confinement pursuant to a weapons enhancement -- \$6.3 million decrease
- The community supervision population is reduced by presuming supervision terms are run concurrently, unless expressly ordered by the court to run consecutively -- \$5.9 million decrease

## **Department of Health**

### *Major Reductions*

- Reduces annual infrastructure funding for the 16 Neurodevelopmental centers throughout the state by an average of \$40,000 -- \$1 million savings

### *Major Increases*

- Funding is provided to the Department of Health for distribution to local health jurisdictions with a goal of improving the public health system's ability to respond to the threat of communicable disease -- \$20 million increase

- Funding is provided to address shortfalls at the public health laboratory, and improve data collection and analysis within the Department of Health -- \$4 million increase
- Funding is provided to test water fixtures in schools across the state over a three-year period, with an emphasis on testing older schools first -- \$4 million increase
- Funding is provided to identify and test children who are at the highest risk of having elevated levels of lead in their blood -- \$2 million increase

## **Natural Resources**

### *Major Reductions*

- Reduces Department of Ecology staffing level -- \$5 million MTCA savings
- Reduces savings across various administrative functions -- \$4.4 million MTCA savings
- Reduces Lo-Impact Development training -- \$2 million MTCA savings
- Reduces Shoreline grants -- \$1.8 million MTCA savings
- Reduces Public Participation grants -- \$1.4 million MTCA savings
- Reduces Stormwater grants -- \$1.1 million MTCA savings
- Reduces ALEA funding in Department of Fish and Wildlife for volunteer grants--\$500,000 savings
- Reduces ALEA funding in Department of Agriculture for spartina eradication--\$400,000 savings

### *Major Increases*

- Implement the new clean air rules at the Department of Ecology -- \$4.6 million GF-S increase
- Increases funding for a variety of Department of Fish and Wildlife programs primarily through increases in hunting and fishing fees --- \$2.3 million GF-S increase, \$20.4 million State Wildlife Account increase
- PILT payments by the Department of Fish and Wildlife are increased 15% over the 2009 level that has been held constant to date--\$179,000 GF-S increase
- Increase funding for management of the Teanaway Community Forest --\$756,000 GF-S increase, \$1.5 million bonds.
- Backfill loss of federal funds for the Puget Sound Partnership--\$1.7 million GF-S increase, \$500,000 MTCA increase

- Continue supplemental funding of State Parks for operational activities--\$10 million litter tax increase

### ***2017 Supplemental Budget***

- Supplemental funding to pay for fire suppression costs from the 2016 fire season for Department of Natural Resources---\$23 million GF-S increase

### **Department of Commerce**

#### *Major Increases*

- Increases the number of households receiving assistance with utility payments by 30,000 through the Low-Income Energy Assistance Program (LIHEAP) with funding from the Carbon Pollution Reduction Account -- \$25 million increase
- Provides \$20 million from the State General Fund via transfer to the Home Security Account to reduce homelessness by: (1) expanding temporary rent assistance for homeless families with children; (2) expanding permanent housing and services for chronically homeless families and individuals, and (3) increasing the number of youth who exit a state system, such as juvenile detention, to housing -- \$20 million increase

### **Department of Labor and Industries**

- Funds the Elevator, Contractor Registration, and Factory Assembled Structure programs from a new dedicated Construction Registration Inspection Account instead of the State General Fund -- \$0 savings

#### *Major Increases*

- Increases funding for information technology, managing workers compensation claims, assessing self-insured employer risk, expanding workplace safety inspections, improving access for people with limited English proficiency, expanding apprenticeships, debt service for a laboratory and training facility, and relocating field offices -- \$1 million GF-S increase, \$40.4 million increase from all funds

### **Information Technology**

- Provides new funding for information technology statewide -- \$61 million from the State General Fund, \$172 million from all funds

# Governor Inslee's Proposed 2017-19 Biennial Capital Budget

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## Background

The Governor's capital budget proposes to spend \$4.2 billion in total funds, \$2.4 billion of which is state bonds. Under the Governor's proposal, general state revenue increases by \$393 million in the 2017-19 biennium; this boosts the projected debt capacity for the biennium by \$28 million for a total of \$2.5 billion. This budget proposal reserves \$137 million of that capacity for possible supplemental budgets during the 2017-19 biennium. The Governor's budget assumes enactment of a Carbon Pollution Tax, effective in May, 2018; the capital budget proposes to spend \$398 million from the Carbon Pollution Reduction Account.

The budget is distributed among the functional areas as follows:  
*(Dollars in Millions)*

New Projects	Enacted 2015-17		GOV 2017-19	
	State Bonds	Total	State Bonds	Total
Governmental Operations	\$509	\$801	\$316	\$619
Human Services	\$128	\$178	\$262	\$454
Natural Resources	\$537	\$1,159	\$539	\$1,300
Higher Education	\$541	\$994	\$476	\$811
Public Schools	\$601	\$946	\$799	\$1,034
Other Education	\$17	\$17	\$12	\$12
<b>Projects Total</b> (Total may not add due to rounding)	<b>\$2,334</b>	<b>\$4,095</b>	<b>\$2,404</b>	<b>\$4,229</b>

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

### Public Schools

- K-12 school construction assistance program -- \$709 million including \$481 million in state bonds
- K-3 Class Size Reduction Grants -- \$270 million
- Skills centers (Cascadia, Tri-Tech, West Sound and minor works) -- \$28 million
- STEM Classrooms and Labs -- \$15 million
- Healthy Kids/Healthy Schools -- \$3 million

### Early Learning

The Governor's proposal includes \$26 million for the Department of Commerce to distribute grants for early learning facilities.

## Energy

The Governor's budget appropriates a total of \$212 million for energy efficiency and alternative energy programs; of this, \$187 million comes from the Carbon Pollution Reduction Account.

Major projects include:

- Commerce: Clean Energy Funds 3 -- \$60 million Carbon
- Commerce: Clean Manufacturing Grants -- \$75 million Carbon
- Commerce: Energy Efficiency and Solar grants -- \$20 million Carbon
- Commerce: Weatherization Matchmaker program--\$28 million Carbon
- Department of Enterprise Services: Campus Building Envelope Repairs and Next Century Capitol Campus -- \$5.6 million Carbon
- UW: Center for Advanced Materials and Clean Energy Research Test Beds--\$20 million state bonds

## Higher Education

The Governor's budget appropriates a total of \$704 million for capital expenditures in higher education, with \$476 million of this amount in state bonds. The major construction projects include:

- Burke Museum (\$24 million) -- University of Washington
- Population Health Sciences Building (\$20 million) -- University of Washington
- Plant Sciences Building (\$59 million) -- Washington State University
- Interdisciplinary Science Center (\$67 million) -- Eastern Washington University
- Big Bend Community College: Professional-Technical Education Center (\$35 million)
- Edmonds Community College: Science, Engineering, Technology Building (\$38 million)
- Highline Community College: Health and Life Sciences (\$23 million)
- Spokane Community College: Main Building South Wing Renovation (\$25 million)
- Whatcom Community College: Learning Commons (\$34 million)

The Governor's budget also authorizes alternative financing (Certificates of Participation) in the Community and Technical College system including:

- Clark College: Student Recreation Center (\$35 million)
- Cascadia College Parking Structure (\$30 million)
- South Seattle College Student Wellness and Fitness Center (\$10 million)
- Shoreline Community College: Student Housing (\$31 million)

## Housing, Community Projects and Infrastructure

\$100 million in state bonds is provided for the Housing Trust Fund in the Department of Commerce. The budget specifies allocations to eight targeted populations and \$10 million is provided for a competitive grant program for housing preservation.

The Governor's proposal transfers from the Public Works Assistance Account (PWAA) \$10 million each to the Drinking Water Assistance Account (Department of Health) and the Water Pollution Control Revolving Fund (Department of Ecology). The operating budget transfers \$252 million from the PWAA to the Education Legacy Trust Account. There is no public works project list.

\$59.8 million is provided for eighteen local community projects.

In addition, \$45 million is provided for the following competitive grant programs:

- Building Communities Fund Grants--\$18 million
- Building for the Arts--\$8.7 million
- Youth Recreation Facilities--\$6.9 million
- Youth Athletic Fields and Facilities--\$4 million
- Heritage Grants--\$5 million
- Historic Courthouse Grants--\$1.9 million.

### **Human Services, Corrections and Other State Facilities**

\$156 million is for the Department of Social and Health Services and includes:

- \$86 million for mental health which includes: \$27 million for maintaining the Eastern and Western State Hospitals and \$58 million for expanding community-based mental health treatment (this includes \$30 million in the Department of Commerce for expanding behavioral health community capacity).
- \$17 million for maintaining the Special Commitment Center on McNeil Island and expanding the King County Secure Community Transition Facility.
- \$25 million for Juvenile Rehabilitation Administration facilities including building an acute mental health unit at Echo Glen and opening youth vocational training programs at Pine Lodge.
- \$12 million for expanding capacity at the Children's Long-Term Inpatient Program (CLIP) at the Child Study and Treatment Center.
- \$33 million for minor works.

\$91 million for the Department of Corrections includes \$4.3 million to renovate Maple Lane Corrections Center to house 128 women in minimum custody.

### **Natural Resources**

In the Department of Ecology, \$163 million of the Carbon Pollution Reduction Account is provided for the following projects:

- 2015-17 Restored Stormwater Financial Assistance (\$30.1 million)
- 2017-19 Stormwater Financial Assistance Program (\$19.9 million)
- Catastrophic Flood Relief (Chehalis River) (\$50 million)
- Columbia Basin River Water Supply Development Program (\$31.8 million)
- Yakima River Basin Water Supply (\$31.8 million)

State bond funding in the Department of Ecology totals \$105 million and includes \$50 million for the Centennial Clean Water Fund grant program and \$38 million for Floodplains by Design.

The Governor's proposal solves the Model Toxics Control Act (MTCA) negative fund balance with the following, which include both operating and capital budget actions:

- Hazardous Substance Tax surcharge (new law revenue): \$52 million
- Cancelling Capital Reappropriations: \$14 million

- Operating Reductions, including holding staffing vacancies and limiting Public Participation Grants: \$16 million
- Delay repayment of a loan to the Clean-up Settlement Account: \$8 million
- Assume capital expenditures occur in 2019-21 rather than 2017-19: \$28 million

\$69 million is provided for the State Parks and Recreation Commission and \$115 million for Department of Fish and Wildlife.

The Carbon Pollution Reduction Account is provided for Forest Health and Hazard Reduction in the Department of Fish and Wildlife (\$15 million) and the Department of Natural Resources (\$30 million).

Within the Recreation and Conservation Office:

- Salmon Recovery Funding Board--\$80 million (\$50 million is federal funds)
- Puget Sound Acquisition and Restoration--\$50 million
- Puget Sound Estuary and Salmon Restoration--\$10 million
- Washington Wildlife and Recreation Program--\$100 million