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Municipal Research Council

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Department of Natural Resources
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Board of Accountancy
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Consolidated Technology Services

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Horse Racing Commission
Human Rights Commission
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State Patrol (non-transportation portion)

2016 Supplemental Fiscal Outlook

Prepared by Senate Ways & Means Staff

November 19, 2015

The 2015-17 enacted budget balanced in the 2015-17 biennium but with Governor vetoes was projected to be $23 million overspent in the 2017-19 biennium

Enacted 2015-17 Budget with Governor's Veto

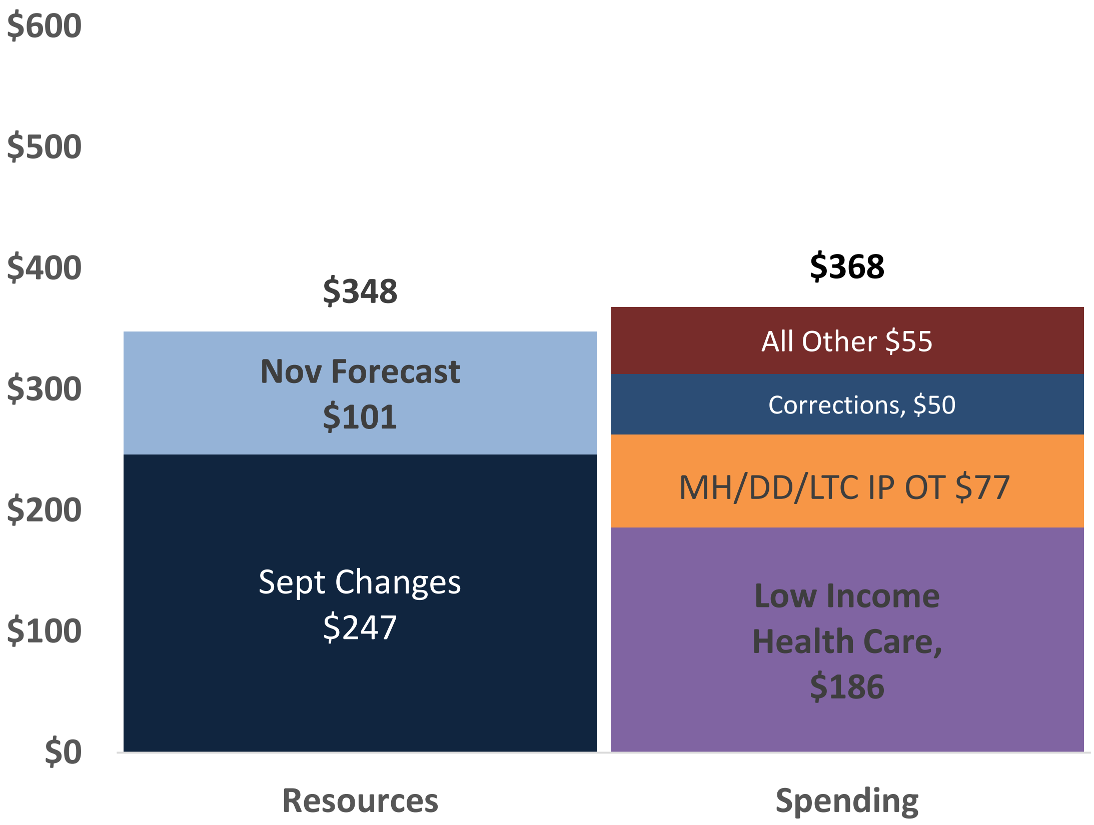
(Near GF-S & Opportunity Pathways Account)

dollars in millions

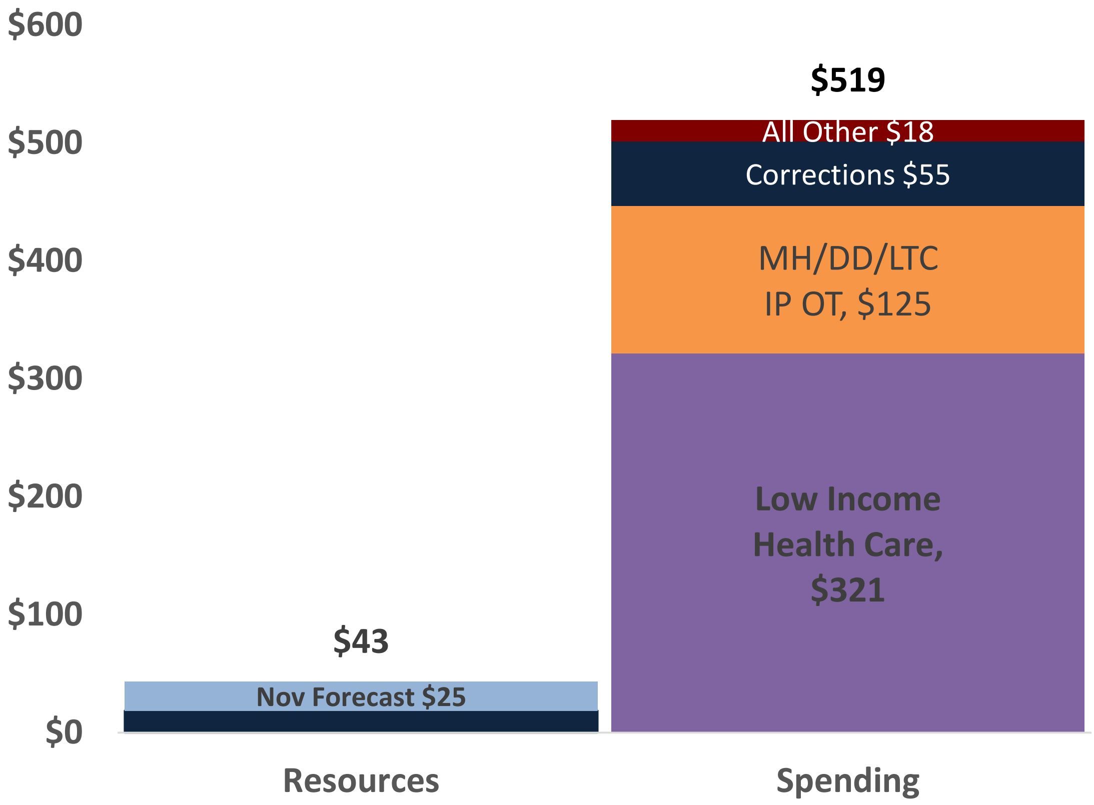
	2015-17	2017-19
1. Beginning Balance	$910	$343
2. Est. Revenue and Other Resource Changes	$37,516	$41,037
3. Estimated Expenditures	$38,082	$41,402
4. Projected Unrestricted Ending Fund Balance	**$343**	**($23)**
5. Budget Stabilization Account Ending Balance	$894	$1,367
6. Combined Near GF-S Total & BSA Ending Balance	**$1,237**	**$1,344**

Since July, resources have continued to increase but preliminary maintenance spending changes has outpaced the new resources – especially in the 2017-19 biennium

2015-17
Resource and Spending Changes
From the Enacted Budget
(NGF-S & Opportunity Pathways)
dollars in millions



2017-19
Resource and Spending Changes
From the Enacted Budget
(NGF-S & Opportunity Pathways)
dollars in millions



Forecasts include changes in FY 2015 that carryover into FY 2016.

As a result, the already projected negative balance in 2017-19 is anticipated to grow by $450M

Four-Year Outlook Comparison

Enacted Budget and November 2015 Outlook

(Near GF-S & Opportunity Pathways Account)

dollars in millions

	2015-17		2017-19	
	Enacted	November	Enacted	November
1. Beginning Balance	$910	$1,011	$343	$359
2. Est. Revenue and Other Resource Changes	$37,516	$37,762	$41,037	$41,064
3. Estimated Expenditures	$38,082	$38,415	$41,402	$41,896
4. Projected Unrestricted Ending Fund Balance	**$343**	**$359**	**($23)**	**($473)**
5. Budget Stabilization Account Ending Balance	$894	$891	$1,367	$1,347
6. Combined Near GF-S Total & BSA Ending Balance	**$1,237**	**$1,250**	**$1,344**	**$875**

The Four-Year Outlook only looks at maintenance level costs, which means the following examples are <u>not</u> included in the spending estimates

- Fire suppression costs - $100 to $155M
- DEL's Child Care Collective Bargaining Reopener with Child Care Center Parity - $36M
- MTCA backfill if NGFS operating is used - $62M
- Any other policy enhancements (~$158M was the total add in the 2014 Supplemental)
- McCleary Compensation Related Enhancements

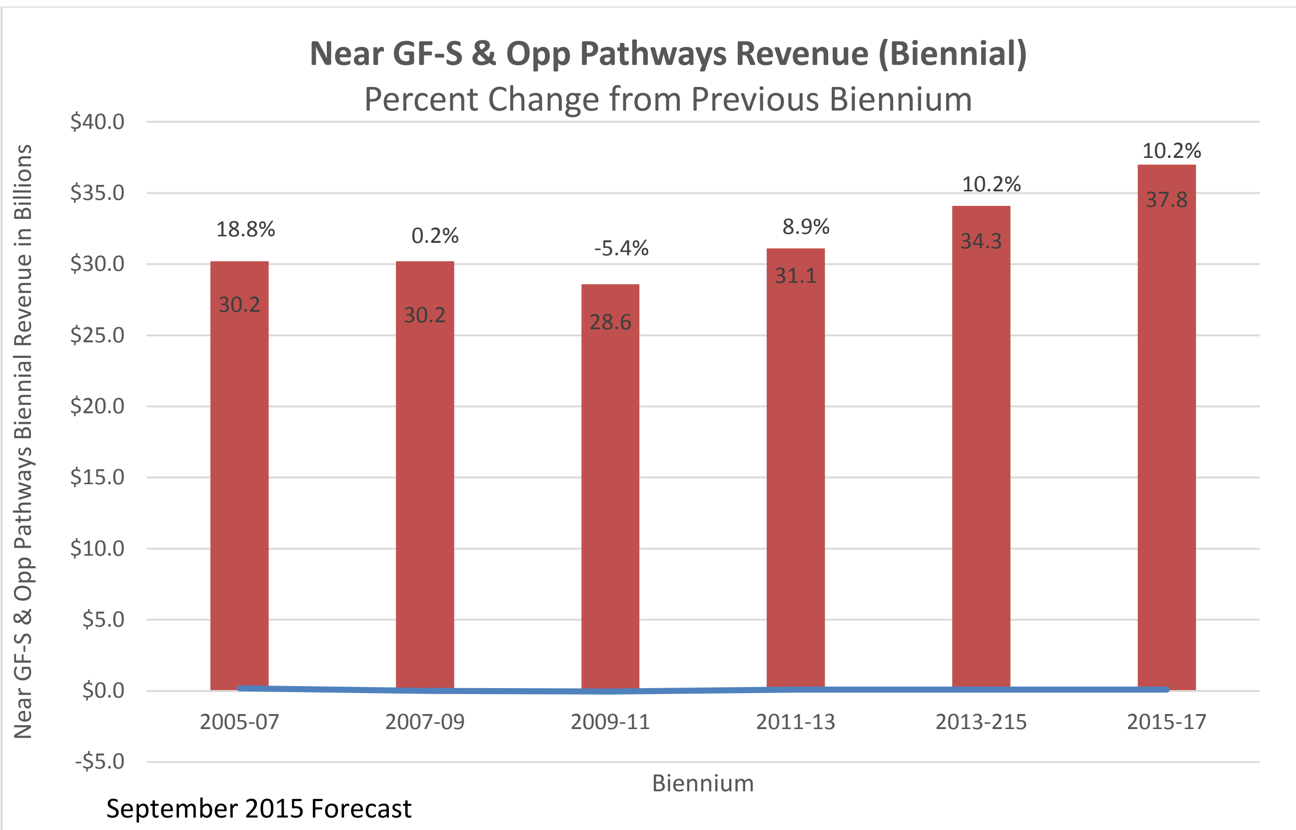
Revenue

Key Facts

- The most prominent streams of revenue to the state general fund are the sales and use tax (53%), the business and occupation tax (21%) and the property tax (12%).
- Near general fund and opportunity pathways revenues are expected to increase from $34.3 billion in the 13-15 biennium to $37.8 billion in the 15-17 biennium.
- In 2012 (the latest data available) Washington ranks 22nd in state and local taxes per capita, and ranks 35th 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.

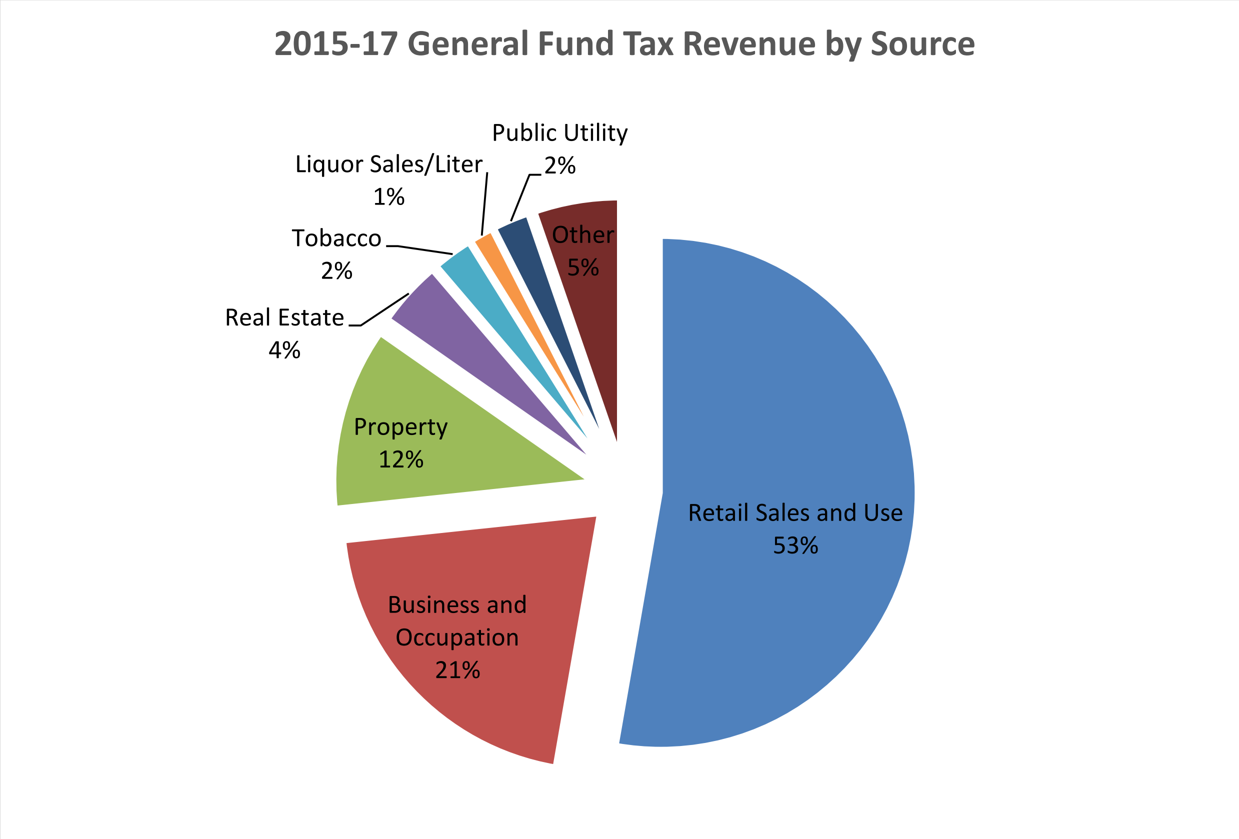
Trend/Overview Information

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



The chart below breaks out state general fund revenues by tax source expected for the 15-17 biennium based on the September 2015 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). In 2013, a bipartisan group of U.S. Senators introduced and passed The Marketplace Fairness Act (Act). The Act would close this tax loophole and generate an estimated $413 million to the state and $232 million to local governments in the 2017-19 biennium (new estimates will be available in December and are likely to be slightly lower based on the possible effective date and other factors). In 2015, the Act and other similar versions are still being pursued at the federal level. 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 yet to grant states remote seller collection authority.

Property Tax Levy Swap

To address the funding issues in the *McCleary v. State* lawsuit, a “levy swap” on property may be discussed in the upcoming session as a partial solution. One of the issues in the court case was that too much of K-12 education was funded by local tax levies and not enough by the state and that local levies are not to be used for basic education. The basic concept behind the property tax levy swap is that the amount local school districts could collect through school levies would be reduced and the amount the state would collect through its property tax levy would be increased offsetting the amount reduced in local levies. This increased level of state support, offset by reduced local levy reliance, addresses that particular issue raised in the court decision. There may be different proposals on a property tax levy swap in the upcoming 2016 session.

Marijuana Revenue

Initiative 502, passed in November 2012, legalized the recreational use of marijuana and established a regulatory regime, including taxation; the retail sale of marijuana began in July 2014. The initiative imposed a 25% excise tax on marijuana production, processing, and sales. The initiative specified the distribution and purpose of revenue generated. During the 2015 session several changes were made to the marijuana laws. Most notably, beginning July 1, 2016, the medical marijuana market will be merged with the recreational market both for sales and regulations. Other changes include collapsing the taxation to just the point of sale at a rate of 37.5% (the revenue neutral rate) as well as changes to the distribution of the revenues. Distributions to cities and counties were also adopted. Local governments will receive $6 million per year during the 2015-17 biennium, $15 million per year during the 2017-19 biennium, and $20 million per year each year thereafter. The chart below shows the distribution of the state dollars as estimated by the September 2015 economic and revenue forecast.

Distribution of Marijuana Excise Tax & License Fees

(Dollars in Thousands, September 2015 Revenue Forecast)

				Distribution of Remaining Funds						
Biennium	**Total of Cannabis Excise Taxes plus License Fees**	Total Pre-Distribution Allotments	**Total to Distribute**	DSHS Substance Abuse Program	Dept. of Health Cannabis Education Program	UW/WSU Research	Basic Health Plan Trust Account	Health Care Authority Community Health Centers	OSPI Dropout Prevention	**General Fund-State**
2013-15	**$53,897**	$7,350	**$46,547**	$5,166	$1,000	$0	$22,706	$2,271	$135	**$15,269**
2015-17	**$421,783**	$16,723	**$405,060**	$40,550	$15,000	$690	$202,530	$20,253	$762	**$125,275**
2017-19	**$703,140**	$17,082	**$686,058**	$51,072	$19,500	$3,404	$343,029	$34,303	$1,022	**$233,728**

Employee Compensation and Benefits

Salaries and other benefits for state employees accounted for approximately 16% of Near General Fund-State (w/ Op Path) expenditures during the 2013-15 fiscal biennium.

Although there are several categories of state employment, the two most important distinctions for budgeting purposes are between: (1) the employees who are represented by labor unions and those who are not; and (2) the salary setting authority of higher education institutions compared to state agencies.

Salary and benefit changes for non-represented employees are generally subject only to policy guidelines and practical restrictions on implementation. In contrast, the Legislature's options regarding changes that have been bargained with the Governor are to either provide funding for the agreements reached in the collective bargaining process or to reject the agreements.

Generally speaking, higher education institutions have greater flexibility than state agencies in establishing salary levels for most of their employees, including faculty and exempt staff.

Cost-of-living adjustments (COLAs) for K-12 employee salaries are governed by the provisions of Initiative 732, state salary conditions and local collective bargaining. With respect to health benefits, K-12 school districts have broad authority to determine health plan benefits and premiums for their employees. A few districts provide benefits through the Public Employee Benefits Board (PEBB) of the Health Care Authority (HCA). Most districts adopt benefits through collective bargaining. In December 2013 & 2014, the Insurance Commissioner issued reports on school district employee health benefit plans; a third report (2014 plans) is due December 2015. Additionally, all school district retirees have the same opportunity to purchase continuing coverage through PEBB that is provided to retired state employees.

Another constraint on benefit funding is that Washington courts have consistently held retirement plan members are contractually entitled both to any benefits promised in statute during the period of their 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. In 2014 the State Supreme Court upheld the ability of the legislature to reserve the option to make future changes to newly created retirement benefits.

Key Facts

State Employee Staffing Levels (FTEs) and Salaries:

2013-2015 biennial expenditures for state agency and higher education salaries and benefits: $5.5 billion Near GF-S and Op Pathways; $17.5 billion all funds.

Number of state employees: In FY 2015 approximately 108,000 FTEs, including 56,700 state agency employees and 51,200 higher education employees.

Share of state executive branch agency employees who are managers: 7.8% as of October 2015.
75% of executive branch agency employees are in classified positions covered by collective bargaining agreements; 12% are in non-represented classified positions; and 13% in either Washington management service or exempt positions.

Median annual base salary of full-time state agency employees in FY 2015: $51,864
Average annual salary of full-time state agency employees: $55,782 for FY 2014.
Average annual salary of full-time higher education employees: $63,077 for FY 2014.
Average annual turnover rate: 10.6% for FY 2015

After peaking in FY 2009 state employment decreased by 9% through FY 2013 and increased by 1% in FY 2014. Higher education employment remained flat over the same period and increased by 4% between FY 2012 and FY 2013 and 2% between FY 2013 and FY 2014.

State Employee Health Benefits:

- Number of state and higher education employees enrolled in PEBB = 109,000
- Number of state and higher education covered lives (including dependents) = 229,000
- 2013-15 state PEBB contributions = $681 million Near GF-S; $1.8 billion total funds
- 2015-17 state PEBB contributions = $1.1 billion Near GF-S; $2.4 billion total funds
- State monthly contribution = $662 (FY 2015); $840 (FY 2016) and $894 (FY 2017)

State and K-12 Employee Pensions:

- 2015-17 contributions: = $1.7 billion Near GF-S; $4.3 billion total funds.
- Plan funding ratios: PERS Plan 1 = 61%; TRS Plan 1 = 69%; PERS/TRS/SERS Plans 2/3 = 90% - 94% % (Using Entry Age Normal method to calculate liabilities and updated mortality tables).

State and K-12 Retiree Health Benefits:

- Number of state and higher education PEBB retirees = 31,100; including covered dependents = 44,200.
- Number of K-12 PEBB retirees = 33,200; including dependents = 47,100
- Number of PEBB Non-Medicare retirees and dependents = 10,800
- Number of PEBB Medicare retirees and dependents = 83,100
- State monthly subsidy for PEBB Medicare retirees in 2015 and 2016 = $150, up to a maximum of 50% of the premium

2015-2017 Enacted Budget Recap

Salary increases for represented and non-represented employees.
Funding was provided in the 2015-17 operating and transportation budgets for the cost of salary and benefit increases for represented state and higher education employees provided in arbitration awards and in collective bargaining agreements negotiated with the Governor's office.

The details of the collective bargaining agreements funded by the legislature in 2015 vary from contract to contract, however the agreements for state employees generally include a general wage increase of 3% effective July 1, 2015; and an increase of 1.8% for all employees who earn $2,500 per month or more, or an increase of 1% plus $20 per month for all employees who earn less than $2,500 per month, effective July 1, 2016. Most non-represented employees also received a 3% increase effective July 1, 2015, and a 1.8% increase effective July 1, 2016.

Correctional employees represented by Teamsters Local 117 received a 5.5% increase in the first year and 4.3% in the second year. Washington State Patrol troopers and lieutenants received 10% increases over the two years. Additional wage increase provisions were also included in some of the agreements, including additional salary increases for targeted general government classifications, assignment pay increases, geographic pay for designated areas, shift premium increases, and other adjustments

The employee health benefits agreement requires the state to fund an average of 85% of health care premium costs and prohibits changes to point-of-service costs for the classic Uniform Medical Plan except to support value-based benefit designs or to manage the impacts of federal mandates. The agreement also provides for an employee wellness program incentive with a value not less than $125 per year.

Collective bargaining agreements and arbitration awards for non-state employees:

Salary and benefit increases were also provided in collective bargaining agreements or arbitration awards for home care workers, language access providers, child care workers, and adult family providers that are not state employees. The agreements negotiated by OFM included the following provisions:

- Home care individual providers: wage scale increases to include a starting wage of $12 per hour and a top wage of $15.40 per hour; increase of $.66 per hour over two years for health care contributions; and a new retirement benefit contribution of $.23 per hour.
- Language access providers: hourly rate increases of $1.10 per hour in FY 2016 and $.90 in FY 2017.

Two non-state employee groups also received increases through arbitration awards:

- Adult family home providers: 5% increases in both the daily rate and in the expanded community service daily rate, in each fiscal year;
- Child care providers: 2% increases in both the base rate and the base hourly rate for unlicensed providers, effective July 1, 2016.

State pension contributions:

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 and the Pension Funding Council. The rates reflected higher costs due to four primary factors: (1) an increase in required contributions for Plan 1 unfunded liabilities; (2) delayed recognition of past investment losses; (3) reduction in the long-term investment return assumption from 7.9% to 7.8%; and (4) adoption of new mortality tables to recognize improvements in life expectancy.

2016 Session Budget Issues

Part-time employee insurance benefits - Moore v. HCA litigation: A class action lawsuit was filed in 2006 claiming that certain part-time state employees were wrongfully denied PEBB insurance benefits. The courts have made some initial rulings in the plaintiffs' favor, including a 2014 decision of the Court of Appeals regarding how the damages should be measured. Plaintiffs are seeking over $100 million in damages plus prejudgment interest and double damages. The case is scheduled for trial in December 2015.

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 six sets of PSRA-governed labor contracts approved by the Legislature for the 2005-07 through 2015-17 fiscal biennia.

Who is represented?

Approximately 50,000 state agency and higher education classified employees are covered by general government labor contracts negotiated by the Labor Relations division of the Office of Financial Management (OFM) pursuant to the PSRA of 2002. Unions representing general government state employees in the negotiations and the approximate number of employees they represent include:

- Washington Federation of State Employees (WFSE) (29,800 employees in 35 agencies plus 2,900 in 12 community colleges);
- Teamsters Local 117 (5,800 employees, most at Department of Corrections);
- Washington Public Employees' Association (WPEA) (2,100 represented employees in 9 agencies plus 1,600 in 12 community colleges);
- Professional and Technical Workers Local 17 (2,100 employees in 3 agencies);
- Service Employees International Union (SEIU) 1199NW (800 Registered Nurses in 2 agencies);
- WA Association of Fish and Wildlife Professionals (500 employees at DFW); and
- A coalition of 16 smaller unions (600 employees combined).

Negotiations are also conducted by OFM with the Washington State Patrol (WSP) Troopers and Lieutenants Associations representing 1030 employees, and with 11 labor organizations representing 1700 Washington State Ferry (WSF) employees in the Department of Transportation. These negotiation processes are authorized under separate collective bargaining statues.

OFM also negotiates a super coalition agreement for health care. The agreement establishes the state insurance contribution requirements for inclusion in all master collective bargaining agreements.

Four year state colleges and universities generally negotiate collective bargaining agreements directly with the labor organizations that represent their employees rather than having OFM conduct the negotiations.

Managers (Washington Management Service and exempt) and employees of certain agencies (such as OFM, the Department of Personnel, and legislative and judicial agencies) are all precluded from forming bargaining units.

In addition to negotiating agreements with unions representing state general government, community college, WSP, and WSF employees, OFM also negotiates agreements for certain groups of non-state employees pursuant to separate collective bargaining statutes:

- Homecare Individual Providers (35,000) represented by SEIU Local 775;
- Family Child Care providers (8,000) represented by SEIU Local 925;
- Adult Family Home Providers (2,600) represented by the Adult Family Home Council of Washington; and
- Language Access Providers represented by the WFSE.

What is the timeline for the bargaining process?

Negotiations between labor unions and the OFM Labor Relations division (OFM) 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. This deadline applies both to agreements reached through collective bargaining and through interest arbitration.

Interest arbitration

In addition to collectively bargained agreements, in 2014 OFM also reached 13 agreements by October 1st that were based on interest arbitration. The agreements involved organizations representing correctional officers and others employed by the Department of Corrections, uniformed officers of the Washington State Patrol, Washington State Ferries employees, and non-state employees (family childcare providers and adult family home owners). Statutes authorize interest arbitration for all these groups except for the Department of Corrections employees; interest arbitration for that group was conducted under a memorandum of understanding executed in April 2013 between the union and OFM.

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 tentative collective bargaining agreements and arbitration award agreements?

The Legislature may either approve or reject the request for funds to implement each of the agreements 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 OFM may reopen negotiations.

If the legislature does not approve a tentative agreement, the terms and conditions in the current agreement remains in effect for up to one additional year unless a new agreement is reached and approved by the legislature before that date.

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

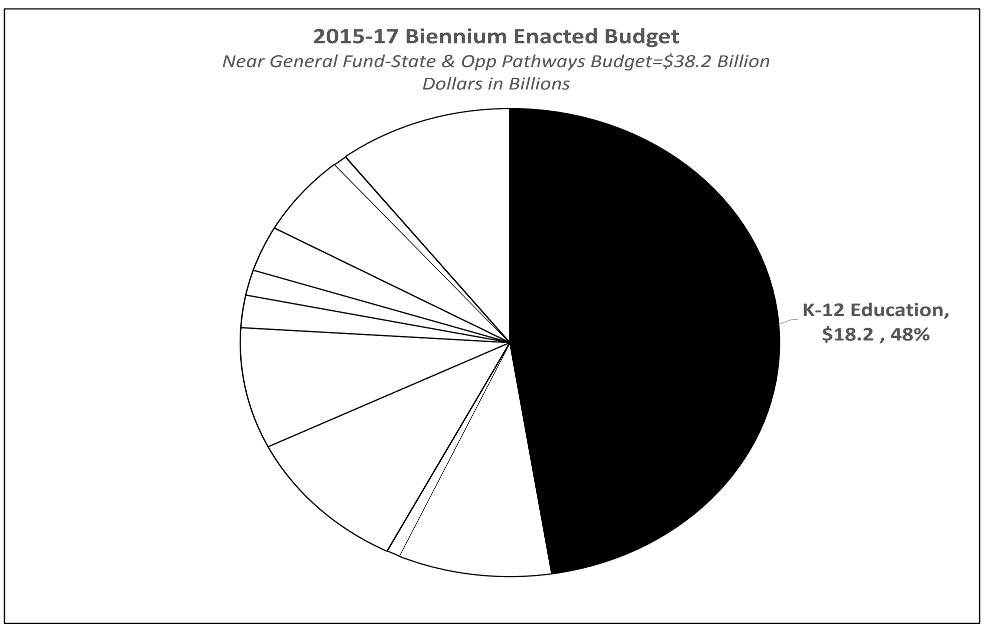
- K-12 Public School appropriations, 2015-17 Biennial Budget: $18.2 billion, Near GF-S + OP
- School districts' operating fund sources for school year 2014: State funds (68%), Federal (8%), Local Taxes (19%), Other (4%)
- Number of K-12 students: 1,028,501*
- Number of schools: 2,300
- Number of school districts: 295; Tribal Compacts: 3; and Charter Schools: 9.
- K-12 staff in school year 2015, all fund sources: 106,643 (63,881 teachers and other certificated staff; 4,329 administrators; and 38,433 support staff)

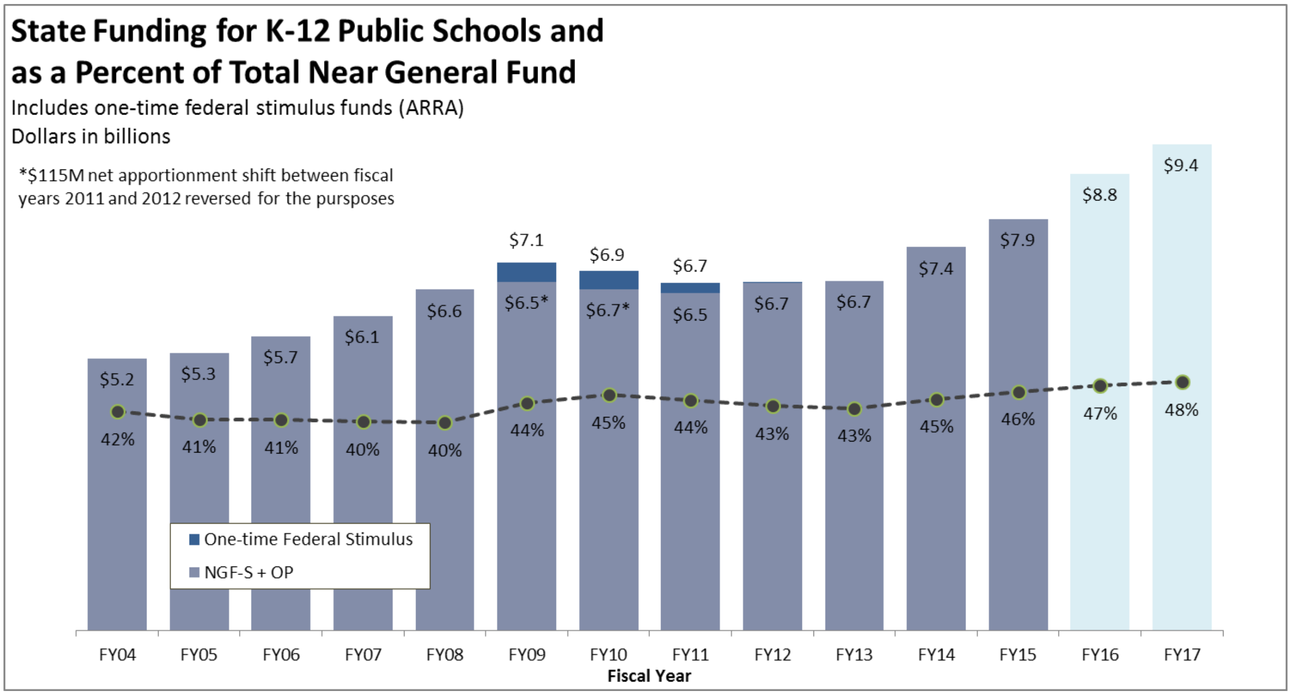
* Projected full-time-equivalent students for school year 2016

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 48 percent of the total. The following charts display the history of K-12 appropriations, as well as the percentage of the Near-General Fund State budget allocated to K-12.





Recent Basic Education Legislation Affecting K-12 Funding

In the 2009-11 biennium, two major pieces of legislation were enacted to redefine the program of basic education and restructure K-12 funding formulas. The first was ESHB 2261 (Chapter 548, Laws of 2009) which added programs to the definition of basic education — including the program for highly capable students and phasing in all-day kindergarten. It increased the number of instructional hours, increased the minimum number of credits for high school graduation, and changed the system for funding student transportation. The bill also created the framework for a new K-12 funding allocation formula based on prototypical schools. Changes took effect September 1, 2011 and most enhancements are to be phased in by 2018 on a schedule set by the Legislature. The second bill, SHB 2776 (Chapter 236, Laws of 2010), enacted in statute the funding formulas for the new prototypical schools format at levels that represented what the state was spending on basic education at the time. It set targets for class-size reduction in the lower grades and established a timeline for phasing in certain enhancements to the program of basic education and the new funding levels. The new funding model is intended to provide greater understanding about how state funds for K-12 are allocated to school districts, and to improve accountability. The bills require school-district reporting of actual staffing and expenditures, compared to the funding provided in the prototypical model. The comparisons are to be available on a public website of the Office of the Superintendent of Public Instruction, and can be found at this link: http://www.k12.wa.us/SAFS/INS/2776/Portal.asp.

Prior Funded K-12 Enhancements and Future SHB 2776 Implementation Costs*
(Dollars in Millions)

Total Cost of K-12 Enhancements Funded Since 2013-15	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
SHB 2776 Enhancements						
Materials, Supplies & Operating Costs	$ 152	$ 280	$ 624	$ 725	$ 752	$ 781
All-Day Kindergarten	$ 39	$ 50	$ 106	$ 176	$ 202	$ 209
K-3 Class Size Reduction to 17	$ 42	$ 62	$ 146	$ 331	$ 381	$ 391
Pupil Transportation	$ 35	$ 97	$ 110	$ 110	$ 111	$ 111
Other K-12 Enhancements	$ 93	$ 216	$ 254	$ 257	$ 257	$ 258
FY Total *K-12 Enhancements*	**$ 361**	**$ 705**	**$ 1,240**	**$ 1,596**	**$ 1,704**	**$ 1,750**
Biennial Total *K-12 Enhancements*		**$ 1,066**		**$ 2,837**		**$ 3,453**

SHB 2776 Enhancements Future Costs*	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
K-3 Class Size Reduction to 17	$ -	$ -	$ -	$ -	$ 257	$ 264
FY Total *SHB 2776 Future Enhancements*	**$ -**	**$ -**	**$ -**	**$ -**	**$ 257**	**$ 264**
Biennial Total *SHB 2776 Future Enhancements*		**$ -**		**$ -**		**$ 521**

**Future SHB 2776 (2010) statutory deadlines are shown in gray shading. This estimate does not include state-funded K-12 compensation changes or educational system capacity costs identified in ESHB 2261 (2009).*

2015-17 Enacted Biennial Budget Recap

As reflected in the table below, the enacted 2015-17 budget provided $18.2 billion for K-12 public schools. This represents a $2.9 billion or 19 percent increase from the estimated expenditures for the 2013-15 biennium.

2015-17 State Funding for K-12 Public Schools *Near GF-S & Opp Pathways in Millions*	
Estimated 2013-15 Expenditures for K-12 Public Schools	***15,261.9***
Compensation & General K-12 Items	
Continuation of 2013-15 Education Increases*	621.9
Enrollment & Workload changes	233.4
I-732 Cost of Living Adjustment	231.0
Pension Increases	210.2
Additional Salary Increase	152.3
All Other K-12 Increases	149.4
Increased Health Benefit Allocation	24.4
Compensation & General K-12 Items	***1,622.6***
New SHB 2776/Basic Education Items	
Completed Phase-in of Materials, Supplies, and Operating Costs	741.5
Continued Phase-in of K-3 Class Size Reductions	350.2
Completed Phase-in of All-Day Kindergarten	179.8
New SHB 2776/Basic Education Items	***1,271.5***
2015-17 Appropriations for K-12 Public Schools	**18,156.0**
Dollar Increases Above 2013-15	*2,894.1*
Percentage Increase Above 2013-15	*19.0%*

** Includes continued funding for basic education increases from the prior biennium, including: full funding of the pupil transportation funding formula; full funding of the increased high school instructional hours and graduation requirements; and continued phase-in of all-day Kindergarten, K-3 class size reductions, and Materials, Supplies, and Operating Costs.*

A total of $1.3 billion was provided for the implementation of basic education requirements of SHB 2776 (Chapter 236, Laws of 2010). This includes: (1) $741.5 million to complete implementation the materials, supplies, and operating costs (MSOC) component of the prototypical school funding formula; (2) $350.2 million to reduce class sizes in grades kindergarten through third grade with priority given to the earliest grades and high-poverty elementary schools; and (3) $179.8 million to complete implementation of state-funded all-day kindergarten by school year 2016-17, one year ahead of the statutory deadline.

Other major increases included: (1) $621.9 million for the continuation of 2013-15 education increases, including the previous installments of the SHB 2776 (Chapter 236, Laws of 2010) enhancements; (2) $233.4 million for more technical enrollment and workload changes; (3) $231.0 million for the Initiative 732 Cost of Living Adjustment; (4) $210.2 million for the K-12 related costs associated with higher pension contribution rates; (5) $152.3 million for a one-biennium salary increase beyond the amounts specified in Initiative 732; and (6) $24.4 million to increase health benefit allocations for certificated instructional, certificated administrative and classified staff while maintaining the classified health benefit factor.

The largest reduction from the K-12 maintenance level is associated with the suspension of Initiative 1351 (I-1351). The fiscal impact of the phase-in requirements of Initiative 1351, which changed the state's funding requirements for class size and staffing formulas, was estimated at $2 billion for the 2015-17 biennium. Chapter 38, Laws of 2015, 3rd sp.s. (EHB 2266) delayed the phase-in dates for I-1351 by four years, resulting in savings in the 2015-17 biennium.

Current Budget Issues

McCleary v. Washington State: In January, 2012, the Washington Supreme Court held that the state had 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.

In its latest ruling related to the case in August 2015, the Washington Supreme Court issued contempt sanctions of $100,000 per day until the Legislature submits a plan for fully funding its obligations in the McCleary v. State of Washington lawsuit. The Court requested that the Legislature keep this fine in a separate account and to use the funds for the benefit of basic education. Beyond the four budgeted funding enhancements of SHB 2776 (Chapter 236, Laws of 2010) – pupil transportation, MSOC, full-day kindergarten, and K-3 class size funding, the Court made specific references to the adequacy of K-12 funding for K-12 employee salaries and capital space needs. The Governor has convened a McCleary workgroup to review some of these issues and the court decision. Additionally, the Senate Early Learning and Education Committee conducted a listening tour at 7 locations throughout the state.

Capital Space Needs: 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. While no changes have been made to the school construction assistance program (SCAP) to account for the lowering of K-3 class size requirements, the Legislature appropriated $200 million for the 2015-17 biennium for a pilot program of competitive grants for state funded class reduction efforts and all-day kindergarten requirements. The Legislature is continuing to explore ways to determine the actual capacity needs associated with the K-3 class size provided in Chapter 236, Laws of 2010 (SHB 2776). The biennial budget included funding and direction to OSPI and Washington State University to increase data collection efforts about school construction inventory and costs for the Legislature to consider during future budget development.

Charter Schools: Voters approved Initiative 1240 in 2012, the initiative allowed for the phased establishment of up to 40 charter schools in the state of Washington. As of the fall of 2015, 9 charter schools with approximately 1,300 students were operating in the state. In September 2015, the Washington Supreme Court held that the charter school law is unconstitutional. The Court provided an October 23 deadline for motions of reconsideration on its ruling, and the State filed two motions. The first motion urges the Court to reconsider its decision to set aside the entirety of I-1240. The second motion requests to state the mandate if the Court denies the reconsideration. While the Court considers the reconsideration, Charter schools are open, operating, and receiving their monthly apportionment payments from OSPI.

Higher Education

There are six public four-year universities with five extension campuses and 34 community and technical colleges in Washington. In the 2014-15 academic year (the most data recent available), these public institutions served about 247,000 students (FTEs).

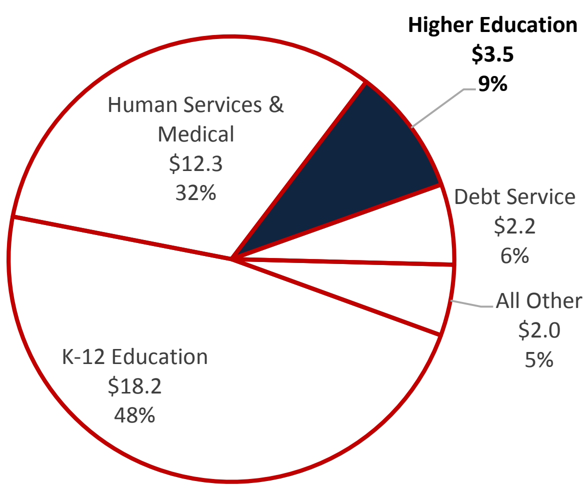
Key Facts

- 2015-17 budget: $13.8 billion total funds; $3.5 billion state funds; $2.9 billion tuition
- State-Funded FTE Enrollment, 2014-15 academic year: 233,441 (budgeted); 246,660 (actual)
- Four Year School Degree production, 2013-14 academic year (most current data available):
    - 24,100 undergraduate degrees
    - 7,581 graduate degrees
- SBCTC Degree/Certificate production, 2013-14 academic year (most current data available):
    - 10,403 applied associate degrees
    - 244 applied baccalaureate degrees
    - 20,536 certificates
    - 17,439 academic transfer degrees

Overview/Trend Information

Of the $38 billion state budget, higher education represents 9% of the state budget (which increases to 11% if you include higher education's portion of debt service). The 2015-17 appropriations for higher education are 14% higher than the previous biennium.

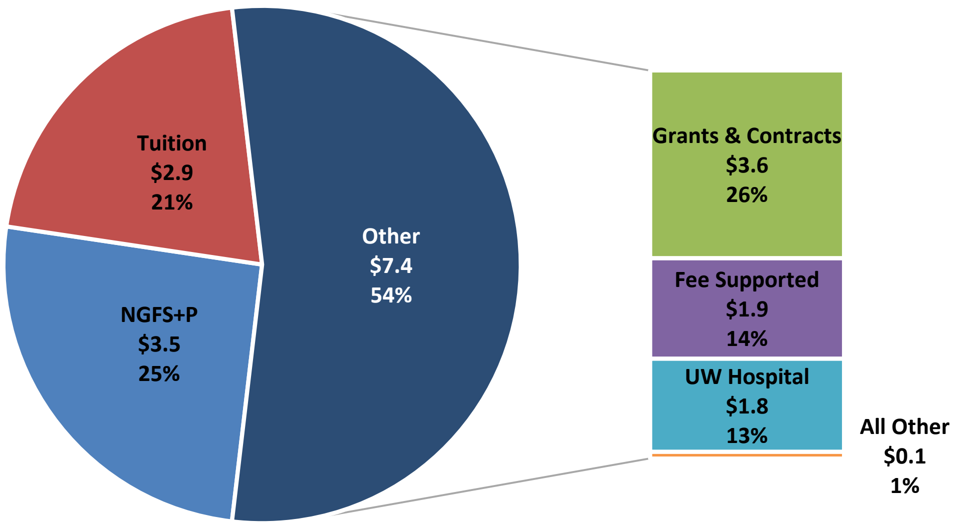
2015-17 Enacted Budget
Total NGFS + Opportunity Pathways Budget: $38.2 Billion
Dollars in Billions



Higher Education Funding

Higher education funding, like most areas of the state budget, is comprised of much more than NGFS plus Opportunity Pathways (NGFSP). NGFSP makes up only 25% of the total funding in higher education. The chart below shows higher education by fund source.

2015-17 Total Higher Education Operating Budget by Fund Sources
Dollars in billions



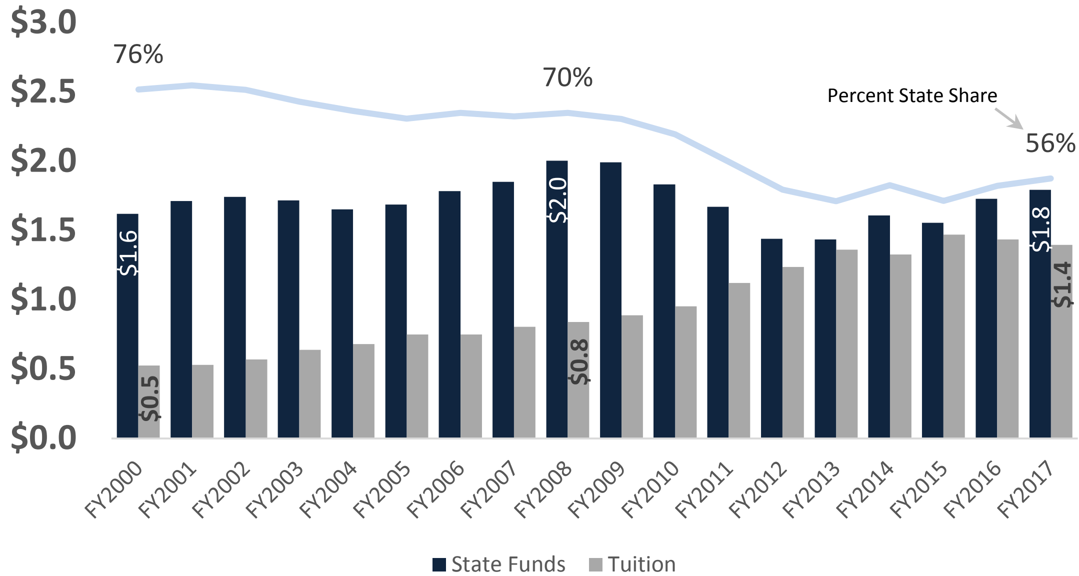
State Share of Core Academic Functions

After adjusting for inflation, funding for core academic functions[1] is expected to increase by approximately 2.4% per year from FY 2000 to the end of the current biennium. The portion of core academic functions paid for with state funds versus tuition has also changed over time. The average real annual growth rate from 2000 to 2017 for state funds increased by 0.6% while tuition[2] increased by 5.8%. Based on current allotments, in FY 2017 the state funds $1.28 for every $1.00 of tuition.

[1] Define core academic functions

[2] Tuition includes all student categories and not just resident undergraduate.

State Funds and Tuition Portions of Core Academic Functions
2015 Constant Dollars in Billions



Enrollment and Completion

Since the 2007-08 academic year, the four year institutions have been increasing their enrollments by an average of 2,380 per year. After increasing their degrees awarded by about 1,015 per year, the four year institutions experienced an 11% drop in degrees awarded from 2011-12 to 2012-13. The CTCs enrollments have been experiencing negative annual growth since 2010-11 but continue to produce annual increases in degrees, transfers, and certificates.

PUBLIC FOUR YEAR INSTITUTIONS						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
State-Funded Enrollments (Headcount)						
Undergraduate	97,830	100,092	101,882	104,670	105,805	106,823
Graduate	24,201	24,993	25,399	24,618	24,728	24,962
Total	122,031	125,085	127,281	129,288	130,533	131,785
Degrees Awarded						
Undergraduate	21,807	22,829	23,487	24,363	24,417	24,100
Graduate	6,417	6,864	7,211	7,423	7,590	7,581
Total	28,224	29,693	30,698	31,786	32,007	31,681
Annual Percentage Change						
Headcount Enrollments		2.5%	1.8%	1.6%	1.0%	1.0%
Degrees Awarded		5.2%	3.4%	3.5%	0.7%	-1.0%

STATE BOARD OF COMMUNITY AND TECHNICAL COLLEGES						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
State-Funded Enrollments (Headcount)	334,332	338,109	330,608	305,709	292,119	283,408
Degrees/Academic Transfer						
Applied Associate Degree	7,430	8,064	9,875	10,689	17,243	14,949
Applied Baccalaureate Degree	35	51	138	155	192	244
Academic Transfer	13,529	13,973	16,183	16,747	17,492	17,439
General Studies (non-transfer)	336	331	376	410	401	379
Total	21,330	22,419	26,572	28,001	35,328	33,011
Certificates (Worforce Training)	16,225	20,851	22,521	22,697	24,624	21,352
High School Completion	5,737	6,224	6,274	6,082	5,924	5,751
Annual Percent Change						
Headcount Enrollments		1.1%	-2.2%	-7.5%	-4.4%	-3.0%
Degrees/Academic Transfer		5.1%	18.5%	5.4%	26.2%	-6.6%
Certificates		28.5%	8.0%	0.8%	8.5%	-13.3%

2015-17 Enacted Budget Recap

For the 2015-17 biennium, a total of $3.5 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); $2.8 billion (79%) of which is appropriated to the public colleges and universities. Compared to the 2013-15 biennium, this represents a $428 million (18%) increase in state funds to the institutions of higher education and a $426 million (14%) increase in state funds to the higher education system overall.

Resident undergraduate tuition was reduced under the College Affordability Program (2ESSB 5954). Starting in the 2015-16 academic year, the tuition operating fee is reduced by 5 percent from the 2014-15 academic year level for all schools. In 2016-17, the tuition operating fee is reduced another 10 percent from the 2015-16 academic year for the research schools and another 20 percent for the regional schools.

Major Increases:

As required under the College Affordability Program, the legislature appropriated $113 million in state funds for the estimated reduction in net revenues from the tuition reductions. This amount included $158 million to the schools for net tuition reductions and a $45 million offset to financial programs due to lower tuition award amounts.

The legislature also increased funding by $41 million to the Opportunity Scholarship Program, $11.5 million for a new medical school and to continue the current medical school in Spokane, and $16 million for increased computer and engineering enrollments.

Current Fiscal Issues

Tuition. The College Affordability Program tuition backfill amounts are based on previous year enrollments. The cost of the program will change as the estimates are updated with actual enrollments rather than projections.

Guaranteed Education Tuition. The GET committee has made a number of changes to the GET program since the legislature adjourned. The GET committee has voted and approved a refund of the amortization fee that was charged to certain customers when the program's funded status was below 100 percent. Any customer who bought units at $163 or higher will receive a refund of the amortization fee. This refund would have occurred even if tuition stayed flat rather than reduced.

The GET committee made a number of changes based on the tuition reductions in the College Affordability Program. The committee voted to:

- Delay new unit purchases for a period not to exceed two years effective July 1, 2015;
- Freeze the payout value of GET units at $117.82 per unit effective September 2, 2015 until December 15, 2016;
- Permit account holders to receive a refund of their contributions or the payout value, whichever is greater, effective September 2, 2015 until December 15, 2016; and
- Waive all state program refund fees and the two-year hold requirement for all account holders, effective September 2, 2015 until December 15, 2016.

While the GET committee has not taken formal action to open a 529 College Savings Plan, the committee hired a consultant to begin looking into a state run 529 College Savings Plan.

Department of Early Learning

The Department of Early Learning (DEL) is responsible for implementing early learning policy and for coordination, consolidation and integration of child care and early learning programs in order to administer programs and funds effectively. The department was created in 2006 with the transfer of early learning programs and functions from DSHS, Commerce and OSPI to DEL under Chapter 265, Laws of 2006 (HB 2964). The department partners with several non-governmental organizations in order to leverage private funds and for service delivery.

Programs and services include the following:

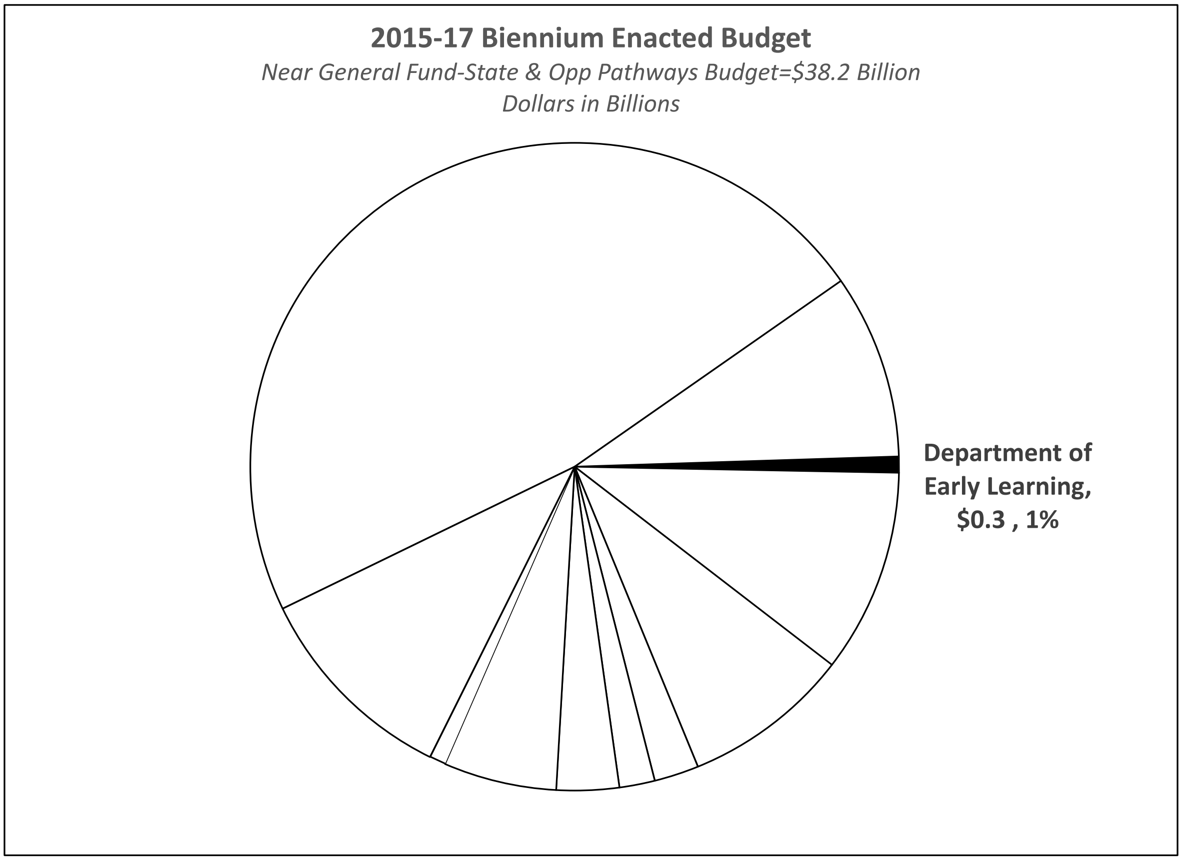
- Licensure and oversight of 6,000 licensed centers and family home child care programs
- Manage contracts with early learning providers to deliver the Early Childhood Education and Assistance program (ECEAP) for at-risk 3 and 4-year olds who are low-income, involved in child welfare services, or who qualify for special education; collaborates with federal Head Start offices to serve low-income
- Offer contracts to local, evidence-based Home Visiting providers through a partnership with Thrive By Five Washington
- Contract with therapeutic providers who offer child care and treatment to children exposed to environmental , familial, biological risk factors
- Set policy for child care subsidy programs including the Working Connections Child Care program and Seasonal/Homeless child care subsidy programs (see Economic Services Administration)
- Coordinate services for infants and toddlers with disabilities or developmental delays through the Early Support for Infants and Toddlers program (ESIT)
- Coordinate the Early Achievers, Quality Rating Information System for licensed child care and early learning providers; and offer training, scholarships and a professional development registry for early learning professionals.

Key Facts

- Total 2015-17 budget: $622.0 million total funds ($301.1 million Near GF-S and Opportunity Pathways
- Percent of budget that comes from the state: 48 percent
- Families participating in a home-visiting program (FY 2015 estimated): 51,485
    - DEL/Home Visiting Services Account slots: 2,033
    - DSHS-DBHR slots: 1,289
    - HCA: 43,400
    - Other: 4,763
- Early Support for Infants and Toddlers (ESIT) services (12/1/2014 count):
    - 6,529 infants and toddlers served
- Children receiving Seasonal and Homeless Child Care Services (FY 2015):
    - Seasonal: 3,740 children served
    - Homeless Program: 629 children
- ECEAP Children Served (FY 2015): 10,091 at $7,578 per slot

Trend/Overview Information

In 2015-17 biennium, DEL's budget totals $622.0 million, of which $301.1 million (48 percent) was Near GF-S and Opportunity Pathways. DEL's 2013-15 biennial budget of $301.1 million Near GF-S and Opportunity Pathways represents a net increase of $138 million or 85 percent from 2013-15 levels.



The largest driver of the DEL budget is the Early Childhood Education and Assistance Program (ECEAP), a comprehensive preschool program for low-income children from households with income below 110 percent federal poverty level and children eligible for special education due to a disability. Enrollment is prioritized to children from families with the lowest income, children in foster care and children from families with multiple needs.

Chapter 231, Laws of 2010 PV (2SHB 2731) directed expansion of the ECEAP program and created a statutory entitlement beginning in the 2018-19 school year. The legislature began adding ECEAP slots in fiscal year 2012 to begin making incremental progress toward meeting the estimated ECEAP caseload. The original legislation required that the ECEAP program expansion be "phased-in incrementally each year until full statewide implementation." Chapter 7, Laws of 2015, 3rd Special Session (2E2SHB 1491) delayed full statewide implementation of ECEAP from the 2018-19 school year to the 2020-21 school year; and removed the requirement that ECEAP be phased in incrementally.

2015-17 Enacted Budget Recap

Chapter 7, Laws of 2015, 3rd Special Session (2E2SHB 1491) expanded the Early Achievers program and required child care facilities and early learning programs receiving state funds to participate in the Early Achievers program. The 2015-17 operating budget provided an additional $91.8 million Near GF-S and Opportunity Pathways to implement 2E2SHB 1491. This included $22 million General Fund-state for additional Working Connections Child Care (WCCC) subsidies to support the twelve month WCCC eligibility provisions required in the Early Start Act. Twelve month eligibility will begin on July 1, 2016.

An additional $40.9 million Near GF-S and Opportunity Pathways was provided for the Early Childhood Education and Assistance Program (ECEAP). These funds will support an additional 1,600 part day (2.5 hour) ECEAP slots and maintain the 1,359 full day (6 hour) and 567 extended day (10 hour) slots added in fiscal year 2015.

Chapter 7, Laws of 2015, 3rd Special Session (2E2SHB 1491) delayed full statewide implementation of ECEAP from the 2018-19 school year to the 2020-21 school year; and removed the requirement that ECEAP be phased in incrementally. Chapter 128, Laws of 2015 (SSB 5999) directed the Caseload Forecast Council (CFC) to forecast the number of children served and the number of children eligible for ECEAP. This information will be presumably be used as the Legislature considers the revised 2020-21 school year timeline for delayed full statewide implementation of ECEAP.

An increase of $6.5 million Near GF-S and Opportunity Pathways was provided for a 2 percent base rate increase for seasonal and homeless child care providers beginning on July 1, 2016, tiered reimbursement in fiscal year 2016 for child care providers participating in the Early Achievers Program, and other items negotiated as part of the Service Employees International Union (SEIU), local 925 collective bargaining agreement. The funds appropriated to DEL represent approximately 37% of the total $17.4 million Near GF-S and Opportunity Pathways provided in the 2015-17 operating budget for these purposes. The remaining funds were provided to Children and Family Services and the Economic Services Administration both housed within the Department of Social and Health Services.

Current Budget Issues

Early Learning & ECEAP Expansion: Chapter 7, Laws of 2015, 3rd Special Session (2E2SHB 1491) delayed statewide implementation of ECEAP until the 2020-21 school year, required child care facilities and early learning programs receiving state funds to participate in the Early Achievers program, and made other early learning changes. The issues around ECEAP expansion, child care and ECEAP funding rates, and early learning quality requirements will continue to be considered over the next several years.

Child Care Collective Bargaining Agreement: In the summer of 2015, DEL and the Service Employees International Union Local 925 (SEIU 925) through a reopener clause are proposing changes to base subsidy rates and tiered reimbursement rates for fiscal year 2017 of the family child care provider contract in effect July 2015 through June 2017. The parties agreed to selected base rate increases and revised tiered reimbursement awards for providers rating at levels 3, 4 and 5 in Early Achievers. Approximately $36 million Near GF-S and Opportunity Pathways has been requested for increases associated with this agreement including parity for centers that participate in Working Connections Child Care (WCCC), Seasonal Child Care (SCC), and Homeless subsidy programs.

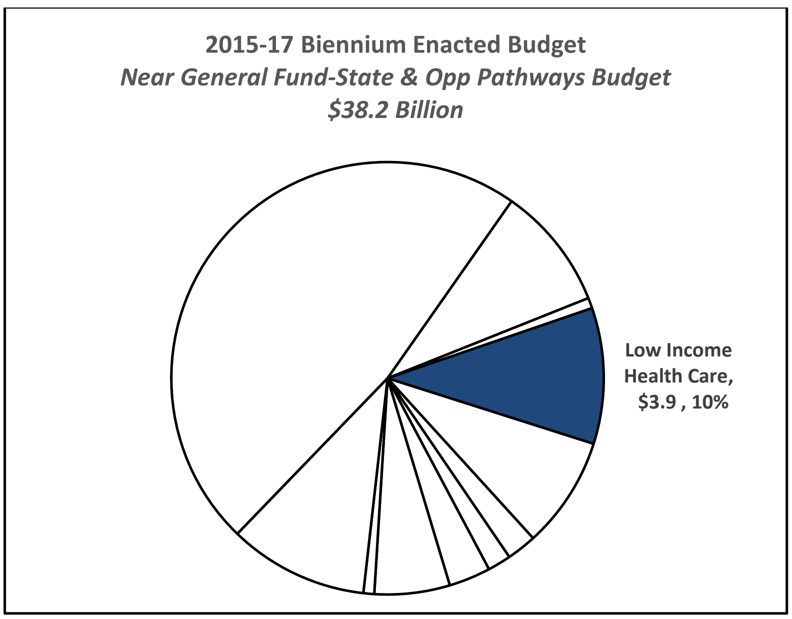
Federal Grant Activities: The federal government recently reauthorized Child Care and Development Block Grant (CCDBG). DEL is requesting $5.9 million Near GF-S and Opportunity Pathways to comply with additional requirements placed upon them by the CCDBG. The activities that they are requesting funding for include: (1) yearly monitoring of providers; (2) background checks; (3) additional training services to providers; and (5) data collection.

Low-Income Health Care

Washington is budgeted to spend $16.5 billion during the 2015-17 biennium to cover all or part of the physical health cost of medical and dental care for an average of 1.8 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 2015-17 biennial budget: $4.6 billion Near-General Fund State + Hospital Safety Net, $11.6 billion Federal (primarily Medicaid), and $0.3 billion other state and local funds
- Estimated Lives Covered in FY 2016: 1.8 million or 1 of every 4 Washingtonians, including:
  - ✓ 1 of every 2 children in the state
  - ✓ 1 of every 2 pregnant women
  - ✓ 1 of every 5 adults (non-pregnant, non-elderly)
  - ✓ 1 of every 10 elderly adults
- Average Annual Cost Per Person Covered: $3,551, ranging from $1,652 per year for State Children's Health Insurance Program (SCHIP) to $15,354 per year for non-citizen pregnant women
- Total State Staff: 1,176 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 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. Additional funds for the program come in through the Hospital Assessment program and are used in lieu of state funds for Medicaid hospital services. The total funds through this program for the 2015-17 biennium total an additional $3.5 billion dollars. The following table shows how the federal and state shares of Medicaid financing have changed and are expected to change. For example, in 2008 the federal and state shares of total costs were roughly the same - 47% to 51% respectively. At the end of this biennium, ten years later, nearly seven out of every ten 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 improved federal match for the Children's Health Insurance Program (CHIP). Total funding for low-income medical grew by 8.3% from to 2007 to 2015 - with federal funding growing at 13.4% compared to the state share decreasing by 1%. When Near GF-S is combined with the Hospital Assessment, there is growth of .8%.

Medicaid Enrollment and Funding Changes Over Ten Years FY 2007 to FY 2016					
Population/Funds	Totals		Percent Share of Total		Avg Annual Growth
	2007	2016	2007	2016	2007 to 2016
WA State Population	6,472,672	7,098,492	100%	100%	1.0%
Medicaid Pop.	999,871	1,818,566	15%	26%	6.9%
Non-Medicaid Pop.	5,472,801	5,279,926	85%	74%	-0.4%
Fund Source	**$ in millions**		**Percent Share of Total**		**Avg Annual Growth**
	2007	**2016**	**2007**	**2016**	**2007 to 2016**
Total Funds	**$ 4,090.7**	**$ 8,339.0**	**100%**	**100%**	**8.2%**
NGF-S*	$ 2,127.0	$ 1,943.4	52%	23%	-1.0%
Hospital Safety Net**	$ -	$ 345.0	0%	4%	26.8%
Federal	$ 1,869.1	$ 5,806.0	46%	70%	13.4%
Other Funds	$ 94.7	$ 244.8	2%	3%	11.1%

*NGF-S includes GF-S and Opportunities Pathways

**Hospital Safety Net began in 2010

2015-17 Budget Recap

The FY 2015-17 $16.5 billion all-funds appropriation for low-income medical care is a net $3.5 billion (26.7 percent) increase from the 2013-15 biennium appropriations, and includes a net $431.1 million (10 percent) decrease in state-fund appropriations (Near GF-S + Opportunities Pathways).

The majority of the total fund increases ($3.5 billion) are almost entirely due to Medicaid Expansion under the Affordable Care Act (ACA) continuing, increasing hospital rates under the Hospital Safety Net, Hepatitis C funding, and increased managed care rates. Of the net $3.5 billion in increases, $3.7 billion is from federal sources. This is offset by reductions in state-fund appropriations ($431.1 million) which are realized primarily through forecast adjustments for all populations, improved federal matching rates for the Children's Health Insurance Program (CHIP), Initiative 502 funding, and the continued funding of the Hospital Safety Net program.

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 $689 million while offsetting $292 million in state general spending. During the 2015-17 biennium this program was expanded to purchase primary care and psychiatric residency slots.

Current Budget Issues

The 2015 supplemental budget contained a veto of the general fund state appropriation assumed for FY 2015 based on three forecast items. Health Care Authority has requested restoration of assumed savings in the 2016 supplemental budget for both FY 16 and FY 17.

- Reimbursement Methods Waiver - $35.2 million ($17.5 million Near GF-S)
- Unachieved LEAN Savings - $21.4 million ($10.6 million Near GF-S)
- Healthier Washington - $85.4 million ($37 million Near GF-S)

Hepatitis C: In January 2014, the Food and Drug Administration (FDA) approved Sovaldi as a treatment for Hepatitis C. This drug, in combination with Interferon, is a cure for this condition. Three additional drugs have since been approved: Harvoni, Olysio, and Viekira Pak. Harvoni is used in combination with Sovaldi and doesn't have the significant side effects of Interferon. Clinical policy created by Health Care Authority is also followed by Department of Health, Department of Social and Health Services and Department of Corrections. Sovaldi and Harvoni are on HCA's preferred drug list.

Fewer patients than anticipated sought treatment in FY 2015, resulting in reversion of funds. Based on lower uptake, it is expected that cost of treatment of patients under the original clinical protocol will result in savings from the original 2015-17 biennial budgeted amount. Resulting savings at maintenance level from lower uptake is approximately $44.4 million ($10.8 million Near GF-S).

Health Care Authority has proposed increasing the coverage policy to include less acute populations resulting in additional costs. Costs for additional treatment total approximately $77.7 million ($20 million Near GF-S).

State Health Care Innovation (HB2572): In December 2014, Washington State received approximately $65 million from the Centers for Medicare and Medicaid Services (CMS) Innovations Fund to implement its State Health Care Innovation Plan. Implementation is expected to slow the growth of state health care costs. This bill also required the creation of an All Payer Claims Database, collaboration with Department of Social and Health Services to integrate physical and behavioral health rates, and savings attributable to the innovation plan beginning in State Fiscal Year 2016. During FY 2015 there were no savings attributable to Healthcare Innovation (Healthier Washington). HCA has made a request to restore savings in FY 16 and FY 17 based on lack of Early Adopters for fully integrated behavioral and physical health plans. HCA has also submitted a second waiver request to CMS requesting an additional $3 billion in federal spending authority for parallel innovation strategies. These strategies would require HCA to leverage local funds as the matching dollars.

Managed Care and Prescription Drug Costs: National trends in prescription drug costs are driving up costs for the managed care population. All populations are seeing increases in drug costs for generic, brand name, and specialty drugs. HCA is also seeing increasing claims costs for the State Children's Health Insurance Program (SCHIP) and the Blind Disabled populations.

Long Term Care and Developmental Disabilities

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

Washington is budgeted to spend $7.0 billion total funds ($3.2 billion Near GF-S) during the 2015-17 biennium to provide aging and long-term support services which are primarily Medicaid-funded (i.e. state and federal matching funds). Both ALTSA and DDA operate an institutional-based Medicaid "entitlement" program. The entitlement service setting in ALTSA is nursing homes or Skilled Nursing Facilities (SNFs) and the entitlement service setting in DDA is Residential Habilitation Centers (RHCs). 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 ALTSA 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.

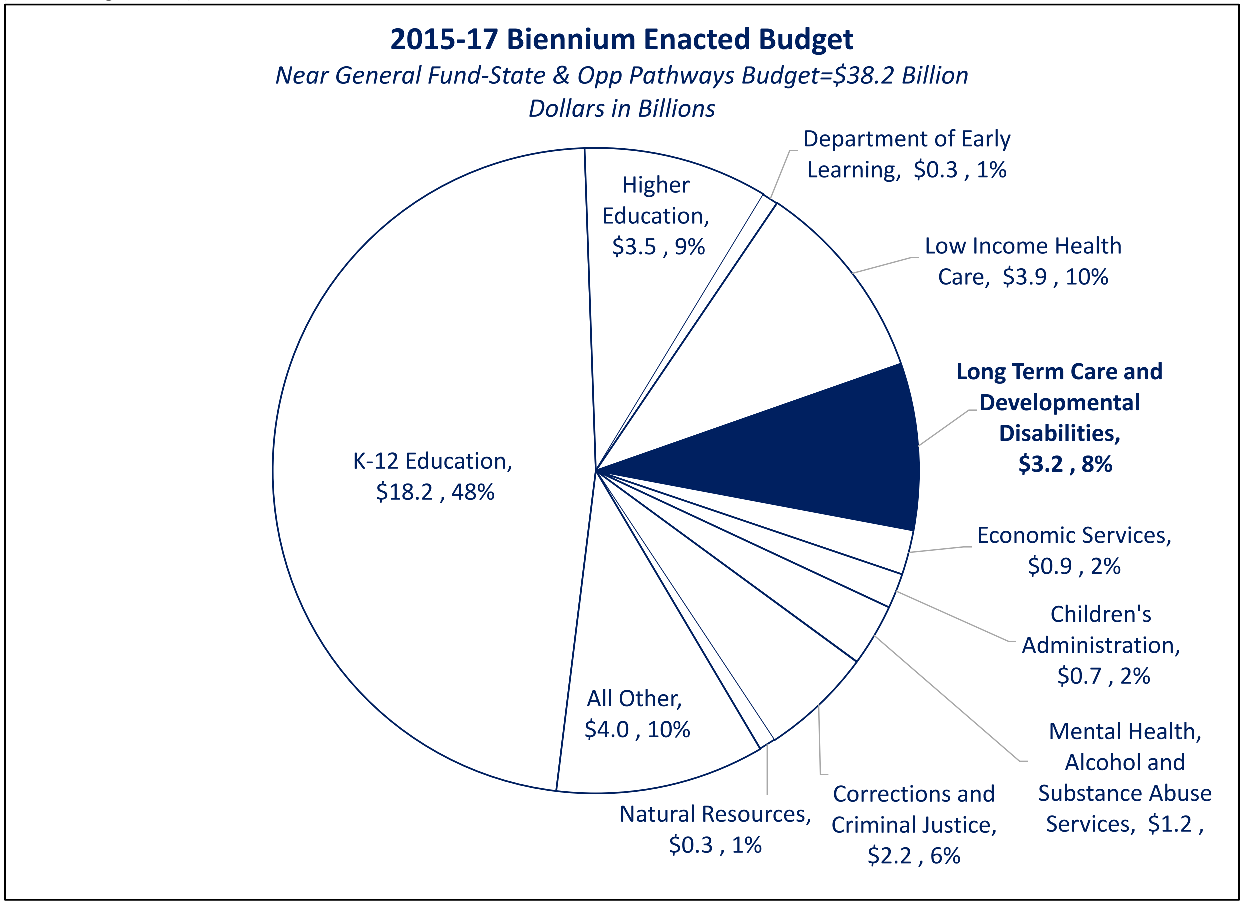
Key Facts

- 2015-17 budget by program:
  - ALTSA: $4.5 billion total funds and 1,591 FTEs
  - DDA: $2.5 billion total funds and 3,364 FTEs
- Percent of the program budget that comes from the state: 46%
- Number served and Average Monthly Cost per Client:

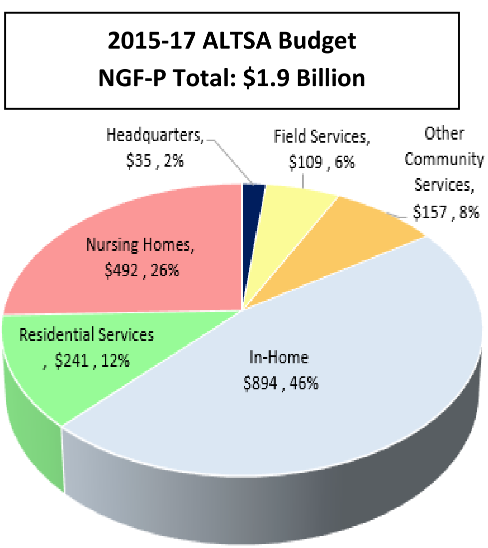
Service Setting	Numbers Served	Average Monthly Cost/Client
Nursing Homes	10,067	$ 4,997
ALTSA Community Residential	12,263	$ 1,491
ALTSA In-Home	38,582	$ 1,725
Residential Habilitation Centers	874	$17,466
DDA Community Residential	4,437	$ 7,586
DDA In-Home	14,989	$ 1,235

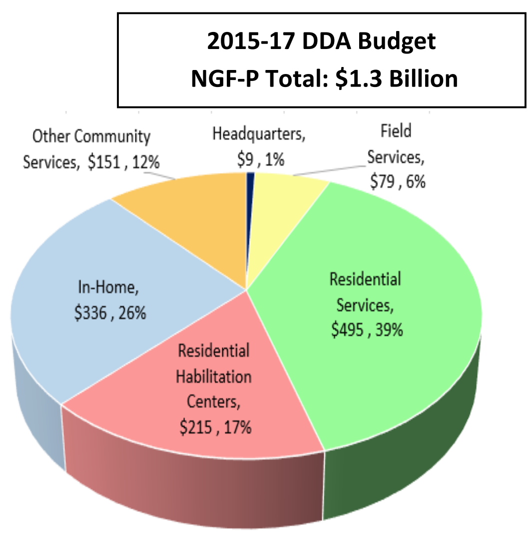
Trend/Overview Information

ALTSA and DDA programs and services account for just over eight percent of the statewide total Near GF-S budget for the 2015-17 biennium and just over 26 percent of total human services budget (including DSHS).



Within ALTSA and DDA, the bulk of General Fund-State dollars are budgeted for home and community based services.





Over 90 percent of ALTSA and about 30 percent of DDA are forecasted caseload programs. Client caseloads for in-home and residential personal care (both DDA and ALTSA), ALTSA waiver services, and ALTSA entitlement services are modeled and adjusted by the Caseload Forecast Council and are funded in the maintenance level budget. Per capita expenditures for these service areas are modeled and adjusted by joint legislative and executive staff workgroups, and are also adjusted in the maintenance level budget. Unlike ALTSA, DDA residential services beyond personal care are capped. Per capita expenditures for the existing capped client caseload are adjusted in maintenance level, however, increases in caseload are explicitly funded by the Legislature at policy level.

The bulk of caseload increases are primarily driven by 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. This not only affects the growth in the elderly population receiving services, but also impacts adults with developmental disabilities because 68 percent of the caregivers for this population are parents and relatives who are themselves aging and therefore incurring more difficulties in providing care due to their own health concerns. Per capita cost increases have occurred across both the ALTSA 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.

2015-17 Supplemental Enacted Budget Recap

The 2015-17 budget represents an eighteen percent increase from the 2013-15 funded level predominately due to maintenance level adjustments for increased forecast caseload and annual per capita costs and fully funding the collective bargaining agreement for homecare workers. The remainder is due to other policy level changes.

- $116 million Near GF-S ($260 million total funds) was provided to fully fund the 2015-17 collective bargaining agreement for individual providers. This includes phased-in changes and increases to the wage scale, increases in health care contributions, increases in the training contribution, an increase in personal time, and a retirement benefit contribution. This includes funds to meet statutory parity requirements for homecare agencies.
- $20 million Near GF-S ($40 million total funds) was provided to increase the benchmark rate for supported living providers, group homes, and licensed staff residential providers. Beginning July 1, 2015, the vendor rate is increased by 4 percent. Beginning July 1, 2016, the vendor rate is increased by 8 percent. Funding is also provided to standardize administrative rates and develop an electronic rate setting module in the Comprehensive Assessment Reporting Evaluation system.
- $17 million Near GF-S ($40 million total funds) was provided to fully fund the 2015-17 arbitration award for adult family homes. Beginning July 1, 2015, the vendor rate is increased by 5 percent. Beginning July 1, 2016, the vendor rate is increased by 10 percent.
- $16 million Near GF-S was provided to fully restore the portion of Lean management savings distributed to LTC and DD.
- $7 million Near GF-S ($14 million total funds) was provided for additional staff to ensure compliance with Centers for Medicare and Medicaid Services (CMS) requirements for habilitation, nursing care, staff safety, and client safety at the Residential Habilitation Centers. Funding is provided for specialized services, such as community access and therapies, required by CMS as a result of Pre-Admission Screening and Resident Review assessments.
- $5 million Near GF-S ($10 million total funds) was provided to lower the ratio of case carrying staff to clients at the Area Agencies on Aging from 1-to-75 to 1-to-70 during the 2015-17

biennium.

- $4 million Near GF-S ($8 million total funds) was provided to increase the vendor rate for assisted living providers by 2.5 percent, beginning July 1, 2015.
- $2 million Near GF-S ($4 million total funds) was provided to develop short-term community-based respite services across the state for individuals with developmental disabilities as an alternative to using respite services in an institutional setting.
- $7 million Near GF-S is saved by delaying the scheduled rebase on nursing facility payment rates by maximizing the safety net assessment for nursing facilities and implementing a new methodology for calculating nursing facility rates.

Current Budget Issues

Nursing Home Rates

There are approximately 209 skilled nursing facilities licensed in Washington to serve about 10,000 Medicaid eligible clients. Medicaid rates are unique to each facility and are generally based on the facility's allowable costs, occupancy rate, and client acuity sometimes called the case mix. The nursing home rate methodology, including formula variables, allowable costs, accounting and auditing procedures is specified in statue (RCW 74.46). The Safety Net Assessment specified in statute (RCW 74.48) is also used as supplemental funding to the program.

In the 2015 legislative session, SHB 1274 implements a new value-based nursing home rate methodology over the next four years. This legislation:

- **Simplifies the current system and decreases administrative complexity.** This is achieved by consolidating six rate components and seven add-ons into four rate components and a plan to review the utility of maintaining the reconciliation and settlement process under the new rates methodology after the 2017-19 fiscal biennium;
- **Limits the impact of decreases and increases in each facility's daily rate during the four year phase-in of the new rate system.** In FY16, all facilities are held-harmless from any reduction in their daily rate. In FY17, no facility may receive a rate reduction of more than one percent. In FY18, rate reductions are limited to no more than two percent and in FY19 the limit is no more than five percent. The department is also authorized to cap rate increases for facilities during this implementation period to pay for the cost of limiting losses for facilities that have seen a reduction in their daily rate. The phase-in period provides facilities with time to adjust their current business practices to better align with the new rate methodology. In FY20, all limits and caps on decrease and increases are removed.
- **Offers facilities an incentive to provide quality care for residents**. Beginning in FY17, a quality incentive, not to exceed five percent of the statewide average daily rate, must be paid to facilities that meet or exceed the standard established for the quality incentive. The department is working with stakeholders to identify four to six quality measures and will include these as recommendations in a report due to the legislature by January 2, 2016.
- **Establishes minimum staffing standards for direct care that promote client safety**. Beginning in FY17, facilities must provide a minimum of 3.4 hours per resident day (hprd) of direct care with the intention to increase this standard to 4.1 hprd, if and only if, additional funding is explicitly provided for this increase. Direct care includes registered nurses, licensed practical nurses, and certified nursing assistants. The minimum staffing standard includes the time when such staff are providing hands-on care related to activities of daily living and nursing-related tasks. The new law also directs 24 hour RN coverage for facilities defined in statute as large nonessential community providers.

In addition, the Department is directed to facilitate a workgroup process with stakeholders to propose modifications to the nursing home rates methodology that is being implemented and to conduct a review of price-based methodologies used in other states. Recommendations for further modifications and a dissent report, if agreement cannot be reached, must be provided to the legislature by January 2, 2016.

Individual Provider (IP) Overtime

In the 2015-17 biennial budget, the legislature provided $146 million Near GF-S ($292 million total funds) to fully fund the arbitration award for IP homecare workers and parity required by statute for agency homecare workers. This included wage and health care increases, paid holidays, and increased training contributions. There are approximately 35,000 IPs who provide almost 90 million hours of support to individuals in their own homes each biennium.

Last year, the Department of Labor (DOL) modified a "Domestic Service Rule" that requires third party employers to pay overtime when homecare workers such as IPs provide more than 40 hours a week of authorized care. As a result of legal challenges and a U.S. District Court for the District of Columbia ruling vacating the DOL rule in January 2015, implementation was delayed. On August 21, 2015, the Court of Appeals for the D.C. Circuit disagreed with the district court and issued a unanimous opinion affirming the validity of the DOL rule with enforcement actions anticipated to begin by January 1, 2016. Challengers to the DOL rule asked the United States Supreme court to stay the appeals court ruling until the Supreme Court could review a formal appeal. On October 6, 2015, the Supreme Court refused to do so, essentially allowing the final rule to take effect.

The Department is requesting $46.5 million Near GF-S ($103.1 million total funds) to pay IP homecare worker overtime in accordance with the DOL rule. In addition, the Department is requesting legislative authority (such as HB 1725 introduced in the 2015 session) to establish rules that limit "windshield" time and require pre-approval for payment of overtime in excess of 45 hours per week. The Department estimates that if given the authority to regulate overtime and a one-time investment of approximately $10 million to make the information technology system changes in ProviderOne, Individual ProviderOne and CARE, the cost of overtime could be reduced to approximately $22.9 million Near GF-S ($52 million total funds) in the 2017-19 biennium.

RHC Medicaid Compliance

The Developmental Disabilities Administration (DDA) operates four Residential Habilitation Centers (RHCs) that support approximately 850 individuals. In the 2015-17 biennial budget, the legislature provided $192.3 million Near GF-S ($395.5 million total funds) to pay for institutional services to meet resident's health, safety and active treatment needs. These amounts included a $7 million Near GF-S increase to pay for additional staff to address CMS findings and requirements for habilitation, nursing care, staff safety, and specialized services.

During the 2015 legislative session, surveys by the Centers for Medicare and Medicaid Services (CMS) found that the ICF/ID facilities at Lakeland Village, Fircrest School and one of the three individually certified Program Area Teams (PAT) at Rainier School were out of compliance with one or more of the conditions of participation that allow the state to collect federal matching funds for the clients receiving services in these settings.

In lieu of terminating these facilities from the Medicaid program, CMS issued a denial of payment remedy that prohibits the use of federal matching funds for any new residents admitted after the denial of payments issue date. This remedy provides each facility with approximately 11 months to comply with all of the conditions of participation. If a facility is not in compliance at the end of 11 months, it is terminated from the Medicaid program and the state will no longer be able to collect federal matching funds for the services provided. It is anticipated that CMS will conduct the 11 month follow-up surveys in early 2016. Washington State receives approximately $180 million in federal funds to support individuals receiving services in RHCs.

Economic Services Administration (ESA)

The Economic Services Administration (ESA) administers public assistance programs that provide low-income Washington residents with cash assistance, food assistance, "classic" medical assistance, child support enforcement and collections, child care, disability determinations, employment services and other services, within the Department of Social and Health Services (DSHS). Community Service Offices serve as the "front door" for cash and food benefits and referrals to other programs and services for low-income families. ESA clients include low-income people, families, children (including those children who need child support, paternity establishment, child care, and medical support services), pregnant women, people with disabilities, older adults, refugees, and immigrants.

ESA administers the Temporary Assistance for Needy Families (TANF) block grant, which is the major federal fund source provided to states and Indian Tribes for services to low-income families and children, such as TANF cash assistance, Working Connections child care subsidies, and the WorkFirst program. Administration of TANF is distributed across many different federal, state, tribal, and private entities. Other state agencies involved in TANF include the State Board of Community and Technical Colleges (SBCTC), Commerce, Department of Early Learning (DEL), and Employment Security (ESD).

Key Facts

- Total 2015-17 Enacted Budget: $2.1 billion total funds ($854.2 million Near GF-S)
- Percent of budget that comes from the state funds: 40 percent

Major Public Assistance Programs – FY15 Average Households Served			
Type	Programs	Households	Monthly Grant
Food Assistance	Basic Food	**582,196**	$222
Cash Grant	TANF Cash Assistance	**35,158**	$373
Child Care Subsidy	Working Connections Child Care	**27,601**	$694
Cash Grant	Aged, Blind and Disabled	**22,068**	$172
Food Assistance	State Food Assistance	**11,112**	$111

Major cash assistance and food assistance programs administered by ESA include:

- ***Temporary Assistance for Needy Families (TANF) cash grant:*** Cash grants for parents of low-income families and to children whose parents are ineligible or who are being cared for by non-parent caregivers. Clients must participate in approved WorkFirst activities to receive the full TANF grant. Failure to participate results in sanction (a reduced grant) and continued lack of participation may result in benefit termination. An adult TANF client may receive cash assistance for a total of 60 months (5 years) in a lifetime.
- ***WorkFirst program:*** Support services focused on obtaining paid, unsubsidized employment for low-income families who receive TANF cash welfare.
- ***Working Connections Child Care (WCCC):*** Child care subsidies for low-income parents who are working, participating in an approved work activity, or receiving TANF cash assistance.
- ***Additional Requirements for Emergent Needs (AREN):*** Emergency cash payment to vendor to prevent eviction, utility shut-off, other emergency payments related to health and safety for TANF, State Family Assistance (SFA), and Refugee program clients.

- ***Aged, Blind and Disabled (ABD):*** Cash assistance to low-income clients, without dependents, who cannot work due to a disability likely to meet federal Supplemental Security Insurance (SSI) standard; and for legal immigrants and refugees who cannot obtain SSI, but meet the disability criteria.
- ***Basic Food/Supplemental Nutrition Assistance Program (SNAP):*** Federally funded food assistance program for Washington residents, refugees, and legal immigrants (with legal status of 5 years or more).
- ***Diversion Cash Assistance (DCA):*** Short term, emergency cash assistance to TANF/SFA-eligible households, who do not need ongoing monthly cash assistance. If family ends up on TANF/SFA within 12 months, the household repays the DCA benefit.
- ***Refugee and Immigrant Services (RCA):*** Cash assistance and medical assistance for newly arrived refugees.
- ***State Family Assistance (SFA):*** Cash assistance to legal immigrants who are ineligible for TANF due to legal immigration status of less than 5 years, students aged 19-20, and certain pregnant women.
- ***State Food Assistance (FAP):*** Food assistance to legal immigrants who are ineligible for federal SNAP due to immigration status of less than 5 years.

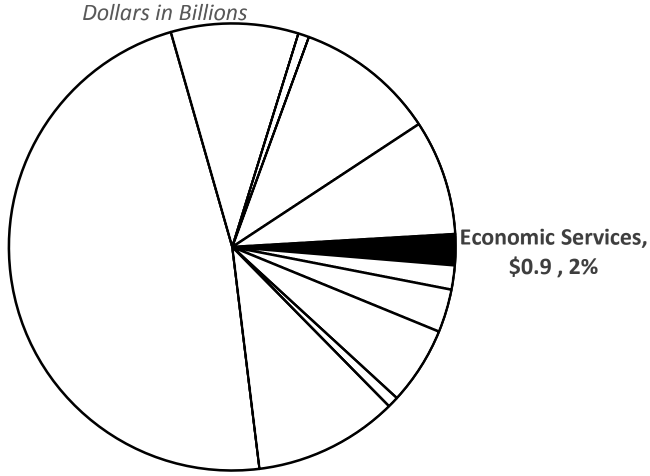
Trend/Overview Information

In 2015-17 biennium, ESA's budget totals $2 billion with $854.2 million (40 percent) from Near GFS. This represents 2 percent of the total state Near GF-S and 3 percent of the total state budget.

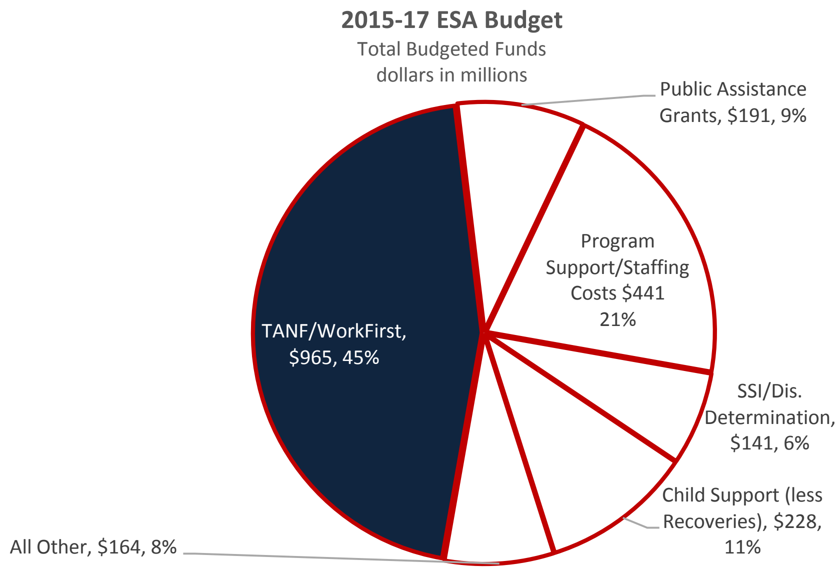
2015-17 Biennium Enacted Budget

Near General Fund-State & Opp Pathways Budget=$38.2 Billion

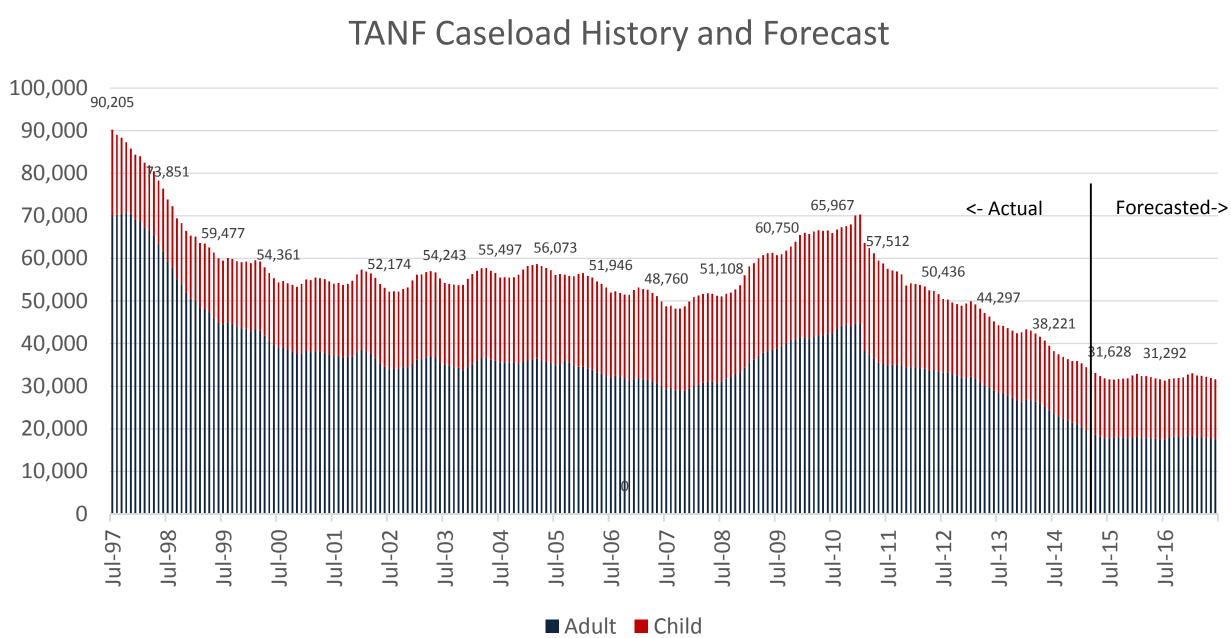
Dollars in Billions



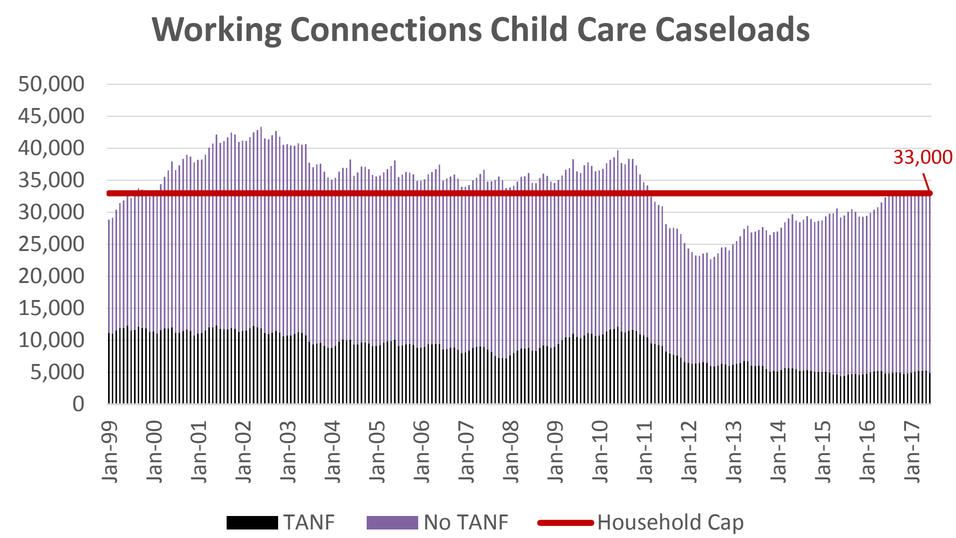
Of ESA's total $2 billion budget, 45 percent ($965 million) is for the TANF/Workfirst program, which includes TANF grants to clients, contracts for WorkFirst-related services such as job search, education and training, Working Connections Child Care subsidies and staffing costs.



A significant portion of ESA's budget is driven by forecasted caseloads for the TANF/Workfirst and Working Connections Child Care program (WCCC). These programs are forecasted, as a courtesy, by the Caseload Forecast Council (CFC) and per capita expenditures are estimated and adjusted by the joint legislative and executive staff workgroups for these programs. TANF/Workfirst and WCCC are not considered state or federal entitlements, meaning the Legislature has significant flexibility to make policy choices that impact these caseloads or benefit levels.



- 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 level off in 2016 and 2017.



- Working Connections Child Care (WCCC) is a child care subsidy program created as part of welfare reform in 1996. 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 removed in 2012. Caseloads reached a recent low in 2013, but started to rebound in 2014 and the caseload growth is predicted to continue through 2015, 2016 and 2017. The program remains capped at 33,000 families at which point a waiting list would be implemented. The forecast predicts this will occur in July 2016.

2015-17 Enacted Budget Recap

A total of $2.1 billion ($854 million General Fund-State) is provided to ESA for administration of programs and delivery of services. This reflects an increase in total funds of $58.9 million (2.8 percent) from the estimated amount needed to maintain the current level of services and activities.

Savings

- State general fund savings of $84.4 million are achieved through forecasted caseload reductions in the TANF Program and the Working Connections Child Care (WCCC) Program, reductions in funding for work activities to reflect under-expenditures in those programs, and the use of unexpended federal grant and contingency funds to offset state expenditures. This includes savings assumed in the 2015 supplemental operating budget as well as the 2015-17 operating budget.

Enhancements

- Provided a $30.6 million Near GF-S to increase the monthly TANF grant by 9 percent.
- Provided $22 million Near GF-S to expand eligibility periods for the WCCC program to 12 months starting in July 2016.
- Provided $9.7 million Near GF-S to increase the base rate provided to WCCC providers by 2

percent.

- Provided 9.6 million Near GF-S to increase the monthly benefit for the State Food Assistance Program, which provides assistance to legal immigrants, to 100 percent of the federal SNAP benefit level.

Current Budget Issues

TANF Two-Parent Federal Penalty: The state has been notified that it failed to meet the two parent minimum work participation standard. As a result, the state could face a $13-15 million penalty. The state is exploring non-cost methods to alleviate this penalty but those efforts may prove unsuccessful.

As background, Federal TANF law sets minimum work participation standards that a state must meet. A state that fails to meet TANF work participation standards is penalized by a reduction in its block grant. To comply with TANF requirements, a state must meet two standards each year — the “all family” (one-parent households) and the “two-parent” family participation standards. The standards are that (1) 50% of all families and (2) 90% of two-parent families must meet participation standards. The latter is where Washington did not meet the standard.

Children's Administration

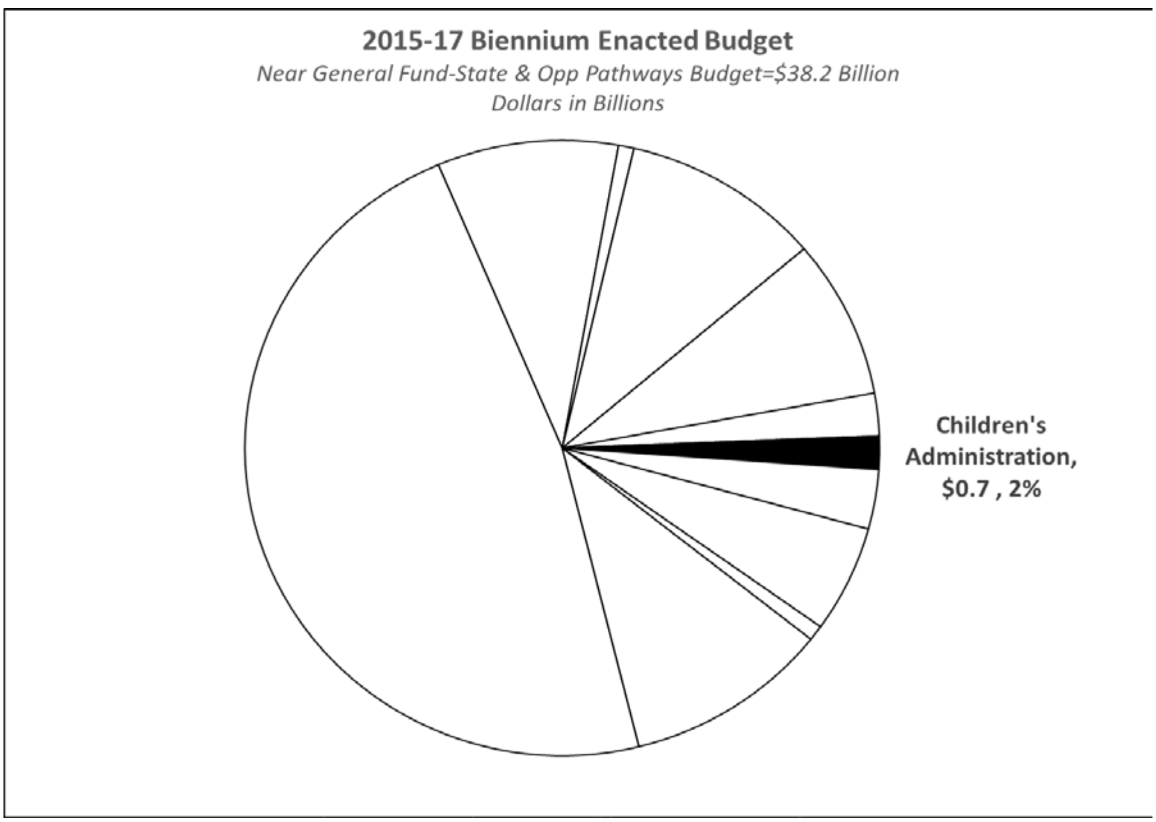
Children's Administration (CA) is responsible for protecting abused and neglected children, supporting the efforts of families to care for and parent their own children safely, and providing quality care and permanent families for children. CA relies on outside (non-employee) providers for most services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

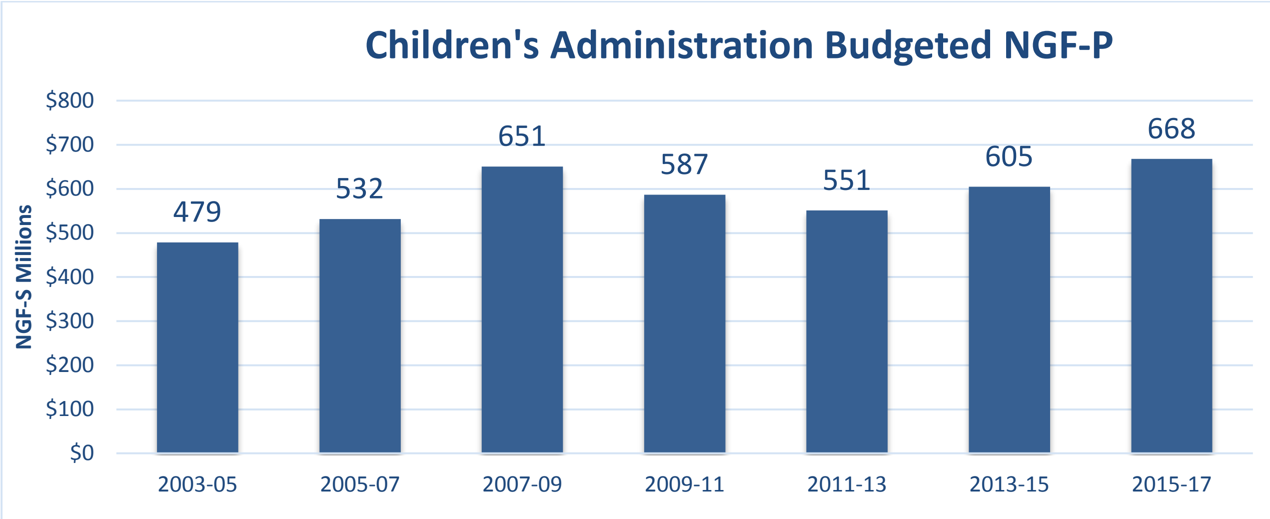
Key Facts

- Total 2015-17 budget: $1.2 billion total funds ($668 million Near GF-S)
- Percent of budget that comes from the state: 56 percent
- Average Child Protective Services referrals per month (FY 2015): 7,754
- Total average foster care caseload, FTE (FY 2015): 9,725
  - Foster Care (Including Extended Foster Care): 5,777
  - Relative Placement: 3,948
- Adoption Caseload, FTE (FY 2015): 15,034

Trend/Overview Information

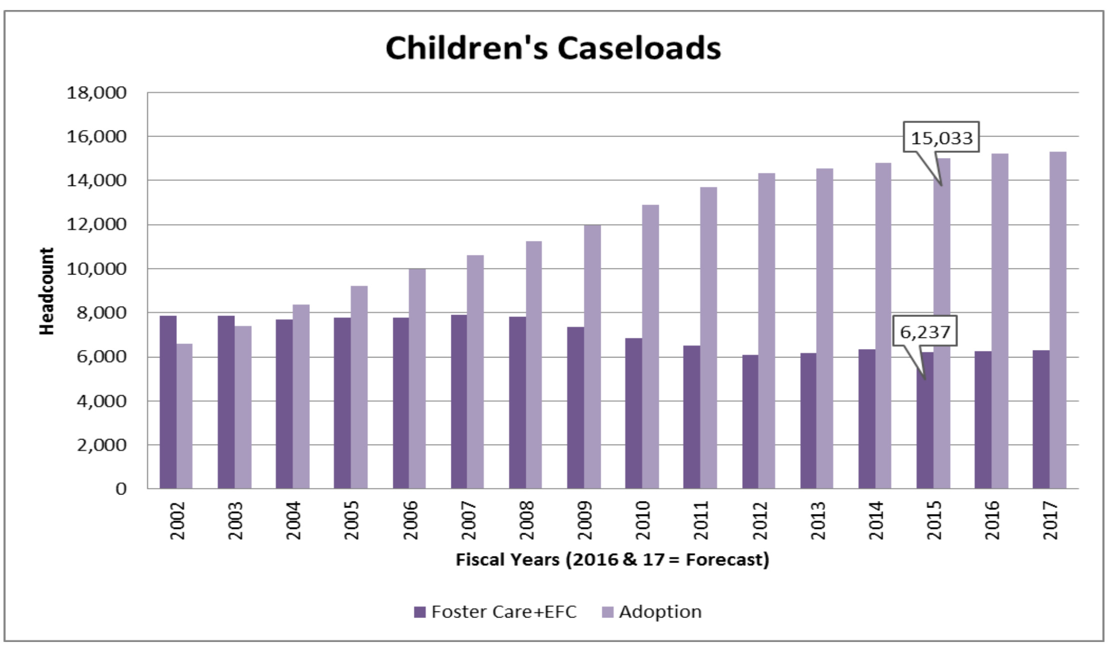
Children's Administration (CA) is a program in the Department of Social and Health Services (DSHS). In 2015-17 biennium, CA's budget totals $1.2 billion with $668 million (56 percent) was Near GF-S. This represents 2 percent of the total state Near GF-S and 2 percent of the total state budget.





CA's budget is largely driven by maintenance payments associated with the adoption support and foster care. 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 under Title IV-E of the Social Security Act. In these cases the state pays the full cost. Eligibility for Title IV-E federal reimbursement is a complicated process based on many factors including income and asset determination, child's age, citizenship status, and licensure of the foster home placement.

Foster care and adoption support programs are considered a mandatory caseload and are forecasted by the Caseload Forecast Council (CFC). Per capita expenditures are estimated and adjusted by the joint legislative and executive staff workgroups. Both foster care and adoption support caseloads are federal and state entitlements, meaning the Legislature has limited flexibility to make policy choices that would not fully fund these caseloads without facing potential legal liability.



- Adoption support caseloads have continued to increased but at a slower rate since 2012. The state pays adoption support payments to parents who adopt children from the state foster care system.

- Licensed foster care caseloads decreased significantly since 2007 and have remained flat since 2012.

2015-17 Enacted Budget Recap

The CA's 2015-17 biennial budget of $668 million Near GF-S included $46 million Near GF-S in policy level increases. Significant increases include:

- An additional $12.5 million (GF-S) was provided to reimburse foster parents under a mediated agreement with the Foster Parents Association of Washington State (FPAWS). Under the agreement, the Children's Administration (CA) will increase basic foster care maintenance rates from a monthly average of $500 per child to a monthly average of $649 per child. The new rates are based on the estimated costs of providing a child with food, clothing, personal incidentals, and shelter.

- An additional $6.4 million (GF-S) was provided for CA to allocate towards the following purposes: 1) reducing the caseloads of social workers serving children in foster care to support compliance with the Braam Settlement and reduce lengths of stay in foster care; 2) up to $1.6 million of the increase to support the safe closure of Child Protective Services (CPS) investigations within 90 days of intake, when appropriate; and 3) progress towards statewide expansion of the CPS Family Assessment Response pathway.

- $3.9 million (GF-S) was provided for a 3 percent increase each fiscal year for Behavioral Rehabilitative Services (BRS) vendor payments.

- $2.7 million (GF-S) was provided for contracted vendors to conduct court-ordered supervised visits between children in out-of-home care and their parents and siblings.

- $2.5 million (GF-S) was provided to serve Behavioral Rehabilitative Services (BRS) youth enrolled in Extended Foster Care (EFC), and to fund the costs of other supportive services that are not currently funded through the foster care forecast.

Current Budget Issues

***FPAWS lawsuit*:** The $12.5 million (GF-S) provided in the 2015-17 biennium for the Foster Parents Association of Washington (FPAWS) settlement, will likely increase the average cost for new adoptions support placements. This may halt and possibly reverse the recent declines in average cost per case for adoption support.

Adoption Support Caseload: The adoption support caseload growth has slowed since 2012, possibly reflecting an increase in the number of children aging out of the program and a reduction of new adoptions resulting from a lower foster care caseload. Since the average age at adoption is five, the state has an average obligation of 13 years to provide adoption support.

BRAAM: The Braam lawsuit settlement has not yet reached an exit agreement so the court is still overseeing implementation of the settlement. There may be additional Braam's related changes that may increase expenditures.

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 include:

Chapter 259, Laws of 2012 (ESSB 6555) created Family Assessment Response (FAR), an alternative to the investigative pathway for families with low to moderate risk of child maltreatment. The 2015-17 appropriation funds all but 13 CA local offices. Additional funding may be required for the remaining offices.

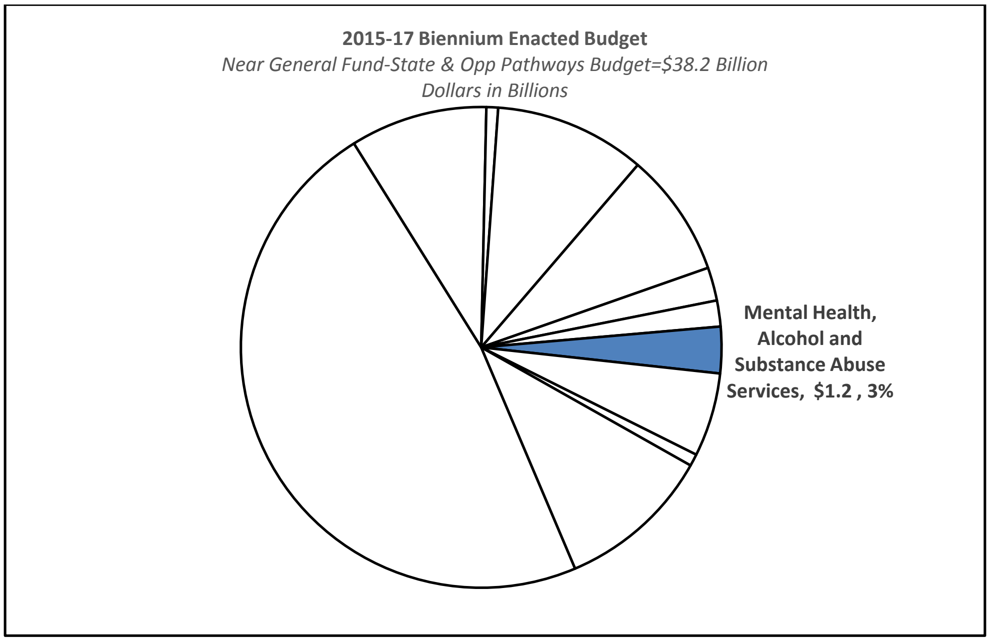
Chapter 205, Laws of 2012 (ESSHB 2264) and Chapter 205, Laws of 2013 (ESHB 1774) directed CA to contract with a network administrator for family support and related services and implement performance based contracts with service providers. The 2015-17 appropriation only funded the first year of this effort. About $1.4 million (GF-S) would be required to continue the effort through FY 2017.

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 $2.9 billion total funds ($1.2 billion Near GF-S) during the 2015-17 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 inpatient, psychiatric mental health facilities.

- Eastern and Western State Hospitals, state institutions for mental disease (IMD) that provide services to adults who have been either:
  - found not guilty by reason of insanity (forensic), or
  - committed involuntarily for treatment expected to last 90 days or longer (civil); and,
  - Child Study Treatment Center, which is a small facility for children and adolescents.



Key Facts

Mental Health

- Total: 2015-17 biennial budget: $2.3 billion in total funds and 2,940 FTEs
- Percent of budget that comes from state funds: 46%
- Number served (FY2015 unduplicated client counts):
  - Community Services/RSNs: 170,027 (148,697 are Medicaid)
    - Western State Hospital: 1,853
    - Eastern State Hospital: 831
    - Child Study Treatment Center: 101

DASA

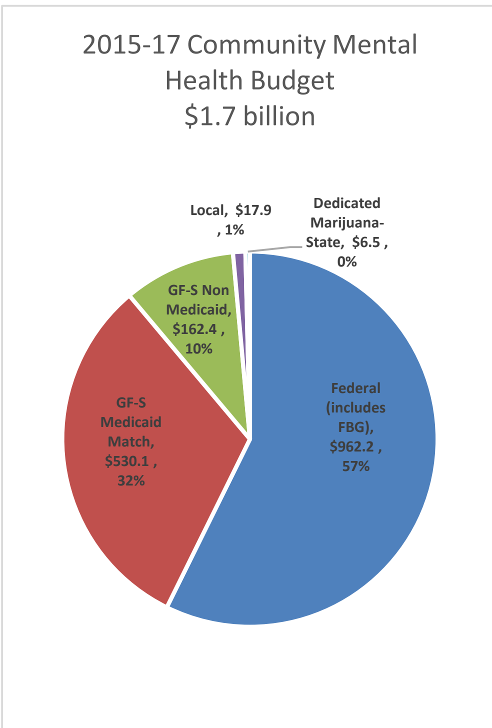
- Total: 2015-17 budget: $631 million in total funds and 72.3 FTEs
- Percent of budget that comes from state funds: 20.5%

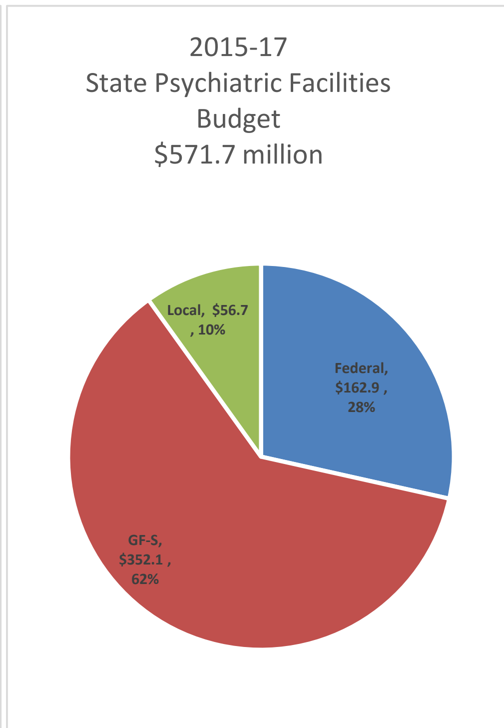
Trend and Overview Information

In terms of 2015-17 Near GF-S budget, the DBHR program comprises just under three percent of state-wide spending and nearly ten percent of state spending on health and human services programs.

Both the Mental Health and Alcohol and Substance Abuse (ASA) programs are adjusted at maintenance level for Medicaid caseload changes, similar to other Medicaid programs. This is a relatively new method for adjusting the ASA program as DSHS moves toward integrating mental health and substance abuse rates. This integration of rates becomes effective April 1, 2016.

Of the total funds in the community mental health budget, 10 percent are used to pay for services and clients who 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 62 percent of the cost to operate the state psychiatric facilities.





2015-17 Enacted Budget Recap

Mental Health

Even after assuming approximately $45 million in state savings primarily from adjustments to rates for classically eligible Medicaid populations, elimination of the Program for Adaptive Living Skills (PALS), and newly available federal funding for short stays in Institutions for Mental Disease (IMDs), the 2015-17 biennial budget included significant increases in both maintenance and policy level, with state funds increasing by nearly thirteen percent from the 2013-15 funded level. Overall funding increased by $427.4 million ($121.7 million Near GF-S) - 23 percent - from the 2013-15 funded level. This increase was primarily driven by expanded Medicaid eligibility ($259.3 million total funds), three lawsuit settlements, state hospital safety improvements, and community mental health enhancements.

- $57.2 million ($39 million Near GF-S) was provided to meet the demands for expanded involuntary civil detention and commitment criteria in order to implement D.W. v. DSHS. These funds are available to each of the RSNs as they demonstrate increased community civil bed utilization and also to fund a 30-bed civil ward at Western State Hospital.

- A total of $40 million ($38.3 million Near GF-S) was provided for increased competency evaluation and restoration staff, state hospital wards, diversion from prosecution for nonviolent offenders, and the creation of an Office of Forensic Mental Health in order to implement the commitments in the Trueblood v. DSHS Settlement Agreement.

- A total of $23 million ($14.3 million Near GF-S) was provided to enhance community mental health services. The purpose of this funding is to implement the criteria in Chapters 250 and 258, Laws of 2015, which provide Assisted Outpatient Treatment and Detention Decision Review.

- A total of $33.1million ($16.6 million Near GF-S) was provided for the continued phase-on of infrastructure development and intensive mental health services for high needs youth in order to implement the commitments in the T.R. v. Dreyfus and Porter Settlement Agreement.

- A total of $9.4 million Near GF-S for state hospital safety enhancements including: (1) Psychiatric Intensive Care Units; (2) Psychiatric Emergency Response Teams; and backfilling of staff to complete training in compliance with an L&I settlement agreement.

<u>DASA</u>

DASA's 2015-17 budget reflected a net decrease of $2.3 million Near GF-S over 2013-15 estimated expenditures. This was due to $16.5 million in dedicate marijuana account funding being utilized for services traditionally paid for by Near GF-S, offset by maintenance level increases due to Medicaid rate adjustments for moving to a managed care model in early 2016 and Medicaid caseload increases as well as some programmatic increases. Some of the provisions are highlighted below:

- $35.5 million spent on prevention and treatment services from dedicated marijuana funds account, which included $16.5 million for services previously funded from Near GF-S.

- Increased Near GF-S by $2.2 million to fund an increase in Medicaid rates for certain statewide treatment services, to include: a) group treatment; b) opiate substitution treatment; and c) certain services target at pregnant and parenting women, filling the gap until April 1, 2016 when new integrated Medicaid rates for the managed care system responsible for providing both mental health and substance abuse services.

- Increased Near GF-S by $1.3 million to include outpatient substance abuse treatment as services available under the involuntary outpatient mental health treatment created by the passage of E2SHB 1450.

Current Budget issues

Mental Health

Single Bed Certifications and Mental Health Capacity

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 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. A final ruling was issued by the State Supreme Court upholding this ruling in December 2014. DSHS is currently working to implement a plan to comply with the ruling that involves adding additional beds in both the community and in state hospitals.

Funding was provided in both the 2015 Early Action Supplemental Budget and the 2015-17 biennial budget to include 145 additional community beds and 30 civil beds at Western State Hospital. Currently, approximately 22 additional beds are being utilized in the community in FY 15 than in FY 14 and the 30-bed civil ward at Western State Hospital was delayed in opening until October 2015. This 30-bed ward was subsequently closed in November 2015 because of safety concerns at the hospital. Ongoing analysis of the cost of this service and the bed need is being done by DSHS.

Competency to Stand Trial

In August 2014 a class action lawsuit, Trueblood vs DSHS, was filed in federal court addressing competency to stand trial evaluations and restorations performed at and by the state hospitals. The lawsuit contends that the DSHS is not providing timely competency evaluations and restoration treatments for persons suffering from mental illness. This lawsuit was settled in April 2015.

Under the terms of the court ruling, DSHS must complete competency evaluations within seven days of a defendant raising competency issues and must provide restoration services within seven days of a defendant being determined not competent to stand trial. DSHS was given until January 2016 to fully comply with the ruling.

Funding was provided in the 2015 Early Action Supplemental and the 2015-17 biennial budget to address the requirements of this lawsuit and the time limits imposed by the court. Funding totaled $41.2 million and provided the following:

- Additional Competency Restoration Wards at Western State and Eastern State Hospitals
- Outstationed forensic evaluators in areas with high referral rates
- Staffing for an Office of Forensic Mental Health
- Continuation of community competency evaluations

Currently, ten beds have been opened at Western State Hospital to step-down patients who are not guilty by reason of insanity (NGRI) and another five beds are pending archaeological findings. DSHS originally planned to open an additional 60 beds at Western State Hospital and 15 beds at Eastern State Hospital by the end of 2015. The two 30-bed wards at Western State Hospital are currently on hold due to safety concerns at the hospital. The current plan is to open 30 beds at Eastern State Hospital by the end of 2015, 24 community beds in Yakima and potentially an additional 21 beds at Maple Lane in the Spring of 2016. Monthly reports are provided to the court monitor detailing DSHS's progress.

State Hospital Safety
DSHS in conjunction with an ad hoc safety committee developed recommendations to improve hospital safety. In response to these recommendations and a settlement agreement with Labor and Industries, $10.1 million in total funding was provided in both the 2015 Early Action Supplemental budget and 2015-17 biennial budget. This funding was to provide psychiatric emergency response teams (PERT), psychiatric inpatient care units (PICU), and staff training. DSHS has shifted its funding request to have PICUs located at ESH rather than WSH and is requesting additional funding to increase the number of PICU beds from three to eight. As of November 2015, these teams are not up and running.

Additional safety concerns at Western State Hospital have delayed the openings of both civil and forensic beds. In November 2015, CMS issued findings of "immediate jeopardy" placing the hospital's federal funding in jeopardy. The Secretary of DSHS has directed that additional civil and forensic wards will not be opened until safety issues are alleviated. This directive resulted in the new civil ward being closed and staff hired to staff that ward being redirected to fill current vacant positions within the hospital.

Under the 2015 Early Action Supplemental budget, DSHS was required to provide OFM and the legislature a staffing plan for the state hospitals that would maintain expenditures within appropriated levels. This report was due by April 1, 2015. This report has not been received.

Behavioral Health System Reform
A taskforce was established by Chapter 225, Laws of 2014 (2SSB 6312) to examine the reform of the behavioral health system. This bill provides a comprehensive set of requirements for addressing the means by which services are purchased and delivered for persons with mental illness and chemical dependency disorders through DSHS and the Health Care Authority.

The overarching milestones in this legislation require integration of chemical dependency purchasing with mental health purchasing by April 1, 2016 and subsequent integration of behavioral health purchasing with physical health purchasing by January 1, 2020.

DSHS in concert with the Health Care Authority may need to restructure their procurement processes in order to achieve these goals and to meet the requirements of Chapter 223, Laws of 2014 (E2SHB 2572) that require integrated physical, mental health and chemical dependency treatment.

Chemical Dependency

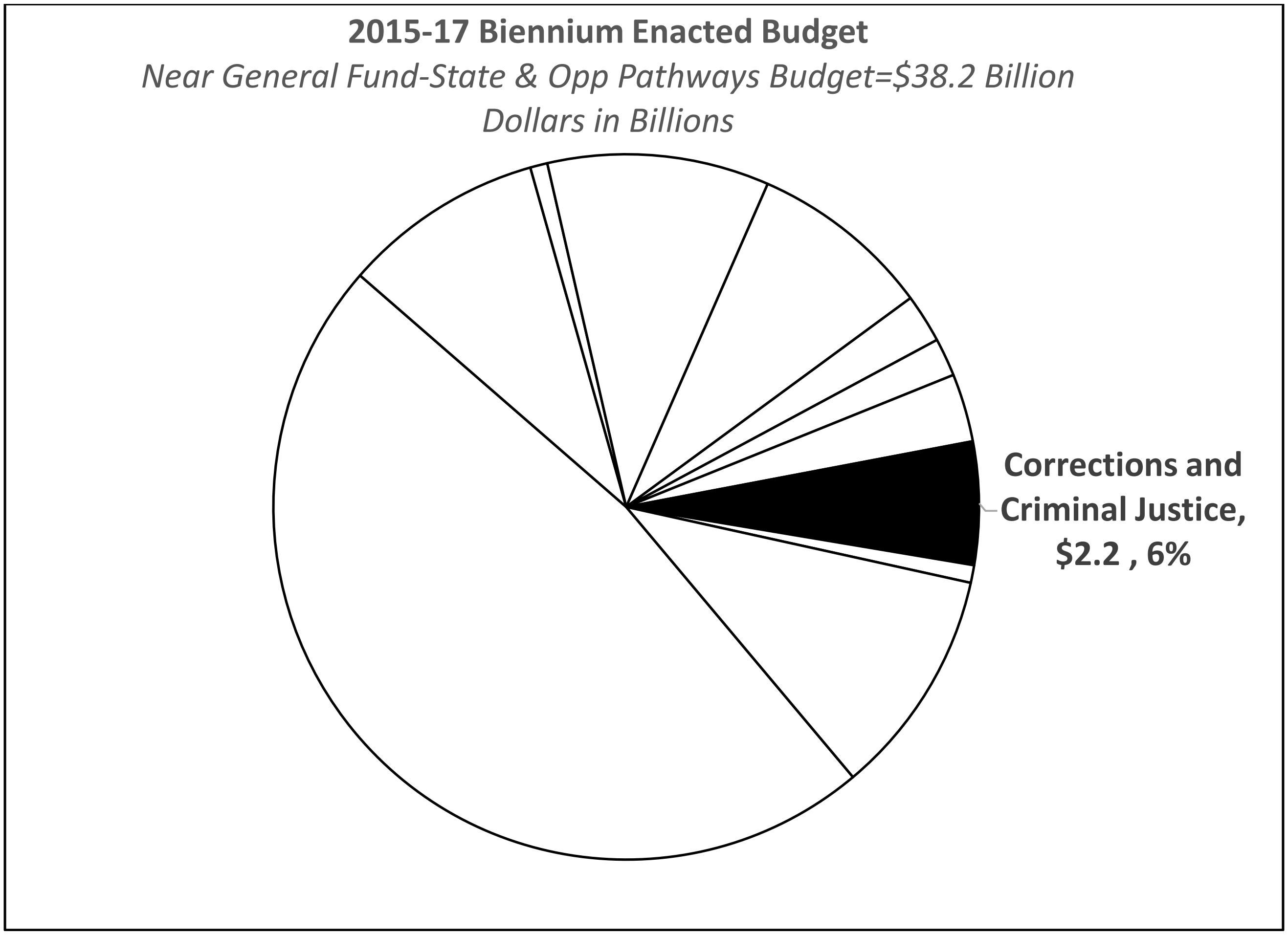
Rate Setting Process for Integrated Behavioral Health Organizations
Beginning April 1, 2016, the former Regional Support Network managed care system for acute mental health treatment needs will integrate chemical dependency services into those services available under a new entity called a Behavioral Health Organization. (BHO) Integrated rates are currently being updated by DSHS and its contracted actuary. There is the very likely risk that during this process the rates for the Medicaid population that became eligible under the Affordable Care Act will drop significantly, reducing the funding provided to the BHOs overall because this population has not accessed services at the level projected.

University Funding for Marijuana Use Studies
Under the 2015-17 biennial budget, the Legislature required DSHS to utilize Substance Abuse Block Grant (SABG) funds to contract with both the University of Washington and Washington State University to provide research on the short and long-term effects of marijuana use as outlined in Initiative 502 (I-502). DSHS is requesting that the funding source for these studies be transferred to the general fund because the SABG

funds are prohibited from being utilized for such studies. This results in a request for $1.85 million for the 2015-17 biennium. I-502 foresees these studies continuing on into future biennia.

Department of Corrections and Other Criminal Justice

The 2015-17 budget provides $2.2 billion for Near GF-S for the Department of Corrections (DOC), Juvenile Rehabilitation Administration (JRA), the Special Commitment Center (SCC) for sexually violent predators, and the Criminal Justice Training Commission.

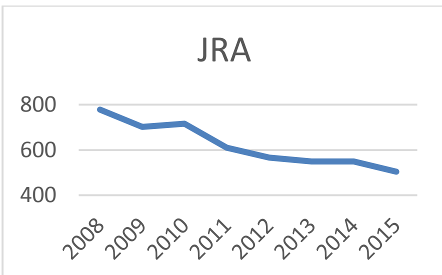


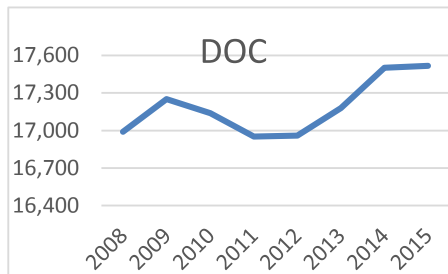
Key Facts

- 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 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.

	2015-17 Budget	Number of Offenders/ Residents	FTE Staff	Annual Cost per Offender/Resident
DOC Prison	$1,247 million	17,517	6,140	$33,429
DOC Supervision	$309 million	16,730	1,277	$9,234
JRA	$183 million	505	773	$102,086
SCC	$75.0 million	294	376	$124,339

Criminal Incarcreation Rates have declined over time for Juveniles and increased for adults (Average Daily Populations in JRA institutions and prisons):





2015-17 Enacted Budget Recap

Increases

- $15 million to manage increased medical costs in prisons
- $3.5 million to improve safety and security at prisons and juvenile community facilities
- $1.7 million to train law enforcement officers in crisis intervention

Reductions

- $1.7 million to close Juvenile Offender Basic Training Camp
- $1.7 million by reducing lost earned time by using more immediate sanctioning
- $1.7 million by utilizing Medicaid funding for treating chemical dependency in the community

Current Budget Issues

Prison Capacity at Maple Lane School

In the 2015-17 capital budget, $4.8 million in capital funding was provided for exploration of potential uses for the Maple Lane facility. This may include: (1) prison capacity; (2) mental health beds for competency; and (3) juveniles with mental health issues. The ultimate use(s) of the facility will continue to receive legislative attention.

Department of Corrections taking over of Work Release Facility and the incarceration of Community

In June of 2015, the contracted agency running the Work Release Facility in downtown Seattle decided it no longer was interested in running the facility for DOC under the current funding parameters. As a result, DOC began emergency planning to staff the facility and maintain the 90 male beds for work release options. This resulted in hiring staff, overtime hours, and ongoing costs to run it as a state run facility. $987,000 is requested to keep this facility open as a state run facility. Other options include requiring DOC to run a competitive process to find a new contractor which may result in lower or higher costs.

Violators from Snohomish County

The Snohomish County Sheriff's Office terminated its contract with DOC for the detention of community custody violators in Snohomish County effective July 31, 2015. DOC implemented emergency planning and assumed the ongoing housing of approximately 100 daily violators. DOC is currently utilizing 100 beds at its Monroe Correctional Complex in its Intensive Management Unit to house the violators. Currently, this only requires new staffing authority to continue but may increase costs elsewhere due to capacity issues.

Bruch Decision

In March of 2015, the Court issued a ruling in State v. Bruch that impacts the length of time that DOC is required to supervise certain offenders in the community. DOC is required to change its practices and supervise an offender for the period of prison earned release time when it exceeds the length of the court-imposed community supervision. Previous practice upon release was to only serve the court-ordered community supervision sentence. This court ruling results in an increase in community supervision population by 373 in fiscal year 2017, costing $2.3 million during the 2015-17 biennium. The Department proposes a legislation to change the statute to fit previous practice and undo the impact.

Reduced Recidivism for Property Offenders

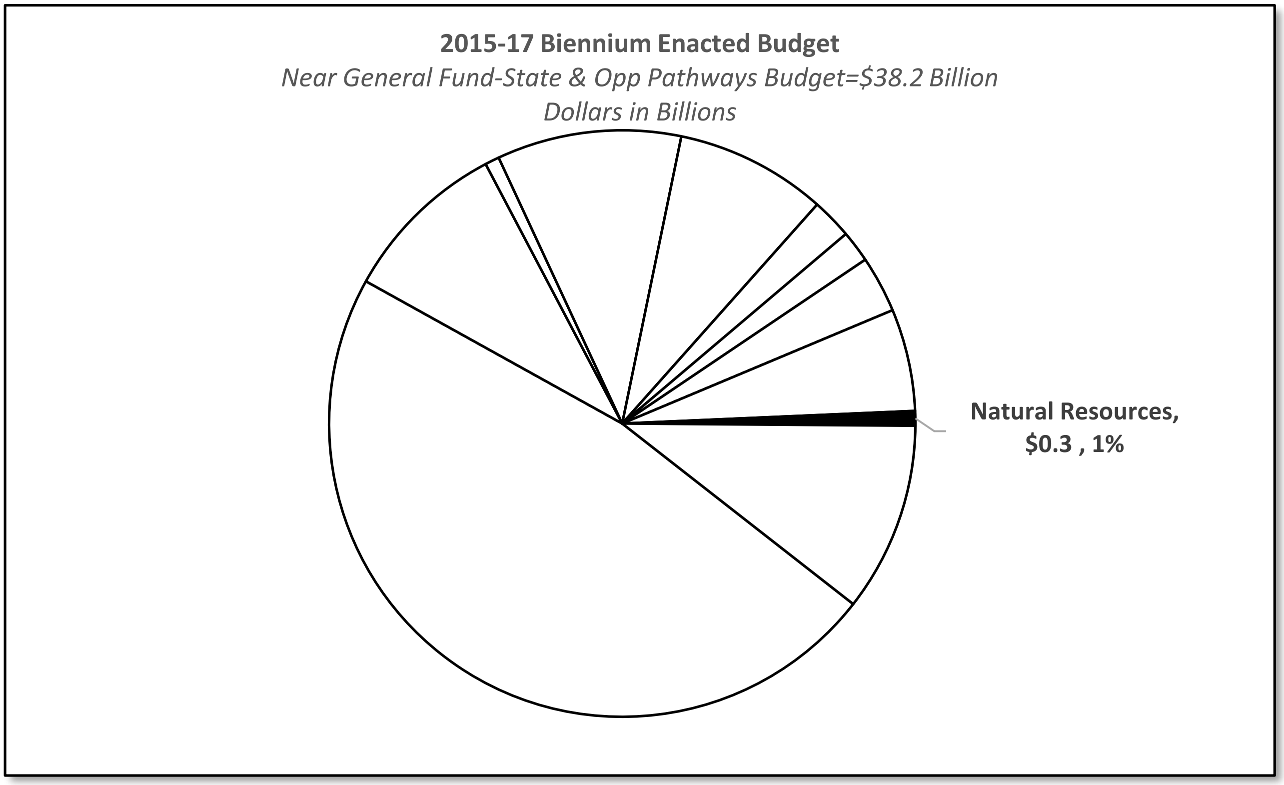
Last session, a bill was proposed to change the way the state of Washington dealt with property crime offenders. The bill, which came out of the Justice Reinvestment Initiative Task Force, proposed prison sentencing reductions combined with added community supervision time and programming to reduce recidivism. The bill was not enacted. DOC proposes to add up to 12 months of community supervision to all property offender sentences in concert with allowing earned time for all offenders on community supervision that are complying with conditions of supervision and are participating in programming. This would result in costs of almost $2 million through fiscal year 2018 and begin to show savings in fiscal year 2019.

High Acuity Health Services and interventions for Special Commitment Center

During the 2015-17 biennial budget, the Legislature reduced funding by $1.3 million for 24/7 health services within the secure facility on McNeil Island. DSHS requested $3.2 million in the 2016 supplemental budget process to enhance health services and create a treatment and rehabilitative support program for its approximately 30 highest acuity clients in an effort to address shortcomings identified by independent evaluators with the Inspection of Care (IOC) and Disability Rights Washington.

Natural Resources

For the 2015-17 biennium, natural resources represents less than 1% of the Near GF-S budget ($309 million). The total budget for natural resources is approximately $1.7 billion and represents 2.2% of the overall budget. The natural resources agencies budgets are funded primarily by dedicated funds.



Key Facts

Of the 11 agencies that are included in the natural resources budget, the three largest agencies (DNR, WDFW, and Ecology) account for 76% of both the total and NGFS budget:

- Department of Ecology (DOE) regulates, inspects, and provides technical assistance for the environment; including air, land and water pollution and clean up. ($49 million NGF-P)
- 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. ($107 million NGF-P)
- 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. ($74 million NGF-P)
- 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. ($21 million NGF-P)
- Department of Agriculture (Ag) provides support to the agricultural community and promotes consumer and environmental protection. ($32 million NGF-P)

- 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. ($14 million NGF-P)
- Recreation and Conservation Office (RCO) manages grant programs for outdoor recreation, wildlife habitat and farmland, and restoration of salmon habitat. ($1.7 million NGF-P)
- Puget Sound Partnership (PSP) coordinates the regional effort to clean up Puget Sound. ($4.7 million NGF-P)
- Environmental and Land Use Hearing Office (ELUHO) hears appeals and decides cases of certain land use and environmental decisions. ($4.3 million NGF-P)
- 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 NGF-P)
- 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. The Commission is a bi-state compact agency and funded equally by Oregon and Washington. (Washington's share is $0.9 million NGF-P)

2015-17 and 2015 Supplemental Enacted Budget Recap

State Parks Support

The State Parks and Recreation Commission is funded primarily on revenue received from:

- Discover Pass ($33 million);
- Donations through the Department of Licensing ($14 million);
- Camping and overnight accommodations ($34 million);
- Other revenue ($15 million) examples are leases, boat launches and moorage; and
- Litter Tax ($10 million) until June 30, 2017.

In addition, the 2015-17 biennial operating budget provided $20.4 million of state general fund for the operating costs of state parks of which $4.4 million is for park services such as grounds and facility maintenance, security of campsites, and maintenance of hiking trails.

Fire Suppression and Geological Hazards

$1.2 million in state general fund support was provided to the Department of Natural Resources (DNR) for increased fire response through additional fire engine crews, specialized helicopter crews, and incident command business support staff.

DNR was provided $4.6 million to establish a statewide contract for LiDAR, a remote sensing technology used to create high-resolution geological maps, and to increase staffing related to geological hazards.

Oil Transportation

The Department of Ecology was provided $1.5 million from the Oil Spill Prevention Account (OSPA) for railroad oil spill contingency and response plans, and to conduct and update vessel and rail traffic risk assessments. A total of $1.9 million from the State Toxics Control Account was provided for oil spill response equipment grants to local governments.

Forests and Fish
DNR was provided $5.9 million in state general funds for research and monitoring projects in the Forest Practices Adaptive Management Program. This funding corresponds with the Forest Practices Habitat Conservation Plan and a 2012 settlement agreement, and will inform Forest Practices Board rules related to water quality and fish habitat protection.

Agricultural Lands
The State Conservation Commission was provided $7.6 million from the Public Works Assistance Account to fund the Voluntary Stewardship Program (VSP) in the 26 counties that have opted in to the program but not yet received funding. The VSP was created in 2011 as an alternative means of fulfilling Growth Management Act requirements to protect wetlands and other critical areas on agricultural lands.

Emergency Drought
In Special Appropriations $14 million was provided for emergency drought funding and $1 million was provided for outdoor education grants through the No Child Left Inside program.

Current Budget Issues

Fire Suppression Costs
During this fire season over one million acres burned in Washington. DNR's costs for fighting wildfires is currently estimated at $137 million more than the 2016 fiscal year appropriation of $21 million.

- DNR is requesting an additional $24.3 million to provide more training, equipment, staffing, and wildfire prevention.

Model Toxics Control Account (MTCA)
MTCA revenue collections are approximately $60 million below the forecasted amounts used to build the enacted 2015-17 capital budget. The Department of Ecology has requested bond funds to offset the shortfall in MTCA revenue in the 2016 supplemental capital budget.

State Parks Revenue
State Parks is projecting the revenue generated from Discover Pass, donations, and camping fees to be $4.3 million higher than the current expenditure authority in the enacted 2015-17 biennial budget. State Parks is requesting to use this additional revenue to reduce the preventative maintenance backlog, upgrade law enforcement radios, support fire protection efforts, and promote parks.