

OVERVIEW OF GOVERNOR GREGOIRE'S 2007-09 BIENNIAL OPERATING AND CAPITAL BUDGET PROPOSALS



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OPERATING BUDGET

OVERVIEW

The legislature adjourned after the 2006 session with \$228 million in the general fund ending balance. Additionally, the legislature set aside \$825 million in three specific accounts: \$350 million in the pension stabilization account, \$200 million in the Heath Services account, and \$275 million in the student achievement account. \$75 million was spent during the 2005-07 biennium leaving \$750 million for this budget.

There have been three official revenue forecast adjustments since the 2006 session that have added a total of \$923 million dollars to the ending balance.

Therefore, Governor Gregoire had approximately \$1.9 billion in these various reserve accounts when she began to build her 2007-09 budget.

The Governor's budget includes approximately \$1 billion for compensation (including \$381 million for the I-732 COLAs), as well \$294 million in K-12/Early Learning investments and \$241 million for vendor rate increases.

The most significant budget savings, \$106 million, comes from the proposal to repeal gain sharing after the projected 2008 distribution.

The Governor's budget proposes leaving a total \$606 million in reserve: \$289 million in the ending balance, an additional \$55 million from the alternative judicial budget savings, and \$262 million in the new budget stabilization account, described below. The money set aside in the three accounts last year has been spent and is no longer available.

Budget Stabilization Account

The Governor proposes to establish, by constitutional amendment, a Budget Stabilization Account (which replaces the existing Emergency Reserve Fund). The Governor's budget deposits into the account \$128 million in Fiscal Year 2007, \$134 million in Fiscal Year 2009, and one percent of general state revenues each year thereafter. Moneys may be withdrawn from the account with a simple majority vote of the Legislature if the Governor declares an emergency or annual state employment growth is forecasted to be less than one percent. At other times, moneys may be withdrawn from the account with a 60 percent vote of the Legislature. Investment earnings are retained in the account. When the account balance reaches 10 percent of annual state general revenues, the excess balance is transferred to the Education Construction Fund.

BALANCE SHEET

2007-09 Balance Sheet General Fund-State Dollars in Millions

| RESOURCES | |
|--|-------------------|
| Beginning Fund Balance | \$814.7 |
| November 2006 Forecast | 29,533.3 |
| Transfer to Budget Stabilization Account | (134.0) |
| Streamlined Sales and Use Tax Proposal | (5.9) |
| Department of Revenue Request Legislation | (2.9) |
| Liquor Control Board Budget Driven Revenue | 11.0 |
| Transfer from Treasurer's Service Account | 15.0 |
| Total Resources (including beginning fund balance) | \$30,231.2 |
| EXPENDITURES | |
| Governor's Proposed 2007-09 Budget | \$29,942.7 |
| RESERVES | |
| Projected General Fund Ending Balance | \$288.6 |
| Judicial Budget Savings | 55.0 |
| Budget Stabilization Account | 262.0 |
| Total Reserves | \$605.6 |

PROPOSED 2007 SUPPLEMENTAL BUDGET

**2005-07 Revised Budget (2007 Supp)
Governor Proposed Supplemental
General Fund - State
(Dollars in Thousands)**

Supplemental Adjustments

| | |
|----------------------------|-----------------|
| Emergency Fire Suppression | \$39,201 |
| Medical Assistance | 31,685 |
| Other | 8,504 |
| K-12 Enrollment Changes | (41,226) |
| Total | \$38,164 |

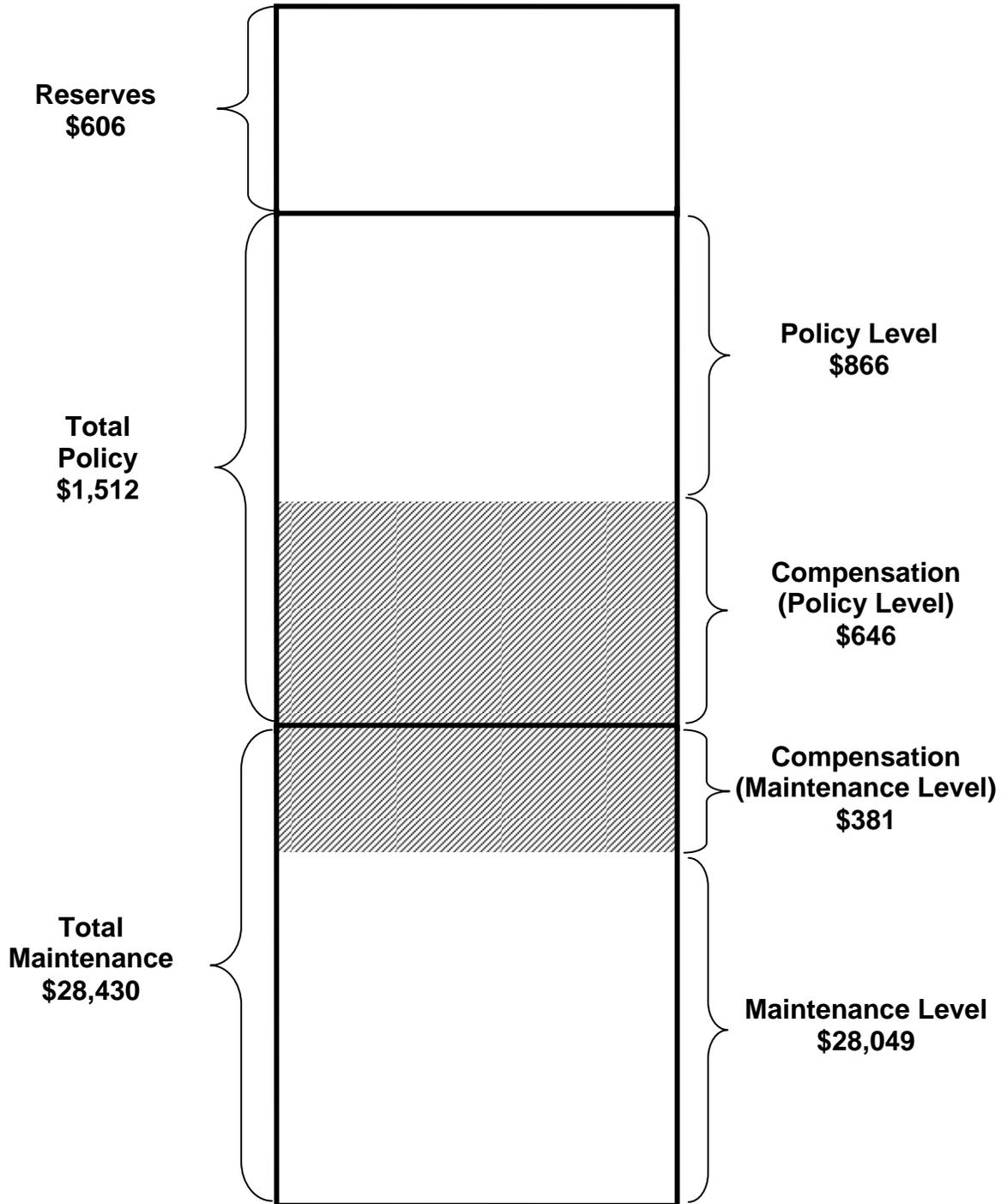
Appropriations to Other Accounts

| | |
|---|------------------|
| New Budget Stabilization Account Number | \$128,000 |
| Education Legacy Trust Account | 100,000 |
| Tobacco Prevention & Control Account | 50,000 |
| Disaster Response Account | 9,700 |
| Equal Justice Account | 3,000 |
| Public Safety and Education Account | 3,000 |
| Total | \$293,700 |

Grand Total **\$331,864**

PROPOSED 2007-09 OPERATING BUDGET

(Dollars in Millions)



PROPOSED 2007-09 OPERATING BUDGET

COMPENSATION

Gain-Sharing Revision Savings

The Governor's budget includes \$105.8 million in General Fund-State savings resulting from changes to gain-sharing benefits in Plans 1 and 3 of the state's retirement systems. The Governor's proposal repeals gain-sharing after the projected 2008 distribution. Members of Plan 3 of the Public Employees', Teachers, and School Employees' Retirement Systems (PERS, TRS, and SERS) that transferred from Plan 2 are given the option to participate in a program that guarantees a benefit equivalent to the defined benefit in Plan 2 for periods of future service. New members of PERS, TRS and SERS are allowed to choose whether to enroll in Plan 2 or Plan 3.

Collective Bargaining Agreements

The Governor's budget provides an additional \$301.0 million General Fund-State to fund the salary provisions of the collective bargaining agreements reached with the labor unions representing state employees. The specific terms vary from contract to contract but generally include across the board salary increases of 3.2 percent effective July 1, 2007 and 2.0 percent effective July 1, 2008. The terms of the contracts also include continuation of the 1.6 percent salary increase that was provided on July 1, 2006 and additional increases for employees who are compensated at less than 75 percent of market rates.

Non-Represented Staff Salary Increases

The Governor's proposal provides an additional \$131.5 million General Fund-State to provide salary increases for non-represented employees in general government and higher education. These include across the board increases of 3.2 percent effective September 1, 2007 and 2.0 percent effective September 1, 2008. The budget also provides funds for additional increases for employees who are compensated at less than 75 percent of market rates.

Retain 2007 COLA (Non-Represented Employees)

The Governor's budget provides an additional \$44.7 million General Fund-State for the continuation of the 1.6 percent salary increase that was provided to non-represented general government and higher education employees on September 1, 2006.

Employee Health Benefits

The Governor's proposal includes an additional \$39.5 million General Fund-State to provide health benefits for state employees in higher education and general government. \$15.0 million of the increase funds benefits for employees represented by labor unions, in compliance with the agreement negotiated between the unions and the Governor's Labor Relations Office. The contract calls for the state to pay for 88 percent of employee premium costs. Funding rates resulting from this cost sharing arrangement are currently estimated to be \$707 per employee

per month in FY 2008 and \$732 per employee per month in FY 2009. This increase also provides funding at the same rates for non-represented employees' health benefits.

Initiative 732 COLA for Community and Technical College Employees

The Governor's budget provides an additional \$31.5 million General Fund-State for salary increases required by Initiative 732 for eligible community and technical college employees. These increases are currently estimated at 3.4 percent for the 2007-08 school year and 2.6 percent in the 2008-09 school year.

K-12 Compensation

In total, the Governor's budget includes \$485.6 General Fund-State million for compensation related increases for K-12 staff. Some of the items funded include:

- \$349.7 million for costs associated with the Initiative 732 required salary increases of 3.4 percent in the 2007-08 school year and 2.6 percent in the 2008-09 school year for state-funded K-12 staff.
- \$66.4 million for increased costs associated health care benefits for state-funded K-12 staff.
- \$59.9 million for salary adjustments to partially "equalize" the differential amounts that districts currently receive for the three kinds of K-12 staff (certificated instructional staff, classified staff, and administrators). By the end of the biennium, this will have the effect of reducing the number of "grandfathered" districts for purposes of certificated instructional staff salary allocations from 34 to 13, and it will also increase the number of districts receiving a higher minimum classified staff and administrator staff salary allocations.
- \$7.5 million for changing the National Board bonus from a flat amount to 10 percent of the teacher's base salary, and providing additional bonus amounts if they teach at a challenging school or teach math/science.

EDUCATION

Department of Early Learning

The Governor's proposal includes \$44.2 million General Fund-State for policy enhancements in the Department of Early Learning. Highlights include:

- \$26.9 million General Fund-State for the Early Childhood Education and Assistance program to purchase an additional 1,000 slots per year and to provide vendor rate increases of eight percent per year.

- \$9.3 million General Fund-State to continue development and begin limited implementation of a quality rating and improvement system for state-funded child care providers.
- \$4.8 million General Fund-State to develop and distribute parent, family, and caregiver supports such as providing care giving booklets; play and learn resources; parenting education workshops; and play and learn groups; and a public awareness campaign.
- \$2.1 million General Fund-State to cover DEL's implementation costs related to the Child Care Provider Collective Bargaining Agreement. (The funding for the Child Care providers is included in the Economic Services budget).

Higher Education

The Governor's budget proposes \$551.8 million of additional state spending on the state's public colleges and universities, an 18 percent increase from the current biennial level. In addition to \$214.2 million of state funding for faculty and staff compensation increases, major proposals include:

- \$100.2 million state and \$40.6 million of increased tuition revenues to provide approximately 4,200 additional enrollment opportunities each year of the biennium in the state's 34 community colleges and six public universities.
- \$28.8 million to adjust the value of the State Need Grant so that it will continue to cover most of the cost of tuition and fees for students whose family incomes are below 66 percent of the state median (\$46,500 for a family of four).
- \$19.7 million to enable the state's community and technical colleges to freeze tuition at current levels. The University of Washington and Washington State University would be authorized to increase tuition by up to 7 percent each year, and the four regional universities by up to 5 percent each year. Those tuition increases will provide the 4-year universities with \$47 million of additional revenue from resident undergraduates and with \$99 million of additional revenue if the same increases are applied also to graduate students and non-resident undergraduates.
- \$18.4 million to support additional research at the University of Washington and at Washington State University. Components include \$6.9 million to supplement the new Gates Foundation-funded Department of Global Health at the University of Washington; \$6.0 million for research in bio-fuel and other agricultural technologies at Washington State University; \$1.0 million to help researchers at the University of Washington and Washington State University bring new technologies to market; \$3.3 million for utilities and maintenance of newly-constructed research space at the University of Washington; and \$0.7 million to establish and support a State Academy of Sciences that will provide the latest in scientific information to inform state policy decisions.
- \$15.1 million to develop and expand professional medical education in Spokane. The University of Washington and Washington State University will jointly provide the first year of their medical school education for 20 students. The University of Washington and Eastern Washington University will jointly provide the first year of dental school for 8

students. Washington State University will establish a new doctoral program for nurse educators, and will expand its existing master's in nursing program.

- \$14.0 million for a new program that would provide scholarships equivalent to five years of tuition and fees at a Washington public university for students who score well on the math or science WASL, and who major in a high-demand math or science field. The state funds are to be matched with equivalent private donations.
- \$13.7 million to pay for utilities and maintenance on new state-funded buildings.
- \$7.5 million to increase salaries for part-time community college faculty to a level closer to the amounts paid to their full-time faculty peers.
- \$5.0 million to provide a down-payment on a new state program that would guarantee four year, full tuition and fee scholarships beginning in 2012 for students who were in free and reduced-price lunch programs in the seventh grade, and who maintain a C average and have no felony convictions.

K-12 Education

The Governor's K-12 maintenance level budget reflects an increase of \$36.8 million General Fund-State. This spending growth is the result of increased costs associated with K-12 inflation and the need to backfill reduced federal funds being partially offset by lower than expected costs associated with K-12 enrollment. (It should be noted that this is the slowest growth in K-12 enrollment in over twenty years.)

The Governor's K-12 maintenance level budget also includes \$139.0 million Student Achievement Fund for the final "step-up" in Initiative 728 per student distributions. As a result of this increase, the allocations to school districts will increase from \$375 per student in the 2006-07 school year to \$450 per student in the 2007-08 school year and \$459 per student in the 2008-09 school year.

The Governor's budget also provides a total of \$304.5 million in General Fund-State and related funds for K-12 policy enhancements and increases. Some of the more significant items include:

- \$90.2 million to take the average class size in grades 6-12 to 25 students per class for math classes in the 2007-08 school year and for math and science classes in the 2008-09 school year.
- \$39.4 million for a variety of professional development activities related to improving the instruction in math and science at both the secondary and elementary school levels.
- \$21.6 million for other activities aimed at increasing the number of math and science teachers and providing additional regional and other assistance to school districts in math and science instruction and curricula.
- \$12.1 million for the LASER program to reach an additional 1,000 classrooms each year. LASER provides complete toolkits for hands-on science projects, teacher training, research-based models for learning, and community support.

- \$12.1 million to expand the Promoting Academic Success program to students in the twelfth grade who have not yet passed the WASL.
- \$60.5 million for enhancing the allocation rate for three- and four-year-olds being served in the special education, excluding these students from being counted against the calculation of the 12.7 percent funding index for school districts, and creating a new category within the Safety Net for districts located in communities that draw a large number of families in need of special education services.
- \$41.6 million to phase-in all-day kindergarten beginning with students eligible for free and reduced price lunch in the highest poverty schools. The top 10 percent highest poverty elementary schools will be eligible in the 2007-08 school year and the top 20 percent highest poverty elementary schools will be eligible in the 2008-09 school year. Schools agreeing to participate will receive funding for all-day kindergarten for students eligible for free and reduced price lunch.
- \$9.4 million for demonstration project grants to ten schools to allow them to implement best practices in developmental learning in kindergarten through third grade.

HUMAN SERVICES

Department of Corrections

The Governor's budget increases funding for the Department of Corrections (DOC) by \$110.9 million General Fund-State and 457 FTEs to reflect increased adult offender population and community supervision projections as adopted by the Caseload Forecast Council in November 2006 and new offender capacity. The funding to staff new offender capacity funded in previous capital budgets includes \$34.4 million for 1,792 beds at Coyote Ridge Corrections Center, \$2.3 million for 80 beds at Larch Corrections Center, \$3.8 million for 100 beds at Cedar Creek Corrections Center and \$6.9 million for 120 beds at Mission Creek Corrections Center. The budget provides \$28.9 million for Rent-a-beds and other emergency measures. Finally, the budget provides \$27.6 million for the increased caseload for community supervision.

The Governor's budget provides \$5.5 million General Fund-State and 26.9 FTEs for dedicated training staff; training of new custody staff shifts from multiple sites to Olympia, Monroe and Walla Walla.

The Governor's proposal provides \$24.6 million General Fund-State for an Offender Re-entry Initiative. The initiative emphasizes education, workforce skills, and treatment programs that address dependency and mental health issues.

The Governor's budget also provides \$2.1 million General Fund-State for the Department to establish two 60-bed work release centers in the 2007-09 biennium. The operating budget funding will pay debt service on \$17 million in Certificate of Participation authority provided in the Governor's proposed capital budget.

Department of Health

The Governor's budget provides total funding of \$80.0 million (\$57.1 million state), an increase of 8.8 percent over the 2005-07 biennium. The primary components are:

- \$26.3 million in state funds for maintenance and expansion of the state's universal childhood vaccine system. Most of this funding supports the addition of two vaccines that were recently approved under the federal Vaccines for Children program: one for rotavirus, the leading cause of infant diarrhea, and human papilloma virus (HPV), recently shown to cause around 70 percent of all cervical cancer.
- \$10.0 million in state funds for investments in local health jurisdictions toward improving the investigation of communicable diseases statewide.
- \$3.7 million in state funds for shellfish monitoring and funding to local health jurisdictions to implement their onsite sewage system management plans as part of the Governor's Puget Sound Initiative.

DSHS - Aging and Disability Services

The Governor's budget provides \$223.2 million (\$109.7 million General-Fund-State) for the following vendor rate increases:

- \$49.4 million General Fund-State and \$52.2 million General-Fund-Federal to cover the cost of the 2006 collective bargaining agreement negotiated between the Governor and individual providers of Medicaid-funded home care. Wages increase to \$10.22 per hour by the end of the biennium and health care contributions increase from \$532 per month to \$585 per month effective July 1, 2008. Funding is also provided for differential pay for trainers and mentors, increased vacation accrual, and travel reimbursement under the contract. (These amounts also include less than \$1.0 million total funds for clients in other parts of DSHS.)
- \$21.1 million General Fund-State and \$21.9 million General Fund-Federal for agency home care workers who provide services for Medicaid-funded clients will receive health benefits and wage increases equivalent to those negotiated for individual home care providers above. (This also includes funds for clients in other parts of DSHS.)
- \$15.0 million General Fund-State and \$15.0 million General Fund-Federal for Medicaid reimbursement rates for skilled nursing facilities, which will increase by 3.2 percent on July 1, 2007, and by 2 percent on July 1, 2008. Nursing facilities provide long-term care to about 11,000 low-income individuals with disabilities and the elderly.
- \$14.7 million General Fund-State and \$14.6 million General Fund-Federal for Medicaid reimbursement rates for adult family homes and boarding homes (including assisted living), which will increase by 3.2 percent on July 1, 2007, and by 2 percent on July 1, 2008. The Governor's budget also provides \$19.5 million (\$9.5 million General Fund-State, \$10.0 million General Fund-Federal) for rates for supported living providers which will increase by 3.2 percent on July 1, 2007, and by 2 percent

on July 1, 2008. Supported living providers assist individuals with developmental disabilities who receive residential and habilitative services under the Medicaid Home and Community-Based Waiver program.

Long-Term Care

The Governor's maintenance level budget provides \$16.4 million General Fund-State and \$17.2 million General Fund-Federal to reflect increased caseloads for in-home and residential care and decreased nursing home caseloads. The budget also provides \$41.7 million General Fund-State and \$41.1 million General Fund-Federal to reflect the increased cost per person of providing in-home care and other services.

The Governor's policy level budget provides \$8.1 million General Fund-State and \$3.2 million General Fund-Federal for expanded services and service improvements, including:

- \$2.7 million General Fund-State and \$2.8 million General Fund-Federal for increased quality assurance for adult family homes, supported living monitoring and enforcement, and client safety investigations at adult family homes and boarding homes.
- \$2.3 million General Fund-State to provide support for caregivers for 1,200 additional clients beginning in fiscal year 2009, and to create a new assessment to measure caregiver stress.
- \$2.2 million in General Fund-State for a capped, state-only funded program to provide nursing facility services for 97 legal aliens who need long-term care after receiving acute care under the Alien Emergency Medical program (AEM). AEM allows federal funding for acute care, but does not cover necessary rehabilitative long-term care afterwards.
- \$0.5 million General Fund-State and \$0.2 million General Fund-Federal for a \$1.40 per year cost-of-living increase in the personal needs allowance for nursing home residents, and to equalize the personal needs allowance for persons on the medically needy waiver.

Developmental Disabilities

The Governor's maintenance level budget makes necessary caseload adjustments and provides \$7.9 million General Fund-State to reflect the increased cost per person of providing community residential services under the CORE waiver. (The Governor's 2007 Supplemental Budget also provides \$6.7 million General Fund-State for this purpose, to mitigate the agency's FY 2007 projected budget shortfall.)

The Governor's policy level budget provides a total of \$28.2 million General-Fund-State and \$23.9 million General Fund-Federal funding for expanded services and service improvements in developmental disabilities, including:

- \$11.1 million General Fund-State and \$11.8 million General Fund-Federal for 28 new caseworkers to provide assessments for Medicaid Personal Care services for an estimated 2,400 individuals with developmental disabilities who are potentially eligible for personal care.

- \$7.7 million General Fund-State and \$7.8 million General Fund-Federal to cover Medicaid Home and Community-Based Waiver services for 81 additional clients who are aging out of other state services, being released or diverted from state psychiatric hospitals, are in crisis and in need of immediate out-of-home placement, or who are currently residing in institutions and who choose to live in a community setting. This also includes funding for 48 individuals who will receive Home and Community-Based Waiver Services through the community protection program.
- \$5.1 million General Fund-State and \$2.4 million General Fund-Federal to support 750 additional individuals to achieve and maintain employment as they leave high school.
- \$2.3 million General Fund-State and \$0.4 million General Fund-Federal to cover family support for an additional 940 families at about \$2000 per year. Funds may be used for respite care, therapies, equipment, home modification, etc.
- \$2.1 million General Fund-State and \$1.6 million General Fund-Federal to reduce caseloads in the community protection program, and to make improvements to the case management information system.

DSHS – Alcohol and Substance Abuse

The Governor's maintenance level budget makes a reduction of \$3.3 million General Fund-State and \$1.4 million General Fund-Federal to reflect the slower than anticipated implementation of the drug treatment expansion authorized under the 2005-07 enacted budget. (A reduction of \$6.4 million General Fund-State and \$3.7 million General Fund-Federal is made in the Governor's 2007 supplemental budget for the same purpose.) Note: the maintenance level budgets for Medical Assistance and Long-Term Care reflect increased costs, as the treatment expansion had assumed a higher level of cost offsets in these programs than has been attained.

The Governor's policy level budget provides \$5.0 million General Fund-State and \$1.4 million General Fund-Federal to increase Medicaid reimbursement rates to outpatient chemical dependency treatment providers by about 5 percent per year.

DSHS - Children's Administration

The Governor's budget includes an additional \$40 million General Fund-State for policy enhancements in the Children's Administration. Highlights include:

- \$6.4 million General Fund-State to increase supports to foster care parents.
- \$4.1 million General Fund-State for targeted vendor rate increases of 3.2 percent in Fiscal Year 2008 and 2.0 percent in Fiscal Year 2009. The vendor rate increase includes the Crisis Residential Centers and Behavior Residential Services.
- \$4.7 million General Fund-State to increase kinship care placements. (A corresponding reduction of \$5.4 million General Fund-State is assumed for the reduction of foster care placements.)
- \$1.8 million General Fund-State to support Indian Child Welfare.

- \$1.5 million General Fund-State for the Administration to implement a new practice model to improve family engagement.
- \$1.1 million General Fund-State for additional clothing for youth in foster care.
- \$0.9 million General Fund-State to contract with eight liaisons to assist foster care youth access mental health services.

DSHS - Economic Services

The Governor's budget includes \$148.5 million General Fund-State for policy enhancements in the Economic Services Administration. Highlights include:

- \$53.4 million General Fund-State to implement the collective bargaining agreement between the Department of Early Learning and family child care workers. The agreement includes subsidy rate increases (7 percent Fiscal Year 2008, 3 percent Fiscal Year 2009), tiered reimbursement, infant and non-standard hour bonuses, and health care coverage for family child care providers.
- \$32.4 million General Fund-State for subsidy rate increases for child care centers comparable to the increase for family child care providers.
- \$16.1 million General Fund-State to continue funding for the Child Support program. The Deficit Reduction Act changed federal law regarding how federal funds can be used to fund the program.
- \$6.0 million General Fund-State to develop and implement an information system to support the data and management information system needs for the Department of Early Learning (DEL). DSHS will provide this service until DEL builds an IT infrastructure.
- \$4.7 million General Fund-State to implement a child support pass-through option of up to \$100 for a one-child family and up to \$200 for a family with two or more children for child support collected by the state on behalf of families participating in the TANF program in October of 2008. Recent changes in federal law allow the state to pass-through a portion of child support collections to families that under prior federal law was to be remitted to the federal government to reimburse the costs of the TANF program.
- \$2.9 million General Fund-State for additional child-only TANF grants from an assumed increase in the number of kinship foster placements.
- \$1.0 million General Fund-State for expedited medical determinations associated with the requirements of ESHB 1290 (Sections 12 and 13) from the 2006 session. The legislation requires the Department to provide immediate access to medical benefits for eligible persons with serious mental disorders upon their release from a prison, jail, or state psychiatric hospital.

The federal government recently changed the ways the TANF participation rate is calculated. In order to meet the participation rate under the new federal rules, the Governor proposes the following changes:

- \$8.4 million General Fund-State to develop and implement a Post-Temporary Assistance for Needy Families (TANF) program to support families transitioning off of TANF into full employment. These families will now be included in the participation rate.
- \$3.3 million General Fund provided for the food assistance program for legal immigrants. Historically this funding was included in the TANF box under maintenance of effort .

DSHS - Juvenile Rehabilitation Administration

The Governor's budget decreases funding for the Juvenile Rehabilitation Administration by \$2.3 million General Fund-State to reflect a reduced juvenile offender population projection as adopted by the Caseload Forecast Council in November 2006. The projected average population is 787 in Fiscal Year 2008 and 770 in Fiscal Year 2009.

The Governor's budget provides \$2.8 million General Fund-State for the Reinvesting in Youth program. A pilot program of grants to 3 groups of counties funded in the 2005-07 biennium is expanded to all counties. The Governor's budget transfers \$2.8 million General Fund-State to the Reinvesting in Youth Account.

The Governor's budget also provides \$1.7 million General Fund-State to eliminate double bunking of violent and sex offenders, primarily at Green Hill School.

The Governor's budget provides \$3.1 million General Fund-State for increased training, monitoring, and application of the Integrated Treatment Model.

DSHS - Mental Health

The Governor's budget provides \$151.6 million of increased public spending (\$87.1 million General Fund-State), an 11 percent increase from the current biennial level. In addition to \$47.5 million of employee compensation increases, major proposals include:

- \$14.0 million General Fund-State to provide non-Medicaid community mental health services for the increased number of people expected to require such services as a result of population growth.
- \$2.6 million General Fund-State to assure availability of appropriate follow-up care for 70 additional seriously-impaired persons after their release from the state prison system.
- \$2.0 million General Fund-State to provide earlier intervention for children who are involved in the foster care system, but whose impairments are not yet severe enough to meet Medicaid care access standards.

- \$1.6 million General Fund-State to support continued operation of seven consumer-run “clubhouses” after expiration of current state and federal grant support.
- \$1.4 million General Fund-State to assist state hospital employees who are injured on the job return more quickly to work.
- \$1.2 million to employ additional psychiatrists and psychologists to evaluate criminal defendants’ mental competency to stand trial.

DSHS Medical Assistance

The Governor’s budget provides total funding of \$742.5 million (\$410.5 million state), an increase of 9.6 percent over the 2005-07 biennium. The primary components are:

- A \$260.0 million maintenance level increase in state funds and \$180.9 million in federal funds for higher caseload and per person costs for medical goods and services. This increase is lower than in prior biennia due to a significant slowdown in enrollments in Categorically Needy medical programs for adults and children. Lower enrollments are offset by higher per person costs primarily for inpatient hospital services, prescription drugs, and managed care premiums, which comprise almost two billion or over 50 percent of total state spending in the Medical Assistance maintenance level budget.
- \$92.2 million in state savings due to an increase in the Federal Matching Percentage (FMAP) for the 2007-09 biennium.
- \$30.9 million in state funds and \$29.8 million in federal funds to support health care coverage for 32,000 Medicaid and SCHIP eligible children as part of the Cover All Kids initiative. Of the state funding, \$24.0 million goes towards the cost of coverage, \$6.0 million towards marketing and streamlining the eligibility process, and \$0.9 million towards additional staff to support both outreach and increased workload.
- An increase of \$27.5 million in state funds required by the “hold harmless” provision associated with the Certified Public Expenditures (CPE) hospital payment system, which requires that CPE hospitals must be paid at least what they would have been paid under the previous payment methodology. The increase in state grants is primarily due to a decrease in uncompensated case costs that qualify for the federally matched Disproportionate Share (DSH) program.
- An additional \$15.8 million in state funds and \$13.4 million in federal funds for Medicaid rate increases for fee-for-service pediatricians to bring their rates up to the level paid by Uniform Medical Plan.
- \$10.0 million in state funds to support a transition plan to a new Medicaid hospital reimbursement system, as recommended in the recently completed Washington State Medicaid Inpatient Reimbursement Study. The proposed hospital reimbursement changes result in some hospitals receiving increased payment levels and other hospitals receiving decreased payment levels. This funding represents one-time transition payments to the hospitals who will receive lower payments under the new system.

- \$6.4 million in state funds and \$41.1 million in federal funds to continue the transition to the Provider One payment system which will replace the current Medicaid Management Information System (MMIS), with a scheduled implementation date of February 2008.

DSHS - Special Commitment Center

The Governor's budget provides \$7.5 million General Fund-State for increased operational costs at the total confinement program at the Special Commitment Center on McNeil Island to reflect increased number of residents. The program's forecasted average annual population is 281 residents in Fiscal Year 2008 and 303 in Fiscal Year 2009.

The Governor's budget provides \$2.2 million General Fund-State for increased hourly fees for prosecution and defense attorneys, paralegals, and investigators incurred by counties during the civil commitment process for sexually violent predators.

Health Care Authority

The Governor's budget provides total funding of \$140.8 million (\$114.9 million state), an increase of 21.7 percent over the 2005-07 biennium. The primary components are:

- \$35.7 million in state funds to cover the cost of projected medical inflation of 9.4 percent in the Basic Health Plan, at an average enrollment of 106,500 members for the biennium.
- \$8.0 million in state funds for the development of a statewide infrastructure and health record banking system, as recommended in the recently published Health Information Infrastructure Advisory Board (HIIAB) report. This initial investment would go toward completing design work and an implementation plan, as well as partial funding for six to eight initial implementation sites to pilot the first health record banks.
- \$5.0 million in state funds to assist in making health insurance more affordable for small employers.
- \$4.5 million from the Health Services Account and \$20.5 million from the State Health Care Administration Account to implement the Benefit Administration and Insurance Accounting System (BAIAS) project for Phase 1, which will implement the Public Employee's Benefits Board (PEBB) benefits administration and insurance accounting, and Phase 2, which will implement the Basic Health Plan (BHP) benefits administration.

GENERAL GOVERNMENT

Department of Community, Trade and Economic Development

The Governor's budget provides \$1.6 million General Fund-State for grants to Snohomish, King, Pierce, Kitsap, Thurston and Clark counties to develop "Buildable Lands" reports every 5 years. The reports identify lands targeted for housing growth in the next 20 years.

The Governor's proposal provides a \$1.0 million General Fund-State grant to the Cascade Land Conservancy to develop a structure for transferring development rights and conservation easements for forest lands.

This proposal also provides \$6.6 million General Fund-State for associate development organizations to recruit and retain businesses.

The Governor's budget provides authority to expand tourism marketing using \$9.0 million in tourism-related revenue from fees and charges. The Governor's budget assumes enactment of legislation to authorize these fees and charges.

Criminal Justice Training Commission

The Governor's budget provides \$2.0 million from the Public Safety and Education Account-State to conduct an additional 4 Basic Law Enforcement Academies each year.

The Governor's proposal also provides \$3.2 million from the Public Safety and Education Account-State as a pass-through to the Washington Association of Sheriffs and Police Chiefs to continue the Jail Booking and Reporting System (JBRS) and the Statewide Automated Victim Information and Notification System (SAVIN).

Department of Information Services

The Governor's budget provides an additional \$2.7 million General Fund-State to evaluate the information technology infrastructure of the Department of Social and Health Services, the Department of Veterans Affairs, and the Department of Corrections to develop a strategy to support the adoption of electronic medical records.

The Governor's proposal also provides \$1.3 million General Fund-State for the Digital Learning Commons to provide online courses and educational materials.

Military Department

The Governor's budget provides \$0.5 million General Fund-State and \$1.9 million General Fund-Federal to establish and operate the Washington Youth Academy at the Bremerton Readiness Center. The Academy is an alternative, military-like school that targets high school drop-outs and other at-risk youth.

The Governor's proposal also provides authority to spend \$89.7 million General Fund-Federal for Homeland Security Grants (\$61.0 million) and Disaster Recovery Projects (\$28.7 million), including 2003 Floods, January-February 2006 Winter Storms, 2001 Nisqually Earthquake and the November 2006 Floods.

Secretary of State

The Governor's budget provides \$6.9 million General Fund-State for election activities, including \$3.6 million for elections ballot tracking, \$1.8 million of odd-year election costs, \$1.0 for a primary election voter pamphlet, and \$0.5 million for a presidential primary voter pamphlet.

Washington State Patrol

The Governor's proposal provides \$13.0 million, including \$3.0 million General Fund-State and \$10.0 million Enhanced 911 Account-State, for statewide emergency communications interoperability.

The Governor's budget also provides \$4.6 million, primarily from the Violence Reduction and Drug Enforcement Account-State, for staffing of recently constructed forensic laboratories.

Other

The Governor's budget includes an additional \$1.5 million General Fund-State for policy level enhancements in the area of arts, history, and archaeology and historic preservation. This includes:

- \$0.6 million General Fund-State in the Department of Archeology and Historic Preservation, including funding for additional archaeology and historic impact reviews, geographic information system (GIS) support, and information technology support.
- \$0.4 million General Fund-State for the Eastern Washington Historical Society to expand their education program and to establish digital access to their collection of artifacts and photographs.
- \$0.3 million General Fund-State for the Washington State Arts Commission to expand the arts education grant program and support for conservation of the state art collection.
- \$0.2 million General Fund-State to the Washington Historical Society for historic document preservation and development of a permanent exhibit about the transcontinental railroad and the West.

JUDICIAL BRANCH

Budgets from the Judicial Branch (including the Office of Public Defense and the Office of Civil Legal Aid) are considered non-revisable by the Governor. The Governor includes the full amount of the requests from the Judicial Agencies in her budget bill and recommendation summaries. The Governor has also included an alternative proposal for a savings of \$55 million dollars, which is noted in italics.

The policy level request for the Judicial Branch totals \$77.8 million in Near General Fund-State. Highlights of the Judicial Branch budget requests include:

- \$22 million Judicial Information System Account for improving the Judicial Information System, the Washington Courts statewide computer and data collection system.
- \$19.0 million General Fund-State to the Office of Public Defense for expanding indigent criminal defense at the trial level. *(\$6 million funded in the alternative).*

- \$17.2 million General Fund-State to the Office of Public Defense for expanding statewide the Parents Representation Program. The program provides indigent parents with representation in dependency cases. (*\$5.2 million funded in the alternative*).
- \$13.6 million General Fund-State for increasing staffed volunteer coordinators for the Court Appointed Special Advocates programs that represent children in dependency court cases with trained volunteers. (*\$4.5 million funded in the alternative*).
- \$9.8 million Public Safety and Education Account-State in additional funding for county juvenile courts for processing costs associated with petitions for Truancy, At Risk Youth, and Children in Need of Services, also known as the BECCA Bill. (*Not funded in the alternative*).
- \$7.8 million General Fund-State for increasing qualified interpreter services at the trial court level. (*Not funded in the alternative*).
- \$4.8 million General Fund-State to the Office of Civil Legal Aid for expanding civil legal aid services for indigent persons.

NATURAL RESOURCES

Protect and Restore Puget Sound

The Governor's budget provides \$6.4 million General Fund-State, \$29.1 million other funds, and \$88.6 million State Bonds to restore and protect Puget Sound. Priorities include addressing septic/wastewater discharge, reducing storm water runoff, restoring and protecting critical habitat, and increasing public awareness.

Puget Sound Partnership

The Governor's budget provides \$0.5 million General Fund-State and \$5.0 million Water Quality Account to replace the Puget Sound Action Team with a new state agency to be led by a citizen commission (Puget Sound Partnership). The Partnership is charged with developing a collaborative 2020 action plan for restoring and protecting Puget Sound.

Environmental Protection

The Governor's operating budget provides \$7.1 million General Fund-State, \$0.9 million State Toxics Account, \$1.0 million Local Toxics Account, and \$9.8 million in various other funds to promote environmental protection by reducing organic waste, regulating ballast water transfers, Spartina eradication and much more.

Supporting Farms

The Governor's operating budget provides \$1.2 million General Fund-State and \$5.7 million various other funds to further support farms and farmers.

Fire Suppression/Protection

The Governor's operating budget provides \$1.6 million General Fund-State and \$2.8 million other funds to promote fire safety, prevent wildfires and repair damaged caused by wildfires.

Maintain and Keep Hatcheries Open

The Governor's operating budget provides \$4.6 million General Fund-State to maintain and keep hatcheries open and operating.

Improve Services and Data Collection

The Governor's operating budget provides \$2.2 million General Fund-State and \$3.1 million other funds to improve data collection and services related to water rights, watershed data collection, and data and animal records data storage/imaging.

Ensure Public Health and Safety

The Governor's operating budget provides \$1.9 million General Fund-State to detect and respond to wildlife diseases, develop tsunami evacuation routes, and to enhance pesticide notification requirements and animal health enforcement.

Promote Recreation

The Governor's operating budget provides \$8.2 million General Fund-State, \$1.7 million General Fund-Federal, and \$1.7 million other funds to promote and support recreational activities.

Improve Water Quality/Quantity

The Governor's operating budget provides \$0.2 million General Fund-State, \$7.1 million Water Quality Account, and \$2.8 million other funds to improve water quality and quantity. Funding will allow for implementation of water cleanup plans, assessment of livestock nutrients, and water quality monitoring and other related activities.

SPECIAL APPROPRIATIONS

The Governor's budget provides the following special appropriations:

- \$4.0 million General Fund- State for the public financing of judicial campaigns.
- \$4.0 million General Fund-State to supplement the Mobile Home Park Relocation Program.
- \$4.0 million General Fund-State to supplement the State Wildlife Account.
- \$2.8 million General Fund-State to supplement revenues to the Public safety and Education Account (PSEA).

PROPOSED REVENUE LEGISLATION

Streamlined Sales and Use Tax -- \$5.9 Million General Fund-State Decrease

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 the current origin base sourcing to destination based sourcing beginning July 1, 2008. This change will create revenue shifts between local jurisdictions. The bill provides full mitigation to those local jurisdictions that are negatively impacted by the change in sourcing rules. Additionally, relief is provided for small businesses to help them comply with the sourcing changes. The effect on the general fund is the net result of new state revenues offset by local jurisdiction mitigation and relief for small business.

Liquor Control Board Budget Driven Revenue -- \$11.0 Million General Fund-State Increase

The Governor's budget provides funding for 92.5 liquor store FTE's. The funding comes as a result of the FTE pilot project and the recommendation of an optimal staffing level from a consultant's analysis of the FTE pilot project. In addition, the governor's budget provides funding for a sales inventory and operations planning program coordinator and a category management program in order to increase the efficiency of their business practices producing more revenue.

Department of Revenue Request Legislation -- \$2.9 Million General Fund-State Decrease

Legislation proposed by the Department of Revenue includes three bills with revenue impacts.

- High-technology businesses engaging in certain research and development (R&D) are eligible for a business and occupation (B&O) tax credit. Proposed legislation simplifies how the credit is calculated by making the credit equal to the amount of R&D spending. The impact to the general fund is \$1.8 million for the 2007-2009 biennium.
- Businesses in rural counties or community empowerment zones are eligible for a B&O tax credit, based on previous job growth. Proposed legislation makes it easier for businesses to qualify for the B&O tax credit. The base year is changed from a calendar year to the previous 4 calendar quarters. Businesses with positions that are temporarily vacant or seasonal qualify. Businesses can apply for the tax credit within 90 days after hiring. The impact to the general fund is \$0.9 million for the 2007-2009 biennium.

- Utilities with centrally-assessed property taxes must file an annual report detailing their real and personal property. Penalties for failure to file are a 5 percent increase of the utility company's assessed value for every 30 days that the report is late, up to 10 percent. Proposed legislation allows the Department of Revenue to waive or cancel the penalties for good cause or if the company files the report within 30 days of the due date and has timely filed the report for the previous 2 years. The impact to the general fund is \$0.2 million for the 2007-2009 biennium.

PROPOSED 2007-09 CAPITAL BUDGET

BACKGROUND

The Governor's capital budget proposes to spend \$4 billion in total funds. Spending from bonds is about \$2.1 billion, including the remaining \$219 million in Gardener-Evans bonds and \$34.5 million in Columbia River Basin Water Supply Bonds that have already been authorized. Projecting this level of borrowing into future biennia would put the proposed capital budget within the 8.5 percent working debt service limit. The budget is distributed among the functional areas as follows:

| | Bonds | Total |
|-------------------------|---------------------------|---------------------------|
| NEW PROJECTS | | |
| Governmental Operations | 378,124 | 866,759 |
| Human Services | 253,220 | 323,645 |
| Natural Resources | 388,886 | 893,822 |
| Higher Education | 814,522 | 1,054,538 |
| Public Schools | 233,035 | 808,976 |
| Other Education | 34,156 | 34,156 |
| Projects Total | <u>\$2,101,943</u> | <u>\$3,981,896</u> |

PROPOSAL

The Governor's proposed capital budget provides:

- \$1 billion for higher education facilities, half for community and technical college facilities and half for four year institutions. (The Governor followed the prioritized lists with the exception of 5 projects for a total of \$39 million that were elevated in their priority because they were tied to goals identified in the Washington Learns report.)
- \$720 million in state matching funds for K-12 school construction.
- \$73 million for four new regional skill centers.
- \$156 million for correctional facilities, including \$20 million for an additional 426 beds, and \$79 million for health care facilities.
- \$140 million for housing assistance, weatherization, and affordable housing.
- \$140 million to protect and clean up Puget Sound.
- \$95 million in grants to local communities for the arts, community services, youth recreation, heritage and other projects.

- \$70 million for the Washington Wildlife and Recreation Program to preserve habitat and support local and state parks.
- \$107 million in economic development projects.
- \$21 million for 48 additional beds at the special commitment center on McNeil Island.
- \$111 million for a new state archives, library and heritage center.
- \$16 million to implement watershed plans and improve instream flows.
- \$61 million for Trust Land Transfers.
- \$20 million for a new physical education center at the School for the Blind and vocational education, cafeteria and maintenance facility at the School for the Deaf