

Washington State Operating Budget

Briefing Book

January 2013
Office of Program Research

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House Appropriations Committee and Subcommittees

*House Appropriations Committee
2013 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Ross Hunter (D), Chair	7936	JLOB 315	Marilyn Pedersen
Timm Ormsby (D), Vice Chair	7946	LEG 122H	Shannon Waechter
Gary Alexander (R), Ranking Minority Member	7990	LEG 426B	Barb Peters
Bruce Chandler (R), Assistant Ranking Minority Member	7960	LEG 427B	Melinda Woods
J.T. Wilcox (R), Assistant Ranking Minority Member	7912	LEG 426A	Sharon Trask
Vincent Buys (R)	7854	JLOB 465	Amanda Smith
Reuven Carlyle (D)	7814	JLOB 325	Joseph Peha
Eileen Cody (D)	7978	JLOB 303	Siobhan Mahorter
Cathy Dahlquist (R)	7846	JLOB 426	Keith Bundy
Hans Dunshee (D)	7804	JLOB 314	Christina Dunsmore
Susan Fagan (R)	7942	JLOB 406	Cathy Colley
Tami Green (D)	7958	LEG 429A	Michelle Butler
Kathy Haigh (D)	7966	JLOB 320	Kim Moores
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Paul Harris (R)	7976	JLOB 403	Joe DePinto
Zack Hudgins (D)	7956	LEG 438A	Douglas Honma
Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Laurie Jenkins (D)	7930	JLOB 311	Jessica Gavre
Ruth Kagi (D)	7910	JLOB 308	Jessica Puckett
Marcie Maxwell (D)	7894	JLOB 327	Alex Soldano
Dawn Morrell (D)	7948	JLOB 306	Mary Sherman
Kevin Parker (R)	7922	JLOB 421	Isaiah Paine
Jamie Pederson (D)	7826	LEG 436B	Katy Buck
Eric Pettigrew (D)	7838	LEG 432	Janaia Secrest-Holden
Liz Pike (R)	7812	LEG 122B	Garrett Delano
Charles Ross (R)	7856	LEG 122A	Wanda Brosey
Joe Schmick (R)	7844	JLOB 432	Pamela Kentner
Larry Seaquist (D)	7802	LEG 132C	Terra Rose
Larry Springer (D)	7822	LEG 132E	Ariel Taylor
Pat Sullivan (D)	7858	LEG 339A	Lesley Roberts
David Taylor (R)	7874	JLOB 428	Jaime Rowland

*House Appropriations Subcommittee on Education
2013 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Kathy Haigh (D), Chair	7966	JLOB 320	Kim Moores
Susan Fagan (R), Ranking Minority Member	7942	JLOB 406	Cathy Colley
Reuven Carlyle (D)	7814	JLOB 325	Joseph Peha
Cathy Dahlquist (R)	7846	JLOB 426	Keith Bundy
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Marcie Maxwell (D)	7894	JLOB 327	Alex Soldano
Eric Pettigrew (D)	7838	LEG 432	Janaia Secrest-Holden
Larry Seaquist (D)	7802	LEG 132C	Terra Rose
Pat Sullivan (D)	7858	LEG 339A	Lesley Roberts
J.T. Wilcox (R)	7912	LEG 426A	Sharon Trask

*House Appropriations Subcommittee on General Government
2013 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
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Kevin Parker (R), Ranking Minority Member	7922	JLOB 421	Isaiah Paine
Vincent Buys (R)	7854	JLOB 465	Amanda Smith
Bruce Chandler (R),	7960	LEG 427B	Melinda Woods
Hans Dunshee (D)	7804	JLOB 314	Christina Dunsmore
Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Jamie Pederson (D)	7826	LEG 436B	Katy Buck
Larry Springer (D)	7822	LEG 132E	Ariel Taylor
David Taylor (R)	7874	JLOB 428	Jaime Rowland

*House Appropriations Subcommittee on Health & Human
Services
2013 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Dawn Morrell (D), Chair	7948	JLOB 306	Mary Sherman
Paul Harris (R), Ranking Minority Member	7976	JLOB 403	Joe DePinto
Eileen Cody (D)	7978	JLOB 303	Siobhan Mahorter
Tami Green (D)	7958	LEG 429A	Michelle Butler
Laurie Jenkins (D)	7930	JLOB 311	Jessica Gavre
Ruth Kagi (D)	7910	JLOB 308	Jessica Puckett
Timm Ormsby (D)	7946	LEG 122H	Shannon Waechter
Liz Pike (R)	7812	LEG 122B	Garrett Delano
Charles Ross (R)	7856	LEG 122A	Wanda Brosey
Joe Schmick (R)	7844	JLOB 432	Pamela Kentner

APPROPRIATIONS COMMITTEE STAFF

Coordinator:	Charlie Gavigan	7340	JLOB 223
Asst. Coord.:	Dave Johnson	7154	JLOB 218
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Leg. Asst.:	Lisa McCollum	7155	JLOB 222-A
Leg. Asst.:	Rebecca Lewis	7204	JLOB 225-A

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Pension Counsel:	David Pringle	7310	JLOB 226
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Education

Fisc. Analyst:	Wendy Polzin	7137	JLOB 230
Fisc. Analyst:	Jessica Harrell	7349	JLOB 219
Fisc. Analyst:	Catrina Lucero	7192	JLOB 212

Government Operations

Fisc. Analyst:	Alex MacBain	7288	JLOB 221
Fisc. Analyst:	Jeff Olsen	7175	JLOB 229
Fisc. Analyst:	Wendy Polzin	7137	JLOB 230
Fisc. Analyst:	Danielle Cruver	7157	JLOB 211

Health & Human Services

Fisc. Analyst:	Andy Toulon	7178	JLOB 222
Fisc. Analyst:	Erik Cornellier	7116	JLOB 231
Fisc. Analyst:	James Kettel	7123	JLOB 214
Fisc. Analyst:	Mary Mulholland	7391	JLOB 210

Natural Resources

Fisc. Analyst:	Michael Bennion	7118	JLOB 213
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Session Staff

Leg. Asst.:	Jasmin Adams	7717	JLOB 206-A
Clerk:	Janessa Zucchetto	7068	JLOB B2
Clerk:	Brad Merkle	7068	JLOB B2
Clerk:	Devin Gayton	7067	JLOB B1

HOUSE APPROPRIATIONS AND SUBCOMMITTEES* STAFF ASSIGNMENTS

Charlie Gavigan Staff Coordinator 786-7340	David Pringle 786-7310	Danielle Cruver 786-7157
Appropriations (APP) Committee Administration	Pension Counsel	Accountancy, Board of
	APPG Committee Counsel	Administrative Hearings Office
	Actuary, State	African-American Affairs, Commission on
	Compensation, State Employees	Archeology & Historic Preservation, Dept. of
	Health Benefits, State Employees (PEBB)	Arts Commission
	LEOFF 2 Board	Asian-Pacific American Affairs, Commission on
	Pension Contribution Rates	Attorney General
	Pension Policy	Auditor, State
	Public Employees Relations Commission	Caseload Forecast Council
	Retirement Systems, Department of	Elected Officials Salaries
	State Investment Board	Enterprise Services, Department of
	Vol. Firefighters & Reserve Officers, Board for	Financial Institutions, Department of
		Forensic Investigations Council
		Gambling Commission
		Hispanic Affairs, Commission on
		Historical Society, Eastern Washington
		Historical Society, Washington State
		Horse Racing Commission
		Human Rights Commission
		Indian Affairs, Governor's Office of
		Insurance Commissioner
		Licensing, Department of
		Lieutenant Governor, Office of the
		Military Department
		Minority/Women's Business Enterprise, Office of
		Public Disclosure Commission
		Redistricting Commission
		Tax Appeals, Board of (budget)
		Treasurer, State
		Utilities and Transportation Commission
David Johnson Asst. Coordinator 786-7154	Jessica Harrell 786-7349	
Budget Development	K-12 Public Schools (OSPI)*	
	Education Legacy Trust Account	
	Health Benefits K-12	
	*all programs except for Levy Equalization	
Kristen Fraser 786-7148		
APP Committee Counsel		
APPE Committee Counsel/Scheduling		
Sundry Claims		
Lisa McCollum LA** (APP, APPE) 786-7155		
Rebecca Lewis LA** (APP, APPH) 786-7204		
Jasmin Adams LA** (APPG) 786-7717		
Tanya Carter Computer Analyst 786-7619		
**Legislative Assistant		
Erik Cornellier 786-7116	Catrina Lucero 786-7192	
APPH Committee Counsel	Central Washington University	
Health Care Authority (including medical assistance but excluding employee health care benefits)	Community & Technical Colleges	
Special Appropriations (APP & APPH)	Eastern Washington University	
Agency Loans	Higher Education Compensation	
Bond Retirement & Interest	Student Achievement Council (was prev. HECB)	
Treasurer's Transfers	The Evergreen State College	
Approps In Other Legislation	University of Washington	
	Washington State University	
	Western Washington University	
	Workforce Training and Education Board	
Andy Toulon 786-7178		
APPH Committee Scheduling		
DSHS - Alcohol & Substance Abuse Programs		
DSHS - Economic Services		
DSHS - Mental Health		
James Kettel 786-7123	Wendy Polzin 786-7137	
DSHS - Developmental Disabilities	<i>Education</i>	
DSHS - Long Term Care	Early Learning, Department of	
DSHS - Vocational Rehabilitation	Center for Childhood Deafness & Hearing Loss	
DSHS - Special Commitment Center	K-12 Levy Equalization	
Services for the Blind, Department of	School for the Blind	
Veterans Affairs, Department of	Special Appropriations (APPE)	
	<i>General Government</i>	
	Commerce, Department of	
	Governor, Office of the	
	House of Representatives	
	Innovate Washington	
	Joint Legislative Audit and Review Cmte (JLARC)	
	Leg Evaluation & Accountability Program	
	Legislative Service Center	
	Legislative Support Services, Office of	
	Office of Financial Management (OFM)	
	Secretary of State (including State Library)	
	Senate	
	Special Appropriations (APPG)	
	State Patrol, Washington	
	Statute Law Committee (Code Reviser)	
	*Appropriations Subcommittees:	
	APPE - Appropriations Subcommittee on Education	
	APPG - Appropriations Subcommittee on General Government	
	APPH - Appropriations Subcommittee on Health & Human Services	
Mary Mulholland 786-7391		
DSHS - Admin & Support Services		
DSHS - Children & Family Services		
DSHS - Consolidated Field Services		
DSHS - Information Services		
DSHS - Juvenile Rehabilitation Administration (JRA)		
DSHS - Payments to other Agencies		
Employment Security, Department of		
Health, Department of (DOH)		
Industrial Insurance Appeals, Board of		
Labor & Industries, Department of		
Life Sciences Discovery Program		
		Alex MacBain 786-7288
		APPG Scheduling
		Administrative Office of the Courts
		Corrections, Department of
		Court of Appeals
		Criminal Justice Training Commission (CJTC)
		Judicial Conduct Commission
		Law Library, State
		Office of Civil Legal Aid
		Office of Public Defense
		Supreme Court
		Jeff Olsen 786-717
		Consolidated Technology Services
		Economic & Revenue Forecast Council
		Liquor Control Board
		Lottery
		Revenue, Department of
		Michael Bennion 786-7118
		Agriculture, Department of
		Columbia River Gorge Commission
		Conservation Commission, State
		Ecology, Department of
		Environmental & Land Use Hearings Office
		Fish & Wildlife, Department of
		Natural Resources, Department of
		Parks & Recreation, State
		Pollution Liability Insurance Agency
		Puget Sound Partnership
		Recreation and Conservation Office

1/10/2013

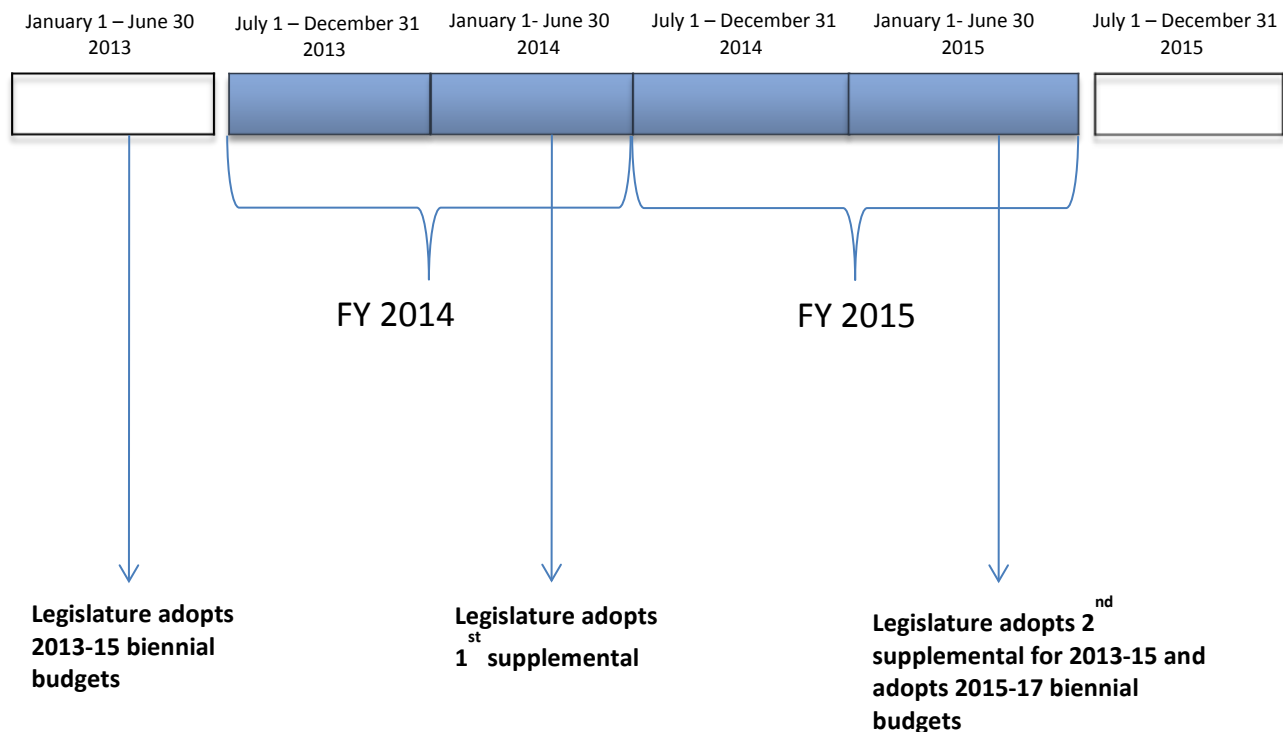
Budget Overview

Background

Washington State is on a biennial (two-year) budget cycle. The budgets for the 2013-15 biennium cover the period from July 1, 2013 through June 30, 2015. (The biennium is Fiscal Year 2014, from July 1, 2013, through June 30, 2014, and Fiscal Year 2015, from July 1, 2014, through June 30, 2015.) The primary two-year budget is enacted in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget almost always is enacted during the even-numbered years (and sometimes a 2nd or 3rd supplemental budget is enacted).

The Legislature authorizes expenditures for operating, transportation, and capital purposes in separate budgets. The Appropriations Committee, and this document, focuses on the Operating Budget.

2013-15 Biennial Budget Calendar



Operating Budget: The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Apportionments to school districts, leases, goods and services, employee salaries and benefits, and medical assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other funding sources. The major sources of General Fund-State revenues (forecasted for the 2013-15 biennium) are the retail sales and use tax (50%), the business and occupation tax (20%), and the state property tax (12%).

Funding from the Operating Budget:

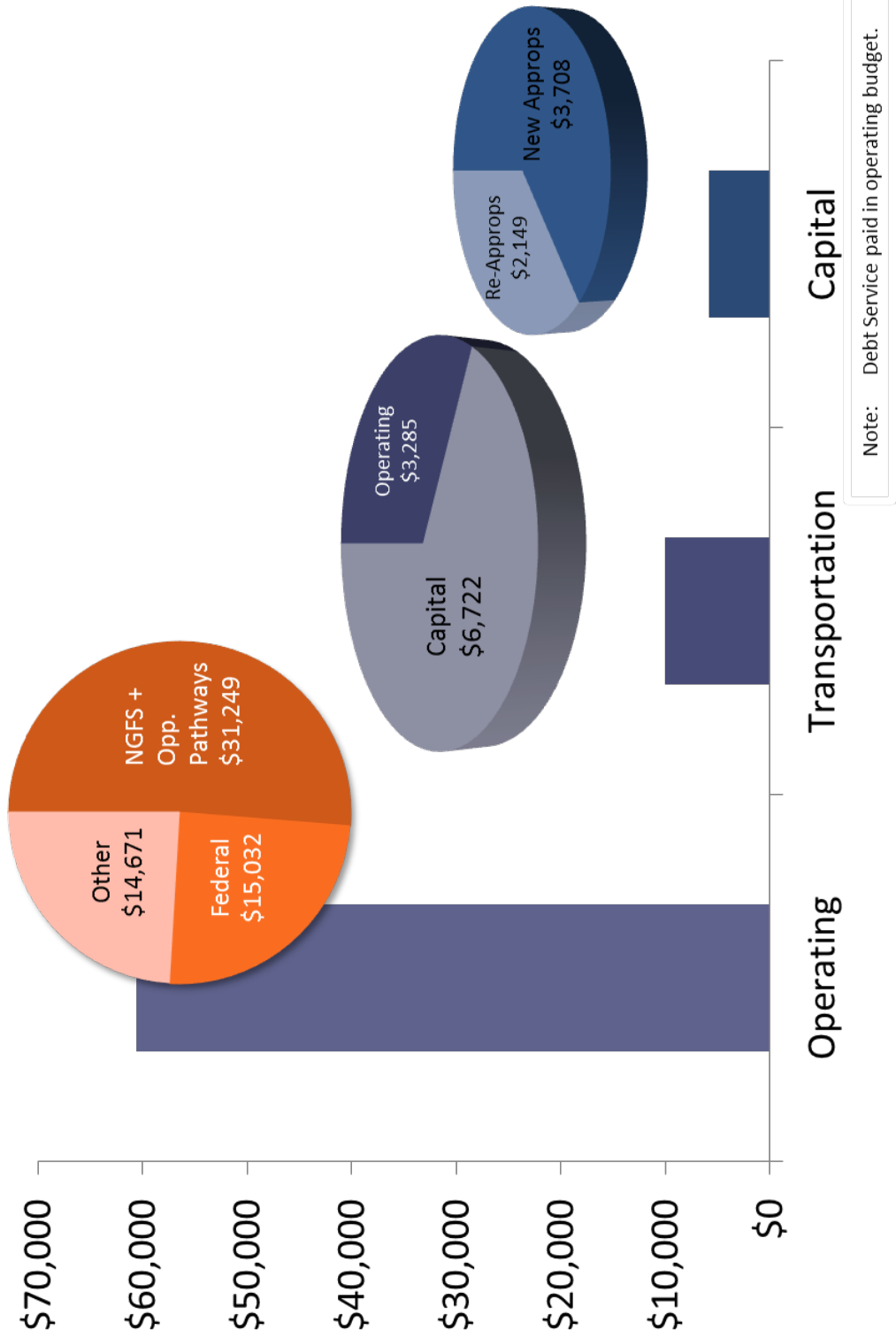
- K-12 Education – *for nearly one million students*
- Higher Education – *for about 232,000 students*
- Health Care – *for more than 1,200,000 children and low income adults*
- Social Services – *for children, adults and families*
- Public Safety – *including prison for more than 18,000 inmates and community supervision for nearly 15,000 offenders*
- Natural Resource and Recreation Programs
- Government Operations
- Debt Service on bonds for capital projects (including K-12 and higher education)

Capital Budget: The capital budget includes appropriations for the construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, and for other capital facilities and programs. Nearly half the capital budget typically is financed by state-issued bonds while the rest is funded by dedicated accounts, trust revenue, and federal funding sources. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take four or more years to design and construct. While the proceeds of bond sales are spent under the capital budget, the operating budget pays for the debt service on the bonds. Operating budget decisions can affect the capital budget and vice versa.

Transportation Budget: The transportation budget includes the operating (33%) and capital (67%) costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 79% of the 2011-13 transportation budget is funded by state resources (34% from bonds), 2% from local sources, and about 18% from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget.

Note: 2011-13 Near General Fund-State dollar amounts throughout the briefing book are through the 2012 Supplemental operating budget adopted in April 2012 unless otherwise noted.

Operating is One of Three Washington State Budgets (Data is 2011-13 after 2012 supplemental, \$ in millions)



Budget Development Process

Agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). The OFM evaluates these budget requests during the fall and makes recommendations to the Governor. The Governor publishes his or her budget proposals in December and submits them to the Legislature in January as an executive request bill. The Legislature holds hearings, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for consideration.

Maintenance Level and Policy Items

A new operating budget generally is accomplished through incremental changes to the current budget. The maintenance level budget is the estimated cost of providing currently authorized services in the new budget period. It is calculated using current ongoing appropriations, any bow wave adjustments (costs or savings), and adjustments for caseload/enrollment changes to **mandatory** programs. The maintenance level budgets for some of the largest programs are calculated using what is effectively a zero-based approach. The caseload forecast (prepared by the independent Caseload Forecast Council) projects the number of persons expected to seek and meet entitlement requirements for services including the K-12 public school system, long-term care, medical assistance, foster care, and adoption support. The mandatory per client costs by fund source (and before any change to statutes or vendor rates) are then calculated for each caseload. Maintenance level then reflects this level of funding.

Once the maintenance level is estimated, the Governor and Legislature focus on policy changes to the maintenance level budget. These policy level decisions can add funding for new or expanded services/programs or reduce funding for existing services/programs. While the net policy changes (policy additions and reductions combined) can be relatively small, the absolute value of the policy additions and reductions is typically significant. These policy level decisions generally are made after reviewing the activities of agencies and programs in the base budget.

In the end, the Legislature adopts a single funding level for any given program. Previous expenditures, carry-forward, maintenance and policy steps are simply a way of communicating both how the budget was calculated and how it changes previous policy decisions.

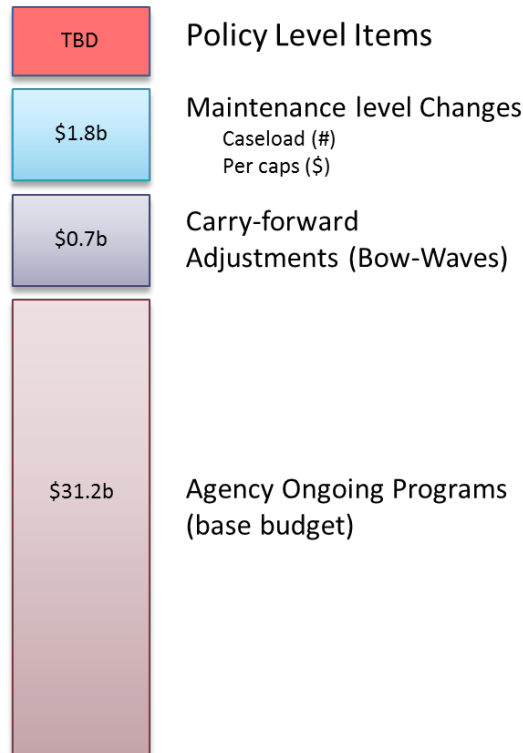
Here is a brief outline of the budget development process for a new biennial budget:

- **Start with previous biennial budget**
 - Reverse one-time adds or reductions in the previous biennium.
 - Adjust (biennialize) for adds or reductions enacted part way through the previous biennium.
 - Adjust for mandatory caseload or per cap (costs per client) changes (per statutory/constitutional entitlements).
 - Adjust for mandatory items that by statute had a delayed effective date or are reactivated (after being suspended in the previous biennium) in the new biennium.
- **Results in the Maintenance Level budget for new biennium**
- **Make Policy Level decisions (changes to Maintenance Level)**
 - Create and fund new program?

- Enhance existing program and increase its funding?
- Eliminate existing program and its funding?
- Reduce existing program and its funding?
- Make changes to structure of agencies or programs and related funding implications?
- **Results in the new biennial budget making single appropriations (by fund) for each agency.**

Budget Overview

(Estimated 2013-15, NGF-S and Opp. Pathways)



Reviewed By:

Members (By definition, changes to the base budget)

Staff technical review
(non-technical items moved to policy)

Legislative Activities:

Member Questions/Requests For Information
(Note: any changes are then shown as policy changes)
Staff Zero Base Costs of True Entitlements
Informal Briefings
Staff Research (review models, Q&A with agencies, etc.)
Potential Reductions Lists
Policy Comm. (bills amend current law, work sessions)
Review Activity lists (prepared by agencies/OFM)
Review All Programs/Services Provided by Agencies

Audit & Performance Review Activities:

SAO Performance Audits
SAO Financial/Compliance Audits
JLARC Performance Audits
GMAP Process

OFM & Agency Activities:

Strategic Planning Process + IT Strategic Plans
Budget Building Process (Agency and Gov.)
Agency/Gov Request Legislation Process
POG (Activity Based) Process
Allotment Process, Including Performance Measures

Appropriations, Funds and Accounts

Appropriations in the operating budget are authorizations to spend up to a specific amount from a specified state fund or account (legally a fund and account are the same). The appropriations are by agency, or by program in the case of the Department of Social and Health Services and K-12 Public Schools, rather than by specific activity/service/benefit provided or by object of expenditure (salaries, travel). The Legislature does place some specific limitations on appropriations through budget provisos, and expects agencies to implement the general appropriations based on the activities required by statute or that are ongoing activities in the maintenance level budget adjusted for policy level decisions in the new budget.

If a fund or account is located within the state treasury, an appropriation is required for expenditures from that fund/account. Under the constitution, tax revenues must be deposited in appropriated treasury funds/accounts.

Some funds and accounts are nonappropriated; they are deemed in the custody of the State Treasurer, rather than in the treasury itself, and are generally restricted to a particular purpose. In that event, no appropriation is required although the budget documents may still suggest a funding level.

The largest fund/account is the general fund. Revenues not directed otherwise are deposited in the general fund. The General Fund-State (GFS) account, the Pension Funding Stabilization Account, and the Education Legacy Trust Account are commonly referred to as Near General Fund-State (NGFS) accounts. Often, budget documents refer to NGFS plus the Opportunity Pathways Account. Most other funds and accounts are for much more specific purposes.

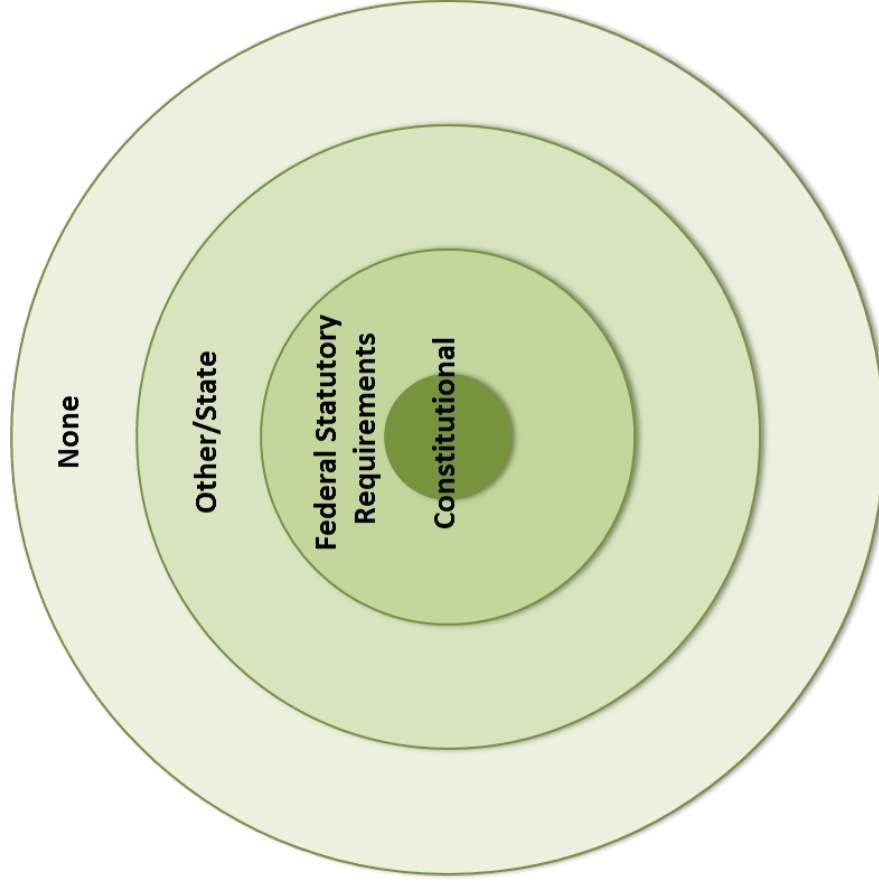
Mandatory Funding Obligations

A substantial portion of the operating budget must be funded by the Legislature as a result of constitutional or contractual requirements. Areas of the budget with little or no funding discretion include K-12 basic education, debt service, and pension contractual obligations. To the extent the state agrees to participate in Medicaid (a joint state-federal health care program), the Legislature has limited discretion in several entitlement or caseload driven programs in the Department of Social and Health Services and the Health Care Authority such as medical assistance, long-term care, and developmentally disabled services. When state law requires the confinement of prisoners and juveniles, certain requirements must be met (safety, health care, etc.).

Arguably the Legislature must fund some amount for constitutionally created agencies such as certain statewide elected officials, the Legislature, and the judicial system. In addition, while natural resources is an area that the Legislature has discretion, there are federal requirements that the state must comply with. Although higher education is an area that the Legislature generally is not mandated to fund under constitutional or contractual requirements, the state historically has allocated a significant portion of the operating budget to higher education.

The percentage of the budget considered to be mandatory obligations depends on one's perspectives and the caveat that the Legislature could change the underlying requirements in some cases. For example, if one assumed that the 2011-13 budget funding for K-12 basic education, debt service, pensions, and mandatory Medicaid related provisions were mandatory, that corrections, juvenile rehabilitation, and child protective/welfare services were about two-thirds mandatory, that the judiciary, Legislature and statewide elective offices were about half mandatory, and everything else was discretionary, then over two-thirds of the 2011-13 Near General Fund-State budget would be considered mandatory funding obligations of the state.

Some spending is mandatory and some is discretionary



Concentric circles are illustrative only and not to scale.

* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

** Contracts may be renegotiated. Also, some contracts have termination – and/or fiscal shortfall clauses that may be invoked.

*** Can be changed via legislation.

Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs*
- Approved collective bargaining agreements & other contracts**

Federal Statutory Requirements

- Since the state participates in Medicaid:
- Core populations & core services
- Other requirements (i.e. rate issues)
- TANF/Maintenance of Effort (MOE)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

State Statutory and Other Requirements

- State-created statutory entitlements (kids' health, Disability Lifeline, etc.)***
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other Statutory Programs

Discretionary

- Programs without a statutory or case law requirement

FTEs (Full Time Equivalent)

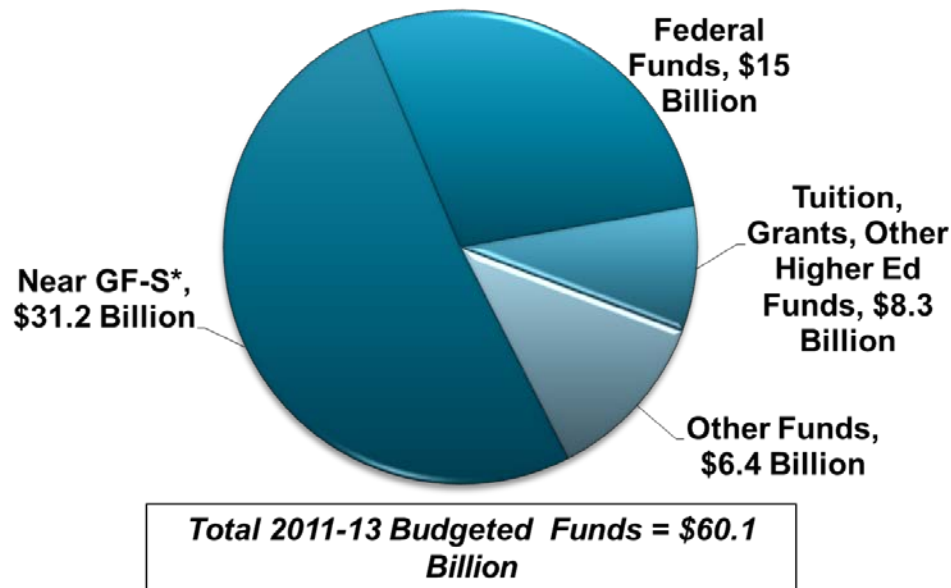
Full Time Equivalent (FTE) is a unit of measurement that relates to state employees and students. For state employees, FTE refers to one person working full-time for one year. This equates to working approximately 2,088 hours of paid staff time. Two persons working half-time count as one FTE. For K-12 and higher education students, FTE refers to the equivalent of one student attending class full-time for one school year based on fixed hours of attendance (which vary depending on grade level).

State FTEs include employees working for state agencies and public higher education institutions. K-12 employees are not state employees; they are employed by the local school district. State funding for K-12 is apportioned to the school districts who then pay the salaries and benefits of K-12 employees.

Total state FTEs for FY 2013 (excluding capital and non-budgeted funds), is 101,846 (the peak was 107,361 in 2009). The operating budget funds an estimated 97,376 FTEs in FY 2013. Excluding transportation and higher education, FY 13 is 50,773 (peak was 56,421 in FY 09). All FTE figures are actual for the first five months of the fiscal year.

Where Does the Money Come From?

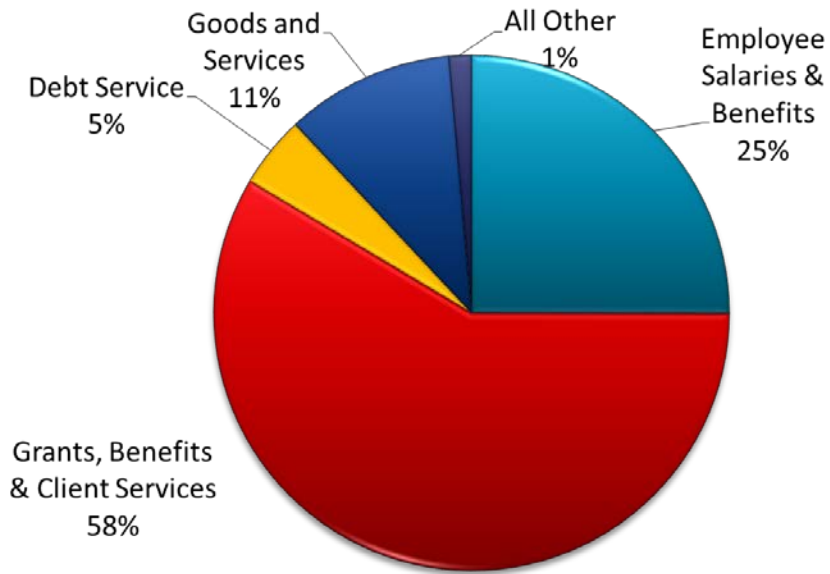
While the Legislature spends the majority of its time on the “near general fund,” the operating budget includes over \$29 billion in other funds and accounts.



* Plus Opportunity Pathways

Note: Totals do not tie due to rounding

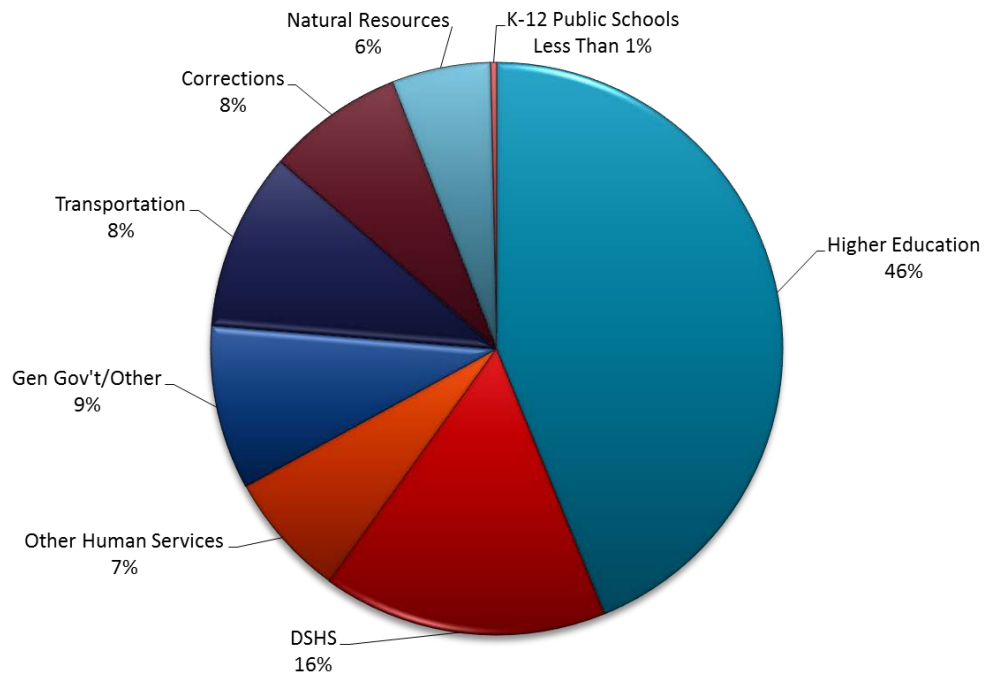
What Did the State Purchase?



Note: Most K-12 spending is displayed as Grants, Benefits, and Client Services

FY 2011: Actual Spending By Object
Total Budgeted Operating Funds

Where Did State Employees Work?

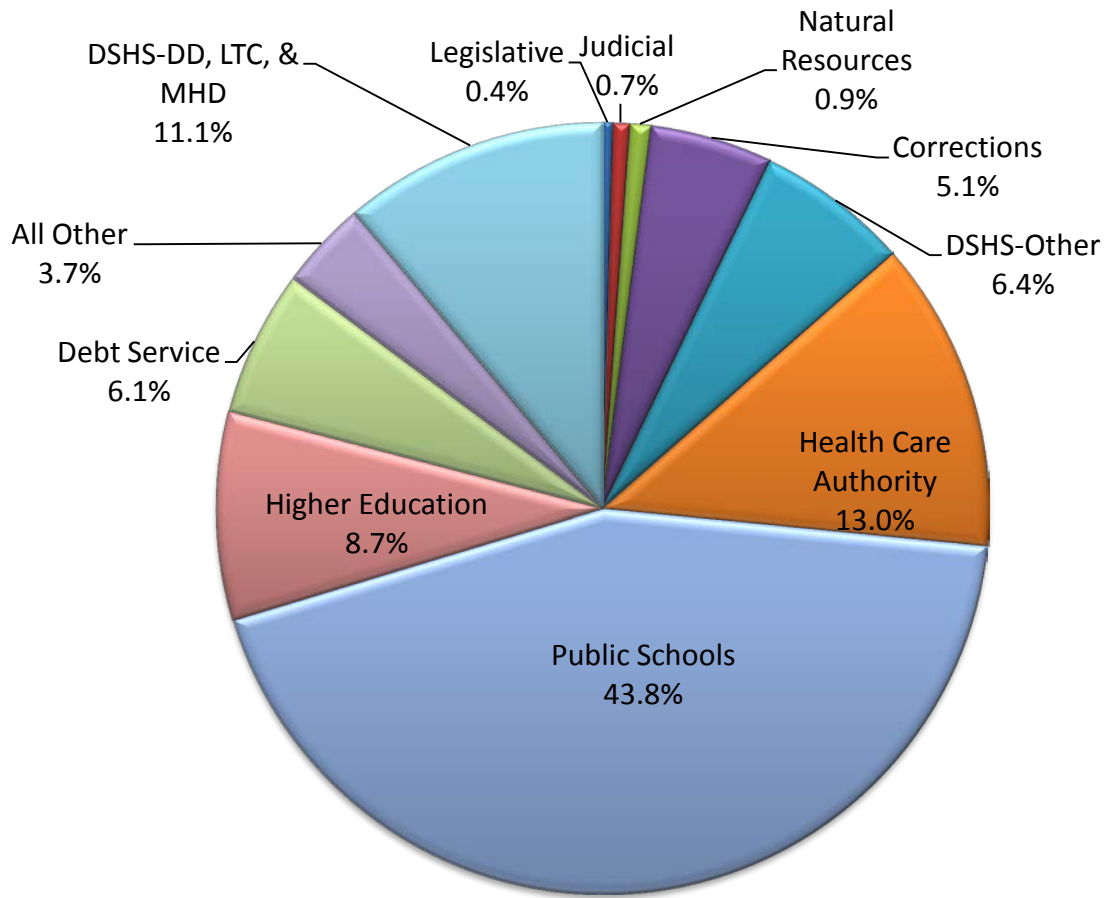


FY 2011: Actual FTEs
(Operating, Capital, and Transportation Total Budgets)

Where is the Money Spent?

2011-13 Operating Budget

Near General Fund-State + Opp. Pathways



2011-13 Operating Budget, Including 2012 Supplemental

Near General Fund-State + Opp. Pathways (Dollars in Thousands)

Legislative	139,294
Judicial	222,202
Natural Resources	266,777
Corrections	1,602,344
DSHS-DD, LTC, & MHD	3,474,273
DSHS-All Other	2,007,270
Health Care Authority	4,065,446
Public Schools	13,647,198
Higher Education	2,734,640
Debt Service	1,921,678
All Other (Including Governmental Operations)	1,168,089
Total	\$31,249,211

Operating Budget Drivers

(Covers 88% of the NGFS Budget)

Public Schools (44%)

- Enrollment
- Inflation
- Staff Mix
- Redefining Basic Education

Low Income Health (13%)

- Caseloads
- Utilization & Inflation
- Health Reform

Debt Services (6%)

- Capital Budget (size)
- Interest Rates

Higher Education (9%)

- Mostly Discretionary
- Enrollment
- Tuition & Financial Aid

Corrections (5%)

- Inmate Population
- Inmate Mix
- Community Supervision

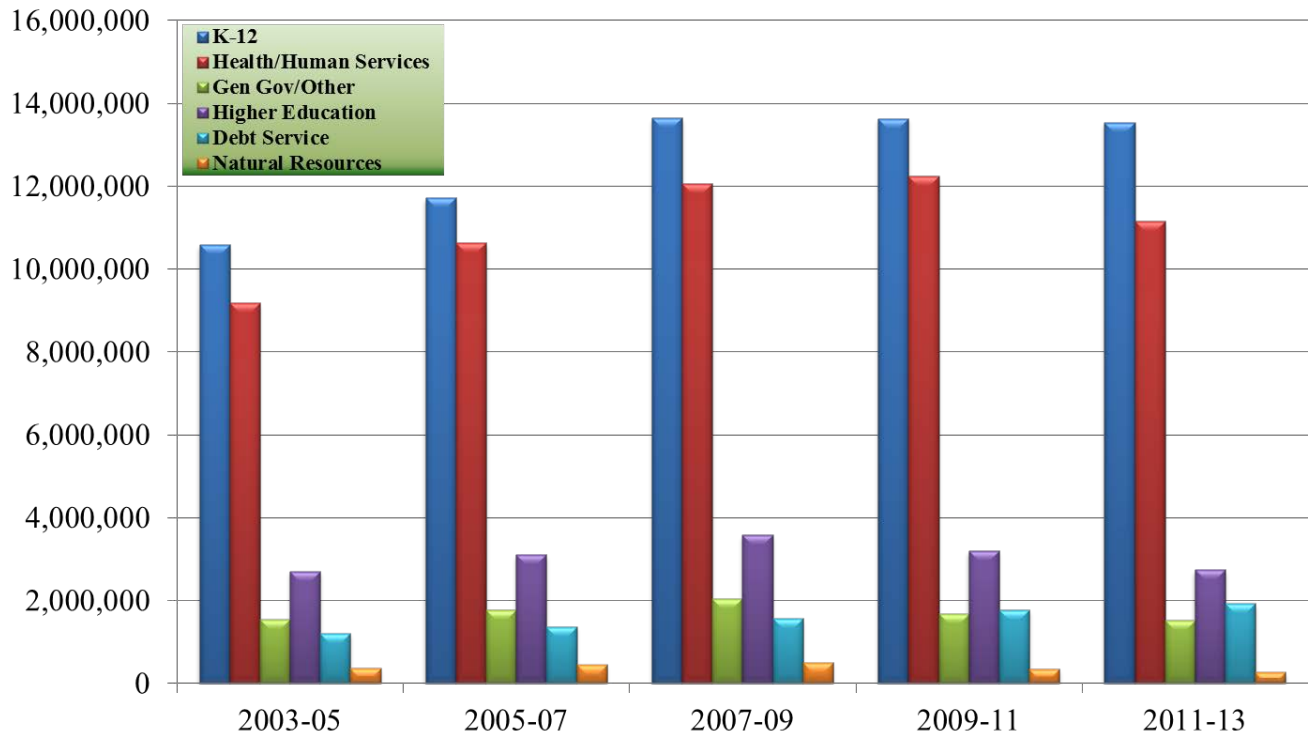
DD, LTC, and MHD (11%)

- Population/Caseloads
- Acuity Mix
- Care Settings

Operating Budget History

NGFS + Opportunity Pathways + ARRA Functional Area History*

(Operating expenditures in thousands)



NGFS + Opportunity Pathways Functional Area History (\$ in thousands)

	2003-05	2005-07	2007-09	2009-11	2011-13
K-12	10,579,635	11,720,356	13,646,454	13,625,728	13,535,525
Health/Human Services	9,171,861	10,623,951	12,064,489	12,236,006	11,149,333
Gen Gov/Other	1,535,104	1,764,434	2,048,979	1,679,723	1,526,930
Higher Education	2,703,796	3,098,951	3,580,950	3,194,142	2,737,295
Debt Service	1,213,742	1,368,696	1,564,737	1,772,678	1,921,678
Natural Resources	375,054	451,622	508,652	352,205	266,777
Total	25,579,192	29,028,010	33,414,261	32,860,482	31,137,538

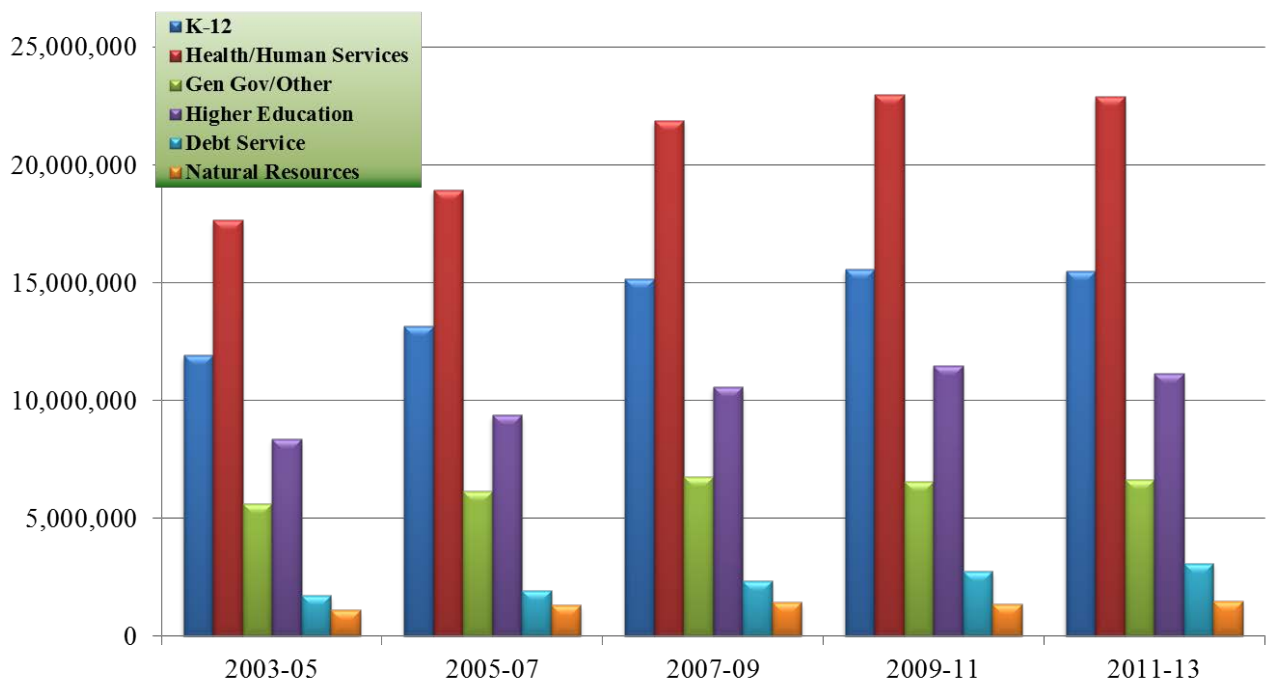
Functional Areas as Percent of Total Budget

	2003-05	2005-07	2007-09	2009-11	2011-13
K-12	41%	40%	41%	41%	43%
Health/Human Services	36%	37%	36%	37%	36%
Gen Gov/Other	6%	6%	6%	5%	5%
Higher Education	11%	11%	11%	10%	9%
Debt Services	5%	5%	5%	5%	6%
Natural Resources	1%	2%	2%	1%	1%

*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into "reserve" accounts. 2003-05 through 2009-11 are actual expenditures; 2011-13 is budgeted expenditures.

Total Budget Functional Area History*

(Operating expenditures in thousands)

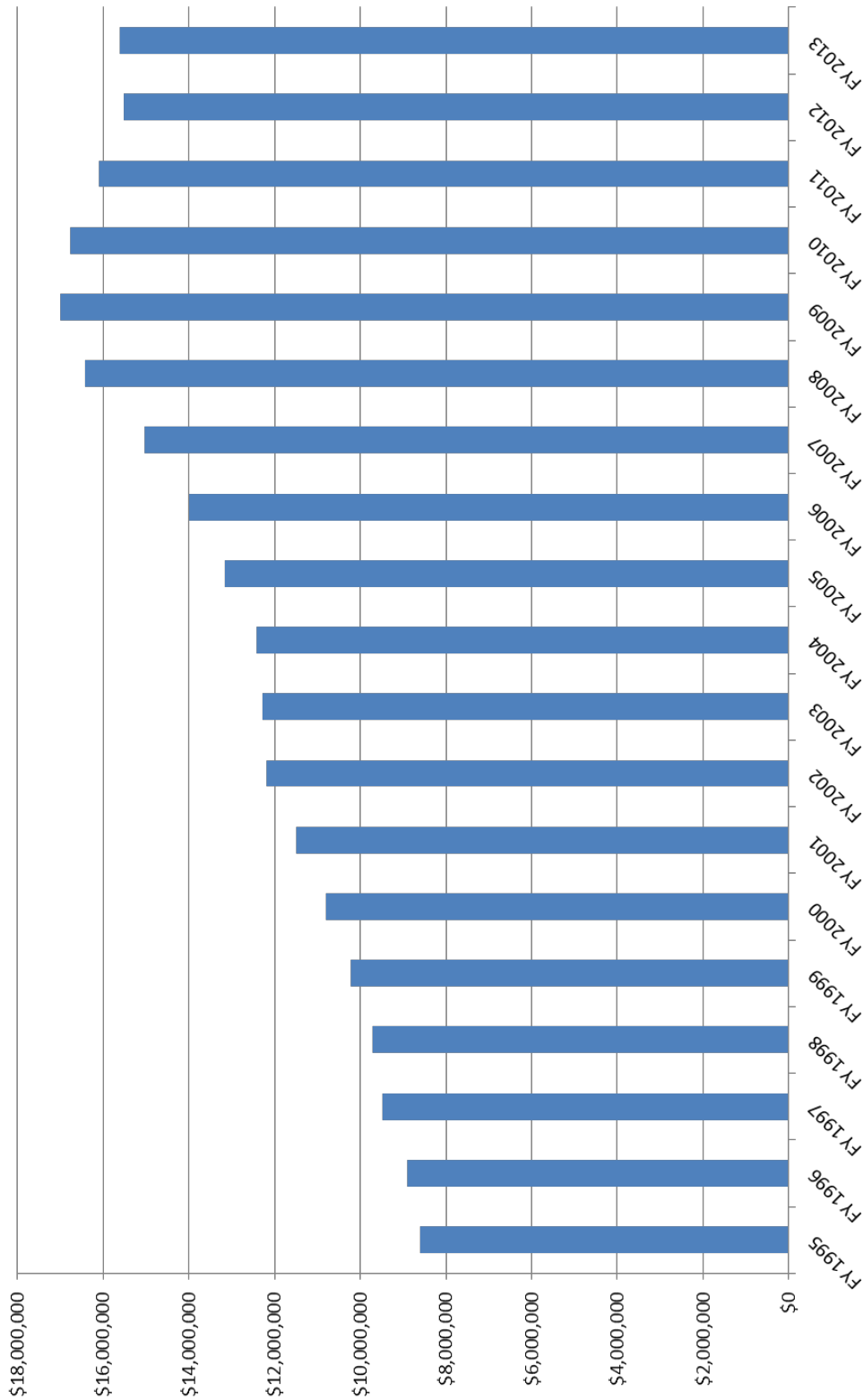


Total Budgeted Functional Area History (\$ in thousands)					
	2003-05	2005-07	2007-09	2009-11	2011-13
K-12	11,921,854	13,173,860	15,158,080	15,559,284	15,505,392
Health/Human Services	17,659,446	18,936,998	21,889,674	22,979,556	22,904,385
Gen Gov/Other	5,636,630	6,150,308	6,763,211	6,572,846	6,661,953
Higher Education	8,381,576	9,375,138	10,560,751	11,500,550	11,161,229
Debt Service	1,731,490	1,959,478	2,334,097	2,744,647	3,094,626
Natural Resources	1,107,625	1,320,067	1,443,204	1,348,927	1,507,476
Total	46,438,621	50,915,849	58,149,017	60,705,810	60,835,061
Functional Areas as Percent of Total Budget					
	2003-05	2005-07	2007-09	2009-11	2011-13
K-12	26%	26%	26%	26%	25%
Health/Human Services	38%	37%	38%	38%	38%
Gen Gov/Other	12%	12%	12%	11%	11%
Higher Education	18%	18%	18%	19%	18%
Debt Services	4%	4%	4%	5%	5%
Natural Resources	2%	3%	2%	2%	2%

*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into "reserves". 2003-05 through 2009-11 are actual expenditures, 2011-13 is budgeted expenditures.

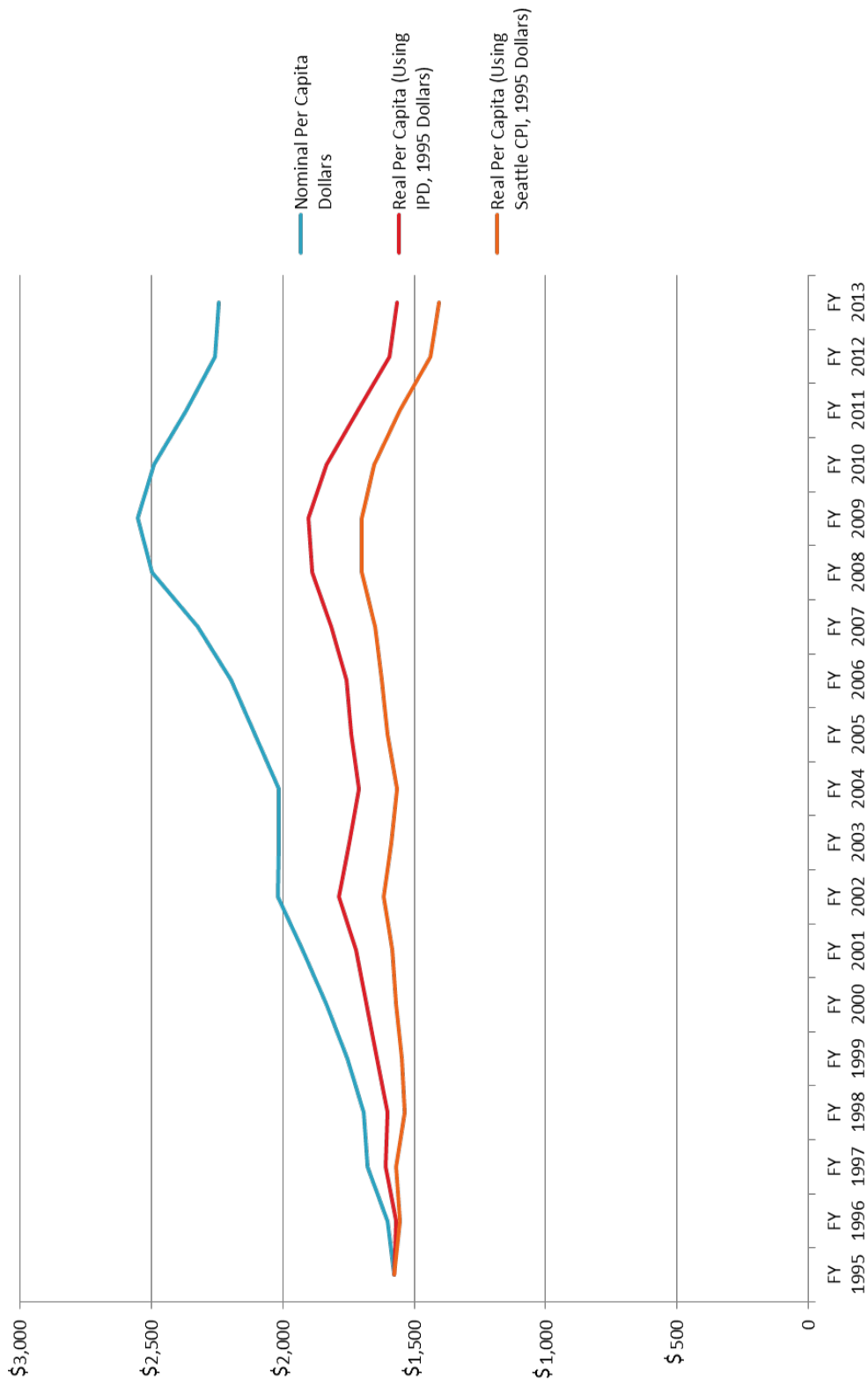
NGFS & Related Fund Spending: FY 1995 To FY 2013

(Dollars in thousands)



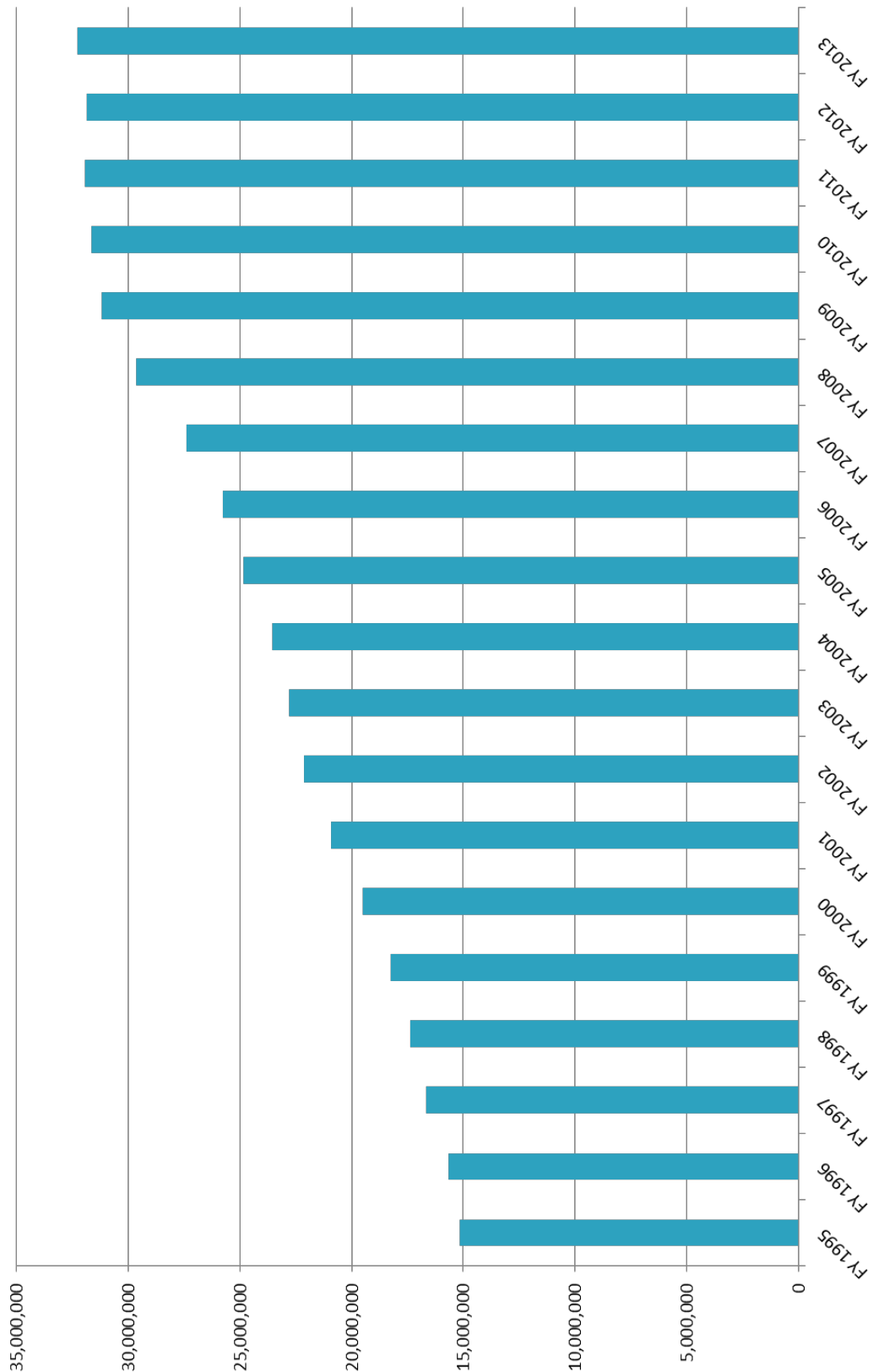
*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into “reserve” accounts. 1995 through 2011 are actual expenditures; 2012 and 2013 are budgeted expenditures.

Per Capita NGFS & Related Fund Spending: FY 1995 To FY 2013



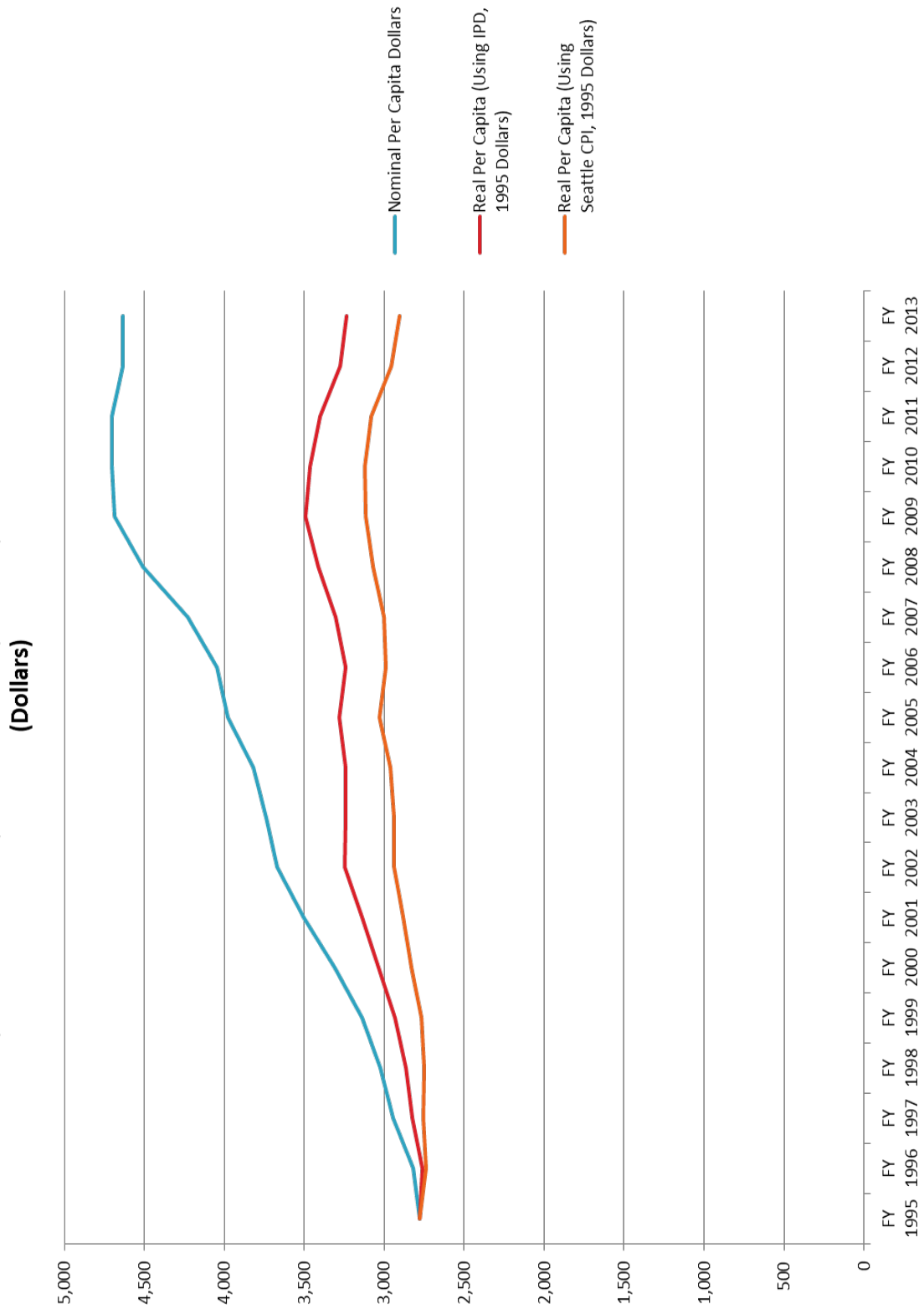
*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into “reserve” accounts. 1995 through 2011 are actual expenditures; 2012 and 2013 are budgeted expenditures.

Total Budgeted Funds Spending: FY 1995 to FY 2013
(Dollars in thousands)



*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into “reserves”. 1995 through 2011 are actual expenditures; 2012 and 2013 are budgeted expenditures.

Per Capita Total Budgeted Funds Spending: FY 1995 to FY 2013



*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into “reserves”. 1995 through 2011 are actual expenditures; 2012 and 2013 are budgeted expenditures.

A Brief History of the Budget (With Apologies to Stephen Hawking)

2001-03 Biennium

The 2001-03 budget adopted in 2001 was \$25.1 billion Near General Fund-State (the final 1999-01 budget was \$22.6 billion). As the Legislature deliberated in 2001, revenue was forecasted to grow a modest 3.8% over the previous biennium. (Average revenue growth historically has been about 9% per biennium.) The maintenance level budget, the cost to continue existing state services, was \$1.6 billion above the previous budget, due in large part to increased health care costs and the passage of I-728 (\$470 million for the biennium) and I-732 (\$348 million for the biennium). Responding to the Nisqually earthquake was also a consideration for the 2001 Legislature.

The 2002 Legislature faced a significant budget challenge in the 2001-03 budget from reduced revenue (9/11 and other economic related issues) and increased caseload related costs in K-12 and health care. In the 2002 Supplemental Budget, the Legislature addressed an approximately \$1.5 billion shortfall (\$1.2 billion in revenue forecast reductions and \$300 million in additional costs) by:

- Making budget reductions of \$332 million;
- Increasing ongoing revenue by \$88 million;
- Selling a portion of the state's tobacco settlement generated \$450 million for deposit into the general fund; and
- Transferring \$325 million from the Emergency Reserve Account to the general fund.
- Using \$303 million of budget reserves.

In the 2003 Supplemental Budget for the 2001-03 biennium, appropriations were increased by \$130 million GF-S. The final biennial appropriations level was \$24.6 billion.

2003-05 Biennium

In the 2003 session, the 2003-05 maintenance level budget, the cost to continue existing state services into the new biennium, was \$1.2 billion higher than available forecasted revenue. When a shortfall in the Health Services Account and other items are added, the budget problem rises to \$2 billion. The Legislature solved the budget problem by:

- Approximately \$1.3 billion in reductions to maintenance level in all areas of the budget;
- \$131 million in new revenue;
- \$237 million in I-728 property tax diversion;
- \$78 million in additional nursing home fees; and
- \$302 million in various transfers.

The enacted budget appropriation level was \$25.1 billion NGF-S (\$23.1 billion GF-S).

In 2004, revenue was stronger than expected, and with \$62 million in fund transfers, the 2004 Supplemental Budget increased the appropriation level for 2003-05 by \$190 million NGF-S. The expected GF-S ending fund balance was \$279 million.

The 2005 Supplemental Budget increased appropriations for 2003-05 by \$314 million NGF-S.

2005-07

Revenue was forecasted to increase by \$1.6 billion (7%) for the biennium, while the maintenance level budget increased by \$2 billion; the Legislature chose to fund a number of policy enhancements (COLAs, additional higher education capacity, etc.), resulting in a total increased projected spending level of \$3.4 billion, \$1.8 billion above projected revenue. The Legislature addressed this by:

- Increased revenue of \$482 million (including revenue going into the new Education Legacy Trust Account from the re-enacted estate tax and an increase to the cigarette tax);
- Budget reductions of \$557 million; and
- Using \$774 million of fund balances, fund transfers, and budget driven revenue.

The maintenance level cost increases were primarily driven by medical assistance (over \$650 million), pensions (\$513 million), and K-12 student enrollment (\$354 million). One of the policy level items was \$306 million for negotiated collective bargaining agreements; 2005-07 was the first biennium for consideration of these agreements under the new law.

Revenue increased \$1.4 billion from March 2005 (forecast used to develop the 2005-07 biennial budget) to February 2006 (forecast used to develop the 2006 supplemental). The 2006 Supplemental Operating Budget increased NGF-S appropriations by \$1.3 billion, including setting aside \$350 million to the new Pension Funding Stabilization Account, \$275 million to the Student Achievement Account, and \$200 million into the Health Services Account for future use.

The 2007 Supplemental Budget increased biennial appropriations by \$541 million NGF-S, with all but \$16 million being set aside for use in the 2007-09 biennium.

2007-09

Forecasted revenues continued to be stronger than anticipated going into the 2007 session, primarily due to the construction and real estate sectors. The 2007-09 biennial budget appropriation level was approximately \$3.1 billion more than the final 2005-07 budget, about \$1 billion in maintenance level increases and \$2.1 billion in net policy enhancements. Approximately half of the policy enhancements went for early learning and K-12 public schools. \$440 million went to increasing enrollments and financial aid, among other things, in higher education.

The budget assumed \$105 million in savings from the repeal of gain-sharing (ESHB 2391, 2007). This is currently being litigated.

The 2008 Supplemental Budget increased the biennial NGF-S appropriations by \$103 million and left \$850 million in reserves (GF-S and Budget Stabilization Account).

Economists determined that the recession officially began in December 2007, although unemployment did not significantly begin to increase in Washington State until June 2008. In 2008 and March 2009, negative revenue forecast changes reduced the FY 2009 and biennial 2009-11 revenue forecasts by a combined \$5.7 billion.

The 2009 Supplemental Budget shortfall facing the 2009 Legislature was \$1.7 billion for the last six months of FY 2009. Three bills enacted during the 2009 session made the 2009 supplemental changes to the 2007-09 biennial budget (ESHB 1694 - relating to fiscal matters, ESSB 5460 - relating to administrative costs of state government, and a portion of ESHB 1244 - the operating budget). The supplemental changes including use of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of about \$900 million, budget reductions of about \$300 million, and fund transfers (including the Budget Stabilization Account) of about \$500 million, leaving an ending GF-S fund balance of \$595 million (plus \$31 million in the Budget Stabilization Account).

2009-11

The March 2009 revenue forecast for 2009-11 was \$30.4 billion. The NGF-S maintenance level budget was \$37 billion, \$6.6 billion above the forecasted revenue for the biennium. This, in addition to \$300 million in policy additions and leaving \$500 million in unrestricted reserves, meant the 2009 Legislature faced a 2009-11 budget problem of approximately \$7.4 billion. The Legislature addressed this by:

- Using \$2 billion in federal stimulus (ARRA)
- Making \$3.6 billion in maintenance level reductions
- Using \$700 million in capital budget funds
- Modifying pension laws saved \$450 million
- Fund transfers and revenue enhancements.

\$739 million was left in reserve (GF-S and Budget Stabilization Account projected ending balances).

After the 2009 session, revenue declined by about \$1.8 billion. The 2010 Legislature faced a \$2.8 billion budget problem when maintenance level increases (\$660 million) and policy additions adopted by the Legislature (\$369 million) are added to the reduced revenue. The Legislature addressed this in the 2010 supplemental by:

- \$618 million in additional federal funds
- \$721 million in maintenance level budget reductions
- \$761 million in various revenue increases
- \$690 million in fund transfers and use of reserves.

After the 2010 session, forecasted revenue declined by \$1.4 billion total in the June and November forecasts, leaving a \$1.1 billion budget problem for FY 2011 when maintenance level changes are included. In a one day special session on December 11, the Legislature enacted \$490 million in reductions (including \$208 million using federal education jobs funding), \$54 million in fund transfers, and \$44 million in budget driven and other revenue, cutting the FY 2011 shortfall in half and leaving the remainder to be dealt with in the 2011 session.

After the December 11, 2010 special session, there remained a budget problem of about \$538 million in FY 2011 to be solved by the 2011 Legislature.

2011-13

As the Legislature began to craft the budget for the 2011-13 biennium, the estimated cost of continuing the current and statutorily required programs into the 2011-13 biennium was about \$3.7 billion more than projected revenues. The 2011-13 biennial budget problem increased

further when \$424 million in additional policy costs were included, such as repaying the delayed June 2011 apportionment payment, beginning the new education funding formula, increasing the State Need Grant to keep pace with assumed increases in tuition, and leaving projected reserves of \$741 million (\$282 million of which was in the Budget Stabilization Account). The budget problem statement for the 2011-13 biennium of about \$5 billion was addressed through policy level reductions of approximately \$4.5 billion and through fund transfers and resource changes.

After the 2011-13 budget was enacted in May 2011, projected revenues for that biennium declined by another \$2.2 billion. As of the November 2011 revenue forecast, the \$741 million in ending reserves for the 2011-13 biennium had become a negative \$1.4 billion.

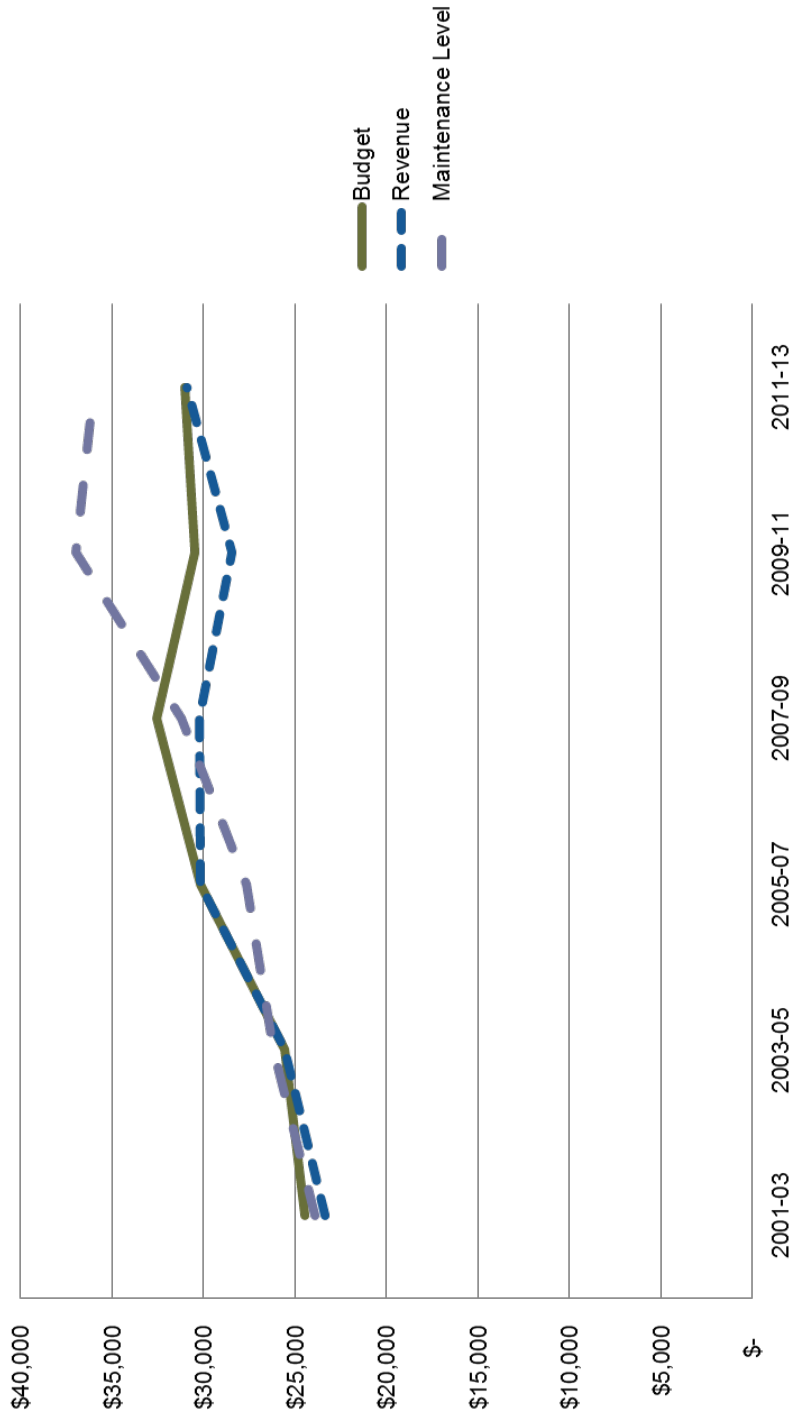
In a total of four legislative sessions from November 2011 through April 2012, the Legislature took actions that cumulatively improved the budget situation by approximately \$1.7 billion, leaving projected reserves of \$311 million (\$265 million in the Budget Stabilization Account, and \$46 million in Near General Fund-State). Legislative actions taken included reducing Near General Fund-State appropriations by approximately \$1 billion (\$436 million in maintenance net level savings, \$514 million in net policy level savings, and directing that \$120 million of anticipated reversions remain in the general fund). Revenue-related legislation is projected to increase Near General Fund-State resources by a net of \$228 million. (\$144 million from redirecting existing revenues into the state general fund, \$51 million from changes in the administration of unclaimed property, and \$33 million from a variety of other actions). Finally, Near General Fund-State resources were also increased by a net of \$372 million as a result of fund transfers and an adjustment to working capital reserve.

2013-15 Outlook

See the FY 2013 and 2013-15 budget outlook near the end of this briefing book.

Revenue and Budget History

Near General Fund-State (\$ in millions)



2011-13 budget is after 3ESHB 2127, adopted in the 2012 2nd Special Session.
 2011-13 revenue is based on the June 2013 forecast.

*Maintenance level is the cost to continue existing services, including adjustments for mandatory caseloads.
 Shown above is the maintenance level used to develop the original biennial budget.

Functional Areas

Overview

State agencies have traditionally been categorized into one of several functional areas for budgeting purposes. While appropriations are made to specific agencies rather than to functional areas, functional areas provide a useful tool for understanding the allocation of state resources and analyzing trends. Functional areas currently used in the operating budget include:

- Legislative includes the state House of Representatives, the Senate, and other legislative agencies. Judicial includes the Supreme Court, the Court of Appeals, and other state judicial agencies. Governmental operations includes most of the state-wide elected officials and a conglomeration of agencies that do not fit neatly into the other functional areas. The largest governmental operations agencies are the Department of Commerce, Department of Enterprise Services, and the Department of Revenue.
- Human Services includes those agencies charged with serving the health and safety needs of the state's population, such as the Health Care Authority and the Departments of Social and Health Services, Corrections, Veterans Affairs, and Health.
- Natural Resources includes those agencies responsible for overseeing environmental quality or resources efforts (e.g., Department of Ecology and Department of Fish and Wildlife), promoting outdoor recreational opportunities (e.g., State Parks and Recreation Commission), and managing state lands and waters for resource production and other benefits (e.g., Department of Natural Resources).
- Transportation is part of the Washington State Patrol and the Department of Licensing. The majority of these agencies' budgets are appropriated in the Transportation Budget.
- Public Schools is state support for public schools, including the Office of the Superintendent of Public Instruction and funds apportioned to local school districts. Other Education includes the Department of Early Learning, the state historical societies, the state schools for deaf and blind children, the Washington State Arts Commission, and the Workforce Training and Education Coordinating Board.
- Higher Education includes support for the state's six four-year institutions and the 34 colleges that make up the community and technical college system, as well as financial aid through the Student Achievement Council.
- Special Appropriations includes debt service on state bonds (issued for capital budget projects and programs), sundry claims, special appropriations to the Governor, LEOFF and Judicial pensions, and various adjustments. Global items, things that apply to all of state government such as pensions and health care benefits, typically are considered as one item during budget discussions and then distributed among the state agencies in the budget itself or the allotment process.

GENERAL GOVERNMENT

General Government/Governmental Operations

General government agencies include legislative agencies, judicial agencies, and a number of executive agencies. This section will highlight a few of the larger general government executive agencies.

The Office of the Attorney General (AG) - The AG serves as legal counsel to state agencies and higher education institutions, and represents the state when it is sued. The office also assists local prosecuting attorneys in some investigations and prosecutions. The AG includes a Consumer Protection Division, Anti-Trust Division, Medicaid Fraud Unit, and the Public Counsel Section (which represents the public in utility rate cases). Approximately 5% of the AG's operating budget is appropriated directly to the AG from the State General Fund (GF-S), but a significantly larger amount of GF-S moneys are appropriated to state agencies that then pay the AG for legal services.

Office of the State Auditor - The Auditor conducts financial audits of state agencies and local governments. The Auditor also administers the State Employee Whistleblower Act. Legislation and Initiative 900 give the Auditor authorization to conduct performance audits of state agencies and local governments.

Office of the Secretary of State - Primary duties include supervising state and local elections, filing and verifying initiatives and referendums, producing the state voters pamphlet, registering corporations and charities, and managing the State Archives. The State Library and TVW are also funded through the Secretary of State's office.

Office of the State Treasurer - The Treasurer is the primary administrator of the state financial resources as directed by the Legislature. The Treasurer administers issuance of bonds and payment of state debt (the agency provides staff assistance to the State Finance Committee and the Treasurer serves on the committee). The Treasurer also manages state funds and accounts and payment of warrants.

The Department of Commerce - Formally the Department of Community, Trade, and Economic development (CTED), its name was changed in 2009 (ESB 2242) and mission refocused in 2010 (2SHB 2658). Six divisions providing services were consolidated into four: (1) Local Government and Infrastructure; (2) Community Services and Housing; (3) Business Services; and (4) Innovation and Policy Priorities, including energy policy. In restructuring the department, a number of programs and services were transferred to other state agencies.

The Department of Financial Institutions (DFI) and the Office of the Insurance Commissioner (OIC) - These agencies oversee the financial and insurance industries in Washington State. The DFI focuses on state chartered banks and credit unions, securities transactions, and regulates a variety of other consumer lending/financial industries and services. OIC focuses on supervision of insurance companies, insurance rates and forms, and consumer protection.

The **Military Department** - Houses the Washington Army National Guard, the Washington Air National Guard, the State Emergency Management Division, and coordinates homeland security for the state.

The **Department of Revenue (DOR)** - The state's principle tax collection agency, collecting most general fund tax revenues and all local sales tax revenues. In addition to providing a variety of services related to taxes and revenue, DOR handles unclaimed property in Washington.

The **Department of Enterprise Services (DES)** – was created in 2011 by merging the former Department of General Administration and the State Printer, part of the former Department of Information Services (with part becoming the office of the Chief Information Officer and part becoming Consolidated Technology Services), and part of the Office of Financial Management (contracts and statewide vendors, risk management, and small agency client services. DES services include:

- Information Technology, printing, and communications support;
- Development and management of contracts for goods and services throughout the state;
- Employee services and human resource support including: Management of the state's central payroll system, training, the Employee Assistance Program, services for small agencies and recruitment services;
- Management of the state's risk-management program;
- Oversight of public facilities and statewide public works projects, provides guidance for long-term design and maintenance of public facilities, and negotiates and manages leases on behalf of state government; and
- Manages and operates the state's mail delivery, motor pool, and surplus programs.

The **Office of the Chief Information Officer** was created in the Office of Financial Management, and is primarily responsible for statewide technology policy and standards.

Consolidated Technology Services operates the State Data Center and the data center located in Office Building 2, and offers the following IT services to state and local governments and tribes: mainframe computing, network operations and telecommunication, shared e-mail, IT security, and storage.

K-12 PUBLIC SCHOOLS

Introduction

Under Article IX of the state constitution, it is the state's paramount duty to make ample provision for the education of all children. Article IX also directs the Legislature to provide for a general and uniform system of public schools. To implement the state's basic education duties, the Legislature has established a program of basic education and funding formulas in statute, but the duties are also affected by court decisions, most recently the ruling and orders in *McCleary v. State* (2012).

The state itself does not deliver the program of basic education that it defines and funds. The state has delegated much operational authority to 295 local school districts that are governed by elected school boards. State funding is distributed to local school districts through a variety of formulas and grants, and the local school districts generally decide how those funds are used. State funding is supplemented with federal and local funding.

Basic Education Programs

Basic Education as Defined in Legislation

To implement the Article IX duty, the Legislature has defined a program of basic education and the funding formulas to support it. The program of basic education, as defined in ESHB 2261 (2009) consists of:

- The instructional program of basic education, which includes specified instructional hours and instruction in the Essential Academic Learning Requirements (EALRs);
- The Learning Assistance Program (LAP) of supplemental instruction and services for underachieving students;
- The Transitional Bilingual Program of supplemental instruction and services for students whose primary language is not English;
- Special education for students with disabilities;
- Programs for highly capable students;
- Transportation to and from school for eligible students; and
- Education programs for students in residential schools, juvenile detention facilities, and adult correctional facilities.

In enacting ESHB 2261, the Legislature consolidated previous statutory and judicial definitions into a single statutory program, ESHB 2261 required implementation of updated basic education funding formulas focusing on a prototypical school model by the 2018-19 school year, and it provided for a new pupil transportation formula to begin by no later than September 1, 2013. It added additional school hours and credits to the definition of basic education once the Legislature funded these items.

In 2010, the Legislature enacted SHB 2776, which provided additional specifics for implementation of ESHB 2261's reforms. SHB 2776 adopted a number of numerical values for the prototypical school funding formulas, including allocations for classroom teachers, building-level staff, health and social services staff, and administrative staff for elementary, middle, and high schools. The legislation also required full implementation of the new pupil transportation formula by the 2013-15 biennium.

HB 2776 added four additional elements to the program of basic education, which must be fully implemented and funded by 2018. These are: (1) full day kindergarten; (2) a new formula for materials, supplies, and operating costs (MSOC); (3) enhanced pupil transportation funding; and (4) K-3 class size reductions.

General apportionment allocations are the chief component of school funding. School districts receive funding primarily based on the number of students (FTEs) and the resources deemed necessary to make a basic education available to students. The prototypical school funding formula specifies class size; building-level and district wide support staff allocations; allocations for discrete categories of MSOC; and a percentage for central administration.

The funding level is intended to fund at least a minimum instructional program of basic education offered by school districts that includes: at least 1,000 instructional hours as a district-wide average across all grades, to be increased according to a yet to be developed legislative schedule to 1,000 hours in grades 1 - 6 and 1,080 hours in grades 7 - 12; (full day kindergarten to be implemented by 2017-18); 180 school days per year (half-days for kindergarten until full day kindergarten is implemented); instruction in the state EALRs; and an opportunity to obtain 24 credits for high school graduation to be phased in (from 20) as provided by the State Board of Education and the Legislature.

In addition, the Legislature has enacted statutory funding formulas for the categorical basic education programs: LAP, Transitional Bilingual, Special Education, Transportation, and Highly Capable.

Basic Education in Judicial Decisions

The Legislature enacted this statutory definition against a background of court decisions that interpret the Article IX duty. Principles drawn from these decisions include:

- Under Article IX, it is the responsibility of the Legislature to define and fully fund a basic education.
- The funding duty is placed on the state, and the Legislature may not cause school districts to use local levies to support the basic education program.
- Basic education must be funded from "regular and dependable" resources. Excess levies are not a regular or dependable tax source and may only be used for enrichment programs.
- The Legislature must periodically review and update its definition of basic education, but revisions to the program must be accompanied by an educational policy rationale. The Legislature may not eliminate a program for mere expediency or budget reasons.
- Article IX creates a positive right to an educational opportunity, but it does not require the state to guarantee outcomes.

In January 2012, the Supreme Court issued a major education decision, *McCleary v. State* (*McCleary*). In *McCleary*, the court ruled that the state was not adequately funding its definition of basic education, causing school districts to rely on local levies to support the basic program. The court determined that the Legislature had enacted a "promising reform package" in ESHB 2261 and SHB 2776, which, if fully implemented and funded by the statutory date of 2018, would constitute compliance with the state's constitutional duty. As described below, the court retained jurisdiction over the case to monitor the Legislature's compliance with the ruling.

Non-Basic Education Programs

In addition to funding mandatory basic education programs, the state funds a variety of non-basic education programs. These include:

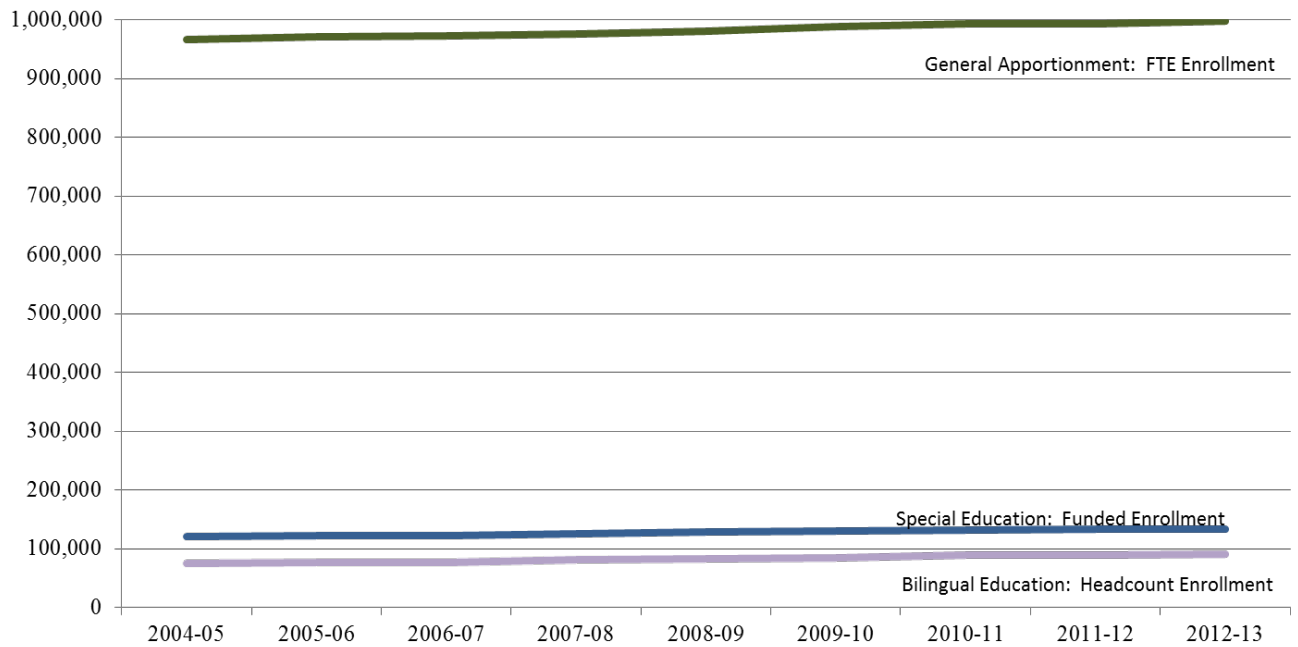
- Local Effort Assistance (LEA) - Because of uniformity concerns, a district's local levy revenues are limited to a percentage of the district's state and federal revenues. For districts with low assessed property values (and thus high tax rates), the LEA helps equalize local tax rates.
- Other non-basic education programs, such as I-732 COLAs (suspended for 2009-11 and 2011-13), and a variety of education reform programs.

Current Developments/Issues

- **Implementing McCleary.** In its January 2012 *McCleary* ruling, the state Supreme Court took the unusual step of retaining jurisdiction over the case in order to monitor legislative compliance with meeting funding requirements. To respond to the Court's decision and provide a means for the Legislature to better participate in an inter-branch dialog, a Joint Select Committee on Article IX Litigation was created (HCR 4410). In a July 2012 order, the Court exercised its continuing jurisdiction by requiring the Joint Select Committee to report to the court at least annually on legislative progress toward implementing ESHB 2261, with judicial review focusing on whether the state has demonstrated "steady progress." The committee made its initial report to the Supreme Court on September 17, 2012. It can be found at: <http://www.leg.wa.gov/jointcommittees/efTF/Pages/default.aspx>. After receiving this report from the committee, the Court in December 2012 issued an order revising the terms of its oversight. According to this order, the Committee's 2013 report must set out the state's plan in sufficient detail to allow progress to be measured against the 2018 implementation date.
- **Joint Task Force on Education Funding (JTFEF).** In 2012, the Legislature created the JTFEF to make recommendations to the Legislature on funding and implementing the basic education enhancements in ESHB 2261 and SHB 2776. The task force met several times and focused on K-12 public education programs, the operating budget, state revenues, and other items. The meeting materials and final report can be found at: <http://www.leg.wa.gov/Senate/Committees/WM/Documents/Report%20to%20Supreme%20Court%20with%20Date%20Stamped%20Cover%20Letter.pdf>
- **Charter Schools.** Initiative 1240 was enacted by the voters in November 2012 and took effect in December 2012. Among other things, it: (1) authorizes up to 40 charter schools over a five year period; (2) defines charter schools as tuition-free public schools within the state system of common schools; (3) specifies the nature, powers and responsibilities of charter applicants, charter school boards, and charter authorizers; (4) requires that only qualifying nonreligious and nonprofit organizations may operate a charter school; (5) outlines minimum content for charter applications and charter contracts based on a performance framework; (6) requires the State Board of Education to approve and oversee charter authorizers; and (7) provides for the allocation of state funds to support charter schools and exempts them from most state laws pertaining to other public schools.

2011-13 Basic Education Programs After the 2012 Supplemental <i>(Dollars in Millions)</i>		
General Apportionment (RCW 28A.150.260)*	\$10,411.2	76.3%
Special Education (RCW 28A. 150.390)	\$1,329.0	9.7%
Transportation (RCW 28A.160.150)	\$594.1	4.4%
Learning Assistance Program (RCW 28A.165)	\$255.4	1.9%
Bilingual (RCW 28A.180)	\$160.2	1.2%
Highly Capable (RCW 28A.185)	\$17.5	0.1%
Institutions (RCW 28A.190)	\$32.6	0.2%
Subtotal: Basic Education Programs	\$12,800.0	93.8%
2011-13 Non-Basic Education Programs <i>(Dollars in Millions)</i>		
Local Effort Assistance	\$598.9	4.4%
Education Reform	\$163.2	1.2%
OSPI State Office and Education Agencies	\$29.7	0.2%
OSPI Statewide Programs/Allocations	\$22.8	0.2%
Educational Service Districts	\$15.8	0.1%
Food Service	\$14.2	0.1%
Summer Vocational & Other Skills Center	\$0.9	0.0%
Pupil Transportation Coordinators	\$1.8	0.0%
Initiative 732 COLA & Other Comp Increases	\$0.0	0.0%
Subtotal: Non-Basic Education Programs	\$847.3	6.2%
Total - Near General Fund State Funds	\$13,647.3	100.0%
<i>*Students attending school more than full-time (e.g., student FTEs exceeding 1.0 through enrollment at skill centers, running start programs, or similar dual enrollment programs) represent instructional costs not consider a basic education program entitlement within the General Apportionment program.</i>		

Public Schools Workload History



	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	*Estimated	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*	2012-13*
General Apportionment: FTE Enrollment	966,246	972,079	973,612	975,540	980,979	988,501	992,786	993,194	997,755
Special Education: Funded Enrollment	120,752	121,758	121,691	126,053	128,180	130,314	132,255	133,393	133,869
Bilingual Education: Headcount Enrollment	75,255	76,716	76,505	80,689	82,915	84,855	89,920	88,883	90,461

HIGHER EDUCATION

Introduction

Washington has six public baccalaureate institutions (4-year) and 34 public community and technical colleges (2-year). Each institution has a board of trustees or directors appointed by the Governor and confirmed by the Senate. While each baccalaureate institution is a separate state agency, the budget for all the community and technical colleges goes through the State Board for Community and Technical Colleges (SBCTC). In addition, Washington has approximately 33 private 4-year institutions, several out-of-state institutions authorized to offer courses in Washington, and a number of private career institutions.

Tuition, state support per budgeted student FTEs, and financial aid

The two primary sources of funding at public institutions for the cost of instruction are tuition and state support. Beginning in 1995, undergraduate residential tuition was set by the institutions within limits established by the Legislature in the operating budget up to statutory limits (the governing boards decide the tuition rate for students other than resident undergraduates). By statute, beginning in 2009, residential tuition could not be increased by over 7%. The Legislature amended the limit on tuition increases for the 2009-11 biennium and authorized increases of up to 14% per year at the 4-year schools and up to 7% per year at the community and technical colleges.

In 2011 (E2SHB 1795), the Legislature gave tuition-setting authority to the four year institutions for all students for eight years (through the 2018-19 academic year). Beginning in 2015-16 through 2018-19, the institutions are granted tuition-setting authority within limits based on a state baseline year for similar institutions in the Global Challenge States (states in most close competition with Washington). In the 2019-20 academic year, tuition-setting authority for resident undergraduate students reverts to the Legislature. Tuition for community and technical college students is set by the Legislature in the operating budget. The SBCTC may authorize differential tuition models.

The Legislature also authorized four-year institutions to charge differential tuition for more expensive courses. This authority was suspended for the 2011-13 biennium in the operating budget.

In addition to tuition the institutions receive, which is not appropriated by the Legislature, the state provides a set amount of support per budgeted student. This support has decreased as a result of budget reductions and made up in part with higher tuition. For 2011-13 the state support per budgeted FTE ranges by academic discipline, institution and student type (undergraduate/graduate). State support for budgeted FTE students for four-year institutions is about one-third of the cost of instruction and about two-thirds for community and technical colleges. Generally, freshman and sophomores are the least expensive to educate and graduate students are the most expensive.

Here is a summary of the approximate annual undergraduate tuition rates for higher education institutions for 2012-13 (includes service, activities, and technology fees):

	<u>Undergraduate tuition rate</u>
University of Washington	\$11,788
Washington State University	\$11,386

Central Washington University	\$7,125
Eastern Washington University	\$6,800
The Evergreen State College	\$6,900
Western Washington University	\$7,050
Community and Technical Colleges	\$3,550

There are a variety of financial aid programs available to students. The largest state financial aid program is the state need grant. This grant provides assistance to students from families with incomes below 70% of the state's median family income. This was increased from 65% of median family income by the 2005 Legislature. Financial aid is administered by the Student Achievement Council (formerly the Higher Education Coordinating Board) and totaled \$618 million Near General Fund-State + Opportunity Pathways in 2011-13 (after the 2012 supplemental). Four-year institutions that increased tuition above levels assumed by the Legislature must use a portion of the additional funds on financial aid. In 2010-11, about \$2.4 billion was received in financial aid by Washington need-based recipients; about 50% in loans, 48% in grants, and 2% in work study.

Budgeted versus actual enrollments

Higher education institutions have significant discretion over how they spend the tuition and state funds they receive. The state generally appropriates funds in the state operating budget to institutions on a per student basis for a specified number of students, for facility operating and maintenance expenses based on certain assumptions, and for other purposes. The institutions may choose to allocate these funds for different priorities as determined by the institutions. For instance, actual student enrollments often exceed budgeted enrollments. This is illustrated as follows:

Actual and Budgeted FTE Enrollments

	FY 2013	
	2012-13	
	Projected	
4-Years	Actual	Budgeted
UW (all branches)	43,217	37,162
WSU (all branches)	25,438	22,228
EWU	10,153	8,734
CWU	9,395	8,808
TESC	4,297	4,213
WWU	12,613	11,762
TOTAL 4-Years	105,112	92,907
CTC's	146,251	139,237
Total Higher Education	251,363	232,144

University of Washington (UW) and Washington State University (WSU)

The two research universities are The UW and WSU. In addition to the traditional academic programs, these two schools also focus on research. WSU is budgeted for over \$639 million in research for the biennium. Other institutional programs for the UW include two hospitals (The UW Medical Center, owned by the UW, and Harborview Medical Center, owned by King County and managed by the UW); for WSU, a priority is community outreach with roots in its land grant status, primarily through the Cooperative Extension Program and Small Business Development Center.

Comprehensive/regional universities

There are four comprehensive institutions in different regions of the state, Central Washington University (Ellensburg), Eastern Washington University (Cheney), The Evergreen State College (Olympia), and Western Washington University (Bellingham). These four year schools focus on academic/instructional programs. These schools also have community outreach and research programs, but generally on a scale much smaller than the research universities.

Community and Technical Colleges (CTCs)

The 34 CTCs each have their own Board, but, unlike the 4-year schools, their budget is administered by the State Board of Community and Technical Colleges at the state level. CTCs are two-year schools, providing Associate Degrees in Arts and Sciences and transfer programs to allow students to obtain a baccalaureate degree at a four-year institution. CTCs also provide vocational training, basic skills education, workforce education and training, student-funded programs, applied baccalaureate degrees, and community services/contract funded courses.

Potential Major Policy and Fiscal Issues

Some of the major policy and fiscal issues in higher education include:

- The traditional question regarding the number of student FTEs the legislature will fund in the budget and at what funding level, and related questions regarding planning for future enrollments (participation rate), and accommodating high demand programs, and encouraging pursuit of under-represented degrees.
- Balancing the autonomy of the individual 4-year institutions with an integrated state higher education system.
- Maintaining access to higher education.
- Connecting higher education with employer demands, providing worker training and re-training opportunities as well as discussing the general role of higher education in relation to workforce demands.
- Maintaining the financial stability of the GET tuition program over time given recent larger than average tuition increases and negative investment returns in the financial markets, and GET implications of differential tuition.

2011-13 Higher Education Funding Summary (\$ in thousands)

	UW	WSU	CWU	EWU	TESC	WWU	CTCs	WSAC	WTECB	Total
Total Budgeted	5,817,247	1,229,991	300,240	248,399	108,506	335,753	2,399,034	656,168	65,891	11,161,229
NGF+ Opportunity Pathways	421,417	301,211	65,058	68,085	36,248	79,715	1,144,958	617,948	2,655	2,737,295
Tuition	841,689	406,684	115,556	108,582	63,221	157,861	633,399	0	0	2,326,992
Hospital Account	1,343,246	0	0	0	0	0	0	0	0	1,343,246
Other: Grants, Contracts, Local	3,210,895	522,096	119,626	71,732	9,037	98,177	620,677	38,220	63,236	4,753,696

Historical Summary of Selected Higher Education Budget Items

(\$ in millions)

	1999-2001	2001-03	2003-05	2005-07	2007-09	2009-11	2011-13 (through 2012 supp)
Tuition Revenue	805	953	1,179	1,351	1,575	1,941	2,328
% change from previous biennium		18%	24%	15%	17%	23%	20%
State support with Fin Aid	2,543	2,733	2,753	3,164	3,645	3,278	2,817
% change from previous biennium		7%	1%	15%	15%	-10%	-14%
State Financial Aid	222	258	307	394	472	486	604
% change from previous biennium		16%	19%	28%	20%	3%	24%
State support without Fin Aid	2,321	2,475	2,446	2,770	3,173	2,792	2,213
% change from previous biennium		7%	-1%	13%	15%	-12%	-21%

Note: State support includes NGF-S, Opportunity Pathways, Opportunity Express, ARRA federal stimulus, and selected M&O funding.

Budgeted FTE enrollments (2nd year of the biennium)							
4-year institutions	84,855	85,290	87,639	91,686	95,670	92,928	92,907
2 year institutions	123,762	128,222	128,885	133,304	139,237	143,047	139,237
Total	208,617	213,512	216,524	224,990	234,907	235,975	232,144

Note: Budgeted enrollments exclude running start students (for comparability).

HUMAN SERVICES

➤ *Department of Corrections*

Overview

The Department of Corrections (Department) is responsible for the incarceration of felons with sentences longer than one year and for community supervision of offenders sentenced in superior courts who meet the criteria for supervision. In accordance with the 1984 Sentencing Reform Act, the determinate sentencing model provides that offenders are sentenced based on the seriousness level of their crimes and prior convictions (although judges can depart from the standard sentencing range for aggravating or mitigating factors). The Department's operating budget appropriation for the 2011-13 biennium is \$1.6 billion Near General Fund-State.

Confine Felony Offenders

As of September 30, 2012, there are 12 state prisons throughout the state housing 16,481 offenders, with another 651 in work release facilities, 349 in rented local facilities, and zero in rented out-of-state beds, for a total offender population of 17,458. The majority of resources are allocated for custody activities such as transportation of offenders, operation and security of offender housing units, perimeter and access control, and other security related activities. Other items include food, laundry, clothing, and janitorial services. The average annual cost per inmate is approximately \$32,600. Approximately \$1 billion NGF-S is expended for confining offenders in 2011-13.

The Department also provides a correctional industries program to help offenders obtain job skills and re-entry programs targeted to reduce recidivism.

Health Care Services for Offenders

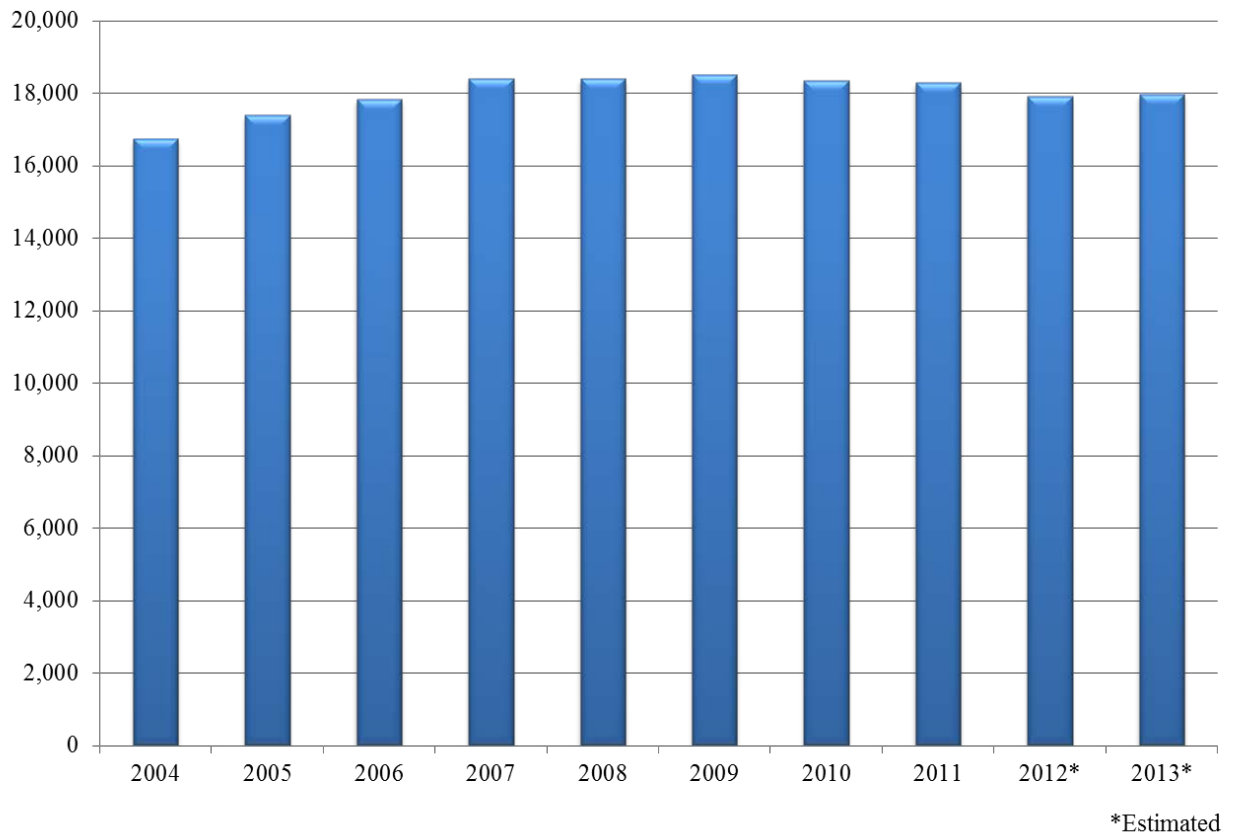
The Department is required to provide medical and dental services for the incarcerated offender population. About \$260 million NGF-S is expended for these services for the 2011-13 biennium.

Supervising Offenders in the Community

The Department monitors felony and certain gross misdemeanor offenders in the community who have been released from confinement and meet the criteria for supervision, or are required to be supervised by court order. The Department uses a validated risk assessment tool to estimate an offender's risk to reoffend. As of September 30, 2012, there were approximately 5,644 offenders on supervision classified as high risk to reoffend with a violent offense, 4,676 offenders classified as high risk to reoffend with a non-violent offense, 2,782 classified as medium risk, and 2,082 classified as low risk to reoffend for a total supervision population of 15,488. About \$256 million NGF-S is for these activities in 2011-13.

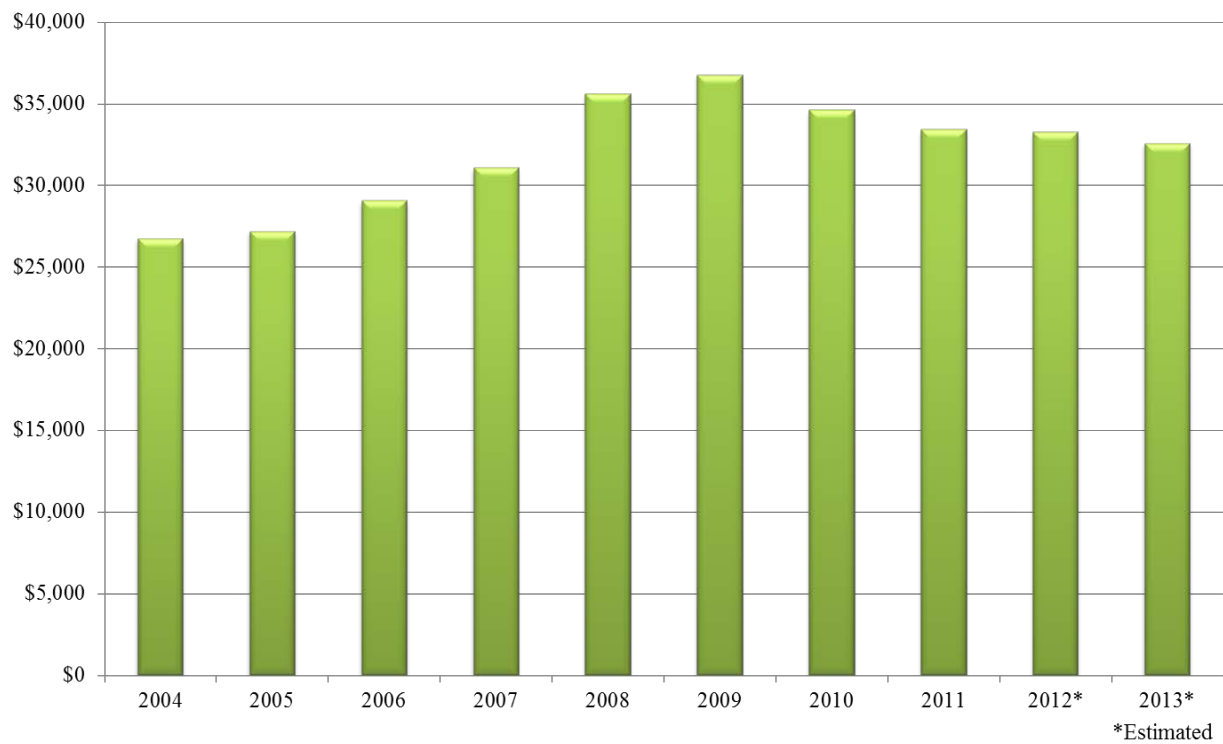
DOC Incarcerated Offenders

Average Daily Population



DOC Incarcerated Offenders

Average Annual Cost Per Inmate



➤ *Department of Social and Health
Services*

Overview

The Department of Social and Health Services (DSHS) is 18% of the Near General Fund-State appropriation for the 2011-13 biennium, and 18% of total budgeted funds. A substantial portion of the DSHS's budget, along with medical assistance in the Health Care Authority, provide health care to low income or qualifying persons, much of it in partnership with the federal government through the Medicaid program. Medicaid services generally are funded half by the federal government and half by the state, although the federal stimulus funding provided an enhanced federal match rate for fiscal years 2009- 2010, and 2011, and the federal Affordable Care Act (ACA) provides an enhanced match rate for certain eligible populations.

DSHS Programs 2011-13 (after 2012 supp)

	<u>Near General Fund-State</u>	<u>Total Budgeted Funds</u>
Long-Term Care	\$1.6 billion	\$3.4 billion
Economic Services	\$0.9 billion	\$2.1 billion
Developmental Disabilities	\$1.0 billion	\$1.9 billion
Mental Health	\$0.9 billion	\$1.6 billion
Children & Family Services	\$0.6 billion	\$1.1 billion
Alcohol/Substance Abuse	\$0.1 billion	\$0.4 billion
Juvenile Rehabilitation	\$0.2 billion	\$0.2 billion
Other	<u>\$0.3 billion</u>	<u>\$0.5 billion</u>
DSHS Total	\$5.5 billion	\$11.1 billion

Clients often receive services from a variety of programs. While Medical Assistance was moved from DSHS to the HCA in 2011, medical services are funded in many DSHS programs including Long-Term Care, Developmental Disabilities, and Mental Health. While Children and Family Services focuses on protecting children from neglect and abuse and providing foster care and adoption services, children also receive services through Medical Assistance, Developmental Disabilities, Mental Health, and other DSHS divisions/programs. There are 3 divisions/programs that are primarily non-medical: Children and Family Services, Economic Services, and Juvenile Rehabilitation. Following is a summary of major DSHS activities with an estimate of the original 2011-13 budget for that activity by the Office of Financial Management.

Children and Family Services

Child Protective Services (CPS) - Provides intake, screening, and investigative services for reports of suspected child abuse and neglect. (\$188 million total budgeted for 2011-13, \$87 million NGF-S.)

Family Reconciliation Services (FRS) - Provides voluntary services targeted to maintaining the family as a unit and preventing out-of-home placement of adolescents. If more intensive services are necessary, they are contracted through Family Support Services. (The FRS total for 2011-13 is \$43 million, \$19 million NGF-S.)

Family Support Services - Assistance to children and families in crisis and at risk of disruption. Early intervention services are provided to address abuse and neglect, avoid out-of-home placement, and promote healthy development of children. (\$52 million total for 2011-13, \$48 million NGF-S.)

Child Welfare Services (CWS) - Provides permanency planning and intensive treatment services to children and families who need help with chronic problems related to abuse and neglect. CWS generally is applicable when services are needed beyond CPS and Family Reconciliation Services. (\$219 million total for 2011-13, \$102 million NGF-S.)

Crisis Residential Centers (CRC) - Provides temporary housing for children who run away from home or are in severe conflict with their parents (stays range from four hours to five days). (\$4 million total in 2011-13.)

Secure Crisis Residential Centers (SCRC) - Provides short-term placement of up to five days for runaways placed by law enforcement. SCRCs have locked doors and windows and fenced grounds, but otherwise operate as CRCs with emphasis on assessment of needs and family reunion. (\$5 million total in 2011-13.)

Family Foster Home Care (FFH) - Provides 24-hour care for children who need temporary out-of-home placement due to child abuse, neglect, or family conflict. FFH services are intended to be short term while a more permanent solution is found. (\$168 million total for 2011-13, \$116 million NGF-S.)

Other Foster Care - Provides receiving home care, foster care client support services, pediatric interim care for medically fragile infants, and out-of-home placement recoveries. (\$28 million total for 2011-13.)

Behavioral Rehabilitation Services (BRS) - Contracts with community agencies for rehabilitation services for children with serious emotional, behavioral, or medical disabilities who cannot be adequately served in family foster care. BRS provides a higher level of care for children with the most severe needs. (\$128 million total in 2011-13, \$81 million NGF-S.)

Adoption Services and Support - Provides permanent placement and support services for children in foster care where parental rights have been voluntarily relinquished or terminated due to abuse, neglect, or abandonment. (\$202 million budgeted for 2011-13, \$112 million NGF-S.)

Juvenile Rehabilitation

Institutional Services for Juvenile Offenders - The Juvenile Rehabilitation Administration (JRA) maintains four secure residential facilities for youth committed to state custody in the 2009-11 biennium. Services focus on rehabilitation, and include counseling, academic education, medical and dental, and vocational training. (\$100 million total in 2011-13, \$99 million NGF-S.)

Parole Transition Services for State Committed Juvenile Offenders - JRA coordinates regional services that include state and county-contracted diagnostic services for committable offenders. (\$21 million total in 2011-13, \$20 million NGF-S.)

Community Facility Transitional Services for Juvenile Offenders - Includes seven state-operated for adjudicated youth who are transitioning back to the community. (\$12 million total in 2011-13.)

Community Services for Locally Committed Juveniles - Funds programs on a statewide basis to reduce recidivism for juvenile offenders. These programs target youth who are on county probation and are at moderate to high risk for reoffending. The focus is on programs demonstrated by research to reduce recidivism (\$39 million NGF-S in 2011-13)

Economic Services

Child Support Enforcement - The Division of Child Support (**DCS**) helps collect child support payments for children. DCS collects and distributes over \$50 million each month in child support payments. (\$278 million total in 2011-13, \$79 million NGF-S.) This is partially offset by the state's TANF share returned by the state (\$154 million total, \$77 million NGF-S).

The TANF Box - When the Legislature established the Workfirst program in 1997, practice led to all related revenues being administered as one "TANF box". These are federal Temporary Assistance for Needy Families (TANF), federal Child Care Development Fund (CCDF), state CCDF match, and state TANF funds (called Maintenance of Effort or MOE). Programs included TANF cash grants, Working Connections Child Care, support services, and WorkFirst employment services. The approach to TANF was modified by EHB 2262 in 2012, focusing on transparent tracking of spending for the programs themselves and development of a spending plan based on legislative policy.

Temporary Assistance to Needy Families (TANF) - Provides monthly cash assistance to needy families with children and to low income pregnant women. Eligibility is determined by comparing the family's countable income to the grant payment standard for the applicant's household size. Funding for the program is shared by the state and federal governments. (\$541 million total for 2011-13, \$270 million NGF-S.)

WorkFirst Employment and Training - Provides job search assistance, subsidized employment, job readiness training, basic education, career counseling, and non-salaried work experience to TANF-eligible clients. The program also provides support for vocational education once a client is working 20 hours per week. (\$207 million total in 2011-13, \$51 million NGF-S.)

Working Connections Child Care Program (WCCC) - Provides payments for child care services to all TANF clients, WorkFirst participants and non-TANF low income parents who participate in employment, work activities, and training. (WCCC's total budget is \$459 million for 2011-13, \$224 million NGF-S.)

Supplemental Nutrition Assistance Program (SNAP) - Determines eligibility for federal food stamp benefits. The federal government pays the benefits. (\$141 million total in 2011-13, \$69 million NGF-S.)

Disability Lifeline (formerly General Assistance-Unemployable and General Assistance Interim SSI) - Provides cash grants to low income individuals and couples whose physical, mental, or emotional illness prevents them from working. Some recipients appear to meet SSI disability criteria and should be eligible for Medicaid health coverage; DSHS requires and helps these recipients apply for SSI benefits. (\$217 million total in 2009-11, \$215 million NGF-S.)

Medical Eligibility Determination Services - The Economic Services Administration determines eligibility of medical programs. Eligibility determination may be impacted by

the ACA (see the section discussing the ACA later in this briefing book.) (\$107 million total for 2011-13, \$48 million NGF-S.)

Long-Term Care

Adult Day Health Community Services - Provides rehabilitative and other services to delay the need for entrance into a 24-hour care setting, or reduce the length of stay in 24-hour care settings. Persons must meet Medicaid eligibility criteria and have a skilled nursing or rehabilitation need. (\$12 million total in 2011-13, \$6 million NGF-S.)

In-Home Services - Medicaid eligible individuals may receive care in their homes through contracted services with Agency Providers (APs) and Individual Providers (IPs). Services include assistance with activities of daily living such as meal preparation, shopping, laundry, housekeeping, and transportation. Services may also include personal care such as eating, bathing, personal hygiene, toileting, and dressing. The nurse delegation program allows distribution of prescription medications as ordered, the testing of blood sugar levels, and simple wound care. Other DSHS programs besides Long-Term Care also contract with APs and IPs for services. (\$1.5 billion total in 2011-13, \$728 million NGF-S.)

Adult Family Home Community Services - Providers are private homes that may serve up to six residents. They provide room, board, laundry, residential supervision, assistance with activities of daily living, personal care, and nurse delegation services. Some providers also offer skilled nursing or special care. Persons must meet financial and functional eligibility criteria for either the Medicaid Personal Care (MPC) program or the Community Options Program Entry System (COPES) system waiver. (\$246 million total in 2011-13, \$126 million NGF-S.)

Residential Home Community Services - Providers are licensed to care for seven or more residents. Service settings include Adult Residential Care (ARC), Enhanced Adult Residential Care (EARC), and Assisted Living facilities. Boarding Homes provide shared and private rooms, meal service, some assistance with activities of daily living, some residential supervision, and nurse delegation. Persons must be eligible for MPC or COPES programs. ARCs work with clients who are receiving state-provided adult protective services. EARCs require intermittent skilled nursing and some provide specialized dementia care. (\$180 million total in 2011-13, \$91 million NGF-S.)

Nursing Home Services - Skilled nursing facility health care is provided to Medicaid-eligible persons who need post-hospital recuperative care, nursing services, or have chronic disabilities necessitating long-term habilitation and/or medical services. Nursing homes provide 24-hour supervised nursing care, personal care, therapy, and supervised nutrition. (\$1.1 billion total for 2011-13, \$466 million NGF-S.)

Investigations/Quality Assurance Services - Reviews licensed facilities, staff, and others that come in contact with vulnerable adults requiring provision of appropriate services and quality care (\$82 million total in 2011-13, \$15 million NGF-S.)

Developmental Disabilities

Employment and Day Programs - Provides services to developmentally disabled persons through contracts with county governments. Services from birth to three include specialized therapeutic and educational services. Services for adults include training, placement, and follow-up services to help clients obtain and maintain employment, as well as personal growth programs to help clients participate in community activities. (\$145 million total in 2011-13, \$91 million NGF-S.)

Personal Care - Funding for personal care services for children and adults with developmental disabilities (Title XIX) in their homes, licensed adult family homes, and boarding homes. Assistance is provided for bathing, feeding, and dressing. (\$524 million total in 2011-13, \$262 million NGF-S.)

Family Support Program for Developmentally Disabled Clients - Services are provided primarily by the family or to assist the family in the home, reducing the need for out-of-home residential placement. Services include respite care, attendant care, nursing specialized equipment and supplies, physical therapy, behavior management, and communication therapy. (\$11 million NGF-S in 2011-13.)

Residential Program - Services are provided through contracts with private community providers. These services include residential care, supervision, habilitation training, therapies, medical and nursing care, and recreation. (\$579 million total in 2011-13, \$294 million NGF-S.)

Residential Habilitation Facilities – The state operates five habilitation centers that serve developmentally disabled persons by providing assessment, treatment, training, habilitative programs, and activities. (\$355 million total in 2011-13, \$169 million NGF-S.)

Other programs include:

1. State Operated Living Alternatives (SOLAs) is similar to Residential Services except staffing supports are provided the state employees (\$28 million total in 2011-13, \$14 million NGF-S)
2. Public Safety Services funds residential placements of DD clients with community protection issues (\$120 million total in 2011-13, \$60 million NGF-S);
3. Professional Services (\$15 million in 2011-13); and
4. Other community programs including background checks, diversion beds, and crisis intervention services to assist the community in supporting DD clients experiencing a mental health crisis (\$49 million total in 2011-13, \$38 million NGF-S.)

Mental Health

Community Mental Health Services – Medicaid - Provides financial support and program direction for community mental health programs delivered through Regional Support Networks (RSN). Services are provided to Medicaid clients who meet medical necessity standards. Services include outpatient, inpatient, crisis, residential, day treatment, consultation and education, and Medicaid transportation. (\$846 million total in 2011-13, \$390 million NGF-S.)

Community Mental Health Services - Non-Medicaid - Provides financial support and program direction to RSNs for community health programs for non-Medicaid eligible persons and for services that do not qualify for funding under Medicaid. These programs provide services for both voluntary and involuntary populations (through the Involuntary Treatment Act). Services are provided within available resources and are similar to the Community Mental Health Services program described above. (\$207 million NGF-S for 2011-13.)

State Mental Health Facilities - State psychiatric hospitals include Eastern and Western State Hospitals and the Child Study and Treatment Center. Services include civil and forensic psychiatric evaluation and treatment for adults with mental disorders at Eastern and Western State Hospitals, and for children and adolescents with severe emotional disturbances at the Child Study Treatment Center. (\$446 million total in 2011-13, \$229 million NGF-S.)

Other Community Mental Health Services - Include Children's Long-Term Inpatient Services (CLIP), the Clark County school project, Community Transition Support Services for former state hospital patients, and federal Mental Health Block Grant programs. (\$55 million total in 2011-13, \$36 million NGF-S.)

Mental Health Services to Jails - Services are provided to offenders with mental health disorders while they are confined in county or city jails. (\$9 million NGF-S in 2011-13.)

Offender Reentry Community Safety Program (formerly the Dangerously Mentally Ill Offender Program) - Provides mental health services for dangerous mentally ill offenders scheduled to be released from state prisons into the community. This is a joint program between the Department of Corrections and DSHS. (\$4 million NGF-S in 2011-13.)

Children's Long-term Treatment Programs (CLIP) - Provides long-term treatment, to children under 18 years of age with severe psychiatric impairment who require intensive services in a restricted setting. There are non-profit CLIP facilities in Tacoma, Seattle, and Spokane; the Child Study and Treatment Center is also considered a CLIP facility (funded under State Mental Health Facilities). (\$16 million total in 2011-13, \$8 million NGF-S.)

Alcohol and Substance Abuse

Community Based Drug and Alcohol Treatment Services - DSHS contracts with counties and tribes for outpatient treatment services. Counties contract with provider networks in their communities to provide services including assessment, outpatient treatment, triage services including non-hospital detoxification services, outreach, intervention, referral, and opiate substitution treatment. Medicaid matching funds are used to maximize available services. (\$163 million total in 2011-13, \$84 million NGF-S.)

Residential Drug and Alcohol Treatment - Residential treatment services are provided to indigent and low-income individuals and their families who are experiencing a range of abuse and addiction problems. (\$85 million total in 2011-13, \$49 million NGF-S.)

Other Programs

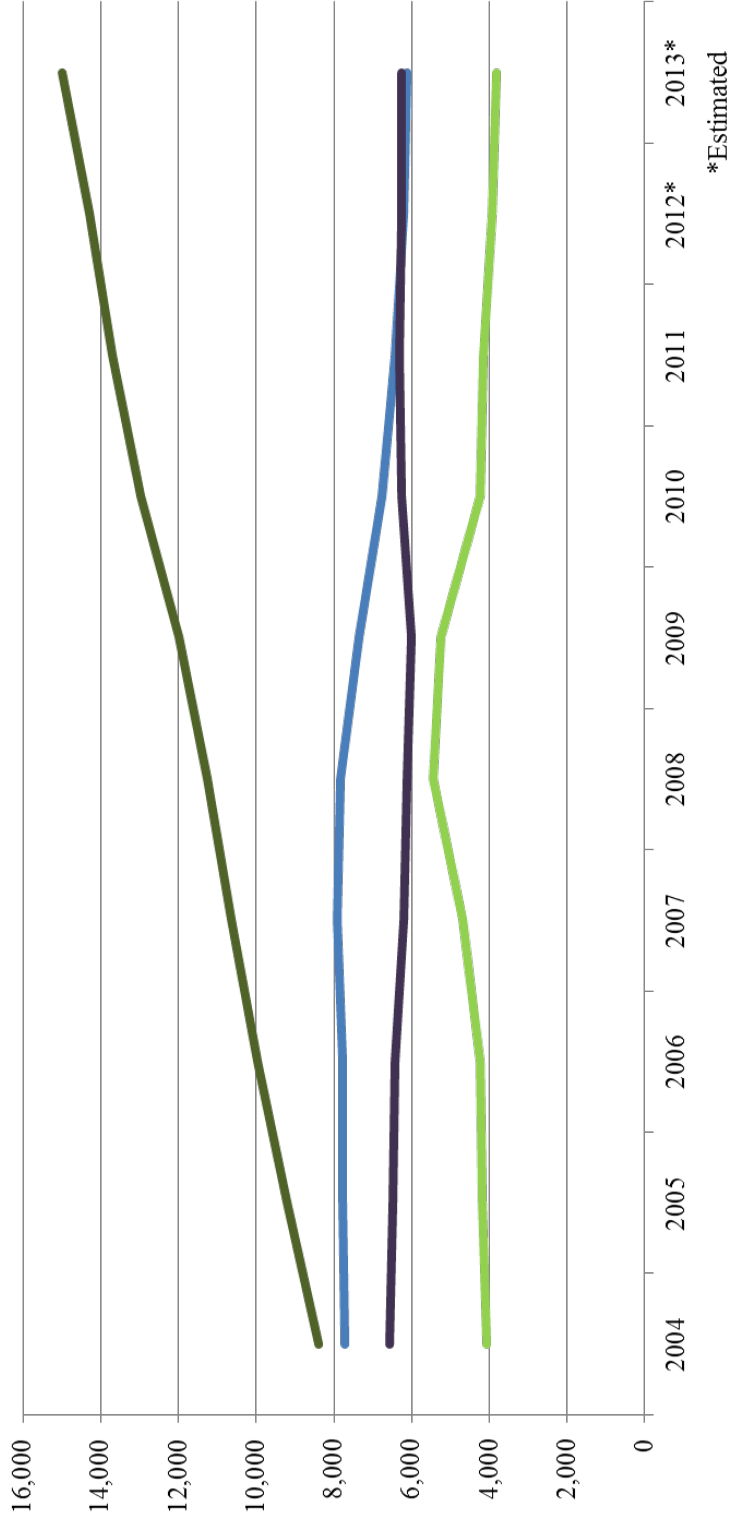
Other programs include various administrative/support services and vocational rehabilitation.

Administrative/support services include payments to other state agencies for human resources, information technology, and legal services (\$130 million NGF-S in 2011-13.)

Vocational rehabilitation includes counseling and guidance (\$62 million in 2011-13) and direct client services (\$62 million in 2011-13.)

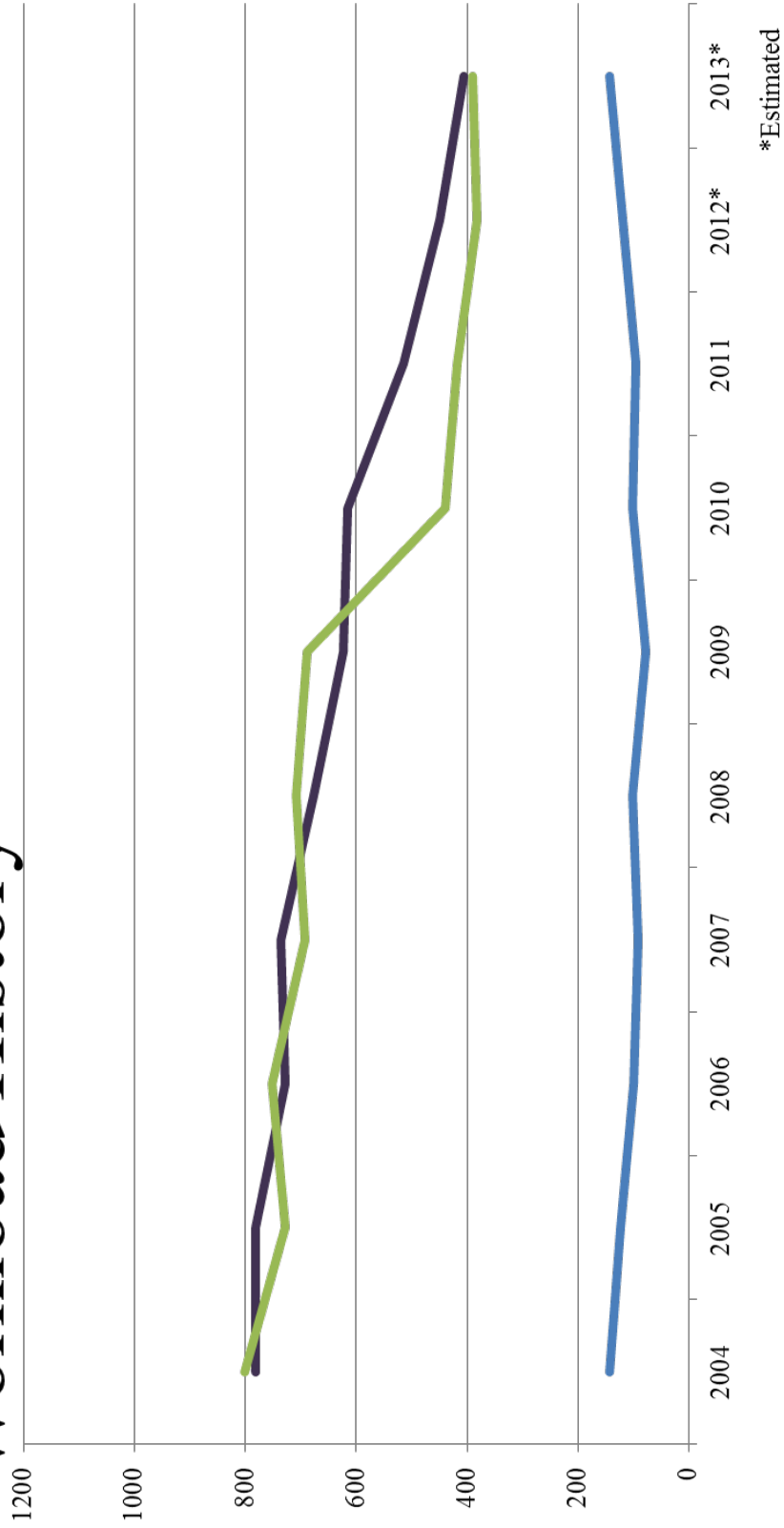
DSHS Children & Family Services

Workload History

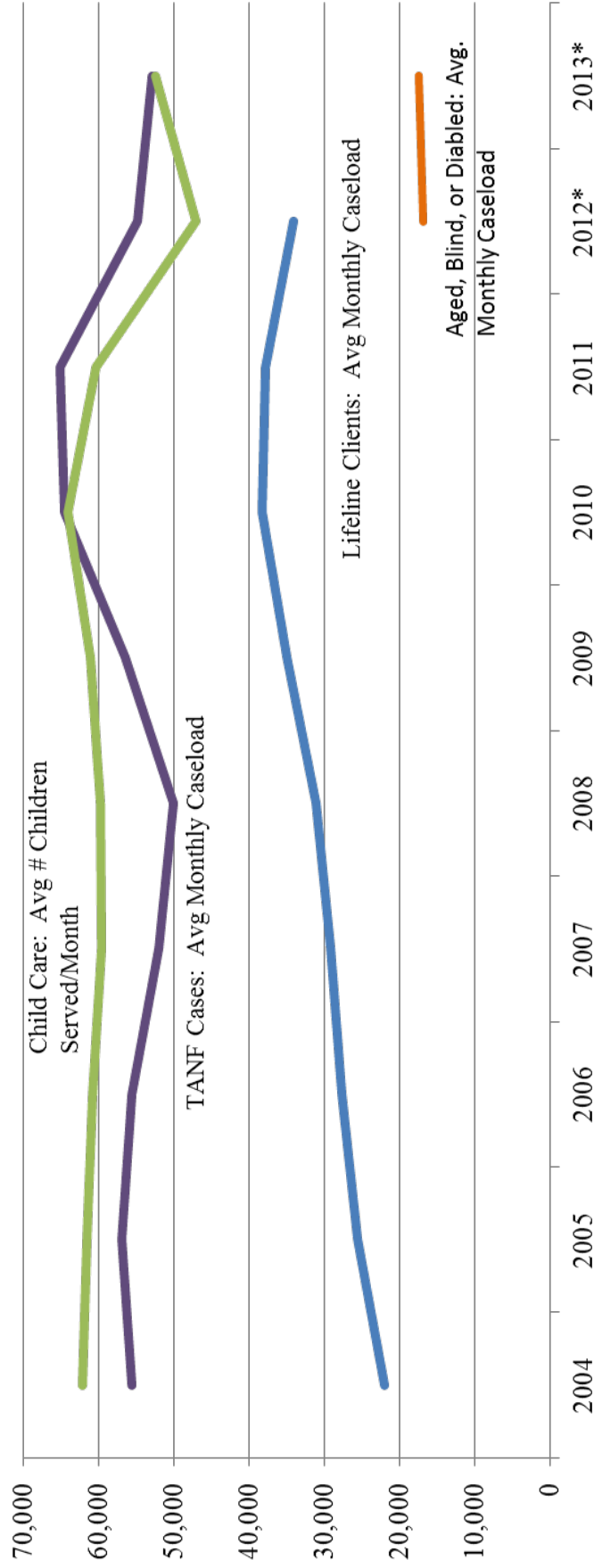


*Estimated

DSHS Juvenile Rehabilitation Workload History

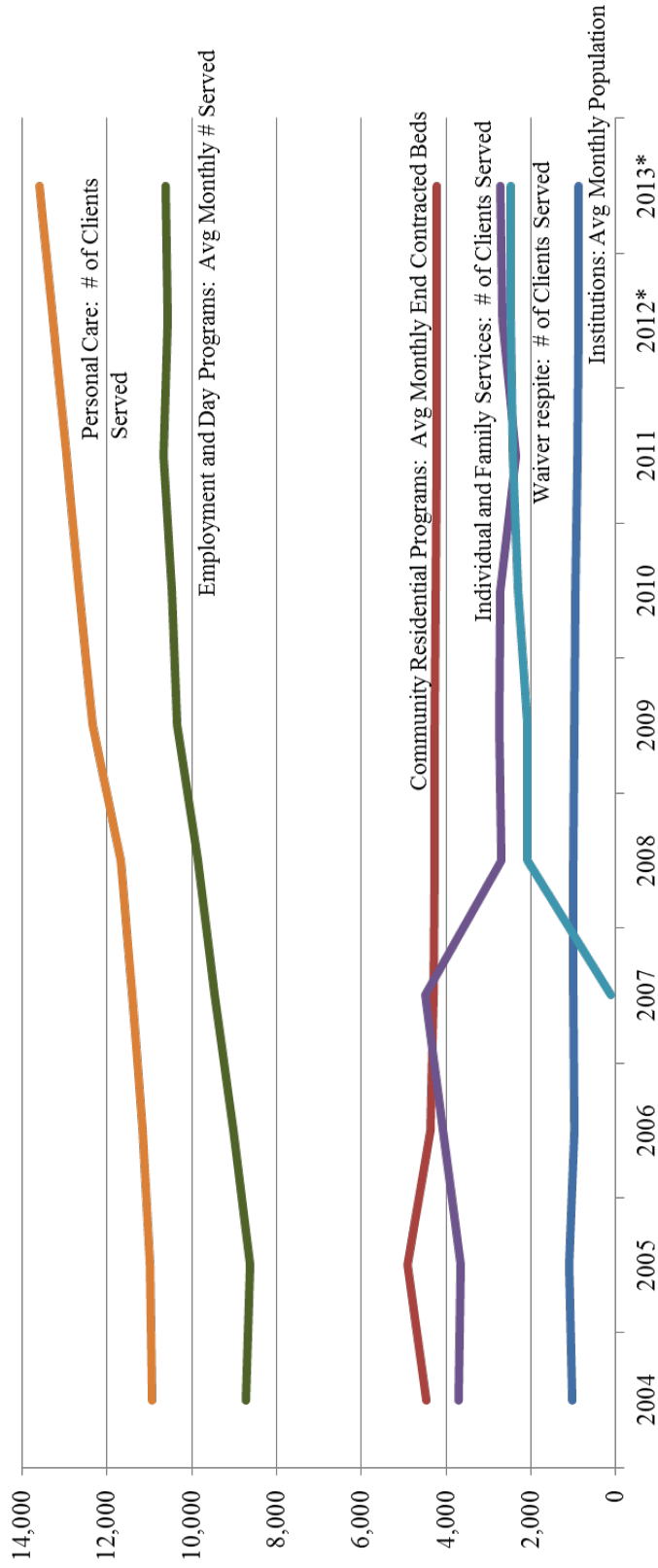


DSHS Economic Services Administration Workload History



*Estimated

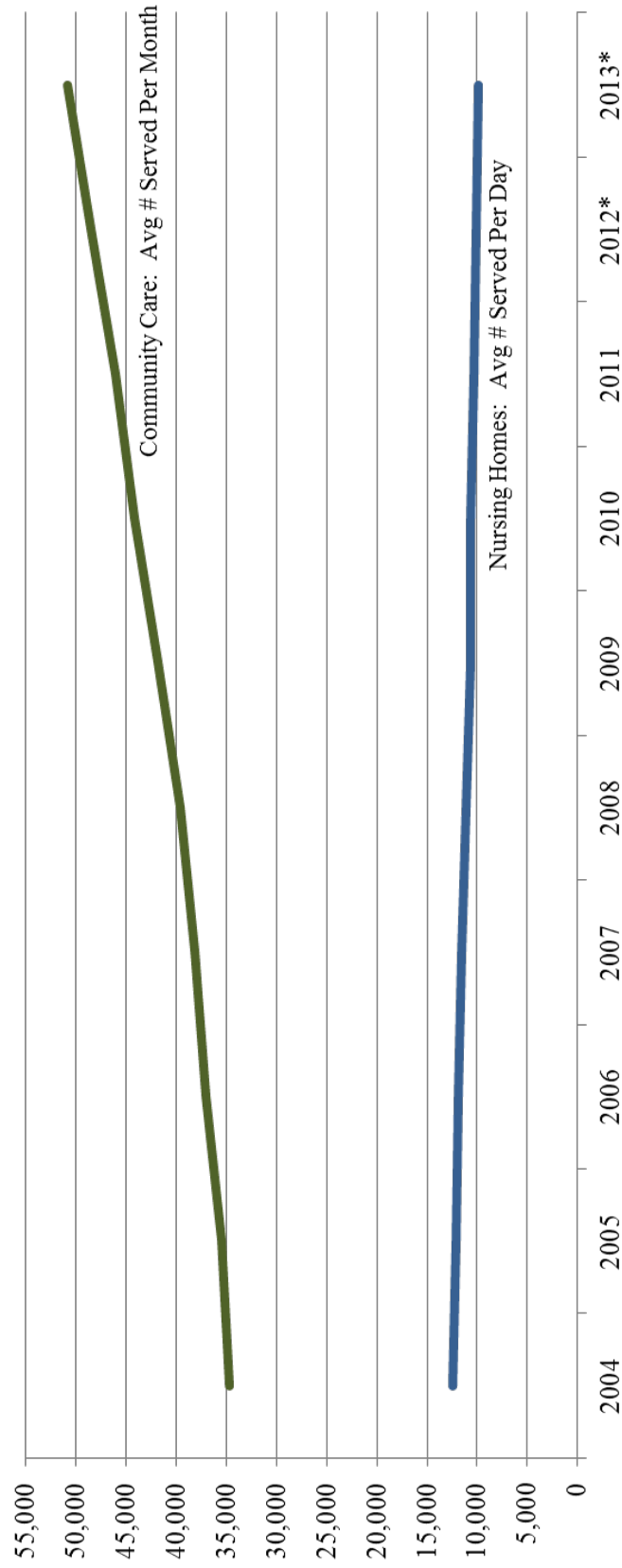
DSHS Developmental Disabilities Workload History



*Estimated

	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
Institutions: Avg Monthly Population	1,035	1,101	982	996	997	982	951	914	878	876
Community Residential Programs: Avg Monthly End Contracted Beds	4,469	4,903	4,379	4,300	4,269	4,269	4,252	4,230	4,228	4,235
Employment and Day Programs: Avg Monthly # Served	8,731	8,636	9,021	9,454	9,853	10,344	10,479	10,667	10,564	10,622
Individual and Family Services: # of Clients Served	3,710	3,655	4,089	4,493	2,708	2,742	2,715	2,368	2,689	2,729
Waiver Respite: # of Clients Served				129	2,097	2,098	2,316	2,440	2,469	2,471
Personal Care: # of Clients Served	10,933	10,986	11,150	11,391	11,662	12,338	12,663	12,943	13,259	13,577

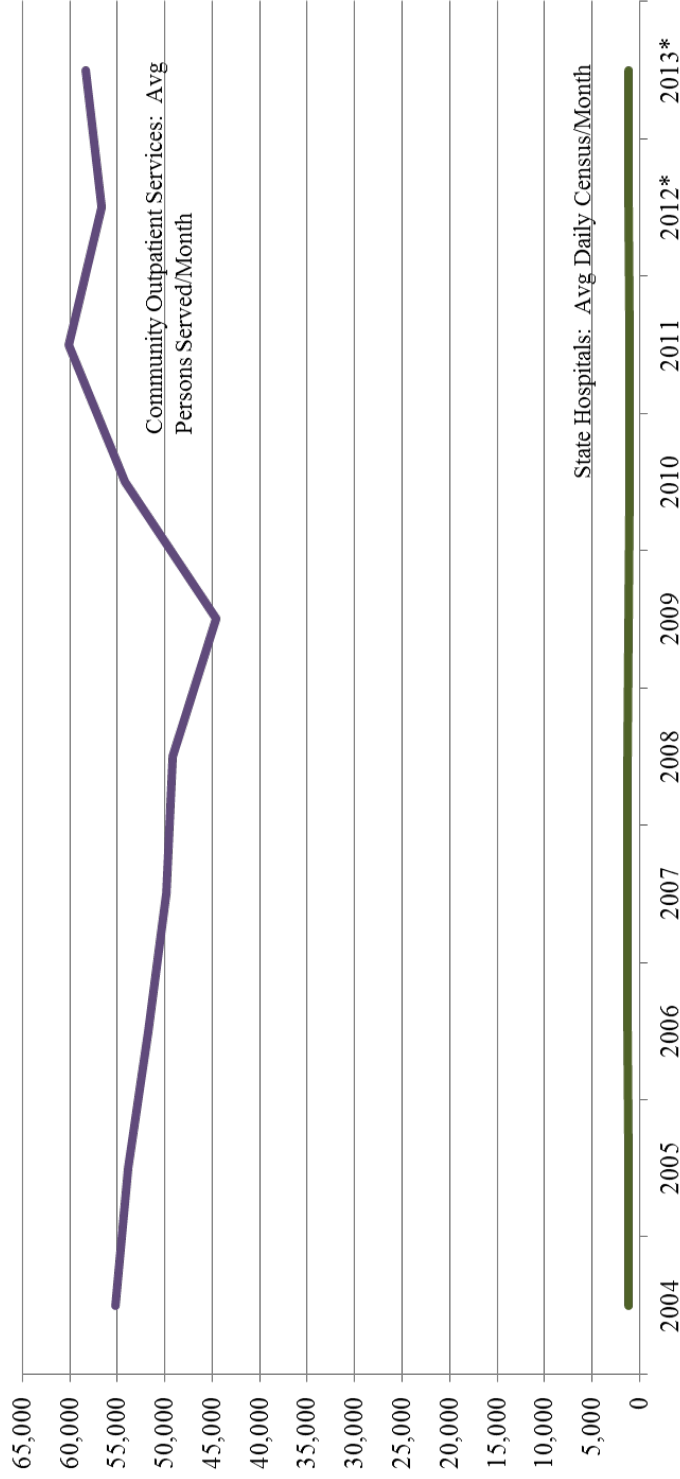
DSHS Long-Term Care Workload History



*Estimated

	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
Nursing Homes: Avg # Served Per Day	12,446	12,088	11,928	11,546	11,057	10,699	10,682	10,358	10,092	9,833
Community Care: Avg # Served Per Month	34,635	35,514	37,044	38,098	39,523	41,778	44,080	46,025	48,414	50,831
Combined Total:	47,081	47,602	48,972	49,644	50,580	52,477	54,762	56,383	58,506	60,664

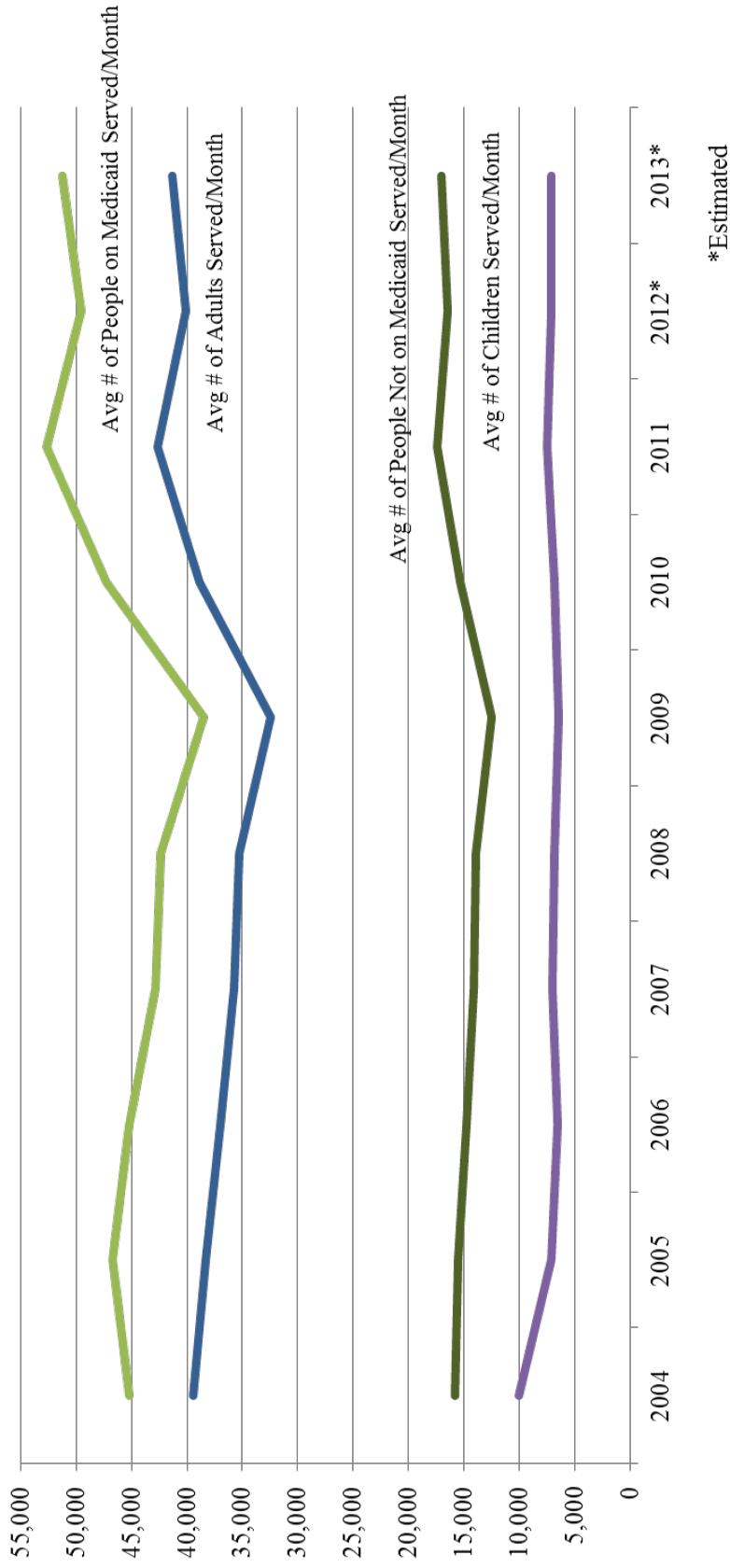
DSHS Mental Health – State Hospitals & Community Outpatient Services Workload History



*Estimated

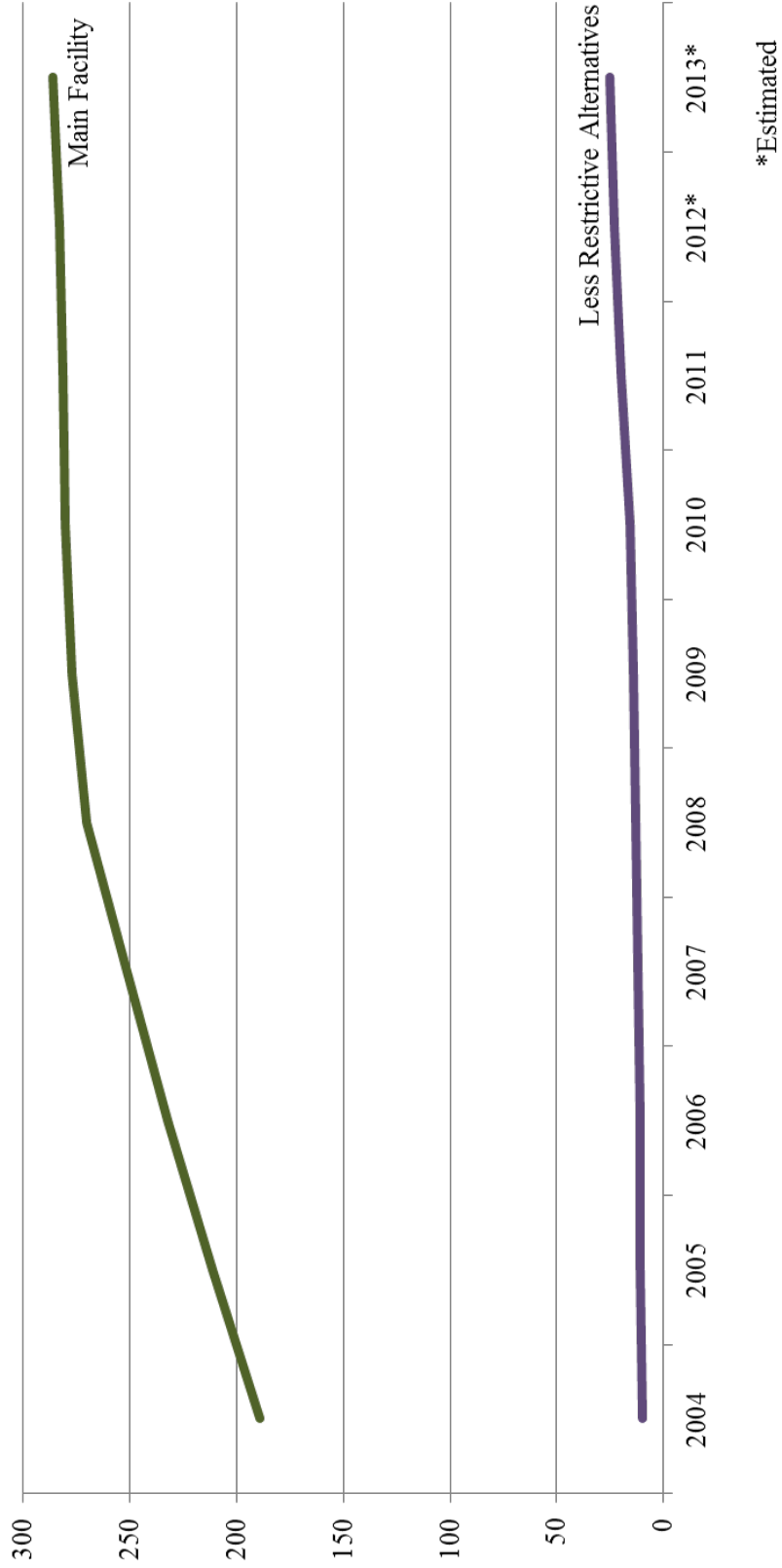
	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
State Hospitals: Avg Daily Census/Month	1,192	1,207	1,262	1,292	1,251	1,172	1,101	1,078	1,161	1,161
Community Outpatient Services: Avg Persons Served/Month	55,252	53,918	51,779	49,874	44,593	54,166	60,137	58,300	58,300	58,300

DSHS Mental Health & Community Outpatient Services Workload History

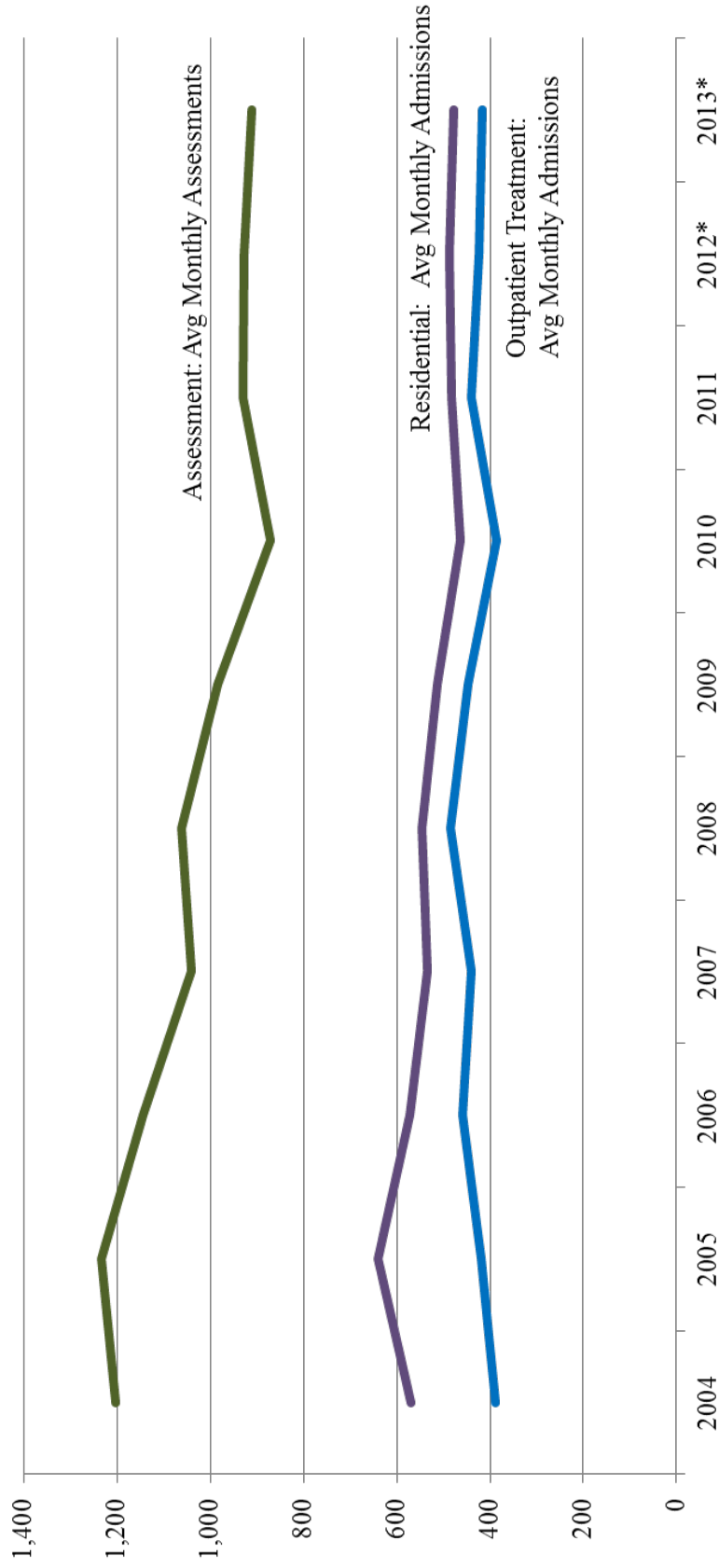


	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
Avg # of Adults Served/Month	39,402	38,340	36,979	35,738	35,278	32,432	38,846	42,691	40,100	41,300
Avg # of Children Served/Month	15,849	15,578	14,800	14,136	13,925	12,521	15,319	17,445	16,500	17,000
Avg # of People on Medicaid Served/Month	45,174	46,752	45,219	42,802	42,322	38,512	47,306	52,625	49,500	51,200
Avg # of People Not on Medicaid Served/Month	10,078	7,166	6,560	7,072	6,881	6,441	6,859	7,512	7,100	7,100

DSHS Special Commitment Center Workload History



DSHS Alcohol & Drug Addiction Treatment & Support Act (ADATSA) Workload History



*Estimated

➤ *Health Care Authority*

Overview

The Health Care Authority's (HCA) primary programs are Public Employees Benefits Board (PEBB) plan management and customer service, and medical assistance programs for low income persons. Following is a summary of major HCA activities with an Office of Financial Management estimate of the original 2011-13 budget for that activity. Note that medical assistance programs may be impacted by the federal Affordable Care Act (ACA). See section discussing the ACA later in this briefing book.

PEBB

PEBB Customer Service – Manages eligibility and administration of state health benefits. (\$30 million in dedicated non-NGF-S funds for 2011-13.)

PEBB Plan Management – Manages the design and delivery of PEBB plans, including health care, dental, life insurance, disability, and home and auto insurance. PEBB covers more than 300,000 persons: Washington State agency employees (including higher education), retirees, and dependents; K-12 retirees; and employees and retirees of participating K-12 public school districts, educational service districts, and political subdivisions. (\$107 million in dedicated non-NGF-S funds for 2011-13.)

Medical Assistance

Mandatory Medicaid Program for Children and Families - Provides Medicaid services for families and children eligible for Temporary Assistance for Needy Families (TANF), persons no longer on TANF for certain reasons, eligible pregnant women and their newborns, individuals receiving Supplemental Security Income (SSI) or state supplements, and children in foster care or adoption support. Mandatory services for eligible persons include inpatient and outpatient hospital care, rural health clinic services, laboratory and X-ray services, nursing home services for those over age 21, EPSDT services (Early and Periodic Screening Diagnosis, and Treatment) for children, family planning, physician care, and home health. (\$6.9 billion total in 2011-13, \$3.1 billion of which is NGF-S.)

Medicaid for Optional Children - Provides Medicaid services for children who do not qualify under federal mandatory guidelines, but live in families with income less than 200 percent of the poverty level. (\$2.1 billion total, \$846 million NGF-S for 2011-13.)

Medicaid Program for Aged, Blind, and Disabled – Medicaid provides coverage for low-income aged, blind, and disabled clients. Medically Needy (MN) is a federal and state Medicaid program for aged, blind, or disabled individuals with income or resources (assets) that exceed standard eligibility levels (categorically needy). (\$231 million total in 2011-13, \$96 million NGF-S.)

Optional Medicaid Health Benefits (Dental, Vision, and Hearing) - Washington provides limited coverage of optional Medicaid dental, vision, and hearing services. (\$41 million total in 2011-13, \$71 million NGF-S.)

State Children's Health Insurance Program (SCHIP) - Provides health coverage to about 26,000 children up to age 19 who live in households with income between 200 and 300 percent of the federal poverty level. (\$99 million total in 2011-13.)

Medical Care for Disability Lifeline and ADATSA – Under a federal waiver, this program provides limited medical care to persons who are physically and/or mentally incapacitated and unemployable for more than 90 days. Limited medical care is also provided for people participating in the state-funded Alcoholism and Drug Addiction Treatment and Support Act (ADATSA) which provides cash and/or medical benefits, treatment, and support for persons who are unemployable due to drug or alcohol abuse. (\$348 million total in 2011-13, \$148 million NGF-S.)

Disproportionate Share Hospital (DSH) – Focuses on continued operation of hospitals most heavily impacted by charity and Medicaid caseloads. Certified public expenditure and intergovernmental transfer programs use DSH to maximize federal revenue. (\$357 million total in 2011-13, \$86 million NGF-S.)

Basic Health Plan – Under a federal waiver, this program provides a basic health insurance package for adults and children who are otherwise uninsured and whose income is at or below 200 percent of the federal poverty level. The State offers lower rates for low-income residents. Enrollees pay portions of the premium costs based on income level and family size. (\$289 million total in 2011-13, \$54 million NGF-S.)

Health Care Authority – Low Income Medical Assistance

(Moved from DSHS in 2011)

	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
Categorically Needy	815,257	810,363	838,443	844,805	855,043	909,668	993,479	1,045,076	1,072,642	1,115,191
Medically Needy	16,972	17,849	16,536	13,590	13,567	12,984	12,336	12,897	13,023	13,195
Children's Health Insurance Program	9,516	13,303	11,786	11,406	11,974	14,469	19,290	23,809	25,289	26,879
Basic Health Plan	103,452	99,807	100,444	102,118	104,792	103,590	76,079	52,274	36,328	31,088
State Medical Care Services	11,651	14,109	18,511	27,219	41,443	47,324	47,620	46,947	39,204	35,590

NATURAL RESOURCES

Overview

\$1.51 billion is budgeted for natural resources in 2011-13; \$0.27 billion of this is NGF-S. The natural resources budget includes funding for the following agencies and activities:

The Department of Ecology administers environmental laws covering:

- Air Quality
- Water Quality and Water Resources
- Hazardous, Toxic, and Nuclear Waste
- Shoreline and Wetlands Protection
- Oil and Hazardous Material Spills
- Solid Waste Management

The Department of Fish and Wildlife manages the state's fish and wildlife resources, which include:

- Operation of 87 fish hatcheries (there are an additional 51 tribal and 12 federal hatcheries)
- Fishing, hunting, and shellfish licensing
- Conservation including fish and wildlife management and research
- Habitat preservation
- Fish and wildlife law enforcement
- Land management

Department of Agriculture activities include:

- Commodity inspection
- Food safety
- Pesticide management
- Plant protection
- International market development for state agriculture products

Department of Natural Resources activities include:

- Upland and aquatic lands
- Forest Practice standards
- Fire prevention and suppression
- Recreation & natural areas
- Geology

The Parks and Recreation Commission has about 40 million visits per year through operation of:

- 117 parks, 35 heritage sites, 13 interpretive centers, and more than 700 historic structures.

- 4,000 miles of trails, including 700 miles of hiking trails, mountain biking trails in nearly 3 dozen parks, equestrian trails in 10 parks and many ocean beaches, and a few water trails
- 140 boat launches covering over 40 parks
- Manages over 120,000 acres

Smaller Agencies/Boards/Commissions

- **Conservation Commission:** Provides non-regulatory outreach and grants to landowners for conservation and environmental restoration.
- **Columbia River Gorge Commission:** Sets land use policy in the Columbia River Scenic Area.
- **Recreational Conservation Office:** Administers grant programs for outdoor recreation, habitat, and farmland protection, provides administrative support for five boards, and provides policy and planning for development of outdoor recreation for the state.
- **Washington Pollution Liability Insurance Agency:** Provides secondary insurance for oil/gas tanks.
- **Environmental and Land Use Hearings Office:** Supports four independent and impartial boards that resolve appeals related to natural resources regulations, and land disputes related to the Growth Management Act.
- **Puget Sound Partnership:** Coordinates state efforts to protect water quality of Puget Sound and efforts to restore Hood Canal.

Other Budget Items

EXPENDITURE LIMIT

Overview of the State Expenditure Limit

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund (GF-S). The initiative has been amended several times since then. (I-601 also enacted restrictions on legislation raising taxes and fees, which are covered in the next briefing section.)

Expenditure limit is based on the fiscal growth factor

The annual growth in state expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. Previously, the fiscal growth factor was the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years. Beginning with the 2007-09 biennium, the fiscal growth factor is based on a 10-year average of state personal income growth.

Funds the expenditure limit applies to

The expenditure limit originally applied only to the State General Fund. Beginning with the 2007-09 biennium, the state expenditure limit applied to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account (including the Equal Justice Sub Account); Water Quality Account; and Student Achievement Fund). These related funds merged with the General Fund-State effective July 1, 2009.

Adjustments to the expenditure limit

The expenditure limit is adjusted downward annually to reflect the extent to which actual expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit are required when program costs or moneys are shifted out of the State General Fund or related accounts to other dedicated accounts. Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund or related accounts from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the State General Fund.

The Expenditure Limit Committee

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee consists of the Director of Financial Management, the Attorney General or designee, the chairs of the Senate Ways & Means and the House Appropriations committees, and the ranking minority members of the Senate Ways & Means and the House Appropriations committees of the Legislature.

Expenditure Limit Summary

FY 2012*	\$16.12 billion
FY 2013*	<u>\$15.87billion</u>
2011-13 biennium*	\$32.99 billion
FY 2014**	\$16.61 billion
FY 2015**	<u>\$17.39billion</u>
2013-15**	\$34.00 billion

*Actual GF-S spending for FY 10 (\$15.04 billion) is used to calculate the limit for FY 2011

**Estimated/preliminary. The expenditure limit is subject to change based on rebasing and legislative actions.

Additional information can be found on the Expenditure Committee internet site at www.elc.wa.gov.

*RESTRICTIONS ON
LEGISLATION THAT RAISES
TAXES AND FEES*

History

Since 1993, laws establishing a two-thirds vote requirement for tax legislation have been enacted and re-enacted, and they have been subject to various court challenges, one of which is pending at the state Supreme Court as of January 2013.

These requirements were first enacted by the voters in 1993 as Initiative 601. Among other things, I-601 required a two-thirds vote of both houses in the Legislature to increase state revenue. In 1994 the state Supreme Court rejected a challenge to I-601, concluding that it lacked jurisdiction over the case. The Legislature temporarily suspended the super-majority requirement from March 2002 through June 2003 and again from April 2005 through June 2006.

Initiative 960, enacted by the voters in 2007, reimposed the super-majority requirement to increase taxes, and stated that the Legislature may refer tax increases to the voters through the referendum process. I-960 also required prior Legislative approval of new or increased fees. It established publicity and cost projection requirements for legislation that increased taxes or fees, and required an advisory vote for legislation that raises taxes without appearing on the ballot as a referendum.

In 2010, the Legislature suspended until July 1, 2011, the two-thirds vote requirement for tax increases and the requirement for an advisory vote.

In 2010, voters enacted Initiative 1053, which reinstated the statutory requirement that any action by the Legislature that increases taxes must be approved by at least two-thirds of the members in both houses or by referral to the voters. I-1053 also reimposed the requirement that new fees or fee increases must be approved by a majority legislative action both houses.

In May 2012 King County Superior Court Judge Bruce E. Heller ruled that the super-majority requirement for tax increases under I-1053 is unconstitutional on the ground that the state constitution's legislative majority vote provision prevents a statute from imposing a higher vote requirement (*League of Education Voters, et al. versus State of Washington*). In July 2012 the state Supreme Court accepted direct and expedited appeal of Judge Heller's decision but did not stay his order, meaning that I-1053's requirement for a super-majority to raise taxes is unconstitutional pending the Supreme Court's decision on the matter. (The state Supreme Court heard oral arguments on the appeal in September 2012. As of January 2013 a decision is pending and could be issued at any time.)

In November 2012 voters approved Initiative 1185 which reinstated I-1053 using virtually the same language. Because the state Supreme Court did not stay the lower court's ruling on I-1053, the effectiveness of I-1185's almost identical super-majority requirement is uncertain.

Summary of Current Tax and Fee Restrictions

Tax vote requirements. Under I-1185, a two-thirds vote of both houses is required for legislation that raises state taxes. As described above, the legal effect of this provision could be impacted by the pending court decision on this issue. Legislation that raises state taxes is subject to the publicity and cost projection requirements.

Advisory votes. Legislation that raises taxes must appear on the ballot for a non-binding advisory vote if the legislation is not otherwise placed on the ballot for voter approval.

Fee increases. New fees or fee increases imposed by a state agency require prior legislative approval. A two-thirds vote is not required for fee increases. Legislation that imposes or increases state fees is subject to the publicity and cost projection requirements.

Publicity and cost projection requirements. When legislation that increases or creates taxes or fees is introduced, the OFM must prepare 10-year cost projections, and it must publicize this information to legislators, news media, and the public, along with contact information for the legislators sponsoring the legislation. When this legislation is scheduled for a committee hearing or voted out of committee, OFM must update and re-publicize the cost projection, along with committee members' contact information and votes on the bill. Likewise, when a bill passes off the floor of either chamber, OFM must update and re-publicize the cost projection, along with legislators' contact information and votes on the legislation.

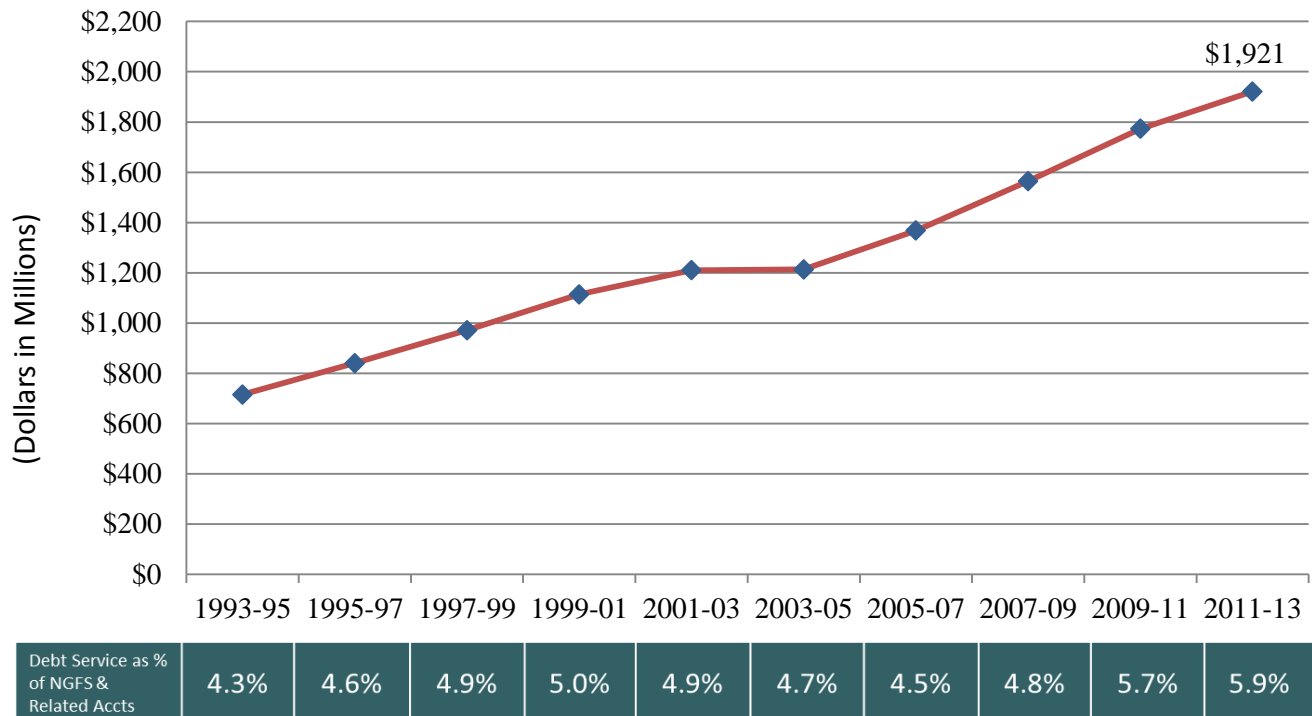
Examples of when these tax and fee restrictions do not apply. These provisions do not apply to local government taxes or fees, or to governmental charges that are neither taxes nor fees (for example, fines and penalties, or charges for commercial transactions).

DEBT SERVICE

Debt Service Paid by the Operating Budget

- **Bonds** to finance the capital budget are issued as needed as projects are completed over about a 4-6 year period.
- The **debt limit** restricts the amount of bonds that can be issued. The Treasurer cannot issue any bonds that would cause the debt service on the new plus existing bonds to exceed the constitutional limit of 9% of general state revenue averaged over six years. Under Engrossed Senate Joint Resolution 8221, adopted by voters in November 2012, the constitutional limit of 9% of general state revenue (GSR) is phased down to 8% of GSR by 2034, and the state portion of property tax is added to the definition of GSR.
- **Bond capacity** for a given biennium is the amount of new appropriations that can be authorized by the Legislature for which the Treasurer can issue bonds to finance without exceeding the debt limit in the future given forecasted variables and a stable capital budget level in future biennia.
- Interest rates, revenue, and other factors affect bond capacity.

General fund debt service payments are \$1.92 billion in the 2011-13 biennium or 5.9% of near general fund and related account expenditures



Federal Patient Protection and Affordable Care Act

Federal Patient Protection and Affordable Care Act (ACA)

Background - Originally the ACA required all states to expand Medicaid in 2014 or lose all federal Medicaid matching funds. The U.S. Supreme Court held that mandatory Medicaid expansion is an unconstitutionally coercive use of federal spending authority by Congress on the states. The court retained the Medicaid expansion provisions but made it optional for states. Washington must decide, among other things, whether to expand Medicaid under the ACA.

Eligibility Changes - The ACA changes the eligibility requirements for Medicaid, going to a Modified Adjusted Gross Income (MAGI) standard. Under MAGI, the adjusted gross income is calculated under federal income tax provisions plus any foreign income or tax exempt interest received. This applies to families, children, and pregnant women without an expansion, and to newly eligible populations under an expansion. There is a 5% income disregard and there is no longer an asset test.

Federal Match - The regular Medicaid federal match (FMAP) for Washington is 50% (the covers the other 50%). Under the ACA expansion, for states that opt-in, newly eligible populations receive 100% federal match beginning in 2014, gradually decreasing to 90% federal match in 2020.

Health Insurance Exchanges - All states must establish an affordable health insurance exchange to provide information on health insurance plans and subsidies depending on level of income, or the federal government will provide the exchange in states that do not establish their own. Washington is establishing an exchange. Outreach, the individual mandate (upheld by the court), and the "no wrong door" interface in the exchange are expected to increase enrollment of currently eligible Medicaid clients by 60,000 with or without the expansion.

Other ACA Items - The following items apply whether expansion occurs or not:

- Children's Health Insurance Program (CHIP) receives enhanced federal matching funds;
- Primary care physician rate increase in which states pay Medicare rates in 2013 and 2014 and the federal government pays for the enhancement; and
- The federal government matches administrative costs to implement MAGI.

Other Considerations - No Expansion - Expiration of Bridge Waiver for the Basic Health plan and Medical Care Service Clients (Disability Lifeline, and alcohol and drug abuse program) means no federal match for approximately 39,000 current clients.

Other Considerations - Expansion

- An estimated 250,000 newly eligible clients under 133% of the federal poverty level (FPL), plus 18,000 additional "welcome mat" enrollees.
- Matching funds for current waiver populations (Disability Lifeline, drug and alcohol abuse treatment, and the Basic Health plan).
- Hospitals and providers likely will have less uncompensated care.
- How to approach overlapping programs:

- Medical assistance
 - Presumptive social security programs;
 - Breast and cervical cancer treatment;
 - Take Charge Family Planning; and
 - Pregnant women with income over 133% FP.
- Department of Health
 - HIV/AIDS programs;
 - Family planning grants; and
 - Breast and cervical cancer screening.

PENSIONS

Summary of the State Pension System

Pension Funding – The primary goal of a pension system is to accumulate enough money during a member's working career to pay retirement benefits after the member retires. Actuaries use actuarial funding methods to determine how much employers and employees need to contribute to pensions currently to pay for future retirement benefits. Investment returns play an important role in pension funding and impact the necessary contribution amount of employers and employees over time. Pension funds are invested by the State Investment Board.

The actuarial status or soundness of pension plans depends over time on appropriate employer and employee contribution rates which are impacted by investment returns and future plan/benefit provisions.

Retirement systems - The state retirement system is made up of a number of separate systems based primarily on area of employment, with combined assets of approximately \$61 billion (as of June 2011). As of December 2012, there are 291,000 active members paying into the system, 138,000 receiving benefits, and 220,000 inactive members (left employment, not yet receiving benefits). Approximately \$2.9 billion is paid out annually in retirement benefits.

- The Public Employees Retirement System (PERS) was created in 1947 and includes most state, city, and county employees (about 232,000 active members and retirees in 2011). There are three plans under this system, PERS 1 (closed), PERS 2, and PERS 3.
- The Teachers Retirement System (TRS) was created in 1937 and includes certified school employees including teachers and certified administrators (about 108,000 active members and retirees in 2011). There are three plans under this system, TRS 1 (closed), TRS 2 (closed), and TRS 3.
- The School Employees Retirement System (SERS) was created in 2000 and covers non-certified school employees (about 59,000 active members and retirees in 2011). There are two plans under this system, SERS 2 (closed) and SERS 3.
- The Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) was created in 1969 and covers full-time police, deputy sheriffs, and firefighters (about 27,000 active members and retirees in 2011). There are two plans under this system, plan LEOFF 1 (closed) and LEOFF 2.
- The Washington State Patrol Retirement System was created in 2003 and covers commissioned officers of the Washington State Patrol (about 2,000 active members and retirees in 2011). There are two plans under this system, WSPRS 1 (closed) and WSPRS 2.
- The Public Safety Employees Retirement System (PSERS) was created in 2004 and took effect in 2006. It currently has about 4,200 active members and retirees. There is one plan under this system, PSERS 2.

- Other systems included in the state system are the Higher Education Retirement Plan (primarily a defined contribution plan open to many college and university employees often referred to as TIAA/CREF), the Judicial Retirement Systems, Judges Retirement System, the First Class Cities (Seattle, Tacoma, Spokane), and the Volunteer Firefighters and Reserve Officers' Relief and Pensions.

Actuarial status

While the state retirement plans that are currently open to new members (Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the present value of the plan liabilities, in the form of members' earned benefits to date, exceed the present value of the plan assets. As of the most recent actuarial valuation (June 2011), the UAAL for PERS 1 and TRS 1 combined is \$5.5 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified within the actuarial funding chapter. The payments towards the Plan 1 UAAL are included in employer (state) rates and are not shared by members.

The most recent actuarial evaluation by the State Actuary finds that Washington State has an actuarially sound pension system given the fully funded open plans and the statutory plan to address the UAAL in PERS 1 and TRS 1. The significant negative investment returns in recent years will put upward pressure on contribution rates even as these losses are smoothed over 8 years based on the asset valuation method used by the state.

Gain-sharing lawsuit

Gain-sharing was created in 1998 as a mechanism to increase member benefits in several retirement plans by sharing extraordinary investment gains. Gain-sharing was not expected to impact contribution rates. Language was included when gain-sharing was created to reserve the right of the Legislature to amend or repeal gain-sharing benefits. There have been three gain-sharing distributions which resulted in combined benefit improvements costing roughly \$2.0 billion. In 2004, gain-sharing was determined to be a material liability to be included in the calculation of basic contribution rates recommended by the State Actuary to the Pension Funding Council. In 2007, the Legislature repealed gain-sharing. This repeal is being challenged in court; a recent trial court decision on the main gain-sharing question ruled largely against the state. It is currently on appeal. Related issues in the case are still before the trial court.

State Pension Governance

Prior to 1976, the major state retirement systems were under the oversight of boards of trustees that had such functions as the investment of the retirement funds, hiring the executive director, contracting for actuarial services, and proposing legislation to improve benefits for members and retirees.

In 1976, following a period of rapid increases in pension benefits and costs, the Legislature created the Department of Retirement Systems (DRS), with a director appointed by the Governor, to assume most of the oversight duties of the various retirement boards. The Office of the State Actuary (OSA) was also created in 1976 to provide all retirement system actuarial services for both DRS and the Legislature, including all studies used for setting contribution rates and determining the cost of proposed legislation. The OSA was established as an office in the legislative branch.

In 1981, the State Investment Board (SIB) was created to manage the investment of the assets of the state retirement systems. The SIB has nine voting members and four non-voting members who are investment professionals.

In 1987, the Joint Committee on Pension Policy (JCPP) was created to study pension benefit and funding policies and issues, and to appoint or remove the State Actuary by a two-thirds vote. The JCPP consisted of eight members of the Senate and eight members of the House of Representatives, split evenly between the two largest caucuses of each body. The OSA provided staffing to the JCPP.

In 1998, the Pension Funding Council was created to adopt the long-term economic assumptions and employer contribution rate for most of the state's retirement systems. The PFC also administers audits of the actuarial analysis produced for the PFC by the State Actuary.

In 2002, the voters passed Initiative 790, creating a Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) board of trustees. The LEOFF 2 Board replaced the functions of the JCPP and the PFC with respect to LEOFF 2.

The 2003 Legislature changed the JCPP to the Select Committee on Pension Policy (SCPP), and changed its makeup to one-half legislative representatives, and one-half employer, employee, and retiree representatives. The SCPP retained all of the functions of the JCPP, except those relating to the appointing and removing of the State Actuary - those functions were vested in a State Actuary Appointment Committee, which convenes upon the request of the chairs of the House Ways & Means Committee and the Senate Ways and Means Committee whenever there is a vacancy or on request of four members of the Appointment Committee.

The SCPP has a statutorily-created executive committee that is composed of six members of the SCPP; the chair and co-chair of the SCPP, who are members of the House and Senate; one member representing active members of the state retirement systems; one member representing state retirement system employers; one member representing retired members; and the Director of the Department of Retirement Systems. (In 2005, the Legislature added the sixth member to the executive committee of the SCPP from among the committee

members representing retired members of the state retirement systems. The Director of the Office of Financial Management no longer serves on the executive committee in alternate years, instead the Director of the Department of Retirement Systems serves on the SCPP executive committee every year.)

LEGAL AND OTHER BUDGET CONSIDERATIONS

Other Considerations in Writing the Operating Budget

The State Constitution

The state constitution contains many restrictions on legislation and the process of legislating. Many of these restrictions are mainly procedural--in other words, they affect *how* the Legislature enacts the laws rather than *what* types of laws the Legislature may enact. For the Appropriations Committee, these procedural requirements generally affect what may be included in the operating budget, what types of restrictions may be placed on appropriations, and which appropriation items the governor may veto.

In other cases, the constitution places substantive limits on what the Legislature may enact. In other words, the constitution prohibits the Legislature from enacting certain types of legislation. Substantive restrictions most frequently discussed in the context of the operating and capital budget are lending of credit and special legislation.

The Title/Subject Rule (Procedural)

Article II, section 19 requires that a bill contain only one subject and that this subject be expressed in the bill's title. The first part of the test requires a rational unity among the subparts of a bill; the second part requires that the bill's subject matter be expressed in its title. The purposes of the title/subject rule are preventing "logrolling" and informing legislators and the public of the subject matter of pending legislation. Because budget bills have broad titles and subjects, courts traditionally have given the Legislature a significant amount of latitude in this area and generally allow any subject reasonably germane to the appropriations to be included in the bill. The courts have ruled, however, that this constitutional provision prevents the Legislature from making "substantive law" in the budget bill. The courts generally consider three criteria when determining whether a budget provision is substantive law: (1) whether it affects rights or liabilities; (2) whether it has been included in other legislation; and (3) whether it appears to outlast the biennium covered by the budget.

Appropriation Requirement (Procedural)

Article VIII, section 4 establishes the Legislature's authority over the budget process. This section has three main provisions: (1) Before state agencies may spend money from accounts in the state treasury, they must receive an appropriation in law. In other words, appropriations must be made in bills that pass both houses and are approved by the Governor. (2) Appropriations are temporary in nature. They may be enacted only for made only for the two-year budget cycle and they expire at the end of that cycle. (3) All appropriations must specify an amount, an account, and a purpose.

In some cases, agencies may make expenditures without an appropriation. First, some accounts are non-appropriated and in the custody of the State Treasurer rather than the state treasury. These accounts do not require a specific appropriation if the Legislature establishes the account in that manner. Second, a statutory "unanticipated receipts" process permits expenditure of some non-state moneys without an appropriation if the moneys were not anticipated in the budget and the legislators are notified and given an opportunity to comment.

Governor's Item Veto Powers (Procedural)

Article III, section 12 establishes the Governor's veto power. Generally, for policy bills, the Governor may veto only entire sections of the bill--the Governor may not veto words, sentences, or subsections. In budget bills, the Governor may veto appropriation "items." Items include dollar appropriations and provisos that condition or limit appropriations. In general, the Governor may not veto less than an entire proviso or subsection. If the Governor vetoes a proviso that directs funds within a lump sum appropriation, the veto results in a reduction of the overall appropriations.

Prohibition on Lending of Credit/Gifts of Public Funds (Substantive)

Article VIII, sections 5 and 7, along with Article XII, section 9, prohibit the state and local governments from: (1) making gifts or loans of public funds to private individuals or corporations; (2) investing in private corporations (subject to specified exceptions); or (3) otherwise lending public credit to private individuals or corporations. These prohibitions apply equally to for-profit and non-profit corporations. In addition, Article VII, section 1 requires that tax revenues be spent only for public purposes.

Court decisions interpreting these provisions have established several criteria to determine whether state actions are a prohibited lending of credit or gift of public funds. First, governments may provide assistance to the poor or infirm, or to entities whose purposes are wholly public (such as local governments). Second, governments may lend credit or use public funds for fundamental purposes of government, even if these actions result in private benefit. Third, if public funds are otherwise provided to a private individual or corporation, the expenditure cannot be a loan, gift, or guarantee and must have adequate consideration--that is, legally sufficient compensation to the public in exchange for the benefit received. In addition, courts ask whether the private benefit is incidental to the larger public benefit, and whether public funds have otherwise been placed at risk.

Legislative acts, including appropriations in budget bills, are presumed to be constitutional by the courts. Expenditures with a clearly public purpose that address clear needs, that use a reasonable fiscal and policy approach, and that contain safeguards to ensure the public purpose is accomplished and public funds are protected are more likely to withstand a lending of credit challenge.

Special Legislation (Substantive)

Article I, section 12 and Article II, section 28 may prohibit the Legislature from enacting "special laws"--that is, laws operating on only one individual, private corporation, or municipal corporation. To avoid violating these restrictions, a law must operate on categories or classes rather than specific individuals or entities. A class may consist of one person or corporation, so long as the law applies equally to all members of that class and the law's exclusions are rationally related to the purpose of the statute.

FY 2013 Supplemental and 2013-15 Biennium Operating Budget Outlook

2013 Supplemental

Since last session, projected 2011-13 total reserves have increased by \$90 million. (NGF-S plus Opp Pathways, dollars in millions):

	<u>Revenue Chg</u>	<u>Other Chg</u>	<u>Projected 11-13 Ending Balances</u>		
			<u>NGFS + Op PW</u>	<u>BSA</u>	<u>Total Resv</u>
Enacted Balance Sheet			46	265	311
<u>Changes</u>					
Jun	3		2	1	3
Sept	44		42	2	44
Nov	6	38	43	-	43
	52	38	88	2	90
Projected Ending Balances (As of November)			134	267	401

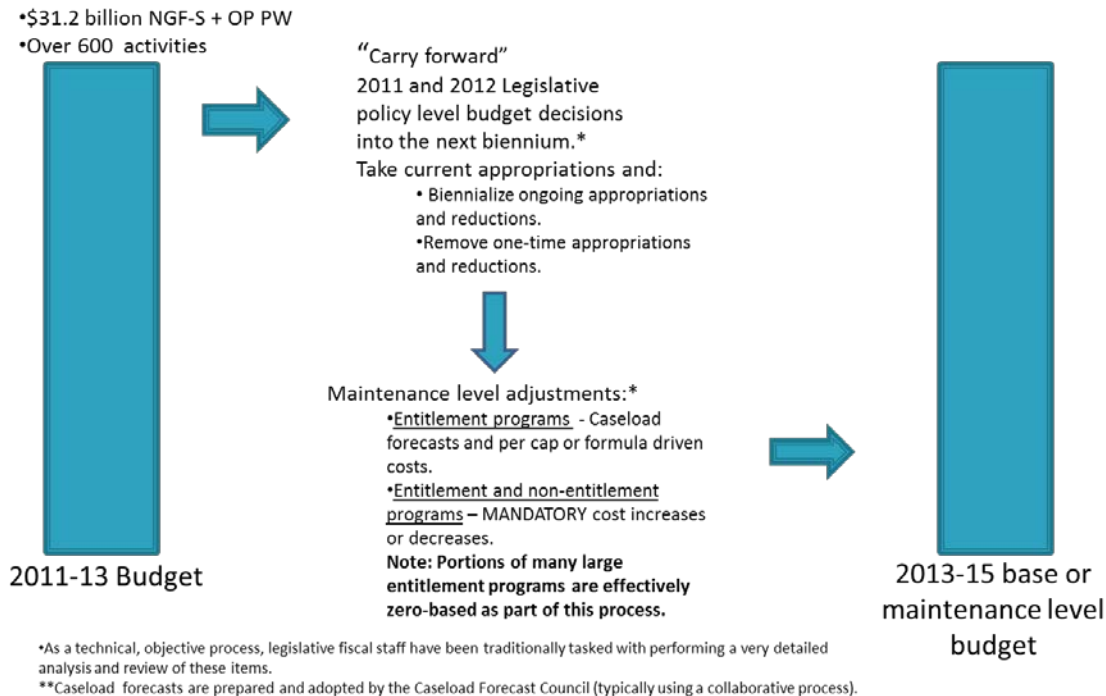
Outlook for 2012 Supp (2011-13): When the Legislature adopted the 2012 Supplemental Operating Budget, it left \$311 million in reserves. Since then, good news has increased reserves (Dollars in millions)

	Projected NGF-S + OP Ending Balance	Projected BSA Ending Balance	Total Reserves
Enacted 2012 Supplemental Budget*	46	265	311
Net Revenue Forecast Changes	50	2	52
Unanticipated Reversions & Adjustments	38		38
Estimated 2013 Supplemental Maintenance Level Changes	50	0	50
Estimated Ending Balances	184	267	451

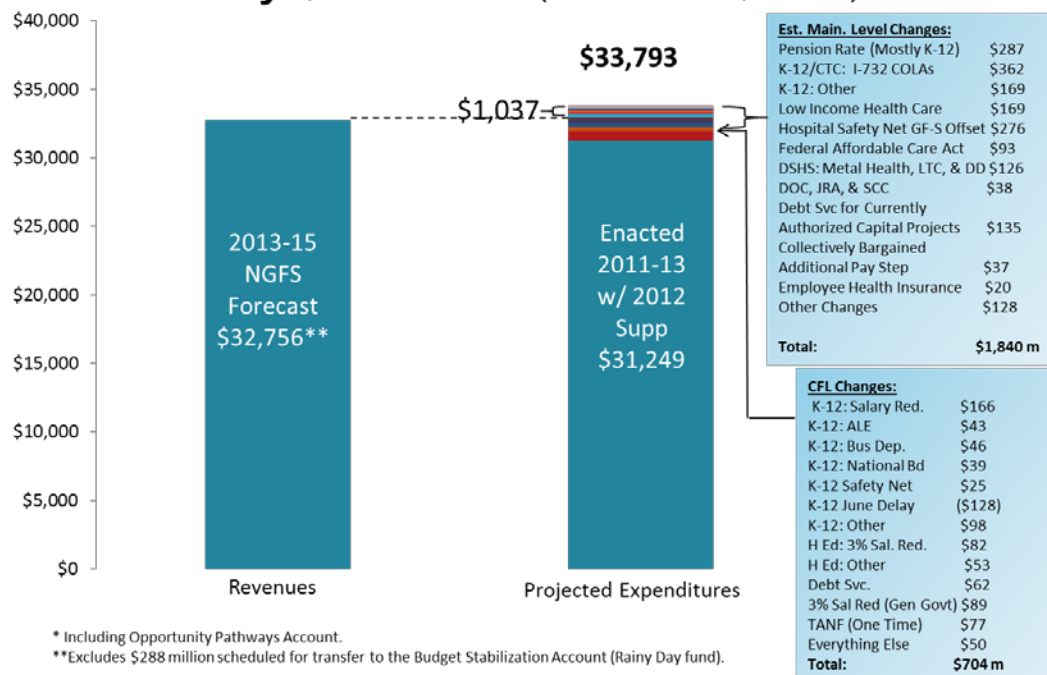
*After Governor's vetoes and adjustments.

2013-15 Outlook

Getting to the 2013-15 Budget Starting Point



In 2013-15, the cost of maintaining current NGFS* programs is estimated to exceed the Revenue Forecast by \$1 billion. (\$ in millions, NGFS)



Preliminary Budget Outlook for 2013-15

The budget challenge for 2013-15 is \$1 billion at Maintenance Level. (GFS+ELTA+Opportunity Pathways, \$ in millions)

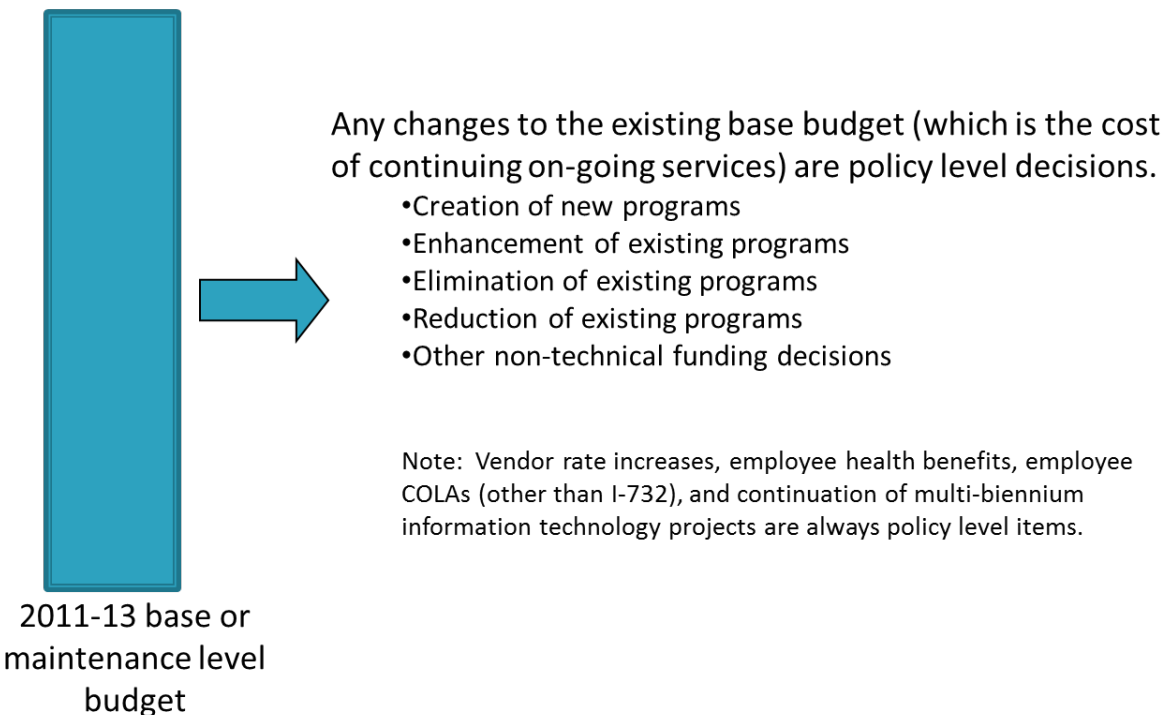
Resources (revenue)			
Beginning Balance*			134
Projected Revenue			33,044
Less Transfer to BSA			-288
Total Resources (revenue)			32,890
Expenditures (Appropriations)			
Estimated Maintenance Level**			33,793
Estimated Budget Shortfall at Maintenance Level***			-904

* Before \$50m in projected maintenance level savings in in a 2013 supplemental.

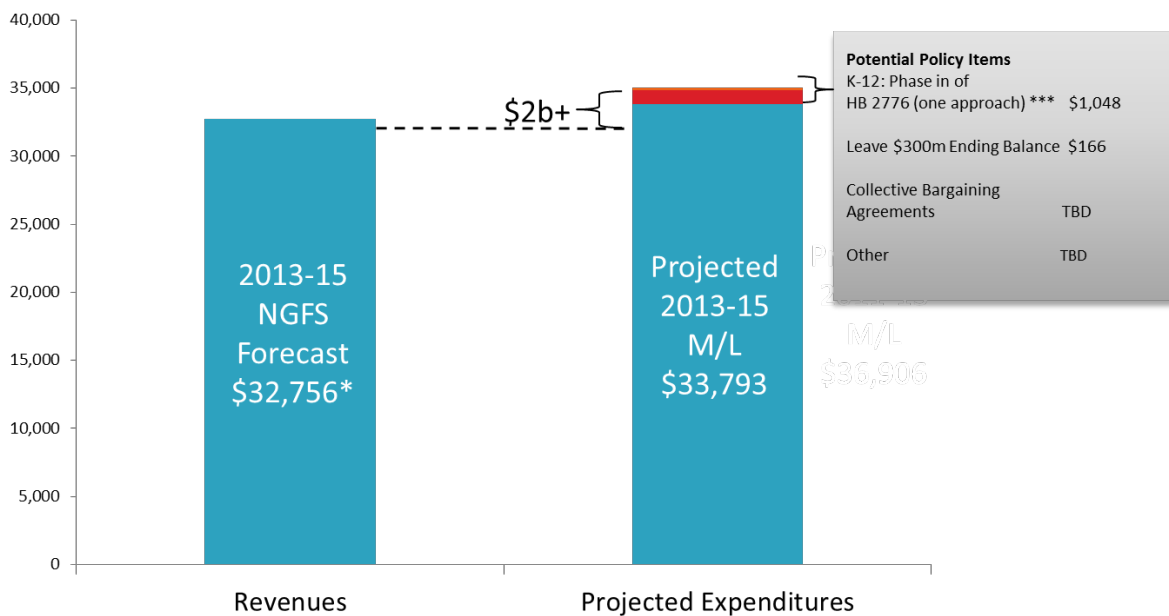
**Preliminary and will change.

***Assumes no ending balance.

Policy Level Budget Decisions



If potential policy items such as redefining basic education are included, and an ending balance is left, the shortfall grows.
 (\$ in millions, NGFS)



* Excludes \$288 million that will be transferred to the Budget Stabilization Account (Rainy Day fund).

** Assumes and includes parity.

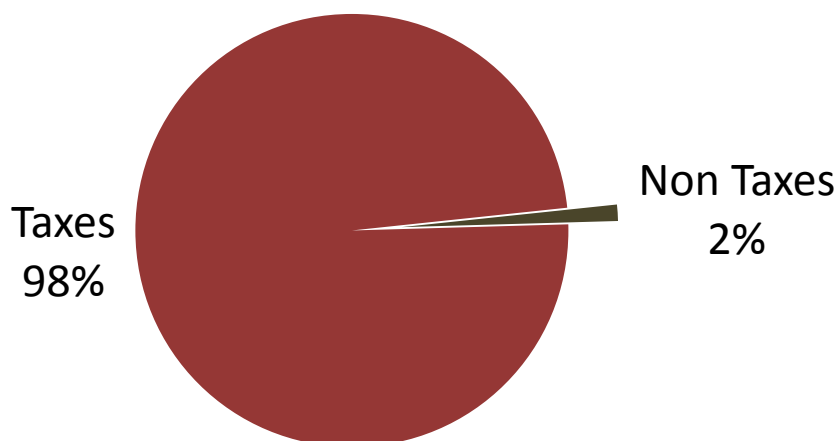
*** Increases to \$3.3b by 2017-19. Does not include any increased amounts for compensation or career/college ready.

Appendix 1:

Revenue Overview

Most General Fund Revenue Comes From Taxes:

General Fund State



General Fund Revenue by Source:

<u>Forecast by Source</u>		<u>2013-15 Biennium</u>
Tax	Amount (in Millions)	Percent of GF
Retail sales & use	\$16,350.03	50.2%
Business & occupation	\$ 6,658.32	20.4%
Property (state school levy)	\$ 3,945.08	12.1%
Other	\$ 1,377.98	4.2%
Real estate excise	\$ 969.89	3.0%
Insurance premiums	\$ 948.94	2.9%
Cigarette & tobacco products	\$ 908.53	2.8%
Public Utility	\$ 859.72	2.6%
Liquor, beer and wine	\$ 542.17	1.7%
Total:	\$32,560.67	100.0%

Retail Sales Tax

- ▶ State Rate: 6.5% of selling price.
 - Plus local option rates.
 - Total (state + local) rate ranges from 7.0 to 9.5%.
- ▶ Applies to: Retail sales and use of goods, and services such as construction and repair.
- ▶ Major exemptions: Food, prescription drugs, many services, manufacturing machinery and equipment.

Business and Occupation Tax

- ▶ State Rate: Ranges from 0.138% to 3.3%.
 - Most common rates: 0.471% - Retailing; 0.484% wholesaling/manufacturing; 1.8% services and other activities.
- ▶ Applies to: Business gross receipts.
- ▶ Major exemptions: Investment income, rental of real estate, real estate loans, manufacturing equipment, agriculture, very small businesses.

Property Tax

- ▶ Rate: Varies each year.
 - State rate for 2011: \$2.26 per \$1000 assessed value.
 - Local: Varies by district.
 - State and local average combined rate for 2010: \$10.28
- ▶ Applies to: Assessed value of property.
 - Assessed value = market value, with some exceptions.
- ▶ Major exemptions: Government property, property of some nonprofit organizations, seniors' residences (partial exemption), household goods, business inventories.
- ▶ Oldest and most complex.
- ▶ Assessed value has less impact on collections than one might think.
- ▶ State collections may grow 1% plus new construction.

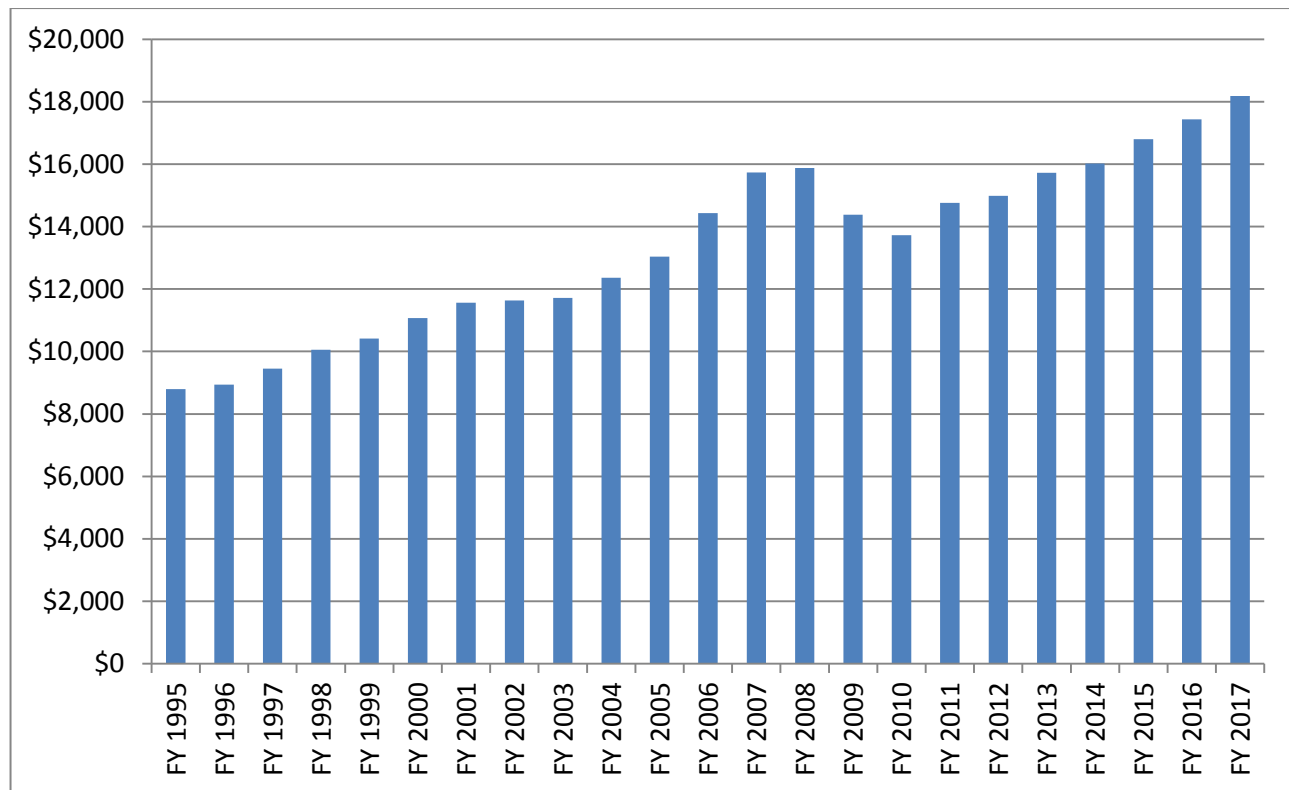
Property Tax: Constitutional Restrictions

- ▶ Constitutional uniformity requirement:
 - Assessed values must be a uniform percentage of market value.
- ▶ Constitutional 1% limit:
 - Tax rates must not exceed 1% of value, unless voter approved (e.g. school levies).
 - 1% = \$10 per thousand dollars of value.

Revenue Forecast Process

- ▶ Revenue Forecast is updated four times a year
 - March (February in even-numbered years)
 - June
 - September
 - November (basis for Governor's budget proposal)
- ▶ Economic and Revenue Forecast Council
 - Employs forecast supervisor
 - Six members, one member from each caucus of House and Senate plus two Governor appointees

Historical and Projected NGFS Revenue Collections Since 1995:



Appendix 2:

Glossary of Budget Terms

Budget Terms

Appropriation – The legislative authorization in a bill to make expenditures and incur obligations from a particular fund. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium – A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year. (The 2013-15 biennium begins on July 1, 2013 and ends June 30, 2015).

Budget Notes – A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. The publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal force as appropriation bill language.

Bow Wave – Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not in place for the entire biennium. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a bow wave of \$300,000.

Caseloads – Caseload means the number of persons expected to meet entitlement requirements and utilize the services of state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the public schools (K-12), long-term care, medical assistance, foster care, and adoption support. Entitlement program caseloads are forecasted by the Caseload Forecast Council.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and that may only be spent for a specific purpose.

Entitlement – A service or payment that, under state or federal law, must be provided to all applicants who meet the eligibility requirements.

Fiscal Year – The state fiscal year is the 12-month period from July 1 through the next June 30. Fiscal Year (FY) 2013 begins July 1, 2012 and ends June 30, 2013. The federal fiscal year runs October 1 through September 30.

Fiscal Note – A statement of the estimated fiscal impact of proposed legislation. This cost estimate is developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Governor's Office of Financial Management.

Full-Time Equivalent (FTE) – *As a unit of measure of state employees:* refers to the equivalent of one person working full-time for one year (approximately 2,088 hours of paid staff time). Two persons working half-time also count as one FTE. *As a unit of measure of students in K-12 or higher education:* refers to the equivalent of one student attending class full-time for one school year (based on fixed hours of attendance, depending on grade level).

Fund – An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations and reserves.

Fund Balance – In budget terminology, the difference between estimated resources and budgeted expenditures.

General Fund-State – The general fund represents all financial resources and transactions not required by law to be accounted for in other funds. General Fund-State (GF-S) refers to the basic account that receives revenue from Washington’s sales, property, business and occupation, and other general taxes; and is spent for operations such as public schools, social services, and corrections.

Maintenance Level – A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses.

Nonappropriated Funds – Funds where expenditures can be made without legislative appropriation. Only funds specifically established in state law and that are outside the state treasury may be exempt from appropriation (one notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies, typically in a bill providing for the administrative and service functions of state government, including K-12, higher education, and human services.

Performance Measure – A quantitative indicator of how programs or services are directly contributing to the achievement of an agency’s objectives. These indicators may include measure of inputs, outputs, outcomes, productivity, and/or quality.

Proviso – Language in budget bills that places a specific condition on the use of appropriations. Example: “\$500,000 of the General Fund-State appropriation is provided solely for five additional inspectors in the food safety program.”

