
SENATE 2002 SUPPLEMENTAL BUDGET SUMMARY

SENATE COMMITTEE



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SENATE WAYS AND MEANS COMMITTEE

MARCH 6, 2002

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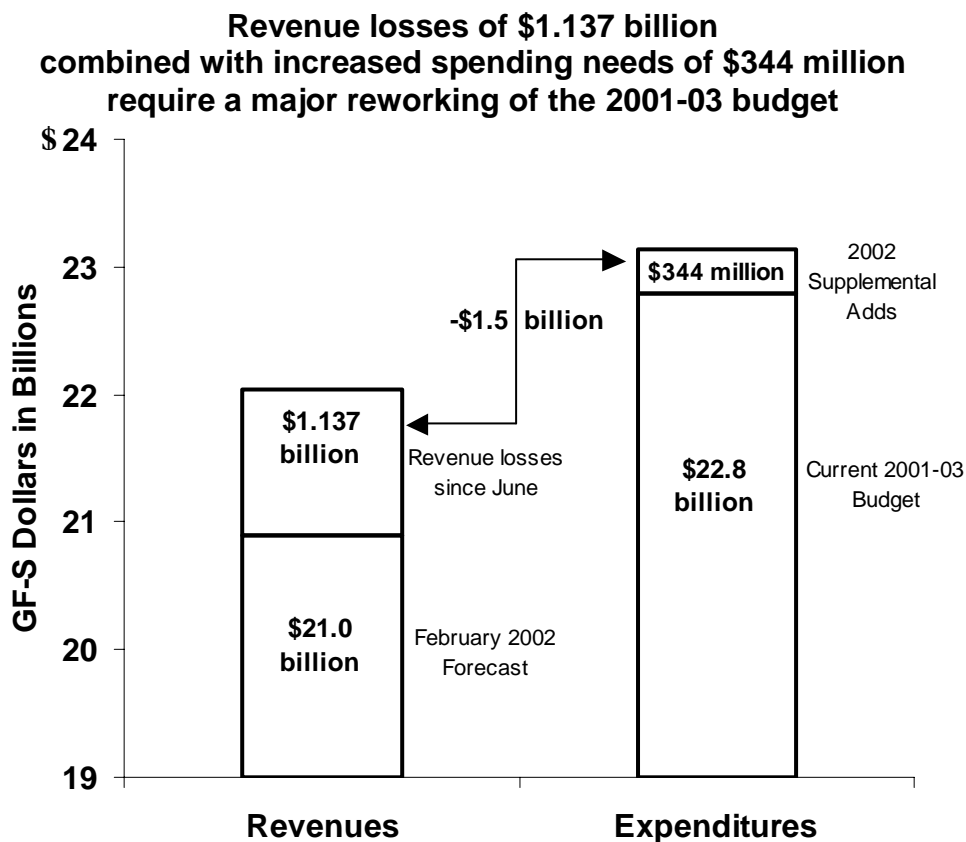
HOW THE SENATE 2002 SUPPLEMENTAL BUDGET WAS CONSTRUCTED

BUDGET OUTLOOK FOR 2002

Following the passage of the 2001-03 Operating Budget in June 2001, several factors and events combined to produce one of the largest budget deficits in recent memory. These include:

- The September 11th terrorist attacks, which lead to an unprecedented 48-hour national groundstop in air travel and the Boeing Company's subsequent decision to reduce its commercial airplane workforce by 30,000 workers by June 2002.
- A national recession that began in March 2001 and which is anticipated to persist in Washington State through calendar year 2002.
- Continued rapid escalation in costs for low-income medical care.
- Increased costs for public school enrollments, tort liability payments and additional prison inmates and offenders under supervision.
- Passage of Initiatives 747 and 773, which further reduce state general fund revenue collections.

In combination, these factors have resulted in a reduction in general fund revenue of \$1.137 billion and increased expenditure needs of \$344 million since the original 2001-03 budget was passed. The combined impact of the revenue loss and budget increase is an approximately \$1.5 billion budget deficit, which is illustrated in the chart below.



REVENUE OUTLOOK

As the chart above indicates, the February 2002 revenue forecast of \$20.962 billion is \$1.137 billion less than the \$22.099 billion June 2001 revenue forecast which was used in constructing the original 2001-03 biennial budget. Most of the revenue loss occurred in November 2001 when the Economic and Revenue Forecast Council reduced the general fund forecast by \$813 million, primarily in response to the economic after effects of the September 11th terrorist attacks. Most recently, the Council further reduced the forecast of general fund collections for the current biennium by an additional \$247 million at their meeting on February 19, 2002. This means that that more than one billion in forecasted revenue has been lost in just the last three months.

The result of these changes is that general fund revenues for 2001-03 are actually **\$300 million lower than actual general fund collections for the 1999-01 biennium** – an extraordinary event that has happened only once in the past forty years.

While much of the current revenue downturn is due to economic factors, the passage of Initiative 728 in November 2000 (which diverts a portion of state collected property tax revenues to local school districts), has also contributed to the current revenue decline, reducing general fund revenues in 2001-03 by \$442 million. Passage of Initiatives 747 and 773 in November 2001 further reduced general fund revenues by an additional \$34 million bringing the total 2001-03 revenue loss from these three initiatives to \$476 million.

EXPENDITURE OUTLOOK

Since the passage of the \$22.783 billion 2001-03 general fund biennial budget last June, new spending pressures have emerged resulting in additional budgetary spending needs of \$344 million in the 2002 supplemental budget. Most of the increase comes from two budget drivers – K-12 education and low-income health care. An additional \$126 million is needed for public schools primarily for increased enrollments and levy equalization costs. Another \$91 million is added for the increased costs of health care in the Department of Social and Health Services (DSHS) medical assistance program, primarily for aged, blind and disabled recipients. Other significant general fund supplemental spending requirements include the Department of Corrections (\$41 million), tort liability payments (\$25 million) and the DSHS economic services program (\$16 million).

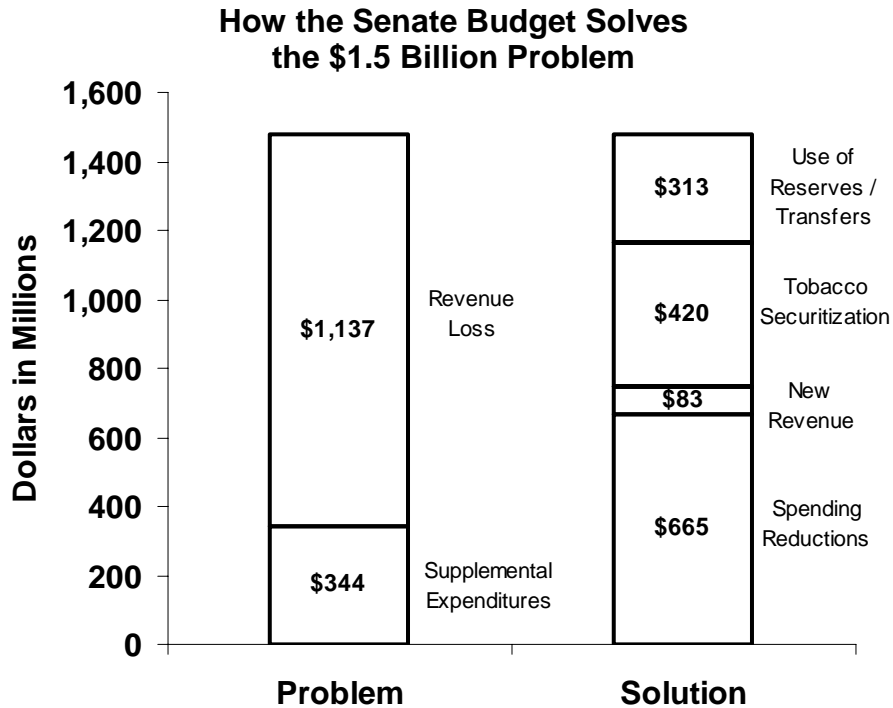
Since 1991-93, the general fund budget has grown, on average, about 9 percent per biennium. Two thirds of these biennial budgets were built under the requirements of Initiative 601, which limits general fund budget growth each year by a growth factor based on statewide inflation and statewide population growth. Because of the budget reductions and savings discussed in the next section, even with \$344 million in new supplemental expenditure requirements, the Senate 2002 supplemental budget would reduce the 2001-03 general fund budget level to \$22.462 billion. Adoption of this budget would drive the percentage growth in general fund biennial spending in 2001-03 down to 6.7 percent – ***the lowest percentage growth in the general fund budget since the early seventies.***

The bottom line of the state's revenue and expenditure situation is that both general fund revenue growth and state expenditure growth are at historically low levels. While the economic impact of the current recession is not as deep as the early 1980's, the effect of recent voter-approved initiatives and the current recession has resulted in the lowest general

fund revenue growth and expenditure growth since the famous “Boeing Bust” period of the early seventies.

SOLVING THE \$1.5 BILLION PROBLEM

The proposed Senate 2002 supplemental budget takes a four-part approach to bringing the 2001-03 biennial budget back in balance, as illustrated in the chart below.



BUDGET REDUCTIONS AND SAVINGS (\$665 MILLION)

As the chart above indicates, a little less than one half of the Senate’s proposed solution to the state’s \$1.5 billion budget problem is based on budget reductions and savings. General fund spending is reduced by \$85 million through a number of efficiency savings and across-the-board reductions throughout state government. The amount also includes cuts in travel, equipment and mileage reimbursement. An additional \$71 million in savings comes from elimination of backfill assistance for cities and counties, which lost significant revenue due to the passage of Initiative 695 in November 1999. Another \$63 million is saved from a proposal to adopt the State Actuary’s most recent pension system valuation assumptions prescribed by the 1995-2000 experience study. Shifting the cost of certain general fund programs to other funds and accounts conserves \$51 million in general fund resources.

Health care benefits for state employees (and allocations for public schools) are reduced by \$41 million. Employees share of co-premiums is increased to an average of about 12 percent, office visit co-payments are increased from \$10 to \$15 and state support for prescription drug benefits is cut by 10 percent. In the area of program reductions, the scheduled July 1, 2002 2.6 percent cost-of-living adjustment for state and higher education employees and vendors is eliminated, saving \$50 million in the state general fund. The vendor cost-of-living is reduced to 1.5 percent, saving \$9 million. Public school funding is reduced by \$94 million through elimination of state funding for planning days, proposed changes in the calculation of the “staff mix” factor, and utilization of new federal education funding. Excluding compensation

changes, higher education is reduced by \$82 million through a combination of across-the-board reductions (\$48 million of this amount is included in the \$85 million efficiency total above), restrictions on tuition waiver authority and other measures.

SECURITIZING TOBACCO SETTLEMENT PAYMENTS (\$420 MILLION)

Following the lead of at least six other states and a number of city and county governments, the Senate budget proposes to “securitize” a portion of the annual revenue coming to the state from the 1998 settlement of the national tobacco litigation. In separate legislation, an independent authority is created to which the state would sell up to 25 percent of the state’s annual tobacco settlement revenues. The authority would issue revenue bonds, the proceeds of which would be paid back to the state in return for the right to receive a portion of future tobacco settlement payments.

It is estimated that securitizing one-quarter of tobacco settlement payments could raise a total of \$525 million, which can be used in the state budget. Of this amount, \$105 million would be returned to the Health Services Account to “hold harmless” that fund through the 2003-05 biennium. The remaining balance of \$420 million would be transferred to the general fund to help close the \$1.5 billion budget deficit without relying on \$200 million of new federal Medicaid “Proshare” payments in the general fund.

USE OF GENERAL FUND RESERVES AND MONEY TRANSFERS (\$312 MILLION)

The proposed Senate budget makes use of both state reserve accounts and money transfers from dedicated fund balances to close a portion of the \$1.5 billion budget deficit. A total of \$143 million is consumed from the unrestricted ending balance when the original 2001-03 biennial budget was adopted last June.

Another \$86 million is drawn from a variety of money transfers from various dedicated funds, listed on page 7 of this document. The budget also assumes a transfer of \$247 million is made from the emergency reserve account to the general fund, but only \$83 million is used to balance the budget, with the remainder staying in the general fund as a guard against further revenue downturns.

The Senate budget leaves a total \$301 million budget reserve comprised of \$164 million in the unrestricted ending balance and \$137 million in the emergency reserve account.

REVENUE INCREASES (\$83 MILLION)

The Senate budget relies on several measures that are expected to raise general fund revenues by \$83 million during the remainder of the 2001-03 biennium and \$181 million in 2003-05. A total of \$46 million in new revenue is anticipated from the hiring of additional staff in the Department of Revenue to improve tax collection, tax discovery, and overall tax compliance. Another \$24 million in ongoing revenue is expected from a proposal in separate legislation to have Washington join the “Big Game” – a multi-state lottery game consortium.

In addition to these two measures, the Senate budget proposes the passage of separate legislation to close three tax loopholes, which are expected to generate about \$29 million in new revenue this biennium. Offsetting a portion of the increased revenue from closing these three tax loopholes are a number of measures, which reduce general fund state revenues by approximately \$17 million.

BALANCE SHEET

2001-03 Balance Sheet

General Fund State

(Dollars in Millions)

RESOURCES	
Beginning Fund Balance	\$599.7
November 2001 Revenue Forecast	21,208.7
February 2002 Forecast Update	(246.8)
2002 Revenue Changes	<u>83.3</u>
Total Revenue	\$21,045.1
2001 Session Money Transfers	228.0
2002 Session Money Transfers	85.8
Tobacco Securitization Transfer	420.0
Emergency Reserve Account Transfer	<u>246.8</u>
Total Resources Available	\$22,625.5
SPENDING LIMIT AND APPROPRIATION	
Original 2001-03 Appropriation	\$22,783.2
2002 Supplemental Budget	<u>(321.0)</u>
Total Appropriation	\$22,462.2
I 601 Expenditure Limit	\$23,037.9
UNRESTRICTED GENERAL FUND RESERVE	
Unrestricted Ending Balance	\$163.8
EMERGENCY RESERVE ACCOUNT	
Beginning Balance	\$462.1
Interest Earnings	17.3
Transfers to Transportation	(70.0)
Earthquake / Drought	(25.0)
Transfer to the General Fund	<u>(246.8)</u>
Ending Balance	\$137.6
TOTAL RESERVES	\$301.3

I-601 EXPENDITURE LIMIT ADJUSTMENTS

Spending Limit	2001-03 Budget		
	(Dollars in Millions)		
	<u>FY 2002</u>	<u>FY 2003</u>	<u>2001-03</u>
Current Official Limit	\$11,251.5	\$11,664.8	\$22,916.3
Impact of 2002 Adjustments		\$79.5	\$79.5
Program Transfers	\$14.4	(\$56.5)	(\$42.1)
Money Transfers	\$62.5	\$23.3	\$85.8
Revenue Legislation		(1.60)	
Adjusted Limit	\$11,328.4	\$11,709.5	\$23,037.9

SHIFTS TO AND FROM THE GENERAL FUND

	(Dollars in Millions)	
	<u>FY 2002</u>	<u>FY 2003</u>
Disproportionate Share	25.0	-5.0
DSHS-FMAP	0.0	15.7
DOC Federal Fund Transfer	1.1	2.1
Initiate Fees for Syphilis Testing	0.0	-0.1
Natural Resource Conservation Areas	0.0	-0.2
Water Conservation and Reuse (Dept. of Health)	0.0	-0.2
Forest Road Inventory	-0.1	-0.1
Aquatic Pesticides Shift to Fees	0.0	-0.4
Higher Client Contributions	-0.2	-0.2
Stream Gauging Fund Shift	-0.3	-0.3
Statewide Monitoring Strategy	-0.3	-0.3
Pediatric Interim Care	0.0	-0.6
Initiate Fees for Shellfish Testing (Dept. of Health)	-0.1	-0.6
Maximize Use of Federal Funds (Dept. of Health)	0.0	-0.8
Resource Program Fund Shifts	-0.1	-0.9
Salmon Recovery Fund Reallocation	0.0	-1.5
Salmon Recovery Reallocation	-1.5	-0.2
Fund Source Adjustment (Federal Incentives)	-1.0	-1.0
RHC Fund Source Adjustment	-2.4	0.0
Corporations Fund Shift	0.0	-2.0
Apprenticeship Transfer	-1.0	-1.1
Employment Standards Transfer	-1.1	-1.1
Adjust Licensing Fees (DSHS-Aging and Adult Services)	0.0	-4.2
Watershed Grants Funding Shift	-3.7	-4.5
Maternity Support Services	0.0	-8.6
Childhood Vaccine Fund Shift	0.0	-6.5
Special Ed Safety Net	0.0	-12.0
Fire Suppression Costs moved to Disaster Response Acct.	0.0	-3.5
Emergency Shelter Assistance/Overnight Youth Shelters	0.0	-2.0
Use RSN Reserves	0.0	-16.7
	14.4	-56.6

2002 MONEY TRANSFERS

Fund	(Dollars in Millions)		
	FY 2002	FY 2003	2001-03
Community & Technical Colleges Capital Program Acct	14.5	0.0	14.5
Water Quality Account - State	9.5	0.0	9.6
Recreational Resources Account	0.0	6.9	6.9
Aquatic Lands Enhancement Account - State	6.0	0.2	6.2
Enhanced 911 Account - State	0.0	6.0	6.0
EMS and Trauma Care System	6.0	0.0	6.0
State Treasurer's Service Account - State	4.3	0.2	4.5
Local Toxics Control Account - State	4.0	0.1	4.1
Clarke - McNary Account	4.0	0.0	4.0
NOVA Program Account	0.0	3.1	3.1
Washington State University Building Account	3.0	0.0	3.0
State Drought Preparedness Account fund balance	3.0	0.0	3.0
Financial Services Regulation Acct - Non Appr	2.3	0.4	2.6
Wildlife Account - State	1.8	0.7	2.5
Gambling Revolving Account - Non Appr	2.0	0.5	2.5
LCB Construction/Maintenance Acct - State	0.0	1.1	1.1
Industrial Insurance Premium Refund Account	1.0	0.0	1.0
Local Leasehold Excise Tax Account	1.0	0.0	1.0
State Toxics Control Account - State	0.0	0.8	0.8
Warm Water Game Fish Account - State	0.6	0.0	0.6
St Convent/Trade Center Operations - State	0.0	0.6	0.6
Public Service Revolving Account - State	0.0	0.4	0.4
Parks Renewal & Stewardship Acct-State	0.0	0.4	0.4
Insurance Commissioner's Regulatory - State	0.0	0.4	0.4
Water Quality Permit Account - State	0.0	0.4	0.4
Lottery Administrative Account - State	0.0	0.3	0.3
State Investment Board Expense Acct - State	0.0	0.2	0.2
Waste Reduct/Recycle/Litter Control - State	0.0	0.2	0.2
Oil Spill Prevention Account - State	0.0	0.2	0.2
Snowmobile Account - State	0.0	0.1	0.1
Horse Racing Commission Account - State	0.0	0.1	0.1
Off Road Vehicle Account - State	0.0	0.1	0.1
Hazardous Waste Assistance Account - State	0.0	0.1	0.1
Air Operating Permit Account - State	0.0	0.1	0.1
Worker/Community Right to Know Acct - State	0.0	0.1	0.1
Water Quality Account - State	-0.5	0.0	-0.5
Total	62.4	23.3	85.8

REVENUE AND FEE CHANGES

Type	Revenue and Fee Changes	2001-03 Budget (Dollars in Millions)
Revenue	Budget driven revenue (DOR)	\$46.40
Revenue	Big game lottery	24.40
Revenue	HB 2640 Use tax on shipping	20.32
Revenue	Direct mail advertising	4.27
Revenue	Revising use taxation on out-of-state repair services	4.10
Revenue	HB 2658 Municipal b&o tax uniformity	0.80
	Subtotal	\$100.29
Revenue	SB 6785 Washington estate tax	-8.28
Revenue	HB 2641 Investment income tax deduction	-3.62
Revenue	SB 5514 Public facility districts	-0.97
Revenue	SB 5082 Defining rural counties	-0.41
Revenue	HB 2304 Prevailing wage	-0.25
Revenue	HB 1531 Modifying the taxation of lodging	-0.26
Revenue	SB 6787 Organ procurement taxation	-0.03
	Subtotal	-\$13.82
Fee	Licensing fee for adult family homes and nursing homes	-3.39
	Total	\$83.07

TOBACCO SECURITIZATION

The Senate budget proposes to raise \$525 million for the 2001-03 biennium by securitizing a portion of the revenue the state receives under the national tobacco litigation settlement agreement. Securitization is a common financial transaction by which a stream of revenue is sold or assigned to a third party, in exchange for a cash payment.

Washington is one of many states receiving annual payments from tobacco manufacturers from the 1998 settlement of the national tobacco litigation. The state will receive more than \$300 million of these payments in the 2001-03 biennium, with similar payments continuing in perpetuity. Under legislation that will be introduced as part of the proposed Senate budget, up to 25 percent of this annual revenue will be sold for cash to private investors. In return for their cash payment, the investors would receive revenue bonds that are backed by the tobacco settlement revenues and are not an obligation of the state.

Six other states have generated revenue by securitizing all or a portion of their tobacco revenues.

Under the Senate proposal, an independent authority would be established, to which the state would sell or assign a portion of the state's tobacco revenues. The Washington State Housing Finance Commission would provide administrative support to the authority. The authority would issue the revenue bonds, the proceeds of which would be paid to the state in return for the right to receive the future tobacco settlement payments. The debt service on the revenue bonds would be paid from the tobacco revenues and would not be guaranteed by the state.

This proposal, in addition to generating immediate state revenue, would have the additional advantage of reducing the risk to the state if tobacco revenues decline from current projections (as a result of a decline in tobacco sales or bankruptcy of tobacco manufacturers, for example). In the event of such a decline, the loss would be borne by the independent authority and the private investors. The revenue bonds do not create state debt, and the state bears none of the risk. The securitization proposal converts a portion the tobacco revenues into cash and relieves the state of any future risks associated with that revenue.

The proceeds from the securitization would be used in the 2002 supplemental budget in two ways. First, \$105 million of the total amount would be paid to the Health Services Account to hold the fund harmless through the 2003-05 biennium. Second, \$420 million would be deposited to the General Fund to help address the current budget deficit.

ACROSS THE BOARD REDUCTIONS

EFFICIENCY SAVINGS

989 FTEs, \$85 MILLION GENERAL FUND-STATE, \$91 MILLION TOTAL FUNDS

All state agencies are required to become more efficient, regardless of the agency's funding source. Savings from across state government are applied to the state's budget problem. In addition to agency specific administrative reductions, four other reductions are made:

- Agencies that did not take a specific administrative reduction are reduced by 3 percent in fiscal year 2003. The portion of an agency's appropriation that is for direct payments to providers or clients are excluded from the efficiency savings, although they may be reduced in a separate reduction.
- All travel is reduced by 10 percent.
- All equipment purchases are frozen.
- Employee mileage reimbursement is reduced from \$.34 to \$.25 per mile.

The agencies of the state are directed to take actions consistent with their mission, goals, and objectives to reduce operating costs. The agencies are directed to give strong consideration to the "Best Practice" proposals put forth by Office of Financial Management (OFM) and Department of Information Services (DIS). Such action, to the extent possible, should maintain client services and state revenues. Agency actions may also include hiring freezes, employee furloughs, reduced travel and training expenditures, and reductions in equipment purchases and personal service contracts.

A safety net of \$1.5 million is provided to OFM to provide financial relief to agencies that are determined to be unable to achieve these savings without jeopardizing vital state services. Details of efficiency savings are provided in Appendix 1.

COST OF LIVING ADJUSTMENTS/VENDOR RATES

COST OF LIVING ADJUSTMENTS — \$59.8 MILLION GENERAL FUND-STATE SAVINGS

Funding in the underlying budget which would have provided a 2.6 percent salary increase for higher education and state employees in fiscal year 2003 is eliminated. Funding in the underlying budget to provide a 2.3% rate increase for vendors is reduced to 1.5 percent.

Total COLA Savings	
(Dollars in Millions)	
	GF-S
State Employees	\$28.9
Higher Education Employees	21.5
Vendors	9.4
Total	\$59.8

HEALTH CARE BENEFITS

EMPLOYEE HEALTH BENEFITS — \$9.5 MILLION GENERAL FUND-STATE SAVINGS

Under the Senate budget, the state will increase its payments for state and higher education employee health benefits by 5.5 percent in fiscal year 2003, rather than by 8.8 percent as originally budgeted. As a result, employees are expected to be responsible for paying an average of 12.6 percent of their monthly premium costs in calendar year 2003, compared to an average of 8.4 percent of such costs this year.

The following additional changes are also anticipated in 2003:

- an increase in office visit co-pays to \$15, from \$10 this year;
- an increase in Uniform Medical Plan enrollee co-insurance to 15 percent of allowed charges, from 10 percent now;
- a 10 percent reduction in the employer share of prescription drug benefits.

To assist employees with these increased out-of-pocket costs, the Senate budget directs the Health Care Authority to provide increased opportunities for employees to set aside pre-tax income to cover such costs. The Senate budget also directs the Health Care Authority to develop a plan for graduating employee premiums according to salary, so that lower-wage workers would contribute less of the total cost of their coverage.

I-695 BACKFILL

INITIATIVE 695 BACKFILL — \$70.8 MILLION GENERAL FUND-STATE SAVINGS

Beginning July 1, 2002, municipal assistance (\$47.2 million) and county assistance (\$25.1 million) are eliminated. A new \$2.7 million appropriation is provided for very small counties. In addition, state assistance for Public Health Districts is not reduced in the Senate budget.

PENSIONS

PENSION CONTRIBUTION RATE ADJUSTMENTS — \$63 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget (in separate legislation, HB 2782) includes reductions in employer and state contributions for PERS, SERS, TRS and LEOFF Plan 2 and employee contribution rates for the Plan 2 retirement systems. Most of the savings (\$54 million) is in the K-12 system.

The 1995-2000 experience study conducted by the State Actuary showed that the contribution rates for PERS, TRS, SERS and LEOFF were higher than necessary to fully fund those systems. Effective April 1, 2002, employer contribution rates will be reduced from 1.54 percent to 1.10 percent for PERS; 1.54 percent to 0.96 percent for SERS; and 2.75 percent to 1.05 percent for TRS. The basic state contribution rate for LEOFF 2 will be reduced from 1.80 percent to 1.75 percent.

Plan 2 employee contribution rates will be reduced from 4.50 percent to 4.39 percent for LEOFF 2; 0.88 percent to 0.65 percent for PERS 2; 0.88 percent to 0.35 percent for SERS 2 and 1.23 percent to 0.15 percent for TRS 2.

PUBLIC SCHOOLS

MAINTENANCE LEVEL ADJUSTMENTS — \$126.3 MILLION GENERAL FUND-STATE

ENROLLMENT AND WORKLOAD CHANGES — \$105.3 MILLION GENERAL FUND-STATE

The February 2002 enrollment forecast from the Caseload Forecast Council indicates that K-12 FTE student enrollment will be higher than anticipated. The increase is 8,827 FTE students for the 2001-02 school year, and 12,531 FTE students for the 2002-03 school year. Included in workload changes are other adjustments including staff mix and local deductible revenues.

LEVY EQUALIZATION UPDATE — \$12.7 MILLION GENERAL FUND-STATE

Higher than expected assessed property values, local levy bases, and increased voter approval of local levies have combined to increase the maintenance level amount needed for the Local Effort Assistance program.

K-12 INFLATION — \$6.2 MILLION GENERAL FUND-STATE SAVINGS

Inflation adjustments are provided in the budget for K-12 basic education programs. The inflation forecast has changed from 2.1 percent to 1.0 percent for fiscal year 2002, and from 2.3 percent to 1.7 percent for fiscal year 2003. Basic education budgets cannot be adjusted once school districts have set their budgets, so no changes are made for the 2001-02 school year. A budget adjustment is made for the 2002-03 school year taking into account the lower inflation in the previous year and the coming year. These adjustments result in a budgeted inflation rate of 1.01 percent for the 2002-03 school year.

INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$14.5 MILLION GENERAL FUND-STATE

The 2001 calendar year Seattle Consumer Price Index (CPI) used for the 2002-03 school year K-12 cost of living adjustment (COLA) mandated by Initiative 732 is higher than the 3.1 percent anticipated in the budget. The current CPI estimate is 3.6 percent and requires a \$14.5 million increase for COLAs for state-funded K-12 staff.

SAVINGS AND REDUCTIONS

PENSION RATE CHANGE — \$53.9 MILLION GENERAL FUND-STATE SAVINGS

House Bill 2782 changes employer and employee pension contribution rates based on the 1995-2000 experience study and 2000 actuarial valuation of the retirement systems. The change in rates is effective April 1, 2002.

LEARNING IMPROVEMENT DAYS — \$36.7 MILLION GENERAL FUND-STATE SAVINGS

Since 1993, the legislature has provided funding for student learning improvement days to implement education reform. The method for allocating these funds has changed over the years. The latest change was in 1999, when the three learning improvement days were put on the state salary allocation schedule for certificated instructional staff. The three extra days were added to the 180-day school year and provide an additional 1.64 percent of salary for staff working the three extra days. Effective in the 2002-03 school year, state funding for the three extra days is eliminated.

HEALTH BENEFIT RATE CHANGES — \$31.1 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget provides \$455.27 per FTE staff for the 2001-02 and 2002-03 school years. The original budgeted amount for the 2002-03 school year was \$493.59 per month.

INTEGRATING FEDERAL FUNDS — \$23.0 MILLION GENERAL FUND-STATE SAVINGS, \$50.4 MILLION FEDERAL FUNDS

Federal funds are incorporated in the funding of three programs in the following amounts: special education (\$15.2 million); learning assistance (\$5.8 million); and the Washington Assessments of Student Learning, (\$2.0 million). These three programs will have \$50.4 million in increased federal funds in fiscal year 2003.

STAFF MIX CALCULATION CHANGE — \$18.9 MILLION GENERAL FUND-STATE SAVINGS

Staff mix refers to the experience and education of a school district's certificated instructional staff. It is one of the components used to determine state funding in the apportionment and special education programs and adjusts state funding based on the profile of a school district's staff in these two programs. Starting with the 2002-03 school year staff mix is calculated using the profile of all of a district's certificated instructional staff, not just those in the apportionment and special education programs.

TRANSFER TO STATE FLEXIBLE EDUCATION FUNDS — \$5.8 MILLION GENERAL FUND-STATE SAVINGS

For fiscal year 2003, a number of non-basic education programs totaling \$40.2 million are transferred to a newly created State Flexible Education Funds program. This amount is then reduced by 14.4 percent for a total appropriation of \$34.4 million. Starting September 1, 2002, the funds are allocated at a rate of \$36.00 per FTE student. The funds may be expended for local program enhancements as determined by school districts to improve student learning and include all the programs that were transferred into the new fund. The funds may not be expended to increase salary or compensation for existing teaching duties. Programs transferred and the amounts transferred are listed on the next page.

TRANSFERRED PROGRAMS

(Dollars in Thousands)

Education Reform Programs

Paraprofessional Training	\$1,095
State Leadership for School Improvement	384
Mentor/Beginning Teacher Assistance	4,695
Principal Assessment and Mentorships	625
Superintendent/Principal internships	1,409
Math Helping Corps	1,828

Total Education Reform \$10,036

Statewide Programs

Anti-Bullying/Harassment Training	\$250
Non-Violence Leadership Training	150
Nurse Corps	2,621
Safety Office	100
School Safety Allocation	6,084
School Safety Training	103
Teen Aware	200
Truancy	750
LASER Science Program	1,112
Cispus	32
Civil Liberties Education	150
Complex Needs	1,075
Educational Centers	1,349
Pacific Science Center	1,262
Voc Student Organizations	100
WW II Oral History Project	150

Total Statewide Programs \$15,488

Block Grant Program **\$14,193**

Other Programs

Extended Day Skills Center	500
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Total Other Programs **\$500**

Total Transferred Programs **\$40,217**

STATE FLEXIBLE EDUCATION FUNDS

(Dollars in Thousands)

Amount Transferred In	\$40,217
14.4 Percent Reduction	<u>(\$5,781)</u>
Net	\$34,436

Allocated at \$36.00 per FTE Student

LEVY EQUALIZATION UPDATE — \$3.7 MILLION GENERAL FUND-STATE SAVINGS

The fiscal year 2003 levy equalization amount is adjusted based on the various reductions in the K-12 supplemental budget.

EFFICIENCIES AND SAVINGS — \$2.1 MILLION GENERAL FUND-STATE SAVINGS

Most basic education programs not subject to transfer to the State Flexible Education Funds program are reduced by 3.0 percent for fiscal year 2003. The major programs included in this reduction are; the office of the superintendent of public instruction; educational service districts; highly capable; traffic safety education; and summer skills center programs.

K-12 Supplemental Budget	
(Dollars in Thousands)	
	GF-S
2001-03 Original Appropriations	\$9,903,086
Total Maintenance Changes	126,323
2002 Policy Changes:	
Pension Rate Change	(53,922)
Learning Improvement Days	(36,690)
Health Benefit Changes	(31,133)
Federal Funds	(23,004)
Staff Mix Calculation Change	(18,937)
Transfer to State Flexible Ed. Fund	(40,217)
State Flexible Education Fund	34,436
Levy Equalization Update	(3,659)
Efficiencies and Savings	(2,133)
Technology Task Force	92
Total Policy Changes	(175,167)
2001-03 Revised Appropriations	\$9,854,242

HIGHER EDUCATION

ENROLLMENTS

In consideration of reduced general fund support, **state colleges and universities may serve less than the full-time equivalent student enrollments** assumed in the original budget for this biennium. Institutions won't be penalized for actions deemed necessary in the coming months to preserve the quality of state educational offerings.

WORKER RETRAINING PROGRAM — \$3.4 MILLION GENERAL FUND-STATE; \$2.6 MILLION ADMINISTRATIVE CONTINGENCY ACCOUNT

The Senate provides \$6 million to expand enrollments by 1,000 to help dislocated workers retrain in programs offered at state community and technical colleges. This sum includes financial aid for those exhausting unemployment benefits during this recession.

FINANCIAL AID

STATE NEED GRANT — \$2.7 MILLION GENERAL FUND-STATE

The Senate budget provides supplemental funds to hold qualifying State Need Grant recipients harmless from higher tuition charges expected next year. Within available funds, grants can be offered to 4,300 more students so long as the Higher Education Coordinating Board acts to limit eligibility to those with family income at or below 55 percent of the state median income.

COMPENSATION

PART TIME FACULTY RETIREMENT — \$7.0 MILLION GENERAL FUND-STATE; \$3.5 MILLION COLLEGE FACULTY AWARDS ACCOUNT; \$1.5 MILLION LOCAL

Resources are provided to settle a lawsuit involving retirement contributions for part-time instructors employed by the state community and technical colleges.

INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$1.3 MILLION GENERAL FUND-STATE

The 2001 Calendar Year Seattle Consumer Price Index (CPI) used for the 2002-03 academic year cost-of-living adjustment (COLA) mandated by Initiative 732 is higher than 3.1 percent anticipated in the budget. The current CPI estimate is now 3.6 percent. This requires a supplement of \$1.3 million for eligible community and technical college employees.

TUITION

Governing boards will decide the appropriate level of tuition for all students except resident undergraduates and this authority is so delegated for the next six academic years under the provisions of Second Substitute Senate Bill 5770.

The Senate proposes to allow the legislature to retain control over tuition setting authority for resident undergraduates and proposes to limit tuition increases for the 2002-2003 academic year through the Budget Act as follows:

- For residents attending the University of Washington or Washington State University, no greater increase than **14 percent** over current year rates;
- For residents attending the regional universities of Eastern, Western, Central or The Evergreen State College, no greater increase than **10 percent** over current year rates;
- For residents attending state community and technical colleges, no greater increase than **7 percent** over current year rates.

SAVINGS AND REDUCTIONS

UNIVERSITY AND COLLEGE OPERATING COSTS — \$63 MILLION GENERAL FUND-STATE REDUCTION; \$18.6 MILLION TUITION OFFSET

The Senate cuts operating support by amounts that range from 4 to 6 percent of levels appropriated for fiscal year 2003. Consideration was given to the different capacity of state colleges and universities to raise revenue from tuition.

FACULTY AND STAFF COMPENSATION — \$22.6 MILLION GENERAL FUND-STATE SAVINGS

No further increments are funded for two-year college faculty this biennium. No further cost-of-living adjustments (COLA) for state-supported higher education employees not covered by the terms of Initiative 732 are funded. The original budget had included money sufficient to provide a 2.6 percent COLA in July.

HEALTH BENEFIT RATE CHANGES — \$4.3 MILLION GENERAL FUND-STATE SAVINGS

Effective September 1, 2003, the state health benefit allocation for higher education employees is adjusted consistent with changes for state employees. The health benefit rate will increase from \$457.29 per month during fiscal year 2002 to \$482.38 per month during fiscal year 2003. The original budget has assumed a rate of \$497.69 per month during fiscal year 2003. A detailed explanation of the assumption underlying the new health benefit rate is provided in the compensation section on page 13.

NON-RESIDENT SUBSIDY — \$9.1 MILLION GENERAL FUND-STATE REDUCTION

The Senate proposes to appropriate money to research universities but not at levels that subsidize graduate education for non-resident students. Less than the full reduction is credited to the General Fund recognizing that the University of Washington and Washington State University are not unique in pricing graduate education below cost. Both schools presently charge a few thousand dollars more than their peers.

REDEFINE FULL-TIME COLLEGE STUDY — \$7 MILLION GENERAL FUND-STATE REDUCTION; OFFSET IN FULL BY TUITION

The Senate assumes state colleges and universities begin to charge tuition at full-time rates for students who take 9 credit hours a term; the equivalent of three, 3-credit classes. More than 55,000 part-time students would pay more for their education in the coming year, but those who do can leverage tuition fees by taking a heavier class load, at no additional charge, up to 18 credit hours. Appropriations for State Need Grants are increased to reflect this shift.

PROMISE SCHOLARSHIPS — \$ 2.4 MILLION GENERAL FUND-STATE SAVINGS

Under Substitute House Bill 2807, students graduating in the top 10 percent with income below the state median would qualify for a two-year scholarship. Savings come from a

downsized and refocused program. The original budget assumed new participants from the top 15 percent of high school graduating classes up to 135 percent of the state median family income would receive a \$1,356 grant in fiscal year 2003. Roughly a third of qualifying Promise scholars reported income over the state median, which is \$61,100 a year for a family of four.

PENSION RATE CHANGE — \$2.2 MILLION GENERAL FUND-STATE SAVINGS

Substitute House Bill 2782 changes employer and employee pension contributions rates based on the 1995-2000 experience study and a 2000 actuarial valuation of retirement systems. The change in rates is effective on April 1, 2002.

Senate Budget -- Higher Education	
General Fund Policy Items and Initiatives	
(Dollars in Thousands)	
Description	GF-S
Two-Year College Retirement Settlement	\$7,000
Worker Retraining Expansion	3,400
State Need Grants	2,788
Institute for Public Policy Studies	161
HECB & SIRTl Efficiencies and Savings	(165)
HECB Administration of Financial Aid	(416)
Two-Year College Faculty Increments	(1,190)
Pension Rate Changes	(2,243)
Washington Promise Scholarships	(2,450)
Health Benefit Rate Changes	(4,350)
Full Time College Study at 9 Credit Hours	(7,063)
Subsidy for Non-Residents	(9,142)
Higher Education COLA, (I-732)	(20,137)
College & University Operating Cost Reductions	(62,992)
Total Policy Changes (Net)	\$(96,799)

HUMAN SERVICES

HEALTH CARE

INCREASES

LOW-INCOME MEDICAL ASSISTANCE — \$91 MILLION GENERAL FUND-STATE, \$58 MILLION HEALTH SERVICES ACCOUNT

Spending for Medicaid and other DSHS medical programs for low-income persons continues to consume ever-increasing shares of the state budget. State spending on such programs is now projected to increase by an additional 5.8 percent this biennium, in addition to the 28 percent (\$689 million) by which such spending was already budgeted to exceed last biennium's level. About one-third of the additional spending is due to covering more people. An average of about 875,000 people are now expected to receive DSHS medical coverage during the 2001-03 budget period. That is 2 percent more than anticipated in the original budget, and almost 9 percent more than were covered last year. The remaining two-thirds of the expenditure growth is due to higher costs per person covered, particularly in the areas of hospital care and drug coverage for the elderly and disabled, managed care rates for low-income families, and support services for pregnant women.

ADDITIONAL BASIC HEALTH PLAN ENROLLMENTS — \$34 MILLION HEALTH SERVICES ACCOUNT

As a result of the additional cigarette and tobacco taxes enacted by the voters in Initiative Measure 773, an additional 47,000 low-income persons will have the opportunity to enroll in the Basic Health plan. This will bring total subsidized enrollment in the Plan to 172,000 by June 2003. The Senate budget reserves 27,000 of the additional enrollment slots for children and adults who will no longer qualify for the more expansive medical and dental benefits presently available to them through the state medical assistance programs offered by DSHS.

PHYSICIAN AND AMBULANCE RATE INCREASES — \$4.2 MILLION GENERAL FUND – STATE, \$3.8 MILLION OTHER FUNDS

In calendar year 2000, state Medical Assistance programs paid physicians only about half as much as private insurers for an adult office visit, and only about 60 percent as much as the federal Medicare program. This is reportedly contributing to substantial financial problems for physician practices across the state, and resulting in Medical Assistance recipients delaying necessary care, or seeking it at greater public cost in emergency rooms. Ambulance services also report that Medical Assistance rates are substantially below their costs, creating financial problems for the operators, and cost-shifts to other payers.

In recognition of these concerns, the Senate budget provides for (1) an approximately 5 percent increase in average Medical Assistance payment rates for physicians; and (2) a 25 percent increase in ambulance payment rates. Both types of increase would be targeted toward procedures with the greatest need, as demonstrated by access problems and difference from prevailing-rate benchmarks.

LOW-INCOME DENTAL CARE — \$3 MILLION GENERAL FUND STATE

Under the proposed Senate budget, non-profit community clinics would receive additional grant support to provide dental care for low-income children and adults for whom such care is not available through Medicaid or any other source.

PRESCRIPTION DRUG UTILIZATION AND EDUCATION — \$685,000 HEALTH SERVICES ACCOUNT, \$674,000 OTHER FUNDS

Funding is provided for implementation of Substitute Senate Bill 6368. The legislation seeks to increase the affordability and cost-effective utilization of prescription drugs across all state agencies and, beginning in 2004, for other purchasers, including persons who do not have prescription drug coverage. The bulk of the funding will be used to assist medical experts develop a list of "preferred drugs" in each therapeutic class, based on considerations of clinical effectiveness and costs. Availability of such a list is expected to result in state savings of at least \$20 million in the 2003-05, as a result of preference for equally effective but less-expensive drugs, and negotiation of manufacturer rebates. The legislation also provides for development of a uniform drug utilization review process across all state agencies; for education of prescribers and patients regarding appropriate use of preferred drugs,; and disease management projects to support comprehensive, effective approaches to treatment of chronic disease conditions.

EFFICIENCIES AND REDUCTIONS

END MEDICAL ASSISTANCE COVERAGE FOR SOME IMMIGRANTS — \$21 MILLION GENERAL FUND-STATE SAVINGS

Under the Senate budget, approximately 27,000 non-citizen children and adults will no longer be eligible for state-funded Medical Assistance after September 2002. They will instead be provided opportunities to enroll in the subsidized Basic Health Plan (BHP), where their medical coverage will be less expensive for taxpayers because the BHP does not provide dental and vision care, and requires recipient cost-sharing.

REDUCE PHARMACY PAYMENT RATES — \$10.4 MILLION GENERAL FUND-STATE SAVINGS, \$8.7 MILLION OTHER FUND SAVINGS

Beginning July 1, the Medical Assistance program will pay 86 percent of manufacturer list price for single-source drugs, and 50 percent of list price for drugs for which there are multiple generic versions. Such rates are comparable to and competitive with those paid by the Uniform Medical Plan, and other major insurers. The Senate budget also anticipates that the Medical Assistance program will begin providing a mail-order pharmacy option for its clients no later than January 2003. This will result in a substantial discount on drug prices for taxpayers, and increased convenience for elderly and disabled recipients with chronic conditions.

INTERPRETER SERVICES EFFICIENCIES — \$1.1 MILLION GENERAL FUND-STATE SAVINGS, \$1.0 MILLION OTHER FUND SAVINGS

As an alternative to the proposed elimination of funding for interpreter services in the Medical Assistance program, the Senate budget replaces the current method of purchasing interpreter services with a new "brokerage" model for all DSHS programs. Under the brokerage model, DSHS will contract at a specified rate with any qualified individual or agency, and will also contract with intermediaries who will schedule and link interpreters with clients and service providers. This is expected to result in savings

both from lower hourly payment rates, and also from better service coordination and utilization review. Department-wide savings from this approach are estimated at \$12 million in 2003-05.

COST-SHARING FOR AIDS DRUGS & SERVICES — \$700,000 GENERAL FUND-STATE SAVINGS

The HIV Early Intervention Program provides financial assistance with drug and other medical costs for persons with HIV disease. Due to the expense of drug therapies, and enrollment increases due to increased longevity and earlier onset of therapy, expenditures on the program are growing about 17 percent annually. Enrollment in the program is open to any HIV-infected person with an income below 370 percent of poverty (\$32,800 for a single person).

To reduce the growth in state expenditures, the Senate budget requires the roughly 45 percent of enrollees with incomes between 125-370 percent of poverty to cover an average of 20 percent of the costs which would otherwise be paid by the state. The percentage of costs for which the enrollee would be responsible would increase according to income, and there would be an annual cap on the percentage of income which enrollees would be required to pay. Savings are assumed for only the final 9 months of fiscal year 2003, in order to allow time for development of administrative rules and systems. This change is projected to avoid \$3.3 million of increased state expenditures in the 2003-05 biennium.

FAMILIES AND CHILDREN

INCREASES

FUND CHILD CARE CASELOAD GROWTH -- \$15 MILLION GENERAL FUND-STATE

Funding is provided for continued caseload growth in subsidized child care. Along with recent reductions in WorkFirst spending, this additional funding is intended to support the rising demand for subsidized childcare and helps avoid the need to put low-income working families on a wait list.

GA-U CASELOAD GROWTH — \$13 MILLION GENERAL FUND-STATE INCREASE

General assistance unemployable (GA-U) caseload expenditures are projected to grow by \$13 million above the current appropriation. This increase is 15 percent above the current appropriation for fiscal year 2003.

ADOPTIONS SUPPORT CASELOAD EXPENDITURE GROWTH — \$2.7 MILLION GENERAL FUND-STATE INCREASE, \$500,000 GENERAL FUND-FEDERAL INCREASE

The February 2002 adoption support caseload forecast by the Caseload Forecast Council is slightly less than the original biennial budget forecast. However, the cost per case continues to rise above the increases assumed in the appropriation. The increase provided in the Senate budget brings the cost per eligible child to \$510.71 for fiscal year 2002 and \$527.85 for fiscal year 2003.

SAVINGS AND REDUCTIONS

FREEZE FOSTER CARE BASIC RATE AND CHILD PLACING AGENCY CAPACITY — \$1.6 MILLION GENERAL FUND-STATE SAVINGS, \$0.8 MILLION GENERAL FUND-FEDERAL SAVINGS

The Senate budget cancels the July 2002 increase in the basic rate paid to foster parents and the increase in capacity of the child placing agencies. The basic rate rose to an average of \$420 per month July 2001 and was scheduled to increase to \$440 per month in July 2002.

REDUCE FAMILY RECONCILIATION SERVICES — \$1.7 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces about one third of the budget for family reconciliation services. These services are designed to help families in conflict.

HOME SUPPORT SPECIALISTS — \$625,000 GENERAL FUND-STATE SAVINGS

The Senate budget reduces by one-third the number of home support specialists who help families' with basic skills of parenting and maintaining a home that is safe for children.

REPROGRAM SSI STATE SUPPLEMENTAL PAYMENTS — \$28 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reprograms Supplemental Security Income (SSI) state supplemental payments. Beginning July 2002, state supplemental payments will no longer be provided automatically to all persons receiving a federal SSI benefit. SSI recipients will continue to receive their federal benefits and their annual cost of living increases each January. Some recipients who are dependent on larger state supplements will be provided a transitional benefit. The remaining amount of state supplemental payments required by federal rules will be used to support low and moderate-income families who care for children and other relatives with developmental disabilities.

GA-U PROGRAM EFFICIENCIES — \$4.2 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces funding for the General Assistance-Unemployable (GA-U) program. The reductions will be achieved through tighter application of eligibility rules and by using SSI recoveries to offset other expenditures for basic needs provided as transitional benefits.

PARENT SUPPORT FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES IN OUT OF HOME PLACEMENTS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS

Senate Bill 6585 requires parents with children who have developmental disabilities and who are in state funded out of home placements to share in the cost of that care. The amount of parent support would be the same required of other parents with children in out-of-home placements. It is expected that the average support level will be \$150 per month based on the financial ability of the family.

EFFICIENCIES IN CHILDREN'S SERVICES — \$1.9 MILLION GENERAL FUND-STATE SAVINGS, \$800,000 GENERAL FUND-FEDERAL SAVINGS

The Senate budget reduces funding in the DSHS Children's Administration based on savings estimated from centralizing after-hours programs and by reducing travel, equipment and training expenditures.

**FEDERAL RESUMPTION OF FOOD STAMPS FOR LEGAL IMMIGRANTS — \$4.5 MILLION
GENERAL FUND-STATE SAVINGS**

The Senate budget reduces funding for the state food assistance program for legal immigrants. President Bush's budget proposal for fiscal year 2003 includes provisions for a resumption of coverage for legal immigrants under the federal food stamp program. Both parties in Congress have expressed support for the proposal.

LONG TERM CARE

INCREASES

**AREA AGENCY ON AGING CASE MANAGERS — \$300,000 GENERAL FUND-STATE,
\$300,000 OTHER FUNDS**

The Senate budget increases by \$1,700 per case manager per year the amount which the Department of Social and Health Services pays Area Agencies on Aging (AAA's) to provide case management services for persons receiving state-funded care in their own homes. This provides the AAA's with the same level of funding as would be required for the state to provide this service with its own employees.

**HOME CARE QUALITY AUTHORITY & INITIATIVE 775 — \$437,000 GENERAL FUND-
STATE**

Initiative 775, passed in November 2001, established a new state agency, the Home Care Quality Authority (HCQA). The HCQA acts as the public employer for home care workers providing services for elderly people and people with disabilities, for collective bargaining and quality control purposes. General Fund-State provides half of the initial start-up funding; the other half is covered with federal Medicaid matching funds. Funding is also provided for workload impacts for the Public Employment Relations Commission, which is responsible for negotiating collective bargaining agreements, running elections, and acting as the appeals board for unfair labor practice allegations.

EFFICIENCIES AND REDUCTIONS

**ADULT FAMILY HOME AND NURSING HOME LICENSING FEES — \$3.1 MILLION
GENERAL FUND-STATE SAVINGS**

Nursing home licensing fees are to be increased to approximately \$275 per bed, from their current level of \$127 per bed, so that the fees will cover the full state cost of nursing home inspections. Adult family home fees are also to be increased to cover more of the approximately \$1,500 per home per year state cost of licensing and inspecting them. However, because the adult family home fee has been fixed in state law since 1989 at only \$50 per home, this is to be accomplished over a two-year period. The adult family home fee will increase to approximately \$220 per home in fiscal year 2003, and then in fiscal year 2004 to the same per-bed rate as charged for boarding homes. This is currently \$79 per bed, equating to about \$400 per adult family home.

**TIGHTEN ELIGIBILITY FOR PERSONAL CARE SERVICES — \$2.8 MILLION GENERAL
FUND-STATE SAVINGS, \$2.8 MILLION GENERAL FUND-FEDERAL SAVINGS**

Under current policy, a disabled person with very low-income qualifies for personal care assistance in their own home or in a community residential facility if they have an unmet need for assistance in at least one of ten self-care areas. This policy is to be modified so

that persons who require only a minimal amount of assistance will no longer be eligible for publicly funded assistance. Persons requiring substantial assistance in any area will continue to be eligible.

NURSING HOME PAYMENT RATES — \$800,000 GENERAL FUND-STATE SAVINGS, \$800,000 GENERAL FUND-FEDERAL SAVINGS

The Senate budget does not make any of the reductions in nursing home payment rates proposed by the Governor. However, it does lower to 1.5 percent the 2.3 percent increase which was originally budgeted for July 2002, in the therapy, administration, and operations components of the nursing home payment rate.

RESCIND PLANNED EXPANSION OF IN-HOME SERVICES — \$1.5 MILLION GENERAL FUND-STATE SAVINGS, \$1.5 MILLION GENERAL FUND-FEDERAL SAVINGS

The 2001 Legislature authorized the Department of Social and Health Services to seek federal authority to provide Medicaid-funded in-home care to up to 200 persons whose incomes are too high to qualify for such services under current rules. The waiver has not yet been approved and no one is being served. In light of the state's budget situation, this program will not be implemented.

ASSISTED LIVING CAPITAL ADD-ON RATE — \$286,000 GENERAL FUND-STATE SAVINGS, \$296,000 GENERAL FUND-FEDERAL SAVINGS

Under the Senate budget, assisted living facilities which engaged in new construction or substantial renovation prior to April 2002 in order to meet the space requirements set forth in state contracts will continue to receive an enhanced rate to pay for such amenities. However, the enhanced rate will no longer be available for facilities contracting with the state for the first time after that date.

PERSONS WITH DISABILITIES

INCREASES

COMMUNITY MENTAL HEALTH CASELOAD GROWTH — \$8.5 MILLION GENERAL FUND-STATE, \$8.5 MILLION GENERAL FUND-FEDERAL (*MAINTENANCE LEVEL INCREASE*)

The number of children and adults eligible for Medicaid is now projected to be approximately 3.0 percent higher than originally budgeted, and 2.4 percent higher than the November 2001 caseload forecast upon which the Governor's budget proposal was based. As a result, managed care payments to the Regional Support Networks (RSNs) will also be higher than originally budgeted, in order to assure availability of needed community mental health services.

ARC LAWSUIT/DD REFORM — \$14.2 MILLION GENERAL FUND-STATE, \$2.4 MILLION GENERAL FUND-FEDERAL

The Senate budget provides a total of \$16.6 million to expand access to community services for persons with developmental disabilities and to strengthen program and fiscal management of the developmental disabilities system. Family support is increased for an additional 3,000 moderate and low-income families. In addition to these new families, the existing family support program is converted to a cash assistance program. SSI State Supplemental Payments are reprogrammed to support self-determination and

independence for families and persons with developmental disabilities. Community residential placements are funded for an additional 175 clients. Funding is also provided for an additional 267 young adults transition from high school to work. Funding to lift the freeze on case manager hiring is also provided. These enhancements are intended to be the fiscal component of the negotiated settlement in the pending litigation on developmental disabilities services, *ARC v. Quasim*.

SAVINGS AND REDUCTIONS

SPEND DOWN RSN RESERVES — \$16.7 MILLION GENERAL FUND-STATE SAVINGS

The Regional Support Networks (RSNs) reported \$53 million of accumulated reserves and fund balances at the end of calendar year 2001, which is about 14 percent of total revenues for that year. Such reserves have accumulated because the RSNs are paid a capitated rate per eligible person, rather than reimbursed for allowable costs actually incurred. Because the number of eligible persons has for each of the past several years consistently exceeded the levels originally forecasted, RSNs have found themselves the recipients of more funds than anticipated in prudent budget planning, and with funds in reserve.

Actuarially recommended risk reserves vary with the size of the RSN, ranging from 3.7 percent of revenues for the largest RSN to 10 percent of revenues for the smaller ones. The Senate budget directs that RSN fund balances be reduced to the actuarially recommended level. This is to be accomplished by deducting state funding otherwise due the RSN by the difference between the RSN's accumulated December 2001 reserves, and the recommended risk-reserve amount.

DISCONTINUE ATYPICAL DRUGS PILOT PROJECT — \$1.7 MILLION GENERAL FUND-STATE SAVINGS

The atypical anti-psychotic medications pilot project is to be terminated at the beginning of 2002, rather than at the beginning of 2003 as originally budgeted. The pilot has been operating in Seattle and Tacoma since early 2001 to demonstrate the effectiveness of and methods for providing atypical anti-psychotic medications for persons who would not otherwise receive them. It is expected that project recipients can obtain needed medications from other sources, such as drug industry samples available through community mental health centers and correctional facilities, and state medical assistance programs for the unemployed and working disabled.

STATE PSYCHIATRIC HOSPITAL WARD CLOSURES — \$700,000 GENERAL FUND-STATE SAVINGS, \$270,000 OTHER FUNDS SAVINGS

A total of \$1.7 million is provided for community residential and support services for 58 persons who would otherwise be served in the state psychiatric hospitals. This will permit closure of one ward specializing in geriatric care at Eastern State Hospital by October 2002, and in one-quarter of the Program for Adaptive Living Skills (PALS) units at Western State Hospital by January 2003. As in the case of the other 120 state hospital beds previously scheduled for closure this biennium, the Senate budget directs that, before patients are discharged from the hospital, a team of community professionals is available to assure that there is a safe and stable place for the person to live, and that the medical, behavioral, and social services needed for successful community living are in place, before patients are discharged from the hospital.

REDUCE MENTAL HEALTH PROGRAM ADMINISTRATION — \$290,000 GENERAL FUND-STATE, \$275,000 GENERAL FUND-FEDERAL

The Senate budget reduces funding for Regional Support Network (RSN) administration by 3 percent, and directs that RSN administration is to be limited to no more than 8 percent of total contractual payments. The Mental Health Division is directed to reduce its central clinical review function by one-third, by placing increased reliance upon the certification reviews conducted by national accreditation organizations, and the provider program reviews conducted by RSNs. Finally, as a safeguard against unwarranted reductions in direct patient care, the Senate budget directs that no RSN is to spend less on direct care in fiscal year 2002 or 2003 than it did last year.

PHASE OUT EXTENDED SUPPORT SERVICES — \$160,000 GENERAL FUND-STATE SAVINGS

The Extended Support Services program provides subsidized sheltered employment for 89 adults whose cognitive and/or physical impairments and life experiences have prevented them from obtaining permanent employment in the regular workforce. As an alternative to elimination of the program July 1, 2002, the Senate budget provides for it to be phased out over the course of the following year. This will provide families and case managers additional time to find alternative ways for the affected individuals to productively spend the workday.

REDUCE RHC STAFFING — \$1.4 MILLION GENERAL FUND-STATE, \$1.4 MILLION GENERAL FUND-FEDERAL

Due to continued declines in resident populations at Residential Habilitation Centers (RHCs), 65.4 FTEs are reduced in non-direct care staffing. Positions will be reduced in auxiliary services such as custodial, kitchen, and administration.

REDUCE FUNDING FOR TASC — \$864,000 GENERAL FUND-STATE

The Senate budget reduces by 25 percent the Treatment Accountability for Safe Communities (TASC) program. The program provides funding for Clark, King, Pierce, Snohomish, Spokane, and Yakima counties for interventions during the criminal justice process to provide assessment, case management, referral to treatment, and urinalysis monitoring. These same counties also currently receive state or federal funding for Drug Courts that have demonstrated strong, positive outcomes in diverting offenders with drug and alcohol problems out of the criminal justice system and into treatment. Drug Court funding is maintained in the Senate budget, and the Department is directed to consolidate TASC funding with Drug Court funding by fiscal year 2004.

PARENT SUPPORT FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES IN OUT OF HOME PLACEMENTS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS

Senate Bill 6585 requires parents with children who have developmental disabilities and who are in state funded out of home placements to share in the cost of that care. The amount of parent support would be the same require of other parents with children in out of home placements. It is expected that the average support level will be \$150 per month base on the financial ability of the family.

JUVENILE REHABILITATION

INCREASES

ENHANCED MENTAL HEALTH SERVICES — \$778,000 GENERAL FUND-STATE

Funding is provided for increased mental health services in the Juvenile Rehabilitation Administration's (JRA) institutions and community facilities. JRA will combine this funding with the \$1.1 million provided in original 2001-03 biennial budget to: (1) increase inpatient and outpatient treatment capacity; (2) provide mental health protocol training to residential staff; and (3) increase mental health professional staff coverage during evening and night time hours.

SAVINGS AND REDUCTIONS

CASELOAD DECREASES — \$5 MILLION GENERAL FUND-STATE SAVINGS, \$492,000 GENERAL FUND-FEDERAL SAVINGS (MAINTENANCE LEVEL DECREASE)

Based on the February 2002 forecast, the Juvenile Rehabilitation Administration's residential population is expected to be 97 offenders lower in fiscal year 2002 and 152 offenders lower in fiscal year 2003 than the November 2000 forecasted levels. This results in savings from a reduced need for institutional and community residential beds. Additionally, funding levels are also adjusted for parole and other community services programs to reflect changes in projected workload.

CLOSURE OF MISSION CREEK YOUTH CAMP — \$1.5 MILLION GENERAL FUND-STATE SAVINGS

Mission Creek Youth Camp will be closed by July 2002 and the institution will be mothballed for future use. This closure will reduce the Juvenile Rehabilitation Administration's (JRA) bed capacity by 60 beds. The closure will result in the relocation of these youth to other institutions. The juvenile offender basic training camp staging area will be relocated to an existing institution and will leave JRA with one remaining youth camp.

CHANGES TO RELEASE POLICIES FOR LOWER RISK OFFENDERS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS, \$29,000 OTHER FUND SAVINGS

In their budget reductions proposed to the Governor, the Juvenile Rehabilitation Administration (JRA) proposed to achieve savings by changing their release policies so that lower risk offenders serve 115 percent of their minimum sentence as opposed to 145 percent under current practice. In addition to this change, JRA will work with local juvenile courts to develop alternative residential placements for approximately of 80 to 90 of their lowest risk youth.

RESTRUCTURE PAROLE SERVICES — \$1.1 MILLION GENERAL FUND-STATE SAVINGS, \$339,000 GENERAL FUND-FEDERAL SAVINGS

Savings are achieved by modifying current parole services to youth after release from Juvenile Rehabilitation Administration (JRA) facilities. Specifically, JRA may take the following steps to improve the effectiveness and cost efficiency of parole services: (1) contract with counties for a greater proportion of parole services; (2) reduce administrative costs related to parole services; (3) reduce the portion of the parole caseload receiving intensive supervision to the statutory required level of 25 percent; (4)

provide new research-based interventions to additional youth; (5) increase caseloads of parole counselors; or (6) reduce the number of lower risk youth receiving parole services.

DEPARTMENT OF CORRECTIONS

INCREASES

INMATE AND COMMUNITY CORRECTIONS CASELOAD GROWTH — \$36 MILLION GENERAL FUND-STATE, \$500,000 COST OF SUPERVISION FUND (MAINTENANCE LEVEL INCREASE)

The Senate budget provides funding for the increased operating costs associated with the projected population changes based on the current forecasts prepared by the Caseload Forecast Council. The Department of Corrections' residential population is expected to be 335 offenders higher in fiscal year 2002 and 413 offenders higher in fiscal year 2003 than the November 2000 forecasted levels. Funding levels are also adjusted for significant increased workload in the community supervision program. Additionally, funding is provided for increased health care inflation.

MOTOR VEHICLE THEFT LEGISLATION — \$53,000 GENERAL FUND-STATE

Funding is provided for the implementation of SSB 6490 (motor vehicle theft), which increases the penalties for motor vehicle theft crimes.

SAVINGS AND REDUCTIONS

COMMUNITY CORRECTIONS CHANGES — \$9.2 MILLION GENERAL FUND-STATE SAVINGS

In their budget reductions submitted to the Governor, the Department of Corrections identified savings that could be achieved by making the following modifications to the community corrections program: (1) eliminating the department's responsibility for supervising lower risk offenders and those under supervision for the collection of legal financial obligations only; (2) privatizing the one remaining state operated work release facility; (3) removing community corrections officer positions at other contracted work release facilities; and (4) only performing pre-sentence investigations for sex offenders and mentally ill offenders.

ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$4.3 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget assumes that the department will take a variety of actions to reduce operating costs and achieve administrative savings. These steps include: (1) identifying efficiencies in business, human resources, and information technology support activities; (2) reducing administrative costs associated with educational and mental health programs; (3) mitigating the need for outside training resources by using department staff to perform these functions; (4) standardizing meal planning to lower overall food costs; and (5) reducing administrative costs at the regional level.

SPECIAL COMMITMENT CENTER

INCREASES

INCENTIVES AND MITIGATION FUNDING FOR NEW SECURE COMMUNITY TRANSITION FACILITIES — \$600,000 GENERAL FUND-STATE

Substitute Senate Bill 6594 (secure community transition facilities) includes provisions designed to encourage local jurisdictions to voluntarily work with the Department of Social and Health Services (DSHS) to site additional Secure Community Transition Facilities. These facilities are for individuals, civilly committed under the state's sexually violent predator statute, that have progressed enough in their treatment plans to be suitable for this placement. The Senate budget assumes that at least two jurisdictions will work with DSHS. Therefore, this budget provides sufficient funding for planning, incentive, bonus, and mitigation grants for these communities.

SAVINGS AND REDUCTIONS

SHARING THE LEGAL COSTS OF THE SPECIAL COMMITMENT CENTER PROGRAM — \$1.8 MILLION GENERAL FUND-STATE SAVINGS

The original 2001-03 biennial budget provided approximately \$4.3 million per year for costs associated with the Special Commitment Center's (SCC) reimbursement of counties and the Attorney General's Office work on behalf of counties for the legal costs of civil commitment proceedings involving sexually violent predators. The Senate budget assumes that the SCC, the Office of Financial Management, and the counties will develop a methodology for sharing these costs beginning September 1, 2002. Therefore, approximately 50 percent of the total amount of funding for legal costs is removed beginning on this date.

MITIGATION FUNDING AND REDUCED COSTS OF THE MCNEIL ISLAND SECURE COMMUNITY TRANSITION FACILITY — \$1.5 MILLION GENERAL FUND-STATE SAVINGS

The original 2001-03 budget provided approximately \$2.0 million for mitigation funding for costs incurred by local governments due to the activities involving residents of the Secure Community Transition Facility (SCTF) on McNeil Island. Approximately \$1.4 million of the mitigation funding is eliminated. The remaining \$600,000 is assumed sufficient to cover any increased local government costs associated with the SCTF on McNeil Island. Pursuant to Chapter 12, Laws of 2001, 2nd Special Session (3ESSB 6151), the department will continue to work towards an agreement with impacted jurisdictions. Additionally, the Special Commitment Center has identified two staff positions in fiscal year 2003 at the SCTF that can be eliminated without impacting operations. These reductions are also assumed in this item.

NATURAL RESOURCES

DEPARTMENT OF ECOLOGY

ENHANCEMENT

WATER STRATEGY AND REGIONAL WATER INITIATIVES — \$364,000 GENERAL FUND-STATE, \$690,000 WATER QUALITY ACCOUNT

Funding is provided for a series of studies to continue the progress on the water strategy, the Governor's water advisor and regional water management programs for the Columbia River and Puget Sound.

SAVINGS AND REDUCTIONS

WATERSHED GRANTS AND ASSISTANCE — \$11.9 MILLION GENERAL FUND-STATE SAVINGS

The Department's watershed grant funding is shifted from the state General Fund to the Water Quality Account. Within the appropriation, Ecology will provide technical assistance and local planning units will address water quality and quantity and habitat issues. The Department will apply to the Salmon Recovery Funding Board to fund instream flow components of watershed plans.

ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$5 MILLION GENERAL FUND SAVINGS

The Senate budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings. These steps include identifying efficiencies in business, human resources, and information technology support activities. Reductions include: limiting the Neah Bay rescue tug to 200 days in fiscal year 2002, reducing the auto emission program to reflect a small population of vehicles subject to testing, and reducing technical assistance under the state environmental policy act and in shoreline planning.

STATE PARKS AND RECREATION COMMISSION

SAVINGS AND REDUCTIONS

TEMPORARY PARK CLOSURE AND RETURN PARKS TO OWNERS — \$1.7 MILLION GENERAL FUND-STATE SAVINGS

The State Parks and Recreation Commission will temporarily close between 16 and 20 state parks, through fiscal year 2005. In addition, the Commission will assess whether to continue to operate parks owned by others, such as public utility districts, counties and federal agencies. If the owners are unable to pay State Parks' operating costs, the facilities will be returned to the owners.

ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$1.5 MILLION GENERAL FUND SAVINGS

The Senate budget assumes that the Commission will take a variety of actions to reduce operating costs and achieve administrative savings. In addition, a 2001 enhancement for parks maintenance is reduced by \$500,000.

DEPARTMENT OF FISH AND WILDLIFE

SAVINGS AND REDUCTIONS

HATCHERY CLOSURE — \$578,000 GENERAL FUND-STATE SAVINGS

The McAllister Creek and Sol Duc fish hatcheries will be closed and statewide chum production eliminated.

FUND SHIFTS TO THE SALMON RECOVERY FUNDING BOARD, WILDLIFE FUND AND SALMON RECOVERY ACCOUNT — \$7.0 MILLION GENERAL FUND-STATE SAVINGS

The Salmon Recovery Funding Board will consider funding grants to lead entities – that recommend projects to the board, and smolt production monitoring. The development of a forest roads management plan, Pacific coastal license buy-back and the Lower Skykomish habitat conservation plan are shifted to the salmon recovery account.

ADMINISTRATIVE EFFICIENCIES — \$2.4 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings.

PROGRAM REDUCTIONS — \$3.9 MILLION GENERAL FUND-STATE SAVINGS

The following funding reductions are made: One position is eliminated and vacancies are maintained in the enforcement program; the print shop is eliminated; the fish management division activities funded by the aquatic lands enhancement account are reduced; various construction crews are consolidated; watershed technical assistance is reduced and the SSHEAR and screen functions are reduced and directed to evaluate cost recovery opportunities.

DEPARTMENT OF NATURAL RESOURCES

ENHANCEMENTS

THEA FOSS WATERWAY SETTLEMENT — \$1.8 MILLION STATE TOXICS CONTROL ACCOUNT

Funding is provided to partially resolve the Department of Natural Resources Superfund liability for clean up of contamination in the Thea Foss waterway in Tacoma.

FIRE MOBILIZATION AND FIRE SUPPRESSION — \$33 MILLION DISASTER RESPONSE ACCOUNT-STATE

During the summer of 2001, there were a series of wildfires that significantly affected state and local fire fighting agencies. An additional \$33 million is provided for costs associated with the 2001 fire season and replenishing the fire contingency pool for future fires. This funding, combined with the \$3 million provided in the original 2001-03 budget, will fund the following costs: (1) \$24.2 million for the Department of Natural

Resources' and other natural resource agencies' costs in fire suppression activities; (2) \$7.8 million for fire mobilizations coordinated by the Military Department; and (3) \$4 million as a contingency for fire mobilization and suppression activities in the future. In addition, the supplemental budget continues to fund \$15.2 million General Fund-State for fire suppression in DNR.

SAVINGS AND REDUCTIONS

AGRICULTURAL COLLEGE TRUST LANDS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS

The Morrill Act prohibits the state from taking a management deduction from revenue generated from Agricultural School trust lands which benefit Washington State University (WSU). From 1999 to 2001 the costs to manage these lands were funded from the state general fund. The settlement between the Office of Financial Management and WSU regarding management of these lands does not require the state to pay the management costs. The supplemental budget directs DNR to sell 10 percent of the value of Agricultural School trust lands by June 2003. The proceeds will be deposited into the Agricultural permanent fund.

ADMINISTRATIVE EFFICIENCIES AND BUDGET REDUCTIONS — \$2.6 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget assumes that the Department will take a variety of actions to reduce operating costs and achieve administrative savings. In addition, funding in the forest practices program is reduced for development of the small forest landowners database, postponement of the "reasonable use rule" and postponement of the program's wetlands database. Urban-interface will be closed and the Department will focus on dispersed, trail-based recreation.

DEPARTMENT OF AGRICULTURE

SAVINGS AND REDUCTIONS

INTERNATIONAL MARKETING — \$700,000 GENERAL FUND-STATE SAVINGS

The 2001 enhancement for market development is replaced by federal funds. In October 2001 the state received federal funding of \$10.1 to promote agriculture and specialty crops.

OTHER

COMMUNITY TRADE AND ECONOMIC DEVELOPMENT

EFFICIENCIES AND REDUCTIONS

OFFICE OF TRADE AND ECONOMIC DEVELOPMENT EFFICIENCY REDUCTIONS — \$504,000 GENERAL FUND-STATE SAVINGS

The Senate budget reduces the operating costs of the Economic Development Division, the International Trade Division and overall administration of the Office. The Office will maintain its programs and client services with lower operating costs.

OFFICE OF COMMUNITY DEVELOPMENT EFFICIENCY REDUCTIONS — \$1.6 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget reduces the operating costs of the Community Services Division, the Housing Division, the Local Government Division and overall administration of the Office. The Office will maintain its programs and client services with lower operating costs.

TOURISM OFFICE AND TOURISM MARKETING REDUCTION — \$1.3 MILLION GENERAL FUND-STATE SAVINGS

The consolidation of the Tourism and Business Development Offices within the Economic Development Division and reduction in client services will achieve \$320,000 savings in fiscal year 2003. The Senate budget eliminates \$1 million General Fund-State funding for local tourism marketing and assumes that local governments will continue to fund tourism marketing with revenues from the hotel/motel tax.

ELIMINATE BUILDABLE LANDS GRANTS TO LOCAL GOVERNMENTS — \$1.2 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget eliminates the fiscal year 2003 funding for local governments to track data relating to the Growth Management Act. The first reports on the data are due in September 2002. The Senate budget assumes further activities and reporting will occur within local government available resources.

ECEAP ADMINISTRATIVE REDUCTION — \$838,000 GENERAL FUND-STATE SAVINGS

The Senate budget reduces the fiscal year 2003 administrative budget for ECEAP by three percent. Direct services to the at-risk children served by the program are not impacted.

ENHANCEMENTS

JUDICIAL

JUDICIAL SALARY INCREASES — \$2.3 MILLION GENERAL FUND-STATE

Funding is provided for salary increases awarded to justices of the Supreme Court and the judges of the Court of Appeals and Superior Court. The Citizens' Commission on Salaries for Elected Officials awarded increases of 2.3 percent per year on September 1, 2001 and September 1, 2002. Additionally, besides the percentage salary increases, the

Commission approved a \$5,000 increase for each member of the judiciary on September 1, 2001.

CONTINUATION OF ENHANCED DEPENDENCY REPRESENTATION PILOT - \$400,000

GENERAL FUND-STATE

Funding is provided to continue a dependency and termination case pilot program in Benton, Franklin and Pierce counties through February 2003. The pilot is designed to improve the representation of parents in dependency and termination cases. By November 15, 2002, the Office of Public Defense will prepare an updated final evaluation of the pilot program.

EFFICIENCIES AND REDUCTIONS

ELIMINATE JUROR COMPENSATION INCREASE — \$1.6 MILLION PUBLIC AND SAFETY EDUCATION ACCOUNT SAVINGS

In the original 2001-03 biennial budget, fiscal year 2003 funding from the Public Safety and Education Account (PSEA) was provided to increase juror compensation from \$10 per day to \$25 per day, beginning on the second day of juror service. Due to a revenue shortfall in PSEA, the Senate budget eliminates funding for the increase.

WASHINGTON STATE PATROL

CRIMINAL JUSTICE INFORMATION SYSTEM ENHANCEMENTS — \$1.1 MILLION FINGERPRINT IDENTIFICATION ACCOUNT

The Senate budget provides funding for improvements and upgrades to various criminal justice information systems maintained by the State Patrol. These include: (1) continued support of the Criminal History Backlog Elimination project; (2) changes to keep the crime information and identification systems current with the needs of the public safety community; and (3) implementing live-scan fingerprint technology throughout the state.

CRIME LAB IMPROVEMENTS — \$1.1 MILLION OTHER FUNDS

The Washington State Patrol, in cooperation with the Forensics Investigation Council, the Washington Association of Sheriffs and Police Chiefs, and the Washington Association of Prosecuting Attorneys have developed a comprehensive improvement program to improve the delivery of forensic services to Washington law enforcement agencies, cities, and counties. Funding is provided for a portion of the Forensic Laboratory Services Improvement Plan. Additionally, funding is provided for SSB 6473 (offender DNA database), which expands DNA data banking to additional felony offenders and certain misdemeanants.

REVENUE ADJUSTMENTS

“THE BIG GAME” MULTI-STATE LOTTERY — \$24 MILLION GENERAL FUND INCREASE

Under Substitute Senate Bill 6560, the State Lottery Commission is authorized to join a shared game lottery. The Lottery Commission expects to join the "The Big Game", a multi-state lottery consortium, offering multi-million dollar jackpots twice a week. Washington will be the ninth state to join the consortium, and the only western state. Higher jackpots and different draw days than existing Lottery games are expected to reduce the negative impact on current Washington sales. “The Big Game” also has higher jackpots and different draw days than neighboring states, which is expected to increase cross-border sales.

With expected implementation in October 2002, the "The Big Game" is projected to generate net General Fund-State revenues of \$24.4 million in fiscal year 2003, and \$63.5 million in the 2003-2005 biennium. Revenue projections account for an expected decrease in existing lottery game sales and “hold harmless” the student achievement and education construction accounts by guaranteeing that lottery revenue available for these accounts remains at the current level of \$102 million a year. In addition, \$500,000 of revenue in fiscal year 2003 will be transferred to the Violence Reduction and Drug Enforcement Account exclusively for the treatment of pathological gambling.

BUDGET DRIVEN REVENUE

TAX EDUCATION & TAX COLLECTION — \$46.4 MILLION GENERAL FUND INCREASE

The Department of Revenue will add staff to conduct additional audits, tax discovery, delinquent account collections, and targeted taxpayer education. Projected General Fund-State revenues are \$46.4 million for fiscal year 2003, and \$106.1 million for the 2003-2005 biennium. Projected local government revenues are \$6.8 million for fiscal year 2003, and \$15.6 million for the 2003-2005 biennium.

REVENUE LEGISLATION

Note: The revenue impacts of the following bills are assumed for the purposes of the budget. However, these bills must be enacted separately from the budget in order to take effect.

REVENUE INCREASES — LOOPHOLE CLOSURES

USE TAX ON SHIPPING — \$20.3 MILLION GENERAL FUND REVENUE INCREASE

For the purposes of calculating the use tax, delivery, shipping, freight, or like transportation charges are included in the value of an article.

DIRECT MAIL ADVERTISING — \$4.3 MILLION GENERAL FUND REVENUE INCREASE

Imposes the use tax on advertising printed out-of-state for an instate retailer and mailed directly by the printer to Washington residents primarily to promote the sale of goods or services.

OUT-OF-STATE REPAIR SERVICES — \$4.1 MILLION GENERAL FUND REVENUE INCREASE

Imposes the use tax on out-of-state repair services performed on tangible personal property for a Washington consumer.

REVENUE DECREASES

SSB 6785 WASHINGTON ESTATE TAX — \$8.3 MILLION GENERAL FUND REVENUE DECREASE

Incorporates the changes in the federal estate tax adopted by Congress in June 2001 into the Washington estate tax, except the four-year phase out of the federal credit for state taxes. Instead, the federal credit for state taxes is phased out by 2010 along with the federal estate tax. This measure reduces total state estate taxes paid as compared to current law.

HB 2641 INVESTMENT INCOME TAX DEDUCTION — \$3.62 MILLION GENERAL FUND REVENUE DECREASE

Eliminates the business and occupation taxation of investment income received by businesses that might be considered financial businesses, except for banking businesses, lending businesses, security business, loans or the extension of credit, revolving credit arrangements, installment sales, and the acceptance of payment over time for goods or services.

2E2SS 5514 PUBLIC FACILITY DISTRICTS — \$967,000 GENERAL FUND REVENUE DECREASE

Public facility districts are allowed a refund of all sales taxes paid on the construction of regional centers after the center becomes operationally complete. Counties that form PFDs before July 2002 and commence construction before January 2004 are allowed to impose a 0.033 percent sales tax (deducted from the state tax). Finally, a city is allowed to form a public facility district with a county.

SB 5082 DEFINING RURAL COUNTIES — \$414,000 GENERAL FUND REVENUE DECREASE

The definition of "rural county" is expanded to include counties that are smaller than 225 square miles. Island County and San Juan County are the only two counties that meet this requirement. This designation enables counties to charge a 0.08 percent local option sales tax is credited against the state's 6.5 percent sales and use tax. Revenues from the local option sales and use tax are used to finance public facilities such as bridges, roads, and sewer facilities.

2SHB 1531 MODIFYING THE TAXATION OF LODGING — \$261,000 GENERAL FUND REVENUE DECREASE

Eliminates the requirement for continuous occupancy of a specific lodging unit by the same person in order to be exempt from the taxes on lodging.

SSB 6787 ORGAN PROCUREMENT ORGANIZATIONS — \$34,200 GENERAL FUND REVENUE DECREASE

Exempts income of nonprofit organ procurement organizations from the B&O tax to the extent that it is exempt from federal income tax. The purchase or use of medical supplies, chemicals, or specialized materials for nonprofit organ procurement

organizations is exempt from sales and use tax. The sales and use tax exemption does not apply to construction materials, office equipment, building equipment, administrative supplies, or vehicles.

OTHER REVENUE LEGISLATION

SHB 2466 REVISING THE MULTIPLE-UNIT DWELLING PROPERTY TAX EXEMPTION — NO GENERAL FUND REVENUE IMPACT

Reduces the minimum city population cap from 50,000 to 30,000 for the multifamily housing property tax exemption program. Counts the cost of the rehabilitation or construction as new construction when calculating the maximum district property tax amount at the time the property is no longer exempt. Allows cities to limit the tax exemption to individual dwelling units that meet the city guidelines for program participation.

HB 2658 MUNICIPAL BUSINESS & OCCUPATION TAX UNIFORMITY — \$800,000 MILLION GENERAL FUND-STATE REVENUE INCREASE

Requires the Association of Washington Cities to adopt a model municipal B&O tax ordinance that includes a system of credits that prevent multiple taxation; a gross receipts threshold of \$20,000; tax reporting frequency requirements; provisions for penalties and interest; claim and refund provisions; and certain definitions based on comparable state definitions. The model ordinance must include provision for the apportionment and allocation of business income by January 1, 2005. Cities that impose B&O taxes must comply with all provisions of the bill by December 31, 2003. The state excise tax administrative statutes are amended to make the calculation of interest on refunds, in terms of the period of time to which the interest would apply, consistent with the interest calculation used for assessments.

HB 2732 TAX ON SOCIAL WELFARE COMPENSATION — \$7.7 MILLION HEALTH SERVICES ACCOUNT REVENUE DECREASE

Provides retroactive relief for nonprofit and public hospitals for business and occupation taxes on payments of health benefits through contract of federal or state governments. Also provides waiver of tax liability for those hospitals that already paid these taxes.

2SSB 5695 LOCAL REAL ESTATE EXCISE TAX — NO GENERAL FUND REVENUE IMPACT

Authorizes an additional real estate excise tax for counties of 0.5 percent for the development of affordable housing, subject to voter approval. Only a county that imposes the 1.0 percent tax for conservation areas at the maximum rate and imposed it by January 1, 2003, is eligible.

E2SSB 6034 ENHANCED 911 TAXES — NO GENERAL FUND REVENUE IMPACT

Equalizes the E911 taxes on wire line and wireless telephones. The county 911 tax of 25 cents on wireless lines is increased to 50 cents. A state E911 tax of 20 cents is imposed on wireless lines. Revenues from the state tax can be used for implementation and operation of wireless E911 statewide, including funding of counties and reimbursement of wireless carriers.

ESSB 6060 HAZARDOUS SUBSTANCE TAX — NO GENERAL FUND REVENUE IMPACT

Updates references to federal acts defining hazardous substances for purposes of the state hazardous substance tax. Taxable hazardous substances under the Federal Comprehensive Environmental Response, Compensation, and Liability Act are updated to reflect substances as of March 1, 2002. Excepted are certain non-compound metals that are no longer included as a hazardous substance. Pesticides required to be registered under the Federal Insecticide, Fungicide and Rodenticide Act are limited to those required to be registered as of August 3, 1996, the last date the act was amended.

SSB 6342 SALES TAX SIMPLIFICATION ACT — NO GENERAL FUND REVENUE IMPACT

Authorizes Washington to be a voting member in negotiating a national Streamlined Sales and Use Tax Agreement. Any proposed changes to state law as the result of a national agreement must still be approved by the Legislature.

SSB 6540 SIMPLIFYING TAX ADMINISTRATION — NO GENERAL FUND REVENUE IMPACT

Makes miscellaneous changes to the excise and property tax statutes. Obsolete sections are repealed and inaccurate cross-references are corrected.

SSB 6582 IMPROVING PROPERTY TAX ADMINISTRATION — NO GENERAL FUND REVENUE IMPACT

Makes a number of technical changes to the property tax statutes.

SJM 8013 SALES TAX DEDUCTION ON FEDERAL TAXES — NO GENERAL FUND REVENUE IMPACT

Asks Congress to restore the itemized deduction on federal income taxes for state sales taxes paid.

GF-S Revenue Adjustments

(Dollars in Thousands)

	2001-03	2003-05
New Lottery Game		
The Big Game Multi-State Lottery	\$24,400	\$63,466
Budget Driven Revenue		
Tax Education & Tax Collection	\$46,400	\$106,100
Loophole Closures-Revenue Increases		
Use Tax on Shipping	20,317	43,458
Direct mail advertising	4,274	9,200
Revising use taxation on certain services	4,100	8,600
Subtotal	\$28,691	\$61,258
Revenue Decreases		
6785 Washington estate tax	(8,278)	(29,888)
2641 Investment income tax deduction	(3,620)	(10,480)
5514 Public facility districts	(967)	(2,100)
5082 Defining rural counties	(414)	(1,070)
1531 Modifying the taxation of lodging	(261)	(447)
6787 Organ procurement taxation	(34)	(171)
Subtotal	(\$13,574)	(\$44,156)
Other Revenue Legislation		
2466 Revising the multiple-unit dwellings property tax exemption	0	0
2658 Municipal business and occupation tax	800	1,600
2732 Tax on social welfare compensation	0	0
5965 Local Real Estate Excise Tax (REET)	0	0
6034 Enhanced 911 taxes	0	0
6060 Hazardous substance tax	0	0
6342 Sales Tax Simplification Act	0	0
6540 Simplifying tax administration	0	0
6582 Improving property tax administration	0	0
8013 Sales tax deduction on federal income taxes	0	0
Subtotal	\$800	\$1,600
Fees		
License fee for adult family homes and nursing homes	(\$3,390)	(\$6,780)
TOTAL	\$83,327	\$181,488

APPENDIX 1

EFFICIENCY REDUCTIONS

(Dollars in Thousands)

Functional Area	Agency / Title	FTES	GF-S	Total Funds
DSHS		-73.5	-10,340	-18,236
Governmental Operations	Administrative Hearings	-2.0		-330
	Attorney General	-17.0	-202	-1,862
	Caseload Forecast		-19	-19
	Community, Trade & Econ Dev	-10.0	-2,310	-2,718
	Convention & Trade	-4.0		-579
	Dept Financial Inst	-2.0		-357
	Dept General Admin	-6.0		-620
	Dept of Personnel	-6.5		-508
	Dept of Revenue	-3.0	-699	-699
	Dept Retirement System	-7.0		-768
	Econ & Rev Forecast		-15	-15
	Gambling Commission	-6.0		-450
	Growth Plan Hearings	-1.0	-75	-75
	Horse Racing Commission	-0.9		-68
	Insurance Commission	-2.0		-366
	Investment Board	-2.0		-194
	Liquor Control Board	-4.0	-45	-1,498
	Military Department	-1.0	-449	-449
	Office Financial Mgmt	-4.0	-409	-414
	Office of Governor	-3.6	-177	-359
	Public Employee Relations Com	-1.0	-86	-86
	Public Disclosure		-72	-72
	Secretary of State	-5.0	-906	-987
	State Auditor	-2.0		-193
	State Lottery Committee	-4.5		-335
	State Treasurer	-1.0		-194
	Tax Appeals Board	-0.3	-52	-52
	Utility Transportation Commission	-4.0		-406
	Governmental Operations Total:	-99.8	-5,516	-14,673
Higher Education		-610.3	-48,638	-29,968
Judicial		-5.0	-606	-1,733
Legislative		-14.0	-1,820	-1,820
Natural Resources	Columbia River Gorge		-12	-12
	State Conservation Commission	-1.0	-31	-71
	Department of Natural Resources	-17.9	-1,129	-1,255
	Department of Agriculture	-3.4	-240	-307
	Department of Fish & Wildlife	-40.7	-1,164	-2,849
	Department of Ecology		-25	-25
	Environmental Hearings Office	-34.6	-1,522	-2,406
	State Parks & Recreation Commission	-18.8	-874	-1,323
	Natural Resources Total:	-116.4	-4,997	-8,248

Functional Area	Agency / Title	FTES	GF-S	Total Funds
Other Education	Washington State Arts Commission	-0.5	-86	-86
	Eastern Washington Historical Society	-1.0	-46	-46
	State School for the Blind	-2.0	-138	-138
	State School for the Deaf	-4.0	-267	-267
	Washington State Historical Society	-2.0	-94	-94
	State Library	-4.0	-264	-264
	Work Force Trng & Educ Coord Board	-0.1	-87	-87
	Other Education Total:	-13.6	-982	-982
Other Human Services	Criminal Justice Training Commission	-2.0	0	-512
	Dept of Labor and Industries			-551
	DOC Admin & Support Services	-14.6	-943	-943
	DOC Community Corrections	-11.5	-450	-933
	DOC Institutional	-7.1	-2,093	-2,093
	Health Care Authority	-9.0	0	-766
	Human Rights Commission	-1.0	-81	-81
	Indeterminate Sentence Review Board	0.0	-30	-30
	Sentencing Guidelines Commission	0.0	-25	-25
	Department of Services for the Blind	0.0	-81	-81
	Veterans Field Services	-0.9	-51	-51
	Veterans Headquarters	-0.7	-49	-49
	Veterans Institutional Services	-1.9	-144	-144
	Other Human Services Total:	-48.7	-3,947	-6,291
Public Schools		-2.8	-996	-996
Transportation	Department of Licensing	0.0	-49	-49
	Washington State Patrol	-5.0	-456	-880
	Transportation Total:	-5.0	-505	-923
Special Appropriations (All Agencies)	Agency Administrative Contingencies		1,500	1,500
	Revolving Fund Reduction	0.0	-1681	-1681
	State Agency Equipment Reduction	0.0	-2,300	-2,300
	State Employee Travel Reduction	0.0	-3,000	-3,000
	Special Appropriations Total:	0.0	-6,924	-6,924
Grand Total		-989.1	-83,828	-89,357