

OVERVIEW OF GOVERNOR GREGOIRE'S 2011-13 BIENNIAL OPERATING AND CAPITAL BUDGET PROPOSALS



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Major Features of Governor Gregoire's Proposed 2011 Supplemental and 2011-13 Biennial Operating Budget

Introduction

Primarily as a result of a significant economic downturn and decline in state revenues, the Governor and the Legislature face an approximately \$12 billion budget problem for fiscal years 2009 through 2011. They have addressed the budget problem by: (1) making \$5 billion in spending and compensation reductions; (2) utilizing \$3.6 billion in federal funds; (3) \$2.2 billion in fund transfers and use of reserves; and (4) raising \$0.9 billion in increased and new revenue, (which was partially repealed by Initiative 1107).

Although the recession officially ended in June of 2009, the economic recovery and a corresponding increase in revenue collections has not taken hold. As the state's economist said, "the economy is off life-support, but still in intensive care." This weaker than expected economic growth, coupled with caseload growth and other spending pressures, has created an additional budget gap for fiscal year 2011 and for the upcoming 2011-13 biennium.

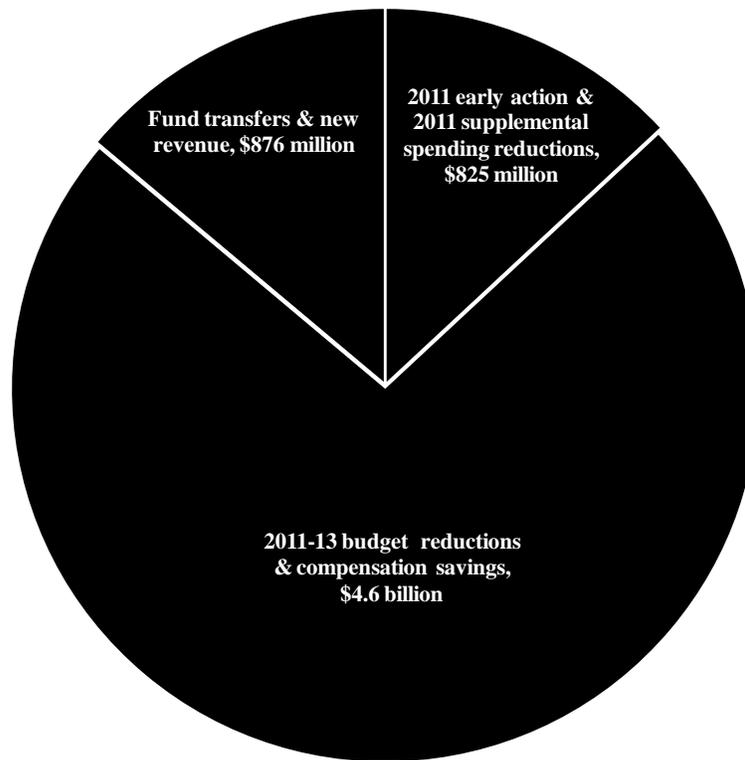
Based on the assumptions used in the development of Governor Gregoire's budget, the shortfall is estimated at approximately \$1.2 billion for fiscal year 2011 and an additional \$5.1 billion for the 2011-13 biennium. In other words, the projected budget shortfall for the current and two subsequent years total approximately \$6.3 billion. This deficit projection is based on the anticipated spending needs based on current law, which includes the costs of maintaining current programs and services and as well as some selected policy level increases which were included in her proposal. Additionally, the budget problem as defined by the Governor includes leaving approximately \$885 million in unrestricted reserves.

IMPORTANT NOTE: For ease of discussing the budget problem and solution, this document is based on the Near General Fund (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.

Overview of Governor Gregoire's Proposed Budget Solution

The Governor's proposed 2011 supplemental and 2011-13 operating budgets address the projected \$6.3 billion three year budget problem by: (1) making \$825 million in spending reductions in fiscal year 2011, including the "early action" savings items; (2) making \$4.6 billion in spending reductions in the 2011-13 biennium; (3) transferring various funds to the operating budget, including \$290 million from the Budget Stabilization Account and \$300 million in cash accounts historically used in the capital budget; and (4) raising revenue from additional auditing and compliance efforts, and continuing the markup on liquor. See chart on next page.

The Governor's Proposed Three Year Budget Solution



Total Budget Solution = \$6.3 Billion

* The depiction of the budget problem and solution do not include the one day delay (from FY2011 to FY2012) in making \$253 million in K-12 apportionment payments.

Major Near General Fund Budget Reductions

Employee Compensation -- \$1.1 Billion Savings

State and K-12 Employee Compensation

- Cost-of-living adjustments mandated by Initiative 732 are canceled for the 2011-13 biennium, including increases that were deferred from the 2009-11 biennium -- \$281.2 million savings
- Salaries for most state employees are reduced by 3 percent for the duration of the 2011-13 biennium through a variety of measures, including pay rate cuts and temporary layoffs. Employees earning less than \$30,000 per year, State Troopers, and certain other employee groups are not subject to reductions. Similar reductions in salary expenditures are required for institutions of higher education -- \$177.1 million savings
- Suspends the bonus program for National Board certification. Currently, a certificated instructional staff (CIS) employee who earns the National Board for Professional Teaching Standards (NBPTS) certification receives an annual bonus of \$5,090 plus an additional \$5,000 per year for teaching in a challenging school -- \$99.5 million reduction
- Step increases for certificated K-12 staff for years of service or educational credits are frozen for the 2011-12 and 2012-13 school years -- \$56.4 million reduction savings

State and K-12 Employee Health Benefits

- The employee share of medical insurance premium costs is increased from 12 percent to 15 percent and employer contributions are frozen at the current rate of \$850 per employee per month for the 2011-13 biennium. Additionally, the Medicare subsidy for retired state employees is reduced from \$182.89 per month to \$150.00 per month. It is expected that with the use of insurance fund reserves that the current level of benefits can be maintained
- Funding provided to school districts for employee health benefits is frozen at the current level of \$768 per employee per month

Retirement System Contributions

- Automatic retirement allowance increases for members of Plan 1 of the Public Employees' and Teachers' Retirement Systems (PERS 1 and TRS 1) provided by the Uniform Cost-of-Living Adjustment (Uniform COLA) are eliminated. A framework for providing future increases on an optional basis is retained -- \$383.5 million savings
- Changes to the Higher Education Retirement Plans (HERPs) offered to certain employees of state institutions of higher education include capping state contributions towards the plans at 6 percent of pay and eliminating a supplemental defined benefit from the plans for future members -- \$58.0 million savings

K-12 Education -- \$1.2 Billion Savings

Major Reductions:

- Suspends Initiative 728, student achievement program per-pupil allocations. These allocations would have been \$477 per student for school year 2011-12 and \$484 per student for school year 2012-13 -- \$860.2 million savings

- Extends the elimination of kindergarten through grade 4 class-size reduction funding through the end of school year 2012-13 -- \$216.0 million savings
- Changes the school-bus replacement program from the current depreciation model, which pays districts a share of replacement costs over the life of each bus, to a system that makes a single payment in the final year of the lifecycle -- reduces 2011-13 costs by \$95.6 million
- Reduces levy equalization payments by 6.3 percent, with the most property poor districts receiving the smallest percentage reduction -- lowers costs by \$39.5 million
- Restructures payments for the student assessment program including reductions to reimbursements for collections of evidence, reducing staff, and suspending development of diagnostic assessments -- \$27.2 million savings
- Eliminates the Highly Capable (gifted) program -- reduces costs by \$18.6 million
- Eliminates a number of grants and statewide programs including the Leadership Academy, Focused Assistance, Readiness to Learn, Reading Corps, the Beginning Educator Support Team (BEST), and others -- \$34.0 million savings
- Reduces a variety of grants and statewide programs including Navigation 101, College Bound program support, Leadership and Assistance for Science Education Reform (LASER), support to individuals earning teacher certifications, and others -- \$9.9 million savings

Major Increases

- Increases funding for pupil transportation, as well as implements the revised transportation funding formula adopted in 2010 under Substitute House Bill 2776 (Funding Distribution Formulas for K-12 Education) -- \$90.0 million
- Increases grants to school districts to implement the new teacher/principal evaluation system under reforms initiated in Chapter 235, Laws of 2010, and provides incentives to districts that successfully meet requirements of the new system -- \$18.0 million
- Funding is added in fiscal year 2012 to cover the costs associated with making up for apportionment payment from June 30 to July 1, 2011.

Higher Education -- \$425 Million Savings

- State appropriations are reduced by an average of 21 percent at the public four-year colleges and universities, and by 10 percent at the community & technical colleges. -- \$444.1 million savings (NOTE: This item does not include the \$58.0 million savings achieved via reducing the supplemental funding provided for the higher education retirement plans. Please see the compensation section for more information.)
- Facility maintenance activities at the University of Washington, Washington State University and the community and technical colleges will be paid for with student fees rather than from the general fund -- \$50.0 million savings
- Funding for the State Work Study program is reduced by 46 percent resulting in an average of 2,700 fewer FTE students receiving assistance from this program -- \$21.3 million savings
- A variety of smaller grant programs are suspended including the child care grants, Washington Scholars, Washington Award for Vocational Excellence (WAVE), the Community Scholarship Matching Grant program, the Supplemental College Assistance Migrant Program (CAMP), Leadership 1000, the Foster Care Endowed Scholarship, the Passport to College program, and student support fees provided via the Western Interstate Commission for Higher Education (WICHE) -- \$17.8 million savings

- To offset a portion of the reduced 4 year and 2 year institutional funding, the Governor proposes resident undergraduate tuition increases of: (1) up to 11% each year at the University of Washington, Washington State University, and Western Washington University; (2) up to 9% at Central Washington University, Eastern Washington University, and The Evergreen State College, and (3) up to 10% at the community and technical colleges. This is expected to generate an estimated \$330 million of additional revenue if the same percentage increases are applied to graduate and non-resident students

Major Increases

- Funding is provided to hold the state need grant program harmless from tuition increases assumed in the Governor's budget. -- \$91.6 million increase
- Funds are provided to Eastern Washington University, Central Washington University, and The Evergreen State College for counseling, mentoring, and other services targeted toward TRIO-eligible students. -- \$1.5 million increase.
- No funding is provided to increase enrollments at the public colleges and universities over the current budgeted level (236,000 FTE students). However, the Governor provides \$15.8 million to establish an incentive pool which will award funds to the four year institutions and the community and technical colleges based on their performance related to degree production.

Department of Social and Health Services & Health Care -- \$1.3 Billion Savings

Low Income Medical Care

Reductions in the Number of Persons Covered -- \$437 million savings

- Elimination of the Basic Health Plan, which was to pay most of the cost of insurance coverage for 69,000 low-income adults and children -- \$230.0 million savings
- Elimination of the Disability Lifeline and ADATSA programs, which pay for medical and limited dental care for 22,000 adults who are temporarily unemployable due to a physical or mental incapacity or are in need of chemical dependency treatment -- \$147.6 million savings
- Elimination of the Children's Health Program, which pays for medical and dental care for 27,000 low-income children ineligible for state/federal programs because their immigration status - \$59.0 million savings

Reductions in Provider Payment Levels -- \$107.8 million savings

- Reduce cost-based payments to federally-qualified community clinics -- \$85.0 million savings
- Reduce state grants to community clinics, community health collaboratives, and low-income clinic dental residency programs by 50 percent -- \$12.8 million savings
- Reduce administrative and profit allowance in Medicaid managed care rates by 0.5 points, to 13 percent -- \$10.0 million savings

Reductions in Services Covered -- \$88.3 million savings

- Only emergency dental care would be provided for non-disabled, non-elderly, non-pregnant adults. Routine and preventive dental care would continue to be funded for children and all other adults - \$26.2 million savings

- Reduce medical and social support services to pregnant women at risk of poor birth outcomes by an additional 50 percent -- \$21.9 million savings
- No longer cover the cost of Medicare drug co-pays for persons eligible for both Medicare and the state Medicaid program -- \$16.4 million savings
- No longer pay for therapies and other medical services provided in school-based clinics and special education programs -- \$11.0 million savings
- No longer pay for interpreters to assist with medical and dental consultations for adults with limited English-speaking skills -- \$10.8 million state savings
- Eliminate coverage of adult podiatric care -- \$2.0 million savings

Charging Other Payers -- \$40.0 million savings

- Increase efforts to identify and charge private insurance coverage for clients eligible for it, and to avoid and recover excessive payments -- anticipated \$40.0 million savings

DSHS Aging and Disability Services Administration

The Aging and Disability Services Administration manages both the Long Term Care (LTC) and [Division of] Developmental Disabilities (DDD) programs. Many of the Governor's proposed budget items impact clients of both programs. Thus, the significant budget items in LTC and DDD are discussed jointly with program specific detail provided when necessary.

- Changes in client services including a reduction in authorized personal care hours for DDD and LTC clients (\$97 million in savings) and reductions to Senior Citizens Services Act programs, the Individual and Family Services program and employment and day services for state-only funded clients -- \$114.0 million savings
- Reductions to provider rates including \$30 million in changes to the nursing home rate methodology -- \$62.0 million savings
- Reduction to the allocation for homecare agency providers health benefits and a delay of the provider training requirements of Initiative 1029 -- \$51.0 million savings
- Savings within the operation of the residential habilitation centers including closure of the Frances Haddon Morgan Center and Yakima Valley School -- \$5.0 million savings

DSHS Economic Services --All Other

- Eliminate the Disability Lifeline – Unemployable program, which provides public assistance payments for disabled, low-income adults not eligible for federal Supplemental Security Income (SSI) benefits. This elimination does not include aged, blind, or disabled programs. The reduction is expected to affect approximately 23,000 recipients a month -- \$165.0 million savings for cash benefits (see medical item in low income health care section)
- Reduce the Disability Lifeline - Expedited and Disability Lifeline - Other program cash grant benefits by 21 percent. This reduction continues the cash grant ratable reduction approved in the 2011 Supplemental budget -- \$15.0 million savings
- Eliminate the State Food Assistance Program, which provides food assistance for legal immigrants who are not eligible for the federal Supplemental Nutrition Assistance Program (food stamps). The total elimination is \$60 million but the Governor provides \$15 million to food banks in the Department of Agriculture budget - \$45 million net savings
- Eliminate a number of programs including the state funding for naturalization, refugee employment services, child support pass through, and child support IRS re-distribution -- \$39.8 million savings

DSHS Economic Services - Temporary Assistance For Needy Families

Temporary Assistance for Needy Families (TANF) provides temporary cash benefits, low income child care, and other types of assistance for participants to find and keep jobs. In addition to the \$6.3 billion operating budget, the deficit in "TANF Box" is estimated at slightly over \$90 million for fiscal year 2011 and approximately \$390 million for the 2011-13 biennium. The Governor has taken certain actions and is proposing a variety of other steps to solve the "TANF Box" deficit. These include:

- Reducing the TANF cash grant for all participants by 15 percent effective February 1, 2011, which means that the average cash grant will go from \$450 to \$383.
- Reducing or eliminating cash grant benefits for TANF participants receiving federal SSI benefits.
- Lowering the Working Connections Child Care (WCCC) eligibility income limit from 200 percent of federal poverty limit (FPL) to 175 percent of FPL.
- Capping WCCC program by limiting entries into the program to TANF and TANF-eligible clients (defined as 82 percent of the federal poverty limit) beginning February 1, 2011, which means anyone with income above 82 percent of FPL would not be allowed child care subsidies after this date.
- Reducing the work or work activity participation requirements for families receiving TANF.
- The Governor's budget also plans to transfer revenue between years and assumes the use of federal TANF contingency allocations.

DSHS Children's Administration

- Reduce foster care services through eliminating foster care assessment programs and the receiving care program as well as reducing foster parent child care, child placing agency fees, and voluntary placement agreements -- \$19.5 million savings
- Reduce funding for Behavioral Rehabilitative Services by 12 percent -- \$10.8 million savings
- Reduce preventative and in-home services to youth and their families to prevent placement into the foster care system. The reduction includes the elimination of chemical dependency professionals, continuum of care program, and the street youth program -- \$8.9 million savings
- Reduce services to victims' assistance programs including eliminating child advocacy centers and reductions to sexually aggressive youth and victims of domestic violence -- \$3.1 million savings
- Reduce services to adolescents including a reduction to non-secure and secure crisis residential centers, HOPE Beds, and the Responsible Living Skills Program -- \$1.3 million savings

DSHS Mental Health

- Reduce by 8 percent the state grants county Regional Support Networks use to provide crisis response, involuntary commitment, inpatient treatment, and limited residential and outpatient care for children and adults not eligible for Medicaid -- \$17.7 million savings
- Close a 30-bed treatment ward at Western State Hospital, thereby reducing the number of beds available for civil and criminal commitments by 3.5 percent -- \$6.6 million savings
- Reduce staffing and other operating costs at Western and Eastern State Hospitals by 2 percent -- \$7.2 million savings

- Reduce expenditures at the Child Study and Treatment Center by 9 percent -- \$1.9 million savings
- Reduce by 50 percent the funding Spokane Regional Support Network receives to assist with diversion of patients from Eastern State Hospital -- \$1.5 million savings

DSHS Juvenile Rehabilitation

- Close Maple Lane School by the end of the fiscal year 2011 -- \$3.3 million savings
- Reduce Juvenile Rehabilitation Administration (JRA) institution costs by releasing more non-violent, low-risk juveniles on their minimum release date -- \$6.8 million savings
- Reduce funding for juvenile courts -- \$2.3 million savings
- Reduce funding for parole services, including diagnostic services, eliminating Aggression Replacement Therapy in the community (and only providing it in institutions), increasing caseloads from 1:20 to 1:25, restructuring regional administration, and reducing lease costs -- \$4.9 million savings
- The Juvenile Court Quality Assurance program is transferred to the Administrative Office of the Courts. The Governor would not propose this transfer, but would keep this funding in the JRA. However, the Judiciary identified transferring this program as part of its biennial budget submission, and the Governor is prohibited from revising this submission. Funding for this program is removed from the JRA simply for the purpose of not double counting the funding in the budget. -- \$1.2 million transfer

DSHS Special Commitment Center

- Reduce funding for clinical internships and nursing services, administrative staff and programs including mail room service, visitor center hours, and recreation programs -- \$6.9 million savings
- Reduce staff ratios for Secure Community Transition Facilities -- \$1.9 million savings

Major Increases

- Funding is provided for the DSHS Special Commitment Center (SCC) to pay legal services required by the Washington State Supreme Court McCuiston decision concerning the frequency of commitment trials of sexually violent predators -- \$35.0 million increase
- Funding is provided for the SCC to operate on McNeil Island once the McNeil Island Corrections Center has closed on April 1, 2011 -- \$5.6 million increase

DSHS Alcohol and Substance Abuse

- Various treatment program reductions including reductions for outpatient and residential chemical dependency services impacting approximately 4,000 clients -- \$14.0 million savings
- Various program administration changes including reductions for administration of tribal programs -- \$0.9 million savings
- Implementation of a license and certification program for chemical dependency treatment programs -- \$1.0 million savings

Department of Corrections

- Closes McNeil Island Corrections Center on April 1, 2011. The savings reflects additional costs to open a housing unit at the Larch Corrections Center and for the DSHS Special Commitment Center to operate on McNeil Island once the corrections center has closed. -- \$12.7 million savings
- Continuing the Governor's across-the-board reductions and other changes, including: (1) changing the agency staffing structure and holding positions vacant; (2) eliminating staff positions; (3) eliminating on-the-job training; (4) reducing offender programming and contracted services; and (5) adjusting for actual DOSA bed utilization and use of electronic home monitoring -- \$58.0 million savings
- Eliminates "tolling" for offenders on community supervision; this requires legislation. Tolling extends an offender's time on supervision for time spent in confinement for a violation of the terms of their supervision -- \$6.0 million savings
- Deports all non-citizen drug and property offenders -- \$2.5 million savings

Department of Health

- Additional reductions are made to maternity support services, maternal and children's health programs, environmental health programs, and health facility quality assurance -- \$11.6 million savings
- Funding added in 2008 for local health jurisdictions is reduced by 38 percent and other public health support is reduced -- \$9.7million savings
- State funding used to supplement federal family planning funds is eliminated -- \$9.0 million savings
- Dedicated funding for tobacco prevention is no longer available. A limited amount of state funding is being provided to continue the state Quit-Line and limited outreach to high risk populations. The program previously received \$47.0 million in dedicated funds and will now receive \$4.0 million in state funds
- HIV prevention and client services are reduced by 4.5 percent -- \$1.8 million savings

Department of Early Learning

- Reduce the number of Early Childhood Education and Assistance Program (ECEAP) total number of slots by 662; an 8.2 percent reduction. ECEAP will focus on serving four-year-old children exclusively, except for 350 slots statewide that can be used for three-year-old children -- \$9.0 million savings
- Eliminates the career and wage program, which is pilot program offering wage supplements to employees in approximately 55 child care centers in Washington to support professional development -- \$3.0 million savings
- Eliminates state funds for the administration of the seasonal child care program, which provides child care subsidies to seasonal agricultural workers through non-profit organizations. Subsidies are not reduced and DSHS will administer eligibility determinations -- \$2.0 million savings

Department of Commerce

- Reduces funding for the Community Services and Housing Division, including a \$2.4 crime victims services, eliminating funding for the New Americans program, and reducing funding for Family Asset building -- \$5.2 million savings
- Reduces the Business Services Division including eliminating \$4 million for tourism development -- \$5 million savings

- Reduces funding in the Local Government and Infrastructure Division, including grants to local governments for growth management plan updates -- \$1.2 million savings
- Reduces the Innovation and Policy Priorities Division, including reductions to the administration for the Economic Development Commission and Entrepreneurial STARS -- \$0.7 million savings

Natural Resources

- The general fund state support for the Parks and Recreation Commission will be reduced by a net of \$47 million (71 percent), including \$20 million in one-time transition funding. In order to offset this reduction, the agency is proposing to increase fees and other charges. In the event that revenue is insufficient to cover costs, the Parks and Recreation Commission is given authority to mothball, close, or transfer parks -- \$47 million savings
- The Governor is proposing to consolidate the existing 11 natural resource agencies into five. Savings from consolidating the agencies will not be realized until fiscal year 2013 -- \$2.5 million savings
- In order to offset reducing General Fund-State expenditures in the natural resources, the Governor is proposing both new fees and fee increases including: (1) an increase the fees charged for water rights permit processing to cover 100 percent of permitting costs rather than the 2 percent currently; (2) establishing a hydraulic project approval permit; (3) increasing hunting and fishing permit fees; (4) and creating a new multi-agency fee for access state lands.

Selected Other Reductions

Agency Eliminations & Reorganizations

- The Washington State Historical Society and the Eastern Washington State Historical Society will cease museum and educational operations. A limited staff will be retained at both agencies in order to preserve historical collections and archive materials and to protect facilities -- \$4.6 million savings
- The Washington State Arts Commission will cease operations. A limited number of staff and associated funding will be transferred to the Department of Commerce to maintain the state's arts collection and eligibility for National Endowment of the Arts funding -- \$2.5 million savings
- Transferring the adult sentencing data functions of the Sentencing Guidelines Commission (SGC) to the Department of Corrections; the policy functions of the SGC and the Sex Offender Policy Board are eliminated -- \$1.3 million savings
- Merging the Indeterminate Sentence Review Board with the Department of Corrections -- \$1.0 million savings
- Several central service agencies including the Departments of General Administration, Personnel and Information Services will be merged into a new Department of Enterprise Services. This is assumed to generate savings from lower administrative costs charged to other state agencies.

- The Office of Civil Rights will be created by merging the Human Rights Commission, Office of Minority and Women's Business Enterprise, Commission on African American Affairs, Commission on Hispanic Affairs, and Commission on Asian Pacific American Affairs -- \$0.3 million savings
- The Caseload Forecast Council and the Economic and Revenue Forecast Council are merged into one agency named the Office of the Forecast Councils -- \$0.2 million savings

Fund Transfers & New Revenue Changes -- \$876 Million

- A number of fund related actions and one-time fund transfers are made in both the Governor's proposed 2011 supplemental and 2011-13 budgets to increase reserves. Some of these transfers are at least partially made possible by the additional capital budget bond capacity by expanding general revenue by undedicating tobacco revenue currently deposited in the Education Legacy Account. Some of the largest fund transfers include: (1) \$290 million from the Budget Stabilization Account; (2) \$204 million from the Education Construction Account (backfilled by bonds); (3) \$45 million from the Education Savings Account (backfilled by bonds); (4) \$30 million from the Treasurers Service Account; and (5) \$20 million from the State Toxic Control Account.
- \$85.0 million is also transferred from the Liquor Revolving Account to the general fund, while keeping the distributions to the state and local governments the same as they otherwise would be. This will require the average markup on spirits to remain at 51.9 percent. The markup was set at this rate after a similar fund transfer was done in the 2009-11 biennium.
- Substitute Senate Bill 6892 (Temporary Penalty and Interest Waivers) was passed during the Second Special Session of 2010, which granted certain businesses a waiver of penalties and interest if they paid outstanding debt between February 1, 2011 and May 1, 2011.--\$24.4 million revenue increase in FY 2011, \$14.9 million revenue decrease in 2011-13 biennium
- Additional staffing is provided to the Department of Revenue to implement a variety of revenue enhancement strategies, such as out-of-state auditing, compliance and enhanced audit selection--\$19.5 million revenue increase in FY 2011 and \$14.5 million revenue increase in the 2011-13 biennium

2011 Supplemental Budget

On December 11, 2010, the Legislature met in special session and enacted "early action" fiscal legislation related to partially addressing the projected \$1.2 billion fiscal year 2011 budget deficit. This included making certain fund transfers and enacting legislation designed to increase revenue by approximately \$44 million (these actions are described in other sections of this document). Additionally, the Legislature reduced net near general fund spending by \$490 million. The single largest reduction was offsetting \$208 million in K-12 related spending with federal Education Jobs funds.

The Governor's proposed 2011 supplemental operating budget incorporates the "early action" spending adjustments. Her budget then proposes an additional \$335 million in spending reductions and savings. The bulk of these savings are achieved from implementing many of her 2011-13 proposed reductions in fiscal year 2011. These include: (1) the elimination of the K-4

staffing enhancement and funding for the highly capable program; (2) reducing levy equalization payments by 6.3 percent; (3) eliminating the Disability Lifeline cash and medical programs; (4) ending the Basic Health Plan; (5) making a 10 percent reduction to the authorized personal care hours for DDD and LTC clients; and (6) reducing the state non-Medicaid funding to mental health Regional Support Networks by 22 percent in the last seven months of fiscal year 2011.

The Governor's 2011 supplemental budget also proposes to make a one day delay in June 2011 K-12 apportionment payments, which pushes these costs into fiscal year 2012. While increasing costs in fiscal year 2012, this achieves \$253 million in additional fiscal year 2011 savings and allows a positive fund balance at the end of fiscal year 2011. Additionally, the Governor's 2011 supplemental proposal includes \$165 million for caseload and other maintenance level increases, and \$85 million in increased policy level spending. The policy level items include: (1) \$28 million in contingency funding to school districts for the apportionment delay and other proposed K-12 reductions; (2) addresses shortfalls in certain dedicated accounts; and (3) provides additional fire related funding.

Combined with the "early action" fiscal legislation, the Governor's proposed 2011 supplemental budget would reduce spending by \$824 million from budget enacted after 2010 legislative session.

Reserves

The Governor's proposed budget leaves an unrestricted ending fund balance in the near general fund of approximately \$885 million at the end of fiscal year 2013. With the proposed \$290 million transfer to the general fund, the Budget Stabilization Account is projected to have a zero fund balance under the Governor's proposal.

Summary of Governor Gregoire's Proposed 2011-13 Biennial Capital Budget

OVERVIEW

The Governor's capital budget proposes to spend \$2.5 billion in total funds. The proposed bond budget is \$985 million, including \$45 million of Columbia River Basin Water Supply Bonds that have already been authorized. The Governor increases bond capacity by expanding general revenue by undedicating tobacco revenue currently deposited in the Education Legacy Account and by assuming the January 2011 bond sale will be \$150 million less than earlier assumptions. In addition to some transfers in her proposed 2011 supplemental budget, the Governor's budget transfers \$273 million from various cash accounts from the capital to the operating budget, which are largely backfilled with bonds. An additional \$50 million in higher education facility operations and maintenance costs in the operating budget are paid for with higher education building account funds. The budget is distributed among the functional areas as follows:

	Bonds	Total
NEW PROJECTS (\$1,000s)		
Governmental Operations	92,652	570,994
Human Services	112,707	162,575
Natural Resources	177,226	744,464
Higher Education	311,604	514,113
Public Schools/Other Education	291,250	507,701
Projects Total	\$985,439	\$2,499,847

The Governor's proposed capital budget is a third smaller than the current 2009-11 biennium in total funds and half the bond budget of the 2009-11 biennium.

	Bonds	Total
NEW PROJECTS (\$1,000s)		
Governmental Operations	-81%	-20%
Human Services	73%	-16%
Natural Resources	-60%	-30%
Higher Education	-39%	-48%
Public Schools/Other Education	-40%	-35%
Projects Total	-50%	-33%

DETAILS

The Governor's proposed capital budget provides:

- \$514 million for higher education facilities, 46 percent for community and technical colleges and the rest for four year schools. The Governor's capital budget policy emphasizes construction over design projects and preservation and renovation of existing facilities over new facilities. The Governor departed from the prioritized lists for the community and technical colleges and the four year schools in order to accomplish that policy.
- \$486 million in state matching funds for K-12 school construction and \$10 million for the small repair program.
- \$386 million in low interest loans for public works projects.
- \$50 million for new capacity at the Washington State Penitentiary and \$14.7 million to design a new reception center for inmates and reconfigure the existing reception center for medium security inmates.
- \$40 million for affordable housing assistance.
- \$92 million to protect and clean up Puget Sound and for stormwater projects.
- \$81 million for preventing and cleaning up toxic waste.
- \$11 million for several local community projects (\$3 million for construction of a water pipeline for the Tulalip Indian Reservation, \$2 million for Aviation High School, \$2 million to begin design for the Hilltop Health Center in Tacoma, \$1.3 million for the Second Harvest food bank warehouse in Spokane, \$1 million to add nine holes at the American Lake veterans' golf course, and \$800,000 to remodel and expand the inpatient behavioral health center at the Skagit Valley Hospital.)