

# **OVERVIEW OF GOVERNOR GREGOIRE'S 2006 SUPPLEMENTAL OPERATING AND CAPITAL BUDGET PROPOSALS**

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# OPERATING BUDGET

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## OVERVIEW

When the 2005 legislative session ended, the general fund budget assumed a \$178 million ending balance for the 2005-07 biennium. Thanks in large part to the state economy growing faster than predicted, the revenue forecast has been increased in each of the three official forecasts, resulting in a projected ending balance of \$1.45 billion.

In writing the 2006 supplemental budget, Governor Gregoire was faced with deciding how much of that \$1.45 billion to spend this biennium and how much to save for the 2007-09 budget. The Governor's budget identifies \$151 million of maintenance level items, \$397.9 million of new policy level items and sets aside \$905 million in four separate reserve accounts.

Major maintenance level items include \$87 million General Fund-State for K-12 education, primarily for increased enrollments and an increase in the I-732 cost of living adjustment; \$48 million General Fund-State to the Department of Corrections largely for increased caseloads; and \$26 million General Fund-State to DSHS Children's Administration for caseload and per capita cost increases.

At the policy level, the Governor's budget includes \$69 million General Fund-State for K-12 education, \$47 million of that for new WASL related efforts; \$49 million from the new Pension Funding Stabilization Account for payments toward the unfunded liability; \$11 million General Fund-State for the final phase of DOC's OMNI computer system; and \$46 million General Fund-State in Economic Services in the "TANF box" for low income childcare.

### **\$905 Million in Reserve Accounts**

The Governor's budget appropriates \$176 million into the new Pension Funding Stabilization Account, spending \$49 million this biennium and leaving \$127 million for future pension costs. The budget also appropriates \$464 million to a newly created Economic Stability Account. Finally the budget assumes \$113 million in the emergency reserve account and \$201 million in the unrestricted ending balance.

### **Spending Limit**

The budget explicitly exempts \$591 million of spending into the reserve accounts in FY 2006 from the expenditure limit. This new level of 2006 spending, including the \$591 million deposited in the reserve account, is then the basis for their FY 2007 expenditure limit. This combination results in well over \$1 billion dollars of new spending capacity over the course of the biennium.

# BALANCE SHEET

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## RESOURCES

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Beginning Fund Balance	\$852.6
November 2005 Forecast	26,335.7
Fund transfers and other adjustments	216.8
<b>2006 Supplemental: Governor's Revenue Proposals</b>	
Utility Tax Credit	(7.5)
Repeal 5% Penalty-Reporting Deadline	(18.3)
Other	(2.5)
<b>Revenue Totals</b>	<b>26,524.3</b>
Fund transfers	(16.8)
Transfer to Emergency Reserve Fund	(112.6)
<b>Total Resources</b>	<b>27,247.5</b>

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## APPROPRIATIONS

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2005-07 Appropriations	25,952.4
Governor's 2006 Supplemental Budget	
Maintenance and Other Expenditures	454.4
Appropriations to Reserves	640.0
<b>Spending Level</b>	<b>27,046.8</b>

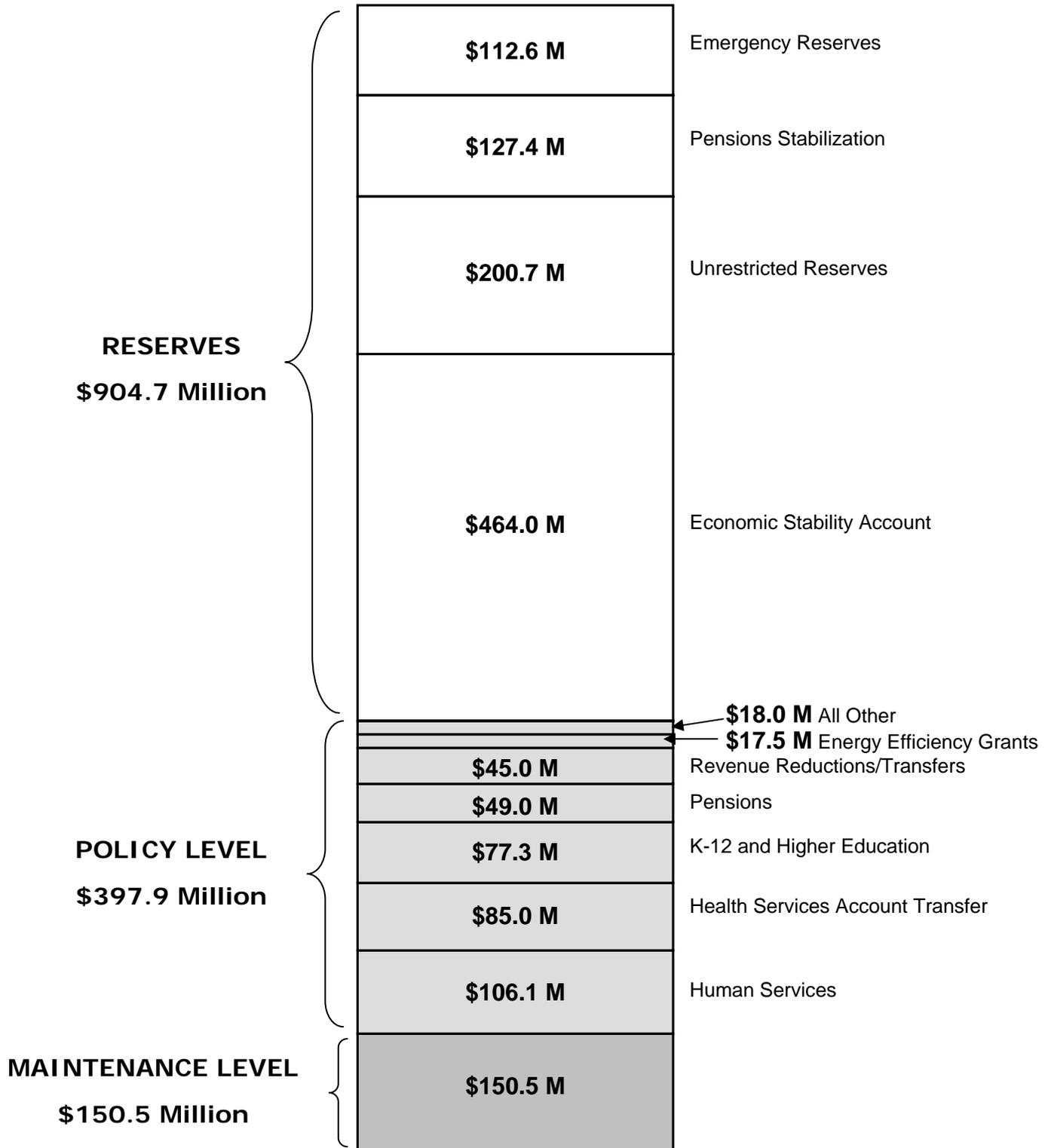
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## UNRESTRICTED BALANCE

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Projected Ending Fund Balance	\$200.7
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# PROPOSED 2006 SUPPLEMENTAL BUDGET



# MAINTENANCE LEVEL CHANGES

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## EDUCATION

### K-12 Education

The Governor's budget provides a total of **\$86.8 million** General Fund-State and **\$0.9 million** Student Achievement Fund for costs associated with additional students beyond the level assumed in original budget, an increase in the inflation factor used in providing an Initiative 732 cost-of-living-adjustment to K-12 employees, and other adjustments from the amounts assumed in the original 2005-07 budget.

### Higher Education

The Governor's budget provides an additional **\$8.9 million** General Fund-State in maintenance for higher education. This includes a \$10 million technical correction to the community and technical college that was caused by a transposition of numbers in the biennial budget, and reductions of \$6.8 million to correct an error in Washington State University's allocation for health care benefits and to allocate savings assumed in the biennial budget. Other changes include \$3.0 million for Initiative 732 cost-of-living increase for some staff at the community colleges, \$1.2 million for increased energy costs at some of the colleges, and \$1.1 million for maintenance and operation costs at Western Washington University and the community and technical colleges.

## HUMAN SERVICES

### Department of Corrections

The Governor's budget provides **\$47.5 million** General-Fund State, the primary component being \$22.2 million for mandatory caseload increases (\$16.7 million for community supervision and \$5.5 million for adult inmate population). Other major items include \$7.1 million for medical inflation, \$6.9 million for additional risk management and information services fees, and \$3.5 million for community-based DOSA. The community-based DOSA option allows the Court to waive the standard sentence and impose a term of residential treatment followed by community custody. Additional funding is needed for court-ordered examinations and 100 residential treatment beds, which were not anticipated in the 2005-07 budget.

### DSHS Children's Administration

The Governor's budget provides an additional **\$26 million** General Fund-State for maintenance level increases, including \$16.8 million in caseload and per capita cost changes (\$12.8 million for Adoption Support and \$4.0 million for Foster Care).

The Governor's budget also provides **\$6.2 million** to enable full implementation of Child Protection Service / Child Welfare Services (CPS/CWS) reform. For children receiving in-home services, as well as those in out-of-home care, funding is provided for 55 additional FTEs to increase the number of children who are seen every 30 days.

### **DSHS Developmental Disabilities**

The Governor's budget reduces funds for mandatory caseloads by **\$5.3 million** General Fund-State and \$4.4 million General Fund-Federal accordingly as a result of a decline in personal care caseloads.

### **DSHS Economic Services Administration**

The Governor's budget provides **\$8.1 million** General Fund-State to cover increased general assistance caseloads since the enactment of the 2005-07 budget. The increase in caseloads is somewhat mitigated by increased SSI recoveries. The Governor's budget also provides **\$8.6 million** General Fund-State to continue child support enforcement activities. The agency has indicated that it will not receive as much federal incentive funding.

### **DSHS Juvenile Rehabilitation Administration**

The Governor's budget assumes a reduction of **\$5.4 million** General Fund-State as a result of a lower caseload forecast.

### **DSHS Long-Term Care**

The Governor's budget provides a total of \$33.9 million (**\$16.6 million** General Fund-State) for the increased cost of medical benefits for persons employed by homecare agencies. An average of 4,000 workers per month are projected to be covered, at an average cost of \$474 per employee. In addition, the Governor's budget provides an additional **\$8.1 million** General Fund-State for the increase in individuals, beyond what was originally budgeted, who are receiving publicly-funded in-home care, at a higher cost per person.

### **DSHS Medical Assistance**

The Governor's budget provides **\$87.2 million** Health Services Account (\$47.9 General Fund-State savings) for the state cost of providing medical and dental care for the approximately 900,000 people covered by Medicaid and other state medical programs, which is about 1% higher than originally budgeted. The increase is primarily due to higher hospital costs per person served.

### **DSHS Mental Health**

The Governor's budget provides **\$7.9 million** General Fund-State to substitute for lower Medicare and private insurance revenues in the state psychiatric hospitals. Such third-party revenues are down because fewer elderly individuals, and more uninsured non-elderly adults, are being served in the hospitals.

## **GENERAL GOVERNMENT**

### **Department of Community, Trade and Economic Development**

The Governor's budget includes \$10.5 million General Fund-Federal for increased disbursement rates of Community Services Block Grants (CSBG) to provide assistance to local communities to alleviate poverty and revitalize communities. This \$10.5 million includes \$2 million in new federal funding for the remediation of lead-based paint hazards in low-income dwellings.

The Governor's budget also provides **\$13.8 million** Washington Housing Trust Account to assist the Housing Trust Fund Operating and Maintenance Program meet the increasing demand for housing subsidies and additional housing projects.

## **OTHER**

Other maintenance level changes consist of technical corrections to the original appropriations, including a reduction of **\$35 million** in bond retirement and interest payments resulting from changes in interest rates and the timing of bond sales; **\$4.1 million** General Fund-State of additional contributions to the judicial retirement system; and **\$1.9 million** General Fund- State for additional fire mobilization costs for the state patrol.

# POLICY LEVEL CHANGES

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## EDUCATION

### K-12 Education and Early Learning

The Governor's budget provides a total of **\$68.6 million** General Fund-State for K-12 policy enhancements and increases. The items funded include:

- \$38.5 million for a new program that begins in July 2006 to help students who have been unsuccessful in one or more 10th grade Washington Assessment of Student Learning (WASL) tests in reading, writing and mathematics.
- \$8.6 million for a variety of items related to the Washington Assessment of Student Learning (WASL). These include: (1) four initiatives specifically targeted at math remediation, including the development of a new 10th grade mathematics assessment tool that presents the mathematics essential learnings in segments; (2) additional costs associated with returning the WASL by June 10th of each year; (3) funding for FY 2007 to develop and administer the state-required science WASL; and (4) efforts aimed at getting additional English Language Learners to pass the WASL.
- \$6.5 million for one-time grants to school districts dealing with recent increases in natural gas and heating oil rates.
- \$5.5 million for a one-time increase in the student transportation funding rate to help districts with increased diesel fuel prices rates.
- \$2.9 million for development of a statewide database of longitudinal student information.
- \$2.6 million to provide for an 8.5 percent increase in the K-12 employee health benefit funding rate from the 2005-06 school year to the 2006-07 school year, up from the 8 percent increase provided in the original budget.
- \$1.1 million for additional Attorney General's Office costs associated with a lawsuit dealing with special education funding.
- \$0.7 million General Fund-State and \$1.0 million federal funding is provided in the Military Department for the Washington Youth Academy, which when it opens in FY 2008 will provide intensive academic and work skills training to 16-to-18-year-old students at high risk of dropping out of school or who have already quit.

### Department of Early Learning

The Governor's budget proposes to create a new cabinet-level department that would be responsible for improving day care and pre-school centers. One-time funds of **\$1.5 million** from General Fund-State are provided to cover the program transition and establish a headquarters office for the new department.

## **Higher Education**

The Governor's budget includes **\$9.5 million** General Fund-State for higher education colleges, universities, and related state agencies. Included in this new appropriation is \$4.6 million to the community and technical colleges for the maintenance and operation costs of new facilities opening during the biennium including facilities that were financed with Certificates of Participation and \$2.4 million to the University of Washington to conduct life science research.

## **HUMAN SERVICES**

### **Department of Corrections**

The Governor's budget provides **\$11.3 million** General Fund-State for the final phase of the construction and implementation of the Offender Management Network Information system (OMNI), which replaces the existing 20-year old Offender Based Tracking System (OBTS). The legislature approved partial funding of the department's biennial request providing \$11.3 million in FY 2006. This amount is the remainder needed to complete the project.

### **Department of Health**

The Governor's budget provides **\$5.0 million** Health Services Account for new childhood vaccinations against whooping cough, chickenpox, and meningitis; and to cover increased prices for existing vaccines.

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

The Governor's budget provides **\$1.4 million** General Fund-State to cover costs associated with Supervised Visitation that are higher than originally forecast. Additionally, the Governor's budget provides **\$3.8 million** General Fund-State to replace the current child welfare information system with a Statewide Automated Child Welfare Information System (SACWIS). The department will hire an implementation vendor and perform initial implementation work. The total project cost is estimated to be \$11.8 million and is scheduled for completion in the beginning of 2009.

### **DSHS Economic Services**

The Governor's budget provides an increase of **\$46.0 million** General Fund-State to partially fund a \$100 million deficit in the WorkFirst program, in order to continue subsidies for low-income childcare and childcare for recipients of TANF (Temporary Assistance to Needy Families). The rest of the deficit will be covered by a combination of stronger sanctions for non-participants, efficiencies, and better application of best practices across regions, as well as federal incentive funds and WorkFirst reserves.

### **DSHS Mental Health**

The Governor's budget provides a total of \$9.7 million (**\$9.2 million** General Fund-State) to implement a court judgment in the case of *Pierce County vs. DSHS*. The total includes \$7.5 million to open a new ward at Western State Hospital to serve patients who would previously have been treated in community hospitals for more than 17 days; and \$2.2 million to reimburse

Pierce County, with interest, for the cost of having previously served such patients in community hospitals.

The Governor's budget also provides **\$1.3 million** General Fund-State to expand capacity to treat legal offenders at Eastern State Hospital by 12 beds.

### **DSHS Medical Assistance**

Medical coverage costs for low-income children ineligible for Medicaid because of their immigration status are higher than originally projected. As a result, the Governor's budget proposes to spend approximately **\$2.2 million** less on determining their eligibility, in order to cover these higher service costs. There is no net change in state costs.

The Governor's budget provides funding for eight additional staff to reduce inappropriate use of certain prescription drugs, and to identify and terminate use of providers with poor medical or business records. A savings of **\$3.1 million** General Fund-State is expected.

### **Health Care Authority**

The Governor's budget provides \$1.2 million (**\$0.4 million** General Fund-State) to establish an inter-agency committee to study evidence-based purchasing methods and make recommendations to the state's major health care purchasers. Other participating agencies are the Department of Social and Human Services, the Department of Labor & Industries, the Department of Corrections, and the Department of Veterans' Affairs. Recommendations will emphasize health care procedures and technologies that have been shown to be both effective and cost-efficient.

## **GENERAL GOVERNMENT**

### **Department of Community, Trade and Economic Development**

The Governor's budget provides **\$2.0 million** General Fund-State for aerospace industry outreach. This includes \$0.4 million General Fund-State for a new position to complete the requirements of the Boeing/state Master Site Agreement and implement a statewide aerospace industry strategy, as well as \$1.6 million General Fund-State for lease costs associated with the Employment Resource Center required by the Master Site Agreement negotiated in 2003.

The Governor's budget also proposes to transfer **\$7.6 million** from the Public Service Revolving Fund to the Low-Income Home Energy Assistance Program (LIHEAP), due to extraordinarily high winter energy costs. LIHEAP is a federally funded block grant established to help low income households make home heating more affordable. The Governor proposes expedited executive request legislation to allow for this fund transfer.

The Governor's budget absorbs the \$2.3 million reduction in federal funding for the justice assistance grant (JAG) in FY 2007 by eliminating JAG funded grants to youth violence prevention programs (\$0.63 million), small municipalities (\$0.46 million), domestic violence legal advocacy (\$0.35 million), and juvenile drug courts (\$0.35 million).

### **Department of Information Services**

The Governor's budget provides **\$3.0 million** Data Processing Revolving Account for development of a new disaster recovery computer center in Union Gap. The center will allow a more rapid resumption of government services in the event of a loss of computer servers in Olympia.

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

The Governor's budget provides **\$0.9 million** Electrical License Account to hire additional electrical inspectors in order to conduct 89% of all electrical inspections within 24 hours. A total of **\$1.2 million** Accident Account-State, Medical Aid Account-State will fund new audit technologies for detecting employer fraud and abuse within the workers' compensation system. In addition, **\$1.2 million** Public Safety and Education Account is provided to the Crime Victims' Compensation program to cover an increase in the reimbursement rate for in-patient hospitalizations.

### **Department of Retirement Systems**

The Governor's budget proposes to utilize approximately **\$49 million** from the newly-created Pension Funding Stabilization Account in lieu of General Fund-State for payments towards the unfunded liabilities in FY 2007. Plan 1 unfunded liability amortization payments are phased-in over a period of three years, beginning with employer contributions of 0.87% in the Public Employees' and School Employees' Retirement Systems and 1.29% in the Teachers' Retirement System in FY 2007.

### **Department of Personnel**

The Governor's budget provides **\$7.4 million** Data Processing Revolving Account to the department to cover the costs associated with delays in the development of the new Human Resource Management System (HRMS). The HRMS project was delayed by four months as staff resources were diverted to make modifications to the existing PAY1 payroll system. The Governor's budget also provides **\$6.4 million** Department of Personnel Service Account to cover the increased cost of developing the new HRMS. The department revised the scope and schedule of the project.

### **Employment Security Department**

The Governor's budget establishes a new fraud detection unit with \$1.9 million in federal funds. The unit will identify, prosecute, and collect from people filing inaccurate or fraudulent unemployment claims that result in unemployment benefit overpayments. The Department will also pursue employers that do not pay their unemployment insurance taxes.

### **Military Department**

The Governor's budget provides **\$0.5 million** General Fund-State for tsunami warning radios. Ten all-hazard alert broadcast radios will be installed along Washington's coast to notify residents in the event of a tsunami.

## **Office of Public Defense**

The Governor's budget provides a total of **\$27 million** General Fund-State for additional indigent defense services. This includes \$11 million in funding to expand the Parents Representation Program to all counties in the state (currently 30 percent of counties are included in the program) and \$16 million in funding to local governments for indigent defense services at the trial court level.

## **NATURAL RESOURCES**

### **Department of Ecology**

The Governor's budget provides **\$0.5 million** General Fund-State and \$41.5 million other funds (**\$28.6 million** State Toxics Control Account and various other accounts) to improve and protect Puget Sound. This initiative will begin cleaning up toxic sites around Puget Sound, as well as state-owned aquatic lands; remove creosote lots from beaches and shorelines; prevent spills of oil and other hazardous materials; restore estuaries and salmon habitat; provide grants and loans to homeowners to repair and replace failing septic systems; and make improvements to state parks' wastewater systems.

The Governor's budget also provides **\$3.9 million** (State Toxics Control Account and various other accounts) to reduce and eliminate the use and production of toxic materials such as mercury and Polybrominated Diphenyl Ethers (PBDEs) and to expand efforts to clean up soils contaminated with unhealthy lead and arsenic at public schools and playgrounds.

### **Department of Fish and Wildlife**

The Governor's budget provides **\$5.4 million** (\$0.5 million General Fund-State, \$4.9 million General Fund-Federal, and various other funds) for increasing marking of hatchery salmon. Marking increases recreational fishing opportunities by making it possible for fishers to recognize and release wild fish while harvesting more abundant hatchery stocks.

### **Department of Natural Resources**

The Governor's budget provides **\$3.1 million** General Fund-State and **\$2.9 million** Landowner Contingency Forest Fire Suppression Account to various state agencies for costs associated with the 2005 fire season. In addition, an increase of **\$4.0 million** Disaster Response Account-State (of which \$1.6 million is provided from General Fund-State), is provided to the Washington State Patrol for fire mobilization costs or to the Department of Natural Resources for fire suppression costs.

## **SPECIAL APPROPRIATIONS**

### **Life Sciences Discovery Authority**

The Governor's budget provides an additional **\$1.0 million** General Fund-State for the start-up costs of the Life Sciences Discovery Fund Authority.

### **Energy Efficiency Grants (Bioenergy)**

The Governor's budget provides **\$17.5 million** General Fund-State for a Bioenergy Revolving Loan Account to provide low-interest loans for capital costs for firms constructing facilities to manufacture biodiesel and other alternative fuels (a policy bill will be introduced).

# PROPOSED REVENUE LEGISLATION

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## **Energy Initiative - Utility Tax Credit -- \$7.5 Million General Fund- State Decrease**

A public utility tax credit is available to gas and electric utilities for contributions to low-income home energy assistance programs and for billing discounts to low-income persons. The total amount of credits allowed statewide is increased temporarily by \$6.0 million. A new credit is provided for gas companies for natural gas conservation programs.

## **Tax Penalty and Payment Date Revisions -- \$18.3 Million General Fund-State Decrease**

Taxpayers who report and pay taxes monthly are required to report and pay taxes by the 25th of the month rather than the 20th. The five percent assessment penalty, added to tax determined to be due by the Department of Revenue, is eliminated.

## **Excise Tax Relief for Aerospace Businesses -- \$3.0 Million General Fund-State Decrease**

The sales and use tax exemption for the sale and use of computers, computer peripherals, and software for aerospace manufacturers is extended to non-manufacturers if the items are used primarily in the development, design, and engineering of commercial airplanes or components of commercial airplanes. The business and occupation (B&O) tax credit for preproduction development spending for aerospace manufacturers is extended to non-manufacturers in the field of aeronautics. The reduced B&O tax rate of 0.275 percent on the sale and repair of transportation equipment used in interstate or foreign commerce by certain FAA certificated repair stations that expires July 1, 2006, is increased to 0.2904 percent and extended until July 1, 2011. The B&O tax credit for property taxes paid on property used in manufacturing commercial airplanes or components of commercial airplanes is extended to include a credit for leasehold excise taxes paid on a building constructed after January 1, 2006, and the land on which it is located.

## **Streamlined Sales and Use Tax Agreement**

Proposed legislation will make Washington fully compliant with the Streamlined Sales and Use tax agreement. This legislation provides incentives for remote sellers to voluntarily collect sales or use tax on in-state sales. One major effect of this bill is to change sales and use tax sourcing requirements from origin based sourcing to destination based sourcing beginning July 1, 2007. This will create revenue shifts between local jurisdictions. The bill provides \$25 million annually to mitigate these revenue shifts less any revenue gains mitigated jurisdictions receive. The bill will result in a general fund loss of \$5 million in the 07-09 biennium, taking into account mitigation payments to local jurisdictions offset by increased state revenues from voluntary compliance.

# SUPPLEMENTAL CAPITAL BUDGET

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## BACKGROUND

The original 2005-07 biennial capital budget appropriated \$1.6 billion in state bonds, including \$213.0 million in Gardener-Evan's bonds. The bond authorization bill enacted to support the capital budget included \$30.0 million of added borrowing authority to cover unanticipated and emergent needs that might be require for a supplemental capital budget. The Governor's 2006 supplemental capital budget spends up to that existing bond authority and therefore does not require a new bond bill.

## PROPOSAL

### **Human Services and Correctional Institutions -- \$15.0 million in bonds**

The Governor's budget proposes to renovate eleven cottages at Echo Glen Children's Center for a total cost of \$5.8 million. A total of \$3.9 million is provided for the state share of the upgrade to the wastewater treatment plant in Buckley for the Rainier School. In addition, \$1.9 million (includes \$1.0 million other funds) is provided for the design of added capacity at the Special Commitment Center on McNeil Island and \$1.3 million is provided for the design of a new intensive management unit at Green Hill School. The Governor's budget also proposes to replace the roof on a correctional industry facility at the state penitentiary for a total cost of \$3.5 million.

### **Education -- \$6.0 million in bonds and \$72.0 million in other fund spending authority**

The Governor's budget provides \$63.0 million in spending authority for a certificate of participation (COP) for WSU's Biotechnology/Life Sciences 2 facility. The COP will be paid for with a portion of the earnings from WSU's permanent fund. A total of \$8.1 million is provided for a new physical education facility at the School for the Blind and \$1.0 million is provided for the cafeteria and maintenance building at the School for the Deaf. The Governor's budget also proposes to replace a failed chiller at Central Washington University for a total cost of \$1.9 million. In addition, the Governor's budget provides \$1.0 million for planning to expand the Western Washington Campus to the Bellingham waterfront.

### **Natural Resources -- \$7.0 million in bonds and \$87.0 million in other funds**

The Governor's budget provides \$2.5 million in bonds to improve early response to oil spills by creating equipment caches. In addition, \$2.5 million is provided for the Department of Fish and Wildlife to help restore estuaries in Puget Sound and \$1.7 million is provided for the department to replace fencing destroyed by wildfire. The Governor's budget also directs \$37.9 million in available state and local toxic control account funding for Puget Sound clean-up and other projects to remediate toxic waste.