
PROPOSED SENATE 2001-03 OPERATING AND CAPITAL BUDGET SUMMARY



**Senate Ways and Means Committee
MARCH 28, 2000**

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2001-03 OPERATING BUDGET PRINCIPLES

INVEST IN PUBLIC SCHOOLS AND HIGHER EDUCATION

The Senate budget invests a total of \$1.1 billion in new state operating budget funding for education.

- \$393 million is provided from the newly created Student Achievement Account for smaller class sizes, extended school days or years and preschool programs, in accordance with the provisions of Initiative 728.
- \$343 million is provided to implement Initiative 732, which requires a 3.7 percent and 3.1 percent cost of living adjustment for state funded teachers beginning September 1, 2001 and September 1, 2002, respectively. Certain community and technical college instructors will receive these increases on July 1, 2001 and July 1, 2002, respectively.
- \$61 million in new spending is provided for increased higher education enrollments and financial aid.
- \$166 million is provided for various higher education compensation enhancements including a 3.7 percent and 3.1 percent cost of living adjustment for all state funded faculty and staff beginning July 1, 2001 and July 1, 2002, respectively.

PROTECT VULNERABLE CITIZENS AND PRESERVE THE SOCIAL SERVICE SAFETY NET

- More than \$100 million in general fund reductions recommended in the Governor's 2001-03 budget are restored, including proposed cuts to adult dental services, medically indigent reimbursement, vision care and adult day health.
- The Senate budget also provides \$18 million in total funds to reduce child protective services and developmental disabilities caseworker staffing ratios.
- \$40 million in total funds to improve care for foster children and to support more adoptions are included.
- \$10 million in new state funds are provided for a new childhood vaccine for all children up to two years of age in Washington.

PROVIDE A FAIR COMPENSATION PACKAGE TO ENSURE QUALITY PUBLIC SERVICES

- The Senate budget provides \$124 million for a 3.7 percent and 3.1 percent cost of living adjustment for all state employees beginning July 1, 2001 and July 1, 2002, respectively.
- Most contracted service providers (vendors) are provided with \$88 million for a 2.1 percent and 2.3 percent increase July 1, 2001 and July 1, 2001, respectively.
- \$128 million is provided to help pay for the increased cost of health insurance for state-funded public school, higher education and state employees.
- Almost \$35 million is provided to address recruitment and retention issues among higher education faculty and certain state employee job classes, and to increase the salaries of part time community college instructors.
- \$19.5 million is provided so that homecare and direct care workers who earn less than \$10 per hour will receive a 50-cent per hour wage increase effective July 1, 2001.

RESPOND TO EMERGENT NEEDS

The Senate budget provides resources to address several emergent needs in Washington State.

- In response to the February 28th Nisqually earthquake and the Governor's recent drought emergency declaration, the Senate budget sets aside \$75 million from the emergency reserve fund for FEMA match for repair and reconstruction of public facilities and infrastructure and for purchase and lease of water rights.
- In response to the steep rise in energy prices, the Senate passed legislation to encourage new energy generation by streamlining the regulatory process. The budget also reflects the passage of \$3.3 million in tax incentives designed to encourage the use of renewable resources and to help low-income citizens cope with higher energy prices.
- A total of \$8 million in new resources are provided to strengthen the state's response to methamphetamine.

MAKING DIFFICULT CHOICES

- The Senate budget reflects \$545 million in general fund reductions and savings spread throughout the state budget.
- New programs and spending initiatives are greatly minimized and more than 650 FTE positions are eliminated.
- To help control the rapid rise in health care costs, almost \$150 million in general fund savings are anticipated from proposals to slow the growth in healthcare benefits and low-income healthcare costs.
- To guard against future uncertainties, the Senate budget leaves a total budget surplus of \$750 million

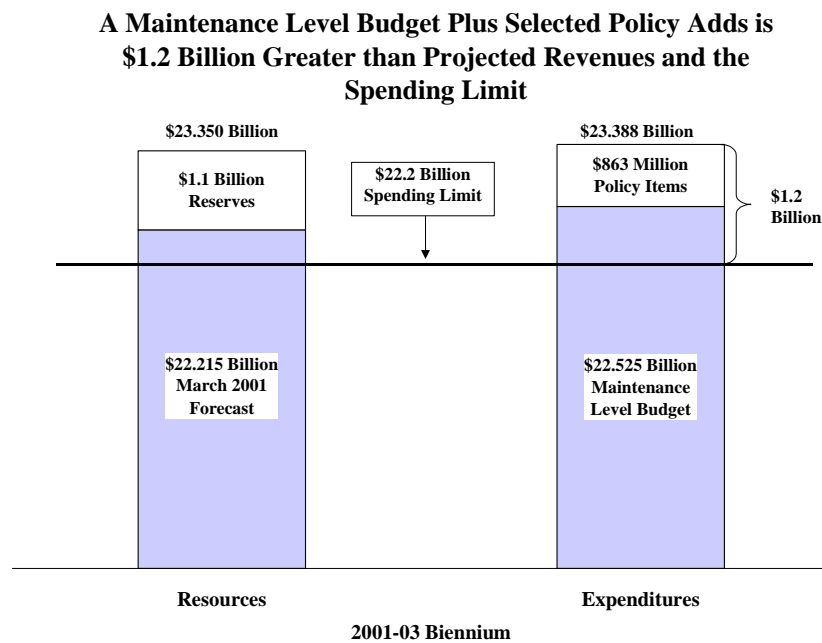
HOW THE SENATE 2001-03 BUDGET WAS CONSTRUCTED

BUDGET OUTLOOK FOR 2001-03

For the first time in several years, the state operating budget is experiencing exceptional spending and revenue pressures caused by a number of factors. These include:

- Extraordinarily higher costs for low income medical care.
- The recent assumption of almost \$250 million of ferry operations and local government backfill costs resulting from the passage of Initiative 695 and an additional \$70 million revenue diversion from the emergency reserve fund dedicated for transportation programs.
- An almost \$500 million reduction in projected 2001-03 general fund revenues resulting from the passage of Initiative 728 (diversion of lottery and state property tax revenues).
- Natural disasters such as the February 28th Nisqually Earthquake, high energy prices and the drought emergency.
- The passage of Initiative 732, which requires the budget to provide a Seattle CPI COLA for state-funded teachers.

The chart below illustrates this fiscal dilemma.



REVENUE AND RESOURCES OUTLOOK

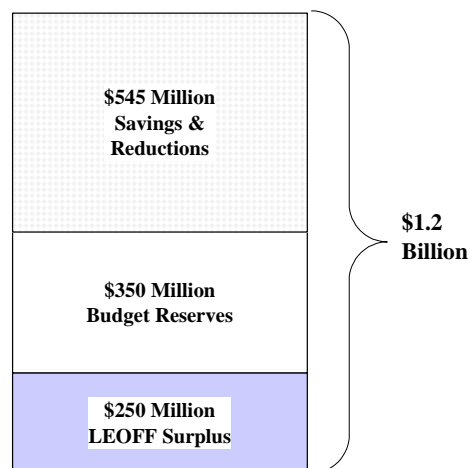
As the chart above indicates, the March 2001 revenue forecast of \$22.215 billion plus current reserves of \$1.1 billion (based on the Senate’s proposed \$198 million 2001 supplemental budget) and other adjustments provide total biennial resources of \$23.350 billion. It should be noted that the March 2001 revenue forecast actually represents a **decrease of 0.3 percent** in the first year of the biennium – considerably below the last several years, which has seen average revenue growth of almost 5 percent annually. This is caused both by the slowing economy and the passage of Initiative 728 in November 2000, which diverted lottery proceeds and a portion of the state property tax from the state general fund to separate education accounts.

EXPENDITURE OUTLOOK

On the expenditure side, the 2001-03 maintenance level budget, which represents the estimated cost of continuing current and mandatory state government programs and services, is more than \$1.5 billion higher than current biennium spending (after taking the Senate 2001 supplemental budget into account). The Senate's current maintenance level budget estimate – fueled by the recent extraordinary growth in the per capita cost of low income medical care – is now projected to be about \$22.525 billion – more than \$300 million above the March 2001 revenue forecast. When the cost of about \$863 million in Senate budget policy items are added to the top, estimated 2001-03 expenditures would be \$23.388 billion – a spending level that is \$1.2 billion more than projected revenues and the spending limit, the funding of which would require draining all of the state's budget reserves.

As the chart below indicates, the 2001-03 Senate operating budget balanced this \$1.1 billion gap using a combination of (1) \$545 million in budget savings and reductions, (2) \$350 million from the existing budget surplus and (3) \$250 million of surplus assets from the LEOFF 1 pension system. The combination of these three adjustments result in a total spending level of \$22.8 billion. Each of these three major adjustments is discussed below.

Solving the \$1.2 Billion Problem



BUDGET SAVINGS AND REDUCTIONS (\$545 MILLION)

Major savings and reductions in the Senate budget include \$192 million in savings from a proposal contained in separate legislation to increase from 7.5 percent to 8.0 percent the long-term investment earnings assumption for state pension system assets and from postponing repayment of existing unfunded pension liabilities from 2016 to 2024. A total of \$126 million in savings and reductions are achieved in the Department of Social and Health Services (DSHS). Significant items included \$33 million in savings achieved through the expansion of federal Proshare and disproportionate share hospital reimbursements and \$18 million in projected prescription drug cost savings.

In addition, \$91 million in savings are achieved in the public schools budget primarily through elimination of the professional development component of the Better Schools program (\$40 million savings) and an \$18 million reduction in the block grant program. Another \$33 million in reductions are achieved by eliminating general fund support in the second year of the biennium for Initiative 695 backfill assistance for ferry operations and some functions of the state patrol which were originally transferred to the general fund in the 1998 supplemental budget. These reductions are predicated on the enactment of new revenue sources for the transportation budget by July 1, 2002.

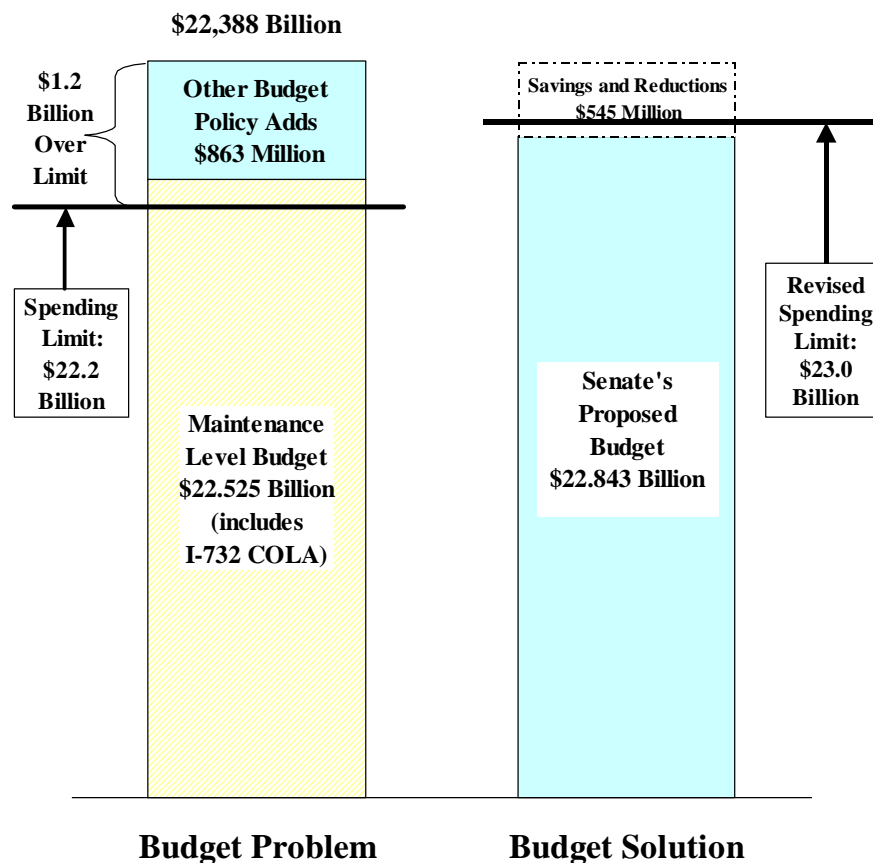
USE OF GENERAL FUND RESERVES (\$350 MILLION)

The general fund budget reserve is reduced in the Senate 2001-03 budget from approximately \$1.1 billion to \$750 million. This leaves about \$500 million in the emergency reserve fund and \$250 million in the unrestricted general fund balance. Senate 2001-03 combined reserves represent 3 percent of total biennial general fund spending and 7 percent of the annual general fund budget. The 3 percent biennial reserve amount is within the 3 percent to 5 percent budget reserve range recommended by the National Conference of State Legislatures. The annual reserve figure of 7 percent is well above that discussed by the Washington Research Council, which in October 1998 suggested a target reserve of about 5 percent of annual spending.

TRANSFER A PORTION OF LEOFF 1 STATE SURPLUS PENSION ASSETS (\$250 MILLION)

Finally, the Senate budget transfers \$250 million to the general fund from state surplus assets in the Law Enforcement Officers' and Fire Fighters Retirement (LEOFF) plan 1 pension system. In separate legislation, this system is restructured and a new Restated LEOFF Retirement System is established in its place. This LEOFF revenue transfer, combined with the impact of the 2001 Senate supplemental budget and other adjustments increases the 2001-03 spending limit by about \$800 million to \$23.0 billion. The Senate spending level of \$22.843 billion leaves \$160 million in capacity under the limit for future supplemental budgets. The chart below provides a summary of how the Senate 2001-03 operating budget was constructed.

Overview of Senate's Proposed 2001-03 Operating Budget



BALANCE SHEET

Balance Sheet		
REVENUES		
	<u>1999-01</u>	<u>2001-03</u>
November Revenue Forecast	\$21,169	\$22,339
March Forecast Update	\$143	(\$124)
Tax Reduction Legislation	\$0	(\$15)
Budget Driven Revenue	<u>\$0</u>	<u>\$28</u>
Revised Revenues	\$21,312	\$22,229
APPROPRIATIONS AND LIMIT		
Beginning Spending Limit	\$20,916	\$22,195
Net Adjustments	<u>\$136</u>	<u>\$808</u>
Revised Spending Limit	\$21,052	\$23,003
1999-01 Appropriations	\$20,850	
2001 Supplemental	<u>\$198</u>	
Revised Appropriation	\$21,048	\$22,843
GENERAL FUND BALANCE		
Beginning Balance	\$462	\$606
Changes in Balance*	\$387	(\$353)
Transfer to Emergency Reserve	<u>(\$243)</u>	<u>\$0</u>
Ending Balance	\$606	\$253
EMERGENCY RESERVE FUND BALANCE		
Beginning Balance	\$536	\$506
Transfer from General Fund	\$243	\$0
Interest Earnings	\$63	\$61
Transfer to Transportation	(\$35)	(\$70)
Transfer to Education Construction	(\$223)	\$0
HB 2222 - LIHEAP/Earthquake	(\$2)	\$0
Earthquake/ Drought	<u>(\$75)</u>	<u>\$0</u>
Ending Balance	\$506	\$497
TOTAL OF BOTH RESERVES	\$1,112	\$750
* Includes \$123 million money transfer from the Health Services Account in 2001 and \$250 million money transfer from the SSARF in 2002. (See page 52).		

ADJUSTMENTS TO THE I-601 SPENDING LIMIT

Initiative 601 limits the growth in state general fund spending to inflation plus population plus or minus different adjustments that are required when programs or money is shifted into or out of the general fund. In the 2000 session, the legislature passed EHB 3169 that made a number of changes to Initiative 601. It created the state expenditure limit committee, reduced the “trigger” from 5 percent of biennial revenues to 5 percent of annual revenues which determines when money will spill over out of the emergency reserve fund an education construction account, clarified an interpretation which allowed the diversion of general fund revenues to local government without lowering the limit and finally, allowed the limit to be increased when state programs or money was shifted into the general fund.

It is this final change that is often referred to as the “two way street” provision. RCW 43.135.035 section 5 states “if moneys are transferred to the state general fund from another fund or account, the state expenditure committee...shall increase the state expenditure limit to reflect the shift.” The Senate budget makes use of this "money transfer" provision in two simple ways. In the 2001 supplemental budget, \$123 million of the health services account surplus money is transferred into the general fund. This raises the spending limit by \$123 million in 2001 and by \$257 million in the 2001-03 biennia. In FY 2002 the Senate budget makes a \$250 million transfer from the State Surplus Assets Reserve Fund (SSARF) into the General Fund. This has the effect of raising the limit by \$507 million for the 2001-03 biennium. The combination of these two money transfers raises the limit by \$123 million in 2001 and by \$765 million in the 2001-03 biennium.

In addition, there are a number of more standard adjustments to the limit that are required each year. These included adjustments for federal match, disproportionate share, other small "two way street adjustments," and include 4 bills, which divert revenue out of the general fund. These total about \$12 million in 2001 and \$38 in the 2001-03 biennium as shown in the table on the next page.

601 Expenditure Limit Adjustments

	2001	2001-03
Beginning Spending Limit	\$10,712.9	\$22,380.0
FMAP		40.8
King St. Station	(15.0)	(31.3)
Transfer Transit to locals	-	(188.1)
sub total	\$10,697.9	\$22,201.3
 Major Revenue Shifts		
Health Services Account	\$123.3	\$257.4
LEOFF Plan 1 Surplus Assets	<u>\$0.0</u>	<u>\$507.3</u>
sub total	\$123.3	\$764.7
 Other Adjustments		
Federal funding- illegal alien offenders	\$7.6	\$22.2
Federal disproportionate share payments	\$5.0	(\$6.8)
Correctional industries fund adjustment	(\$0.7)	\$0.0
State Patrol Transfer		(\$12.6)
SB 5237 - Fair Fund Transfer		(\$4.1)
Puget Sound Action Team		(\$3.3)
Employment security fund change		(\$2.6)
Teen Pregnancy Prevention		(\$1.1)
SB 5514 - Public Facilities		(\$1.1)
SB 5082 - Defining Rural Counties		(\$0.9)
SB 5837 - Oyster Reserve Lands		(\$0.3)
Federal match for forest legacy support		\$0.4
Community supervision workload change		\$0.6
Core recreation activities		\$1.3
Senate transportation committee costs		\$1.7
Reduce federal funds for fish management		\$1.8
Grant Revolving Account Transfer		\$2.9
Securities Regulation Account transfer		\$4.1
Treasurer account		\$8.0
Shift DASA into GF		<u>\$27.4</u>
sub total	\$11.9	\$38.4
 NEW SPENDING LIMIT	 \$10,833.1	 \$23,004.4

PUBLIC SCHOOLS

INITIATIVES

INITIATIVE 728 -- \$393.3 MILLION STUDENT ACHIEVEMENT FUND, \$76.7 MILLION EDUCATION CONSTRUCTION ACCOUNT

Initiative 728 requires lottery revenues, a portion of state property taxes with established dollar per student amounts, and any funds accumulated in the state's Emergency Reserve Fund in excess of five percent of annual general fund revenues to be deposited into the newly created Student Achievement Fund and the Education Construction Account.

The Senate operating budget appropriates \$393.3 million of student achievement fund moneys to be distributed to school districts at a rate of \$193.92 per full time equivalent (FTE) student for the 2001-02 school year and \$220.59 per FTE student for the 2002-03 school year. The permissible uses of this money are as follows: smaller classes in grades K-4; smaller classes for certain grade 5-12 classes; extended learning opportunities in grades K-12; professional development for educators; early childhood programs; and building improvements or additions to support class size reductions or extended learning programs.

The \$76.7 million of education construction account moneys are appropriated in the Senate capital budget.

INITIATIVE 732 -- \$318.4 MILLION GENERAL FUND-STATE

The Senate budget provides \$318.4 million to implement Initiative 732 to provide annual cost-of-living increases for state-funded teachers and staff in public schools. The cost-of-living increase is based on the Seattle consumer price index and provides an increase of 3.7 percent for the 2001-02 school year and 3.1 percent for the 2002-03 school year.

For federally funded K-12 staff, federal funds appropriations in the Senate budget provide the necessary resources for Initiative 732 purposes. For levy-funded staff, the Senate budget provides an increase in the levy base of each district pursuant to RCW 84.52.053. The increase in the levy base increases the amount school districts may collect in maintenance and operations levies, which can be used for levy-supported staff for Initiative 732 purposes.

In addition, the Senate budget reflects reduced employer pension contribution rates for state-funded staff from the 2000-01 school year to the 2001-02 school year by 4.25 percent for certificated staff and 2.86 percent for classified staff. This employer rate reduction is also applicable to federal and locally funded staff. If needed, the savings accruing to school districts from the reduction in pension contribution rates for locally and federally funded staff can be used to further support the cost of I-732 cost-of-living increases.

OTHER ENHANCEMENTS

HEALTH BENEFIT INCREASES -- \$76.4 MILLION GENERAL FUND-STATE

The Senate budget funds an increase in the health benefit rate from the current \$425.89 per month to \$453.77 per month for the 2001-02 school year and \$490.18 per month for the 2002-03 school year. These increases are comparable to the increases provided to state employees.

INCREASE THE SPECIAL EDUCATION ENROLLMENT MAXIMUM -- \$6.8 MILLION GENERAL FUND-STATE

The Senate budget provides funds to increase the percentage of a school district's full time equivalent enrollment funded as special education from the current maximum of 12.7 percent to 13.0 percent. The \$9.4 million cost of increasing the funded special education enrollment is offset by a reduction of \$2.6 million in the amount of funds needed for the safety net. The net increase, after adjusting the safety net, is \$6.8 million.

SCHOOL SAFETY ALLOCATION -- \$4.0 MILLION GENERAL FUND-STATE

An increase of \$4.0 million is provided for school safety to be allocated at a rate of \$5.25 per student per year. The total allocation for school safety is almost \$10.0 million and can be used to create and implement school safety plans, for anti-bullying and harassment training, a school safety hotline, and providing and training school security personnel.

ALTERNATIVE TEACHER CERTIFICATION ROUTES -- \$3.0 MILLION GENERAL FUND-STATE

The Senate budget provides \$3.0 million to implement SB 5695 (Alternative Teacher Certification). The bill creates two grant programs, one providing stipends for alternative teacher candidates and teacher mentors, and the other conditional scholarships providing forgivable loans to alternative teacher candidates if they teach in Washington public schools. It is estimated this appropriation will support 137 alternative teacher candidates.

HELPING CORPS -- \$1.5 MILLION GENERAL FUND-STATE

The 1999 legislature provided \$2.0 million for a math helping core to provide assistance to school districts having difficulties meeting the math standards under education reform. The Senate budget provides an additional \$1.5 million for a total of \$3.5 million and converts the math helping core into a reading and math helping core to provide assistance to school districts having difficulties meeting the reading and math standards under education reform. The staff are hired and deployed by the Superintendent of Public Instruction.

NONVIOLENCE LEADERSHIP TRAINING -- \$600,000 GENERAL FUND-STATE

The Senate budget provides \$600,000 for a statewide Nonviolence and Leadership Training Program provided by the Institute for Community Leadership. The program provides up to 80 percent matching funds to provide workshops serving at least 24 school districts and 72 school buildings throughout the state.

ADDITIONAL TRAFFIC SAFETY EDUCATION COORDINATORS -- \$400,000 GENERAL FUND-STATE

The Senate budget provides funding for three additional traffic safety coordinators and support staff to help school districts and commercial driving schools meet statutory requirements for quality driver education programs.

SCHOOL SAFETY OFFICE -- \$200,000 GENERAL FUND-STATE

The Senate budget provides \$200,000 to establish a school safety office located in the Office of the Superintendent of Public Instruction. The main functions of the safety office are to provide model comprehensive school safety plans to schools and to provide assistance to schools in developing and implementing comprehensive safe school plans.

SAVINGS AND REDUCTIONS

BETTER SCHOOLS PROGRAM STAFF DEVELOPMENT -- \$40.2 MILLION GENERAL FUND-STATE SAVINGS

The staff development portion of the Better Schools Program created by the 2000 legislature is not continued.

BLOCK GRANT -- \$17.6 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces the per student allocation in the block grant program from \$28.81 per K-12 student per year to \$18.48 per student. Block grant funds are discretionary funds that can be used by school districts for any educational purpose.

TRAFFIC SAFETY EDUCATION -- \$8.1 MILLION GENERAL FUND-STATE SAVINGS

Beginning in the 2001-02 school year, the Senate budget eliminates the state subsidy of \$137 per student for the driver education program. The subsidy of \$203.97 is continued for driver education students eligible for free and reduced price lunch.

STATEWIDE PROGRAMS -- \$5.7 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces the allocation for statewide programs by \$5.7 million. Statewide programs include a number of health and safety, technology and grant and allocation programs amounting to \$38.3 million. The superintendent is given the flexibility to determine which programs to continue such that total expenditures do not exceed \$32.6 million.

WASHINGTON ASSESSMENT OF STUDENT LEARNING ADJUSTMENTS -- \$5.4 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget makes the following funding adjustments:

- \$1.4 million in savings from delaying the timelines for tests for social studies, arts, and health and fitness by two years;
- \$285,000 in savings from reducing the number of advisory committee members used to develop the WASLs;
- \$300,000 from separating the question and answer booklets which reduces scoring costs;
- \$415,000 in efficiency savings and other adjustments; and
- The use of \$3.0 million in federal funds.

Including the savings and federal funds, the WASL funding is increased from \$19.9 million in 1999-01 to \$25.7 million for the 2001-03 biennium.

AUDIT TEAM SAVINGS -- \$5.8 MILLION GENERAL FUND-STATE SAVINGS

Funds are provided in the state auditor's budget for additional auditors specializing in K-12 funding. The additional auditors are expected to check the accuracy of data submitted by school districts for state funding purposes. The \$5.8 million is the expected audit savings.

INFORMATION TECHNOLOGY WORKFORCE TRAINING -- \$3.6 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget does not continue funding for information tech workforce training grants. This grant program was initiated by the 1999 legislature to prepare students to achieve information technology skill certifications. School districts receiving the grants used them to acquire computer software and hardware, to improve internet access and provide staff training.

**DISCONTINUE THE CENTER FOR THE IMPROVEMENT OF STUDENT LEARNING -- \$1.1 MILLION
GENERAL FUND-STATE SAVINGS**

The Center For The Improvement of Student Learning, (CISL), located in the Office of the Superintendent of Public Instruction is eliminated. The purpose of the center is to serve as a clearinghouse for information regarding educational improvement and parental involvement programs. Of the \$1.3 million budget for CISL, \$230,000 and 1.3 FTE staff are transferred to development of the Washington assessments of student learning. The net savings is \$1.1 million.

STATE OFFICE ADMINISTRATIVE REDUCTIONS -- \$700,000 GENERAL FUND-STATE SAVINGS

The administration budget of the Superintendent of Public Instruction is reduced by three percent through administrative efficiencies and reductions at the state office.

SENATE BUDGET -- PUBLIC SCHOOLS POLICY ITEMS AND INITIATIVES

State Sources, Dollars in Thousands

<u>Description</u>	<u>Amount</u>
Initiative 728, Student Achievement Fund	\$ 393,300
K-12 Salary COLA, (I-732)	\$ 318,422
Health Benefit Increases	\$ 76,413
Special Ed, Enrollment Percent Increase	\$ 9,439
School Safety Allocation	\$ 4,041
Alternative Certification Routes	\$ 2,989
Helping Corps	\$ 1,500
Nonviolence Leadership Training	\$ 600
Additional Traffic Safety Ed. Coordinators	\$ 384
Transfer CISL Staff	\$ 230
School Safety Office	\$ 200
Certificate of Mastery Development	\$ 100
Pension Changes	\$ (138,729)
Better Schools Staff Development	\$ (40,178)
Block Grant Reduction	\$ (17,635)
Traffic Safety Ed. Allocation	\$ (8,083)
Audit Team Savings	\$ (5,814)
Statewide Programs Reduction	\$ (5,736)
WASL Adjustments	\$ (5,354)
Information Tech Workforce Training	\$ (3,600)
Safety Net Adjustment	\$ (2,593)
Discontinue CISL	\$ (1,260)
State Office Admin Reductions	\$ (680)
Total Policy Changes (Net)	\$ 577,956

HIGHER EDUCATION

ENROLLMENTS

NEW ENROLLMENTS -- \$29.4 MILLION GENERAL FUND-STATE, \$7.2 MILLION TUITION

The Senate budget provides for 3,409 new enrollments at the state's colleges and universities: 482 enrollments are allocated to the baccalaureate institutions; 2,677 enrollments in the community and technical colleges; and 250 enrollments will be distributed by the higher education coordinating board, on a competitive basis, for high demand programs. To expand the supply of college graduates and trainees in computer science, network engineering, software systems and information technology, the Senate targets 5 percent of new enrollments to accelerate the preparation of students with math and science credits they need to transfer to the state's new technology institute.

Institutions may combine per student resources and apply the money for programs at campuses where student demand warrants expansion. The community and technical colleges will not grow as fast as in the Governor's plan but funding is enriched by \$215 for each new student primarily to support credit courses taught over the Internet. As a basis for driving out state money, the Senate assumes the mix of new students will be 220 graduate and 3,189 undergraduates of, which 267 are expected to enroll for upper-division study at a branch campus.

Funded Enrollments for the 2001-03 Biennium						
	Budgeted Base	Change FY02	Change FY03	Change Total	Revised 2001-03	Percent Change
University of Washington	34,761	175	175	350	35,111	1.0%
Washington State University	19,847	-173	104	-69	19,778	-0.3%
Central Washington University	7,867	-397	0	-397	7,470	-5.0%
Eastern Washington University	7,864	50	50	100	7,964	1.3%
The Evergreen State College	3,713	38	57	95	3,808	2.6%
Western Washington University	10,826	453	0	453	11,279	4.2%
HECB High Demand Pool	0	0	250	250	250	--
Timber Workers	550	-550	0	0	0	-100.0%
Community & Technical Colleges	123,738	1,583	1,594	3,177	126,915	2.6%
All Schools	208,666	1,179	2,230	3,409	212,075	1.6%

TECHNOLOGY INSTITUTE & PARTNER 2-YEAR COLLEGES -- \$4.1 MILLION GENERAL FUND-STATE, \$500,000 TUITION; \$3.9 MILLION STATE CAPITAL FUNDS

The Senate earmarks \$8.5 million in operating and capital funds to create a Technology Institute for the State, operating from the Tacoma branch campus of the University of Washington. The Senate plan sets aside enrollment funds for 50 new undergraduate students at the UW, and 177 new students for partner two-year colleges in Grays Harbor, King, Kitsap, Pierce and Thurston counties. This assures a larger supply of associated degree students are ready for transfer as early as 2002. Capital funds are provided not only to match private gifts received by the UW, but also by the Senate to construct and equip six computer language labs for the regional college partners.

INLAND NORTHWEST TECHNOLOGY EDUCATION CENTER -- \$1 MILLION GENERAL FUND-STATE

Funds are provided to operate and develop this Spokane-based higher education resource, the Inland Northwest Technology Education Center (INTEC). Testing a new model for public-private partnership, business and post-secondary institutions will join forces to coordinate rapid regional responses to the short-term education and training needs of technology workers for industries in Eastern Washington.

FINANCIAL AID

STATE NEED GRANT -- \$17.4 MILLION GENERAL FUND-STATE

The state has a long-standing policy of providing additional money from the general fund for need-based financial aid to reflect new enrollments and changes in state tuition fees. The Senate provides funding sufficient to hold all qualifying State Need Grant recipients harmless from higher tuition charges expected next biennium.

WASHINGTON COLLEGE PROMISE SCHOLARSHIP -- \$14.8 MILLION GENERAL FUND-STATE (INCLUDES \$5.8 MILLION BASE FUNDING CARRYFORWARD)

Funds are provided to support students' access to higher education through the Promise Scholarship program. Students graduating in the top 10 percent of their high school class in 2001 and 2002, including those who qualify on the basis of an SAT or ACT score, and whose family incomes are no greater than 135 percent of the median family income will be eligible to receive up to 2 years' worth of the full-time community college tuition. Actual grants will depend on the numbers who apply or renew each year.

STATE WORK STUDY -- \$3.2 MILLION GENERAL FUND-STATE

State budgets for the Work Study Program have not grown commensurate with new enrollments. To enable more students to meet higher educational costs next biennium, the Senate expands participation levels by 850 and brings average wages up by \$64.

COMPENSATION

COST OF LIVING INCREASE -- \$94.3 MILLION GENERAL FUND-STATE

All state-funded higher education employees will receive a 3.7 percent cost of living increase effective July 1, 2001 and a 3.1 percent increase effective July 1, 2002. Of this amount, \$24 million goes to the CTC's to meet the mandatory pay requirements of Initiative 732.

FACULTY FLEXIBLE COMPENSATION -- \$46.2 MILLION GENERAL FUND-STATE (BASE FUNDS)

Recognizing that the average value of pension plans for faculty and exempt higher education professionals at retirement exceeds statutory limits, the Senate budget identifies an amount equivalent to presently budgeted retirement contributions over 5 percent. Institutions may act to modify local compensation packages to redirect this retirement spending in order to provide higher current pay for faculty and exempt professional staff.

PART TIME FACULTY COMPENSATION -- \$7.5 MILLION GENERAL FUND-STATE

Resources are provided to address salary equity for part-time instructors employed by the state's 34 community and technical colleges. Colleges are encouraged to apply local funds to help reduce the gap between part time faculty compensation rates and comparable full-time rates.

RECRUITMENT AND RETENTION POOL -- \$7 MILLION GENERAL FUND-STATE

Additional funding is provided for all state universities and colleges to recruit and retain faculty and exempt professional staff. Institutions are given the authority to apply tuition funds in addition to state money for this purpose.

TUITION

The Senate budget offers institutions limited tuition setting authority for the 2001-03 biennium after considering cost differences from a State and a student perspective. Cost sharing budget goals lead to different tuition increase limits for the next two years. Attention was also paid to tuition fees charged at peer institutions, particularly at the graduate, professional level.

Governing boards will decide the appropriate level of tuition within limits proposed by the Senate.

- For residents attending state research universities for undergraduate and most graduate level study, tuition may increase by a maximum of 6.7 percent in 2002 and 6.1 percent in 2003. This is a result of a policy goal to share educational costs 50:50 (general funds to tuition) with undergraduate students.
- At state regional universities (with an exception for The Evergreen State College), tuition may increase by a maximum of 5.2 percent in 2002 and 4.6 percent in 2003. This is a result of a policy goal to share educational costs 65:35 (general funds to tuition) with undergraduate students.
- And for the system of two-year colleges, tuition may increase by a maximum of 3.7 percent in 2002 and 3.1 percent in 2003. This is a result of a policy goal to share educational costs 70:30 (general funds to tuition) with students.

Limits do not apply to medical, dental, law, pharmacy, nursing, veterinary and MBA students attending the state's universities or to undergraduates enrolled at the Evergreen State College. Funding from the State, in the case of the UW and Evergreen, assumes tuition fees increase to close by half the gap that now exists between Washington schools and HECB peer institutions.

As a matter of Senate policy for the 2001-2003 biennium, tuition fees for out-of-state students must fully cover educational costs.

Continuing authority granted this biennium, institutions may also set rates based on “off-hour” educational services—courses offered in the evening or on weekends, for distance education, or on different campuses.

SAVINGS AND REDUCTIONS

CLOSE TUITION PEER GAP FOR UW PROFESSIONAL SCHOOLS -- \$4.8 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget educates new doctors, dentists, lawyers and graduate school business students more from tuition fees since Washington's rates lag what our peer state institutions charge.

ESTABLISH A FEE FOR ADULT BASIC EDUCATION -- \$4.2 MILLION GENERAL FUND -STATE SAVINGS

The Senate budget requires 85,000 GED, ESL and other adult basic education participants to pay \$5.00 per credit (\$35 a year on average) for courses they now take free of charge at their local community or technical college.

REDUCE AND CONSOLIDATE SUPPORT FOR RESEARCH AND COMMUNITY SERVICE -- \$6.7 MILLION GENERAL FUND-STATE REDUCTION

The Senate budget provides a block grant at 75 percent of current level funding for faculty research and university based public service projects. The reduction is from the cumulative policy adds by the Legislature over the last decade.

REPROGRAM DISLOCATED, TIMBER WORKER ENROLLMENT-- \$2.5 MILLION GENERAL FUND-STATE REDUCTION

The Senate budget reduces and reprograms special population training funds to maximize State resources available for unemployed workers, directing colleges to attend to the needs of individuals laid off from industries due to a rapid increase in the cost of energy.

ELIMINATE EDUCATOR EXCELLENCE AWARDS -- \$431,000 GENERAL FUND-STATE REDUCTION

The Senate budget suspends cash awards to K12 principals and other educators recognized for leadership, service and excellence by the Superintendent of Public Instruction.

OTHER ENHANCEMENTS

STUDENT AND STATE EMPLOYEE CHILDCARE FACILITY GRANTS -- \$5 MILLION BONDS

The Senate budget provides \$5 million in grants for facility improvements to childcare programs serving state employees, including college faculty and students.

NEW FACILITY OPERATIONS AND CONDITION ASSESSMENTS--\$8.7 MILLION GENERAL FUND-STATE (\$6.9 MILLION MAINTENANCE INCREASE), \$726,000 OTHER FUNDS

The Senate budget provides for the facility impacts of new enrollment and commitments it has made in approving capital projects. As a tool for future capital decisions, the Senate plan initiates a \$1.4 million project to obtain a uniform condition assessment of university facilities to complement the survey that exists for the two-year college system.

**SENATE BUDGET -- HIGHER EDUCATION
POLICY ITEMS AND INITIATIVES**

State Sources, Dollars in Thousands

<u>Description</u>	<u>Amount</u>
Higher Education COLA, (I-732)	\$ 94,372
Flexible Compensation Initiative	\$ 46,293
New Enrollments	\$ 29,460
Health Benefit Increases	\$ 23,952
State Need Grants	\$ 17,405
Promise Scholarships	\$ 9,000
Part-Time Faculty Pay	\$ 7,500
Recruitment & Retention Pools	\$ 7,000
Technology Institute & Partners	\$ 4,100
State Work Study	\$ 3,200
New Facility Operations	\$ 1,540
Institute for Public Policy Studies	\$ 489
Jefferson County Rural Demonstration	\$ 400
Information Systems Upgrade	\$ 400
Central Recovery Plan	\$ 300
Facility Condition Assessment	\$ 243
Competency-Based Admissions	\$ 230
Multiple Sclerosis Incidence Survey	\$ 50
Educator Excellence Awards	\$ (431)
Block Grant for Public Service	\$ (1,778)
FICA Savings	\$ (1,982)
Timber Worker Training Funds	\$ (2,582)
Adult Basic Education Fee	\$ (4,200)
Professional School Peer Gap	\$ (4,788)
Block Grant for Research	\$ (4,942)
Pension Savings	\$ (11,196)
No Inflation Cost Allowance	\$ (13,040)
Total Policy Changes (Net)	\$ 200,995

COMPENSATION

SALARIES

STATE EMPLOYEES COST OF LIVING ADJUSTMENT -- \$124.3 MILLION GENERAL FUND-STATE

To offset expected inflation and to provide a consistent compensation policy between K-12 and state employees, the Senate budget funds across-the-board salary increases of 3.7 percent on July 1, 2001, and 3.1 percent on July 1, 2002. All classified and exempt employees who are subject to the jurisdiction of the Washington Personnel Resources Board (WPRB) will receive both increases. Employee groups that are not under the WPRB, such as WPS commissioned officers, assistant attorney generals, and judicial employees, will receive increases that average 3.7 percent beginning July 1, 2001, and 3.1 percent beginning July 1, 2002.

TOTAL COLA SALARY INCREASES	\$ MILLIONS
K12 Employees	\$ 318
Higher Education Employees	\$ 94
State Employees	\$ 124
<u>Vendors (2.1 percent and 2.3 percent)</u>	<u>\$ 88</u>
TOTAL	\$ 624

RECRUITMENT AND RETENTION PRIORITIES -- \$17 MILLION GENERAL FUND-STATE

The Senate budget addresses critical recruitment and retention problems in specific state institutions and programs by providing funding for three kinds of salary increases;

- evening and night shift pay increases for registered nurses and direct patient care job classes;
- assignment pay increases for high cost-of-living locations;
- position and program specific increases to address critical recruitment and retention problems.

Based on prior WPRB recommendations, it is expected that registered nurses, LPNs, and other medical personnel employed at DOC and DSHS institutions, mental health counselors employed at DOC sex offender treatment programs, and social workers with Child Protective Services, will be among the groups to receive increases.

WORKER WAGE INCREASES -- \$19.5 MILLION GENERAL FUND-STATE, \$19.2 MILLION GENERAL FUND-FEDERAL

People who care for our elderly and disabled residents provide some of the most valuable but lowest-paid work in our society. In recognition of this, the Senate budget provides sufficient funds for a 50-cent per hour wage increase, effective the first day of the biennium, for homecare workers, and for direct care workers who earn less than \$10 per hour in nursing homes, adult family homes, group homes, assisted living facilities, and residential programs serving persons with developmental disabilities.

ASSISTANT ATTORNEYS GENERAL -- \$3.1 MILLION GENERAL FUND-STATE, \$3.1 MILLION OTHER FUNDS

The Senate budget provides funding to increase beginning salaries, to provide merit-based salary increases, and to address critical recruitment and retention problems in certain specialty areas of practice, such as torts, revenue, utilities, and other high-demand fields.

HEALTH BENEFITS

STATE AGENCY AND HIGHER EDUCATION EMPLOYEE HEALTH BENEFITS COST INCREASES -- \$48 MILLION GENERAL FUND-STATE

The Senate budget increases the monthly state contribution for health insurance and related benefits for state agency and higher education employees from a current level of \$436.16 to \$455.79 in Fiscal Year 2002 and to \$494.28 in Fiscal Year 2003, an increase of \$58.12 over two years, or 13 percent. This funding level assumes there will be increases in co-payments for some services, the elimination of double premiums to health plans where married persons are both state employees; and an increase in the average state employee premium from \$27.78 per month to \$51.55 per month in calendar year 2002, and to \$57.50 in 2003. The share of the total monthly premiums paid by employees will increase from approximately 6 percent in 2001 to 8 percent in 2002 and 10 percent in 2003.

MEDICARE RETIREES HEALTH INSURANCE PREMIUM SUBSIDY

Approximately \$9 million of the increase in funding for state, higher education, and K-12 employee health benefits will be used to increase the Medicare retiree subsidy from \$69.98 for calendar year 2001, to \$83.98 for 2002, and to \$100.77 for 2003. This is a \$30.79 increase (44 percent) over two years.

PENSIONS

PENSION CONTRIBUTION RATE ADJUSTMENTS -- \$192 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget (in separate legislation) includes reductions in employer and state contributions for PERS, SERS, TRS, and LEOFF Plan 2. The new funding provisions increase the long-term salary growth assumption to 4.5 percent and the long-term investment return assumption to 8 percent; re-establish the June 30, 2024, target date for full funding all PERS 1 and TRS 1 liabilities; and provide a four-year period for smoothing investment gains and losses.

The changes to the state's long-term economic assumptions bring the state's assumptions for pension funding into closer alignment with the average assumptions used by the majority of other state retirement plans. The extension of the Plan 1 funding target date returns it to the date originally established in 1989; the implementation of the smoothing period will provide greater rate predictability and stability.

As a result of the 1999 valuation studies and the changes in the long-term economic assumptions, the member contribution rate for PERS Plan 2 will be reduced by 1.55 percent of pay from 2.43 percent to 0.88 percent. This reduction will more than offset the proposed average increase in employee health premiums for the great majority of state employees. The TRS Plan 2 rate will be reduced from 3.01 percent to 1.23 percent.

HIGHER EDUCATION RETIREMENT PLANS -- \$46 MILLION GENERAL FUND-STATE REDIRECTION FROM PENSION CONTRIBUTIONS TO SALARY INCREASES

RCW 28B.10.423 authorizes the adjustment of contribution rates for the higher education retirement plans, if necessary, to ensure that the retirement income generated for retirees does not generally exceed 60 percent of the employee's highest two-year average salary. In 1999 the legislature directed the Office of the State Actuary (OSA) to conduct a review of the level of

benefits provided by the higher education plans. The OSA issued a report in 2000 indicating that an average faculty member who retired in 1998 after 30 years of service might receive retirement income as high as 180 percent of the member's highest two-year average salary.

The Senate budget reduces the maintenance level funding for employer contributions to the higher education retirement plans to 5 percent of pay for all covered employees, consistent with the requirements of RCW 28B.10.423. The budget also directs the State Actuary to conduct a more in-depth review of the higher education retirement plan benefits, in co-ordination with the institutions of higher education. Each higher education institution is authorized to spend the pension contribution savings for salary increases, or other compensation increases, for its faculty and exempt employees. Community colleges may use the savings to increase salaries for part-time faculty.

HUMAN SERVICES

HEALTH-CARE

ENHANCEMENTS

LOW-INCOME MEDICAL ASSISTANCE PROGRAMS -- \$570 MILLION GENERAL FUND-STATE, \$457 MILLION GENERAL FUND-FEDERAL (MAINTENANCE LEVEL INCREASE)

The state will spend almost \$6 billion next biennium to provide medical and dental care for low-income people through Medicaid and other DSHS medical assistance programs. This is over \$1 billion (28 percent) more than will be expended on such services during 1999-01. About one-third of the increased cost is due to covering more people. An average of 835,000 people are expected to receive publicly funded medical assistance coverage next biennium, an increase of 100,000 (13 percent) over the 1999-01 level. Most of the growth in the number of persons covered is among children, in response to efforts to assure that all the state's children have access to routine and preventative care. The remaining two-thirds of the more than \$1 billion increase is due to higher costs per person covered. Expenditures per person are growing by 7.5 percent per year, due to managed care rate increases, rapid growth in the price and use of prescription drugs, and enrollment growth among elderly and disabled citizens requiring costly treatments.

CHILDHOOD IMMUNIZATIONS -- \$10.6 MILLION GENERAL FUND-STATE

Funded is provided to make the new pneumococcal conjugate vaccine available free of charge for all children aged two and younger in the state, regardless of their income or insurance status. This vaccine has been determined cost-effective by the federal Centers for Disease Control in the prevention of meningitis, middle ear, blood stream, and sinus infections among infants and toddlers. Inclusion of the vaccine under the state's universal distribution policy allows the state to purchase all doses at the federal discount rate, which is substantially lower than if they were purchased privately, and frees health care providers from the administrative burden of separately accounting for vaccine inventories according to the child's income and insurance status. Like other childhood vaccines which are expected to enter the market over the next several years, this one is quite expensive: by itself, the pneumococcal vaccine is expected to cost almost half as much as the 7 other childhood vaccines combined.

SMOKING PREVENTION AND CESSATION -- \$5 MILLION OTHER FUNDS

Additional funds are appropriated from the \$100 million tobacco settlement endowment established by the 1999 Legislature for implementation of Washington's comprehensive tobacco prevention and control plan. Under the Senate budget, a total of \$35 million will be spent during 2001-03 biennium on this comprehensive effort to prevent and reduce smoking and other tobacco use, with particular emphasis upon children and pregnant women.

"TICKET TO WORK" MEDICAL COVERAGE -- \$2.6 MILLION HEALTH SERVICES ACCOUNT, \$2.6 MILLION GENERAL FUND-FEDERAL

The risk of losing publicly funded medical benefits is a major barrier to employment for people with severe disabilities who would like to work. The Senate budget therefore authorizes Washington's participation in a new Medicaid program under which people with severe disabilities who go to work will be able to purchase Medicaid coverage. Participants will pay

premiums, adjusted according to income, and receive partial federal and state subsidy until their income reaches approximately \$43,000 per year. This is expected to enable approximately 900 people with severe disabilities to go to work or to increase their hours of employment by the end of the 2001-03 biennium.

AIDS PRESCRIPTION DRUG PROGRAM -- \$1.0 MILLION GENERAL FUND-STATE, \$800,000 OTHER FUNDS

The Senate budget provides additional funding to keep pace with enrollment in the AIDS Prescription Drug Program, which is growing by 14 percent per year. The program uses state and federal funds to pay for prescription medications, laboratory services, and limited outpatient care for persons with HIV disease and incomes below 370 percent of poverty.

CHILDREN'S HAIR PROSTHETICS -- \$900,000 GENERAL FUND-STATE, \$700,000 GENERAL FUND-FEDERAL

As provided in Senate Bill 5430, all state-purchased medical programs will provide coverage of custom-designed wigs for children suffering severe hair loss as a result of alopecia. This is expected to reduce the emotional trauma experienced by the child as a result of this medical condition, as well as treatment costs, which often prove to be both expensive and ineffective.

TREATMENT FOR BREAST AND CERVICAL CANCER -- \$500,000 HEALTH SERVICES ACCOUNT, \$400,000 PRIVATE, \$1.7 MILLION GENERAL FUND-FEDERAL

As authorized in Senate Bill 5820, the state will provide full-scope Medicaid benefits for low-income uninsured women who have been diagnosed with breast or cervical cancer. This is expected to result in better health outcomes for women as a result of earlier and more effective treatment, and reduce charitable care costs for hospitals and other medical providers. Federal matching funds will cover approximately 65 percent of the total cost, and the Susan G. Komen Foundation has committed \$400,000 to cover part of the remaining cost.

SAVINGS AND REDUCTIONS

EMPLOYEE HEALTH BENEFITS -- \$89 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces the total amount of funding required to maintain state employee, higher education employee and K-12 health care benefits at their current levels. The share of the total monthly premiums paid by employees will increase from the current 6 percent to 10 percent in 2003. The benefit funding rate was reduced to reflect the following changes:

- Increase in employee co-payments for office visits, ambulance service, emergency room visits, and in-patient and out-patient hospital care;
- Changing the current three tier co-pay structure for prescription drugs to a three tier co-insurance design, which will require employees to pay a large portion of the cost of the most expensive prescription drugs; and
- Increase in the employee share of the total monthly contributions for health insurance related benefits. The current employee premiums contribute about 6 percent of the cost of the total benefit package; this would increase to about 8 percent in 2002 and to 10 percent in 2003. As a result the average monthly employee premium is expected to increase from \$28 to \$52 in 2002, and then to \$58 in 2003.

The changes in co-payments reduced the cost of maintaining health benefits for state employees by \$24 million. Most of the remainder of the total \$89 million in state savings is attributable to

the increase in the employee share of the total monthly contributions, and the application of these savings assumptions to school employee health benefit funding.

DSHS UTILIZATION AND COST MANAGEMENT -- \$13 MILLION GENERAL FUND-STATE SAVINGS, \$12 MILLION GENERAL FUND-FEDERAL SAVINGS

Approximately \$3.7 million per year of additional staffing and technical support are provided for the Department of Social and Health Services to improve and expand its efforts to understand, manage, and control the growth in state medical assistance expenditures. The department has committed to achieving at least \$25 million of net savings through efforts such as increased utilization review of high-cost and fast-growing expenditures; improved monitoring of transportation and interpreter services; additional audits of providers with aberrant billing practices; resolution and recovery of disputed rebates owed the state by drug manufacturers; and identification and recovery of costs on behalf of recipients who have other medical coverage or who are owed settlements as a result of an accident.

THERAPEUTIC INTERCHANGE -- \$9.6 MILLION GENERAL FUND-STATE SAVINGS, \$9 MILLION GENERAL FUND-FEDERAL SAVINGS

“Therapeutic Interchange” is the practice used by most major health care purchasers through which a team of doctors and pharmacists evaluates the scientific evidence, and identifies the preferred drug or drugs for treating a particular condition based on considerations of clinical effectiveness and costs. The Senate budget directs Washington’s Medical Assistance program to apply this practice to approximately two new drug classes every six months over the course of the 2001-03 biennium. This is expected to help control the 17 percent annual growth in Medical Assistance expenditures on prescription drugs, while preserving patient access to effective medications. The net savings anticipate that an alternative drug is authorized in half of all cases. This will assure that patients who might have difficulty switching medications are able to remain on their current therapy, and permit prescribers to exercise appropriate professional discretion.

EXPANDED FAMILY PLANNING SERVICES -- \$14 MILLION GENERAL FUND-STATE SAVINGS, \$7 MILLION GENERAL FUND-FEDERAL

Senate Bill 5186 authorizes the Department of Social and Health Services to implement a demonstration waiver, which will enable the state to provide family planning services for uninsured persons with incomes below 200 percent of poverty. This will almost double, to \$58 million per biennium, the amount of state and federal funding available for family planning services for low-income persons. This is expected to result in approximately 600 fewer Medicaid-funded births in the first year of the biennium, and 2,400 fewer in the second, resulting in reduced state medical costs for pregnant women and children.

BASIC HEALTH PLAN COST-SHARING -- \$11.8 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The Senate budget maintains enrollment in the subsidized Basic Health Plan at 133,000 - a level which has only been achieved twice in the plan's history. To help support this higher enrollment level in the face of rapidly escalating premium costs, the budget also provides for some modest increases in the amounts enrollees contribute toward the cost of their coverage. Drug co-pays are to be increased by \$2 per prescription, and enrollees' share of their monthly premium cost will increase approximately \$2.50 - \$20 per month, depending upon age and income level.

PRESCRIPTION DRUG REIMBURSEMENT LEVELS -- \$8.2 MILLION GENERAL FUND-STATE

SAVINGS, \$8.2 MILLION OTHER FUND SAVINGS

The Senate budget proposes to lower what the state medical assistance program pays for brand-name prescription drugs to 88 percent of the average wholesale price (AWP). The state Uniform Medical Plan, and most private insurers in the state, pay 87 percent of AWP. The Senate budget also anticipates a substantial savings on generic drug purchases by basing payment on the price actually charged for such drugs by Washington wholesalers, rather than relying upon national pricing information. The Governor and Legislature authorized this change last year, but it has not occurred because the in-state drug wholesalers have refused to make their pricing information available to the state. If the information continues to be unavailable after July 1, the Senate budget directs that the AWP be reduced to 87 percent rather than 88 percent, in order to achieve the same savings.

DISEASE CASE MANAGEMENT -- \$300,000 GENERAL FUND-STATE SAVINGS, \$300,000 GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is to design, implement, and evaluate disease case management pilot projects. The projects will identify persons who are seriously or chronically ill due to a combination of medical, social, and functional problems; and work with them and their care providers to improve adherence to state-of-the-art treatment regimens. This is expected to both improve participants' health, and reduce total medical expenditures. Based upon successful models in other states, initial diseases to be targeted are likely to include diabetes, asthma, heart failure, or renal disease.

LONG TERM CARE

ENHANCEMENTS

LONG-TERM CARE OPTIONS -- \$50 MILLION GENERAL FUND-STATE, \$32 MILLION OTHER FUNDS (MAINTENANCE LEVEL INCREASE)

The Senate budget provides a total of \$1.8 billion for an average of 47,000 people each month to receive publicly funded long-term care in their own homes, assisted living facilities, adult family homes, and nursing homes. This is a 6.8 percent increase in the number of people receiving such services, and a 12 percent increase in total expenditures.

NURSING HOME PAYMENT RATES -- \$11.7 MILLION GENERAL FUND-STATE, \$11.7 MILLION GENERAL FUND-FEDERAL

The average nursing home payment rate will increase by 3.1 percent per year during 2001-03 under the Senate budget. The budget anticipates changes similar to those proposed by the Governor in the way in which unoccupied beds are recognized in the nursing home rate-setting system. Most of the savings resulting from changes to that aspect of the rate-setting system will be used to increase payments for direct care services, particularly for facilities which would otherwise be impacted negatively by the full implementation of case-mix payment scheduled for the second year of the biennium.

IMPROVED CAREGIVER TRAINING -- \$800,000 GENERAL FUND-STATE, \$800,000 GENERAL FUND-FEDERAL

In accordance with Substitute Senate Bill 6502 enacted during the 2000 legislative session, new training requirements will take effect in March 2002 for staff who care for elderly and disabled persons in their own homes or in community residential facilities. The Senate budget provides

funding for the tuition costs which staff working with publicly-funded clients are expected to incur in order to meet the new requirements; for wages for the additional hours which homecare workers will be required to spend in training; and for the cost of designing, videotaping, and producing classroom materials on the new curriculum.

COMMUNITY ALZHEIMER'S AND DEMENTIA CARE -- \$725,000 GENERAL FUND-STATE, \$740,000 GENERAL FUND-FEDERAL

The Senate budget provides funding for 60 persons with Alzheimer's Disease or related dementia who would likely otherwise require care in a nursing home or a state hospital to instead be served in community assisted living facilities specializing in their care.

IN-HOME NURSING SERVICES -- \$500,000 GENERAL FUND-STATE, \$400,000 GENERAL FUND-FEDERAL

The Senate budget provides sufficient funding to triple the number of recipients of in-home care who receive skilled nursing visits; to double the average number of nursing visits per recipient; and to double the current hourly payment rate for such services.

EASTERN WASHINGTON STATE VETERANS HOME -- \$400,000 GENERAL FUND-STATE, \$7.2 MILLION OTHER FUNDS

The Senate budget authorizes funding for the acquisition and operation of a state Veterans Home which will serve the veterans of eastern Washington. The Department of Veterans Affairs will acquire an existing nursing facility in the Spokane area, and operate it with a combination of federal funding, resident charges, and state and federal Medicaid payments. The home will be less expensive for state taxpayers than if the residents were served in other nursing facilities, since additional federal support is available for operation of state veterans' homes.

SAVINGS AND REDUCTIONS

STATE PSYCHIATRIC HOSPITAL WARD CLOSURE -- \$3.4 MILLION GENERAL FUND-STATE SAVINGS

A total of \$5.7 million is provided for community residential and support services for 120 persons who would otherwise be served in the state psychiatric hospitals. This is expected to permit closure of four state hospital wards over the course of the 2001-03 biennium, resulting in a \$3.4 million net state savings. This is approximately one-quarter the level assumed in the Governor's budget proposal. The Senate budget directs that no long-term resident is to move from the state hospitals until a team of community professionals who will work with them on an ongoing basis has gotten to know the person; arranged a safe and stable place for them to live; and assured that the medical, behavioral, and social services needed for successful community living are in place.

FREEZE CHORE SERVICES ENROLLMENTS -- \$1.5 MILLION GENERAL FUND-STATE SAVINGS

The Senate freezes admissions to the chore services program, except for those needed for Adult Protective Services cases. All persons currently enrolled in chore services will be able to continue on the program. New applicants for homecare services will be served through the personal care program, if their income is low enough, or through the COPES waiver, if they would otherwise be at risk of needing nursing home care.

COMMUNITY LONG-TERM CARE FOR "MEDICALLY NEEDY" GROUPS -- \$500,000 GENERAL

FUND-STATE SAVINGS, \$500,000 GENERAL FUND-FEDERAL SAVINGS

Persons with annual incomes over \$19,000 for an individual, or about twice that for a couple, are currently able to receive publicly-funded assistance with the cost of nursing home care, but not with the cost of care in their own home or in a community residential facility. As authorized in Senate Bill 5185, the Department of Social and Health Services is to obtain two new federal waivers, which will permit such individuals to receive Medicaid-funded services in the community. This is expected to enable at least 375 of the 1,500 “medically needy” persons who currently receive Medicaid-funded nursing home care, but whose incomes exceed the current eligibility standard for community care, to instead be served in community-based settings at a lower public cost. Those savings will be partially offset by the cost of publicly funded medical and long-term care services for up to 725 additional persons who are not presently eligible for them.

PERSONS WITH DISABILITIES

ENHANCEMENTS

COMMUNITY MENTAL HEALTH FUNDING -- \$27.5 MILLION GENERAL FUND-STATE, \$21 MILLION GENERAL FUND-FEDERAL (MAINTENANCE LEVEL INCREASE)

The Senate budget provides a total of \$670 million for expenditures on Regional Support Network community mental health services during 2001-03. This is a 9.8 percent increase over the current 1999-01 budget, and is expected to support services for approximately 50,000 low-income children, seniors, and other adults each month.

COMMUNITY PLACEMENTS FOR PERSONS WITH DEVELOPMENTAL DISABILITIES -- \$12.5 MILLION GENERAL FUND-STATE, \$12.5 MILLION GENERAL FUND-FEDERAL

The Senate budget expands community placements for persons with developmental disabilities and improves staffing levels for case managers who oversee the quality of community care.

PSYCHIATRIC HOSPITAL CARE FOR PEOPLE WITH DEVELOPMENTAL DISABILITIES -- \$3.3 MILLION GENERAL FUND-STATE

Funding is provided for Eastern and Western State Hospitals to deliver more specialized care, combining both developmental and mental health treatment components, for persons with developmental disabilities who require the level and intensity of care best provided by a psychiatric hospital. These funds are in addition to the \$2.2 million per year for such care first provided in the 2000 supplemental appropriation.

INCREASE INVOLUNTARY TREATMENT BEDS FOR PERSONS WITH DRUG AND ALCOHOL ADDICTIONS -- \$3.2 MILLION GENERAL FUND-STATE

The Senate budget funds a 35-bed involuntary treatment facility on the East side of the state for persons who are a danger to themselves or others due to drug and alcohol abuse. Priority for admissions will be for persons who are also high utilizers of hospital care.

EXPAND DRUG AND ALCOHOL TREATMENT FOR PERSONS GRAVELY DISABLED -- \$2.8 MILLION TOTAL FUNDS

The Senate budget expands treatment capacity for persons gravely disabled from drug and alcohol abuse.

HIGH SCHOOL TRANSITION FOR YOUNG ADULTS WITH DEVELOPMENTAL DISABILITIES -- \$2

MILLION GENERAL FUND-STATE

The Senate budget provides funding for vocational services for young adults with developmental disabilities who are completing high school.

FAMILY SUPPORT FOR PERSONS WITH DEVELOPMENTAL DISABILITIES -- \$1 MILLION GENERAL FUND-STATE SAVING

The Senate budget increases funding for an additional 380 families who are caring for persons with developmental disabilities.

INCREASED VOCATIONAL REHABILITATION SERVICES -- \$1 MILLION GENERAL FUND-STATE, \$3.5 MILLION GENERAL FUND-FEDERAL

Sufficient state and local funding are provided for Washington to receive the full amount of funding for which we are expected to qualify under the federal vocational rehabilitation program. This will allow approximately 1,000 additional people with physical and mental disabilities to receive job training and placement services over the course of the 2001-03 biennium.

CHILDREN'S INPATIENT FACILITIES -- \$500,000 GENERAL FUND-STATE, \$600,000 GENERAL FUND-FEDERAL

The Senate budget provides a 10 percent rate increase for the four facilities from which the state purchases 24-hour residential treatment for severely emotionally disturbed children. The increase is needed for the facilities to address significant recruitment and retention problems, and rising medical insurance and utility costs.

ASSISTIVE TECHNOLOGY FOR THE BLIND -- \$265,000 GENERAL FUND-STATE

State funds are provided so that additional persons may benefit from devices such as document readers and speech synthesizers. Such devices can significantly improve employment opportunities for people with severe visual disabilities, but are expensive, averaging about \$8,000 per recipient.

INCREASE FUNDING FOR AUTISM PILOT PROJECT-- \$200,000 GENERAL FUND-STATE

The Senate budget increases funding for the Autism Pilot Project that began in 1999. The project assists families who are caring for children with autism. The children served often have co-occurring disorders such as mental retard or mental illness.

JUVENILE REHABILITATION

ENHANCEMENTS

ENHANCED MENTAL HEALTH SERVICES -- \$1.7 MILLION GENERAL FUND-STATE

Due to recent assessments of the of number youth with mental health issues in Juvenile Rehabilitation Administration's facilities, funding is provided for: (1) additional contracted mental health services; (2) increased counselor assistant positions at Maple Lane School; and (3) increased medication management resources to address workload associated with increased usage of psychotropic drugs medications.

SAVINGS AND REDUCTIONS

ELIMINATE CONTRACTED DETENTION BEDS -- \$1.3 MILLION GENERAL FUND-STATE SAVINGS

The Juvenile Rehabilitation Administration (JRA) currently contracts with six county detention facilities to provide short-term residential programming for JRA youth. County contracted beds are eliminated, requiring the youth to be housed within JRA's residential facilities.

FAMILIES AND CHILDREN

ENHANCEMENTS

INCREASE SUBSIDIZED CHILD CARE FOR LOW INCOME WORKING FAMILIES -- \$27 MILLION GENERAL FUNDS-FEDERAL

The Senate budget increases the funded capacity for subsidized childcare in continuing support of low-income working families who are getting off and staying off welfare.

IMPROVEMENTS IN FOSTER CARE AND ADOPTION SUPPORT -- \$15 MILLION GENERAL FUND-STATE, \$7 MILLION GENERAL FUND-FEDERAL

The Senate budget funds improvement in the state foster care system, including increases in the basic rate paid to foster parents, increased use of private child placing agencies, and new money for respite care for foster parents. The budget also provides financial assistance for an increasing number of families who adopt foster children.

QUALITY IMPROVEMENTS IN CHILD PROTECTIVE SERVICES -- \$8 MILLION GENERAL FUND-STATE, \$5 MILLION GENERAL FUND-FEDERAL

The Senate budget reduces the average caseload for child protective services (CPS) social workers, and funds improvements in the CPS quality assurance program and risk assessment process. Average caseloads per social worker will drop from 1:29 to 1:24 under the Senate budget. This will allow the department to make progress in achieving accreditation by the Council on Accreditation for Children and Family Services as expected in Senate Bill 5413 (ESSB 5413).

EXPAND THE PARENT-CHILD ASSISTANCE PROGRAM-- \$337,000 GENERAL FUND-STATE

The Senate budget expands the Parent-Child Assistance Program (P-CAP). The program helps mothers recover from substance abuse and prevents the consequences of fetal exposure to drugs and alcohol. The increase will allow for expanded capacity in Pierce County in connection with a clean and sober housing project that will prioritize services for mothers and children involved with meth labs. Funding is also provided to expand capacity in the Region 1 program.

SAVINGS AND REDUCTIONS

REDUCE FAMILY POLICY COUNCIL AND COMMUNITY HEALTH AND SAFETY NETWORK GRANTS -- \$2.2 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget funds the Family Policy Council and Network grants at 75 percent the current level for programs and networks with the best evidence of positive outcomes and contract compliance.

STREAMLINE WELFARE ELIGIBILITY-- \$2 MILLION GENERAL FUND-STATE SAVINGS, \$1 MILLION GENERAL FUND-FEDERAL SAVINGS

The Senate budget, along with the passage of Senate Bill 5576 (2SSB 5576), saves \$3 million by simplifying financial eligibility determination for income assistance programs. The current system of complex rules and paperwork was established in the 1960s and 70s. Under welfare reform, work participation requirements and time limits have made the old rules less relevant. Once fully implemented, the new system will reduce 211 FTEs, while increasing the level of support for helping families achieve financial independence.

SIMPLIFY PAYMENT OF SSI STATE SUPPLEMENTS AND REDUCE ADMINISTRATIVE COSTS -- \$6.6 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget calls for a new and simpler system for providing state supplemental payments for persons receiving federal Supplemental Security Income benefits. The state currently pays the federal government an administrative payment of \$8.10 per check to add state supplemental payments to the federal amount. The state also pays for the supplemental payments. The new system will simplify the calculation of supplemental benefits and reduce administrative cost by up to \$9 million per year once fully implemented.

DEPARTMENT OF CORRECTIONS

ENHANCEMENTS

OPENING OF NEW SPECIAL NEEDS FACILITIES -- \$26.8 MILLION GENERAL FUND-STATE (MAINTENANCE LEVEL INCREASE)

The Senate budget provides funding for the increased operating costs associated with opening the 256-bed expansion of the Special Offender Unit (SOU) at Monroe in March of 2002. The SOU is the facility where the department houses and treats the more severely mentally ill male offenders in the corrections system. Additionally, the Senate budget provides funding for the new Special Needs Unit (SNU) at the Washington Corrections Center for Women at Purdy. The SNU is comprised of reception, intensive management, segregation, and specialized mental health beds.

OFFENDER ACCOUNTABILITY ACT IMPLEMENTATION -- \$12.9 MILLION GENERAL FUND-- STATE (CARRYFORWARD & MAINTENANCE LEVEL INCREASE)

Chapter 196, Laws of 1999 (Offender Accountability Act) made a variety of changes to the supervision of offenders in the community. Increased funding is provided to fully implement these changes next biennium. With this increase, the Senate budget provides approximately \$21.2 million in 2001-03 for costs associated with the Offender Accountability Act.

OFFENDER BASED TRACKING SYSTEM REPLACEMENT -- \$3.3 MILLION VIOLENCE REDUCTION AND DRUG ENFORCEMENT ACCOUNT

While not providing funding for phase two a multi-phased project designed to replace the Department of Corrections' (DOC) Offender Based Tracking System (OBTS), funding is provided for operational and maintenance costs associated with the improvements achieved in phase one and for further planning activities.

COMMUNITY SUPERVISION ENHANCEMENT -- \$2.8 MILLION GENERAL FUND-STATE

Funding is provided for the hiring of additional Community Corrections Officers (CCOs) and

associated staff to enhance current supervision levels. Specifically, the funding is provided to increase supervision levels for high-risk offenders by approximately 5 percent. As a result of this enhancement and the other community supervision increases included in the Senate budget, funding next biennium for the Department of Corrections' Community Supervision program is increased by approximately \$25.5 million in total funds (21 percent) from 1999-01.

SAVINGS AND REDUCTIONS

STAFFING EFFICIENCIES AND BUDGET REDUCTIONS -- \$5.8 MILLION GENERAL FUND-STATE SAVINGS

In their budget reductions submitted to the Governor, the department identified a variety of steps that could result in cost savings. These steps include: transferring female youthful offenders to Juvenile Rehabilitation Administration; financing rather than purchasing certain equipment; changing the method for reimbursing inpatient hospitals for treatment of offenders; reducing facility maintenance activities. The Senate budget assumes that the department will implement these and other measures to achieve costs savings.

REDUCE CORRECTIONAL EDUCATION FUNDING -- \$2.7 MILLION GENERAL FUND-STATE SAVINGS

The Department of Corrections' budget includes approximately \$15.5 million per year for five types of education programs to incarcerated offenders: adult basic education; general education development (GED) preparation; English as a second language; job readiness; and vocational skills training. The Senate budget makes approximately a 10 percent reduction in total educational funding, but does not eliminate funding for any particular type of program. It is assumed that the department, in consultation with the State Board for Community and Technical Colleges, will prioritize the remaining funding towards the most cost-effective programs, reduce administrative costs, and develop other efficiencies in program delivery to mitigate the overall impact on current direct service levels.

ELIMINATION OF LAW LIBRARIES -- \$1.2 MILLION GENERAL FUND-STATE SAVINGS

Funding for law libraries in correctional facilities is eliminated. The Department of Corrections will continue to contract with private attorneys and law firms to provide legal counsel to offenders.

SPECIAL COMMITMENT CENTER

ENHANCEMENTS (CAPITAL AND OPERATING BUDGETS)

NEW SPECIAL COMMITMENT CENTER FACILITY -- \$47.7 MILLION STATE BONDS

Funding is provided to build a new Special Commitment Center facility on McNeil Island. The facility will provide custody and treatment for persons that have been committed under the state's sexually violent predator statute. Combined with the \$16.5 million in funding provided in the 1999-01 biennium, the funding level is sufficient to construct 258-beds of the total planned capacity of 402-beds.

MCNEIL ISLAND COMMUNITY TRANSITION FACILITY -- \$2.6 MILLION GENERAL FUND-STATE, \$3.2 MILLION STATE BONDS

The Senate capital budget provides \$3.2 million to construct a "step-down" facility for Special

Commitment Center residents that have progressed enough in their treatment plans to be suitable for this type of community transition facility. Before construction of the new facility is completed in 2002, the operating budget provides \$2.6 million to establish a community transition program at an existing facility on McNeil Island.

SPECIAL COMMITMENT CENTER PROGRAM ENHANCEMENTS -- \$2.5 MILLION GENERAL FUND-STATE

The Special Commitment Center (SCC) adopted a plan to satisfy the United States District Court's rulings. The Senate budget provides funding for the implementation of the plan which includes a variety of enhancements to the current SCC program, including: (1) the establishment of a vocational program; (2) the adoption of a preventative health program; (3) the establishment of another Assistant Resident Manager position to help cover evening hours; and (4) the development of a tracking system to collect resident information, treatment progress, and other activities designed to assist residents in achieving successful treatment.

SENATE TREATMENT OF PROPOSED HUMAN SERVICE REDUCTIONS

	SENATE	PROPOSED	DIFFERENCE
MEDICALLY INDIGENT HOSPITAL PAYMENTS	(\$3 M)	(\$34 M)	\$31 M

Under the proposed Senate budget, the state will continue to use federal disproportionate share hospital (DSH) revenues to help hospitals cover the cost of providing emergency care for very low-income, uninsured adults. The Senate budget does, however, increase to \$2,500 the share of their expenses for which recipients are personally responsible, a \$500 increase.

	SENATE	PROPOSED	DIFFERENCE
ADULT DENTAL SERVICES	\$0	(\$20.4 M)	\$20.4 M

All adults covered by Medicaid will continue to receive coverage for emergency and routine dental care. Without the \$38.5 million provided in the Senate budget, the level of preventative and routine care provided to low-income adults, other than those with developmental disabilities, would have to be reduced by approximately 60 percent.

	SENATE	PROPOSED	DIFFERENCE
MEDICARE PHARMACY	\$0	(\$16.8 M)	\$16.8 M

The Senate budget does not count on Congress enacting a Medicare prescription drug benefit in time for there to be savings in the state Medicaid budget in 2001-03. If such savings were assumed in the budget but don't in fact occur, significant reductions would be needed in other program areas.

	SENATE	PROPOSED	DIFFERENCE
STATE PSYCHIATRIC HOSPITAL WARD CLOSURE	(\$3.4 M)	(\$15 M)	\$12 M

A total of \$5.7 million is provided for community residential and support services for 120 persons who would otherwise be served in the state psychiatric hospitals. This is expected to permit closure of four state hospital wards over the course of the 2001-03 biennium, resulting in a \$3.4 million net state savings. This is approximately one-quarter the level assumed in the Governor's budget proposal. The Senate budget directs that no long-term resident is to move from the state hospitals until a team of community professionals who will work with them on an ongoing basis has gotten to know the person; arranged a safe and stable place for them to live; and assured that the medical, behavioral, and social services needed for successful community living are in place.

	SENATE	PROPOSED	DIFFERENCE
ELIMINATE UNUSED BED CAPACITY	(\$2.1 M)	(\$7.2 M)	\$5.1 M

The Senate retains funding for secure crisis residential centers (SCRCs). The Governor proposed the elimination of funding for secure group homes and cuts to SCRC capacity based on vacancy rates in fiscal year 2000. The Senate reduction eliminates funding for secure group homes because those funds were unused, but does not reduce SCRC capacity.

	SENATE	PROPOSED	DIFFERENCE
ELIMINATE FAMILY POLICY COUNCIL	(\$2.2)	(\$8.9 M)	\$6.7 M

The Senate reduces funding for the Family Policy Council (FPC) and grant to Community Health and Safety Networks. The Governor had recommended the elimination of the council and the grant

program. The Senate budget requires the FPC to prioritize remaining network grant funding to programs and networks with the best evidence of positive outcomes and prior contract compliance.

	SENATE	PROPOSED	DIFFERENCE
ADULT VISION CARE	\$0	(\$4.4 M)	\$4.4 M

All adults covered by Medicaid will continue to receive routine vision care, and one pair of eyeglasses every two years if needed.

	SENATE	PROPOSED	DIFFERENCE
DROP STATE-FUNDED CHORE SERVICES	(\$1.5 M)	(\$3.8 M)	\$2.3 M

As an alternative to the proposed elimination of the program, the Senate budget freezes new admissions to the program, except for those needed for Adult Protective Services cases. All persons currently enrolled in chore services will be able to continue on the program. New applicants for homecare services will be served through the personal care program, if their income is low enough, or through the COPES waiver, if they would otherwise be at risk of needing nursing home care.

	SENATE	PROPOSED	DIFFERENCE
ADULT DAY HEALTH	\$0	(\$3.7 M)	\$3.7 M

Approximately 1,100 senior and disabled citizens will continue to receive skilled health treatments, social activity, and nutritional meals an average of 2-3 days per week through the Adult Day Health centers. Without the funds provided in the Senate budget, participation in such programs would have had to be reduced by at least 50 percent.

	SENATE	PROPOSED	DIFFERENCE
REDUCE CORRECTIONAL EDUCATION FUNDING	(\$2.7 M)	(\$5.7 M)	\$3 M

The Department of Corrections' budget includes approximately \$15.5 million per year for five types of education programs to incarcerated offenders: adult basic education; general education development (GED) preparation; English as a second language; job readiness; and vocational skills training. The Governor's budget proposed to reduce total educational funding by approximately 20 percent by eliminating all vocational education-training programs. The Senate budget makes approximately a 10 percent reduction in total educational funding, but does not eliminate funding for any particular type of program. It is assumed that the department, in consultation with the State Board for Community and Technical Colleges, will prioritize the remaining funding towards the most cost-effective programs, reduce administrative costs, and develop other efficiencies in program delivery to mitigate the overall impact on current direct service levels.

	SENATE	PROPOSED	DIFFERENCE
CHILD DEATH REVIEWS	\$0	(\$1 M)	\$1 M

Local health departments will continue to receive state financial support to conduct multi-disciplinary reviews of the circumstances leading to unexpected deaths among children. A major outcome of such reviews during calendar year 2000 was the discovery that the child was sleeping in a crib, bassinette, or playpen in only 24 percent of the 71 sudden infant death syndrome (SIDS) deaths investigated. This information is now being widely distributed to the public by the SIDS Foundation.

	<u>SENATE</u>	<u>PROPOSED</u>	<u>DIFFERENCE</u>
TOTAL	(\$15 M)	(\$121 M)	\$106M

NATURAL RESOURCES

SALMON AND WATER

In response to Endangered Species Act listing of 15 salmon and trout species that covers 75 percent of the state, in the 1999-01 biennium the Legislature began making significant investments in watershed-based planning and salmon recovery projects. This budget continues and builds upon these investments.

Ensure the state's investments in salmon recovery are sound and based on science

SALMON RECOVERY MONITORING STRATEGY -- \$1.5 MILLION SALMON RECOVERY ACCOUNT

The Interagency Committee on Outdoor Recreation will coordinate natural resources agencies in developing a monitoring and adaptive management strategy.

SALMON AND WATERSHED INFORMATION MANAGEMENT AND DATA MANAGEMENT POOL -- \$2.2 MILLION SALMON RECOVERY ACCOUNT

The Interagency Committee on Outdoor Recreation will coordinate salmon and watershed information management and allocate the natural resources data pool to state to state and local governments – ensuring that monitoring programs and data management systems are comparable and coordinated.

SALMON SCIENCE AND MONITORING -- \$2.5 MILLION SALMON RECOVERY ACCOUNT

The Department of Fish and Wildlife will continue key salmon-related inventory, monitoring and science research including the Salmonid Stock Inventory, a cooperative effort between the Department and tribal co-managers, and smolt production monitoring. Salmon recovery scientific research will be driven by identification of monitoring needs by the Interagency Committee for Outdoor Recreation and the Salmon Recovery Funding Board.

Support locally driven planning and salmon recovery activities

LEAD ENTITIES -- \$2.6 MILLION SALMON RECOVERY ACCOUNT

The Department of Fish and Wildlife will continue to provide basic grants of \$100,000 to the estimated 26 lead entities that will operate in the 2001-03 Biennium. These groups recommend habitat improvement and restoration projects for funding by the Salmon Recovery Funding Board.

TECHNICAL ASSISTANCE FOR LOCALS -- \$2.4 MILLION SALMON RECOVERY ACCOUNT

The Department of Fish and Wildlife will continue provision of technical assistance for local actions affecting salmon including the Salmonid Screening Habitat Enhancement and Restoration Program (SSHEAR), which completes habitat improvements through partnership with local governments, landowners, and others involved in salmon recovery and the Department's Watershed Steward Team, which provides technical assistance for engineering and design, and fish and habitat science to project sponsors, lead entities, landowners, local governments, regional fisheries enhancement groups and others involved in local salmon recovery projects.

ENGINEERING GRANTS -- \$900,000 WATER QUALITY ACCOUNT

With grants through the Conservation Commission, local conservation districts will hire

engineers to design salmon recovery and other projects that benefit salmon.

AFW NEGOTIATIONS -- \$500,000 SALMON RECOVERY ACCOUNT

The Conservation Commission will make grants to stakeholders' to ensure their continuing participation in the Agriculture, Fish, and Water (AFW) negotiations to develop best management practices that will protect and recover salmon

Maintain state agency capacity by ensuring state agencies have the resources to address the factors contributing to salmon decline

ENHANCED STREAM FLOW MONITORING -- \$1.6 MILLION SALMON RECOVERY ACCOUNT

Locally based stream flow monitoring in the Nooksack, Quilcene/Snow, Elwha/Dungeness, Wenatchee and Walla Walla basins is supported through funding to the Department of Ecology.

WATER RIGHTS CHANGE DECISIONS -- \$2.5 MILLION GENERAL FUND-STATE

During the 2001-03 biennium, the Department of Ecology will reduce the backlog of water right change applications by issuing decisions on 730 applications.

SALMON RECOVERY PESTICIDE STRATEGY -- \$1.1 MILLION WATER QUALITY ACCOUNT

The Department of Agriculture will implement a program intended to enable the state, the federal EPA and citizens following state law from the prohibition on "take" under the Endangered Species Act.

WATER LAW COMPLIANCE -- \$1.1 MILLION SALMON RECOVERY ACCOUNT

The Department of Ecology's water quantity and non-point water quality compliance activities are expanded in support of salmon recovery.

SHARING COSTS TO MANAGE STORMWATER -- \$775,000 SALMON RECOVERY ACCOUNT

The Department of Ecology will provide technical assistance to local governments implementing the new Environmental Protection Agency Phase II Stormwater Requirements.

PROGRAM REVIEW FOR ESA COMPLIANCE -- \$456,000 SALMON RECOVERY ACCOUNT

The Department of Fish and Wildlife is reviewing the hydraulics project approval permit program to obtain a compliance agreement from the federal agencies enforcing the ESA.

REDUCING THREATS FROM TOXIC CONTAMINATION

CLEAN SITES INITIATIVE -- \$4 MILLION STATE TOXICS CONTROL ACCOUNT

The Department of Ecology will strategically use exceptional revenue in the toxics account to clean up sites contaminated by toxic chemicals that present a serious threat to human health and the environment.

PERSISTENT BIOACCUMULATIVE TOXIN (PBT) STRATEGY -- \$800,000 STATE TOXICS CONTROL ACCOUNT

The Department of Ecology will conduct baseline monitoring and develop chemical action plans to eliminate releases and reduce the existence of persistent, bioaccumulative toxic chemicals (PBTs). PBTs pose special challenges because they are durable, increase in concentration as

they move up the food chain and are linked to a wide range of toxic effect in fish, wildlife and humans.

AREA-WIDE CONTAMINATION -- \$500,000 STATE TOXICS CONTROL ACCOUNT

The Department of Ecology will develop a strategy to address emergent area-wide soil contamination problems – largely associated with arsenic contamination in Everett and Tacoma and arsenic contaminated orchards in eastern Washington. The Department will initiate a public involvement process, complete an assessment of the geographical locations of contamination and hot spots and design clean-up strategies.

OTHER ENHANCEMENTS

SHORELINE PROTECTION -- \$7 MILLION GENERAL FUND-STATE

The Department of Ecology will make grants to local governments to update their Shoreline Master Programs, consistent with the guidelines adopted in November 2000. Ecology will support local decision-making with technical assistance.

ENHANCED FIRE PROTECTION -- \$5.5 MILLION GENERAL FUND-STATE

Greater general fund contribution to fire protection will enable the Department of Natural Resources to strengthen its wildland fire protection program, including additional staffing, training and equipment.

FUNDING FOR AGRICULTURAL FAIRS AND YOUTH SHOWS -- \$4 MILLION FAIR FUND

Annual transfers of general fund dollars, guaranteed in statute, create a stable funding source for the more than 70 agricultural fairs and youth shows.

SPARTINA ERADICATION -- \$1.4 MILLION AQUATIC LANDS ENHANCEMENT ACCOUNT

Spartina is a non-native cordgrass that threatens to destroy saltwater estuaries. The Department of Agriculture will begin a 4-year eradication program in Puget Sound and eradicate 25 percent of the Spartina infestation in Willapa Bay within 2 years.

SAFE DRINKING WATER -- \$3.5 MILLION GENERAL FUND-STATE

Approximately \$1.4 million is provided for the Department of Health to assist with and monitor the compliance of local water systems with the requirements of the federal Safe Drinking Water Act. Additionally, the Senate budget provides \$2.1 million for a new state grant program that will assist local jurisdictions in assuring the safety of very small water systems, which serve approximately 100,000 of the state's citizens.

NEAH BAY RESCUE TUG -- \$3.1 MILLION OIL SPILL PREVENTION ACCOUNT

The risk of a catastrophic oil spill will be reduced by the year round stationing of a tugboat at Neah Bay. The state will share costs with federal and private funding sources.

LOCAL GOVERNMENT ASSISTANCE

I-695 ASSISTANCE TO PUBLIC HEALTH DISTRICTS, CITIES AND COUNTIES -- \$191 MILLION GENERAL FUND-STATE

The Senate budget provides funding of \$191 million for assistance to public health districts, cities and counties to address the ongoing impacts of Initiative I-695. This funding continues the Legislative intent set forth in the 2000 supplemental budget, that was affirmed by the Legislative task force, for backfill of public health and local government losses due to I-695 with state resources. An increase in funding is provided at the I-601 growth rate.

LEOFF PLAN 1 MEDICAL BENEFITS RISK POOL -- \$90 TO \$120 MILLION FROM LEOFF PLAN 1 SURPLUS ASSETS

In separate legislation, the Senate budget establishes a Medical Benefits Risk Pool from that portion of surplus LEOFF Plan 1 pension assets that were paid by local governments. The purpose of the Risk Pool is to assist local governments in providing medical benefits and long-term care for LEOFF 1 retirees.

CRIMINAL JUSTICE FUNDING ASSISTANCE -- \$9 MILLION IN ADDITIONAL REVENUE

Substitute Senate Bill 5309 (local government criminal justice) imposes an additional \$10 penalty for traffic infractions and an additional \$50 penalty on felony and misdemeanor traffic crimes. As a result of the legislation, it is estimated that an additional \$9 million in local government revenue will be generated.

METHAMPHETAMINE INITIATIVE -- \$5.9 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT, \$2 MILLION STATE OTHER FUNDS

The Senate budget provides funding for a variety of activities at the state and local levels to address methamphetamine problem. Some of the items funded include:

- Adding staff for the State Patrol's Pro-Active Meth Team and crime labs;
- Establishing a Training and Education Resource Center to provide information to government agencies, businesses, and individuals in dealing with methamphetamine issues;
- Enhancing funding for drug treatment and drug courts;
- Equipping and training of local law enforcement personnel; and
- Increasing the ability of the Department of Ecology to assist in meth lab cleanup.

IMPACTS OF CRIMINAL JUSTICE LEGISLATION -- \$6.9 MILLION GENERAL FUND-STATE, \$6 MILLION PUBLIC SAFETY AND EDUCATION ASSISTANCE ACCOUNT, \$6.9 MILLION VIOLENCE REDUCTION DRUG ENFORCEMENT ACCOUNT, \$3.1 MILLION IMPAIRED DRIVING ACCOUNT

The Senate budget provides continued funding to assist local governments in implementing criminal justice legislation passed in recent years. The legislation funded includes: the Becca bills; the 1997 juvenile justice reform; and the driving under the influence law changes passed in the 1998 session.

CRIMINAL JUSTICE INFORMATION SYSTEMS -- \$12.5 MILLION JUDICIAL INFORMATION SYSTEMS ACCOUNT, \$935,000 PUBLIC SAFETY AND EDUCATION ACCOUNT, \$229,000 VIOLENCE REDUCTION AND DRUG ENFORCEMENT ACCOUNT

The Senate budget provides funding for several enhancements and upgrades to existing information technology systems used by local law enforcement, court, and other criminal justice staff. Additionally,

funding is provided to establish a statewide jail booking and reporting system.

LOCAL CRIMINAL JUSTICE FACILITIES--\$1.3 MILLION GENERAL FUND-FEDERAL

The Senate capital budget allocates a portion of the state's award from the federal Violent Offender Incarceration and Truth-in-Sentencing grant for the construction, expansion, and improvement of local jails and other correctional facilities.

EXTRAORDINARY CRIMINAL JUSTICE -- \$975,000 PUBLIC SAFETY AND EDUCATION ASSISTANCE ACCOUNT

The Senate budget provides assistance to Franklin, Klickitat, Cowlitz, Skagit, Yakima, Thurston and Spokane counties for extraordinary criminal justice costs incurred in the adjudication of aggravated homicide cases.

JUROR FEE INCREASE -- \$1.6 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT

Beginning on July 1, 2002, funding is included in the Office of the Administrator for the Court's budget to allow local courts to increase the rate of juror compensation from \$10 per day to \$25 per day, beginning on the second day of juror service. It is assumed that counties and cities will still pay \$10 for each day of service, and the state will pay the remainder for the second day forward.

GROWTH MANAGEMENT UPDATES -- \$3 MILLION GENERAL FUND-STATE

Local governments are required to update critical area ordinances in growth management comprehensive plans. New funding of \$3 million in state assistance is provided for critical area ordinance updates. This amount is in addition to \$3.2 million for ongoing growth management grants and \$2.4 million for assessment of buildable lands currently budgeted for growth management assistance.

SHORELINE PROTECTION -- \$7 MILLION GENERAL FUND-STATE

The Department of Ecology will make grants to local governments to update their Shoreline Master Programs, consistent with the guidelines adopted in November 2000. Ecology will support local decision-making with technical assistance.

COMMUNITY ASSISTANCE

HOUSING OPERATING BUDGET INCREASE -- \$2.2 MILLION HOUSING ASSISTANCE ACCOUNT, STATE CAPITAL BUDGET -- \$83 MILLION STATE BONDS AND HOUSING ASSISTANCE ACCOUNT LOCAL GOVERNMENT FUNDING -- \$10.7 MILLION

Senate Bill 5936 provides funding for operating housing assistance to low income families in projects owned and managed by non-profit housing organizations for migrant farm workers and developmentally disabled renters. Funds are also provided for low-income housing, technical assistance, neighborhood mediation and the development of an affordable housing guidebook. \$5 million of revenue provided through SB 5936 is also programmed in the Senate Capital budget for development of additional low-income housing units. \$10.7 million of the revenue from SB 5936 is retained by counties and deposited into a fund to be used by cities and towns for low-income housing projects.

The Senate Capital Budget provides \$55 million of State Bonds and \$5 million of Housing Assistance Account funds for the Housing Assistance, Weatherization and Affordable Housing Program. Additional state bond funding of \$8 million are provided for farm worker housing, \$5 million for housing homeless Families with children, \$3 million for self-help housing programs, and \$5 million for housing for persons with developmental disabilities.

EMERGENCY FOOD ASSISTANCE PROGRAM -- \$1 MILLION GENERAL FUND-STATE

Funding is provided for the acquisition of equipment to preserve the increasing storage needs related to donated perishable goods. These funds are in addition to the existing level of state food assistance of \$7.4 million per biennium.

JUDICIAL ENHANCEMENT POOL--\$750,000 PUBLIC SAFETY AND EDUCATION ACCOUNT

The Senate budget provides \$750,000 for enhancements to certain judicial programs as determined by the Office of the Administrator for the Courts in consultation with the Supreme Court.

SEXUAL ASSAULT LEGAL ADVOCATES -- \$380,000 PUBLIC SAFETY AND EDUCATION ACCOUNT

Funds are provided for community based legal advocates to assist sexual assault victims with both civil and criminal justice issues.

CREATION OF THE DEPARTMENT OF COMMUNITY DEVELOPMENT AND THE DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT -- \$1.3 MILLION GENERAL FUND-STATE

Senate Bill 5370 provides for the creation of separate agencies to better serve the diverse needs of clients. Funding is provided for two assistant deputies as well as three additional support staff, associated technology assistance and one-time equipment costs. \$293,000 is provided as an upgrade the technology equipment for both agencies.

ART IN COMMUNITIES AND ARTS IN EDUCATION -- \$750,000 GENERAL FUND-STATE

The Senate budget increases funding for arts programs. This will provide additional grants to strengthen the state's arts resources and improve access to the arts for all residents in Washington.

EASTERN WASHINGTON STATE HISTORICAL SOCIETY EXPANSION STAFFING -- \$509,000 GENERAL FUND-STATE

The Senate budget funds an increase in staff for the Northwest Museum of Arts and Culture (formerly the Cheney Cowles Museum) expansion slated for completion in late 2001. The additional staff will

help the Eastern Washington State Historical Society to enhance and expand exhibits, display more of the museum's permanent collections, feature regional and national collections, and offer more interactive learning environments.

OPERATING BUDGET LEWIS AND CLARK BICENTENNIAL CELEBRATION -- \$652,000 GENERAL FUND-STATE

CAPITAL BUDGET -- \$3 MILLION STATE BONDS

In preparation for the Lewis and Clark Trail Bicentennial in 2004, the Senate budget provides funding for the Washington State Historical Society to work with local communities, tribal governments, neighboring states, and the National Bicentennial Council to plan local events and community education programs. On-going funding is provided to the State Parks and Recreation Commission for additional FTEs to staff the Lewis and Clark Interpretive Center at Fort Canby.

\$1 million of capital funding provided in the Senate budget will be distributed to local and tribal governments for interpretive projects identified by the Lewis and Clark Bicentennial Advisory Committee under the auspices of the Washington State Historical Society. Through the State Parks and Recreation Commission, Fort Canby and Sacagawea State Parks will each receive \$1,000,000 to renovate facilities and enhance exhibits at their respective Lewis and Clark trail interpretive centers.

PIPELINE SAFETY -- \$1.8 MILLION PUBLIC SERVICE REVOLVING ACCOUNT

Following the passage of the Washington State Pipeline Safety Act of 2000, the Senate budget includes funding for the Utilities and Transportation Commission to implement a comprehensive pipeline safety program. The program expands the Commission's inspection authority and staffing level to include interstate natural gas and hazardous liquid pipelines.

REVENUE ADJUSTMENTS

MONEY TRANSFERS TO THE GENERAL FUND

RESTRUCTURING OF LEOFF PLAN 1 TO RECOGNIZE SURPLUS ASSETS -- \$250 MILLION REVENUE TRANSFER

The Senate 2001-03 operating budget proposal uses \$250 million of the surplus state assets in the Law Enforcement Officers and Fire Fighters Retirement System, Plan 1 (LEOFF 1) Fund to support state general fund programs. Without the use of the surplus assets, the legislature would be forced to reduce state programs and services more than it does, or reduce budget reserves to much lower levels, or both.

The Senate budget proposes that LEOFF Plan 1 be restructured, in a process similar to that sometimes used for over-funded private-sector pension plans. The restructuring would allow the surplus LEOFF Plan 1 assets to be used for three purposes:

- (1) To provide new benefits for LEOFF Plan 1 members and retirees;
- (2) To provide LEOFF Plan 1 employers (cities, counties, and fire districts) assistance in funding the lifetime medical benefits for LEOFF Plan 1 retirees; and
- (3) To provide reserves for guaranteeing the actuarial soundness of LEOFF 1 benefits and funding reserves for the 2001-03 and subsequent state budgets.

The use of \$250 million of these surplus assets for the 2001-03 state budget will benefit the taxpayers, who provided most of the LEOFF 1 contributions in the 1980's and 1990's, by enabling the state to avoid both significant cuts to programs and potential tax increases. The balance of the surplus assets is dedicated to enhance and guarantee the security of LEOFF 1 benefits, a prudent precaution given the unpredictability of investment earnings in the short term.

TREASURER SERVICE ACCOUNT MONEY TRANSFER - \$8.0 MILLION GENERAL FUND INCREASE
\$8 million in surplus revenue is transferred From the Treasurer's Services Account to the General Fund in FY 2003.

SECURITIES REGULATION ACCOUNT MONEY TRANSFER - \$2.0 MILLION GENERAL FUND INCREASE

\$2 million is transferred from the Securities Regulation Account to the General Fund in FY 2002.

GRANT REVOLVING ACCOUNT MONEY TRANSFER - \$1.4 MILLION GENERAL FUND INCREASE
Transfer of \$1.4 million of excess fund balance from the Grant Revolving Account to the General Fund in FY 2002.

HEALTH SERVICES ACCOUNT MONEY TRANSFER -- \$123 MILLION GENERAL FUND REVENUE TRANSFER

In the 2001 supplemental budget, \$123 million of the Health Services account surplus money (tobacco settlement) is transferred into the general fund to help pay for the increased cost of low income healthcare.

ENERGY PACKAGE

The Senate energy package is based on the following criteria:

- Protect at risk citizens.
- Eliminate unnecessary regulatory hurdles.
- Encourage the conservation of energy.
- Allow market signals and business profits to drive the production of new capacity
- Support the development of new sources of energy.

ENERGY ASSISTANCE PROGRAMS -- \$3.0 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB5540 creates a new public utility tax credit program for gas and electric utilities that provide discounts to low-income customers or make direct contributions to existing community-based energy assistance programs. The maximum credit available for this program is \$1.5 million per year.

WIND AND SOLAR POWERED ENERGY FACILITY -- \$312,000 GENERAL FUND-STATE REVENUE DECREASE

The sales tax exemption for wind, solar, and landfill gas powered electrical generating facilities are lowered from 200 kilowatts to 200 watts in SB 5541. Fuel cells and machinery and equipment using biomass waste are added to the list of eligible energy sources.

SITING ENERGY FACILITIES -- NO GENERAL FUND-STATE REVENUE IMPACT

SB 5912 increases the current Energy Facility Site Evaluation Council (EFSEC) jurisdiction threshold on the size of facilities from 250 MW to 350 MW.

DIVERSIFICATION OF STATE ELECTRICITY SUPPLY -- NO GENERAL FUND-STATE REVENUE IMPACT

Senate Bill 6027 establishes a performance standard and time schedule by which electric utilities and certain direct service industrial customers (DSIs) must diversify their energy resources through alternative energy resources and conservation and efficiency resources.

ENERGY EFFICIENT BUILDINGS

SB 5647 requires new energy efficiency measures and accelerates the state's activities in energy conservation by requiring that all state agencies complete energy audits on state buildings by December 2002. School districts will also perform audits of all state school buildings by June 30, 2004 unless the school has had an audit since 1997.

DISLOCATED WORKER TRAINING PROGRAM

In the Senate Budget, the State Board Community and Technical colleges is instructed to prepare its annual allocations for dislocated workers with attention to permanent job loss from companies facing rapidly rising energy costs like aluminum manufacturing.

OTHER REVENUE LEGISLATION

PROVIDING FAIR FUNDING -- \$4.0 MILLION GENERAL FUND-STATE REVENUE DECREASE

In SB 5237, beginning in FY 2002, \$2 million per year is transferred from the general fund to the fair fund.

TAX CREDITS IN RURAL COUNTIES -- \$2.0 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5469 expands the business and occupation (B&O) tax credit for job creation in rural counties to include jobs created as a result of relocation into rural counties or community empowerment zones. The maximum annual amount of the B&O credit is raised from \$7.5 million to \$8.5 million with at least \$1 million of the credits must to be set aside for jobs created as a result of relocations.

PUBLIC FACILITY DISTRICTS -- \$1.5 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5514 allows cities to form a public facility districts (PFD) with the counties. A 50 percent sales and use tax exemption applies to all PFDs for building regional centers. Counties with cities larger than 50,000 that begin construction by Jan 2004 qualify to impose a 0.033 percent sales tax, deducted from the state sales tax.

NONPROFIT HOSPITALS -- \$1.0 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5102 exempts materials, labor, and services used in constructing, expanding or renovating new and existing nonprofit hospitals in rural counties. Sales of related machinery and equipment are also exempt. The projects must be financed with money donated to the nonprofit hospital for the project.

DEFINING RURAL COUNTIES -- \$970,000 GENERAL FUND-S REVENUE DECREASE

Under SB 5082 the definition of "rural county" is expanded to include counties that are smaller than 225 square miles. Island County and San Juan County are the only two counties that meet this size requirement. (San Juan County also meets the population density criteria.)

TRIBAL CIGARETTE TAX COMPACT -- \$557,000 GENERAL FUND-STATE REVENUE DECREASE

The Governor is allowed to enter into cooperative agreements concerning the sales of cigarettes with federally recognized Indian tribes located within Washington under SB 5372. Cigarettes sold on Indian lands during the cooperative agreement's term are subject to a tribal cigarette tax and are exempt from state cigarette taxes as well as state sales and use taxes.

TAXATION OF LODGING -- \$441,000 GENERAL FUND-STATE REVENUE DECREASE

SB 5894 eliminates the requirement for continuous occupancy of a specific lodging unit by the same person in order to be exempt from the tax on lodging.

DAIRY FARMERS -- \$408,000 GENERAL FUND-STATE REVENUE DECREASE

SSB 5947 provides sales and use tax exemptions for the maintenance and repair of dairy nutrient management equipment and facilities. Sales and use tax exemptions are also provided for the purchase, construction, and repair of an anaerobic digester used primarily to treat dairy manure.

THOROUGHBRED HORSES TAX EXEMPTION -- \$187,000 GENERAL FUND-STATE REVENUE DECREASE

SB 5266 exempts the sales of thoroughbred racehorses at claims races from retail sales tax.

LEASEHOLD EXCISE TAX -- \$90,000 GENERAL FUND-STATE REVENUE DECREASE

SB 5977 exempts from the leasehold excise tax the use or possession of U.S. Forest Service lands for noncommercial recreational residences where an annual permit fee is paid to the U.S. Department of Agriculture or the U.S. Forest Service.

ORTHOTIC DEVICES -- \$61,400 GENERAL FUND-STATE REVENUE DECREASE

SB 5390 exempts orthotic devices prescribed by podiatrists from sales tax.

CONIFER SEEDS/TAX EXEMPTION -- \$58,000 GENERAL FUND-STATE REVENUE DECREASE

Under SSB 5484, sales and use tax exemptions are provided for sales of conifer seed that is placed into freezer storage by the seller and used to grow timber outside Washington or sold to an Indian tribe for growing timber.

FOREST LANDS TAXATION -- \$0 GENERAL FUND-STATE REVENUE DECREASE

SSB 5702 simplifies administration and harmonizes forestland current use taxation. Classified forestland is merged with designated forestland.

DIRECT PAY PERMITS -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SB 5725, the department of revenue may grant a direct pay permit to a taxpayer required to use electronic funds transfer in paying taxes or making taxable purchases over \$10 million per year. The permit allows the taxpayer to remit directly to the department of revenue the use tax on the acquisition of tangible personal property and the sales tax on labor and services.

LOCAL REAL ESTATE EXCISE TAX -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SSB 5965, an additional real estate excise tax is authorized for counties of 0.5 percent for the development of affordable housing, subject to voter approval. Only a county that imposed the 1.0 percent tax for conservation areas on January 1, 2001, is eligible.

ENHANCED 911 EXCISE TAX -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SSB 6034, the county tax of \$0.25 per month on each wireless access telephone line for basic 911 is increased to \$0.50 and can be used for enhanced 911 (E911). A state E911 tax of \$0.20 per month is imposed on each wireless access telephone line. The state E911 taxes can be used to implement and operate E911 statewide.

HAZARDOUS SUBSTANCE TAX -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SB 6060, hazardous substances taxable under the state hazardous substance tax are updated to reflect hazardous substances under the federal comprehensive environmental response, compensation, and liability act as of March 1, 2001. Excepted are certain non-compound metals that are no longer included as a hazardous substance. Taxable pesticides are limited to those required to be registered as of August 3, 1996, under the federal insecticide, fungicide and rodenticide act.

TAX STRUCTURE STUDY -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SSB 6098, the department of revenue is directed to create a committee on taxation to study how well the current tax system functions and how it could better serve the state in the 21st Century. Alternatives are to be developed that improve the harmony with neighboring states and encourage economic development and home ownership. Most of the tax options must be revenue neutral and contain no income tax. A report is required by November 30, 2002.

OREGON AND WASHINGTON COMMITTEE ON TAXATION -- \$0 GENERAL FUND-STATE REVENUE DECREASE

Under SJM 8008, the Governor and Legislature of Oregon are asked to establish a joint committee on taxation, consisting of an equal number of legislators from both states, to study the issue of tax fairness for residents residing in one state who are employed, conduct business, or make purchases in the other state.

SALES TAX DEDUCTION ON FEDERAL TAXES -- \$0 GENERAL FUND-STATE REVENUE DECREASE

SJM 8013 asks Congress to restore the itemized deduction for sales taxes.

LIMITING THE COMBINED LODGING SALES TAX -- \$0 GENERAL FUND-STATE REVENUE DECREASE

HB 1125 requires that any local sales and use tax change adopted after December 1, 2000, must provide an exemption for sales of lodging if the total sales tax rate would exceed the greater of 12 percent or the total sales rate in effect on December 1, 2000.

COMMUTE TRIP REDUCTION (TELEWORK) -- \$0 GENERAL FUND-STATE REVENUE DECREASE

SB 5170 creates a telework enhancement committee in the Commute Trip Reduction Task Force.

OVERPAYMENT OF TAX ON LEASED EQUIPMENT -- \$0 GENERAL FUND-STATE REVENUE DECREASE

SB 5523 grants an exception to the four-year limitation of refunds regarding overpayments of sales tax on leased equipment. A taxpayer is allowed to credit the sales tax paid incorrectly on the original sale to offset the amount of sales taxes subsequently owed on the leased property.

COMMUTE TRIP REDUCTION -- \$0 GENERAL FUND-STATE REVENUE DECREASE

SB 6008 reenacts the commute trip reduction tax credit until December 31, 2006. Employers that provide incentives for employees to car pool are allowed a business and occupation or public utility tax credit if they provide financial incentives to their employees for ride sharing in car pools, public transportation, using car sharing, and non-motorized commuting (CTR incentives). The multimodal account will reimburse the general fund for any lost revenue.

PROPERTY TAX EXEMPTION FOR VERY LOW INCOME -- \$0 GENERAL FUND-STATE REVENUE DECREASE

The 1999 property tax exemption for nonprofits that provide housing for very low-income citizens is broadened slightly by SB 6092.

LEASEHOLD EXCISE TAX -- \$25,400 GENERAL FUND-STATE REVENUE INCREASE

Leases of public land consisting of 3,000 residential lots (Lake Cushman Development) are exempt from the leasehold excise tax and are subject to the property tax under SB 5210.

BUDGET DRIVEN REVENUE

DOR REVENUE ENHANCEMENT - \$28 MILLION GENERAL FUND REVENUE INCREASE

The Department of Revenue will utilize the vehicle licensing system and automated collection system to improve collections of taxes due on recreational vehicles and vessels. DOR will increase enforcement of use tax collections through U.S. customs and will put a higher emphasis on tax discovery and high dollar accounts. Independent contractors will be hired to perform audits of businesses that conduct operations in Washington State but are located out-of-state.

Senate Revenue Legislation

(Dollars in Thousands)

Bill #	Description	2001-03	2003-05
5540	Energy assistance programs	(\$3,000)	(\$3,000)
5541	Wind and solar powered facility	(\$312)	(\$325)
5912	Energy facilities (EFSEC)	\$0	\$0
6027	Electricity (Portfolio)	\$0	\$0
5237	Providing fair funding	(\$4,000)	(\$4,000)
5469	Tax credits in rural counties	(\$2,000)	(\$2,000)
5514	Public facility districts	(\$1,477)	(\$9,987)
5102	Nonprofit hospitals	(\$1,019)	(\$1,064)
5082	Defining rural counties	(\$970)	(\$1,108)
5372	Tribal cigarette tax compact	(\$557)	(\$1,612)
5894	Taxation of lodging	(\$440)	(\$496)
5947	Dairy farmers	(\$407)	(\$570)
5266	Thoroughbred horses tax exemption	(\$187)	(\$222)
5977	Leasehold excise tax	(\$89)	(\$92)
5390	Orthotic devices	(\$60)	(\$154)
5484	Conifer seeds/tax exemption	(\$58)	(\$31)
1125	Limiting the combined lodging sales tax	\$0	\$0
5170	Commute trip reduction (telework)	\$0	\$0
5523	Overpayment of tax on leased equipment	\$0	\$0
5702	Forest lands/ taxation	\$0	\$0
5725	Direct pay permits	\$0	\$0
5965	Local real estate excise tax	\$0	\$0
6008	Commute trip reduction	\$0	\$0
6034	Enhanced 911 excise tax	\$0	\$0
6060	Hazardous substance tax	\$0	\$0
6092	Property tax exemption	\$0	\$0
6098	Tax structure study	\$0	\$0
8008	Oregon and WA committee on taxation	\$0	\$0
8013	Sales tax deduction on federal taxes	\$0	\$0
5210	Leasehold excise tax	\$25	(\$143)
	TOTAL	(\$14,551)	(\$24,804)

2001-03 SENATE CAPITAL BUDGET

CAPITAL SPENDING IN THE CONTEXT OF THE OVERALL GENERAL FUND AND THE DEBT LIMIT

A large portion of the 2001-03 Senate Capital Budget is financed by the sale of general obligation bonds. Debt service payments on those bonds will exceed \$1.2 billion state general fund in 2001-03. The statutory debt limit provides a cap on the amount of general funds that may be dedicated for debt and thereby prevents current capital expenditures from creating an increasing burden on future operating budgets. Because the statutory 7 percent debt limit excludes general fund property tax receipts and other dedicated portions of the general fund from the calculation of the debt limit, the \$1.2 billion in debt service results in about 5.3 percent of the projected \$22.8 billion in general fund expenditures for 2001-03.

THE DEBT LIMIT: EXPECTATIONS AND CHANGES

Governor Locke's proposed 2001-03 Capital Budget provided general fund supported state bond spending of \$899 million as allowed by the statutory debt limit. That amount is \$193 million below the amount anticipated for 2001-03 when the Governor developed the state's capital plan in 1999. The change in spending plans was due to accumulating outstanding debt, rising interest rates and slower than anticipated state revenue growth.

As the Legislature convened for the 2001 session, there was the anticipation that the recent drop in interest rates would allow for a higher level of capital expenditures. Those hopes were moderated as the March revenue forecast predicted an ongoing revenue decrease of \$51 million per fiscal year during the 2001-03 biennium.

The resulting changes in the debt limit allow expenditures of **\$908 million in General Fund-State supported bonds for 2001-03**. The Senate Capital Budget also provides authority for expenditure of \$1.6 billion in other funds including \$408 million in common school funds, \$225 million in Public Works Trust Fund, \$190 million of federal funds, \$98 million of higher education building fees, \$90 million of the education construction fund, \$60 million of the Water Quality Account, \$158 million of the state and federal Water Pollution Control funds, \$43 million of the Local Toxic Account and \$20 million of the Drinking Water Assistance Account. The current estimate of state bond capital spending for the next three biennium is shown below.

General Fund Bond Capital Appropriations and Debt Service Dollars in millions

	New General Fund Bond Appropriation	Debt Service	Percent Growth Debt Service
2001-03	\$908	\$1,233	10.8 percent
2003-05	\$944	\$1,295	5.0 percent
2005-07	\$982	\$1,408	8.8 percent

LONG RANGE PLANNING -- THE SENATE PRIORITIES

As the Senate reprioritizes funding for 2001-03 it is necessary to adjust future spending so that capital projects can fit within available resources. The Senate 6-year plan provides a guideline for future expenditures that matches projected resources. When projects are added it is necessary to offset those increases with reductions in other areas.

The Senate budget emphasizes **Education, Low-Income Housing and Natural Resources**. The increased funding in these areas is made possible making numerous small reprioritizations in other areas of the budget.

K-12 EDUCATION -- \$408 MILLION

The Senate budget provides \$408 million in new appropriations for K-12 construction. \$231 million is provided through state general fund resources including the Education Construction Account (\$55 million), the Education Savings Account (\$36 million), and the State Bonds through the Trustland Transfer Program (\$40 million).

The Senate fully funds the projected need for K-12 construction by providing \$395 million for construction grants. This amount anticipates an increase in eligible projects due to recent local bond passages.

An additional \$8 million is provided in the construction grant program as an incentive for full-day Kindergarten.

\$5.4 million is provided for capital improvements and instructional equipment at Skill Centers to update vocational and technical education at the secondary school level.

HIGHER EDUCATION -- \$437 MILLION STATE BONDS, \$350 MILLION OTHER FUNDS

The Senate budget reprioritizes funds to place increased emphasis on Community Colleges for new facilities as well as renovations and repairs. \$278 million is provided to the Community Colleges for 2001-03. This increased funding level is maintained in future biennium by accelerating the design schedule for major projects

The State Technology Institute at the UW- Tacoma branch campus is supported with \$550,000 for equipment matching funds. \$3.1 million is provided to construct and equip a computer science instruction lab at Pierce, South Puget Sound, Tacoma, Olympic, South Seattle, and Highline Community Colleges. The capital funds for the 2-year public partners is intended increase the number of associate degree students ready for transfer to the State Technology Institute.

Other major construction initiatives are continuing at branch campuses including UW-Tacoma (\$42 million) and WSU-Vancouver (\$17.4 million). Expansion and renovation projects at all 4-year institutions equal \$247 from state bond funds expenditures.

LOW INCOME HOUSING -- \$93 MILLION

The Senate budget provides a total of \$93 million in state and local funds for low-income housing. Of

that amount \$55 million of state bond funds and \$5 million of Housing Assistance Account is provided for the Housing Assistance, Weatherization and Affordable Housing Program and \$5 million of that amount is separately provided for developmentally disabled housing. A new categorical grant program for self-help housing is established with \$5 million of state bonds to set up revolving loan accounts for institutions and non-for-profit housing organizations. Additionally \$8 million of state bonds are provided for farm worker housing and \$5 million is provided for homeless families with children. In total, the state funding equals \$83 million of capital appropriations.

Senate Bill 5936 provides revenue of over \$10 million for local low income housing programs provided through cities and towns. Additionally the state-operating budget contains \$2.2 million of state funds for operational assistance for farm worker and developmentally disabled housing.

RECREATION AND NATURAL RESOURCES -- \$190 MILLION STATE BONDS, \$405 MILLION OTHER

State Parks receive \$36 million in total funds including \$14 million for facility preservation, \$3 million for trails and historic facilities and \$11 million for specific park improvements at Cama Beach, Fort Worden, Fort Canby and Mt. Spokane.

\$28 million of state bond funds and over \$70 million in federal funds are provided for salmon recovery activities, hatchery management and facilities improvements.

Funding provided for recreation and conservation includes \$45 million for the Washington Wildlife and Recreation Program. Further funding of \$5 million is provided for additional critical habitat and natural areas projects identified through the WWRP screening process.

Forest lands are protected by providing \$50 million for the Trustland Transfer Program, and \$5 million for the Conservation Reserve Enhancement Program. Preservation and sustainability of agricultural and forest land is enhanced by providing \$10 million for water quality and agricultural management programs through the Conservation Commission, \$1 million for riparian open space grants, and \$5 million for forest and wetlands conservation grants.

CAPITAL INVESTMENTS FOR COMMUNITIES AND LOCAL GOVERNMENT

The Senate Capital Budget provides nearly \$128 million of State Bonds and over \$500 million of other funds to assist Washington communities and local governments to preserve the high quality of life that distinguishes the state. Investments in community services, arts, culture, environmental protection and basic infrastructure will provide benefits to the Washington citizens for years beyond the current budget.

	<u>State Bonds</u>	<u>Other Funds</u>
Community and Economic Development		
Rural Washington Loan Fund (RWLF)		5,650,367
Community Economic Revitalization (CERB)		7,725,000
Public Works Trust Fund		225,300,000
Local Criminal Justice Facilities		1,335,619
Community Services Facilities Program	4,186,000	
Community Health Care Facilities	2,000,000	
Building for the Arts	4,000,000	
Mirabeau Point Community Complex	2,000,000	
Seattle Center Redevelopment	2,000,000	
Fort Vancouver National Historic Reserve	2,000,000	
Chewelah Peak Environmental Learning Center	2,000,000	
Fox Theater Project	2,000,000	
Seahurst Environmental Learning Center	250,000	
Historic Carriage Museum	239,000	
Des Moines Beach Park - Structure Relocation	250,000	
Washington Heritage Projects	4,075,000	
Drinking Water Assistance Program		7,700,000
Filipino Community of Seattle	250,000	
Seattle Chinese Gardens	200,000	
Total	25,450,000	247,710,986
Environment and Recreation		
State Emergency Water Projects		214,167
Local Toxics Grants to Locals for Cleanup and Prevention		42,000,000
Local Hazardous Waste Liability		1,000,000
Water Pollution Control Revolving Account		159,112,802
Centennial Clean Water Fund		48,000,000
Yakima Basin Water Investments	10,000,000	
Nonhighway Road and Off-Road Vehicle Activities (NOVA)		5,527,551
Washington Wildlife and Recreation Program (estimated)	14,500,000	
Water Quality Grants Program		5,000,000
Aquatic Lands Enhancement Grants		5,565,000

Total	24,500,000	266,419,520
Housing		
Housing Assistance and Weatherization	55,000,000	5,000,000
Housing for Persons with Developmental Disabilities	5,000,000	
Self-Help Housing	3,000,000	
Farmworker Housing	8,000,000	
Housing for Homeless Families with Children	5,000,000	
Total	78,000,000	5,000,000
Statewide Total	127,950,000	519,130,506

PROJECT LISTS

The Capital Budget is comprised of hundreds of separately identified projects. A list of these projects may be found in the Agency Capital Project Summary (separate handout). There are also a number of categorical grant and acquisition programs within the capital budget including the Washington Wildlife and Recreation Program, the Trustland Transfer Program, Aquatic Lands Enhancement Grant Program, Building for the Arts, Community Services Facilities Program and Heritage Program. These lists may be found as appendices to the Agency Capital Project Summary.