Table of Contents

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PEBB Benefits
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Joint Legislative Systems Committee
LEAP Committee
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Office of the Lieutenant Governor
Public Disclosure Commission
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State Treasurer
Statute Law Committee
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DSHS - Vocational Rehabilitation
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Department of Ecology
Department of Fish & Wildlife
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Parks and Recreation Commission
Pollution Liability Insurance Agency
Puget Sound Partnership
Recreation and Conservation Office
State Conservation Commission
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Board of Industrial Insurance Appeals
Commission on African-American Affairs
Commission on Asian-American Affairs
Commission on Hispanic Affairs
Commission on Judicial Conduct
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- Court of Appeals
- Law Library
- Office of the Administrator for the Courts
- Office of Civil Legal Aid
- Office of Public Defense
- Supreme Court

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Department of Enterprise Services
Department of Financial Institutions
Department of Labor and Industries
Department of Licensing (non-transpo. portion)
Eastern Washington Historical Society
Gambling Commission
Horse Racing Commission
Human Rights Commission
Military Department
Minority & Women's Business Enterprises
Office of Administrative Hearings
Office of Archaeology & Historic Preservatio
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Office on Indian Affairs
Washington State Historical Society
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DSHS - Juvenile Rehabilitation
DSHS - Special Commitment Center
Forensics Investigation Council
Justice Assistance Grant (formerly Byrne Grant)
State Patrol (non-transportation portion)

THE BUDGET SITUATION

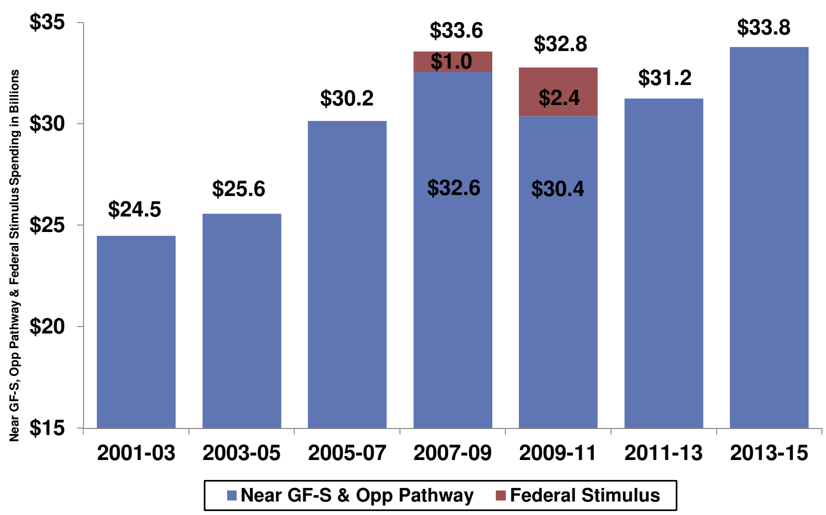
2015 SESSION PREVIEW

Prepared by the Senate Ways and Means Staff

November 2014

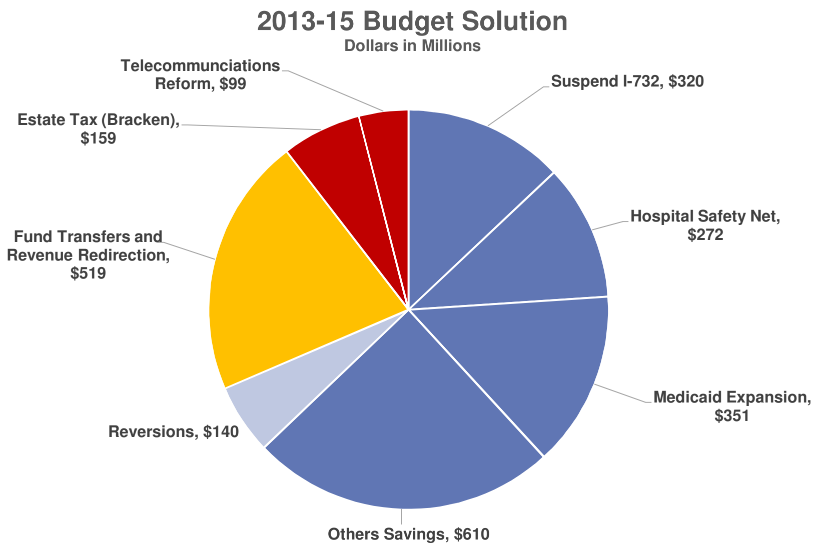
Spending has returned to pre-recession levels

2



Two years ago, you solved a $2.5 billion budget problem with a mix of savings, fund transfers and increased revenue

3



And when the Legislature adjourned the 2014 session – the budget was balanced

4

- **An ending fund balance of $296 million for the 2013-15 biennium**
- **Consistent with the required balanced budget the 4-year outlook projected an ending fund balance of $20 million for the 2015-17 biennium**
- **For 2015-17, the outlook assumed:**
  - **Funding of Initiative 732 (K-12 and Higher Ed COLAs) for $225 million**
  - **Low Income Health Care Savings totaling $139 million**
  - **Higher costs for state employee health benefits for $236 million**
- **The Outlook for the 2015-17 biennium (reflecting the 2014 enacted budget) does not compel the Legislature to take any specific action**

Since you left town in March, you've received some mixed news

5

- The good news…revenue forecasts have been increasing:
  - June: $388 million, September: $307 million and November: $391 million for a total of $1.08 billion (includes 2013-15 and 2015-17 revenues)
  - Supreme Court decision on Gain-Sharing and Uniform COLA removed significant liability
- The not-so-good news:
  - Hepatitis C: FDA approved effective but expensive treatments that affect Medicaid, PEBB and State Institutions -- $178 million
  - Additional pension costs related to increased life expectancy
  - Rehkter Lawsuit related to homecare workers -- $44 million
  - High fire year -- $100 million
  - Supreme Court decision on Mental Health Boarding under the ITA
- These will affect both the 2015 supplemental budget and the 2015-17 budget

And earlier this month, the voters approved Initiative 1351 relating to K-12 class sizes

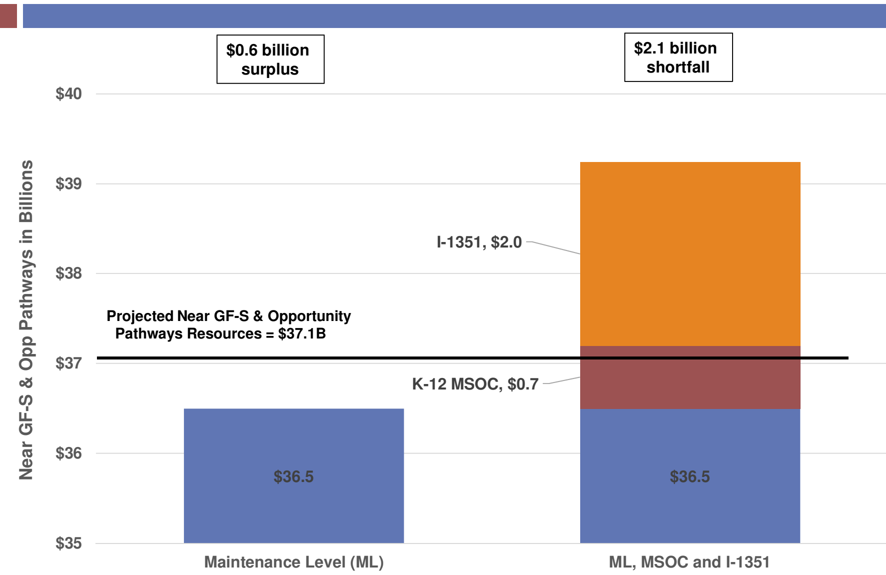
6

The Initiative:

- Changes the staffing values of the basic education funding formula to reduce class sizes and increase other school staff
- Requires a phase-in of costs in the 2015-17 biennium; 100% in the 2018-19 school year (FY 2019)
- The fiscal impact statement on the Initiative, prepared by OFM, estimates state expenditures of $4.7 billion through FY 2019.
- The cost in 2015-17 is $2 billion and will be included in maintenance level to reflect current law

Absent I-1351, the 2015-17 budget is balanced at maintenance level

7



2015-17 Selected Policy Choices

8

- Higher education investments (e.g. STEM enrollments, expansion of medical education)
- Collective Bargaining Agreements: $583 million for COLAs for higher education and state employees and new agreements for Home Care Workers
- Other Policy Adds

Yesterday, the Economic & Revenue Forecast Council adopted a 4-year outlook for the 2015-17 budget

9

(dollars in millions)	2015-17	2017-19
Unrestricted Ending Fund Balance	($2,160)	($4,728)
Budget Stabilization Account	$949	$1,771
Total	($1,211)	($2,956)

- **This Outlook reflects the Governor's preliminary maintenance budget (including I-1351 and MSOC) and the November revenue forecast**
- **In January, the ERFC will adopt a 4-year outlook to reflect the budget proposed by the Governor in December**

10

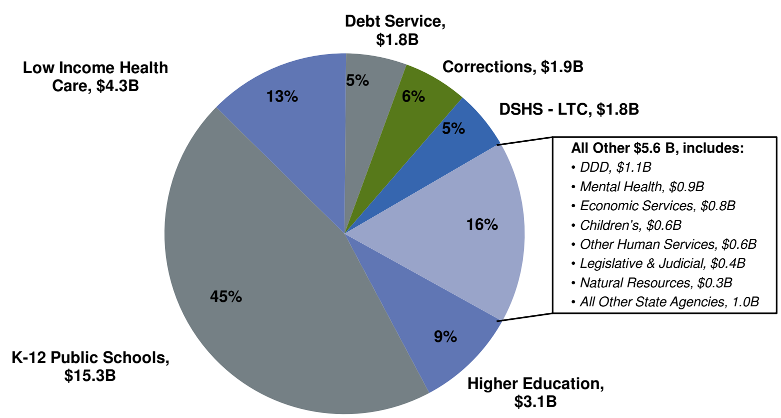
End of Presentation

Appendix

Where Is the Budget Spent?

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

11

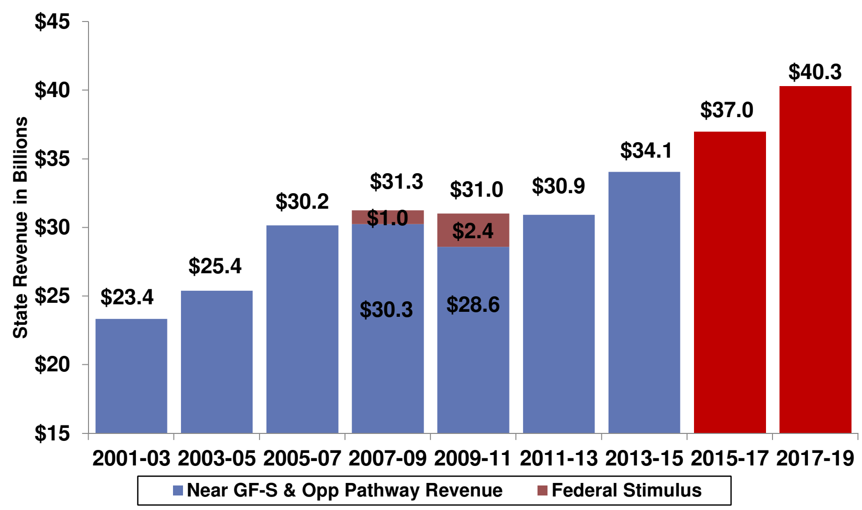


Enacted 2013-15 Budget = $33.8B

** Reflects 2014 Supplemental Budget; Near GF-S and Opportunity Pathways Account*

Revenue is projected to increase by nearly $2.9 billion or 8.5% percent in the 2015-17 biennium

12



** Based on November 2014 forecast.*

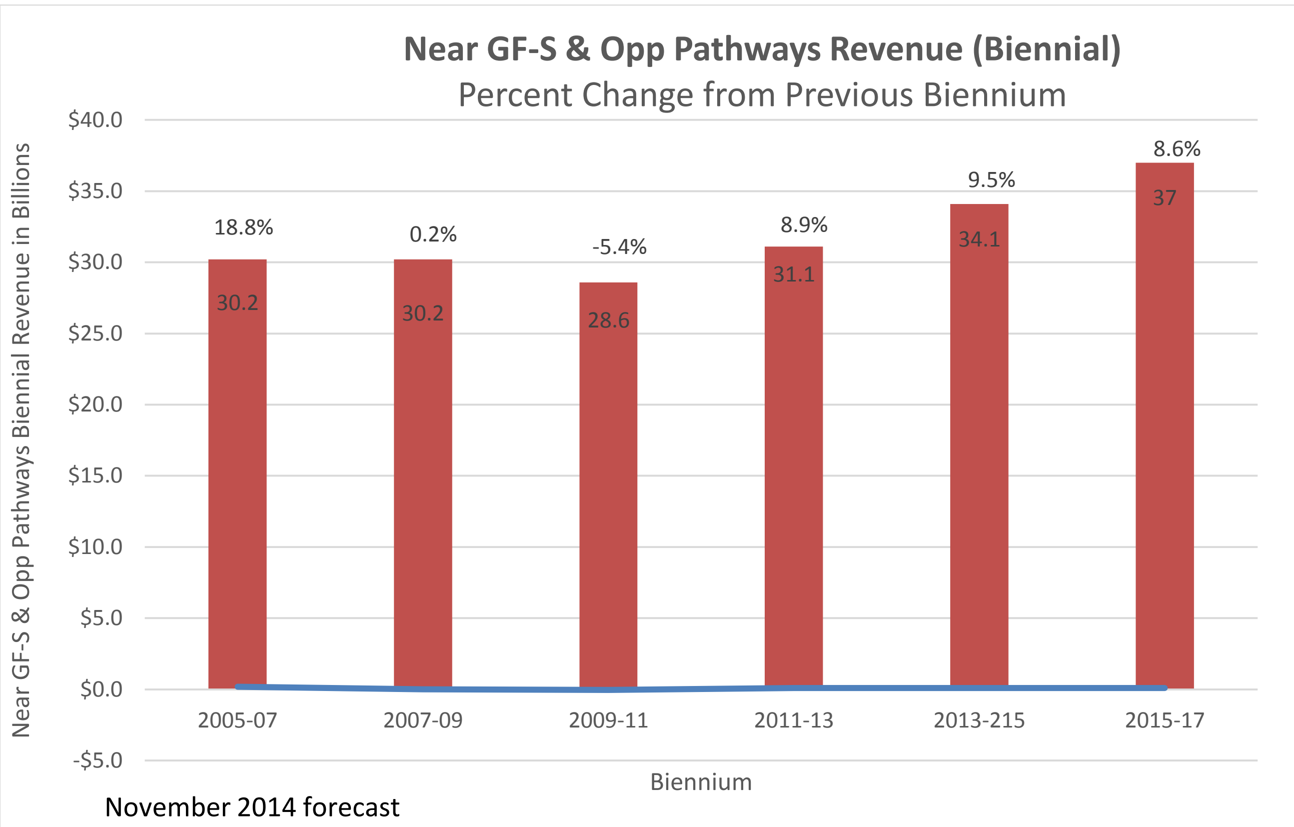
Revenue

Key Facts

- The most prominent streams of revenue to the state general fund are the sales and use tax (52%), the business and occupation tax (20%) and the property tax (12%).
- Near general fund and opportunity pathways revenues are expected to increase from $34.0 billion in the 13-15 biennium to $36.7 billion in the 15-17 biennium.
- In 2011 (the latest data available) Washington ranks 21st in state and local taxes per capita, and ranks 35th in state and local taxes per $1,000 of personal income. Washington has been trending down (less taxation in comparison to other states) over the last several years.

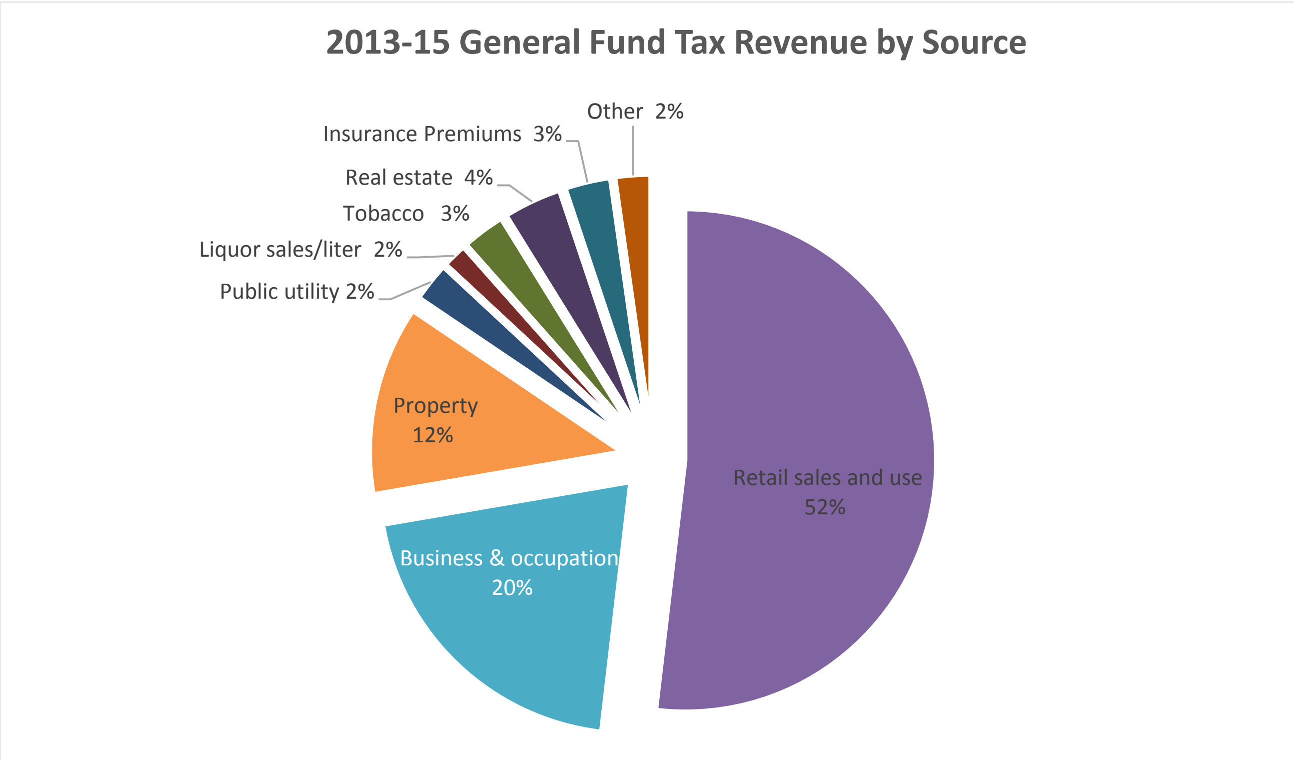
Trend/Overview Information

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



The chart below breaks out state general fund revenues by tax source expected for the 13-15 biennium based on the September 2014 forecast:

Tax Revenue to the General Fund



Current Revenue Issues and Updates

Streamline Sales Tax:

Since 1992, states have been unable to enforce their sales and use tax laws with respect to catalog and online sellers that lack physical presence (remote sellers). In 2013, a bipartisan group of U.S Senators introduced and passed The Marketplace Fairness Act. The Act would close this tax loophole and generate an estimated $478 million to the state and $217 million to local governments in the 2015-17 biennium (new estimates will be available in December and are estimated to be slightly lower based on the possible effective date). While it is uncertain if this bill will be enacted, the bipartisan nature of the bill, the high visibility of its sponsors, and lobbying efforts of major companies make it the most serious attempt yet to grant states remote seller collection authority. In addition, the internet tax freedom act, which bans taxes on internet access, is set to expire in December of this year. Some have suggested that the linkage of the internet tax freedom act and the marketplace fairness act may potentially increase the chances of passage by Congress.

Property Tax Levy Swap

To address the funding issues in the *McCleary v. State* lawsuit, a "levy swap" on property may be discussed in the upcoming session as a partial solution. One of the issues in the court case was that too much of K-12 education was funded by local tax levies and not enough by the state. The basic concept behind the property tax levy swap is that the amount local school districts could collect through school levies would be reduced and the amount the state would collect through its property tax levy would be increased offsetting the amount reduced in local levies. This increased level of state support offset by reduced local levy reliance addresses that particular issue raised in the court decision. There will likely be several different proposals on a property tax levy swap in the upcoming 2015 session.

Marijuana Revenue

Initiative 502, passed in November 2012, legalized the recreational use of marijuana and established a regulatory regime, including taxation; the retail sale of marijuana began in July 2014. The initiative imposed a 25% excise tax on marijuana production, processing, and sales. The initiative specifies the distribution and purpose of revenue generated (see the table below). Of note is the 50% distribution to the Basic Health Plan Trust Account (Account) which funds the premiums for participants in the Basic Health Plan; however, with Medicaid expansion authorized under the federal Affordable Care Act, Washington residents no longer participate in the Basic Health Plan. HB 2798 (Chapter 198, Laws of 2014) authorizes broader use of the account. In addition, some local governments have expressed concern related to recreational marijuana legalization and have sought additional revenue distributions. The Legislature may expect to address these and other issues in the 2015 session. The Economic and Revenue Forecast Council forecasts excise tax and license fee revenue (beyond retail sales and B & O taxes) from recreational marijuana of $177.9 million for the 2015-17 biennium and $348.4 million for the 2017-19 biennium.

Distribution of Marijuana Excise Tax & License Fees

(Dollars in Thousands, September 2014 Revenue Forecast)

		Pre-distribution Allotments				Distribution of Remaining Funds						
Biennium	**Total of Cannabis Excise Taxes plus License Fees**	DSHS State Healthy Youth Survey	Washington State Institute for Public Policy Study	UW Alcohol and Drug Abuse Institute	LCB for Adm	DSHS Substance Abuse Program (15%)	DOH Cannabis Education Program (10%)	UW/WSU Research (1%)	Basic Health Plan Trust Account (50%)	Health Care Authority Community Health Centers (5%)	OSPI Dropout Prevention (0.3%)	**General Fund-State (18.7%)**
2013-15	**$21,635**	$375	$150	$15	$4,555	$2,481	$1,654	$165	$8,270	$827	$50	**$3,093**
2015-17	**$177,934**	$1,000	$400	$40	$10,000	$24,974	$16,649	$1,665	$83,247	$8,325	$499	**$31,134**
2017-19	**$348,440**	$1,000	$400	$40	$10,000	$50,550	$33,700	$3,370	$168,500	$16,850	$1,011	**$63,019**

Employee Compensation and Benefits

Salaries and other benefits for state employees constitute approximately 16% of Near General Fund-State expenditures during the 2013-15 fiscal biennium.

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

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

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

Cost-of-living adjustments (COLAs) for K-12 employee salaries are governed by the provisions of Initiative 732, state salary conditions and local collective bargaining. With respect to health benefits, K-12 school districts have broad authority to determine health plan benefits and premiums for their employees. A few districts provide benefits through the Public Employee Benefits Board (PEBB) of the Health Care Authority (HCA). Most districts adopt benefits through collective bargaining. In December 2013, the Insurance Commissioner issued the first comprehensive report on school district employee health benefit plans (2012 health plans); a second report (2013 plans) is due December 2014. Additionally, all school district retirees have the same opportunity to purchase continuing coverage through PEBB that is provided to retired state employees.

Another constraint on benefit funding is that Washington courts have consistently held retirement plan members are contractually entitled both to any benefits promised in statute during the period of their membership and to systematic funding of those benefits. This does not tie the legislature to the use of any particular funding policies but does require the use of a systematic funding process. In 2014 the State Supreme Court upheld the ability of the legislature to reserve the option to make future changes to newly created retirement benefits.

Key Facts

State Employee Staffing Levels (FTEs) and Salaries:

- Fiscal year 2014 expenditures for state agency and higher education salaries and benefits: $2.7 billion NGF-S w/ Op Path; $8.4 billion all funds.
- Number of state employees: In FY 2014 approximately 107,000 FTEs, including 57,100 state agency employees and 49,900 higher education employees.
- Share of state executive branch agency employees who are managers: 7.8% as of October 2014.
- 75% of executive branch agency employees are in classified positions covered by collective bargaining agreements; 13% are in non-represented classified positions; and 12% in either Washington management service or exempt positions.
- Median annual base salary of full-time state agency employees: $51,216 as of June 2014.
- Average annual salary of full-time state agency employees: $54,742 for FY 2014.

- Average annual salary of full-time higher education employees: $63,077 for FY 2014.

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

State Employee Health Benefits:

- Number of state and higher education employees enrolled in PEBB = 108,000
- Number of state and higher education covered lives (including dependents) = 229,000
- 2011-13 expenditures for PEBB contributions = $702 million NGF-S; $2.0 billion all funds
- FY 2014 expenditures for PEBB (health, life, disability insurance) = $365 million NGF-S; $972 million all funds
- State monthly contribution for eligible employees = $782 (FY 2014) and $662 (FY 2015)
- 2015-17 projected state contributions = $1.2 billion GF-S; $2.6 billion all funds
- Projected state contribution needed to maintain current benefits and 15% employee premium cost-share = $905 (FY 2016) and $977 (FY 2017)

State and K-12 Employee Pensions:

- 2013-15 state GF-S contributions = S1.3 billion;
- Projected 2015-17 state GF-S contributions: = $1.7 billion; 2017-19 = $2.1 billion.
- Plan funding ratios: PERS Plan 1 = 63%; TRS Plan 1 = 71%; PERS/TRS/SERS Plans 2/3 = 102-105%.

State and K-12 Retiree Health Benefits:

- Number of state and higher education PEBB retirees = 30,200; with dependents = 42,900.
- Number of K-12 PEBB retirees = 33,000; with dependents = 47,000
- Number of PEBB Non-Medicare retirees and dependents = 11,800
- Number of PEBB Medicare retirees and dependents = 78,100
- State monthly subsidy for PEBB Medicare retirees in 2014 = $150, up to a maximum of 50% of the premium

2013-15 Enacted Budget Recap

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

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

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

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

State contributions for employee health benefits were reduced from $800 per month per employee in FY 2013, to $782 in FY 2014, and initially to $763 in FY 2015. In the 2014 supplemental budget the state contribution was reduced further to $662 in FY 2015.

Most of the reduction is the result of savings from lower-than-projected claims experience and costs. A portion of the FY 2015 reduction is the result of two new monthly premium surcharges effective July 1, 2014: (1) a $25 surcharge for enrollees who use tobacco products; and (2) a $50 surcharge for enrollees who cover a spouse who has declined to enroll in a health plan offered by the spouse's employer that has equivalent coverage to the Uniform Medical Plan. Savings: $46 million + $61 million = $ 107 million GF-S.

Current Budget Issues

2015-17 Collective bargaining tentative agreements and arbitration awards: $583 million GFS; $1.2 billion all funds.

The cost of salary and benefit increases for state employees provided in arbitration awards and in collective bargaining agreements negotiated by the Governor's office for 2015-17 is $220 million GFS & $490 million all funds. The cost of providing similar increases to non-represented employees, including higher education faculty, would be an additional $211 million GFS & $423 million all funds.

The Governor's office also negotiated salary and benefit increases in collective bargaining agreements with two groups (home care workers and language access providers) that are not state employees. Two other non-employee groups (child care workers and adult family providers) received increases through arbitration awards. The cost of these increases is $125 million GFS & $256 million all funds. The cost of providing the home care worker increases to agency workers would be an additional $27 million GFS & $62 million all funds.

2015-17 Pension rate increases – PERS 1 & TRS 1 unfunded liabilities, investment return and mortality assumptions: $ 299 million GFS; $ 417 million all funds.

The Pension Funding Council adopted increases in state retirement plan contribution rates for 2015-17 based on four primary factors: (1) an increase in required contributions for Plan 1 unfunded liabilities; (2) delayed recognition of past investment losses; (3) reduction in the long-term investment return assumption from 7.9% to 7.8%; and (4) adoption of new mortality tables to recognize improvements in life expectancy.

Based on the rates adopted by the PFC the PERS & SERS employer contribution rates will increase in the 2015-17 biennium by about 2% of pay and TRS by 2.7%. PERS Plan 2 members will contribute an additional 1.2% of pay; SERS Plan 2 members an additional 0.99%; and TRS Plan 2 members an additional 2.74%.

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

Collective Bargaining Overview

What is the history of collective bargaining for state employees?

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

Who is represented?

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

- Washington Federation of State Employees (WFSE) (29,800 employees in 31 agencies plus 3,300 in 11 community colleges);
- Teamsters Local 117 (5,700 employees at Department of Corrections);
- Washington Public Employees' Association (WPEA) (2,100 represented employees in 9 agencies plus 1,900 in 13 community colleges);
- Professional and Technical Workers Local 17 (2,100 employees in 3 agencies);
- Service Employees International Union (SEIU) 1199NW (800 Registered Nurses in 2 agencies);
- WA Association of Fish and Wildlife Professionals (800 employees at DFW); and
- A coalition of 16 smaller unions (600 employees combined).

Negotiations are also conducted by OFM with the Washington State Patrol (WSP) Troopers and Lieutenants Associations representing 1200 employees, and with 11 labor organizations representing 1700 Washington State Ferry (WSF) employees in the Department of Transportation. These negotiation processes are authorized under separate collective bargaining statues.

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

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

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

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

- Homecare workers (25,000) represented by SEIU Local 775;

- Family childcare providers (8,500) represented by SEIU Local 925;
- Adult family home providers (2,500) represented by the WA State Residential Care Council; and
- Language access providers represented by the WFSE.

What is the timeline for the bargaining process?

Negotiations between labor unions and the OFM Labor Relations division (OFM) begin in the spring of even-numbered years. Contracts must be agreed to and submitted to the Director of the Office of Financial Management by October 1st and certified as financially feasible in order to be considered for inclusion in the Governor's budget proposal. This deadline applies both to agreements reached through collective bargaining and through interest arbitration.

For the 2015-17 contract period, 12 salary-related agreements were reached by the October 1st statutory deadline between OFM and general government and community college bargaining units, marine units of the ferry system, and non-state employees (homecare workers and language access providers). A health care agreement was also reached with a super coalition of unions.

Interest arbitration

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

What are the tentative 2015-17 collective bargaining agreements?

The details of the collective bargaining agreements for the 2015-17 biennium negotiated by OFM vary from contract to contract, however the collectively bargained agreements for state employees generally provide:

- a general wage increase of 3% effective July 1, 2015; and
- an increase of 1.8% for all employees who earn $2,500 per month or more, or an increase of 1% plus $20 per month for all employees who earn less than $2,500 per month, effective July 1, 2016.

Additional compensation increase provisions are included in some of the agreements, including additional salary increases for targeted general government classifications, assignment pay increases, geographic pay for designated areas, shift premium increases, and other adjustments.

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

OFM also negotiated agreements for two non-state employee groups which included the following provisions:

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

What are the tentative 2015-17 arbitration awards?

In addition to the agreements which were reached through collective bargaining, OFM also entered into agreements that were the result of interest arbitration that provided the following general wage increases to state employees:

- Teamsters Local 117: 5.5% effective July 1, 2015 and 4.3% effective July 1, 2016;
- Marine unions (ten agreements): increases each fiscal year that range from 2.5% to 5%;
- WSP troopers: 7% effective July 1, 2015 and 3% effective July 1, 2016; and
- WSP lieutenants: 5% effective July 1st of each year.

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

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

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

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

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

What are the Legislature's options for 2015-17 tentative collective bargaining agreements and arbitration award agreements?

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

If the legislature does not approve a tentative agreement for the 2015-17 biennium, the terms and conditions in the current agreement for the 2013-15 biennium will remain in effect for up to one additional year (June 30, 2016), unless a new agreement is reached and approved by the legislature before that date.

May the state contract out for services?

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

K-12 Education

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

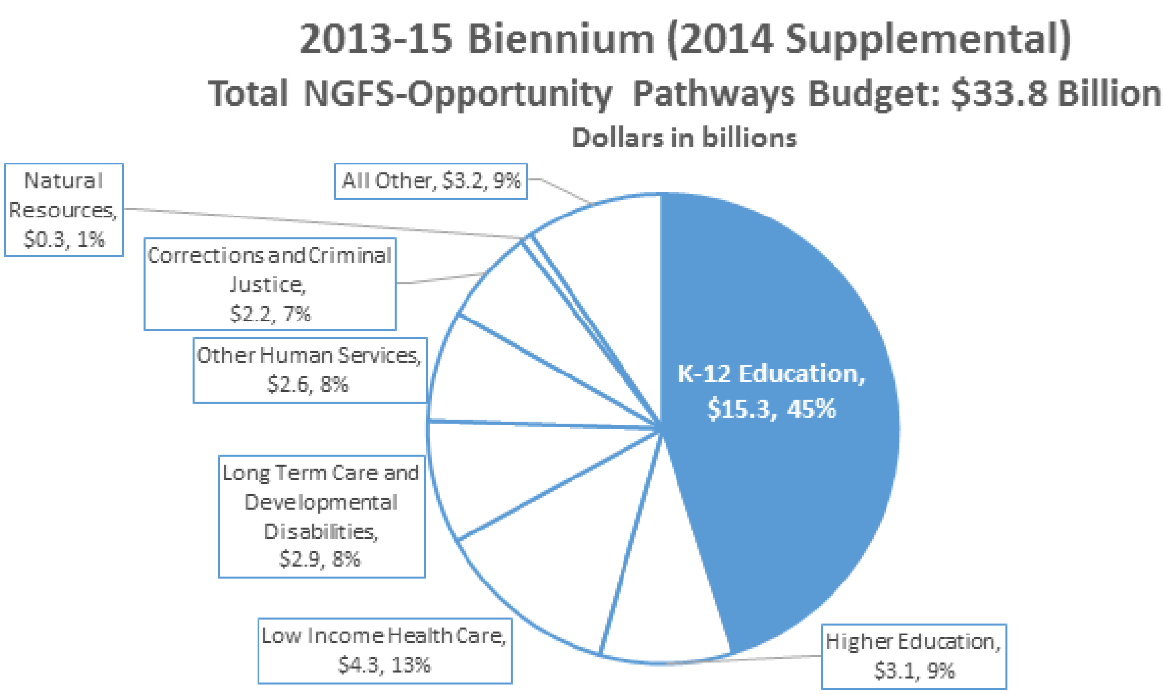
Key Facts

- K-12 Public School appropriations, 2013-15 (2014 Supplemental) Biennial Budget: $15.3 billion, NGF-S + OP
- School districts' operating fund sources for school year 2013: State funds (66%), Federal (9%), Local Taxes (20%), Other (4%)
- Number of K-12 students: 1,041,000*
- Number of schools: 2,300
- Number of school districts: 295
- K-12 staff in school year 2012, all fund sources: 103,700 (62,300 teachers; 4,100 administrators; and 37,200 support)

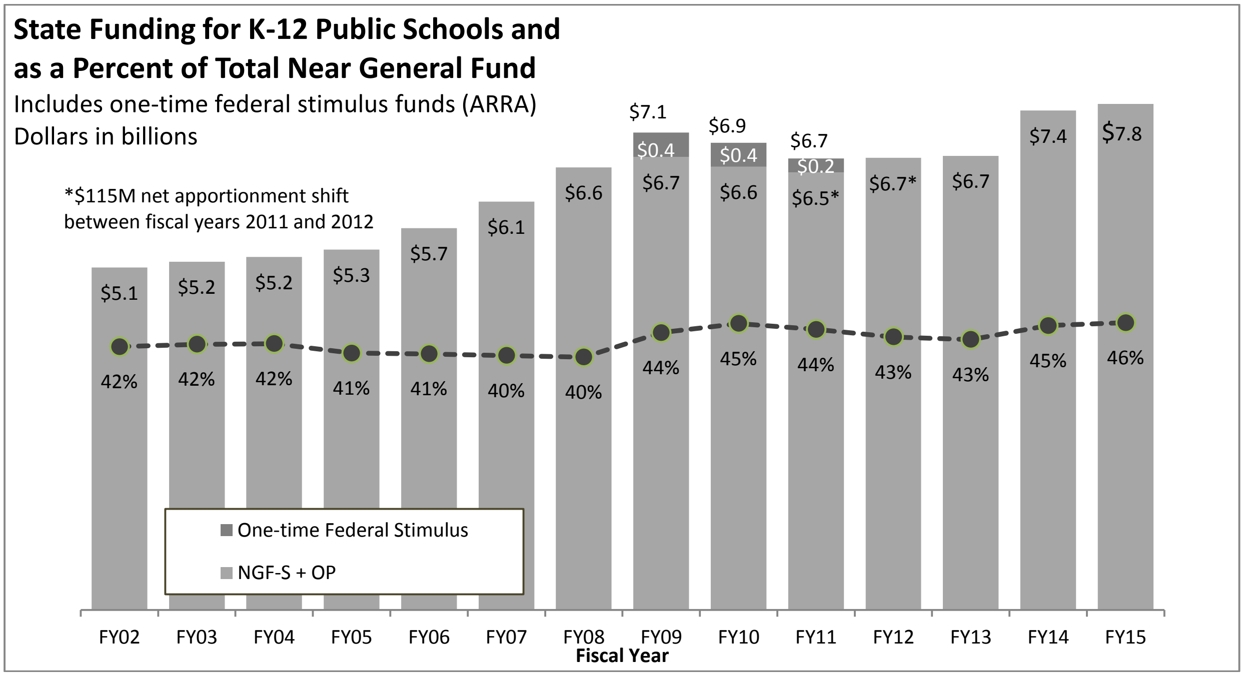
* Headcount for 2014 school year, rounded to nearest thousand

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

Trend/Overview Information



Education is the largest single part of the state Near-General Fund budget, making up 45.2 percent of the total. The following displays the history of K-12 appropriations, as well as the percentage of the Near-General Fund State budget allocated to K-12.



Recent Basic Education Legislation Affecting K-12 Funding

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

2013-15 Enacted Biennial Budget Recap

The budget enacted in June 2013 provided appropriations for $1.0 billion in policy enhancements. As compared with the 2011-13 estimated expenditures, the 2013-15 overall K-12 budget represents an 11.4 percent increase.

The bulk of this funding ($982 million) was appropriated for enhancements to basic education allocation formulas. Funding is provided to address the four key elements of SHB 2776 (2010): full-day kindergarten; early primary class size reduction; pupil transportation; and Materials, Supplies and

Operating Costs (MSOC). In addition, enhancements were provided for the Learning Assistance Program, a new program for students exiting from the Transitional Bilingual Instructional Program, increased instructional hours for grades 7-12, parent involvement coordinators for grades K-6, and increased allocations for guidance counselors for grades 7-12. The chart below provides a summary of the amount appropriated in the 2013-15 operating budget for these enhancements.

Basic Education Enhancements in 2013-15 Operating Budget

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

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

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

2014 Supplemental Budget Recap

The 2014 supplemental budget enacted in April 2014 invested an additional $58 million for MSOC to implement SHB 2776 (2010). The biennial budget passed in 2013 increased the MSOC allocation to $737.02 per pupil for school year 2013-14 and $781.72 per pupil for school year 2014-15. The 2014 supplemental budget increased the school year 2014-15 investment further to $848.04 per pupil. This increase makes up approximately 43 percent of the margin between the initial value as specified in SHB 2776 (adjusted for inflation) and the target required under current law.

Current Budget Issues

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

In September 2014, the Court issued an order unanimously declaring the state to be in contempt for failure to comply with the court's January 2014 order to provide the court with an implementation plan. The court declared that it will not issue sanctions or remedial measures until after adjournment of the 2015 Legislature. If contempt is not purged by that time, the court will reconvene and impose sanctions.

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

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

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

K-12 Enhancements Funded in 2013-15	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
2013-15 SHB 2776 Enhancements						
Materials, Supplies & Operating Costs	152	280	303	304	306	307
All-Day Kindergarten	39	50	51	51	51	51
K-3 Class Size Reduction to 17	42	62	64	64	64	65
Pupil Transportation	35	97	110	110	111	111
Other 2013-15 K-12 Enhancements	93	216	242	243	245	246
FY Total *2013-15 K-12 Enhancements*	**361**	**705**	**770**	**772**	**777**	**780**
Biennial Total *2013-15 K-12 Enhancements*		**1,066**		**1,542**		**1,557**

SHB 2776 Enhancements Future Costs*	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Materials, Supplies & Operating Costs	-	-	317	406	418	429
All-Day Kindergarten	-	-	37	87	151	169
K-3 Class Size Reduction to 17	-	-	111	281	511	570
FY Total *SHB 2776 Enhancements*	-	-	**466**	**774**	**1,079**	**1,168**
Biennial Total *SHB 2776 Enhancements*		**-**		**1,240**		**2,248**

**Future SHB 2776 (2010) cost assumptions are shown in equal annual increments to the statutory deadlines (shown in gray shading). Different Legislative assumptions regarding phase-in will impact cost estimates.*

Initiative 1351: I-1351, an act relating to K-12 education, was approved by the voters in November 2014. This initiative changes the staffing values in the basic education funding statute, which specifies minimum allocations for K-12 class sizes and school staff. The new values lower class size thus increasing

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

the number of state-funded teachers, and in general increases the other state-funded school staff. The changes take full effect September 1, 2018, which is the beginning of the 2018-19 school year.

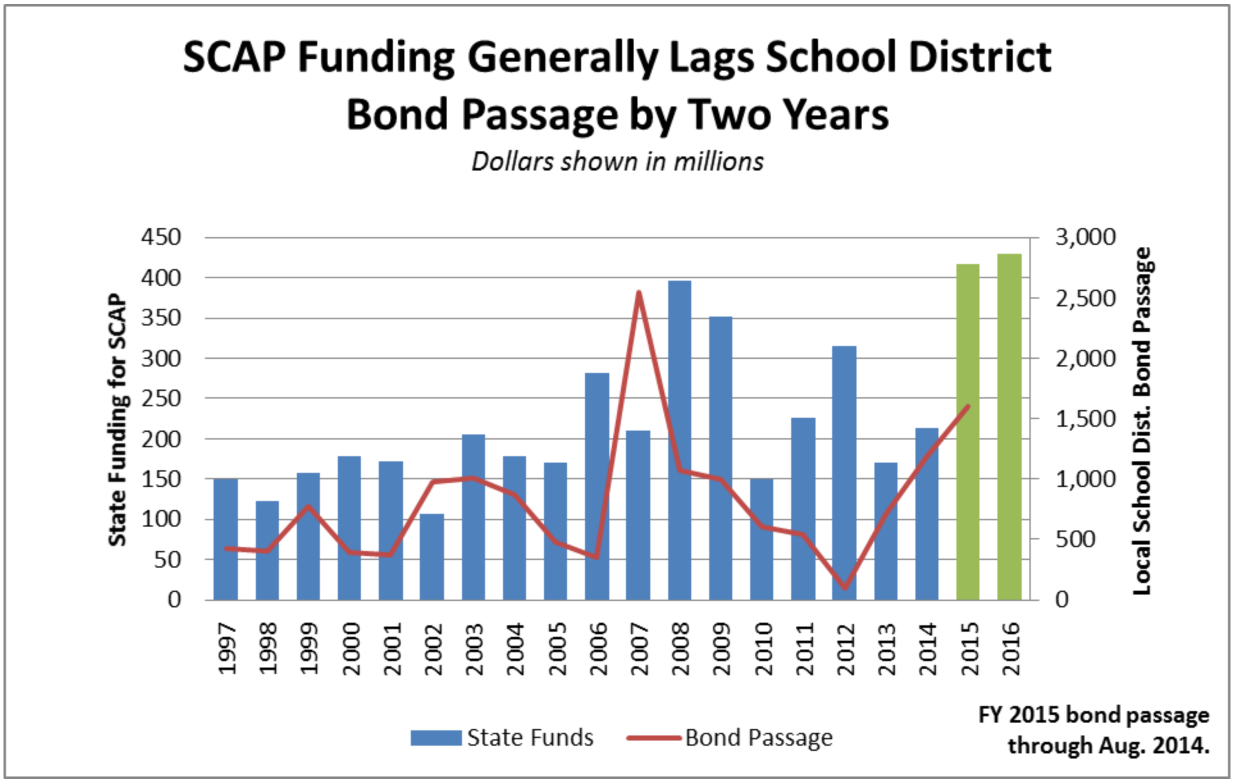
The increased state funding must be phased-in to provide no less than 50 percent of the funding necessary to support the reduced class sizes and increased staffing values at full implementation in the 2015-2017 biennium. Full funding must be provided by the end of the 2017-2019 biennium. The Office of Financial Management (OFM) estimates this initiative will increase state expenditures $4.7 billion through fiscal year 2019. At full implementation, in school year 2018-19, the estimated annual state expenditure is $1.9 billion. For the 2015-17 biennium, OFM estimates an additional $2.0 billion dollar cost (different legislative phase-in assumptions can affect this cost estimate.)

More information about this initiative can be found in the Senate Committee Services initiative summary at: http://www.leg.wa.gov/Senate/Committees/Documents/I-1351%20w%20fiscal%20impact%20(2).pdf.

Capital Space Needs: As basic education is redefined and enhanced by the Legislature, school districts have expressed capacity issues within their current capital facilities to accommodate these changes. Since 2003, capital budget appropriations have directed OSPI to count kindergarten students as full-time for the state's school construction assistance funding formula. In 2012, this change was adopted into statute. No changes have been made to the school construction assistance program (SCAP) to account for the lowering of K-3 high poverty class. In 2014, the legislature required the State Board of Education (SBE) to adopt rules to implement the 24 credit career- and college-ready graduation requirements beginning with the graduating class of 2019[2] which includes among other requirements the need for more lab science classrooms. OSPI reports the capacity need for an additional 5,600 classrooms to implement K-3 class size provided in Chapter 236, Laws of 2010 (SHB 2776).

School Construction Assistance Program: Local school district bond passage peaked in 2007 at $2.5 billion. After this period, bond passage declined to a low of $91 million in 2012. Since 2013, local bond passage has been on the increase. School districts generally access SCAP funding two years after passing their bonds, so it can be expected that demand for the SCAP will significantly increase for the 2015-17 biennium. In the chart below, the last two columns represent the estimated maintenance level state funding needs of the SCAP for the 2015-17 biennium.

[2] Chapter 217, Laws of 2014 (E2SSB 6552)



Charter Schools: Voters approved Initiative 1240 in 2012, the initiative allows for the establishment of up to 40 charter schools in the state of Washington. The Charter School Commission has authorized eight schools to open, and the Spokane School Board has authorized two schools. The state's first charter school, First Place in Seattle, opened for the 2014-15 school year.

The fiscal note for the initiative assumed that only public school students would attend charters and there would be no new caseload impacts. Through the application and approval process, new assumptions have been made that some private schools will convert to charter schools. First Place is an example of school that is enrolling students who previously were not attending a public school. The K-12 caseload forecast now accounts for some private schools transitioning to charters that will bring with them some of their existing students, which will increase the public school caseload.

In December 2013, the King County Superior Court ruled in *League of Women Voters of Washington et al v. State*, that the Charter School Act could continue to be implemented, but charter schools are not a common school; therefore, they cannot be eligible for funding that is reserved exclusively for the common school. The Supreme Court heard the appeal for this case in October 2014.

Higher Education

Higher education is comprised of two research universities, four regional universities, and 34 community and technical colleges. Budgeted enrollments, tuition, and financial aid are interconnected levers that drive the higher education budget. State dollars[3] fund financial aid and, together with tuition, the core academic functions delivered by higher education institutions, which include the cost of instruction, state sponsored research, and public service activities.

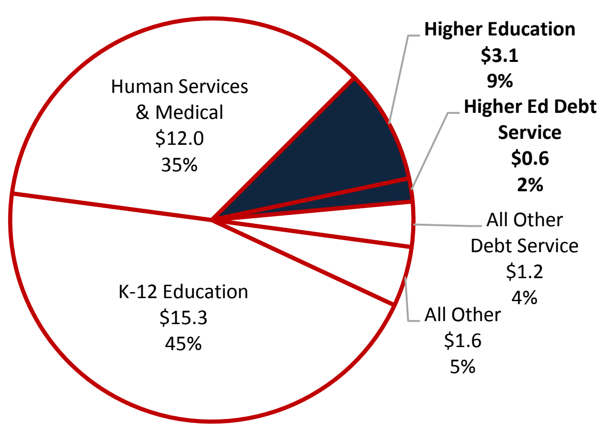
Key Facts

- 2013-15 (2014 Supplemental) budget: $12.2 billion total funds; $3.2 billion state funds; $2.6 billion tuition
- Portion of core academic functions funded with state funds (four-year institutions): 38.4%
- Portion of core academic functions funded with state funds (two year institutions): 64.9%
- State-Funded FTE Enrollment, 2013-14 academic year: 232,441 (budgeted); 249,330 (actual)
- Four Year Degree production, 2012-13 academic year (most current data available):
  - 21,845 undergraduate degrees
  - 6,529 graduate degrees
- Two Year Degree/Certificate production, 2012-13 academic year (most current data available):
  - 10,298 applied associate degrees
  - 192 applied baccalaureate degrees
  - 23,122 certificates
  - 17,492 academic transfer degrees

Overview/Trend Information

Of the $34 billion state budget, higher education represents 9% of the state budget (which increases to 11% if you include higher education's portion of debt service).

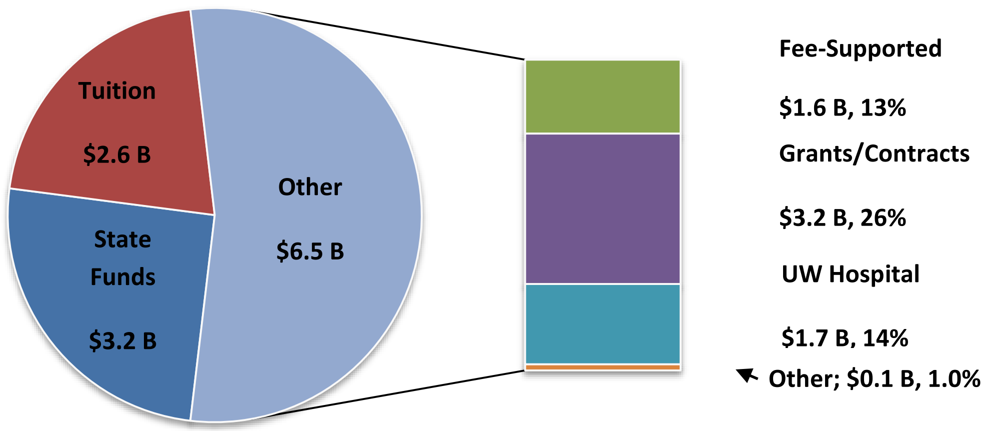
2013-15 Biennium (2014 Supplemental)
Total NGFS + Opportunity Pathways Budget: $33.8 Billion
Dollars in Billions



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

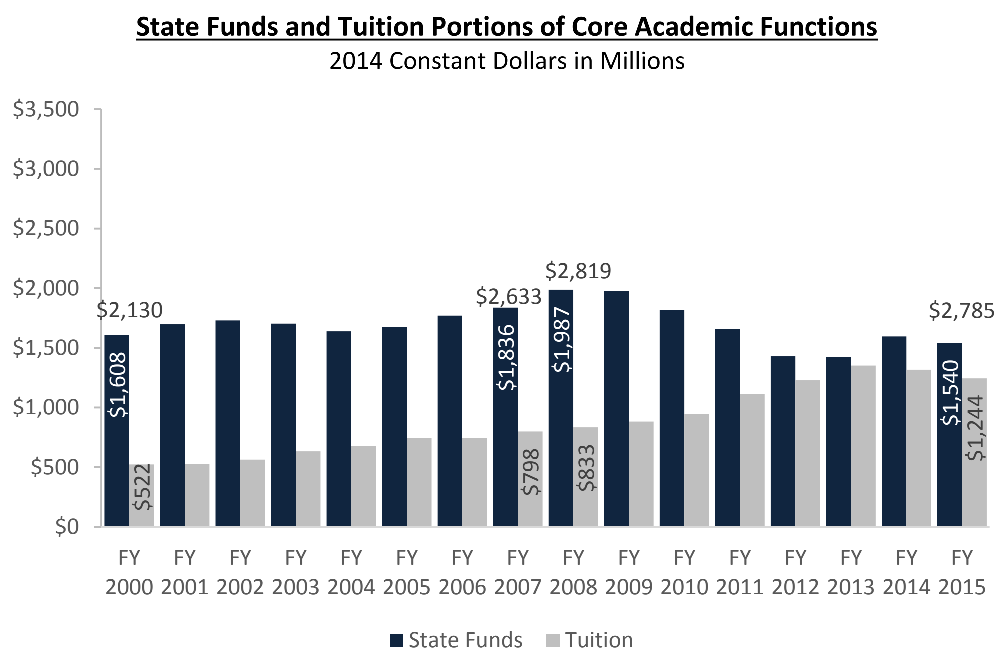
Higher Education Funding

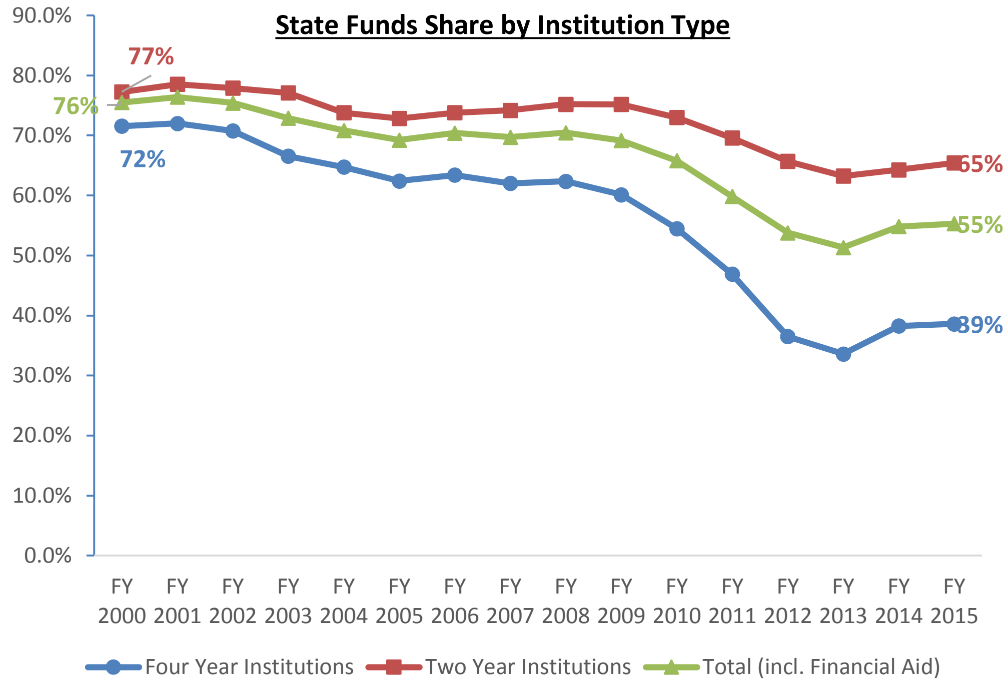
For the 2013-15 biennium, the total budget for higher education is approximately $12.2 billion (representing 18% of the overall state budget). Approximately one quarter of this amount comes from state funds ($3.2 billion).



State Share of Core Academic Functions

After adjusting for inflation, funding for core academic functions has increased by approximately 1.8% per year since FY 2000. However, as the left table below shows, real growth declines by 0.2% per year when looking at the economic recession and slow down period. The portion of core academic functions paid for with state funds versus tuition has also changed over time. The average annual growth rate from 2008 to 2015 for state funds decreased by 3.6% while tuition increased by 5.9%. As a result, state funding has declined relative to tuition and now represents approximately 65% in the community and technical college system and 39% in the four-year institutions, even after accounting for the increases in appropriations provided for the 2013-15 biennium.





Enrollment and Completion

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

PUBLIC FOUR YEAR INSTITUTIONS	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
State-Funded Enrollments (Headcount)						
Undergraduate	95,114	97,830	100,092	101,882	104,670	105,805
Graduate	23,509	24,201	24,993	25,399	24,618	24,728
Total	118,623	122,031	125,085	127,281	129,288	130,533
Degrees Awarded						
Undergraduate	21,842	21,833	22,911	23,562	24,450	21,845
Graduate	6,273	6,435	6,920	7,261	7,470	6,529
Total	28,115	28,268	29,831	30,823	31,920	28,374
Annual Percent Change						
Headcount Enrollments		2.9%	2.5%	1.8%	1.6%	1.0%
Degrees Awarded		0.5%	5.5%	3.3%	3.6%	-11.1%

STATE BOARD OF COMMUNITY AND TECHNICAL COLLEGES	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
State-Funded Enrollments (Headcount)	322,975	334,332	338,109	330,608	305,709	292,119
Degrees/Academic Transfer						
Associate Degree	7,328	7,430	8,065	9,875	10,689	10,298
Baccalaureate Degree	N/A	35	51	138	155	192
Academic Transfer	13,179	13,529	13,973	16,183	16,747	17,492
Total Degrees/ Academic Transfer	20,507	20,994	22,089	26,196	27,591	27,982
Certificates (Workforce Training)	12,331	15,201	19,643	21,293	21,337	23,122
High School Completion	5,173	5,737	6,060	5,907	5,442	5,274
Annual Percent Change						
Headcount Enrollments		3.5%	1.1%	-2.2%	-7.5%	-4.4%
Degrees/Academic Transfer		2.4%	5.2%	18.6%	5.3%	1.4%
Certificates (Workforce Training)		23.3%	29.2%	8.4%	0.2%	8.4%

2013-15 & 2014 Supplemental Enacted Budget Recap

For the 2013-15 biennium, a total of $3.1 billion in state funds (Near General Fund-State plus Washington Opportunity Pathways Account) was provided in support of the higher education system (including financial aid); $2.4 billion (78%) of which is appropriated to the public colleges and universities. Compared to the 2011-13 biennium, this represents a $255.4 million (12%) increase in state funds to the institutions of higher education and a $363.8 million (13%) increase in state funds to the higher education system overall.

No tuition increases were assumed for the 2013-15 biennium and institutions of higher education are prohibited from invoking their tuition setting authority.

Major Increases:
In 2013-15, a total of $119.3 million was provided to the four-year universities and the community and technical colleges for general institutional support; $17.6 million was provided to the University of Washington ($8.9 million), Washington State University ($5.7 million), and Western Washington University ($3.0 million) to expand computer science and engineering enrollments; $10.5 million was provided to the State Board for Community and Technical Colleges (SBCTC) for the Student Achievement Initiative; $6 million in state funds and $1.5 million in tuition resources will be used to expand Washington State University's medical programs in Spokane.

In the 2014 Supplemental, $8.0 million in state funds was provided to the SBCTC for additional state-funded high-demand aerospace full-time enrollments.

Current Budget Issues

Tuition. In the 2013-15 enacted budget, the Legislature specifically prohibited tuition from increasing in the 2013-14 and 2014-15 academic years. As a result, four-year institutions and the community and technical colleges will be able, if they choose, to invoke their tuition-setting authority in the 2015-16 academic year. Institutions that choose to increase tuition above budgeted levels are required to use a portion of the additional revenue for student financial aid and to mitigate the increase for students with family incomes up to 125% of the median family income. The Legislature will need to take affirmative action if it does not want tuition to increase. Several institutions are proposing tuition increases in their 2015-17 agency budget submittals.

Medical School. Both the University of Washington (UW) and Washington State University (WSU) are requesting additional funding for expanding medical education in Washington State. Both institutions are pursuing independent initiatives. The UW requests an expansion of the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) program in Spokane. The WSU is seeking authority to accredit a separate, independent medical school in Spokane. The UW and WSU are mutually dissolving their current WWAMI partnership. Both institutions are working on a transition plan which will include allocation of operating and capital assets. This should be completed by the 2015 legislative session. Depending on the agreement between UW and WSU, and to the extent that the legislature wishes to appropriate additional funds, the legislature will likely need to take some action toward reconciling the issue.

Department of Early Learning

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

Programs and services include the following:

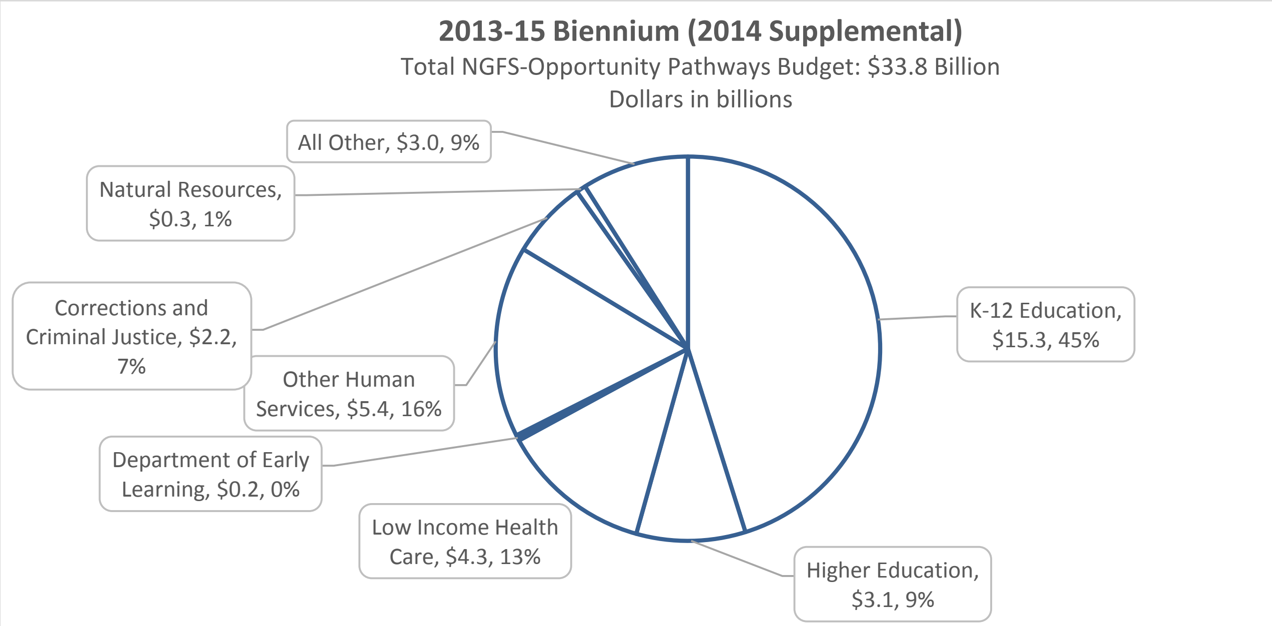
- Licensure and oversight of 6,000 licensed centers and family home child care programs
- Manage contracts with early learning providers to deliver the Early Childhood Education and Assistance program (ECEAP) for at-risk 3 and 4-year olds who are low-income, involved in child welfare services, or who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

Key Facts

- Total 2013-15 budget (FY14 Supplemental): $484.2 million total funds ($162.9 million Near GF-S)
- Percent of budget that comes from the state: 33.6 percent
- Families participating in a home-visiting program (FY 2014): 51,297
  - DEL/HVSA slots: 7,144
  - DSHS-DBHR slots: 1,153
  - HCA: 42,800
  - Other: 200
- Early Support for Infants and Toddlers (ESIT) services (FY 2014):
  - 6,080 infants and toddlers served
  - 12,550 infants and toddlers eligible for ESIT
- Children receiving Seasonal and Homeless Child Care Services (FY 2014):
  - Seasonal: 4,047 children served
  - Homeless Program: 629 children
- ECEAP Children Served (FY 2014): 8,741 at $7,500 per slot

Trend/Overview Information

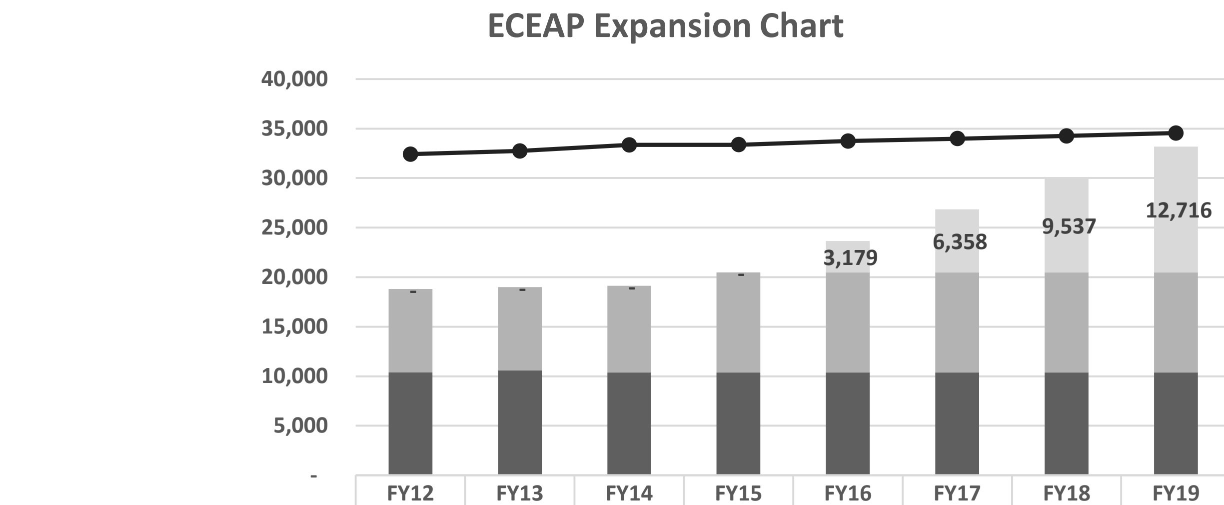
In 2013-15 biennium, DEL's budget totals $484.2 million, of which $162.9 million (33 percent) was Near GF-S. DEL's 2013-15 biennial budget of $162.9 million Near GF-S represents a net increase of $34 million or 26 percent from 2011-13 levels.



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

Chapter 231, Laws of 2010 PV (2SHB 2731) directed expansion of the ECEAP program and created a statutory entitlement beginning in the 2018-19 school year. The legislature began adding ECEAP slots in FY12 to begin making incremental progress toward meeting the estimated ECEAP caseload. RCW 42.215.456 (5) requires that ECEAP program be "phased-in incrementally each year until full statewide implementation."

DEL and OFM are required to review caseload forecasts for the ECEAP program and submit recommendations to the Governor and Legislature for phasing in funding and slots to achieve statewide implementation under RCW 43.215.456 (6). OFM and DEL recommended the incremental phase-in of 3,179 slots each fiscal year between FY2016 and FY2019 in the December 2013 ECEAP caseload forecast. (See ECEAP Expansion Chart). This would result in 22,807 total state-funded ECEAP slots in FY2019. The legislature is not required to allocate the number of slots or funding, recommended by OFM and DEL.



	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Additional Slots Requested*	-	-	-	-	3,179	6,358	9,537	12,716
ECEAP Slots	8,391	8,391	8,741	10,091	10,091	10,091	10,091	10,091
HeadStart Slots	10,400	10,600	10,390	10,390	10,390	10,390	10,390	10,390
Total Eligible	32,422	32,734	33,355	33,374	33,744	33,979	34,256	34,547

* Represents the number of slots requested by OFM and DEL under RCW 43.215.456 (6). The Legislature is not required to meet this request for slots until FY2019, when ECEAP becomes a statutory entitlement.

2013-15 & 2014 Supplemental Budget Recap

DEL's 2013-15 biennial budget of $162.9 million Near GF-S represents a net increase of $34 million or 26 percent from 2011-13 levels. This included the following programmatic enhancements:

- $24.6 million Near GF-S to increase the number of ECEAP slots by 1,700 over 2013-15, increase the slot rate from $6,812 to $7,500 per slot, and provided funding for additional administrative oversight.

- $4 million Near GF-S to replace disallowed Medicaid revenue for services delivered by Medicaid Treatment Child Care programs.

- $4.3 million Near GF-S for a tiered reimbursement pilot for child care centers and family homes in FY2015. Funding provides incentive payments and supports to providers who participate in the Tiered Reimbursement pilot in FY2015. Data received from this pilot will be used to estimate costs associated with achieving and maintaining higher quality child care.

- $2.3 million Near GF-S Funding for the development of the new child care time, attendance and billing system.

- $1 million near GF-S for home visiting services provided through the Home Visiting Services Account.

Current Budget Issues

Chapter 231, Laws of 2010 PV (2SHB 2731) established an early learning program for low-income and at-risk children ages three and four, using ECEAP slots and program standards as a starting point in the 2011-12 school year. The legislation called for the phased-in expansion of the ECEAP program and required that the program be statewide and serve any eligible child entitled to enroll in the 2018-19 school year.

ECEAP - Classroom Hours, eligibility, providers and vendor rates: The standard ECEAP program offers 2.5 hours of instruction to low-income, at-risk, 3 and 4 year olds. Research suggests that the more hours or 'higher dosage' of high quality early learning improve the outcomes for children receiving the services. The 2013-15 (2014 Supplemental) Biennial Budget included a proviso that enabled DEL to braid funding for the Working Connections Child Care program (WCCC) with ECEAP funding to offer full day (6 hours) and extended day (10 hours) of ECEAP/child care for eligible 3 and 4 year olds. Currently, the 2.5 hour standard day is subject to the statutory entitlement. Using funding from WCCC on ECEAP could decrease access to the WCCC program. Other considerations for the ECEAP program include program eligibility, integrating ECEAP into family child care settings and vendor rates. (See Economic Services Administration)

Requiring Early Learning Providers to Demonstrate Quality: Chapter 323, Laws of 2013 (HB 1723) required that all ECEAP contractors participate in the Early Achievers quality rating and improvement system by the 2014-15 school year. The Legislature has considered measures that would require child care providers that serve Working Connections Child Care children to enroll and be rated at various levels of quality in the Early Achievers QRIS system; however, neither bill was passed.

Low-Income Health Care

Washington is budgeted to spend $13 billion during the 2013-15 (2014 Supplemental) biennium to cover all or part of the physical health cost of medical and dental care for an average of 1.7 million low-income children and adults. These expenditures are administered by the Health Care Authority, which contracts with managed care insurance plans and directly with hospitals, physicians, dentists, pharmacies, and other medical providers to deliver services under Medicaid.

Key Facts

- Total 2013-15 (2014 Supplemental) biennial budget: $5 billion Near-General Fund State + Hospital Safety Net, $7.9 billion Federal (primarily Medicaid), and $0.15 billion other state and local funds
- Estimated Lives Covered in FY 2015: 1.7 million or 1 of every 5 Washingtonians, including
  - ✓ 1 of every 2 children in the state
  - ✓ 1 of every 2 pregnant women
  - ✓ 1 of every 9 adults (non-pregnant, non-elderly)
  - ✓ 1 of every 10 elderly adults
- Average Annual Cost Per Person Covered: $3,695, ranging from $1,541 per year for undocumented children to $15,168 per year for lower-income uninsured women with breast or cervical cancer
- Total State Staff: 1,134 FTE's

Trend/Overview Information

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

The state dollars are only part of how low-income medical spending is financed. Total low-income medical care spending is financed through the Medicaid program - which is a jointly federal-state funded entitlement program. Additional funds for the program come in through the Hospital Assessment program and are used in lieu of state funds for Medicaid hospital services. The total funds through this program for the 2013-15 biennium total an additional $669.4 million dollars. The following table shows how the federal and state shares of Medicaid financing have changed and are expected to change. For example, in 2006 the federal and state shares of total costs were roughly the same - 47% to 50% respectively. At the end of this biennium, ten years later, three out of every five Medicaid dollars will be federal. This is largely a result of three factors: Medicaid expansion under the Affordable Care Act, the renewal of the Hospital Safety Net Assessment, and updates to the technology used to track electronic health records.

Total funding for low-income medical grew by 6.5% from to 2006 to 2015 - with federal funding growing at 9.7% compared to the state share at .9%. When NGF-S is combined with the Hospital Assessment, that growth totals 2.5%. In out years, the most recent federal actuarial report on Medicaid spending projects average annual growth of over 7% nationwide from 2015 to 2017.

Medicaid Enrollment and Funding Changes Over Ten Years FY 2006 to FY 2015 (estimated)					
Population	**Total People**		**Percent Share of Total**		**Avg Annual Growth**
	2006	**2015**	**2006**	**2015**	**2006 to 2015**
WA State Population	6,359,537	6,987,877	100%	100%	1.1%
Medicaid Pop.	986,472	1,674,037	16%	24%	6.1%
Non-Medicaid Pop.	5,373,065	5,313,840	84%	76%	-0.1%
Fund Source	**$ in millions**		**Percent Share**		**Avg Annual Growth**
	2006	**2015**	**2006**	**2015**	**2006 to 2015**
Total Funds	$3,959.9	$6,967.1	100%	100%	6.5%
NGF-S*	$1,998.3	$2,161.9	50%	31%	0.9%
Hospital Safety Net**	**	$337.3	**	5%	**
Federal	$1,876.7	$4,326.0	47%	62%	9.7%
Other Funds	$84.9	$145.1	2%	2%	21.2%

*NGF-S includes GF-S and Opportunity Pathways

**Hospital Safety Net began in 2010

2013-15 & 2014 Supplemental Budget Recap

The FY 2013-15 $13 billion all-funds appropriation for low-income medical care is a net $3 billion (30 percent) increase from the 2011-13 biennium appropriations, and includes a net $241.2 million (5.9 percent) increase in state-fund appropriations (NGF-S + Opportunities Pathways).

The majority of the total fund increases ($3 billion) are almost entirely due to Medicaid Expansion under the Affordable Care Act (ACA) continuing and increasing hospital rates under the Hospital Safety Net, and implementing the electronic health records initiative. Of the $3 billion in increases, $2.6 billion is from federal sources. An additional $1.5 billion in federal funds is anticipated in state fiscal year 2015 attributable to the newly eligible population. This population enrolled in Medicaid at over double the originally anticipated uptake rate during 2014.

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

Department of Labor and Industries ($1 million).

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

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

Current Budget Issues

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

The 2013-15 (2014 Supplemental) biennial budget assumed that by FY 2015, the final year of the 2013-15 biennium, there would be 1.4 million persons receiving Medicaid coverage.

- 1.2 million of the 1.4 million (85%) are those who are currently eligible for Medicaid today and the state will receive approximately 50 percent federal match for allowable spending. The total eligible for Medicaid is now ~1.7 million.
- ~198,000 persons (13%) will be considered newly eligible under Medicaid expansion and the state will receive 100 percent federal matching funds through FY 2016 and tapering down to 90 percent by 2020. ~416,000 persons (415,736 June 2014 actual) were newly eligible. Revised estimates through June 2021 are ~492,000. 28% are now newly eligible.
- ~24,000 (2%) of those formerly in the Presumptive SSI program will receive 75 percent federal matching funds This number has been revised downward to ~18,000 (18,252 June 2014 actual) with a tapering off through FY 2018 to ~16,000.

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

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

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

Hepatitis C: In January 2014, the Food and Drug Administration (FDA) approved Sovaldi as a treatment for Hepatitis C. This drug, in combination with Interferon, is a cure for this condition. A second drug, Harvoni was approved in October. It is used in combination with Sovaldi and doesn't have the significant side effects of Interferon. A drug comparable to Harvoni is due for approval in December. Health Care Authority, Department of Health, Department of Social and Health Services and Department of Corrections have been working cooperatively to develop a consistent clinical strategy for approval for treatment.

Current spending authority requested by the Health Care Authority for Hepatitis C treatment for the following three years is as follows:

		Fiscal Year 15	
	State	**Federal**	**Total**
	65,730,000	206,760,000	272,490,000
		Fiscal Year 16	
	State	**Federal**	**Total**
	64,130,000	201,690,000	265,820,000
		Fiscal Year 17	
	State	**Federal**	**Total**
	26,070,000	82,020,000	108,090,000
Total	***155,930,000***	***490,470,000***	***646,400,000***

The challenges facing the agencies this coming year include how to:

- pay for the high cost of treatment,
- determine the most appropriate clinical basis for treatment, and
- assess risks of treating only a limited, chronically ill population

Health Benefit Exchange: During the first year of operation of the Health Benefit Exchange (HBE), approximately 147,000 Washington residents were enrolled in Qualified Health Plans through the HBE. Between November 2014 and February 2015, the HBE will be going through its second open enrollment period and anticipates enrolling an additional 85,000 people.

Beginning January 1, 2015, the HBE is required to be self-sustaining. In the 2013-15 (2014 Supplemental) biennial budget, the HBE was provided a budget of approximately $40 million per fiscal year (or $80 million per biennium) comprised of approximately 83% premium tax and 17% federal Medicaid funding. HBE has requested that its funding be increased to $146.9 million. This funding request is comprised of approximately 63.6% premium tax and 36.4% federal Medicaid funding. The change in cost allocation is based on the increased influx of clients newly eligible to Medicaid.

State Health Care Innovation Plan (HB2572): In February 2013, Washington State received nearly $1 million from the Centers for Medicare and Medicaid Services Innovations Fund to develop the State Health Care Innovation Plan. Additional funding was provided to fully develop and implement the five-year innovation plan. Implementation is expected to slow the growth of state health care costs. This bill also required the creation of an All Payer Claims Database, collaboration with Department of Social and Health Services to integrate physical and behavioral health rates, and savings attributable to the innovation plan beginning in State Fiscal Year 2016.

Physician Primary Care Rate Increase: A temporary primary care physician rate increase was provided during this biennium under the Affordable Care Act totaling $150 million in federal funds. This temporary rate increase expires December 31, 2014.

Hospital Safety Net Assessment (SB6570): During the 2013-15 biennium the structure of the Hospital Assessment program changed along with the structure of the Medicaid program. With most of Medicaid moving into Managed Care, the majority of the payments tied to this program moved into the managed care program as well. The legislation governing this program was changed to phase the program down beginning in the upcoming biennium, with the program fully phased out in 2019. Beginning in 2016, funds used in lieu of state general funds for payments to hospitals will be reduced in approximately $20 million increments.

Long Term Care and Developmental Disabilities

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

Washington is budgeted to spend $5.9 billion total funds ($2.9 billion GF-S) during the 2013-15 (2014 Supplemental) biennium to provide aging and long-term support services which are primarily Medicaid-funded (i.e. state and federal matching funds). Both ALTSA and DDA operate an institutional-based Medicaid "entitlement" program. The entitlement service setting in ALTSA is nursing homes or Skilled Nursing Facilities (SNFs) and the entitlement service setting in DDA is Residential Habilitation Centers (RHCs). However, Medicaid waiver services are also offered by both programs. These programs waive the Medicaid entitlement and offer alternative Medicaid services to clients in their own homes and in community residential facilities such as adult family homes and assisted living homes.

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

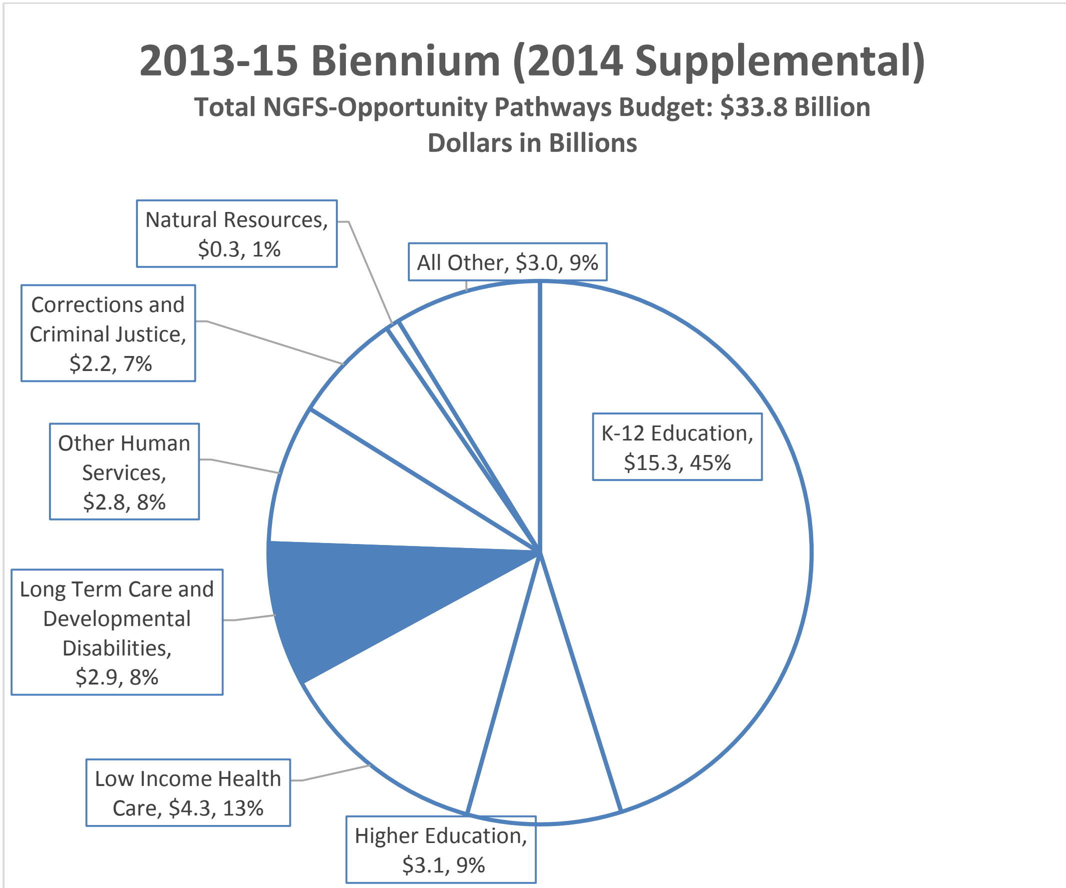
Key Facts

- 2013-15 (2014 Supplemental) budget by program:
  - ALTSA: $3.8 billion total funds and 1,478 FTEs
  - DDA: $2.1 billion total funds and 3,168 FTEs
- Percent of the program budget that comes from the state: 48%
- Number served (FY2014 November forecast) and Average Monthly Cost per Client:

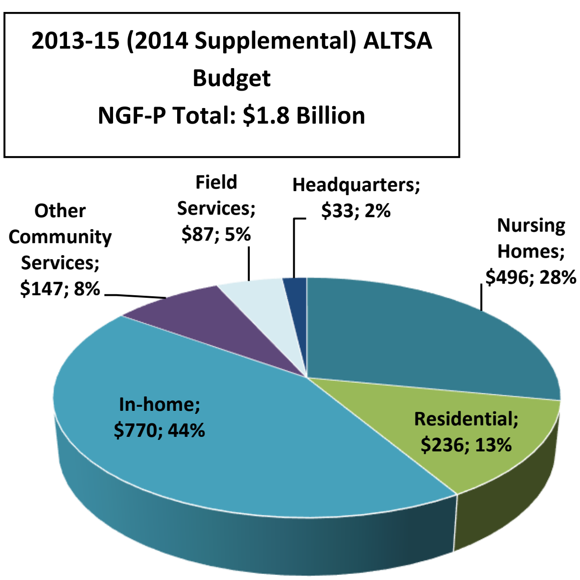
Service Setting	Numbers Served	Average Monthly Cost/Client
Nursing Homes	10,193	$ 4,954
ALTSA Community Residential	12,255	$ 1,601
ALTSA In-Home	38,557	$ 1,679
Residential Habilitation Centers	880	$16,586
DDA Community Residential	4,521	$ 7,510
DDA In-Home	12,646	$ 1,944

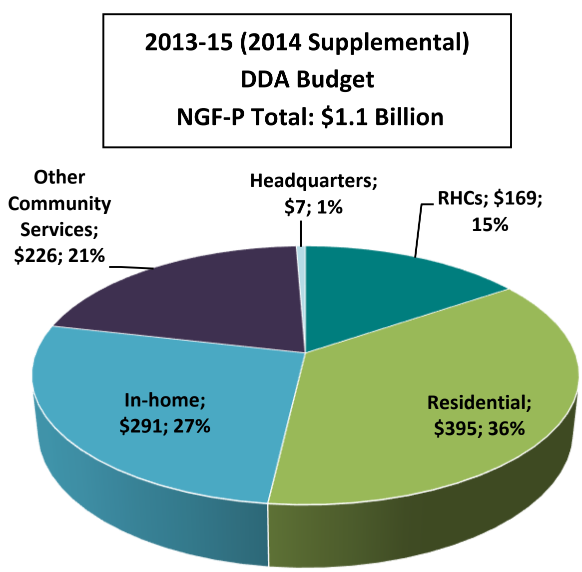
Trend/Overview Information

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



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





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

The bulk of caseload increases are primarily driven by demographic changes, particularly due to the impact of an increasingly aging population. The overall state general population is projected to grow at about 1 percent per year, however, the 65 and older population is growing at four times that rate. This not only affects the growth in the elderly population receiving services, but also impacts adults with developmental disabilities because 65 percent of the caregivers for this population are parents and relatives who are themselves aging and therefore incurring more difficulties in providing care due to their own health concerns. Per capita cost increases have occurred across both the ALTSA and DDA populations. These costs are typically driven by worker wages and benefits--primarily the impact of collective bargaining agreements for home care workers. However, a portion of the cost increases are driven by increases in client acuity which correspondingly increase required levels of care.

2013-15 & 2014 Supplemental Enacted Budget Recap

The 2013-15 (2014 Supplemental) budget represents an eleven percent increase from the 2011-13 funded level. One third of this increase is attributed to maintenance level adjustments for increased forecast caseload and per capita costs, half is attributed to the policy decision to fully fund the homecare worker arbitration award, and the remainder is due to other policy level changes.

- $146 million GF-S ($292 million total funds) was provided for the arbitration award for individual provider homecare workers and parity required by statute for agency homecare workers. This included wage and health care increases, paid holidays, and increased training contributions.
- $12 million GF-S ($20.3 million total funds) was provided for additional client capacity in capped DDA programs. Funded items include Medicaid waiver slots, new crisis and critical placements, and an expansion to the Individual and Family Services (IFS) program.
- $6.7 million GF-S ($13 million total funds) was provided to cover the increased per capita costs related to the MR v Dreyfus lawsuit. In negotiations with the federal Department of Justice, it was agreed to expand the exception to rule process for homecare hours.
- $3.2 million GF-S ($13.2 million total funds) was provided to contract with a fiscal employer agent to provide timekeeping and payment services for Individual Providers who care for Medicaid eligible clients in their homes. This was needed to become compliant with Medicaid rules regarding time reporting. Implementation was delayed by six months in the 2014 Supplemental budget due to technology readiness.
- $3 million GF-S ($5.9 million total funds) was provided for a vendor rate increase of approximately 2 percent for residential providers of services to people with developmental disabilities.
- $3 million GF-S ($5.9 million total funds) was provided for a vendor rate increase of approximately 2 percent for residential providers of services to people with developmental disabilities.
- $0.4 million GF-S ($0.7 million General Fund-State) was provided to refinance personal care services under the Community First Choice Option (CFCO) by August 30, 2015. Because CFCO

earns an enhanced 6 percent federal match, a savings of approximately $71 million GF-S is expected. Some of the savings must be used as a cost offset for services to 5,000 individuals with developmental disabilities who are waiting because there are no available service slots. After paying for the new service slots for individuals with developmental disabilities, the refinance to CFCO is expected to result in a net savings of approximately $49 million General Fund-State in the 2015-17 biennium.

- For FY2015, one-time funding of $45.4 million in Skilled Nursing Facility Net Trust Account funds and federal matching funds was provided for an increase in nursing home rates of $7.24 per Medicaid patient day. The department was authorized to increase the nursing home assessment fee from $14 per patient day to $21 per patient day beginning July 1, 2014. Assessment revenue and federal matching funds are used to increase the low-wage worker add-on and to provide new rate add-ons for direct care, support services, and therapy care.
- Spending was reduced by $31.4 million GF-S ($63 million total funds) for the 2013-15 biennium by delaying a rate rebase for skilled nursing facilities to the 2015-17 biennium.
- Spending was reduced by $4 million GF-S by increasing Adult Family Home licensing fees to cover 60 percent of the overall costs for licensure and regulation.
- Spending was reduced in FY2014 by a one-time savings of $2.2 million GF-S ($2.4 million total funds) due to unfilled vacancies in field services and lower than expected utilization in the employment services program.

Current Budget Issues

Nursing Home Rates

There are about 213 nursing facilities providing care to Medicaid clients. Nursing home rates are based on client acuity and are unique to each facility. Between 2011 and 2014, there have been several modifications affecting nursing home rates. Some of these modifications were temporary and will discontinue without legislative action. Others are required adjustments made according to statute. Several adjustments scheduled to transpire within calendar year 2015 will have varying impacts on individual facilities.

- Two rate add-ons established in the 2011-13 budget and extended in the 2013-15 budget are scheduled to sunset on June 30, 2015. These rate add-ons were put in place when the safety net assessment fee was established with the intention of allowing most facilities to maintain revenue/cost ratios.
- A one-time, temporary increase to the nursing home payment rates was funded by the 2014 Legislature through an authorized increase in the nursing home assessment fee from $14 per patient day to $21 per patient day. These funds were distributed to nursing facilities through one-time rate add-ons established in the 2014 Supplemental budget. Both the incremental fee increase and the rate add-ons are scheduled to expire on June 30, 2015.
- Nursing home rates are rebased every two years according to a schedule established in statute. However, the statute was amended to delay the rate rebase by the Legislature in 2011 and again in 2013, therefore current rates are based on cost reports from 2007. The next rate rebase is scheduled for July 1, 2015, and would update the rates using cost data reported for calendar year 2013. The 2011 Legislature modified several components to reduce allowable Medicaid costs. As a result, Medicaid rates after the rebase are expected to be lower than the FY15 statewide-weighted average payment rate (the budget dial).
- In 2011, the state was required to upgrade the federally mandated Minimum Data Set reporting system to version 3.0. The system upgrade included changes in reporting requirements for nursing facilities on data that is used to tie payment levels to client acuity. Since the cost data used as the base for rates is from 2007, the rates have not yet incorporated the client acuity

resulting from these modified reporting requirements. This update is scheduled to be included in the rate rebase.

Without Legislative action, the adjustments outlined above will result in a small savings in GF-S and will lower the overall statewide weighted nursing facility rates. Impacts vary according to each individual facility, but in general, about 130 nursing facilities will have reduced payment rates from currently funded levels. Facilities that receive reductions will see Medicaid revenues reduced from a low of about $1 thousand to a high of just over $1 million. The average reduction will be around $225 thousand in fiscal year 2016.

Community First Choice Option

The 2014 Legislature required the Department of Social and Health Services to refinance personal care services under the Community First Choice Option (CFCO) by August 30, 2015. Because CFCO earns an enhanced 6 percent federal match, a savings of approximately $71 million GF-S is expected in 2015-17. As directed by the 2014 Legislature, about $22 million of this savings will be used to pay for the phase-in of new service slots for clients with developmental disabilities who have requested and are waiting for capped services. The remaining savings is $36 million GF-S ongoing and $14 million GF-S one-time in the 2015-17 Biennium. The 2014 Legislature directed that this savings be used for services for individuals with long term care needs or with developmental disabilities. A Joint Legislative Taskforce on Long-term Care was established in 2013 to identify actions in preparation of an increase in the aging population over the next few years. As a part of its agenda, it is tasked with making recommendations for the additional savings. While it is unclear what the task force will recommend, a final report is due to the Legislature in December 2014. In addition, a stakeholder workgroup established by the Legislature in 2014 is also tasked with making recommendations to the Department of Social and Health Services on uses for additional savings.

Homecare Providers

The 2015-17 Tentative Agreement (TA) for Individual Provider homecare workers and the parity funding required in statute for Agency Providers is estimated to cost $262 million total funds ($117 million GF-S) in 2015-17 with a bow-wave in 2017-19 to $371 million total funds ($164 million GF-S). This excludes any costs for potential impacts related to new rules under the Fair Labor Standards Act concerning overtime. Provisions include increases in wages, additional training contributions paid to the Training Partnership, and contributions to the establishment of the Taft-Hartley Retirement Benefit Trust. There is also a Memorandum Of Understanding (MOU) that establishes an advanced home care aide and specialist pilot included in the funding estimates. Although there is an additional MOU with a provision to pay time and half for workers who work more than forty hours per week, there are no estimates included in the fiscal impacts for this item. The MOU for overtime references an agreement to pursue modifications to RCW 74.39A.270 (5) (c) to "facilitate the Employer's ability to limit the State's obligation to pay overtime."

Economic Services Administration (ESA)

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

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

Key Facts

- Total 2013-15 budget (FY14 revised supplemental): $2 billion total funds ($746.7 million Near GF-S)
- Percent of budget that comes from the state funds: 37 percent
- Average monthly applications processed in FY 2014: 255,400
- Approval rates for applications vary from 45 percent (TANF) to 79 percent (ABD)

Major Public Assistance Programs – FY14 Average Households Served			
Type	Programs	Households	Monthly Grant
Food Assistance	Basic Food	**592,026**	$225
Cash Grant	TANF Cash Assistance	**42,568**	$368
	TANF/Workfirst	*26,731*	*$386*
	TANF Child Only	*15,837*	*$338*
Child Care Subsidy	Working Connections Child Care	**27,601**	$694
Cash Grant	Aged, Blind and Disabled	**23,678**	$178
Food Assistance	State Food Assistance	**11,700**	$108

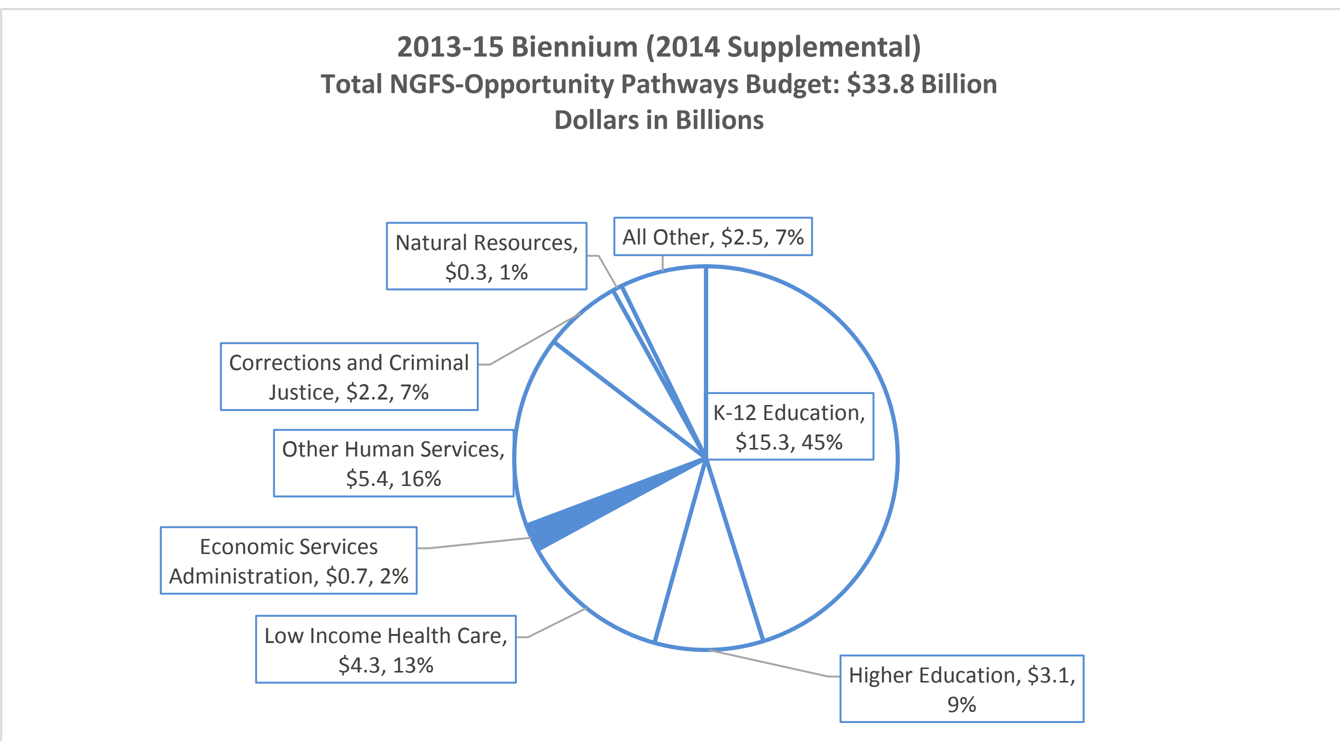
Major cash assistance and food assistance programs administered by ESA include:

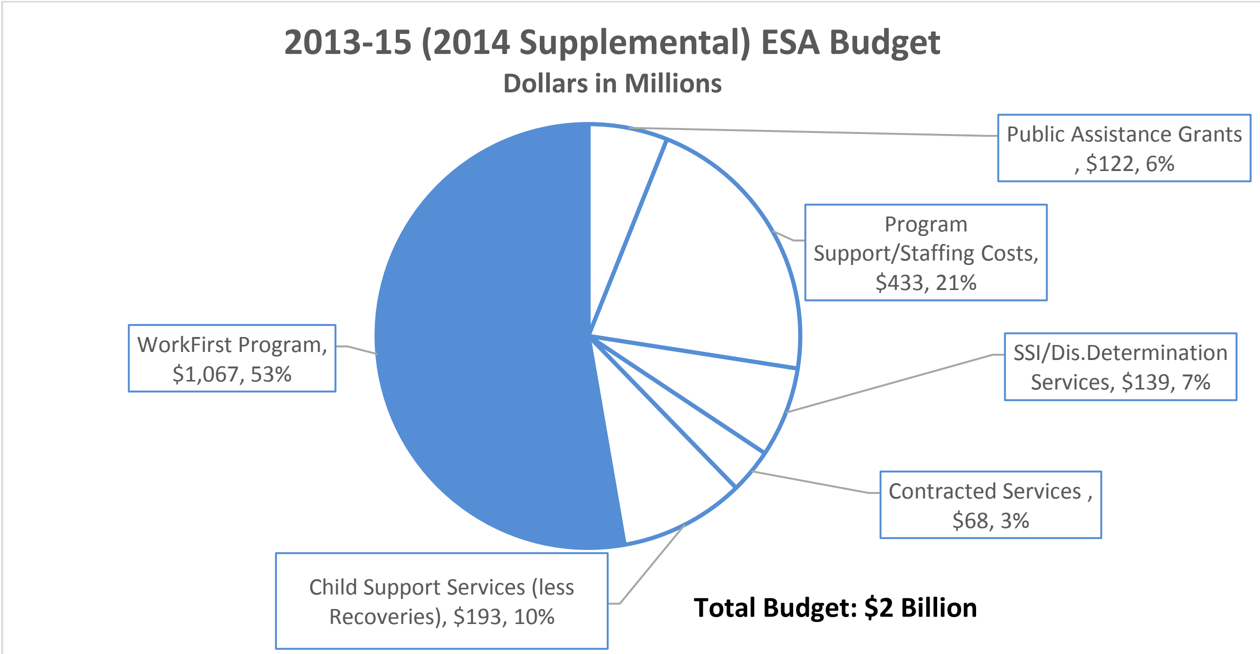
- ***Temporary Assistance for Needy Families (TANF) cash grant:*** Cash grants for parents of low-income families and to children whose parents are ineligible or who are being cared for by non-parent caregivers. Clients must participate in approved WorkFirst activities to receive the full TANF grant. Failure to participate results in sanction (a reduced grant) and continued lack of participation may result in benefit termination. An adult TANF client may receive cash assistance for a total of 60 months (5 years) in a lifetime.
- ***WorkFirst program:*** Support services focused on obtaining paid, unsubsidized employment for low-income families who receive TANF cash welfare.
- ***Working Connections Child Care (WCCC):*** Child care subsidies for low-income parents who are working, participating in an approved work activity, or receiving TANF cash assistance.

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

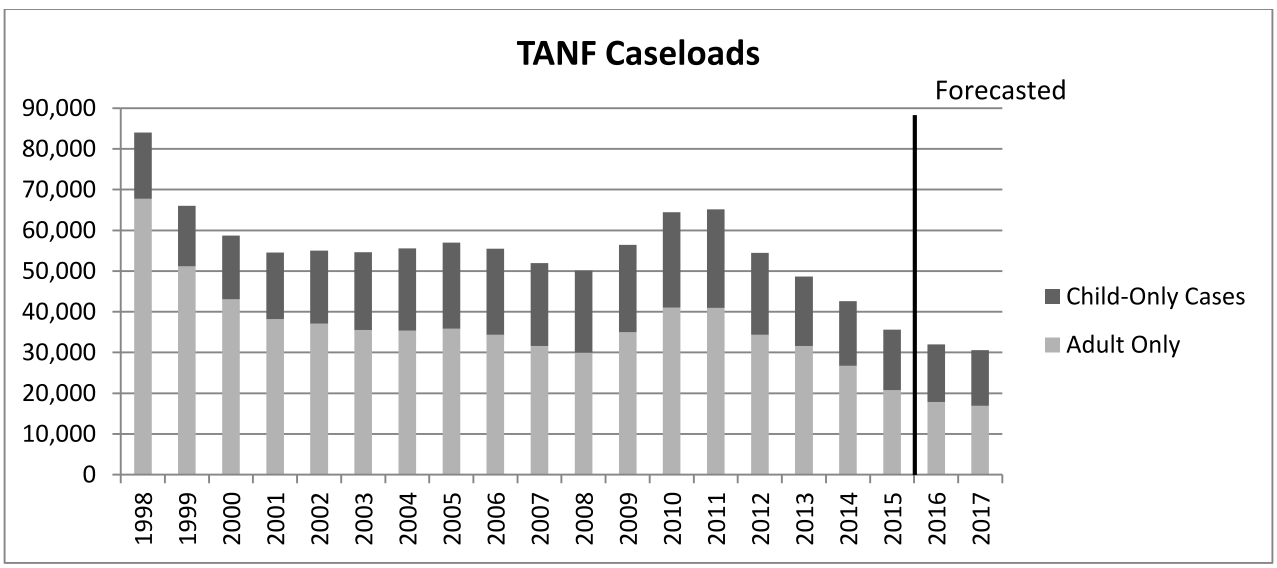
Trend/Overview Information

In 2013-15 biennium, ESA's budget totals $2 billion with $746.7 million (37 percent) from Near GF-S. This represents 2 percent of the total state Near GF-S and 1 percent of the total state budget.
Of ESA's total $2 billion budget, 49 percent ($1.1 billion) is for the TANF/Workfirst program, which includes TANF grants to clients, contracts for WorkFirst-related services such as job search, education and training, Working Connections Child Care subsidies and staffing costs.

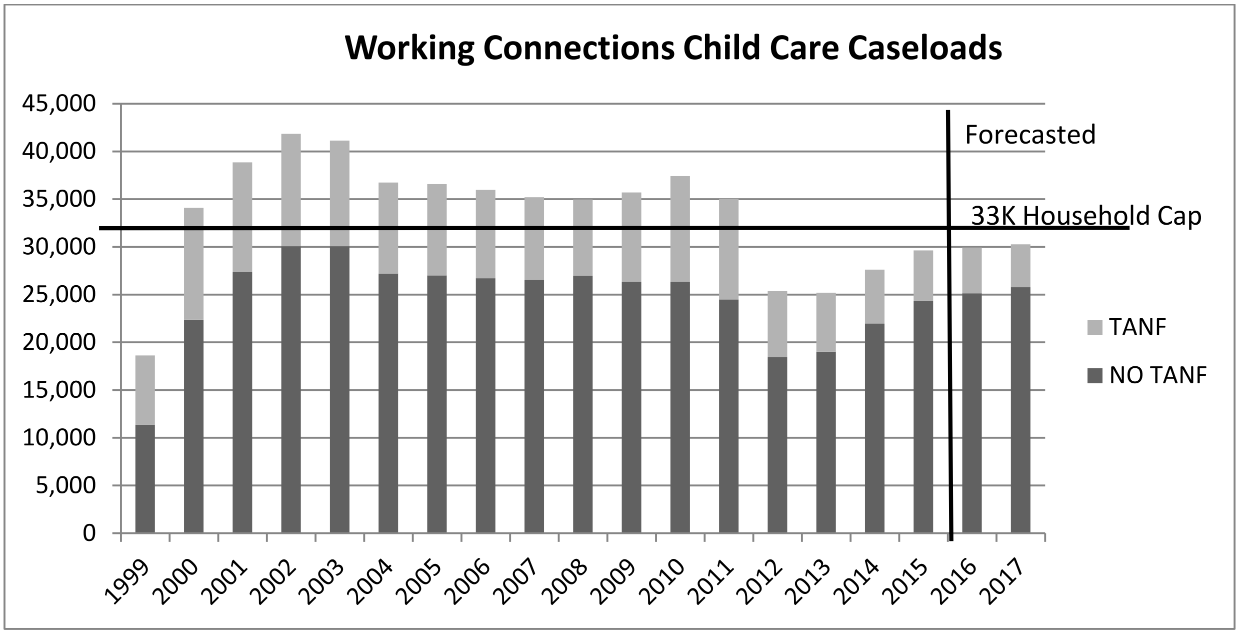




A significant portion of ESA's budget is driven by forecasted caseloads for the TANF/Workfirst and Working Connections Child Care program (WCCC). These programs are forecasted, as a courtesy, by the Caseload Forecast Council (CFC) and per capita expenditures are estimated and adjusted by the joint legislative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



- TANF caseloads significantly declined after the 1998 welfare reforms. Caseloads were stable from 2001 until the recession started in 2009, creating a spike in the number of cases. Reductions in grants and a firm five year time limit resulted in significant caseload declines starting in 2012. Caseloads are estimated to continue to decrease in 2016 and 2017.



- Working Connections Child Care (WCCC) is a child care subsidy program created as part of welfare reform in 1996. Program changes such as income eligibility and a child support enforcement requirement created a significant decline in utilization in 2011 and 2012. These policies were largely removed in 2012. Caseloads reached a recent low in 2013, but started to rebound in 2014 and the caseload growth is predicted to continue through 2015, 2016 and 2017. The program remains capped at 33,000 families at which point a waiting list would be implemented.

2013-15 & 2014 Supplemental Enacted Budget Recap

ESA's biennial Near GF-S budget of $746.7 million Near GF-S was reflective of $104 million in program enhancements offset by $294 million in programmatic efficiencies, fund swaps and caseload savings. Some of the major budget items are highlighted below.

Savings

- Decreased the WorkFirst (TANF/WCCC) program by $288.7 million Near GF-S due to caseload savings, programmatic reforms and one-time fund swaps. These included $223.7 million projected savings due to decreased TANF cash assistance and child care caseloads, $63 million savings due to one-time fund swap and use of federal TANF contingency funds, a $2 million reduction to WorkFirst services provided by the State Board of Community and Technical Colleges and Employment Security.

- Other savings include $4 million in compensation savings and an assumed $1.9 million Near GF-S savings related to a simplified eligibility process and estimated workload reductions. Medicaid eligibility rules were simplified under the Patient Protection and Affordable Care Act (ACA) and Newly Eligible (MAGI) Medicaid eligibility determinations were transferred from the ESA to the Health Benefit Exchange. The transfer of Medicaid eligibility work impacted ESA's ability to draw down federal Medicaid funds. See Current Budget Issues below.

Enhancements

- Provided $31.4 million Near GF-S increase for the WCCC program to provide base rate increases in FY2013, FY2014, and FY2015 and to provide a rate increase for providers who achieve a level two or above in the Early Achievers quality rating system.

- Provided $59 million Near GF-S increase for policy changes to the WorkFirst program, increased call center staffing, continued modifications to the client eligibility technology system, and mandatory public assistance caseload increases.

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

- Provided $1.1 million Near GF-S for changes to the ABD program. Chapter 10, Laws of 2013 (SHB 2069), temporarily broadened program eligibility for the ABD program by shortening the time a person is likely to be disabled from 12 months to nine months and reducing the time that a disability would prevent a person from working from 15 years to 10 years. Chapter 218, Laws of 2014 (SB 6574) reverted the expanded disability criteria back to the original criteria. Savings were assumed related to an estimated decreased caseload.

Current Budget Issues

Impact of Affordable Health Care Act: The 2013-15 biennial budget assumed savings related to reduced eligibility workload at ESA due to implementation of the ACA, which made substantial changes to the eligibility rules for Medicaid and other medical benefits. Washington transferred Medicaid eligibility from the ESA to the Health Benefit Exchange (HBE), which will assist citizens in accessing health care coverage. The impact of this change resulted in a significant decrease in federal Medicaid revenue to support staffing and administrative costs at ESA. The 2013-15 (2014 Supplemental) biennial budget provided federal SNAP and TANF funds as a one-time fix to cover the decreased Medicaid revenue at ESA. The Office of Financial Management contracted for an eligibility study to identify options to streamline eligibility processes and potential revenue sources to address lost revenue for FY 2015 and beyond. ESA has estimated the shortfall of Medicaid revenue at $48 million over 2015-17. The Governor's budget may address some of the recommended changes from the eligibility work study. This will be an issue for the Legislature to consider in the 2015 session.

ECEAP vs. Working Connections Child Care: Since 2006, when the Department of Early Learning (DEL) was created, the administration and funding for the child care subsidies has been split between ESA and DEL. DEL is responsible for WCCC policies and child care licensure. ESA staff determine client eligibility and issue child care voucher payments. The funding split between DEL and ESA enabled both agencies to maximize federal funds and meet federal maintenance of effort requirements for both TANF and Child Care Development Funds. The 2014 supplemental budget included a proviso that enabled DEL to serve up to 20 percent of the WCCC caseload through contracts with WCCC providers and Early Childhood Education Assistance Program (ECEAP) providers; and to braid funding between the programs to achieve a full-day preschool experience. The impact of this proviso is estimated to be a reduction of $6.4 million in FY15, FY16 and FY17 to the WCCC program.

Backlog of Overpayment Cases: The 2014 supplemental budget required DSHS and DEL to take additional steps to identify and reduce the backlog of overpayment cases related to Fraud Early Detection referrals from ESA financial eligibility workers to the Office of Fraud and Accountability (OFA). The departments (DSHS and DEL) were required to collaborate and create a plan to triage overpayment cases in order to identify and prioritize cases with large overpayment amounts and likelihood of fraudulent activity. The departments are to report quarterly to the policy and fiscal committees of the legislature detailing specific actions that will be taken to address the backlog. The State Auditor's office will conduct a performance audit in FY15 of OFA and the Office of Financial Recovery.

Children's Administration

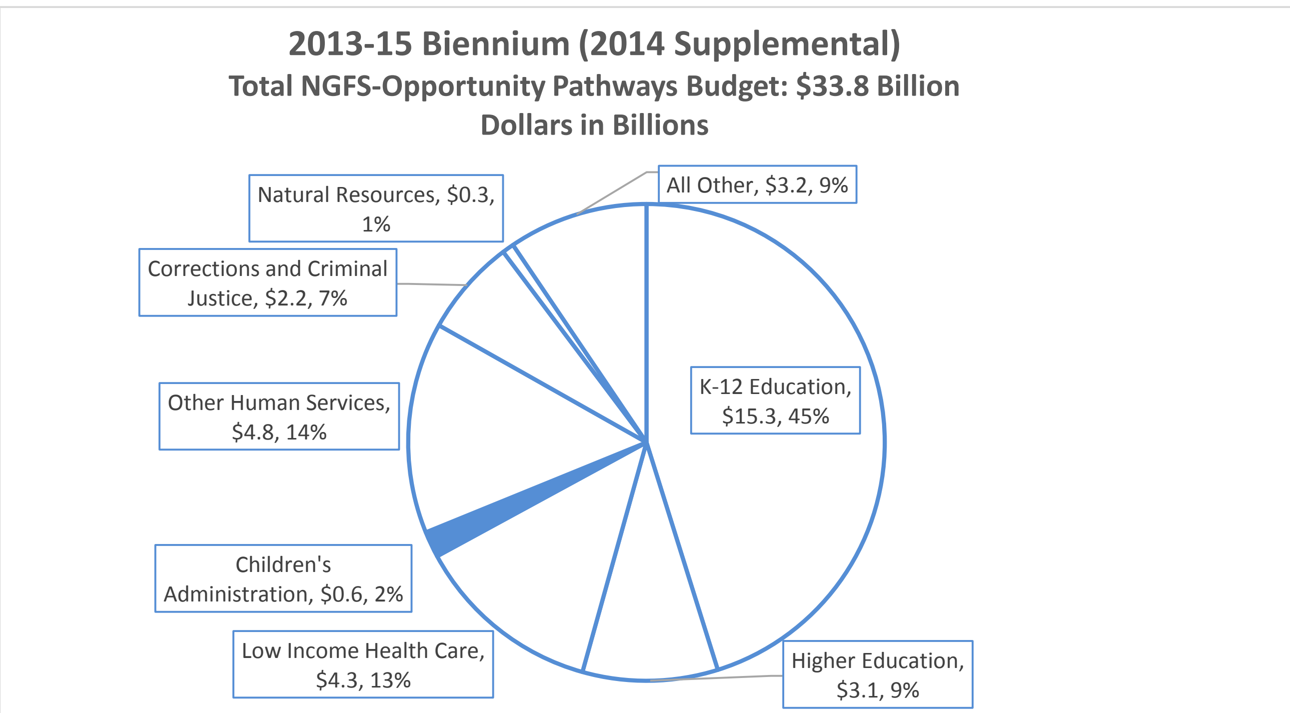
Children's Administration (CA) is responsible for protecting abused and neglected children, supporting the efforts of families to care for and parent their own children safely, and providing quality care and permanent families for children. CA relies on outside (non-employee) providers for most services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

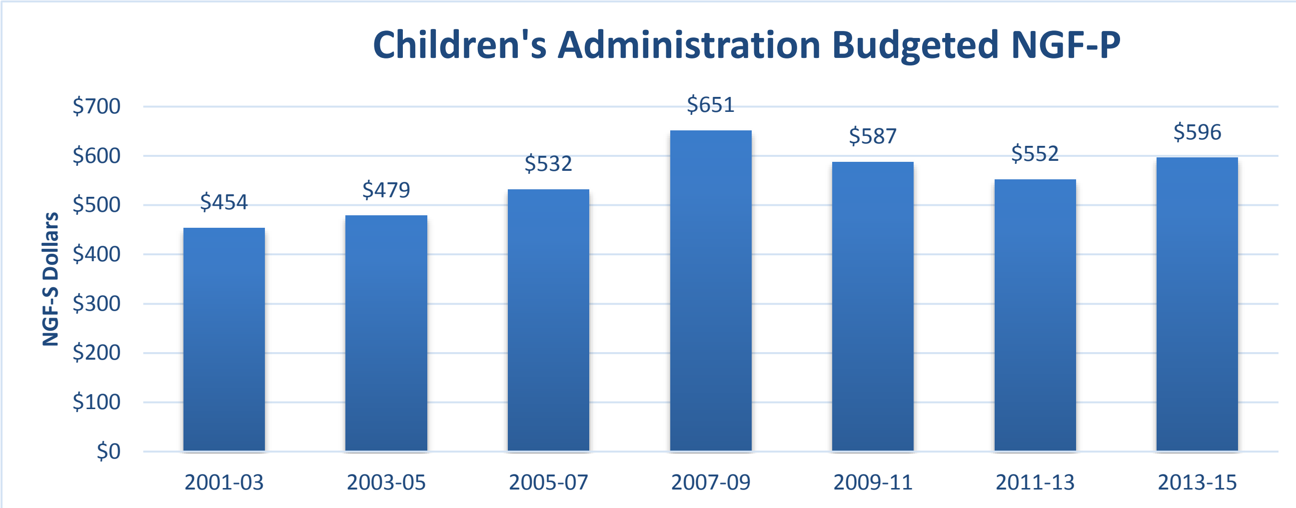
Key Facts

- Total 2013-15 budget (FY14 Supplemental): $1.1 billion total funds ($595.9 million Near GF-S)
- Percent of budget that comes from the state: 54 percent
- Average Child Protective Services referrals per month (FY 2014): 7,378
- Total average foster care caseload, FTE (FY 2014): 9,120
    - Foster Care: 5,423
    - Relative Placement: 3,697
- Adoption Caseload (FY 2014): 14,812

Trend/Overview Information

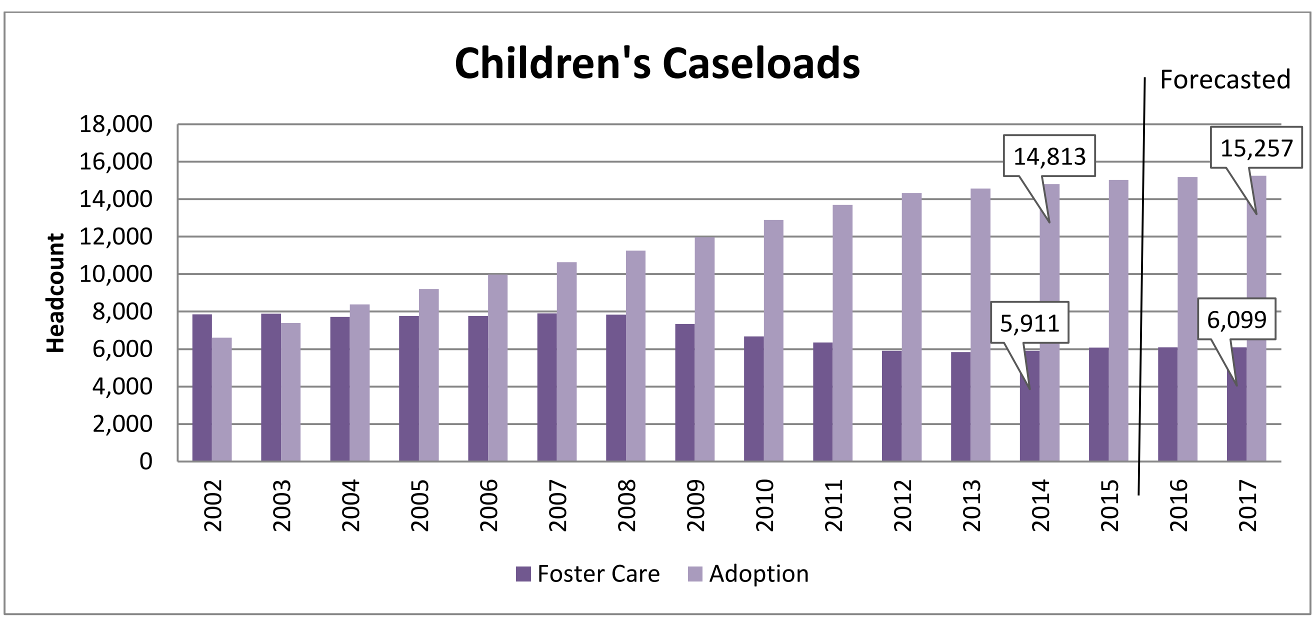
Children’s Administration (CA) is a program in the Department of Social and Health Services (DSHS). In 2013-15 biennium, CA’s budget totals $1.1 billion with $595.9 million (54 percent) was Near GF-S. This represents 2 percent of the total state Near GF-S and 2 percent of the total state budget.





CA’s budget is largely driven by maintenance payments associated with the adoption support and foster care. When the department needs to remove a child from their home, the state has legal responsibility for that child until a long-term solution is developed. While the child is in state custody, the state must provide medical, dental, and mental health services, provide for the physical well-being of the child, and make maintenance payments to licensed foster parents. Not all children who enter foster care or adoption are eligible for federal matching funds under Title IV-E of the Social Security Act. In these cases the state pays the full cost. Eligibility for Title IV-E federal reimbursement is a complicated process based on many factors including income and asset determination, child’s age, citizenship status, and licensure of the foster home placement.

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



- Adoption support caseloads have significantly increased since 2009 as the Department focuses on achieving permanency for children. The state pays adoption support payments to parents who adopted from the state foster care system.

- Licensed foster care caseloads decreased significantly since 2007 (7,911 cases) to a low in 2013 (5,836 cases). Caseloads increased by 1 percent in 2014 (5,911 cases) and are projected to increase reaching approximately 6,099 cases by FY 17.

2013-15 & 2014 Supplemental Enacted Budget Recap

The CA's 2013-15 biennial budget of $595.9 million Near GF-S included $12.2 million Near GF-S in policy level increases for the following services:

- An additional $4.6 million Near GF-S for foster care services for eligible foster care youth who are age 18 and participating in employment-promoting activities and to youth employed 80 hours or more per month were expanded under Chapter 32, Laws of 2013 (E2SSB 5405) and Chapter 122, Laws of 2014 (EHB 2335).
- The investigative Child Protective Services unit received $2.8 million Near GF-S for 20 additional staff.
- A total of $3.2 million Near GF-S was provided to implement the Family Assessment Response (FAR) pilot program. FAR creates an alternative to the investigative pathway for low-risk cases of neglect with the goal of reducing out-of-home placement and strengthening families by providing basic needs and services, and is the demonstration project for the Title IV-E waiver.
- Other increases included $1.6 million Near GF-S for a base rate increase and a tiered reimbursement pilot for child care centers and family homes that provide services for foster care and CPS-involved children.

Current Budget Issues

FPAWS lawsuit: In 2011, the Foster Parents Association of Washington (FPAWS) filed a lawsuit alleging that the foster care basic rate inadequately covered the allowable costs of caring for a foster children under Title IV-E of the Social Security Act. The parties entered into a preliminary settlement agreement in September 2014 with the following terms: the administration will increase the basic foster care maintenance payment for licensed foster parents, based on a mutually agreed upon methodology; and the administration agreed to review policies and consider policy changes related to incidental reimbursements, such as clothing vouchers. The administration agreed to submit an agency decision package, as part of the settlement. If the settlement is funded in full, the case would be dismissed within 30 days of the first new foster care payment. Partial funding would trigger a meeting between parties to consider the new terms. If the plaintiff does not agree to the partial funding or if no funding is provided, the case would go back to trial. In their 2015-17 agency submittal, CA requested an additional $12.5 million Near GF-S related to the FPAWS litigation.

BRAAM: In 1998, plaintiff Jessica Braam filed suit, on behalf foster children who had three or more placements while in foster care, alleging that DSHS did not provide constitutionally required care to foster children. A settlement was reached and approved by the Superior Court in November 2004, and renegotiated in October 2011. The Braam Settlement requires CA to meet performance benchmarks related to caseload ratios, monthly visits, and health screenings. The original agreement was set to expire July 2011, but was extended because CA had not maintained full compliance for all outcomes. In July 2014, the Superior Court found that CA was not fully compliant with eight of the nine remaining outcomes in the Braam Revised Settlement and Exit Agreement. The Superior Court judge ordered DSHS to submit performance data to the court and provide a roadmap that explains how the department will achieve the remaining outcomes, related to locating children on the run, conducting monthly health and safety checks for foster children, and providing adequate training, support and information for foster parents. CA submitted an agency DP for an additional $7.8 million Near GF-S related to meeting these outcomes in the 2015-17 biennium.

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

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

Chapter 259, Laws of 2012 (ESSB 6555) created Family Assessment Response (FAR), an alternative to the investigative pathway for families with low to moderate risk of child maltreatment. Three pilot sites will begin offering Family Assessment Response in January 2014 (Spokane, Lynnwood, and Aberdeen). Between January and August 2014 CA implemented FAR in ten additional sites (Ellensburg, Mount Vernon, Martin Luther King Jr. (in King County), East Pierce County, Stevenson, Moses Lake, Richland, Oak Harbor, the Olympic Peninsula offices, and Vancouver). Other states who have implemented similar programs have experienced significant declines in out-of-home placements. If FAR was available statewide, the department estimates that approximately 70 percent of all intakes (reported calls of child abuse/neglect) would be assigned to the FAR pathway, rather than the investigative CPS pathway. In their 2015-17 agency submittal, CA has requested an additional $6.5 million Near GF-S ($13 million total funds) to implement FAR in all offices by the end of fiscal year 2016.

Chapter 204, Laws of 2012 (SHB 2263) created a mechanism for "reinvesting" state funds. Savings associated with declining foster care caseloads are deposited into a reinvestment account to be used on programs which may result in further caseload declines, such as FAR. As foster care caseloads are projected to increase, the amount of funding available for the reinvestment account declines. In the 2014 supplemental budget, a one-time fund swap of $3.8 million TANF was used to support FAR implementation because the reinvestment account had insufficient funds for FY15. The reinvestment account is projected to have insufficient funds in FY16 and FY17 due to increasing foster care caseloads.

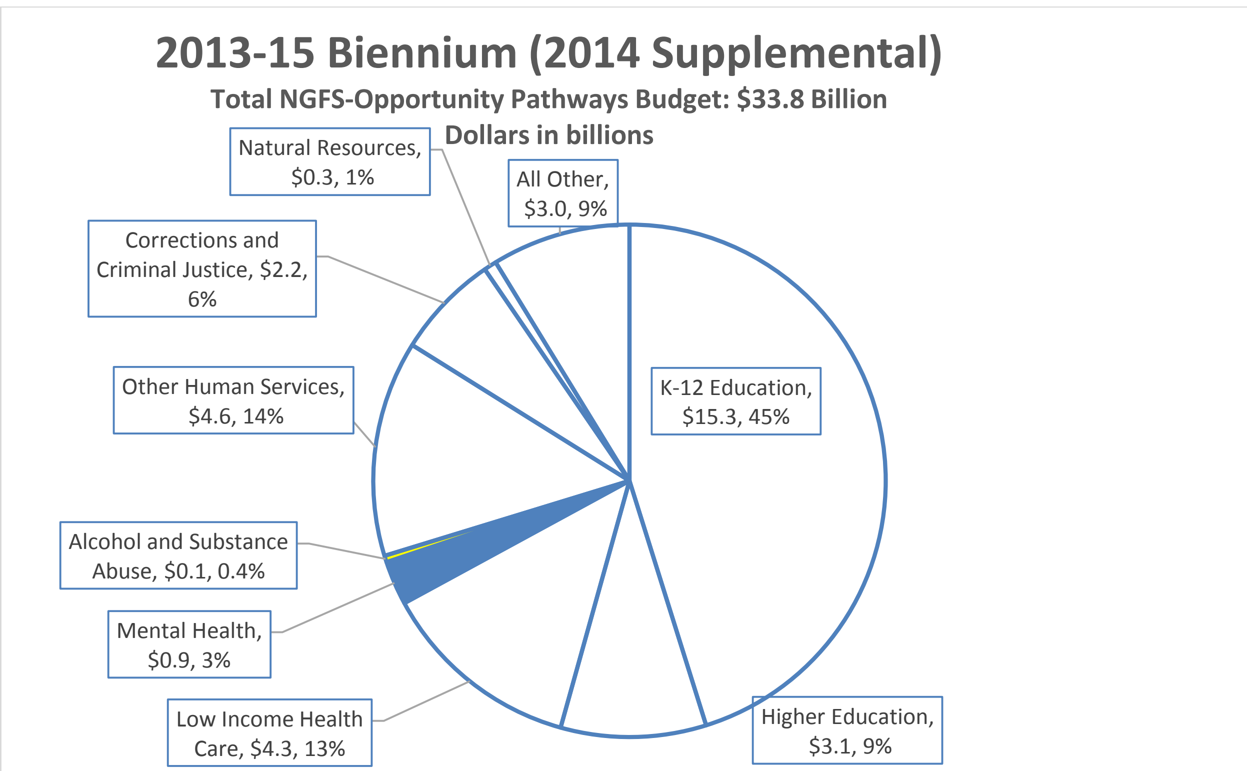
Chapter 205, Laws of 2012 (ESSHB 2264) and Chapter 205, Laws of 2013 (ESHB 1774) directed CA to contract with a network administrator for family support and related services and implement performance based contracts with service providers. The original RFP was rescinded on March 13, 2013. The deadline for initial implementation was extended to July 1, 2014 and full implementation was extended to July 1, 2015. CA issued an RFI in March 2014 and received one response for a potential network administrator. In their 2015-17 agency submittal, CA has requested $3.4 million near GF-S related to increased costs associated with the network administrator contract.

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

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

Washington is budgeted to spend $2.3 billion total funds ($1.1 billion GF-S) during the 2013-15 biennium to provide mental health and substance abuse services for low- income Washingtonians. The majority of DBHR services are provided utilizing a network of community providers. DSHS directly operates three inpatient, psychiatric mental health facilities.

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



Key Facts

Mental Health

- Total: 2013-15 (2014 Supplemental) biennial budget: $1.9 billion in total funds and 2,687 FTEs
- Percent of budget that comes from state funds: 51%
- Number served (FY2014 unduplicated client counts):
- Community Services/RSNs: 149,521 (124,811 are Medicaid)
    - Western State Hospital: 1,873
    - Eastern State Hospital: 903
    - Child Study Treatment Center: 106

DASA

- Total: 2013-15 budget: $450 million in total funds and 72.3 FTEs
- Percent of budget that comes from state funds: 30.5%
    - Assessments: 37,893
    - Detoxification Services: 8,694
    - Outpatient Treatment: 43,841
    - Inpatient Treatment: 10,110

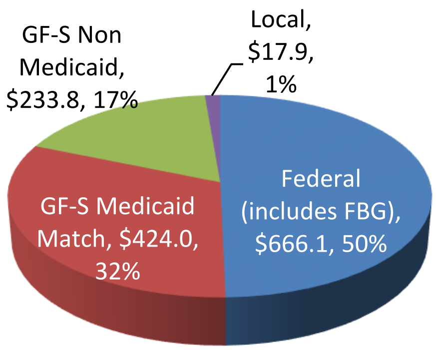
Trend and Overview Information

In terms of 2013-15 Near GF-S budget, the DBHR program comprises just under three percent of state-wide spending and nearly eight percent of state spending on health and human services programs.

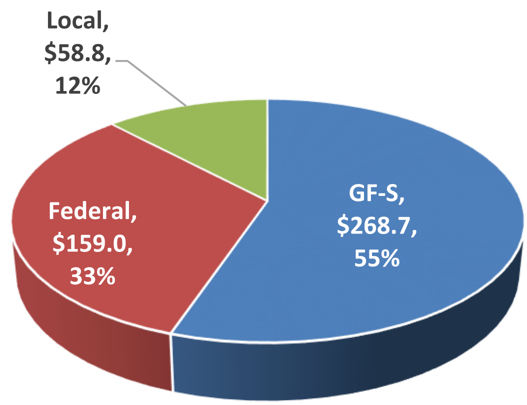
The Mental Health program is adjusted at maintenance level for Medicaid caseload changes, similar to other Medicaid programs. However, the Alcohol and Substance Abuse Program (ASA) does not receive a maintenance level adjustment for caseload changes and the program is expected to redirect other funds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

Of the total funds in the community mental health budget, 17 percent are used to pay for services and clients who are not Medicaid eligible. Under federal law, Medicaid funds may not be used to cover costs for investigation, detention, or court hearings under the Involuntary Treatment Act, or direct housing costs. State funding covers about 55 percent of the cost to operate the state psychiatric facilities.

2013-15 (2014 Supplemental)
Community MH Budget
$1.3 Billion



2013-15 (2014 Supplemental)
State Psychiatric Facilities Budget
$486.4 million



2013-15 & 2014 Supplemental Enacted Budget Recap

<u>Mental Health</u>

Even after assuming approximately $47 million in state savings from increased federal funding from expanded Medicaid eligibility, the 2013-15 biennial budget (including the 2014 supplemental) included significant increases in the policy level, with state funds increasing by nearly seven percent from the 2011-13 funded level. This increase was primarily driven by state hospital enhancements, a high intensity mental health children lawsuit settlement, and community mental health enhancements.

- $23.9 million ($17.6 million GF-S) was provided to meet the demands for expanded involuntary detention and commitment criteria in Chapter 335, Laws of 2013 (ESSB 5480). These funds were awarded by DSHS to each of the RSNs.

- A total of $15.5 million ($8.2 million GF-S) was provided for the phased-in of infrastructure development and intensive mental health services for high needs youth in order to implement the commitments in the T.R. v. Dreyfus and Porter Settlement Agreement.

- A total of $11.9 million ($7.3 million GF-S) was provided to enhance community mental health services. The purpose of this funding is to divert or transition individuals from state hospitals to the community.

- A total of $9.6 million ($7.5 million GF-S) was provided to the state psychiatric hospitals for staffing and facility enhancements needed for security and to maintain certification through the Joint Commission on Accreditation of Healthcare Organizations.

- Other enhancements included: (1) funding for state hospital overtime; (2) an electronic medical record system at the state psychiatric hospitals; and (3) $4.6 million GF-S to implement several pieces of adult behavioral health and accountability legislation enacted in the 2013 regular session.

<u>DASA</u>
DASA's 2013-15 budget reflected a net $7.2 million Near GF-S over 2011-13 estimated expenditures. This was due to $12.7 million in programmatic savings, offset by $5.5 million in maintenance level increases. Some of the provisions are highlighted below:

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

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

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

- Adjustments related to the costs of individuals covered under the Presumptive Supplemental Security Income program resulted in switching $1.7 million federal Medicaid funds back to GF-S after the federal government clarified the federal match percentage at 75% in FY 2014 and 77.5% in FY 2015 instead of the assumed 100% match.

Current Budget issues

<u>Mental Health</u>
Single Bed Certifications and Mental Health Capacity
A single bed certification process is used to detain a patient in a non-certified bed when the detained individual has a medical need or when there are no certified E&T beds available. A Pierce County Superior Court Ruling determined that unless it is for a medical service or some other specialized service that cannot

be provided in an E&T bed, it is a violation of a person's civil rights to be detained under a single bed certification. On August 7, 2014, the State Supreme Court upheld this ruling. DSHS is currently working to implement a plan to comply with the ruling that involves adding additional community beds.

Funding was approved by the Office of Financial Management for 145 additional beds. Since this approval was given, DSHS received approval from the Centers for Medicare and Medicaid Services to use federal funds in lieu of state funds for less costly services. Ongoing analysis of the cost of this service and the bed need is being done by DSHS.

High Intensity Mental Health Children Lawsuit Settlement

T.R. v. Dreyfus was a federal class action that claimed that Washington State's Medicaid system is not providing sufficient intensive mental health services for youth (through age 21) in the community, thereby resulting in unnecessary institutionalization.

The Washington Settlement Agreement includes the implementation of a risk assessment tool and a ramping-up of intensive home and community based services over a five year period. It does not specify the number of children that must be served or a dollar amount that must be spent on services. Beginning in July 2014, a statewide Wraparound with Intensive Services (WISe) delivery model will be phased in over a five year period. Funding was provided in the 2014 supplemental budget in the amount of $15.5 million ($8.2 GF-S) to carry out the terms of this settlement.

Competency to Stand Trial

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

As part of the 2015-17 budget process, DSHS has submitted three decision packages to address competency to stand trial. The three requests total $13.05 million NGF-S. These requests fund the following in 2015-17 biennium:

- Additional Competency Restoration Ward at Western State Hospital
  - 53.1 average annual FTEs
  - $11.7 million NGF-S
- Outstationed forensic evaluators in areas with high referral rates
  - 3.0 average annual FTEs
  - $ .8 million NGF-S
- Staff to improve performance reporting and collaboration between key system partners
  - 2.0 average annual FTEs
  - $ .5 million NGF-S

Behavioral Health System Reform

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

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

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

A preliminary report is due to the Governor and appropriate committees of the legislature outlining initial findings and recommendations by December 15, 2014 with a final report due by December 15, 2015.

DASA

Medicaid Rates for Substance Abuse Services

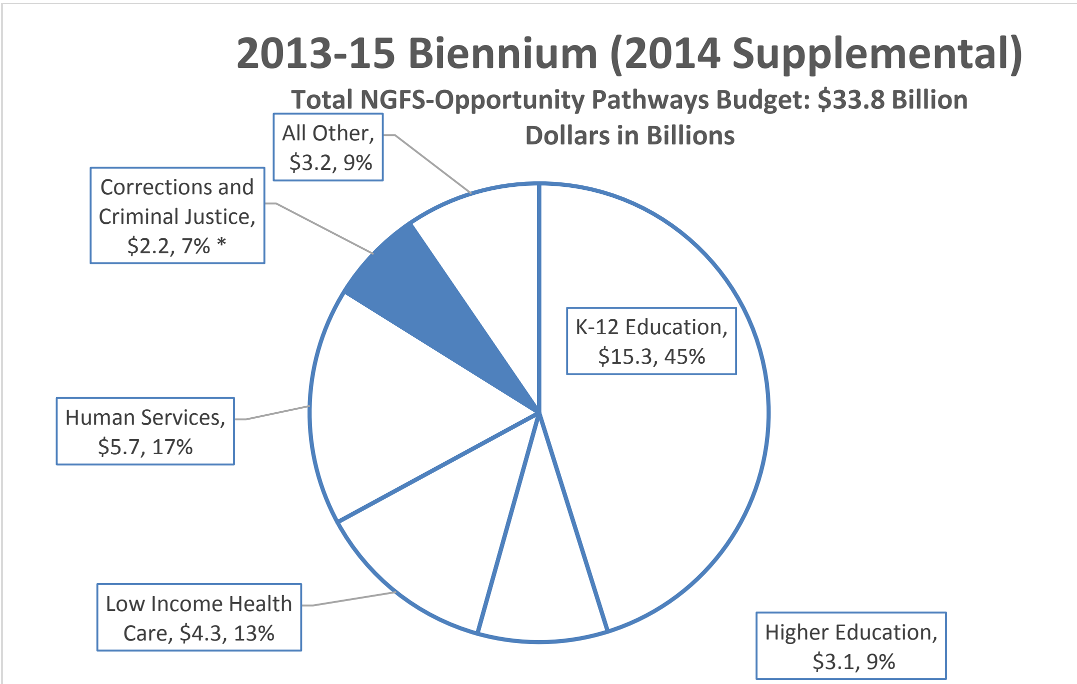
Through Medicaid expansion under the Affordable Care Act has resulted in a significant increase in the number of Medicaid eligible individuals needing substance abuse treatment services. The current Medicaid rates utilized in Washington are lower than the low-income rates for identical services. This has resulted in concerns from the provider communities regarding their ability to remain viable through this shift to Medicaid funding. Under ESSB 6002 Section 208 (7), the Department was directed to review the differences and report to the Legislature by December 1, 2014. Additionally, SSB 6312, requires the Department to move to an integrated Managed Care system for mental health and chemical dependency services by April 1, 2016. The Department is requesting $32 million for temporary rate increases until the managed care system is implemented.

Initiative 502

Initiative 502 requires the Department to implement and maintain programs and practices aimed at the prevention or reduction of maladaptive substance use, substance-use disorder, and substance abuse or substance dependence. The Department has requested the authority to spend up to $18.4 million in Dedicated Marijuana fund revenues for this purpose. (Estimated 15% of the revenue collected in the 2015-17 biennium)

Department of Corrections and Other Criminal Justice

The 2013-15 budget provides $2.2 billion for NGF-S for the Department of Corrections (DOC), Juvenile Rehabilitation Administration (JRA), the Special Commitment Center (SCC) for sexually violent predators, and the state portion of the judicial branch. Funded levels represent approximately a five percent increase from the 2011-13 biennium.



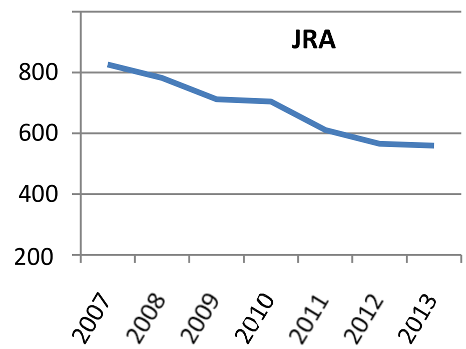
** Includes Judicial Costs of $242 million*

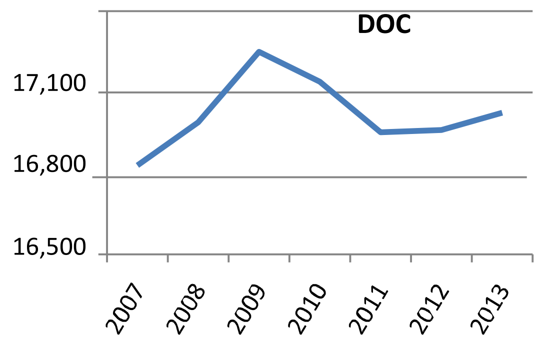
Key Facts

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

	2013-15 Budget	Number of Offenders/ Residents	FTE Staff	Annual Cost per Offender/Resident
DOC Prison	$1,188 million	17,469	6,268	$34,003
DOC Supervision	$301 million	16,563	1,169	$9,086
JRA	$178 million	535	778	$95,862
SCC	$74.3 million	295	380	$125,932

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





2013-15 & 2014 Supplemental Enacted Budget Recap

Legislative measures to address Adult Prison Capacity

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

Major Policy Changes and Estimated Impacts in the 2013-15 biennium **(Dollars in millions)**	**Budget Impact**	**Avg. Daily Pop (ADP) Impact**
Policies from 2ESSB 5892 (Corrections costs) that reduce demand		
Drug Grid Modification: Modified the Drug Sentencing Grid so that any offender who commits a Seriousness Level 1 Drug offense and has a criminal history score within the range of 3-5, will serve their sentence in jail unless an exceptional sentence is imposed. This item was expected to reduce the growing demand for prisons by 126 beds by the end of the biennium.	-$2.6	-109*
Standardizing Presentence Credits: Standardized calculations of earned release for felony offenders transferring in from jails to make consistent with the rate applicable to DOC offenders. This item was expected to reduce the growing demand for prison beds by 51 beds	-$1.1	-51
Investments to reduce demand		
Increase Residential Drug Offender Sentencing Alternative (DOSA) beds: Increased residential beds for Drug Offender Sentencing Alternatives are expected to reduce ADP by 272 beds by the end of the biennium.	$4.1	
Savings in prison from DOSA diversions	-$2.6	-235*
Total Savings	**-$2.2**	**-395**

****Average FY impact during the biennium***

Increased Capacity for Housing Offenders
Due to the continuing increase in prison population for both males and females, $5 million was provided to open a 256 bed prison unit beginning July 1, 2014 at the Washington State Penitentiary (WSP) for men. Additionally, funding is provided to rent local jail beds beginning April 1, 2014, for female offenders to reduce crowding at the Washington Corrections Center for Women.

Other Capacity Related Changes

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

Offenders with Special Needs
$5.8 million ($5.4 million Near GF-S) was provided for additional mental health staffing was funded to provide added support to adult offenders with developmental disabilities and to juvenile offenders suffering from mental illness. Funds were provided to expand alternatives to incarceration for drug-addicted offenders.

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

Current Budget Issues

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

- $1.8 million for a Prison Capacity Pre-Design focused on a 1,000 bed medium custody prison at Maple Lane School.
- Other options to meet capacity demand include:
    - Fund the contracted beds at local jails for certain prison sentencing.
    - House offenders out of state in private facilities.
    - Increase work release beds across the state.
    - Increase the Drug Offender Sentencing Alternative beds further.
    - Sentencing modifications to reduce bed need.

Community Supervision Population Increasing
Community supervision caseloads for adult offenders increased by approximately 500 offenders during FY 14 and are forecasted to increase by over 800 during FY 15. Sentencing changes from previous sessions and possible changes in court practices appear to be driving the upswing. A caseload increase of 800 offenders would increase DOC costs by nearly $5.4 million per year.

Offender Programming

Washington State Institute for Public Policy (WSIPP) previously identified Offender Programming using evidence based programs as a mechanism to reduce recidivism and associated demand for prison beds. During 2012, the state realized a one-time savings when DOC under expended the funding for this purpose. The budget expected DOC to ramp back up to fully spending appropriated funds by April of 2015. The 2014 Supplemental budget, took an additional savings of $2 million to reflect DOC's programming under-expenditures. DOC continues to expand programming across its prison and community systems with the funding.

Community Violator Policy Changes

In December 2013, DOC instituted a policy that required offenders that fail to report within 7 days of their scheduled appointment to serve up to 30 days in jail instead of 1-3 days, resulting in more violators for longer periods of time in jail. In conjunction with this change, DOC has modified its contracts with local jurisdictions to reduce costs. DOC expected its violator population to decrease due to behavior change and strategies put in place by DOC. The community violator population continues to be above the funded level. DOC is requesting $3.7 million to cover its shortfall during FY 15.

Hepatitis C Protocols

During the 2013-15 biennium, the Legislature provided DOC and SCC with increased funding for new and more effective drug protocols to deal with Hepatitis C in their populations costing over $1.7 million. Since that time, the Federal Food and Drug administration approved a newer drug treatment which has a 90% success rate with minimal side effects. This new drug regimen costs around $86,000 per patient for DOC and $120,000 per patient for SCC. This constitutes approximately $14 million for the 2015-17 biennium in requested funding.

Parole and Aftercare for JRA youth

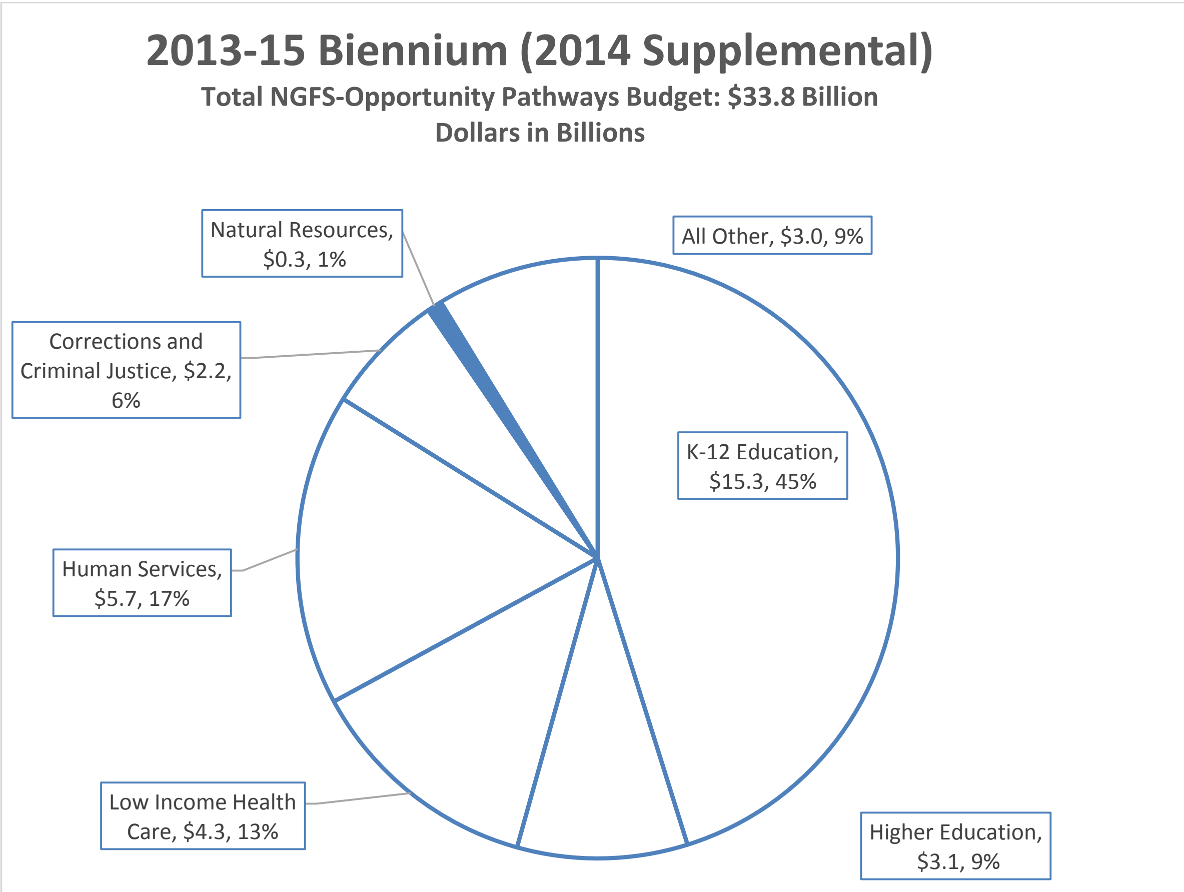
Juvenile Justice and Rehabilitation Administration of DSHS (JRA) is requesting $3.9 million for the 2015-17 biennium to expand its Parole services program to provide services for all youth released to their communities. Currently, JRA provides these services to the highest risk youth (those with over a 60% risk to re-offend), sexual offenders, and youth convicted of auto theft. This funding would provide parole aftercare to 129 additional youth each year. JRA changed its parole services model following a 2002 WSIPP report showing that parole did not reduce recidivism while actually negatively affecting the benefit to cost ratio. JRA now utilizes the research-based Functional Family Parole Aftercare (FFP) which has shown positive outcomes in a 2011 report by Research and Data Analysis for DSHS and is on the WSIPP Inventory of evidence-based, research-based, and promising practice for juvenile justice. The funding would be used to train parole counselors in FFP and to provide the care.

High Cost of the Special Commitment Center

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

Natural Resources

For the 2013-15 biennium, natural resources represents less than 1% of the NGFS-P budget ($270 million). The total budget for natural resources is approximately $1.6 billion and represents 2.4% of the overall budget. The natural resources agencies budgets are funded primarily by dedicated funds.



Key Facts

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

- Department of Ecology (DOE) regulates, inspects, and provides technical assistance for the environment; including air, land and water pollution and clean up. ($51 million NGF-P)
- Department of Natural Resources (DNR) manages 2.6 million acres of aquatic lands and 3 million acres of state trust lands for revenue to trust beneficiaries. ($93 million NGF-P)
- Department of Fish and Wildlife (WDFW) provides protection to fish and wildlife and their habitats and sustainable fish and wildlife related recreational and commercial opportunities. ($61 million NGF-P)
- State Parks and Recreation Commission (State Parks) manages 120,000 acres with 117 developed parks, 35 heritage sites, 13 interpretive centers and more than 700 historic structures. ($9 million NGF-P)
- Department of Agriculture (Ag) provides support to the agricultural community and promotes consumer and environmental protection. ($31 million NGF-P)

- Washington State Conservation Commission (SCC) supports and guides the 45 conservation districts as a non-regulatory resource of information, guidance, and technical services for private landowners in dealing with land, water, and air quality conservation. ($13 million NGF-P)
- Recreation and Conservation Office (RCO) manages grant programs for outdoor recreation, wildlife habitat and farmland, and restoration of salmon habitat. ($1.6 million NGF-P)
- Puget Sound Partnership (PSP) coordinates the regional effort to clean up Puget Sound. ($4.7 million NGF-P)
- Environmental and Land Use Hearing Office (ELUHO) hears appeals and decides cases of certain land use and environmental decisions. ($4.3 million NGF-P)
- Pollution Liability Insurance Program (PLIA) makes pollution liability insurance available and affordable to the owners and operators of regulated petroleum underground storage tanks and heating oil tanks by offering reinsurance services to the insurance industry. (No NGF-P)
- Columbia River Gorge Commission works in partnership with the United State Forest Service, the State of Oregon, Tribes, and the six counties within the National Scenic Area to adopt land use and resource protection policy for the approximately 115,000 acres in the Scenic Area. The Commission is a bi-state compact agency and funded equally by Oregon and Washington. (Washington's share is $0.9 million NGF-P)

2013-15 & 2014 Supplemental Enacted Budget Recap

The Model Toxics Control Act and Hazardous Substance Tax: In 2013, the legislature amended the distribution and authorized use of the Hazardous Substance Tax (HST) revenues (2E2SSB 5296) and created the Environmental Legacy Stewardship Account (ELSA) to fund certain authorized pollution prevention and contamination cleanup activities. The legislation allows for the clean-up of hazardous waste sites at a faster pace based on available cash.

- Transfers $45 million from the State Toxic Control Account (STCA) and $45 million from the Local Toxics Control Account (LTCA) to ELSA on a one-time basis during the 2013-15 biennium; requires that any HST revenue exceeding $140 million per fiscal year is deposited into ELSA
- $40.5 million in funding ($19.2 million STCA and $21.3 million LTCA) at Ecology are permanently shifted to ELSA.

State Parks Support

In 2011, the legislature created the annual Discover Pass and Day-use Permit (2SSB 5622). Proceeds from the fees were expected to raise approximately $68 million per biennium to support the maintenance and operation of state recreational lands managed by State Parks, WDFW, and DNR.

- State Parks was provided $20 million in one-time funding to assist in the transition to a reliance on fees from the sale of the Discover Pass and Day-use Permits.
- Low public participation in the program during the first six months led to a revenue shortfall of $11.2 million for the 2011-13 biennium from the original projections. The total shortfall was $37 million total, or about half of what was originally anticipated.
- In 2013, ESSB 5897 provided additional funding support to State Parks. The bill directs $5 million per fiscal year through 2017, from the Waste Reduction, Recycling, and Litter Control Account (Litter Tax) to the Parks Renewal and Stewardship Account to bridge the shortfall in Discover Pass revenue projections and to meet the maintenance and operational activities for State Parks. State Parks was also provided $8.4 million of state general fund and an additional $1.7 million of Litter Tax funds on a one-time basis for a total of $20.1 million of additional funding.

Current Budget Issues

Level of State General Fund Support for State Parks

For the 2015-17 biennial operating budget, State Parks has requested $54 million in state general fund support to build and maintain a state park system.

- With the passage of the Discover Pass in 2011, State Parks' 2015-17 operating budget has primarily been based on revenue received from:
    - The sale of the $30 annual pass and $10 day-use permits = $32.3 million;
    - Department of Licensing donations = $13.4 million;
    - Overnight accommodations, i.e. campsites, cabins, yurts = $37.4 million
    - Other park fees, i.e. boat launch and moorage fees = $11 million.
- These revenue sources total approximately $94.1 million.
- State Parks uses the 2007-09 biennial funding level of $134.4 million as a benchmark for building the 2015-17 biennial budget. The 2007-09 funding included $94.5 million state general fund support.
- Discover Pass revenue to State Parks is projected to increase approximately 14%, from $28 million in the 2013-15 biennium to $32 million in the 2015-17 biennium.

Fire Suppression Costs

DNR is responsible for responding to and suppressing wildfires on state and private lands. The state's share of the fire suppression costs are paid from the state's general fund and the Disaster Response Account. An estimate of these costs, based upon actual historical fire costs, is appropriated within DNR's biennial budget.

- For 2015-17, DNR's budget for fire suppression is $19 million per fiscal year, with an additional $2.5 per fiscal year from the Disaster Response Account, for a total of $21.6 million per FY.
- In FY 2015, there were eight significant and costly large fires. DNR is currently projecting fire suppression costs of $70 million, which includes $2 million for anticipated fires in the spring of 2015. The most costly was the Carlton Complex fire, which has an estimated total cost of $69.4 million, of which DNR's portion is approximately $25 million.
- For the 2015-17 biennium, DNR proposes to adjust the agency's biennial fire suppression appropriation to a six year average expenditure history instead of the current past ten year history without the two highs and two low years included. This would result in an additional $4.7 million NGF-P.
- DNR is also requesting an additional $4.5 million NGF-P to restore some of the agency's firefighting capacity by increasing fire engine staffing, adding additional specialized Helitack crews, enhancing aerial initial attack capacity and safety, and increasing coordination and business support.