Operating Budget Briefing Book

November 2013

Washington State
SCS
Senate Committee SERVICES

Senate Ways & Means Committee

Table of Contents

Staff Issue Areas 2
Operating Budget Overview 3
Revenue Options 16
Employee Compensation 19
Collective Bargaining 22
K-12 Education 24
Higher Education 28
Low-Income Healthcare 32
Developmental Disabilities and Long Term Care 36
Economic Services 40
Children's Administration 45
Mental Health and Alcohol and Substance Abuse Services 48
Corrections and Criminal Justice 53
Natural Resources 56

SENATE WAYS AND MEANS COMMITTEE STAFF -- (360) 786-7715

Agency Budget Assignments

Bryon Moore - Staff Coordinator
786-7726

Richard Ramsey - Operating Budget Coordinator
786-7412

Brian Sims - Capital Budget Coordinator
786-7431
Bond Retirement and Interest
Local Government Assistance
Municipal Research Council

Dean Carlson - Revenue Coordinator
786-7305
Revenue Policy Issues
Board of Tax Appeals
Caseload Forecast Council
Department of Revenue
Economic & Revenue Forecast Council
Liquor Control Board

Kellee Keegan - Committee Assistant
786-7716

Michael Bezanson - Fiscal Analyst
786-7449
Department of Health (DOH)
Life Science Discovery Fund
Low Income Health Care (Medicaid)
Health Care Authority (including admin.)
Insurance Commissioner

Breann Boggs- Fiscal Analyst
786-7433
Department of Early Learning
DSHS - Administration & Support Services
DSHS - Alcohol and Substance Abuse
DSHS - Child Support Services
DSHS - Children & Family Services
DSHS - Economic Services
DSHS - Information System Services
DSHS - Payments to Other Agencies
TANF Issues
Office of Administrative Hearings

Pete Cutler- Fiscal Analyst
786-7474
Board for Volunteer Firefighters
Collective Bargaining
Commission on Salaries for Elected Officials
Department of Retirement Systems
Employee Compensation/Health Benefits
PEBB Benefits
Public Employment Relations Commission
State Actuary
State Investment Board

Maria Hovde - Fiscal Analyst
786-7710
Central Washington University
Community and Technical Colleges
Eastern Washington University
The Evergreen State College
University of Washington
Washington State University
Western Washington University
Workforce Training & Education Board
Student Achievement Council

Steve Jones - Budget Counsel
786-7440
Attorney General
House of Representatives
Joint Legislative Audit & Review Committee
Joint Legislative Systems Committee
LEAP Committee
Office of Financial Management
Office of the Governor
Office of the Lieutenant Governor
Public Disclosure Commission
Secretary of State
Senate
Special Appropriations to the Governor
State Auditor
State Treasurer
Statute Law Committee
Sundry Claims

Carma Matti-Jackson - Fiscal Analyst
786-7454
DSHS - Developmental Disabilities
DSHS - Long Term Care
DSHS- Mental Health
DSHS - Vocational Rehabilitation
Department of Services for the Blind
Department of Veterans Affairs

Sherry McNamara - Fiscal Analyst
786-7402
Columbia River Gorge Commission
Department of Agriculture
Department of Ecology
Department of Fish & Wildlife
Department of Natural Resources
Environmental and Land Use Hearing Office
Parks and Recreation Commission
Pollution Liability Insurance Agency
Puget Sound Partnership
Recration and Conservation Office
State Conservation Commission
Utilities & Transportation Commission

Julie Murray- Fiscal Counsel
786-7711
Arts Commission
Board of Accountancy
Board of Industrial Insurance Appeals
Commission on African-American Affairs
Commission on Asian-American Affairs
Commission on Hispanic Affairs
Commission on Judicial Conduct
Consolidated Technology Services
Courts:
- Court of Appeals
- Law Library
- Office of the Administrator for the Courts
- Office of Civil Legal Aid
- Office of Public Defense
- Supreme Court

Department of Commerce
Department of Employment Security
Department of Enterprise Services
Department of Financial Institutions
Department of Labor and Industries
Department of Licensing (non-transpo. portion)
Eastern Washington Historical Society
Gambling Commission
Horse Racing Commission
Human Rights Commission
Military Department
Minority & Women's Business Enterprises
Office of Archaeology & Historic Preservatio
Office of Chief Information Officer
Office on Indian Affairs
Washington State Historical Society
School for the Blind
School for the Deaf
State Lottery Commssion
State Patrol (non-transportation portion)

Lorrell Noahr - Fiscal Analyst
786-7708
Public Schools (K-12 Education)
Superintendent of Public Instruction

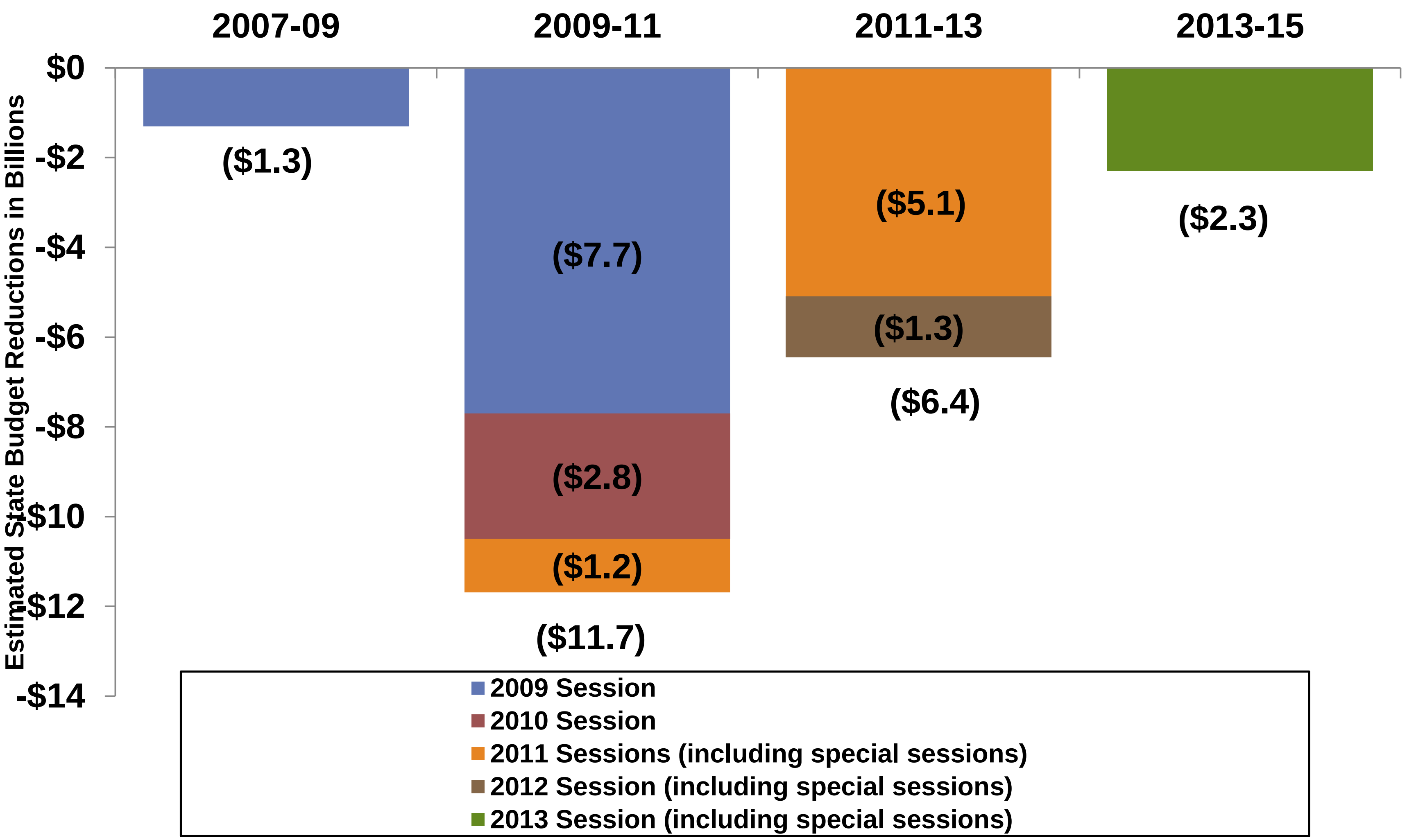
Juliana Roe - Revenue Counsel
786-7438
Revenue Policy Issues

Travis Sugarman - Fiscal Analyst
786-7446
Department of Corrections
DSHS - Juvenile Rehabilitation
Criminal Justice Training Commission
DSHS - Special Commitment Center
Forensics Investigation Council
Justice Assistance Grant (formerly Byrne Grant)

2

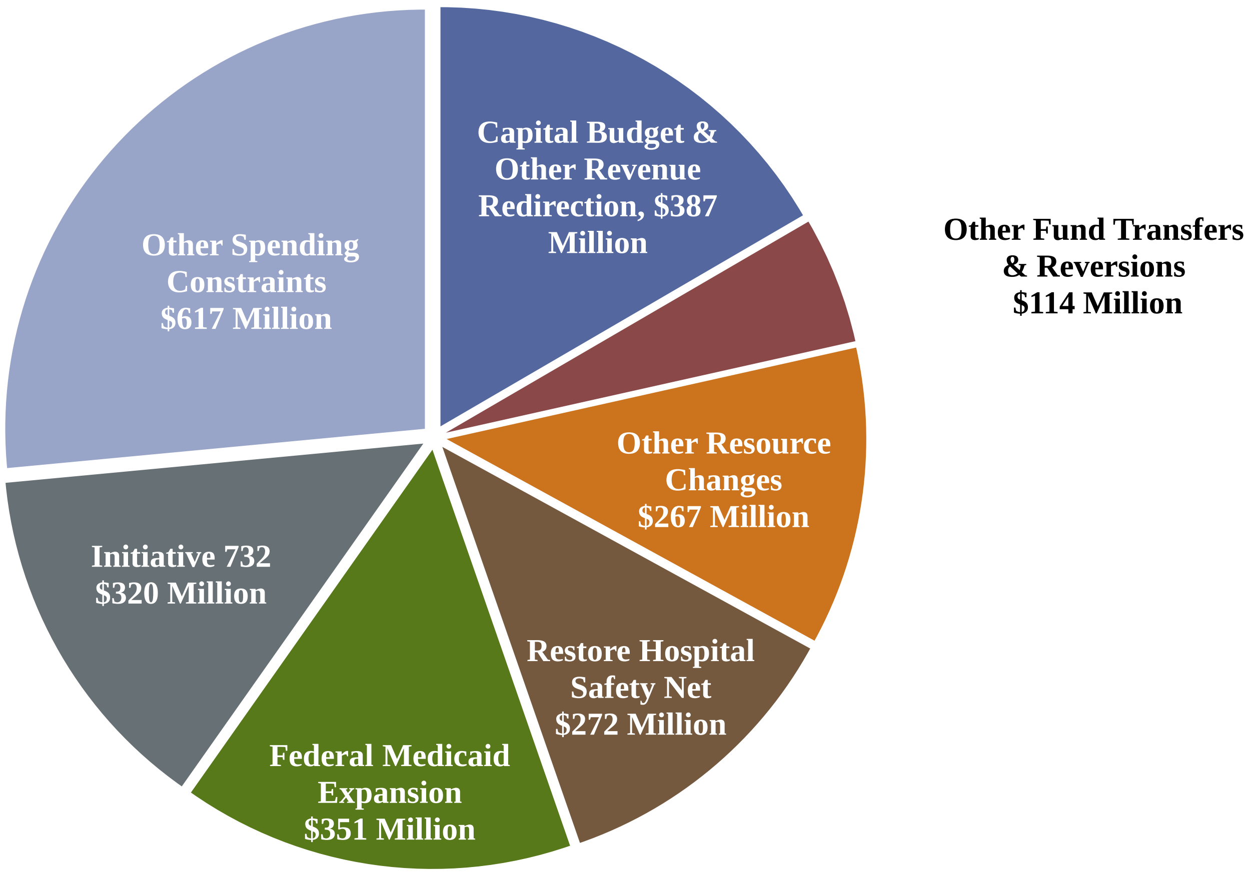
Overview of the 2013-15 Budget

In the last five years, the Legislature has addressed over $21 billion in combined budget challenges



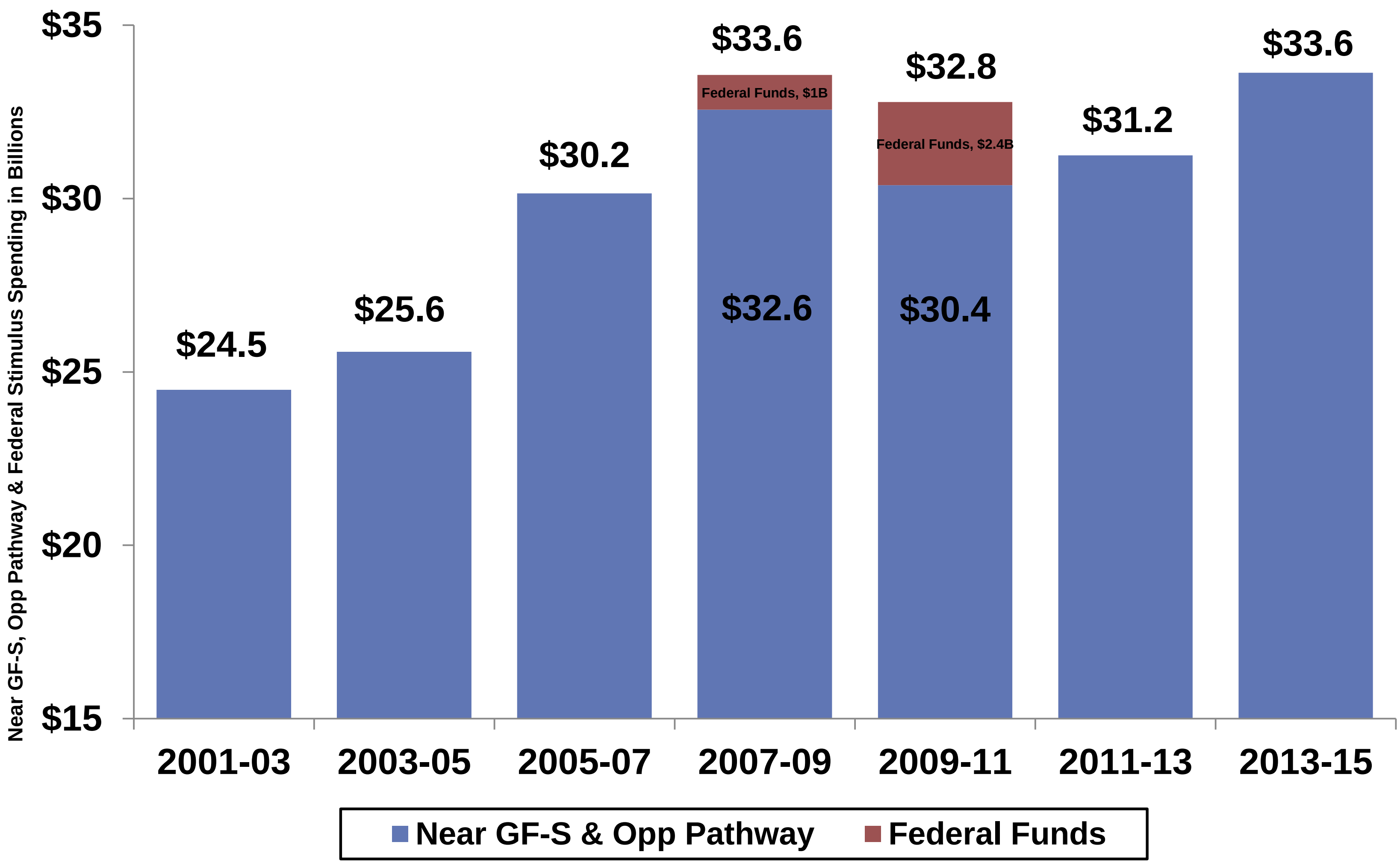
** This reflects the reduction amounts originally assumed in the legislative session. Actual amounts may be slightly different than these amounts.*

The 2013-15 budget solution relies upon $1.5 billion in savings and $768 million in other resource changes

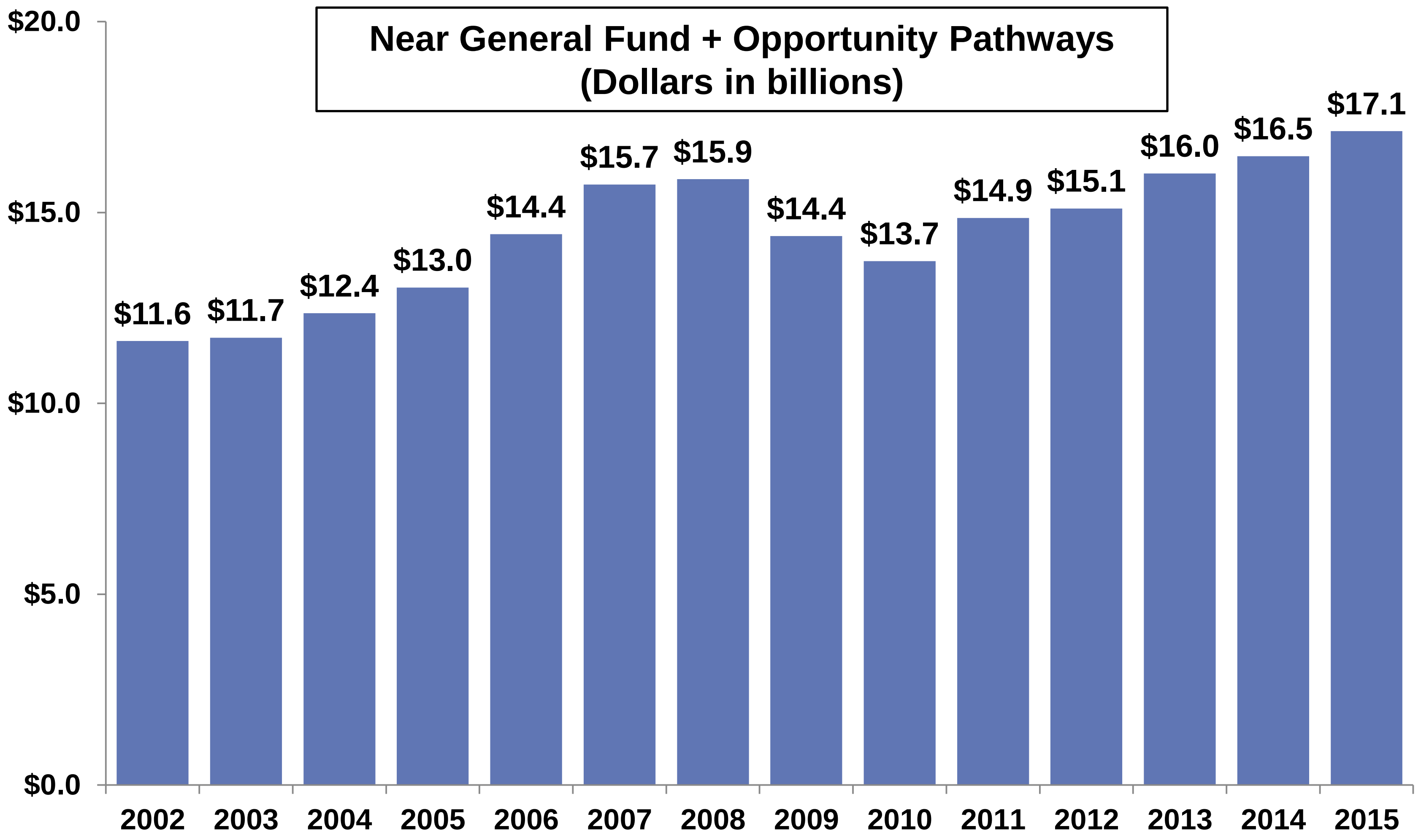


Total Budget Solution = $2.3 Billion

In the 2013-15 budget spending returned to pre-recession levels



Revenues show a similar trend recovering from the recession



Since you left town in June, there's been some good news

- Though modest in size, the September and November revenue forecasts have increased by a total of $270 million
- With the exception of K-12 and Corrections, the November caseloads are down
- The FY 2013 reversions are $59 million higher than expected

And some not-so-good news

- Federal share of presumptive SSI is 75% rather than the 100% assumed in the biennial budget – approximately $30 million; this is spread throughout HCA and several DSHS programs

Issues in the 2014 Budget

Governor's Preliminary Maintenance Level

- The Governor's maintenance budget increases spending by $162.7 million. This amount is really a placeholder for purposes of calculating the 4-year outlook. It will change. It includes:
  - Low Income Health Care: $71.9 million
  - Department of Corrections: $26.9 million
  - DSHS: $18.8 million
  - K-12 Education: $11.8 million
  - Wildfire costs in DNR and WDFW: $9.9 million

Yesterday, the Economic & Revenue Forecast Council adopted a 4-year outlook

(dollars in millions)	2013-15	2015-17
Unrestricted Ending Fund Balance	$215	$59
Budget Stabilization Account	$582	$944
Total	$797	$1,003

- **Reflects the Governor's preliminary maintenance budget and the November revenue forecast**
- **In January, the ERFC will adopt a 4-year outlook to reflect the Governor's proposed budget**

Other Potential Costs: Employee Compensation

- 1% COLA for state employees: $32 million. The COLA is contingent on FY 2015 GF-S revenue increasing by $200 million between the September 2012 and the February 2014 forecasts; after the November forecast this difference is $11 million

Other Potential Costs: Child Care Collective Bargaining

- SEIU 925 and the State have negotiated a supplemental bargaining agreement for child care providers
- It increases the base subsidy rate by 8% for all providers and provides $10 million for a pilot project for tiered reimbursement
- Should OFM determine the agreement is financially feasible, its ratification by the Legislature could cost $29 million GF-S and would be effective July 1, 2014

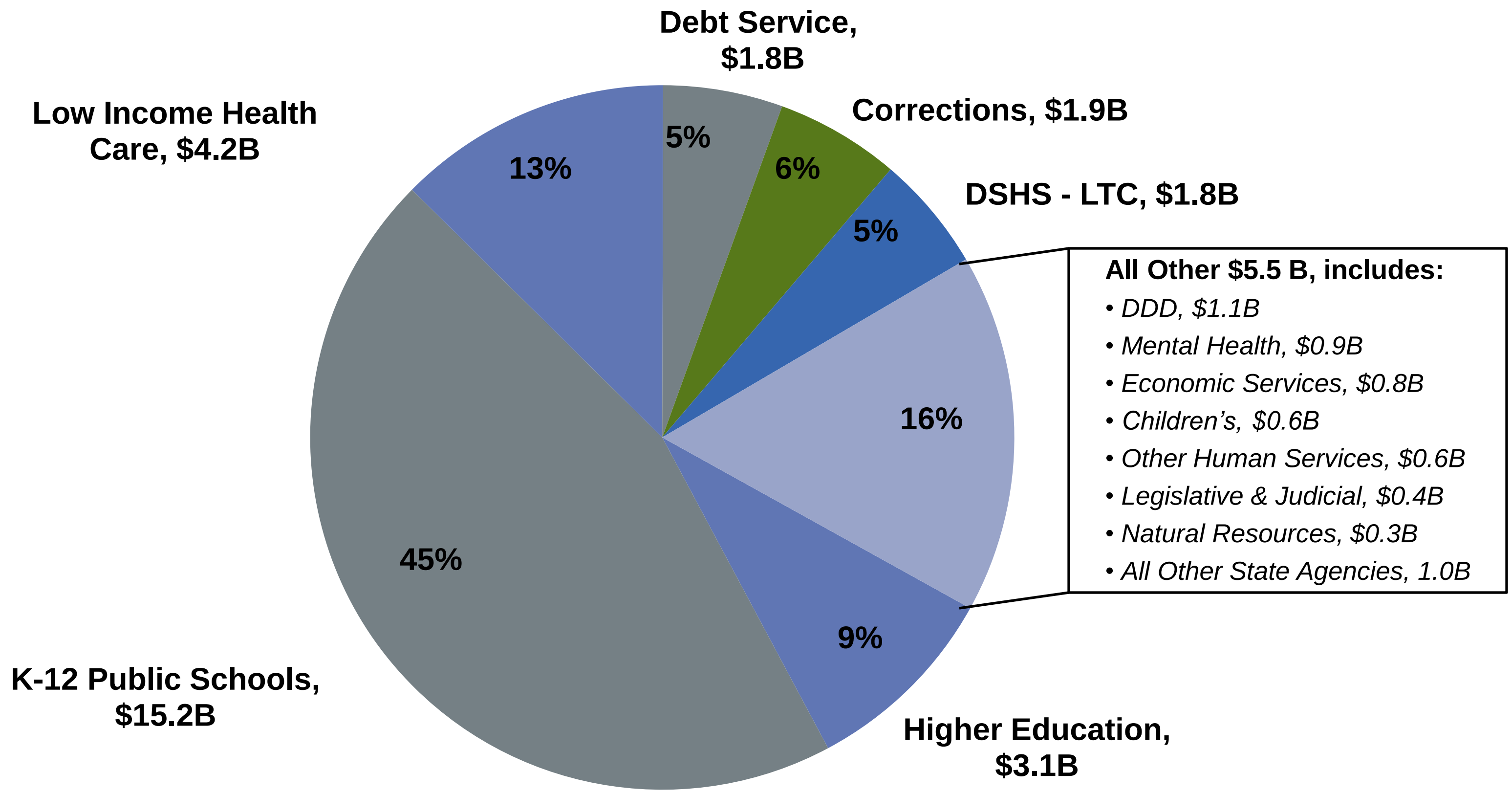
Other Potential Costs: Children's Mental Health Lawsuit

- *T.R. v Dreyfus* Settlement Agreement requires implementation of risk assessment and expansion of intensive home and community-based services. Cost: up to $10 million GF-S in FY 2014, growing to $70 million in 2017-19

15

Appendix

Over 80 percent of the Near GF-S operating budget is spent in six areas



Enacted 2013-15 Budget = $33.6B

** Reflects Near GF-S and Opportunity Pathways Account*

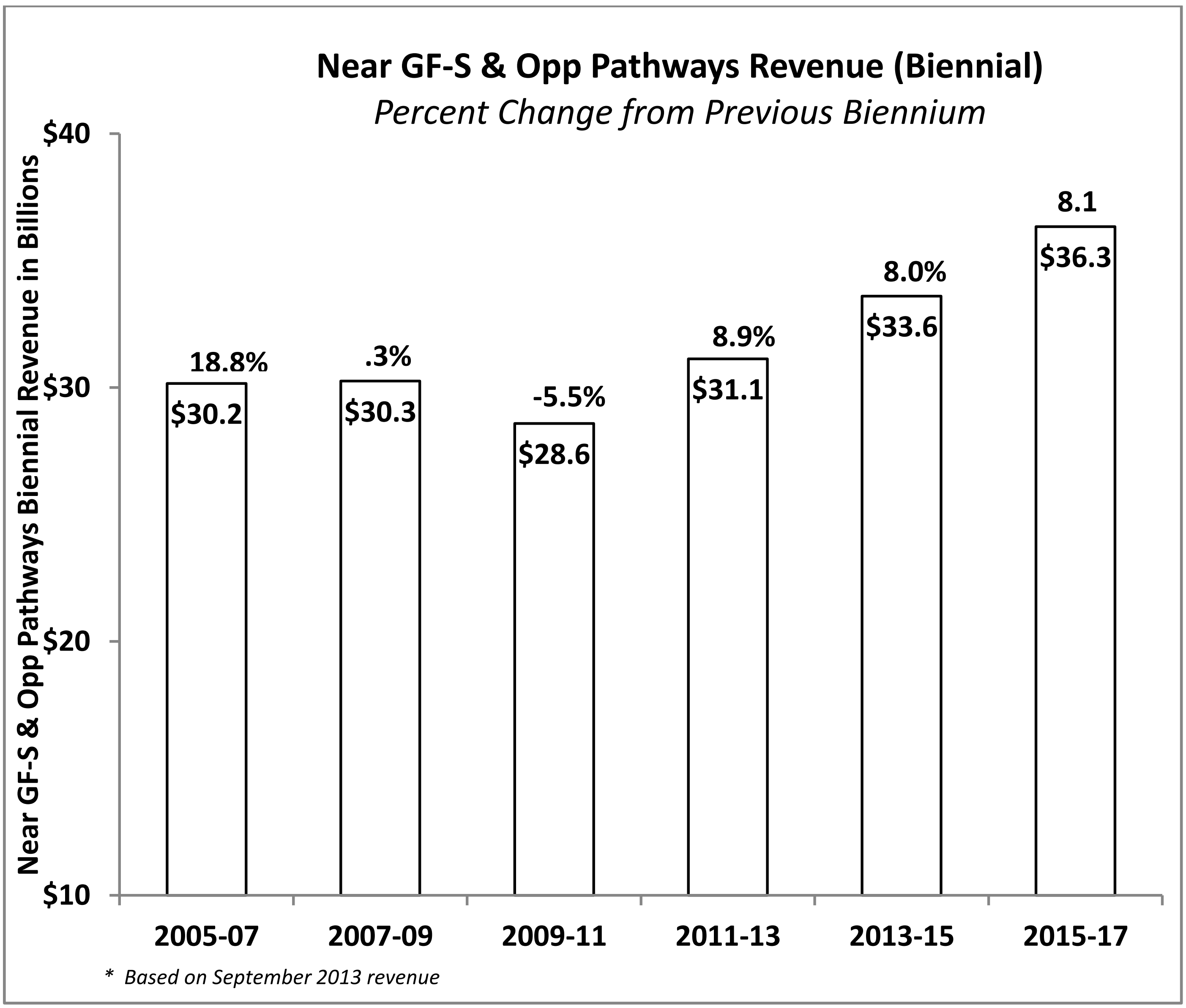
Revenue

Key Facts

- The most prominent streams of revenue to the state general fund are the sales and use tax (50%), the business and occupation tax (20%) and the property tax (12%).
- Near general fund and opportunity pathways revenues are expected to increase from $31.1 billion in the 11-13 biennium to $33.6 billion in the 13-15 biennium.
- Revenues exceeded FY 2008 levels for the first time in FY 2013.
- In 2010 (the latest data available) Washington ranks 21st in state and local taxes per capita, and ranks 36th in state and local taxes per $1,000 of personal income. Washington has been trending down (less taxation in comparison to other states) over the last several years.

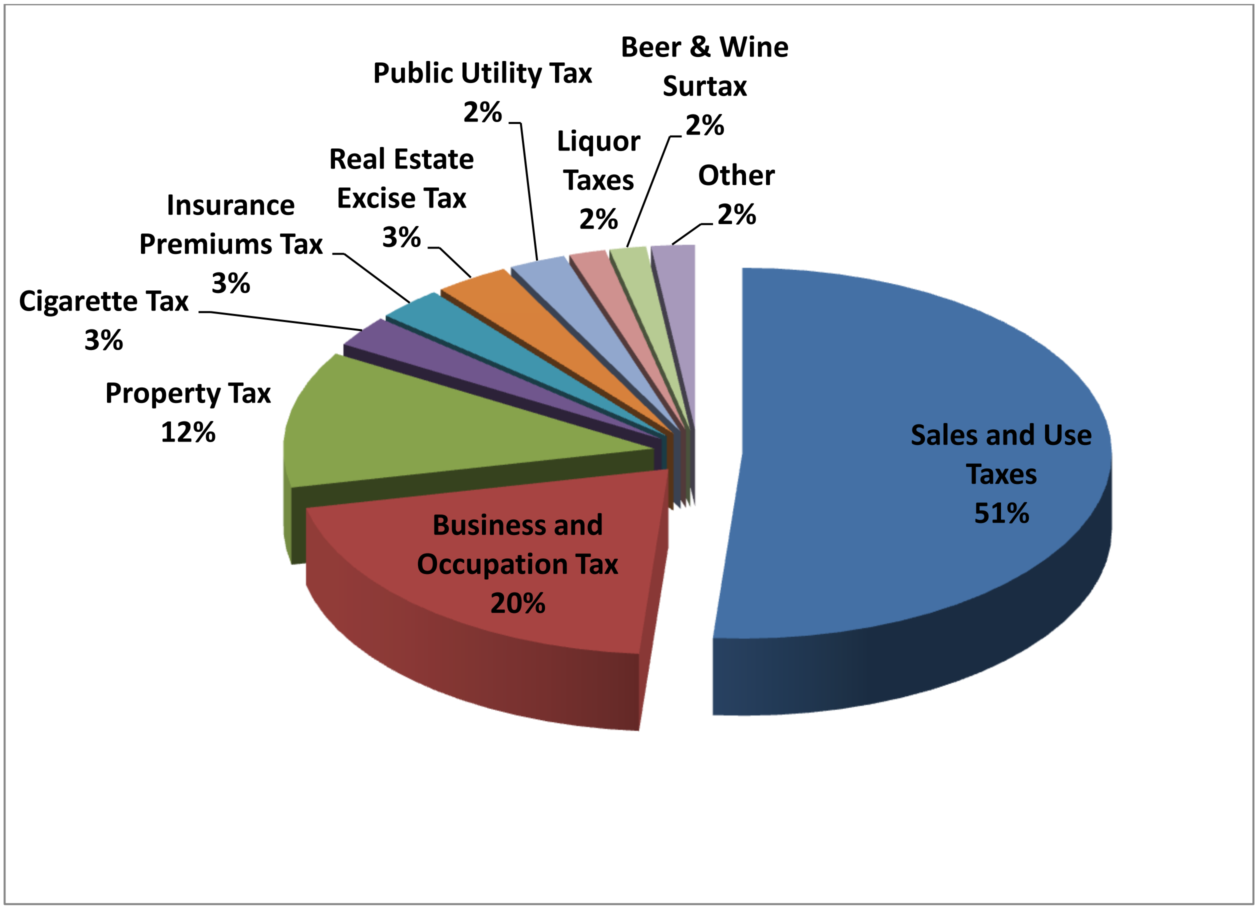
Trend/Overview Information

The graph below provides a biennial look at near general fund and opportunity pathways revenues over the past several years:



The chart below breaks out state general fund revenues by tax source expected for the 13-15 biennium based on the September 2013 forecast:

Tax Revenue to the General Fund



Current Revenue Issues and Updates

Streamline Sales Tax:

Since 1992, states have been unable to enforce their sales and use tax laws with respect to catalog and online sellers that lack physical presence (remote sellers). The Marketplace Fairness Act introduced in the U.S Senate by a bipartisan group of Senators, would end this loophole generating an estimated $567.2 million to the state and $278.5 million to local governments in the 2015-17 biennium; (new estimates will be out in December and will be a little lower based on the possible effective date). While it is uncertain if this bill will be enacted, the bipartisan nature of the bill, the high visibility of its sponsors, and lobbying efforts of major companies make it the most serious attempt to grant states remote seller collection authority.

League of Education Voters v. State of Washington:

This lawsuit challenged the constitutionality of the requirement in Initiative 1053 that it takes a 2/3rd's majority vote of the legislature to raise taxes without going to the voters. In December 2012, the Supreme Court overturned the 2/3rd's majority vote requirement to raise taxes. The reason cited was Article 2 Section 22 of the constitution which provides that bills require a simple majority of both the House of Representatives and the Senate to pass. The court case did not affect the notification provisions, advisory votes, or fee requirements of Initiative 1053.

Initiative 502:

Initiative 502 passed in November 2012 legalizing the use of recreational marijuana. The retail sale of marijuana products, however, will likely not occur until May or June of 2014. The initiative imposes a 25% tax at each of three stages of the distribution chain. The federal government has said that it would not assert federal law against these sales as long as the state can control several listed concerns of the market. At present we do not have estimates on how much revenue the state will bring in from these sales. Also at issue for the 2014 legislative session, is how to regulate the medical marijuana industry so it can work in concert with and not cannibalize the recreational marijuana market.

Employee Compensation and Benefits

Salaries and other benefits for state employees constituted approximately 17% of Near General Fund-State expenditures during the 2011-13 fiscal biennium. Although there are several categories of state employment, the most important distinction for budgeting purposes is between employees that are represented by labor unions and those who are not. Generally speaking, salary and benefit changes for non-represented employees are subject only to policy guidelines and practical restrictions on implementation. Where represented employees are concerned, the Legislature is limited to either providing funding for the benefits agreed to in the collective bargaining process or rejecting the agreements.

While there is no specific legal requirement to provide the same salary or benefit funding increases given to state employees to K-12 employees, school districts are able to purchase health benefits for their active employees through the Public Employee Benefits Board (PEBB) of the Health Care Authority (HCA). Additionally, all school district retirees have the same opportunity to purchase continuing coverage through PEBB that is provided to retired state employees. Cost-of-living adjustments (COLAs) for K-12 employee salaries are governed by the provisions of Initiative 732.

Another constraint on benefit funding is that the courts in Washington have consistently held retirement plan members are contractually entitled both to any benefits promised in statute during the period of retirement plan membership and to systematic funding of those benefits. This does not tie the legislature to the use of any particular funding policies but does require the use of a systematic funding process.

Key Facts

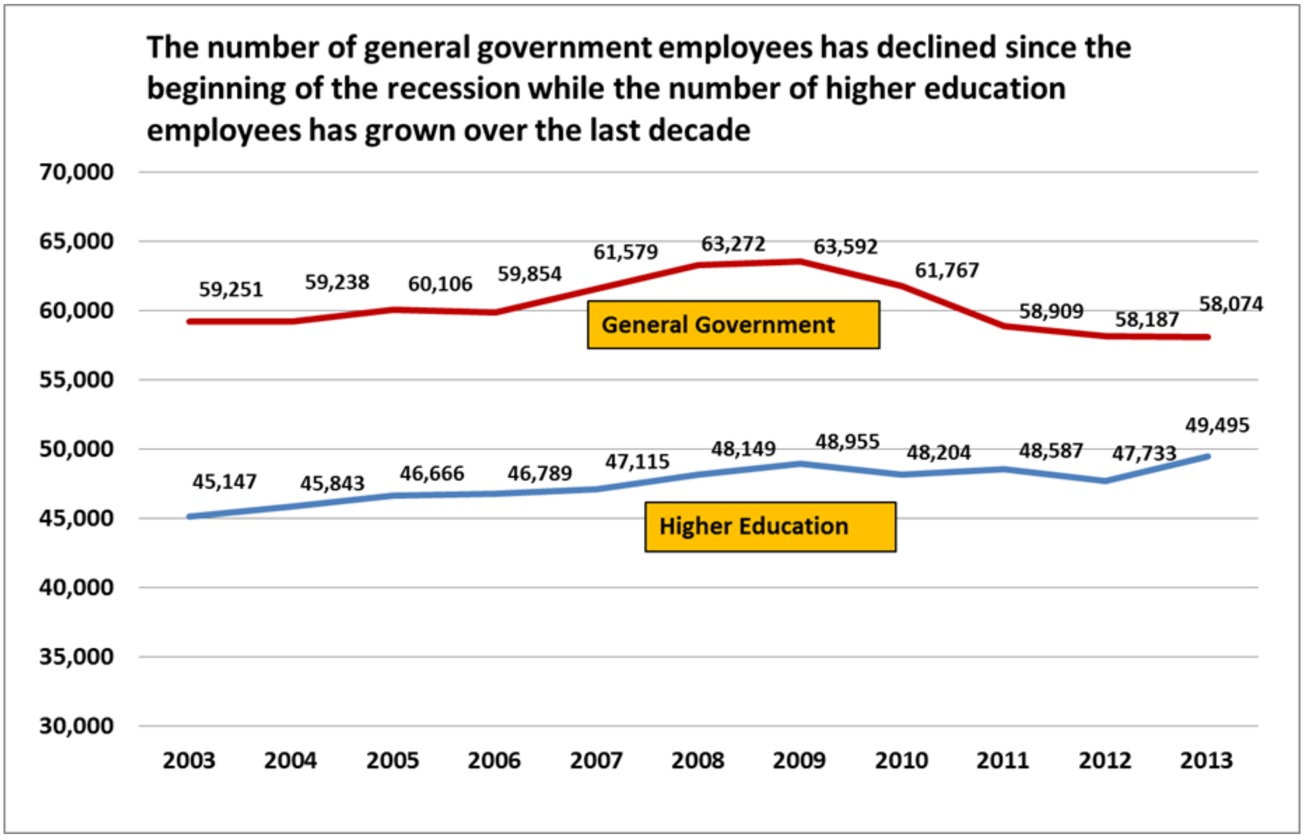
State Employee Staffing Levels (FTEs) and Salaries:

- 2011-13 expenditures for state agency and higher education salaries and benefits: $5.1 billion NGF-S w/Op Path; $16.4 billion all funds
- Number of state employees: approximately 108,000 FTEs in FY 2013, including 58,100 state agency employees and 49,500 higher education employees.
- Share of state executive branch agency employees who are managers: 7.9% as of October 2013. (Washington Management Service and Exempt positions)
- Median annual base salary of full-time state agency employees: $49,056 as of June 2013.
- Average annual salary of full-time state agency employees: $53,777 for FY 2013
- Average annual salary of full-time higher education employees: $60,895 for FY 2013

After peaking in 2009 state employment decreased by 9% through 2012. Higher education employment remained flat over the same period and increased by 4% between FY 2012 and FY 2013.

State Employee Health Benefits:

- Number of state and higher education employees enrolled in PEBB = 106,000
- Number of state and higher education covered lives (including dependents) = 227,000
- 2011-13 expenditures for PEBB contributions: $716 million NGF-S w/Op Path; $1.6 billion all funds
- State contributions in 2013-15 = $942 million GF-S; $2.1 billion all funds
- State monthly contribution for eligible employees = $782 (FY 2014) and $763 (FY 2015)
- Projections: 2015-17 = $1.2 billion GF-S; $2.7 billion all funds
- Required state contribution to maintain current benefits and 15% employee premium cost-share = $948 (FY 2016) and $1007 (FY 2017).



State and K-12 Pensions:

- State GF-S contributions in 2013-15 = S1.3 billion;
- Projections: 2015-17 = $1.6 billion; 2017-19 = $1.9 billion. The PERS employer contribution rate is expected to increase by about 1% of compensation, SERS by 1.5%, and TRS by 2.5%. The main causes are: an increase in required contributions for Plan 1 unfunded liabilities; the delayed recognition of past investment losses; and a reduction in the long-term investment return assumption from 7.9% to 7.8%.
- Plan funding ratios: PERS Plan 1 = 69%; TRS Plan 1 = 79%; PERS/TRS/SERS Plans 2/3 = 110-114%.

State and K-12 Retiree Health Benefits:

- Number of state and higher education PEBB retirees = 29,300; with dependents = 41,500.
- Number of K-12 PEBB retirees = 31,700; with dependents = 45,100
- Number of PEBB Non-Medicare retirees and dependents = 13,300
- Number of PEBB Medicare retirees and dependents = 75,500
- State monthly subsidy for PEBB Medicare retirees (explicit subsidy) (2013) = $150, up to a maximum of 50% of the premium

2013-15 Enacted Budget Recap

Funding for state employee compensation and benefits was increased by about $410 million NGF-S in the 2013-15 budget, including additional funding for wages and pension contributions and reductions in health benefit contributions:

A 3% salary increase is provided, effective June 30, 2013, to reverse the temporary 3% reduction in 2011-13 for most state agency employee groups; state institutions of higher education also received funding sufficient to provide 3% salary increases. Cost: $171 million GF-S.

Wage increases in collective bargaining agreements were funded, including the addition of a new step M (2.5% increase) to the general salary schedule, effective June 30, 2013. Cost: $40 million GF-S.

State pension contributions were fully funded for state, school district, and local government law enforcement and firefighter employees at the levels recommended by the State Actuary. Cost: $245 million GF-S.

State contributions for employee health benefits were reduced from $800 per month per employee in FY 2013, to $782 in FY 2014, and $763 in FY 2015. The FY 2014 reduction and part of the FY 2015 reduction are the result of lower-than-projected claims experience and costs. Most of the FY 2015 reduction is the result of two new monthly premium surcharges effective July 1, 2014: (1) a $25 surcharge for enrollees who use tobacco products; and (2) a $50 surcharge for enrollees who cover a spouse who has declined to enroll in a health plan offered by the spouse's employer that has equivalent coverage to the Uniform Medical Plan. Savings: $46 million GF-S.

Current Budget Issues

Health benefits collective bargaining tentative agreement: No agreement was reached prior to the end of the 2011-13 biennium on a health care benefits master collective bargaining for the 2013-15 biennium. Therefore the terms of the 2011-13 agreement, including the 15% employee premium cost-share, remain in effect for the following year. On October 1, 2013, the parties completed negotiations on a new agreement for fiscal year 2015. If the legislature ratifies the FY 2015 agreement and a new agreement is not reached for the 2015-17 biennium, the terms of the FY 2015 agreement would bind the state for another year until July 2016.

Court challenges to repeal of gain-sharing benefits and the TRS & PERS Plans 1 Uniform COLA : The State Supreme Court heard oral arguments October 24th on the court challenges to the repeal of gain-sharing benefits in the Plans 1 and 3 of the Public Employees', Teachers, and School Employees' Retirement Systems (PERS, TRS, and SERS) in 2007, and the elimination of the TRS and PERS Plan 1 COLAs in 2011. If the Court rules against the State on both cases the 2015-17 biennium impact could exceed $600 million GF-S.

Part-time employee insurance benefits - Moore v. HCA litigation: Part-time state employees who worked an average of 80 hours per month for a period of at least six months filed a claim for PEBB insurance benefits. The trial court ruled the plaintiffs were eligible for benefits; the issue of the calculation of damages is now before the Court of Appeals where oral arguments are expected early in 2014. Plaintiffs are seeking over $100 million in damages. There have been periodic settlement discussions with the plaintiffs and the state.

Collective Bargaining Overview

What is the history of collective bargaining for state employees?

Prior to 2005, state employees were not allowed to negotiate compensation or benefits. Collective bargaining was limited to other matters such as working conditions. The current framework for collective bargaining for state employees was established in the Personnel System Reform Act of 2002 (PSRA). The PSRA also revised civil service rules for classified employees and established procedures for state agencies to contract out for services. To date, there have been five sets of PSRA-governed labor contracts approved by the Legislature for the 2005-07, 2007-09, 2009-11, 2011-13, and 2013-15 fiscal biennia.

Who is represented?

Over 45,000 state agency employees are covered by general government labor contracts. Unions representing general government state employees include:

- Washington Federation of State Employees (30,200 members)
- International Brotherhood of Teamsters (5,600 members)
- Washington Public Employees' Association (2,200 members)
- International Federation of Professional and Technical Workers (2,400 members)
- Service Employees International Union (900 members)
- WA Association of Fish and Wildlife Professionals (800 members)

Other contracts are negotiated between labor unions and state institutions of higher education. Negotiations were also conducted with the Washington State Patrol Troopers' Association representing about 1100 troopers and with labor organizations representing about 1700 marine employees of the Department of Transportation. These negotiation processes are authorized under separate collective bargaining laws.

Managers (Washington Management Service and exempt) and employees of certain agencies (such as OFM, Public Employment Relations Commission, and legislative and judicial agencies) are all precluded from forming bargaining units.

What is the timeline for the bargaining process?

Negotiations between labor unions and the Labor Relations Office (LRO) begin in the spring of even-numbered years. Contracts must be agreed to and submitted to the Director of the Office of Financial Management by October 1st and certified as financially feasible in order to be considered for inclusion in the Governor's budget proposal.

For the 2013-15 contract period, salary-related agreements were reached by the October 1st statutory deadline between the LRO and General Government and Higher Education Community College bargaining units, marine units of the ferry system and non-state employees (language access providers, family child care providers and adult family home owners). In addition, the LRO reached agreements resulting from interest arbitration with the Washington State Patrol, marine unions and non-state employees (homecare workers).

What is in the 2013-15 labor contracts approved by the legislature?

The LRO negotiated forty-six (46) state agency and higher education employee collective bargaining agreements for the 2013-15 biennium. The details of the agreements vary slightly from contract to contract, however the contracts generally:

- Restored the temporary 3% salary reduction;
- Added a step to the salary schedule which provides a 2.5% increase for almost 17,000 general government employees; and
  - Authorized a one-time 1% salary adjustment in FY 2015 if FY 2015 revenue projections increase by $200 million between 2012 and 2014 (Not funded in budget; $32 million GF-S cost). This provision expires June 30, 2015.

No agreement was reached on employee health benefits prior to the 2013 regular session so the current terms continue until June 30, 2014, including the 15% employee premium share. On October 1, 2013, the parties reached an agreement that would continue the 15% employee premium share through fiscal year 2015, restrict cost-sharing changes for the Uniform Medical Plan until June 30, 2015, and calls for the creation of an employee wellness program.

What are the Legislative options for reducing compensation costs for represented employees?

Since the size and composition of the state workforce is not subject to collective bargaining under RCW 41.80.040, the Legislature is free to implement permanent reductions. Certain elements of the implementation, such as which employees are laid off first, would be governed by the labor agreements. Within the terms of the labor contracts, the Legislature may also mandate either temporary layoffs of up to 30 calendar days or a temporary reduction in hours to no less than 20 hours per week for no more than 120 calendar days in a year.

Finally, in the event of a significant revenue shortfall, the unions and LRO may be required to reopen negotiations by either a proclamation of the Governor or a resolution of the Legislature. There is, however, no guarantee that the parties would reach an agreement.

What are the Legislature's options for future contracts?

The Legislature may either approve or reject the request for funds to implement the each of the contracts as a whole. It may not reject parts of an agreement selectively. The approval or rejection may be made in the budget bill (past contracts has been approved in this way) or through separate legislation. If the contracts are rejected, either the bargaining unit or the LRO may reopen negotiations.

May the state contract out for services?

A state agency may contract with an outside for services; however it must provide its employees the opportunity to provide an alternative solution to purchasing the service. If that alternative is rejected, the agency must allow the employees to form an employee business unit and submit a bid in the competitive selection process for the contract. The Department of Enterprise Services is required to assist the employee business unit in the preparation of its bid. However, if the Legislature explicitly mandates the contracting out of a particular service, this process does not have to be followed.

K-12 Education

Washington State provides funding for basic and non-basic education through appropriations to the Office of the Superintendent of Public Instruction (OSPI). Funding for the nine regional Educational Service Districts (ESDs) is also provided through OSPI's budget. Of the total appropriated to OSPI, divided among 14 programs, over 99 percent is subsequently distributed to school districts across the state. Less than one percent is for OSPI itself, the ESDs, and statewide programs (i.e. grants that are managed centrally).

Key Facts

- K-12 Public School appropriations, 2013-15: $15.2 billion, NGF-S + OP
- School districts' operating fund sources for school year 2012: State funds (66%), Federal (10%), Local Taxes (20%), Other (4%)
- Number of K-12 students: 1,040,000*
- Number of schools: 2,281
- Number of school districts: 295
- K-12 staff in school year 2012, all fund sources: 100,300 (60,200 teachers; 3,900 administrators; and 36,200 support)

** Headcount for 2012 school year, rounded to nearest thousand*

More detailed descriptions of the organization and funding of the state's public schools can be found in the Senate Ways & Means publication, "A Citizen's Guide to Washington State K-12 Finance." It can be found online at: http://www.leg.wa.gov/SENATE/COMMITTEES/WM/Pages/default.aspx.

Trend/Overview Information

K-12 Education is the largest single part of the state Near-General Fund budget, making up 45.2 percent of the total.

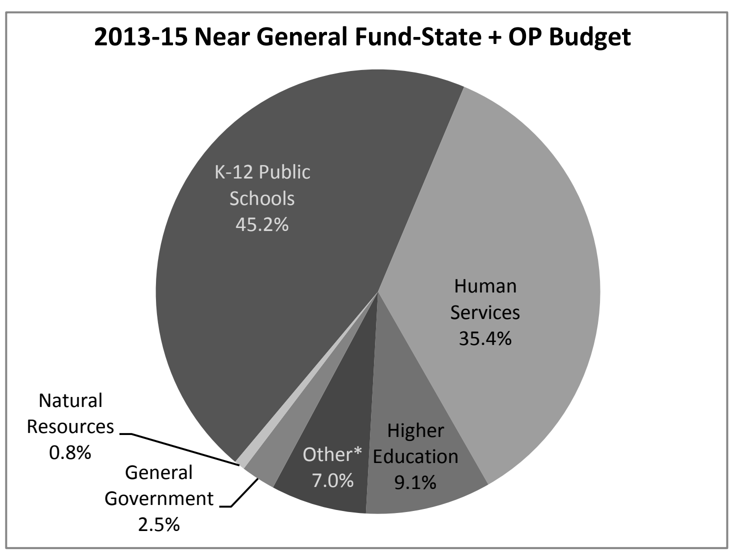
2013-15 Budget

Dollars in Billions
Near General Fund-State + OP

Budget		Percent
K-12 Public Schools	$15.2	45.2%
Human Services	11.9	35.4%
Higher Education	3.1	9.1%
Other*	2.3	7.0%
General Government	0.8	2.5%
Natural Resources	0.3	0.8%
Statewide Total	**$33.6**	**100.0%**

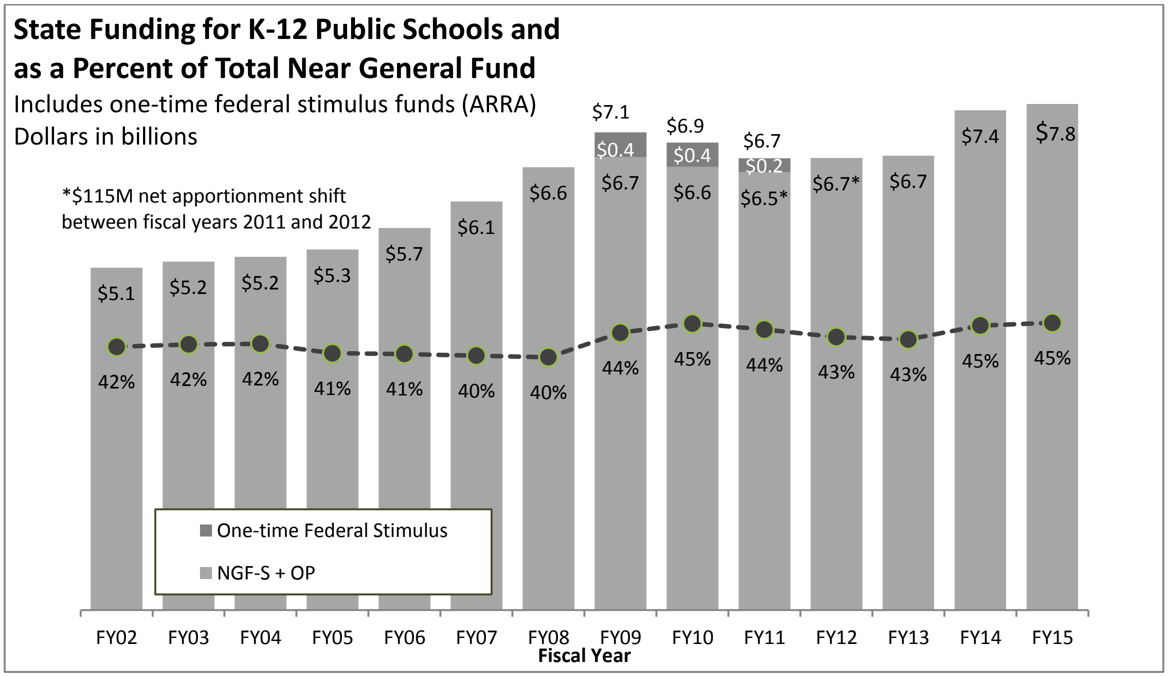
** Includes debt service, pensions, other education, transportation, and special appropriations.*

.



The current 2013-15 budget was enacted in June 2013 and based on the June 2013 forecasts of student enrollment, expressed as full-time equivalents (FTEs).

The following displays the history of K-12 appropriations, as well as the percentage of the Near-General Fund State budget allocated to K-12.



2013-15 Enacted Biennial Budget Recap

The budget enacted in June 2013 provided appropriations for $1.03 billion in policy enhancements. As compared with the 2011-13 estimated expenditures, the 2013-15 overall K-12 budget represents an 11.4 percent increase.

The bulk of this funding ($982.0 million) was appropriated for enhancements to basic education allocation formulas. Funding is provided to address the four key elements of SHB 2776: full-day kindergarten; early primary class size reduction; pupil transportation; and Materials, Supplies and Operating Costs (MSOC): In addition, the enhancements were provided for the Learning Assistance Program, a new program for students exiting from the Transitional Bilingual Instructional Program, increased instructional hours for grades 7-12, parent involvement coordinators for grades K-6, and increased allocations for guidance counselors for grades 7-12. The chart below provides a summary of the amount appropriated in the 2013-15 operating budget for these enhancements.

Basic Education Enhancements in 2013-15 Operating Budget

Dollars shown in Thousands	13-15 Biennial Budget
K-3 Class Size Reduction	$103,595
Expand Full Day Kindergarten	$89,824
Pupil Transportation	$131,681
MSOC	$373,958
LAP Expansion	$143,072
Transitional Bilingual	$18,863
Increase Instructional Hrs/24 credits	$96,973
Parent Inv Coordinators and Guidance Counselors	$24,057
Total Basic Education Enhancement	$982,023

The remaining funding ($15.0 million) was appropriated for teacher training for the new teacher and principal evaluation program and grants to support persistently lowest achieving schools.

Major reductions from maintenance level include: Suspension of I-732 COLA ($296 million); Changes to National Board bonus program ($3 million); Revision of the Alternative Learning Experience (ALE) funding formula ($1.6 million); ALE audit recoveries ($11 million); Changes to student assessment programs ($25 million); Elimination of basic education formula conversion hold harmless funding ($24.7 million); Suspension of Alternative Routes ($4.2 million); and the elimination of three grant programs and Regional Education Technical Support Centers ($16.5 million).

Current Budget Issues

McCleary v. Washington State: In January, 2012, the Supreme Court held that the state has not complied with its Article IX, section 1 constitutional duty to make ample provision for the basic education of all children in Washington. The court did acknowledge the recent enactment of sweeping reforms under Chapter 548, Laws of 2009 (ESHB 2261), and acknowledged the current progress toward implementing those reforms. The Court also noted that, if fully funded, the reform package will remedy deficiencies in the K-12 funding system. The Court retained jurisdiction to help "facilitate progress" in the State's plan to fully implement the reforms by 2018.

Continued implementation of revised definition of basic education: The two major education reform bills enacted in the 2009-11 biennium,[1] to which the Supreme Court referred in McCleary, made major changes to K-12 and K-12 funding including a redefinition of basic education, a new funding structure, and new funding formulas that went into effect on September 1, 2011. The bills created the Quality Education Council (QEC), with designated membership including four Senators, to oversee implementation. The legislation also requires funding enhancements to four specific areas of the budget – pupil transportation, MSOC, full-day kindergarten, and K-3 class size funding. The enhanced funding goes into effect on different schedules, but all enhancements began in the 2011-13 biennium and all are scheduled to be fully implemented by school year 2017-18.

The operating budget enacted for 2013-15 makes investments into the enhanced funding for the four areas in the amount of $699 million. A summary of estimated costs, below, shows the enhancements made in the 2013-15 biennium and the estimated total costs at full implementation.

[1] Chapter 548, Laws of 2009 (ESHB 2261) and Chapter 236, Laws of 2010 (SHB 2776)

Total SHB 2776 Full Implementation Costs
dollars in millions

Program Enhancements	Enacted FY14	Enacted FY15	Implementation Costs at Full Phase-in (Statutory deadlines highlighted below) FY16	FY17	FY18	FY19
Reduce Early Elementary Class Size	$42	$62	$63	$64	$607	$660
Expand Full Day Kindergarten	39	50	50	59	184	198
Materials, Supplies, & Op. Costs	152	222	670	734	754	770
Transportation	35	97	109	109	109	109
Fiscal Year Total	**$269**	**$430**	**$892**	**$966**	**$1,654**	**$1,737**
Biennial Total		**$699**		**$1,858**		**$3,392**

<u>Capital Space Needs</u>: As basic education is redefined and enhanced by the legislature, school districts have expressed capacity issues within their current capital facilities to accommodate these changes. Since 2003, capital budget appropriations have directed OSPI to count kindergarten students as full-time for the state's school construction assistance funding formula. In 2012, this change was adopted into statute. No changes have been made to the school construction assistance program (SCAP) to account for the lowering of K-3 high poverty class. In 2006, the legislature directed the State Board of Education (SBE) to revise the definition of the purpose and expectations of a public high school diploma. SBE has approved (but has not yet implemented) the 24 credit career- and college-ready graduation requirements which includes among other requirements the need for more lab science classrooms.

<u>School Construction Assistance Program:</u> The estimated capital appropriation needed to fund the SCAP is built using assumptions which are typically not finalized at the time of the budget. The estimated assumptions from the agency are typically higher than the actual funding need during the biennium. To overcome this, the legislature usually takes into account a historical rate of projects that will not make it to the final list and subtracts this percentage from the agency estimates for the first fiscal year. The actual funding need for the FY 2014 SCAP projects is $21 million higher than budgeted and DNR trust land timber revenue forecasts have declined $16 million since the budget was enacted, creating a shortfall of $37 million for the program. The FY 2015 project list is still in development, and it is currently unknown if this project list will follow the same trend.

<u>Charter Schools:</u> Voters approved Initiative 1240 in 2012 which allows for the establishment of up to 40 charter schools in the state of Washington. Letters of intent to apply have been received by the Charter School Commission. This provides insight into what type of charter schools our state can expect in the next couple years. The fiscal note for the initiative assumed that only public school students would attend charters and there would be no new caseload impacts. Among the applicants are private schools that wish to convert to a charter school. These applicant private schools change the previous assumptions made for the fiscal note. It now can be assumed if a private school becomes a charter they will bring with them their existing students, which will increase the public school caseload. Actual caseload changes will not be known until after February 2014. At that time, the scope of the fiscal impact will be known.

In July 2013, a lawsuit, League of Women Voters of Washington et al v. State, challenging the constitutionality of the Charter School Act (I-1240) was filed in King County Superior Court. The Charter School Commission was created by the initiative to administer the portion of the common school system consisting of the charter schools it authorizes in the same manner as a school district board of directors. The Charter School Commission, as a part of the Office of Financial Management, is the state entity defending the Charter School Act. The Charter School Commission will be required to pay the Attorney General's office costs needed for the defense of this lawsuit from their operating budget.

Higher Education

Higher education is comprised of two research universities, four regional universities, and 34 community and technical colleges. Budgeted enrollments, tuition, and financial aid are interconnected levers that drive the higher education budget. State dollars[2] fund financial aid and, together with tuition, the core academic functions delivered by higher education institutions, which include the cost of instruction, state sponsored research, and public service activities.

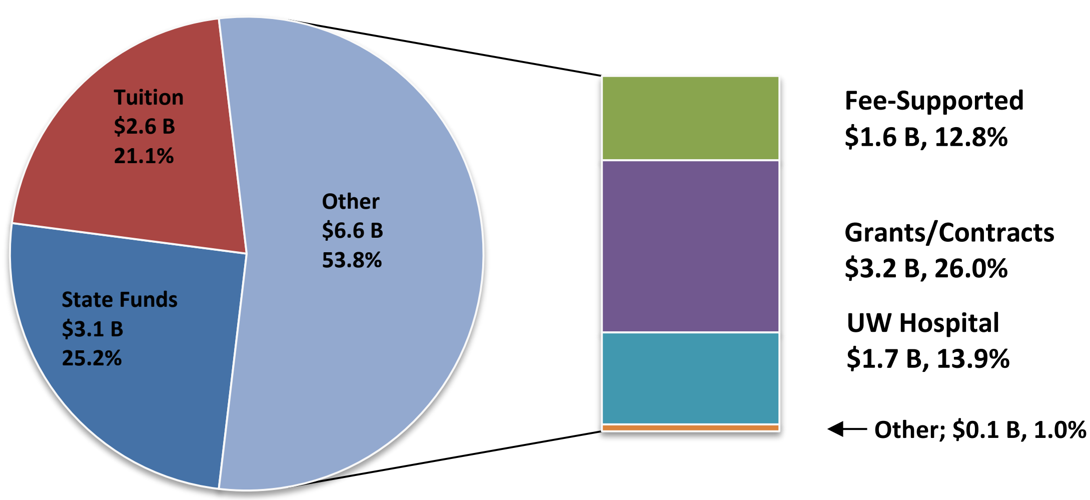
Key Facts

- 2013-15 biennial budget: $12.2 billion total funds; $3.1 billion state funds; $2.6 billion tuition
- Portion of core academic functions funded with state funds (four-year institutions): 37.6%
- Portion of core academic functions funded with state funds (two year institutions): 65.4%
- State-Funded FTE Enrollment, 2012-13 academic year: 232,144 (budgeted); 252,546 (actual)
- Four Year Degree production, 2010-11 academic year (most current data available):
    - 23,480 undergraduate degrees
    - 7,322 graduate degrees
- Two Year Degree/Certificate production, 2011-12 academic year:
    - 10,689 applied associate degrees
    - 155 applied baccalaureate degrees
    - 21,337 certificates
    - 16,747 academic transfer degrees

Trend/Overview Information

Higher Education Funding

For the 2013-15 biennium, the total budget for higher education is approximately $12.2 billion (representing 18.3% of the overall state budget). Approximately one quarter of this amount comes from the Near General Fund + Opportunity Pathways Account ($3.1 billion).



[2] State funds include the Near General Fund, Opportunity Pathways Account, Opportunity Express Account, and select expenditures from building accounts.

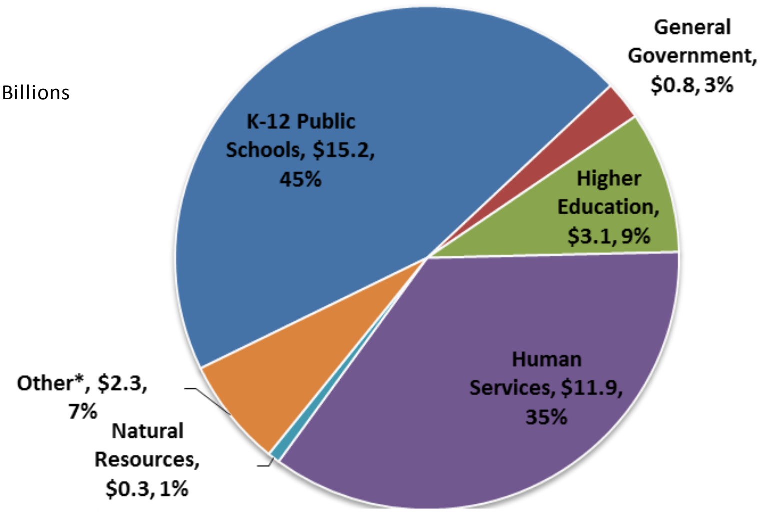
Higher education is the largest discretionary part of the Near-General Fund + Opportunity Pathways budget, making up 9.1% of the total.

2013-15 Budget

Near General Fund-State + Opportunity Pathways, Dollars in Billions

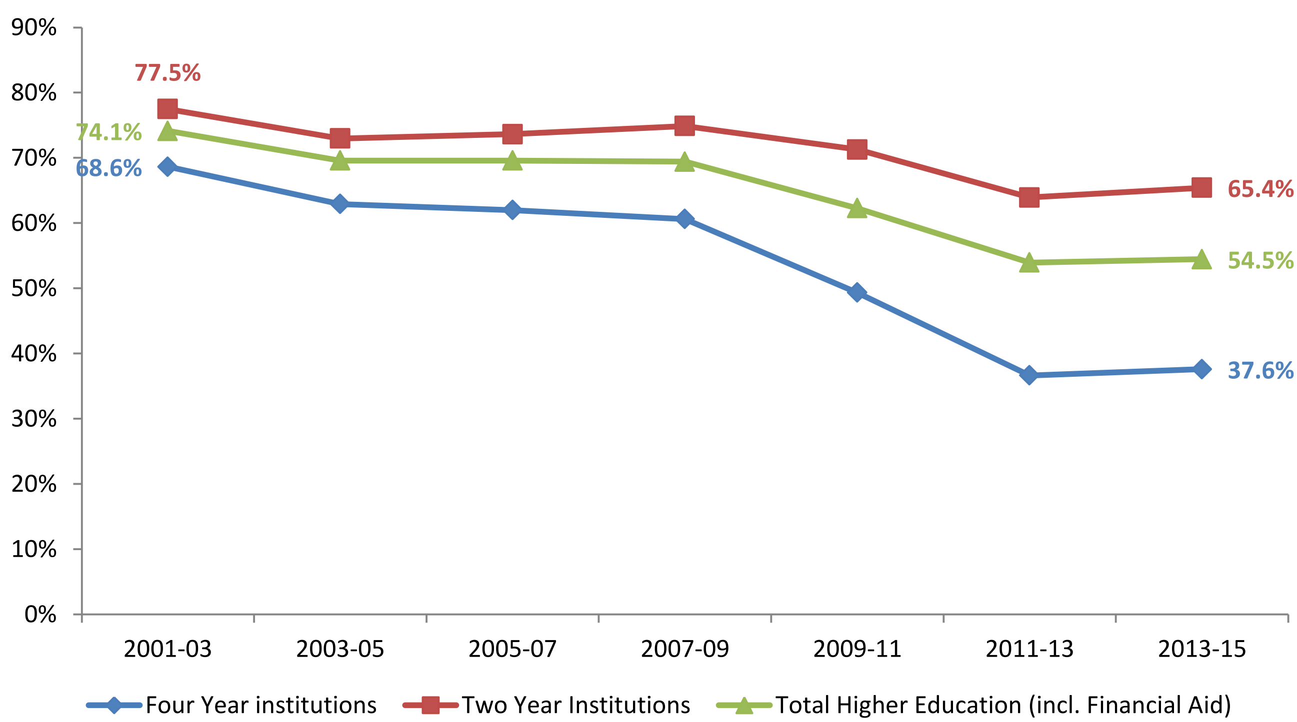
	2013-15 Budget	Percent
K-12 Public Schools	$15.2	45.2%
General Government	$0.8	2.5%
Higher Education	$3.1	9.1%
Human Services	$11.9	35.4%
Natural Resources	$0.3	0.8%
Other*	$2.3	7.0%
	$33.63	100.0%

*Includes debt service, pensions, other education, transportation, and special approps.



State Share of Core Academic Functions

The portion of core academic functions paid for with state funds has changed over time and declined more quickly over the 2009-11 and 2011-13 biennia with the successive reductions to state funding necessitated by the Great Recession. As a result, state funding now represents approximately 65% in the community and technical college system and 38% in the four-year institutions, even after accounting for the increases in appropriations provided for the 2013-15 biennium.



Enrollment and Completion

Since the 2007-08 academic year, the numbers of degrees produced and program completions in the community and technical colleges have increased more quickly on an annual basis than changes in enrollment. For the four-year institutions, this same pattern is evident in academic years 2009-10 and 2010-11.

PUBLIC FOUR-YEAR INSTITUTIONS	2007-08	2008-09	2009-10	2010-11	2011-12
State-Funded Enrollments (Headcount)					
Undergraduate	96,467	99,255	101,276	102,129	Data not available
Graduate	22,841	23,587	24,296	24,758	
Total	119,308	122,842	125,572	126,887	
Degrees Awarded					
Baccalaureate Degree	21,736	21,805	22,759	23,480	Data not available
Graduate Degree	6,338	6,509	6,963	7,322	
Total Degrees Awarded	28,074	28,314	29,722	30,802	
Annual % Change					
Headcount Enrollments		3.0%	2.2%	1.0%	Data not available
Degrees Awarded		0.9%	5.0%	3.6%	

STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES	2007-08	2008-09	2009-10	2010-11	2011-12
State-Funded Enrollments (Headcount)	322,975	334,332	338,109	330,608	305,709
Degrees/Academic Transfer					
Associate Degree	7,328	7,430	8,065	9,875	10,689
Baccalaureate Degree	N/A	35	51	138	155
Academic Transfer	13,179	13,529	13,973	16,183	16,747
Total Degrees/Academic Transfer	20,507	20,994	22,089	26,196	27,591
Certificates (Workforce Training)	12,331	15,201	20,754	21,293	21,337
High School Completion	5,173	5,737	6,060	5,907	5,442
Annual % Change					
Headcount Enrollments		3.5%	1.1%	-2.2%	-7.5%
Degrees/Academic Transfer		2.4%	5.2%	18.6%	5.3%
Certificates (Workforce Training)		23.3%	36.5%	2.6%	0.2%

2013-15 Enacted Budget Recap

For the 2013-15 biennium, a total of $3.1 billion in state funds (Near General Fund-State plus Washington Opportunity Pathways Account) was provided in support of the higher education system (including financial aid); $2.4 billion (78%) of which is appropriated to the public colleges and universities. Compared to the 2011-13 biennium, this represents a $272.8 million (12.9%) increase in state funds to the institutions of higher education and a $338.3 million (12.4%) increase in state funds to the higher education system overall. No tuition increases were assumed for the 2013-15 biennium and for the 2013-14 academic year, institutions of higher education are prohibited from invoking their tuition setting authority. For the 2014-15 academic year, four-year institutions and the community and technical colleges are authorized to exercise tuition setting authority. Institutions that choose to increase tuition above budgeted levels are required to use a portion of the additional revenue for student financial aid and to mitigate the increase for students with family incomes up to 125% of the median family income.

Major Increases:
A total of $119.3 million was provided to the four-year universities and the community and technical colleges for general institutional support; $17.6 million was provided to the University of Washington ($8.9 million), Washington State University ($5.7 million), and Western Washington University ($3.0 million) to expand computer science and engineering enrollments; $10.5 million was provided to the State Board for Community and Technical Colleges (SBCTC) for the Student Achievement Initiative; $6 million in state funds and $1.5 million in tuition resources will be used to expand Washington State University's medical programs in Spokane;
$500,000 in state funds was provided to the SBCTC to create two applied baccalaureate degree programs that support the continuation of secondary education programs in science, technology, engineering, and math; and $510,000 in state funds was provided to the SBCTC to establish a maritime industries training program at South Seattle Community College.

Current Budget Issues

College Bound. The College Bound Scholarship Program was created in 2007 with the passage of Engrossed Second Substitute Senate Bill 5098 to provide eligible students a scholarship equal to tuition and fees at a public four-year university plus $500 for books and materials less any other state financial aid received. For the 2013-15 biennium, a total of $36.0 million was provided to cover the estimated biennial costs of the program, which included direction from the Legislature to give these students first priority for a State Need Grant. As a result of new data received, an additional $12.0 million is required in the 2014 supplemental budget to meet the funding commitments associated with this program. Costs have increased for three specific reasons: 1) an additional 2,369 students will be receiving an award from this program during the regular school year; 2) 1,564 students attended during the summer quarter, which were previously unanticipated, and an additional 2,149 students are anticipated to attend in the upcoming summer quarter; and 3) the delay in enactment of the final budget prevented the schools from being able to prioritize use of State Need Grants for the 2013-14 academic year.

Performance Funding. In the omnibus appropriations act, the Legislature directed the public four-year institutions of higher education via a Technical Incentive Funding Task Force to: 1) propose a new incentive funding system that includes a methodology for allocating funds to the public four-year institutions based on performance; and 2) devise a methodology for establishing a baseline level of funding that supports the need to increase access and degree attainment and that achieves a more equitable share of support of the institutions between the state and students. A final report of this Task Force is due December 31, 2013. The Legislature may want to consider implementing a method with which to allocate funding to the public four-year system of higher education that is based on performance by incorporating some, or all, of the recommendations of the Task Force.

Tuition. In the 2013-15 enacted budget, the Legislature specifically prohibited tuition from increasing in the 2013-14 academic year. As a result, schools will be able, if they choose, to invoke their tuition-setting authority in the 2014-15 academic year. The Legislature may want to consider extending the prohibition into the 2014-15 academic year if the expectation is that tuition not increase.

Low-Income Medical Assistance

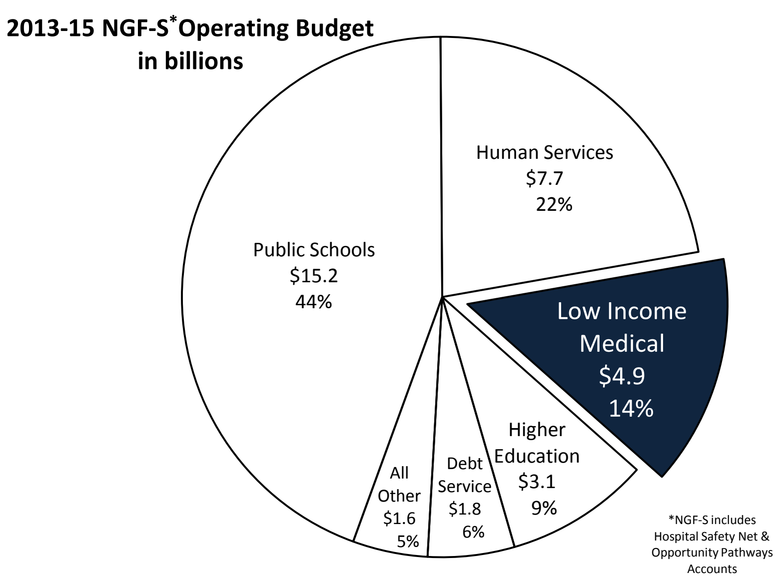
Washington is budgeted to spend $12.3 billion during the 2013-15 biennium to cover all or part of the physical health cost of medical and dental care for an average of 1.4 million low-income children and adults. These expenditures are administered by the Health Care Authority, which contracts with managed care insurance plans and directly with hospitals, physicians, dentists, pharmacies, and other medical providers to deliver services under Medicaid.

Key Facts

- Total 2013-15 Budget: $4.9 billion Near-General Fund State (NGF-S) + Hospital Safety Net, $7.2 billion Federal (primarily Medicaid), and $0.15 billion other state and local funds
- Estimated Lives Covered in FY 2015: 1.4 million or 1 of every 5 Washingtonians, including
  - ✓ 1 of every 2 children in the state
  - ✓ 1 of every 2 pregnant women
  - ✓ 1 of every 9 adults (non-pregnant, non-elderly)
  - ✓ 1 of every 10 elderly adults
- Average Annual Cost Per Person Covered: $3,721, ranging from $1,655 per year for undocumented children to $21,521 per year for lower-income uninsured women with breast or cervical cancer
- Total State Staff: 1,132 FTE's

Trend/Overview Information

Publicly-funded medical care for low-income people is the third largest component of the state-funds operating budget, after K-12 education and human services programs.



The state dollars discussed in the chart above are only part of how low-income medical spending is financed. Total low-income medical care spending is financed through the Medicaid program - which is a jointly federal-state funded entitlement program. The table on the following page shows how the federal and state shares of Medicaid financing have changed and are expected to change. For example, in 2006 the federal and state shares of total costs were roughly the same - 47% to 50% respectively. At the end of this biennium, ten years later, three out of every five Medicaid dollars will be federal. This is largely a result of three factors:

Medicaid expansion under the Affordable Care Act, the renewal of the Hospital Safety Net Assessment, and electronic health records.

Total funding for low-income medical is expected to grow by 5.7% per year from 2006 to 2015 - with federal funding growing at 8.5% compared to the state share at 2.3%. In out years, the most recent federal actuarial report on Medicaid spending projects average annual growth of over 7% nationwide from 2015 to 2017.

Medicaid Enrollment and Funding Changes Over Ten Years
FY 2006 to FY 2015 (estimated)

Population/ Funds	A		B		C
	Totals		Percent Share of Total		Avg Annual Growth
	2006	2015	2006	2015	2006 to 2015
WA State Population	**6,359,537**	**6,992,213**	**100%**	**100%**	**1.1%**
Medicaid Pop.	986,472	1,469,141	16%	21%	4.5%
Non-Medicaid Pop.	5,373,065	5,523,072	84%	79%	0.3%
Total Funds ($ in millions)	**$3,959.9**	**$6,503.4**	**100%**	**100%**	**5.7%**
NGF-S*	$1,998.3	$2,452.1	50%	38%	2.3%
Federal	$1,876.7	$3,909.5	47%	60%	8.5%
Other Funds	$84.9	$141.9	2%	2%	5.9%

*NGF-S includes Hospital Safety Net and Opportunity Pathways

2013-15 Enacted Budget Recap

The FY 2013-15 $12.3 billion all-funds appropriation for low-income medical care is a net $2.1 billion (22 percent) increase from the 2011-13 biennium appropriations, and includes a net $415.6 million (9.2 percent) increase in state-fund appropriations (NGF-S + Hospital Safety Net).

The majority of the total fund increases ($1.9 billion) are almost entirely due to Medicaid Expansion under the Affordable Care Act (ACA), continuing and increasing hospital rates under the Hospital Safety Net, and implementing the electronic health records initiative. Of the $1.9 billion in increases, $1.8 billion is from federal sources.

The state was able to refinance $351 million in state general fund spending by transferring state-only or limited benefit programs and services to new Medicaid coverage financed at 100 percent federal funds as provided under federal health care reform. These programs and services are provided across several agencies including the Health Care Authority ($262 million), Department of Social and Health Services ($77 million), Department of Health ($8.3 million) Department of Corrections ($2.2 million), and the Department of Labor and Industries ($1 million).

Under the Hospital Safety Net, the state is able to use Hospital Safety Net funds in lieu of state general fund for Medicaid hospital services. This fund shift achieves a net $397 million increase in state funds by increasing the Hospital Safety Net Account $669 million while offsetting $272 million in state general spending.

The enacted budget restored adult dental services ($72.5 million total funds, $23.3 million state general fund) for all Medicaid adults effective January 1, 2014.

Current Budget Issues

Affordable Care Act and Medicaid Expansion: In the 2013 legislative session, the legislature expanded optional Medicaid coverage to include all legal residents with adjusted gross family incomes below 138 percent of the federal poverty level beginning January 1, 2014. Under federal health reform, individuals/ families with adjusted gross incomes between 138 to 400 percent of the federal poverty level will be required to have health insurance through a combination of public and private coverage expansion also beginning January 1, 2014.

The 2013-15 enacted budget assumes that by FY 2015, the final year of the 2013-15 biennium, there will be 1.4 million persons receiving Medicaid coverage.

- 1.2 million of the 1.4 million (85%) are those who are currently eligible for Medicaid today and the state will receive approximately 50 percent federal match for allowable spending
- ~198,000 persons (13%) will be considered newly eligible under Medicaid expansion and the state will receive 100 percent federal matching funds through FY 2016 and tapering down to 90 percent by 2020.
- ~24,000 (2%) of those formerly in the Presumptive SSI program will receive 75 percent federal matching funds

The enacted budget makes a number of assumptions related to how the Affordable Care Act will unfold, including: the number of people who will enroll, the rate at which they will enroll, their relative health status, and how the federal government, Health Care Authority, and Health Benefit Exchange implement the new programs. To the extent that actual experience differs from budget assumptions, the state may see increased or decreased costs. The legislature may need to modify budget or policy decisions as a result. For instance, the enacted budget assumes, based on information available at the time, that the state could receive 100 percent federal matching funds for the Presumptive SSI population who are currently receiving Medicaid benefits. The federal government subsequently ruled after legislative session that the state cannot claim 100 percent federal funding but can claim 75 percent (up from 50 percent normally). As a result this assumption will cost the state ~$50 million assuming all other variables remain constant.

Medicaid Enrollment Churn: The Affordable Care Act expands health insurance for individuals and families through Medicaid or through premium subsidies for purchase through the Health Benefit Exchange. Because eligibility for both programs is tied to income and household size - two variables that change within a benefit year - a portion of enrollees can find themselves involuntarily "churning" between a Medicaid health plan to an Exchange plan depending on their income for that month. As a result, the family, the plan, the providers, and the state all have burdens that may lead to increased costs. The legislature provided funding for a study to examine the federal Basic Health Plan and to examine premium assistance. Each policy proposal may be able to mitigate the negative effects of churn. This study is due December 31, 2013. The legislature will need to determine whether and how to mitigate the effects of churn in the coming legislative session for a calendar year 2016 implementation.

Medicaid Purchasing Cultural Shift*:* With the passage and implementation of Medicaid expansion and federal law requiring every person to have health insurance, more Washingtonians will have medical coverage than at any point in history. Occurring in parallel to this increased coverage, medical care purchasing and delivery will be going through its own cultural shift from current practices. In 2015, 70 up to 90 percent of Medicaid recipients will receive coverage through a managed care delivery system rather than fee-for-service. Over the next couple of years the legislature and the Health Care Authority may want to consider a variety of issues, including:

- how to control costs as the number of covered lives increases,
- how to purchase care based on performance or quality,
- how to move from a fee-for-service culture to a managed care culture, and
- how to effectively manage managed care.

Long-Term Care and Developmental Disabilities

The Long Term Care (LTC) and Developmental Disabilities Administration (DDA) programs are administered by the Aging and Long-Term Support Administration (ALTSA) within the Department of Social and Health Services (DSHS).

Washington is budgeted to spend $5.9 billion total funds ($2.9 billion GF-S) during the 2013-15 biennium to provide aging and long-term support services which are primarily Medicaid-funded (i.e. state and federal matching funds). Both LTC and DDA operate an institutional-based Medicaid "entitlement" program. The entitlement program in LTC is the nursing home or Skilled Nursing Facility (SNF) program and the entitlement program in DDA is the Residential Habilitation Center (RHC). However, Medicaid waiver services are also offered by both programs. These programs waive the Medicaid entitlement and offer alternative Medicaid services to clients in their own homes and in community residential facilities such as adult family homes and assisted living homes.

Since both LTC and DDA primarily provide Medicaid funded services, the Medicaid rules guide the structure and operation of the programs. These rules, and associated case law, significantly limit the state's ability to manage expenditures through program or client eligibility changes.

Key Facts

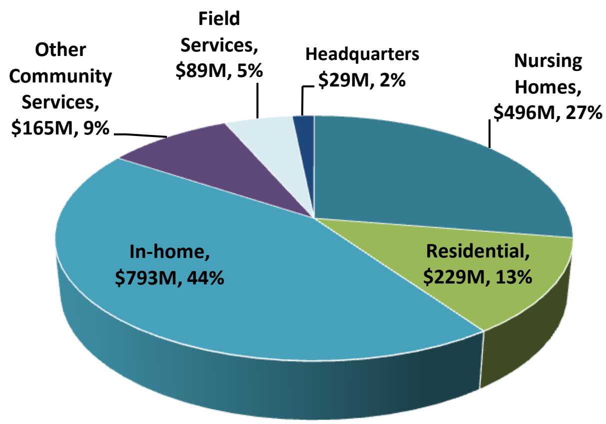
- ✓ Total 2013-15 budget
  - LTC: $3.9 billion total funds and 1,447 FTEs
  - DDA: $2.1 billion total funds and 3,113 FTEs
- ✓ Percent of the program budget that comes from the state: 48%
- ✓ Number served (FY2014 November forecast) and Average Monthly Cost per Client:

Service Setting	Numbers Served	Average Monthly Cost/Client
Nursing Homes	10,180	$ 4,785
LTC Community Residential	12,479	$ 1,392
LTC In-Home	37,093	$ 1,656
Residential Habilitation Centers	905	$13,805
DDA Community Residential	4,437	$ 7,114
DDA In-Home	12,677	$ 1,829

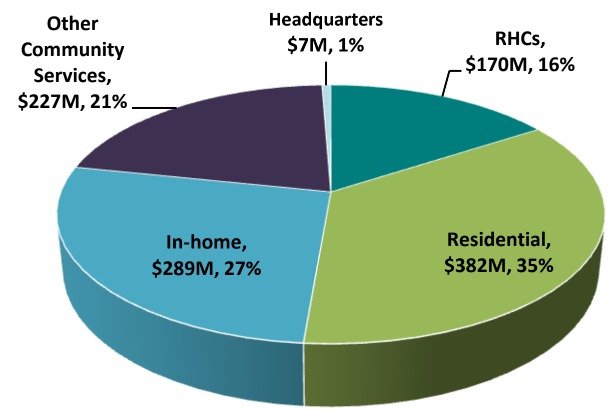
Trend/Overview Information

ALTSA programs and services account for nearly nine percent of the statewide total NGF-S budget for the 2013-15 biennium and just over 24 percent of total human services (including DSHS).

2013-15 LTC Budget
$1.8 billion NGF-S



2013-15 DDA Budget
$1.1 billion NGF-S



Most of LTC and much of DDA are forecasted caseload programs and therefore the bulk of this budget area is set at maintenance level. Client caseloads for personal care (both DDA and LTC), LTC waiver services, and LTC entitlement services are modeled and adjusted by the Caseload Forecast Council. Per capita expenditures for these service areas and DDA residential services are modeled and adjusted by joint legislative and executive staff workgroups. Unlike LTC, DDA residential services beyond personal care are capped and funded by the Legislature at policy level.

The bulk of the caseload increases are in LTC and are primarily a result of demographic changes, particularly due to the impact of an increasingly aging population. The overall state general population is projected to grow at about 1 percent per year, however, the 65 and older population is growing at four times that rate. Per capita cost increases have occurred across both the LTC and DDA populations. These costs are typically driven by worker wages and benefits--primarily the impact of collective bargaining agreements for home care workers. However, a portion of the cost increases are driven by increases in client acuity which correspondingly increase required levels of care.

2013-15 Budget Recap

The 2013-15 budget represents a ten percent increase from the 2011-13 funded level. Half of this increase is attributed to maintenance level adjustments for increased forecast caseload and per capita costs. The other half of this increase is attributed to policy level increases primarily due to fully funding the homecare worker arbitration award.

- $146 million GF-S ($292 million total funds) was provided for the arbitration award for individual provider homecare workers and parity required by statute for agency homecare workers. This included wage and health care increases, paid holidays, and increased training contributions.
- $12 million GF-S ($20.3 million total funds) was provided for additional client capacity in capped DDA programs. Funded items include Medicaid waiver slots, new crisis and critical placements, and

an expansion to the Individual and Family Services (IFS) program.

- $6.7 million GF-S ($13 million total funds) was provided to cover the increased per capita costs related to the *MR v Dreyfus* lawsuit. In negotiations with the federal Department of Justice, it was agreed to expand the exception to rule process for homecare hours.
- $6.4 million GF-S ($26 million total funds) was provided to contract with a fiscal employer agent to provide timekeeping and payment services for Individual Providers who care for Medicaid eligible clients in their homes. This was needed to become compliant with Medicaid rules regarding time reporting.
- Spending was reduced by $31.4 million GF-S ($63 million total funds) for the 2013-15 biennium by delaying a rate rebase for skilled nursing facilities to the 2015-17 biennium.
- Spending was reduced by $4 million GF-S by increasing Adult Family Home licensing fees to cover 60 percent of the overall costs for licensure and regulation.

Current Budget Issues

Protective Services for Vulnerable Clients

The 2013 Legislature established a Joint Legislative Taskforce on Long-term Care to identify actions in preparation of an increase in the aging population over the next few years. As a part of its agenda, the taskforce spent time reviewing the current DSHS process for handling allegations of client abuse, neglect, exploitation, and abandonment. DSHS reported the number of abuse/neglect cases has increased over the past decade by 35 percent for in-home and 56 percent for residential care. It was also reported that a significant and chronic backlog in cases are having a negative impact on the timeliness of investigations. Stakeholders identified a need for additional investigator training, the development of a geriatric regional assessment team that periodically reviews a client's executive functioning, and the need for additional ombudsman to assist with targeted client case management during an investigation. The agency has requested $5.5 million in additional funding (total funds) and 48 FTEs to address this issue. While it is unclear what the task force will recommend, an interim report is due to the legislature in December 2013, and a final report is due December 2014.

Service Waitlists for Persons with Developmental Disabilities

A recent performance audit released by the State Auditor's Office found Washington's DDA system of services has a significant waitlist and it falls below the national average on the number of individuals served with Medicaid services. Much of the DDA system is based on available funded slots. The 2013 Legislature expanded funded slots and provided funds for 734 adult Basic Plus waiver slots, 51 critical community placements, and increased capacity for the Individual and Family Services (IFS) program. However, DSHS reports that additional supports and waiver slots are needed to reduce the waiting list and sufficiently keep individuals from de-escalating to the point of crisis which often requires more expensive out-of-home placements. The agency has requested $16 million total funds ($10 million GF-S) to serve an additional 1,656 clients with additional waiver slots and IFS capacity.

Long Term Care Worker Training

Initiative 1163 was passed by the voters in 2011 which increased mandatory training and implemented a certification requirement for long-term care workers. During the 2013 interim, there has been indication that the implementation of this initiative has been challenging. Some issues identified by DSHS, workers, and stakeholders include a lack of available classes (particularly in more rural areas), concerns over the method by which curriculum is delivered (not enough hands-on), last minute class cancelations, transportation issues for the pending worker to get to the classes, difficulties in the ability of workers to pass the certification test, and insufficient funding to support the infrastructure needed. It is believed that these issues have contributed to a downward adjustment in the forecasted trend for clients receiving homecare. However, we have not seen an increase in demand and corresponding upward adjustment in the forecasted trend for nursing home or other community out-of-home placements.

Economic Services Administration (ESA)

Economic Services Administration (ESA) administers what is thought of as traditional welfare services as well as child support enforcement and collections. ESA currently serves as the "front door" for most of DSHS's services. ESA staff determines program eligibility, issues benefits, provides paternity establishment, child support order establishment, and child and medical support enforcement services. ESA clients include low-income people, families, children (including those children who need child support, paternity establishment, and child care and medical support services), pregnant women, people with disabilities, older adults, refugees, and immigrants.

The Temporary Assistance for Needy Families (TANF) program is a mix of state and federal block grant funding aimed at providing benefits to low income families. The TANF Program has three large components:

- TANF cash grants are the major source of cash welfare to needy families with children. Cash grants are available to the parents of low income families and to children whose parents are ineligible or who are being cared for by non-parent caregivers.
- WorkFirst are the programs and services focused on obtaining paid, unsubsidized employment for low-income families who receive cash welfare.
- Working Connections Child Care (WCCC) is subsidized child care for low-income families regardless of whether or not the family receives cash welfare.

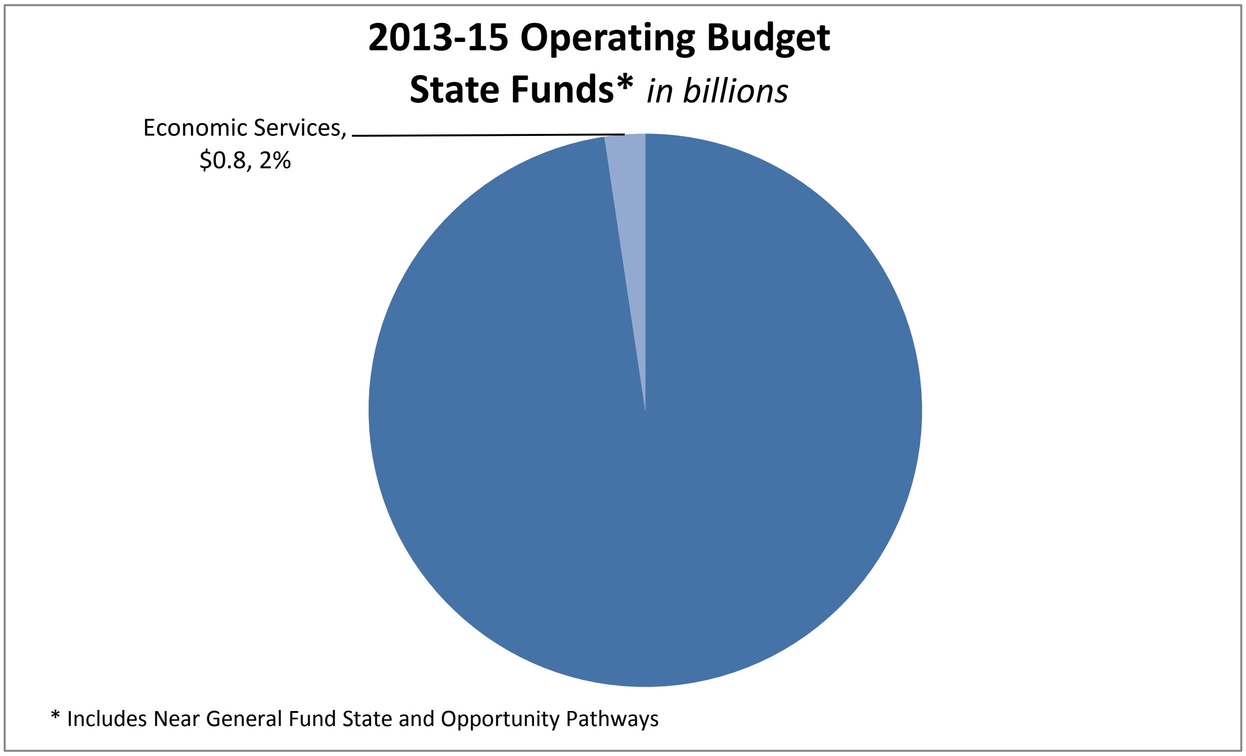
Administration of TANF is distributed across many different federal, state, tribal, and private entities. DSHS is the lead agency for TANF and does the eligibility for all programs. Other state agencies involved in TANF include the State Board of Community and Technical Colleges (SBCTC), Commerce, Early Learning (DEL), and Employment Security (ESD).

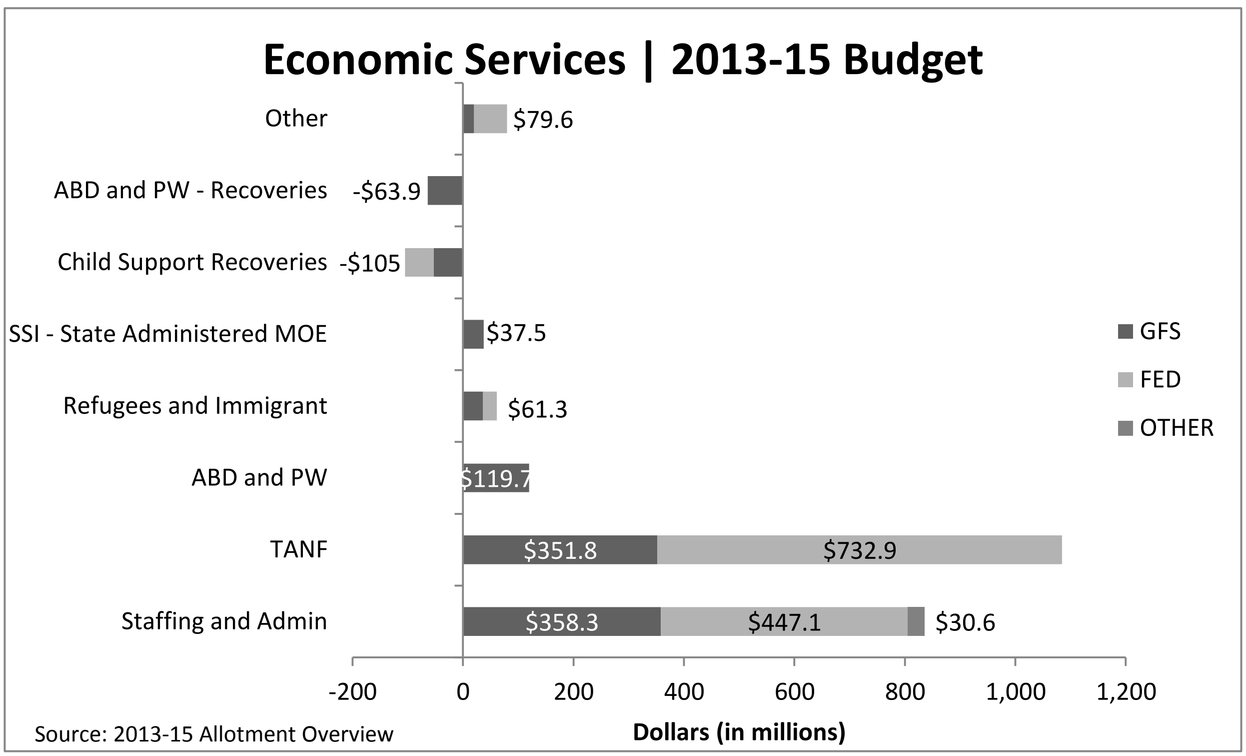
Key Facts

- Total 2013-15 budget: $2.1 billion in total funds
- Percent of budget that comes from the state funds: 39.3 percent
- Average monthly applications processed in FY 2013: 161,260
- Approval rates for applications vary from 26 percent (ABD) to 72 percent for Basic Food
- Average TANF caseload FY 2013:
  - Total Adult Cases: 31,601 families
  - Total Child-Only Cases: 17,075 families
- Average WCCC caseload FY 2013: 25,200 families
- Average Basic Food (Food Stamp) caseload FY 2013: 597,485 households
- Average Aged, Blind Disabled caseload FY2013: 24,318 clients

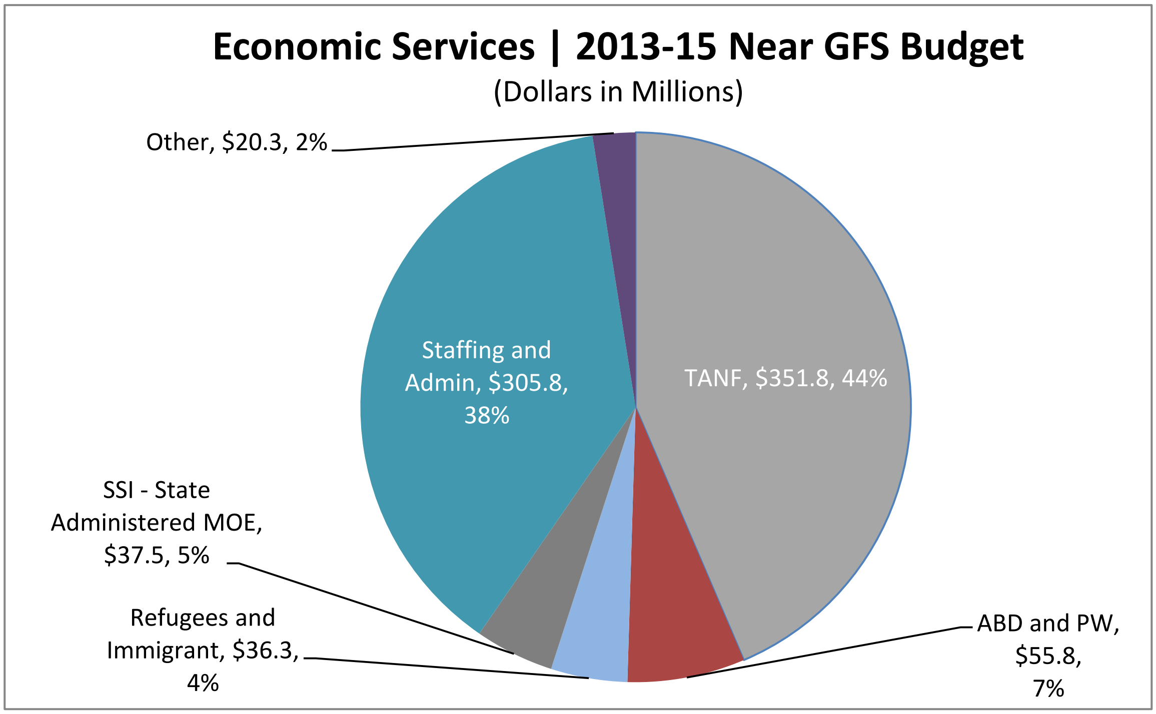
Trend/Overview Information

ESA has the fourth largest budget within DSHS behind Developmental Disabilities, Long Term Care, and Mental Health.

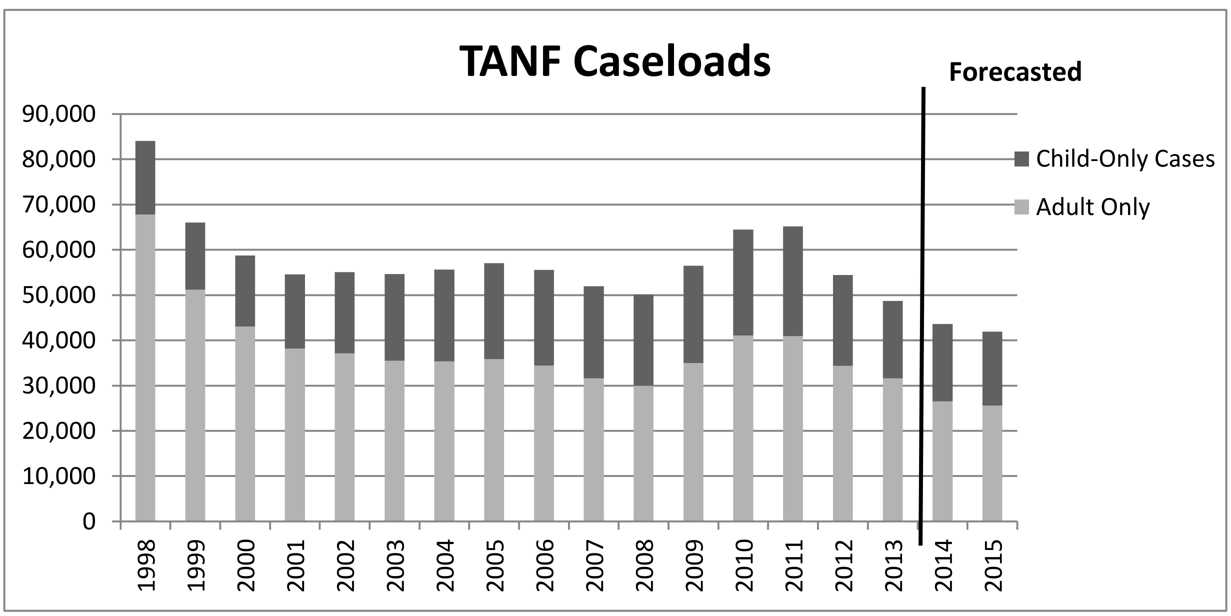




The 2013-15 ESA spending plan totals $2.0 billion and includes $807.5 million near GF-S, $1.2 billion FED, and $30.6 million local funds.

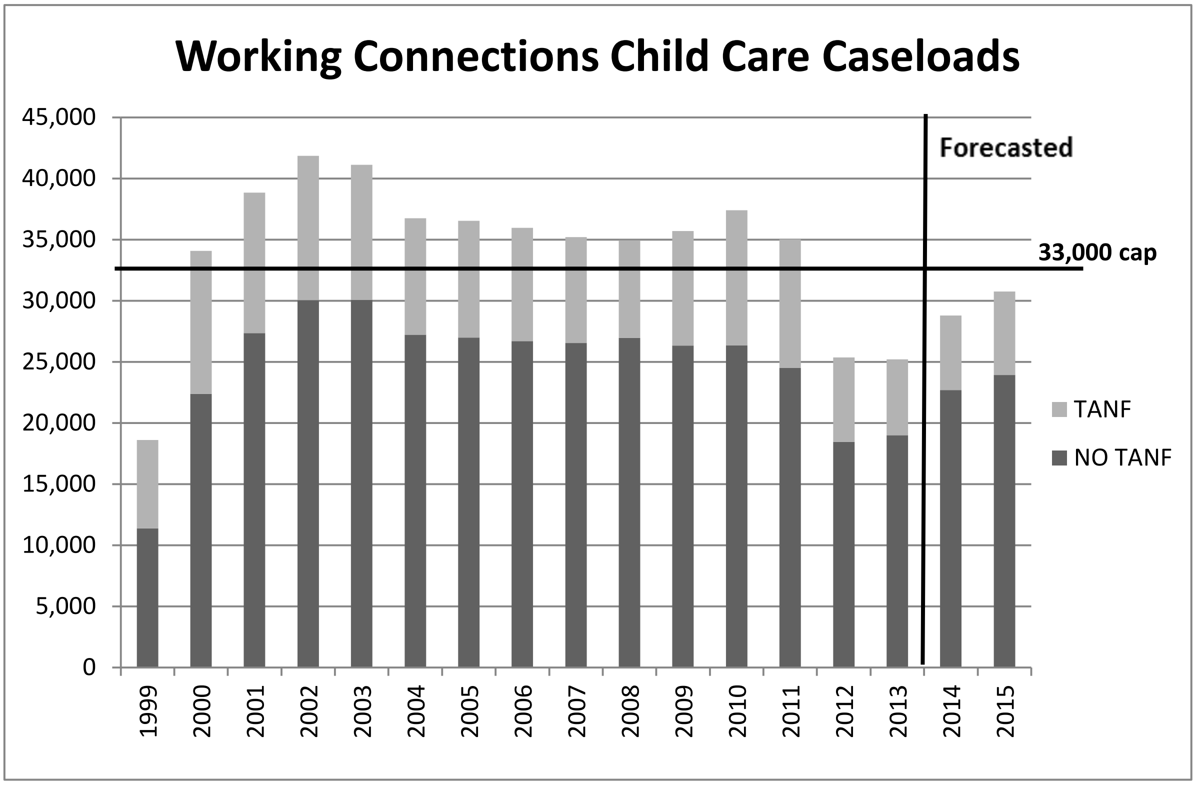


- TANF caseloads significantly declined after the 1998 welfare reforms. Caseloads were stable from 2001 until the recession started in 2009, creating a spike in the number of cases. Reductions in grants and a firm five year time limit resulted in significant caseload declines starting in 2012. Caseloads are estimated to continue to decrease in 2014 and 2015.



- Working Connections Child Care (WCCC) is a child care subsidy program created as part of welfare reform. Program changes such as income eligibility and a child support enforcement requirement created a significant decline in utilization in 2011 and 2012. These policies were largely revoked in 2012 and the caseload is expected to rebound over the coming years. The program remains capped at 33,000 families.

2013-15 Enacted Budget Recap



The 2013-15 biennial budget provided $808 million near GF-S to ESA. The net decrease of $46.5 million near GF-S was the result of $125.6 million in programmatic savings, offset by $74.1 million maintenance level increase and $5 million related to employee compensation and benefits. Some of the major budget items are highlighted below.

Savings

- Decreased the WorkFirst (TANF/WCCC) program by $161.7 million near GF-S due to caseload and programmatic reforms. These included $156.1 million projected savings due to decreased cash assistance and child care caseloads, a $2 million reduction to WorkFirst services provided by the State Board of Community and Technical Colleges and Employment Security, and a $3.6 million reduction related to shorter length of stay in TANF/WorkFirst.

- Assumed $1.9 million near GF-S savings related to a simplified eligibility process and reduced workload. Medicaid eligibility rules were simplified under the Patient Protection and Affordable Care Act (ACA) and Medicaid eligibility determinations were transferred from the Economic Services Administration to the Health Benefit Exchange.

Enhancements

- Provided $14.8 million near GF-S increase for the WCCC program to provide a 2 percent base rate increase for all subsidized child care providers and a 2 percent increase for providers who achieve a level two or above in the Early Achievers quality rating system. Both rate increases take effect September 1, 2013.

- Provided $9.4 million near GF-S to increase the State Food Assistance benefit to 75 percent of the federal supplemental nutrition assistance program benefit.

- Provided $2 million near GF-S for the estimated caseload impact to the Aged, Blind and Disabled (ABD) program. Chapter 10, Laws of 2013 (SHB 2069) broadened program eligibility for the ABD program by shortening the time a person is likely to be disabled from 12 months to nine months and reducing the time that a disability would prevent a person from working from 15 years to 10 years.

Current Budget Issues

Caseload Instability: Recent policy changes to ESA programs (TANF, Working Connections, and Disability Lifeline/Aged, Blind, Disabled/Housing and Essential Needs) have created significant changes to eligibility and have made caseloads more difficult to predict.

***Impact of Affordable Health Care* Act**: The 2013-15 biennial budget assumed savings related to reduced eligibility workload at ESA due to implementation of the ACA, which made substantial changes to the eligibility rules for Medicaid and other medical benefits. Washington transferred Medicaid eligibility from the ESA to the Health Benefit Exchange (HBE), which will assist citizens in accessing health care coverage. It remains unclear how ESA's role in eligibility will change under the act and how clients will access health care coverage. The Legislature directed the Office of Financial Management to study medical and public assistance eligibility systems and submit a report to the Legislature by January 1, 2014.

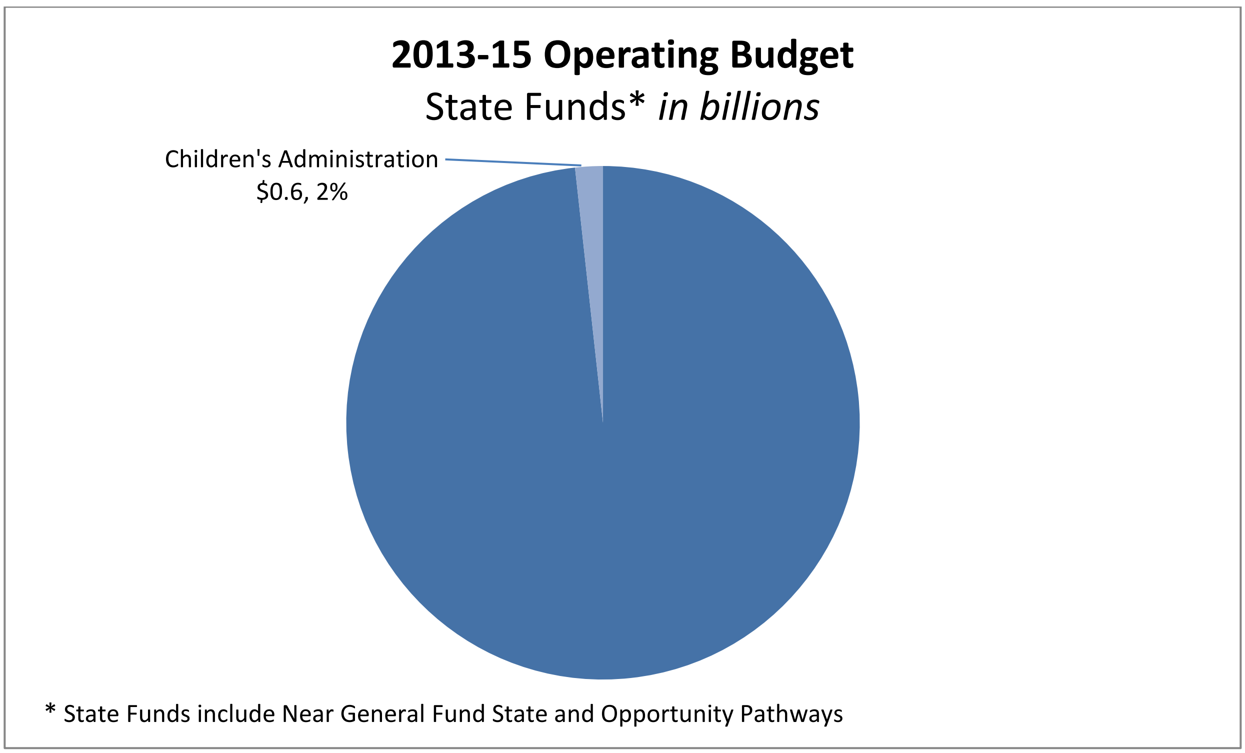
Children's Administration

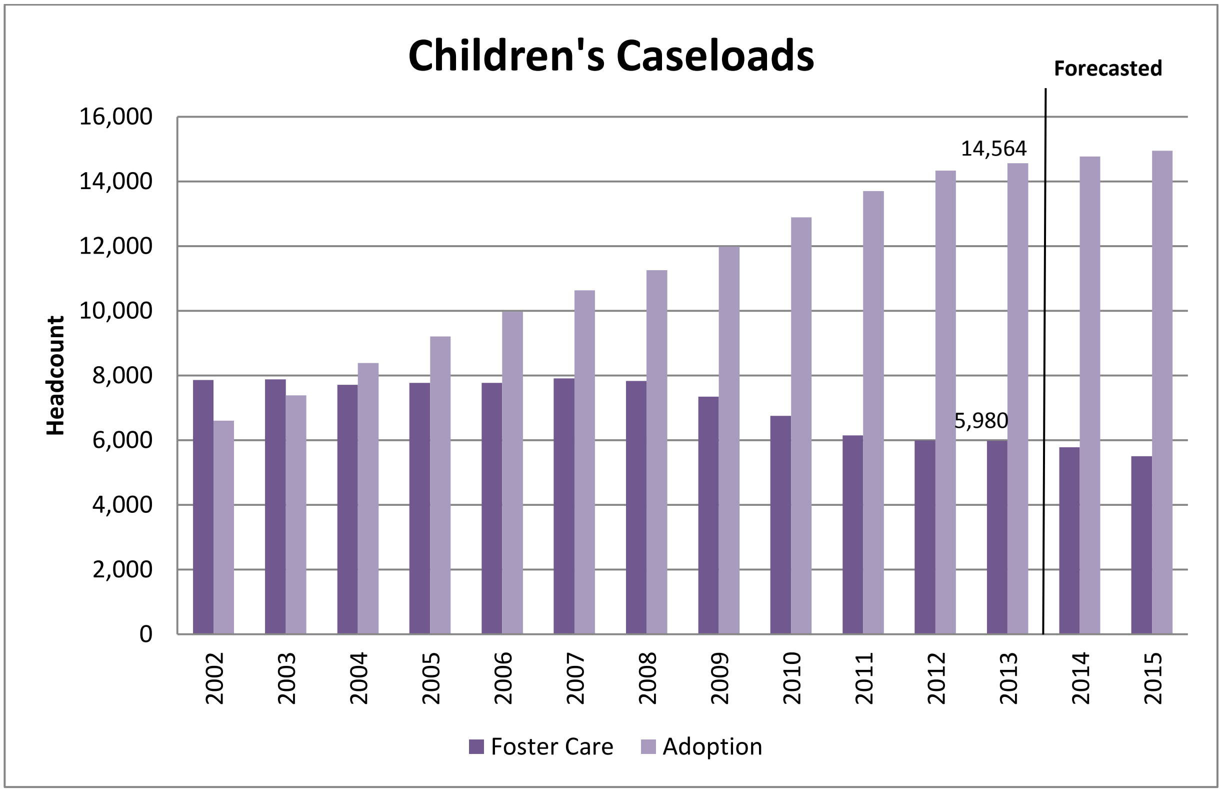
Children's Administration (CA) is responsible for protecting abused and neglected children, supporting the efforts of families to care for and parent their own children safely, and providing quality care and permanent families for children. CA relies on outside (non-employee) providers for most services to families and children while CA staff focus on child protective services and foster care casework.

Key Facts

- Total 2013-15 budget: $1.1 billion in total funds and 2,511 FTEs
- Percent of budget that comes from the state: 54 percent
- Average CPS referrals per month (FY 2013): 7,000
- Total average foster care caseload, FTE (FY 2013): 8,880
    - Foster Care: 5,562
    - Relative Placement: 3,318
- Adoption Caseload (FY 2013): 14,564
- Average age of adoption (2012): 4.0

Trend/Overview Information





Adoption support and foster care are both entitlement programs with costs driven by caseloads. When the department needs to remove a child from their home, the state has legal responsibility for that child until a long-term solution is developed. While the child is in state custody, the state must provide medical, dental, and mental health services, provide for the physical well-being of the child, and make maintenance payments to licensed foster parents.

Not all children who enter foster care or adoption are eligible for federal matching funds. In these cases the state pays the full cost.

A second driver is the Braam Settlement Agreement, which was approved by the Superior Court in July 2004 and was renegotiated in October 2011. Braam requires CA to meet performance benchmarks related to caseload ratios, monthly visits, and health screenings. The original agreement was set to expire July 2011, but was extended because CA had not maintained full compliance for all outcomes. In FY 2013, the department met full compliance for nine out of 21 outcomes. Some foster care reductions to CA's budget may place DSHS at risk of not meeting the settlement agreement.

Adoption caseloads have significantly increased as the Department focuses on achieving permanency for children. The state pays adoption support payments to parents who adopted from the state foster care system. The number of children in foster care began decreasing consistently in 2009.

2013-15 Enacted Budget Recap

The 2013-15 biennial budget provided a $21.6 million near GF-S increase over 2011-13 estimated expenditures. This included $11.5 million near GF-S for compensation and insurance and $9.4 million near GF-S in policy level increases for the following services:

- Extended foster care services for eligible foster care youth who are age 18 and participating in employment-promoting activities were expanded under Chapter 32, Laws of 2013 (E2SSB 5405). An additional $4.5 million near GF-S was provided for this reform.

- The investigative Child Protective Services unit received $2.8 million near GF-S for 20 additional staff.

- Provided $1.8 million GF-S to implement Family Assessment Response (FAR) pilot sites. FAR creates an alternative to the investigative pathway for low-risk cases of neglect with the goal of reducing out-of-home placement and strengthening families by providing basic needs and services.

Current Budget Issues

Implementation of Child Welfare Reforms: The department is in the process of implementing several reforms related to an alternative child protective services approach, financing, and performance-based contracts that passed in the 2012 legislative session. Updates on these reforms are below:

Chapter 259, Laws of 2012 (ESSB 6555) created Family Assessment Response, an alternative to the investigative pathway for families with low to moderate risk of child maltreatment. Three pilot sites will begin offering Family Assessment Response in January 2014 (Spokane, Lynnwood, Aberdeen). Other states who have implemented similar programs have experienced significant declines in out-of-home placements.

Chapter 204, Laws of 2012 (SHB 2263) created a mechanism for "reinvesting" state funds. Savings associated with declining foster care caseloads are deposited into a reinvestment account to be used on programs which may result in further caseload declines.

Chapter 205, Laws of 2012 (ESSHB 2264) directed CA to contract with a network administrator for family support and related services and implement performance based contracts with service providers. The original RFP was rescinded on March 13, 2013. The department anticipates reissuing the RFP by December 31, 2013.

Adoption Support Caseload: The number of children getting adopted has significantly increased over the last 10 years. Since the average age at adoption is four, the state will have a 14 year obligation to provide adoption support for a majority of these cases. It is less expensive to have a child in adoption than in foster care but there are still significant costs to the state as this caseload continues to grow.

Division of Behavioral Health and Recovery
(Mental Health and Alcohol and Substance Abuse Services)

The Division of Behavioral Health and Recovery (DBHR) in the Department of Social and Health Services combines Mental Health and Alcohol and Substance Abuse (ASA) programs.

Washington is budgeted to spend $2.2 billion total funds ($1.1 billion GF-S) during the 2013-15 biennium to provide mental health and substance abuse services for low- income Washingtonians. The majority of DBHR services are provided utilizing a network of community providers. DSHS directly operates three mental health facilities: Eastern and Western State Hospitals, that deliver psychiatric inpatient services to adults who have been found not guilty by reason of insanity or who have been involuntarily committed for treatment expected to last 90 days or longer; and the Child Study Treatment Center, which is a small psychiatric inpatient facility for children and adolescents.

Key Facts

Mental Health
- Total 2013-15 budget: $1.7 billion in total funds and 2,681 FTEs
- Percent of budget that comes from state funds: 53%
- Number served (FY2013 unduplicated client counts):
  - ✓ Community Services/RSNs: 144,850, (111,702 are Medicaid)
  - ✓ Western State Hospital: 1,881
  - ✓ Eastern State Hospital: 925
  - ✓ Child Study Treatment Center: 104

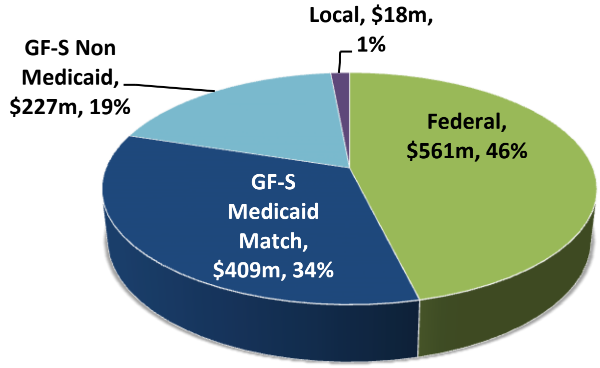
DASA
- Total 2013-15 budget: $440 million in total funds and 70.3 FTEs
- Percent of budget that comes from state funds: 31%
  - ✓ Assessments: 38,285
  - ✓ Detoxification Services: 8,678
  - ✓ Outpatient Treatment: 43,804
  - ✓ Inpatient Treatment: 10,288

Trend/Overview Information
In terms of 2013-15 near general fund state dollars, the DBHR program comprises just over 3 percent of state-wide spending and nearly 9 percent of state spending on health and human services programs.

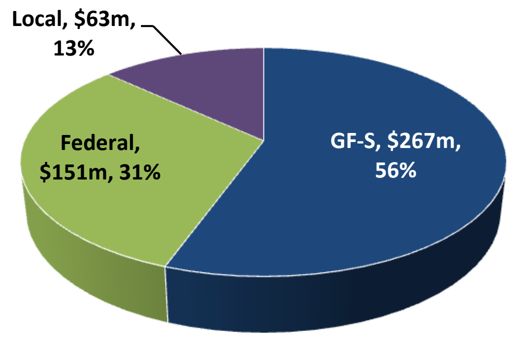
The Mental Health program is adjusted at maintenance level for Medicaid caseload changes, similar to other Medicaid programs. However, the Alcohol and Substance Abuse Program (ASA) does not receive a maintenance level adjustment for caseload changes and the program is expected to redirect other funds to cover caseload increases.

Of the total funds in the community mental health budget, 19 percent are used to pay for services and clients which are not Medicaid eligible. Under federal law, Medicaid funds may not be used to cover costs for investigation, detention, or court hearings under the Involuntary Treatment Act, or direct housing costs. State funding covers about 56 percent of the cost to operate the state psychiatric facilities.

2013-15 Community MH Budget
$1.2 Billion



2013-15 State Psychiatric Facilities Budget
$0.5 Billion



2013-15 Budget Recap

Mental Health

The 2013-15 budget included significant increases in policy level, however state funds are a modest increase of three percent over from the 2011-13 funded level. This is primarily driven by the reduced need for state funding associated with federal Medicaid expansion.

- A total of $23.9 million ($17.6 million GF-S) was provided to meet the demands for expanded involuntary detention and commitment criteria in Chapter 335, Laws of 2013 (ESSB 5480). These funds were recently awarded by DSHS to each of the eleven RSNs.
- A total of $9.6 million ($7.5 million GF-S) was provided to the state psychiatric hospitals for staffing and facility enhancements needed for security and to maintain certification through the Joint Commission on Accreditation of Healthcare Organizations.
- A total of $4.3 million ($4.1 million GF-S) was provided for an electronic medical record system at the state psychiatric hospitals that is compliant with the World Health Organization's tenth revision of the international classification of diseases medical classification system.

- A total of $4.6 million GF-S was provided to implement several pieces of legislation enacted in the 2013 regular session that are intended to improve adult behavioral health and accountability.
  - Chapter 320, Laws of 2013 (ESHB 1519) requires the use of evidence based practices and the creation of performance measures for service coordination organizations.
  - Chapter 338, Laws of 2013 (2SSB 5732) requires the establishment of enhanced services facilities to provide community placements for individuals who reside in state hospitals, but do not respond to treatment.
  - Chapter 284, Laws of 2013 (SSB 5551) requires additional resources to meet timely completion of competency evaluations for in-custody defendants.
  - Chapter 289, Laws of 2013 (E2SHB 1114) modifies procedures and standards for involuntary treatment of persons who have been deemed incompetent to stand trial for violent felonies.

DASA

The 2013-15 budget reduced DASA's general fund state by $9.2 million near GF-S over 2011-13 estimated expenditures. This was due to $12.7 million in programmatic savings, offset by $3.5 million in maintenance level increases. Some of the provisions are highlighted below:

- Expanded Medicaid eligibility was estimated to reduce the need for state funds by $13.7 million.

- The conversion of 128 residential beds in Institutions of Mental Disease (IMD) to eight settings with 16 or fewer beds and related federal Medicaid funding was estimated to save DASA $266,000 near GF-S in FY2014.

- Increased near GF-S by $1.2 million to fund court ordered chemical dependency assessment and treatment services for low-income or Medicaid eligible repeat DUI offenders under Chapter 25, Laws of 2013 (E2SSB 5912).

Current Budget issues

Mental Health

Community Mental Health Rate Rebase

DSHS is in the process of an actuarial rate rebase that will impact RSN rates effective January 2014. The actuaries establish rate ranges for each of the RSNs for four categories of Medicaid eligible populations using data on service utilization, type of providers, programmatic changes, and changes in unit costs. While rates are not yet final, it is clear that some RSNs are expected to see the bottom of their rate ranges increase to a level above their current contracted rates and the Department must increase to at least this level. Some RSNs are expected to see the top of their rate ranges decrease to a level below their current contracted rates and the Department must decrease to at least this level. It is unclear at this point if the net impact of these changes will result in an increased cost or a savings to the general fund

CMS Compliance for Mental Health Purchasing

A taskforce established by Chapter 338, Laws of 2013 (2SSB 5732) is scheduled to begin in May 2014 and is expected to provide reform recommendations to the 2015 Legislature on the system used for mental health purchasing. However DSHS received a letter in July, 2013, from the Center for Medicare and Medicaid Services (CMS) identifying issues with the current Medicaid mental health purchasing system and asking

DSHS for a corrective action plan by December 2, 2013, to either competitively re-procure the RSNs to allow commercial entities to bid or to convert to a cost reimbursement payment methodology. Being called into question by CMS is a State statutory definition established in 1989 for Regional Support Networks (RSNs) that allowed DSHS to conduct sole source procurements with county entities for community mental health purchasing. CMS asserts that these contracts were not openly procured and therefore, are invalid; should be defined as "intergovernmental agreements;" and should be paid through a cost reimbursement payment methodology rather than the current capitated risk payment methodology.

DSHS sent a letter seeking clarification, and has specifically asked CMS to provide citations to federal statutes or regulations to support its position. A key consideration for the Legislature for change options is where current non-Medicaid funded mental health services would reside as well as which state agency would be the lead purchaser for Medicaid mental health services.

On a separate but parallel track, Health Care Authority (HCA) and DSHS are moving forward with a "health care innovation plan" that proposes to merge behavioral health into the medical care system. This is not directly in response to the CMS letter, but it has implications related to the letter. The proposal would use an open procurement process to merge medical and behavioral health into a mostly managed care system. The HCA is currently seeking public comment and will submit a finished proposal by December 31st to the Center for Medicare and Medicaid Innovation (CMMI) project with the goal of getting it approved and the hope of receiving federal grant funds for implementation.

Single Bed Certifications and Mental Health Capacity
When an individual is suffering from serious mental illness and is considered a danger to themselves or others, they may be civilly detained under the Involuntary Treatment Act (ITA). Approximately 1,670 individuals are under an ITA investigation each month. Community beds certified as Evaluation and Treatment beds (E&T) are used to detain individuals for 72 hour evaluations and short-term 14 day commitments. Currently there are about 530 certified E&T beds in the system. However, the monthly demand for these beds is 598 and peak usage in FY13 required 641 beds. A single bed certification process is used to detain a patient in a non-certified bed when the detained individual has a medical need or when there are no certified E&T beds available.

A recent Pierce County Superior Court Ruling determined that unless it is for a medical service or some other specialized service that cannot be provided in an E&T bed, it is a violation of a person's civil rights to be detained under a single bed certification. There is currently a stay of this ruling while the state proceeds with an appeal.

In the 2013-15 biennium, it is expected that ITA detainments will increase by approximately 26% over the current level as a result of Chapter 335, Laws of 2013 (ESSB 5480) which implemented an expansion on the factors that may be considered during an ITA investigation. Funding that corresponds with this expansion was awarded to RSNs and will result in the addition of 24 certified E&T beds, and several crisis diversion beds. However, the consideration of developing resources to reduce pre-existing overutilization and the use of single bed certification was not included in the 2013-15 funded E&T capacity and it appears that the most serious shortage will be in eastern Washington.

High Intensity Mental Health Children Lawsuit Settlement
T.R. v. Dreyfus is a federal class action that claims that Washington State's Medicaid system is not providing sufficient intensive mental health services for youth (through age 21) in the community, thereby resulting in unnecessary institutionalization. Specifically the state is being litigated under the Early Periodic Screening Diagnosis and Treatment provision of federal Medicaid statute and under the Americans with Disabilities Act.

The Executive Branch has made the decision to file a Settlement Agreement with the courts. At least eight other states have been subject to this type of lawsuit and have not been able to successfully litigate it. This led to implementation as directed by the courts to include providing services to a specific number of youth regardless of assessment, court assigned monitors, and high/uncontrollable costs for these states.

The Settlement Agreement includes the implementation of a risk assessment tool and a ramping-up of intensive home and community based services over a five year period. It does not specify the number of children that must be served or a dollar amount that must be spent on services. The costs of the settlement are expected to range between $15 -$20 million in Fiscal Year 2015 ($7 - $10 million GF-S) and would ramp-up to $120-$150 million by the 2018-19 biennium ($60-$70 million GF-S). The settlement is scheduled for a fairness review hearing December 19, 2013.

WSH Decertified Wards

Western State Hospital (WSH) has a funded capacity of 557 beds used for long-term, civil commitments. As of September 2013, 262 of these beds were occupied by "decertified" individuals; which means that a doctor has determined the individual no longer requires active treatment for a mental disorder. While Medicare, Medicaid, and commercial insurance are significant revenue sources for WSH, they will not cover the costs for any patient who is "decertified." The number of civil wards which are decertified has tripled from two to six since 2008. This is resulting in approximately $3 -$4 million each biennium in lost revenue for hospital costs which are instead, being covered with GF-S.

Department of Corrections and Other Criminal Justice

Overview

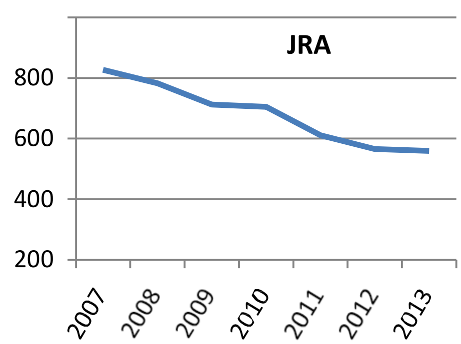
The 2013-15 budget provides just over $1.9 billion in general fund-state for Department of Corrections (DOC) and other criminal justice which includes the Department of Social and Health Services Juvenile Rehabilitation Administration and the Special Commitment Center for sexually violent predators. Funded levels represent a three percent increase from the 2011-13 biennium.

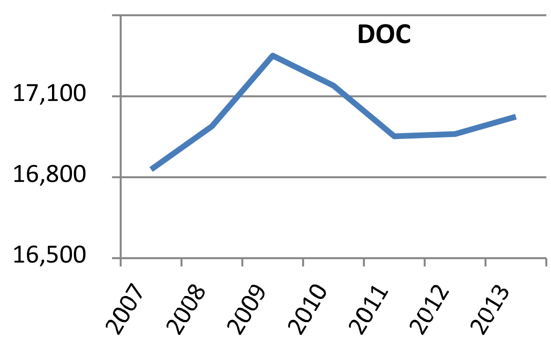
Key Facts

- Adult offenders are housed in 8 major prisons (6 for men and 2 for women), 4 minimum custody work camps, 16 work release centers, and approximately 500 beds rented in county jails.
- Juvenile offenders reside in 3 state-run institutions, 1 basic training camp, and 8 contracted community facilities.
- Civilly committed sexually violent predators reside in 1 total confinement facility on McNeil Island and in 2 secure community transition facilities.

	2013-15 Budget	Number of Offenders/ Residents	FTE Staff	Annual Cost Per Offender/Resident
DOC Prison	$1,221 million	17,535	6,218	$34,816
DOC Supervision	$272 million	15,467	1,127	$8,793
JRA	$189 million	550	749	$89,166
SCC	$72 million	295	370	$122,033

Criminal Incarceration Rates Have Declined Over time (Average Daily Populations in prisons and JRA institutions):





2013-15 Enacted Budget Recap

Legislative measures to address Adult Prison Capacity

Offender caseloads specific to adult prisons are projected to continue a moderate upward trend over the next 15 years. The forecasted demand for prison beds projected the state will need to open two new prison units this biennium and build a new prison by 2022. The Legislature has taken many steps in recent years to reduce offender recidivism among juveniles and adults and dampen the growth trend. However caseload forecasting continues to show growth trends that are modestly increasing. The 2013-15 budget made additional reforms to the adult corrections system, with the goal of delaying the need for one of the two new prison units while maintaining public safety.

Major Policy Changes and Estimated Impacts in the 2013-15 biennium (Dollars in millions)	**Budget Impact**	**Estimated Average Daily Population (ADP) Impact**
Policies from 2ESSB 5892 (Corrections costs) that reduce demand		
Drug Grid Modification: Modified the Drug Sentencing Grid so that any offender who commits a Seriousness Level 1 Drug offense and has a criminal history score within the range of 3-5, will serve their sentence in jail unless an exceptional sentence is imposed. This item was expected to reduce the growing demand for prisons by 126 beds by the end of the biennium.	-$2.6	-109*
Standardizing Presentence Credits: Standardized calculations of earned release for felony offenders transferring in from jails to make consistent with the rate applicable to DOC offenders. This item was expected to reduce the growing demand for prison beds by 51 beds	-$1.1	-51
Investments to reduce demand		
Increase Residential Drug Offender Sentencing Alternative (DOSA) beds: Increased residential beds for Drug Offender Sentencing Alternatives are expected to reduce ADP by 272 beds by the end of the biennium.	$4.1	
Savings in prison from DOSA diversions	-$2.6	-235*
Delay the opening of a new unit		
Delay opening the second Washington State Penitentiary (WSP) medium unit	-$2.3	
Delay additional health services and admin costs related to WSP new units	-$2.9	
	-$7.4	**-395**

***Average FY impact during the biennium**

Other Capacity Related Changes

- DOC was authorized to open one medium unit at WSP and close one minimum unit at WSP within existing appropriations. This was initiated by DOC to "right size" the system by increasing minimum capacity where crowding exists and reducing minimum capacity where there was consistent bed vacancies below the funded level.
- DOC was provided $1.2 million to rent local jail beds for short-term offenders who have 120 days or fewer remaining on their sentence when they would otherwise transfer from jail to DOC.
- DOC was required to issue a competitive solicitation for up to 300 local jail beds to the extent that existing funds could be made available (No net cost to Department).

Offenders With Special Needs - $5.4 Million General Fund-State, $0.4 Reinvesting in Youth Fund
Additional mental health staffing is funded to provide added support to adult offenders with developmental disabilities and to juvenile offenders suffering from mental illness. Funds are provided to expand alternatives to incarceration for drug-addicted offenders

Prison Safety - $3.5 Million General Fund-State
Funding was provided to increase correctional officer staffing levels in two areas: (1) Stand-alone minimum security facilities on graveyard shift and (2) medium security housing units on the day shift. In addition, funding is provided to upgrade the prison radio infrastructure.

Current Budget Issues

Prison Capacity in the Corrections System
The November forecast continues to predict growth in incarceration of adults. To address the need for prison capacity the DOC requests:

- Staffing to open a currently unused 256 bed unit at WSP.
- $1.8 million for a Prison Capacity Pre-Design focused on a 1,000 bed medium custody prison at Maple Lane School.
- Request for funding to increase Medium Security capacity for the female population on the western side of the state.

Other Options to meet capacity demand:

- Fund the contracted beds at local jails for certain prison sentencing as approved last session. (DOC suggests they don't have the money in their base to pay for these beds)
- House offenders out of state in private facilities.
- Increase work release beds across the state.
- Increase the Drug Offender Sentencing Alternative beds further.

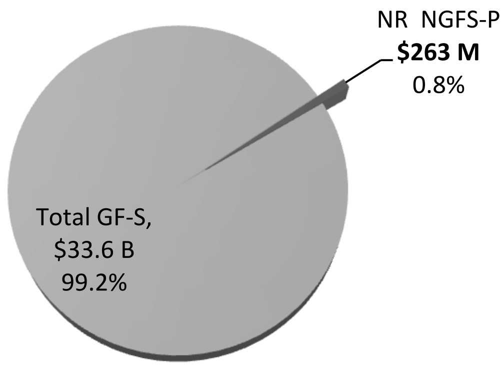
Offender Programming
Washington State Institute for Public Policy (WSIPP) previously identified Offender Programming using evidence based programs as a mechanism to reduce recidivism and increase capacity. During 2012, the state realized a one-time savings when DOC under expended the funding for this purpose. Currently, the budget expects DOC to ramp back up to fully spending appropriated funds by April of 2015. It is unclear whether DOC will meet these expenditure goals and whether it will show a substantial increase in offenders receiving programming during this biennium.

Parole and aftercare for JRA youth
Juvenile Justice and Rehabilitation Administration of DSHS (JJ&RA) is requesting $2.8 million through the end of the biennium to expand its Parole services program to provide services for all youth released to their communities. Currently, JJ&RA is only providing these services to the highest risk youth (those with over a 60% risk to re-offend), sexual offenders, and youth convicted of auto theft. JJ&RA changed its parole services model following a 2002 WSIPP report showing that parole did not reduce recidivism while actually negatively affecting the benefit to cost ration. JJ&RA now utilizes the research-based Functional Family Parole Aftercare (FFP) which has shown positive outcomes in a 2011 report by Research and Data Analysis for DSHS. The funding would be used to train parole counselors in FFP and to provide the care.

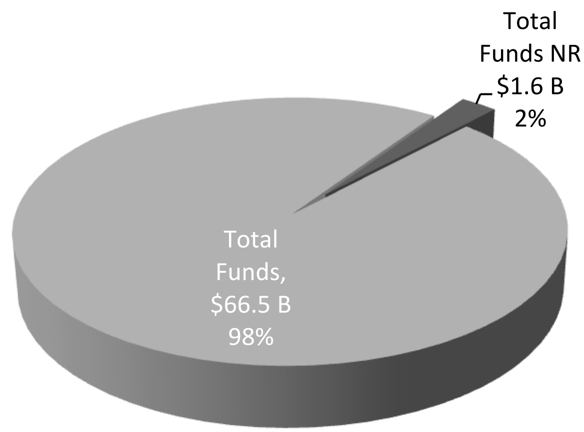
High Cost of the Special Commitment Center
Given its McNeil Island location, the SCC requires exceptional operating costs; this "island factor" is approximately, $6.6 million annually or $21,000 per year per resident. Issues surrounding the higher cost and the best long term use of McNeil Island, continues to receive legislative attention.

Natural Resources

For the 2013-15 biennial budget natural resources represents less than 1% of the NGFS-P budget ($263 million). This represents a decrease of approximately $38.9 million in NGFS-P from the 2011-13 biennial budget. The total budget for natural resources is approximately $1.6 billion and represents 2% of the overall budget; an increase of $54.8 million from the 2011-13 biennium. The natural resources agencies budgets are funded primarily by dedicated funds.



Natural Resources NGFS-P Budget 2013-15
$263 Million



Natural Resources Total Funds 2013-15
$1.6 Billion

Key Facts

- Natural Resources is comprised of 11 agencies;
  - Department of Ecology (DOE) regulates, inspects, and provides technical assistance for the environment; including air, land and water pollution and clean up. ($51 million GF-S)
  - Department of Natural Resources (DNR) manages 2.6 million acres of aquatic lands and 3 million acres of state trust lands for revenue to trust beneficiaries. ($88 million GF-S)
  - Department of Fish and Wildlife (WDFW) provides protection to fish and wildlife and their habitats and sustainable fish and wildlife related recreational and commercial opportunities. ($59 million GF-S)
  - State Parks and Recreation Commission (State Parks) manages 120,000 acres with 117 developed parks, 35 heritage sites, 13 interpretive centers and more than 700 historic structures. ($8.5 million GF-S)
  - Department of Agriculture (Ag) provides support to the agricultural community and promotes consumer and environmental protection. ($31 million GF-S)
  - Washington State Conservation Commission (SCC) supports and guides the 45 conservation districts as a non-regulatory resource of information, guidance, and technical services for private landowners in dealing with land, water, and air quality conservation. ($13.5 million GF-S)
  - Recreation and Conservation Office (RCO) manages grant programs for outdoor recreation, wildlife habitat and farmland, and restoration of salmon habitat. ($1.6 million GF-S)

- Puget Sound Partnership (PSP) coordinates the regional effort to clean up Puget Sound. ($4.7 million GF-S)
- Environmental and Land Use Hearing Office (ELUHO) hears appeals and decides cases of certain land use and environmental decisions. ($4.3 million GF-S)
- Pollution Liability Insurance Program (PLIA) makes pollution liability insurance available and affordable to the owners and operators of regulated petroleum underground storage tanks and heating oil tanks by offering reinsurance services to the insurance industry. (No GF-S)
- Columbia River Gorge Commission works in partnership with the United State Forest Service, the State of Oregon, Tribes, and the six counties within the National Scenic Area to adopt land use and resource protection policy for the approximately 115,000 acres in the Scenic Area. ($.9 million)

- Three largest agencies (DNR, WDFW, and Ecology) account for 79% of the $1.6 billion total budget

2013-15 Enacted Budget Recap

For the 2013-15 biennium $48.7 million from the state general fund was replaced with dedicated state funding sources.

- $39 million from the State Toxics Control Account (STCA) replaces an equivalent reduction from the state general fund for Air Quality, Water Quality, Shorelands and Environmental Assistance and Administration programs in the Department of Ecology (DOE).
- A total of nearly $9.7 million from the state general fund was reduced and offset with a one-time shift to the Aquatic Lands Enhancement Account for expenditures in forest practices, the hydraulic project approval program, hatcheries, aquatic invasive species, and commercial shellfish management in the DNR and WDFW.

Support for State Parks and Recreation Commission:

- $20.1 million of additional funding:
  - $10 million from the Waste Reduction, Recycling, and Litter Control Account (Litter Tax) is appropriated to the Parks Renewal and Stewardship Account (PSRA) to bridge a shortfall in Discover Pass revenue projections and to meet the maintenance and operational activities necessary to preserve the state park system.
  - $8.4 million of state general fund
  - $1.7 million of Litter Tax funds on a one-time

The Model Toxics Control Act and Hazardous Substance Tax:

- Legislation [C 1 L 13 E2,(2E2SSB 5296)] amended the distribution and authorized use of Hazardous Substance Tax (HST) revenues and created the Environmental Legacy Stewardship Account (ELSA) to fund certain authorized pollution prevention and contamination cleanup activities. Other changes in the legislation allow for the clean-up of hazardous waste sites at a faster pace based on available cash.
- Pursuant to the legislation, $45 million from the STCA and $45 million from the Local Toxics Control Account (LTCA) are transferred to the ELSA on a one-time basis during the 2013-15 biennium, and any HST revenue exceeding $140 million per fiscal year is deposited into the ELSA.
- In addition, a total of $19.2 million in STCA and $21.3 million in LTCA expenditures at DOE are permanently shifted to ELSA.

Current Budget Issues

State Parks Funding

- State Parks is requesting $4.9 million in additional funding support:
    - $1.6 million GF-S to replace aging equipment;

    And to reflect additional revenues:
    - $2.9 million in increased spending authority for the PSRA to provide additional staffing: to reduce the backlog of preventive maintenance; retain seasonal park aides; and for data collection and analysis.
    - $.4 million in increased spending authority for the Winter Recreation Program Account to cover costs of plowing and trail grooming, and equipment repair and replacement.

Fire Suppression and Prevention

- DNR is requesting $7.2 million GF-S on top of the base funding of $19 million for FY14 provided in the biennial budget for fire suppression costs. This request exceeds what the agency has spent on fire this year.
- State Conservation Commission is requesting $3.5 million GF-S to work with conservation districts and DNR to assist private landowners in minimizing the impact of future wildfires by developing and implementing Community Wildfire Protection Plans and fuel reduction projects in critical fire areas.