

OVERVIEW OF GOVERNOR GREGOIRE'S 2010 SUPPLEMENTAL OPERATING BUDGET AND 2010 CAPITAL BUDGET PROPOSALS

***BASED ON STATUTORY REQUIREMENT TO SUBMIT A BUDGET
BASED ON EXISTING REVENUES****

** In a letter discussing her 2010 supplemental budget proposal, the Governor indicated that she will submit a revised supplemental budget in January that will propose new revenue.*



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Governor Gregoire's Proposed 2010 Supplemental Operating Budget

Introduction¹

In the last legislative session, the Legislature and the Governor addressed a projected budget problem of approximately \$9 billion over the three year time period between fiscal years 2009 and 2011. To solve this \$9 billion budget problem, the 2009-11 enacted budget made a variety of program and compensation reductions, used federal stimulus and capital budget resources, and utilized a variety of other funds to balance the operating budget.

Since spring, economic conditions have worsened and state revenue collections have been lower than anticipated when the Legislature passed the budget. Over the course of the three revenue forecasts since the last legislative session, the Economic and Revenue Forecast Council has lowered their general fund state revenue projections for this biennium by approximately \$1.7 billion.

Partially related to overall economic conditions, caseloads and some costs associated with maintaining current programs and services have also increased beyond the level assumed in the budget adopted last spring. Additionally, for a variety of reasons, the amount of the savings actually realized from some of the budget reductions in the enacted budget are less than originally anticipated.

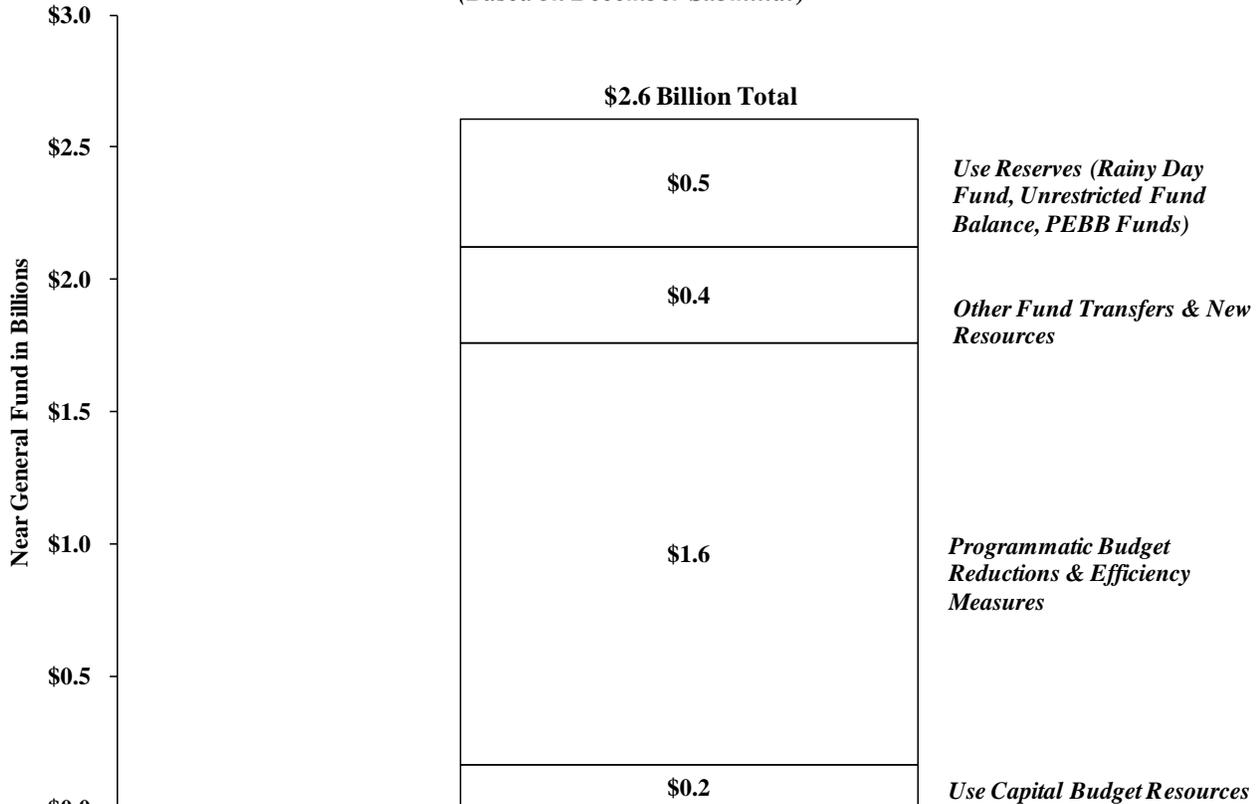
The combination of all these factors has created a situation in which there is a gap between the amount of available resources and current services spending projections. Based on the assumptions used in the development of the Governor's proposed 2010 supplemental operating budget, including some selected policy level additions, this new budget problem is approximately \$2.6 billion between now and the end fiscal year 2011.

Overview of Governor Gregoire's Proposed Budget Solution

The Governor's 2010 supplemental budget proposal partially addresses this deficit by making approximately \$1.6 billion in additional spending reductions. This proposal also makes a number of fund transfers totaling \$362 million. Additionally, the Governor's proposal utilizes \$162 million in capital budget resources to assist the operating budget for the 2009-11 biennium. Finally, the Governor's proposal uses reserve funds to balance the budget. These include: \$229 million from the Budget Stabilization Account ("Rainy Day Fund"); \$202 million from unrestricted general fund state; and a total of \$52 million from reserve funds associated with state employee health care.

¹ **IMPORTANT NOTE:** *This document generally depicts savings amounts exclusive of policy level additions, transfers of certain activities among agencies, and fund shifts. This is done to depict the actual reductions made in particular agencies and programs. However, for these reasons, the amounts may not correspond exactly to the amounts presented by the Office of Financial Management.*

Governor's Proposed 2010 Supplemental Budget Solution
(Based on December Submittal)



The Governor's Proposed Budget Solution*

* This reflects the Governor's proposal released on December 9th, 2009. She indicated she will be submitting a revised 2010 supplemental budget proposal in January 2010.

Governor Gregoire's Letter Regarding Budget

In a letter and her public comments discussing her 2010 supplemental budget proposal, the Governor indicated that she will submit a revised supplemental budget in January. She stated that her revised supplemental proposal will be a combination of budget reductions and new revenue. The letter mentions that she plans on restoring funding in the following areas: (1) the state's Basic Health and Apple Health plans; (2) a restructured general assistance program; (3) K-12 levy equalization funds for public schools; (4) state financial aid for higher education; (5) early childhood education and kindergarten; (6) adult medical, dental, vision and hospice programs; and (7) developmental disability and long-term care services.

While not indicating a specific revenue proposal, her letter mentions "eliminating unfair and unproductive exemptions and loopholes." The cost of the items proposed for restoration by the Governor would appear to be in the \$700 - \$750 million range.

Near General Fund Budget Changes

Human Services -- \$851 Million Savings

DSHS and HCA Low Income Health Care

Eligibility Changes -- \$291.1 million savings:

- Eliminate the Basic Health Plan (BHP), which provides subsidized health care coverage for low-income adults and children below 200 percent of the federal poverty level -- \$160.6 million savings
- Eliminate the General Assistance-Unemployable (GA-U) and Alcohol and Drug Treatment Support Act (ADATSA) medical programs, which provide health care coverage for adults who are temporarily unemployable due to a physical or mental incapacity or are in need of chemical dependency treatment -- \$118.9 million savings
- Reduce Apple Health for Kids, which provides health insurance for low-income children, from 300 to 205 percent of the federal poverty level -- \$11.6 million savings

Reimbursement and Cost Sharing Changes -- \$41.6 million savings:

- Reduce reimbursement rates for inpatient and outpatient hospital services -- \$22.7 million savings
- Eliminate state-only grants to community health clinics -- \$12.5 million savings
- Eliminate state payment for Medicare Part D prescription drug co-pays for aged, blind, and disabled enrollees who are dually eligible for Medicare and Medicaid -- \$6.4 million savings

Benefit Changes -- \$67.3 million savings:

- Eliminate maternity support services -- \$28.1 million savings
- Eliminate non-emergent adult dental services -- \$14.3 million savings
- Eliminate adult hospice services -- \$6.2 million savings
- Eliminate school-based medical services -- \$5.7 million savings
- Eliminate adult physical, occupational, and speech therapy -- \$4.6 million savings
- Eliminate interpreter services -- \$4.4 million savings
- Eliminate adult optical and hearing services -- \$3.0 million savings
- Eliminate adult podiatry services -- \$1.0 million savings

DSHS Aging and Disability Services Administration (Developmental Disabilities and Long Term Care)

- Makes reductions to Medicaid Personal Care (MPC) client eligibility and client hours including raising the eligibility standard for MPC to the nursing facility level of care and eliminating hours for certain non-medical related services -- \$29.6 million savings
- Several reductions impacting homecare agency reimbursement rates and eliminating mandated parity are proposed -- \$15.5 million savings
- Individual and Family Support and Family Caregiver Support programs and various discretionary programs are reduced and funding for Volunteer Chore is suspended for the remainder of the biennium -- \$14.6 million savings
- Employment vendor rates are reduced, the remaining state-only program is eliminated, and the Jobs by 21 Partnership is suspended -- \$3.1 million savings
- License fees for nursing homes and boarding homes are increased to cover costs. The increased private/local revenue results in GF-S savings -- \$3.0 million savings
- Delays the implementation of Initiative 1029 training requirement for long term care workers -- \$2.8 million savings
- Funds additional staff in Long Term Care to expedite the discharge of nursing home clients to lower cost community or in-home settings resulting in a net budget savings -- \$2.7 million savings

DSHS Economic Services

- The GA-U program is eliminated effective July 1, 2010. Vocational and social factors used to determine incapacity for the aged, blind, and disabled population under the GA – Other program are changed to mirror federal Supplemental Security Income (SSI) eligibility criteria. The reduction to GA-U is expected to affect an average of 23,500 cases per month -- \$88.5 million savings
- Reduces Working Connections Child Care through limiting entries into the program from a current average of 3,800 a month to 1,400 per month. Priority will be given to Temporary Assistance for Needy Families (TANF) clients and other lowest income families -- \$88.5 million savings
- Reduces TANF funding through enforcing the federal 60-month time limit, eliminating career services to non-TANF recipients, and changes to sanction policy -- \$17.0 million savings

DSHS Children's Administration

- Reduces Family Preservation Services, which are contracted services to reunite families or prevent the likelihood of out-of-home placements, by 50 percent - \$5.8 million savings
- Reduces foster care maintenance payments by 8 percent or approximately \$50 per month -- \$4.0 million savings
- Reduces Behavioral Rehabilitative Service through 10 percent reduction to payments for maintenance and rehabilitation services provided to children with behavioral/emotional disturbances -- \$4.2 million savings
- Eliminates Secure Crisis Residential Centers effective July 1, 2010 -- \$2.5 million savings

DSHS Mental Health

- Counseling, medication management, and other support services for uninsured persons in jails and the community are reduced by 25 percent -- \$5.3 million savings
- Staffing in the state psychiatric hospitals is reduced by 2.5 percent -- \$4.9 million savings
- Extra housing and other community supports for persons "downsized" in earlier years from state psychiatric hospitals are reduced by 55 percent -- \$4.0 million savings
- Community hospitals will no longer be partially reimbursed for voluntary psychiatric hospitalizations of persons served through the GA-U program -- \$2.9 million savings
- Funding to assist the Spokane Regional Support Network reduce use of Eastern State Hospital is discontinued -- \$1.5 million savings
- Medicaid payment levels for community mental health services are reduced by 1 percent -- \$1.2 million savings
- Funding for local administration of non-Medicaid community mental health services is reduced by 10 percent -- \$1.1 million savings

DSHS Alcohol and Substance Abuse

- Eliminates state funded ADATSA outpatient treatment and detoxification, including cash grants. This is partially offset by using federal funds to restore a portion of the cut for certain populations -- \$8.7 million savings
- GA-U Chemical Dependency funding is reduced -- \$2.7 million savings
- Eliminates state funded low-income treatment and detoxification services. However, a portion of the cut is back filled using federal funds -- \$5.4 million savings

Department of Corrections

- A total of 157 FTE staff positions are reduced and various other reductions are made, such as the 490-bed elimination (detailed below)--\$22 million savings
- Funding is reduced for evidence-based programs funded as part of Offender Re-Entry in the 2007-09 biennium -- \$3.4 million savings

Institution Closures

The 2009-11 operating budget directed the Office of Financial Management to contract for an analysis of the feasibility of closing state institutional facilities to include elimination of 1,580 adult corrections beds from Department of Corrections (DOC) facilities, and elimination of 235 juvenile offender beds from DSHS- Juvenile Rehabilitation Administration (JRA) facilities by closing either Green Hill School or Maple Lane School.

For DOC, the Governor's budget eliminates 490 beds in fiscal year 2011 by:

- Converting McNeil Island Corrections Center from a medium custody institution to house minimum custody offenders only.
- Opening 1,400 beds in five medium custody units at Coyote Ridge Corrections Center in Connell.
- Closing Unit 6 of the Main Institution at the Washington State Penitentiary, Ahtanum View Corrections Center in Yakima, Pine Lodge Corrections Center for Women at Medical Lake and Larch Corrections Center in Clark County.
- Capital budget provides \$6.8 million for design of medium and close custody housing units and a kitchen at the Washington State Penitentiary.

Savings associated with the closures total \$7.1 million in fiscal year 2011 which includes restoration of \$12.0 million of the budget reduction for facility closures and \$2.0 million for unemployment compensation.

For institution closure in JRA, 56 institutional beds are eliminated -- \$2.1 million savings. This is accomplished by:

- Shifting 53 beds from institutions to state and contract community facilities
- Returning 13 Youthful Offenders to the Department of Corrections
- Closing Rainier Cottage at Maple Lane School (24 beds) and 2 wings at Green Hill School (32 beds)
- Reducing 38 beds from Naselle Youth Camp

The capital budget provides \$300,000 for a pre-design evaluation for expanding community-based juvenile facilities.

Selected Other Human Services Reductions

- The budget assumes several DSHS specific administrative savings and reorganizations such as reorganizing the division support, human resources and printing functions -- \$23.7 million savings
- Proposes a 10 percent and 48 FTE staff position reduction at the Special Commitment Center on McNeil Island -- \$11.2 million savings
- Reduces the Crime Victims Compensation program through a number of policy changes and aligning some medical services to Medicaid reimbursement levels. -- \$3.7 million savings
- Reduces the Department of Health's AIDS/HIV activities, including reductions to client drug assistance, subsidized insurance, and local AIDS networks grant program --\$10.6 million savings
- Eliminates the Family Policy Council and the community networks funding -- \$2.2 million savings.

K-12 Education -- \$408 Million Savings

- Suspends the Local Equalization Assistance (LEA) program calendar year 2011 -- \$142.9 million savings
- The required ratio of classified instructional staff (primarily teachers) to students is, by statute, 49 staff to 1,000 students in grades Kindergarten through three, and 46 staff to 1,000 students in grades four through twelve. However, the state budget provides funding at a ratio of 53.17 staff to 1,000 students in grades Kindergarten through four. Eliminates this enhanced level of K- 4 funding beginning in the 2010-11 school year -- \$110.6 million savings
- Eliminates funding for the \$99 per student I-728 Student Achievement distribution to school districts for the 2010 -11 school year -- \$78.5 million savings
- Suspends all-day kindergarten funding for the 2010-11 school year -- \$33.6 million savings
- The enacted 2009-11 budget eliminated one of two Learning Improvement Days (LID) for teachers' professional development. The Governor's proposed budget eliminates the remaining LID -- \$15.0 million savings
- Eliminates the Highly Capable, or gifted, program for school year 2010-11 -- \$7.4 million savings
- Eliminates a number of statewide programs and grants starting in fiscal year 2011. Examples of programs eliminated include Readiness to Learn, Career and Technical Education (CTE) grants, CTE middle-school programs, the Teacher Mentorship program, Reading Corps, and others -- \$13.8 million savings
- Reduces the Alternative Routes Certification program and Focused Assistance to schools by 55 percent and 50 percent, respectively -- \$3.6 million savings
- Adjusts 2010-11 school year spending authority in a number of statewide programs and grants to the amount actually anticipated to be spent. Examples of these programs include Focused Assistance, Readiness to Learn, and CTE grants -- \$2.7 million savings
- The Governor's budget proposal includes transfer of the School for the Blind and the Deafness Center to the Office of the Superintendent of Public Instruction.

Higher Education -- \$271 Million Savings

- Approximately 15,000 students with family incomes between 50-70 percent of the state median will no longer qualify for the State Need Grant, and grant levels will be reduced by approximately 53 percent for the 56,000 students who continue to qualify -- \$146.4 million savings
- State appropriations to the public colleges and universities are reduced by 5.4 percent in the second year of the biennium, the maximum allowed under federal stimulus assistance rules -- \$78.0 million savings
- Six financial aid programs that provide targeted assistance to approximately 10,500 students per year are discontinued in the second year of the biennium. These include the State Work Study, Washington Scholars, Washington Award for Vocational Excellence, Foster Care Passport to College, Western Interstate Compact Professional Student Exchange, and the Rural Osteopathic Medicine programs -- \$24.7 million savings.
- State funding for GEAR-UP programs that encourage and assist low-income middle-school students aspire to and prepare for college is discontinued -- \$1.5 million savings
- New conditional scholarships and loans for health professionals and future teachers are reduced by approximately 25 percent and 75 percent, respectively -- \$2.3 million savings

Department of Early Learning -- \$12 Million Savings

- Starting July 1, 2010, the Early Childhood Education Assistance Program (ECEAP) is reduced by 1,563 slots (19 percent) by removing 3-year old student participation -- \$10.5 million savings
- Eliminates career and wage ladder program, effective July 1, 2010 -- \$1.5 million savings
- Assumes responsibility for the voluntary home-based visiting grant programs that were previously administered by the Council on Children and Families

Department of Commerce -- \$11 Million Savings

- Reduces grants to local governments by extending the update cycle for local growth management plans -- \$3.9 million savings
- Makes staff and program reductions in the Community Services Division, including funding for community mobilization (\$1.3 million savings) and dispute resolution centers (\$500,000 savings) -- \$3.8 million savings
- Reduces staff and funding for the International Trade and Economic Development --\$2.7 million savings

Natural Resources -- \$16 Million Savings

- Phases out the watershed planning program and eliminates water resource staffing -- \$6.6 million savings
- Directs natural resource agencies to achieve administrative savings through a variety of efficiency measures -- \$3.8 million savings
- Reduces staff in interpretive program and arborist program, fills ranger positions with temporary rather permanent staff, and assumes additional park transfers, primarily to local governments --\$1.2 million savings

Policy Spending Increases -- \$84 Million Increase

State Employee Health Care Benefit Costs

The Governor's budget provides \$51 million general fund-state and \$49 million in other funds for additional employer contributions towards employee health benefits. Specifically, the per employee per month contribution into the Public Employees' and Retirees' Insurance Account (PERI Account) is increased from \$768 per employee per month to \$830 per employee per month in fiscal year 2011. The additional revenues help offset a deficit in the PERI Account that is projected to develop due to faster than expected growth in health care costs. The remainder of the shortfall is addressed through the use of remaining premium stabilization reserves, transfers of other reserve funds, and benefit reductions in calendar year 2011.

Other Selected Policy Additions

- Restores funding that was reduced in the original budget based on the closure of 235-beds in Juvenile Rehabilitation Administration. This is partially offset by the savings from a 56-bed reduction (detailed on page 6). -- \$12 million increase
- Funds an additional 2,500 Worker Retraining slots at Community and Technical Colleges--\$11.5 million increase
- Provides funding for additional client slots in the Division of Developmental Disabilities (DDD) community programs including 24 clients who are aging out of other DSHS services -- \$3.1 million increase
- Closes Frances Haddon Morgan Center by June 2011 and begins the Rainier Valley School downsizing with an expected closure of June 2014. A component of this initiative includes establishing state operated community residential facilities for children and funding crisis respite

slots in the community. The budget also assumes certain operational savings of the Residential Habilitation Centers --\$0.2 million Increase

Fund Transfers -- \$362 Million

A number of fund related actions and one-time fund transfers are made in both the Governor's proposed 2010 supplemental budget. Some of largest include: transferring \$111 million in FY 2009 reversions that would have gone to the Savings Incentive and the Education Savings Accounts; \$82 million State and Local Toxic Control Accounts; \$65 million from the Education Legacy Trust Account; \$24 million from the Public Works Assistance Account; \$20 million from the Multi-State Lottery Account and the State Lottery Accounts; and \$15 million from Performance Audit Account.

Reserves -- \$483 Million

The Governor's proposal uses various reserves funds to balance the budget. First, the Governor's uses all of the remaining \$229 million in the Budget Stabilization Account ("Rainy Day Fund"). Second, \$202 million from unrestricted general fund state is used to offset spending. Finally, a total of \$52 million from premium stabilization and other PEBB related reserves are used to offset additional costs associated with state employee health care. The result of these actions and the spending reductions proposed in the Governor's 2010 supplemental proposal is that the general fund--state unrestricted reserves are projected at \$311 million, with no funding in the Budget Stabilization Account, at the end of fiscal year 2011.

Summary of Governor Gregoire's Proposed 2010 Supplemental Capital Budget

Background

The Governor's supplemental capital budget increases total funding by \$197 million (including adjustments to reappropriations). The total increase includes \$85 million in debt limit bonds; \$67 million in certificates of participation and university issued-bonds backed by building account revenues; and \$45 million in other funds.

The Governor's bond budget included \$207 million in new spending and \$122 million in reductions. Major increases and reductions are as follows:

	Bonds (\$1,000)
Increases:	
Bonds for Fund Transfers	147,038
New Projects and Increased Funding	60,036
Total Bond Increases	207,074
Reductions:	
2009-11 School Construction Asst. Grant Program	(87,300)
Replace Hawthorne Hall Dormitory	(16,745)
Community and Technical College Bid Savings	(13,481)
Local Projects Not Moving Forward & Other Reductions	(4,575)
Total Reductions	(122,101)

The Governor's supplemental budget is distributed among the functional areas as follows:

	New & Reappropriation Adjustments (\$1,000)	
	Bonds	Total
Governmental Operations	55,760	26,334
Human Services	(8,751)	9,658
Natural Resources	16,320	70,900
Higher Education*	101,444	213,165
Other Education	(79,800)	(79,800)
Total	84,973	196,932

*\$103 million of the total proposed capital appropriation would replace state operating budget funding for higher education.

Some of the major new projects funded in the Governor's supplemental budget are:

- \$16 million in state bonds for grants to local communities, including:

Aviation High School	3,000,000
Catholic Charities Spokane Family Service Center	1,265,000
Chambers Bay	511,000
Junior Achievement - Yakima	1,700,000
Museum of Flight	3,000,000
Rainier Beach Medical and Dental Center (Neighborcare Health)	1,000,000
Salishan Phase III	1,000,000
Skagit Valley Hospital Inpatient Behavior Health Center	750,000
Urban League Village at Colman School & Northwest African American Museum	300,000
YMCA - Haselwood Family YMCA	500,000
Tulalip Water Pipeline	3,000,000

- \$6.8 million in state bonds for design and site work of added capacity Washington State Penitentiary. The added 454 beds may allow closure of more costly prison capacity.
- \$600,000 in state bonds to complete school mapping at the community colleges
- \$10 million to the Puget Sound Partnership for cleanup and preservation of Puget Sound.
- \$800,000 from the clean-up settlement account to the Department of Ecology for clean-up of toxic sites in Puget Sound.
- \$3.2 million from the clean up settlement account to clean up toxic sites smelters and mining operations.
- \$42 million in federal and dedicated state funds for the Water Pollution Control Revolving Fund Program.
- \$16.9 million in federal and dedicated state funds for the Drinking Water Assistance Program.
- \$5.8 million in state bonds for Sunnyside Valley Irrigation District Water Conservation.
- \$1 million from the air pollution control account to reduce diesel particle emissions in Tacoma
- \$42.8 million to replace Balmer Hall. The University of Washington is authorized to issue their own bonds to be financed with building account revenue.
- \$7.5 million for capacity to serve an additional 600 students at the Tacoma campus of the University of Washington, to be financed with a building account bond.
- \$2 million for land acquisition at the Tacoma campus of the University of Washington, to be financed with a building account bond.
- \$15 million for a new student information system at Washington State University, to be financed with a certificate of participation from unspecified fund sources.
- \$8.5 million from the Community and Technical College capital project account for Pierce College Fort Steilacoom: Cascade Core Phase II.
- \$5 million in added state bonds for repairs at public schools in distressed communities.
- \$2.5 million in state bonds for the repair of the Lloyd Auditorium at the Center for Childhood Deafness and Hearing Loss.