
SENATE 2003-05 OPERATING BUDGET HIGHLIGHTS

AS PASSED SENATE



1

SENATE WAYS AND MEANS COMMITTEE

APRIL 4, 2003

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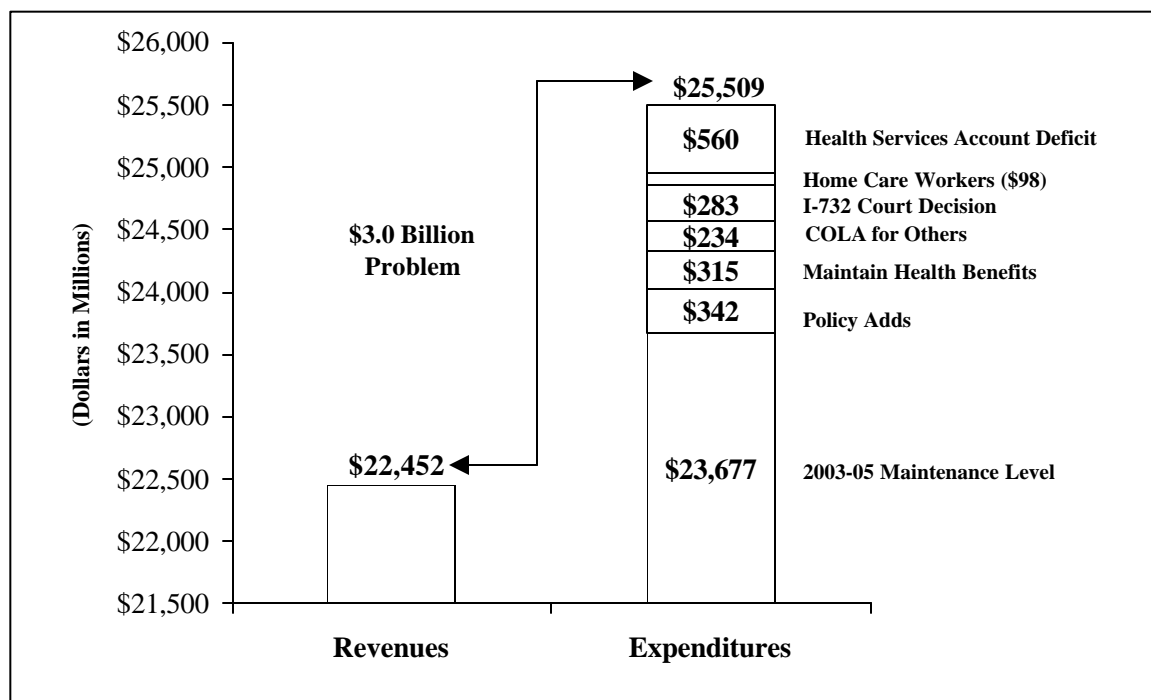
HOW THE SENATE 2003-05 BIENNIAL BUDGET WAS CONSTRUCTED

STATE FISCAL PICTURE FOR 2003-05

Washington faces a significant budget shortfall for the 2003-05 biennium. This shortfall – which is about 12 percent of the projected general fund biennial budget – is the result of a decline in state revenues resulting from the national recession combined with ongoing increases in the cost to maintain state government programs and services. The current budget deficit is the by product of several factors including:

- The continuing reduction in aerospace employment, the bursting of the “new economy” bubble and the dramatic decline in tourism since September 11th, resulting in Washington suffering even greater economic problems than the rest of the nation.
- The passage over the past several years of voter-approved initiatives and legislatively enacted measures that (1) reduced state revenues, (2) diverted state revenues, and (3) required mandatory expenditures.
- Reliance during the past two biennia on significant one-time savings and revenue options to balance the state budget.
- Rapid growth in the costs of both low-income health care and employee health care, and increased spending needs for tort liability payments, community care for the aged and disabled, and public school enrollments.

Together, these factors have produced a fiscal situation where the estimated 2003-05 biennium cost of state government programs and services is approximately \$3.0 billion more than forecasted revenue for the same fiscal period, as illustrated in the chart below.



ECONOMIC AND REVENUE OUTLOOK

The March 2003 economic forecast assumes that the national recovery will come later than was expected in November. The forecast is slightly lower due to uncertainty about the war with Iraq, but this is not expected to have a major impact on the economy and is not a significant influence on the forecast. In this state, the aerospace employment forecast continues to fall. The forecast has 2,000 fewer employees by the end of 2005 on top of the current reductions. Layoffs in the lumber and wood products industry led to a 1,100 employment reduction.

The forecast for 2003-05 general fund revenues is \$22.452 billion, which represents an increase of \$1.3 billion above estimated 2001-03 revenues of \$21.166 billion. In addition, a total of \$280 million in current biennium reserves are available bringing total general fund *resources* for the 2003-05 biennium to \$22.732 billion.

While the forecast of revenues for the 2003-05 biennium represents an increase of 6.1 percent above current biennium revenues, it should be noted that it is less than estimated general fund spending in the 2001-03 biennium. This means that there is no additional revenue forecast for the next two years to support any increase in spending beyond current biennium appropriations.

EXPENDITURE OUTLOOK

On the expenditure side, the 2003-05 maintenance level budget of \$23.677 billion, which represents the cost of continuing current and mandatory state government programs and services, is \$1.2 billion more than forecasted revenues. The primary maintenance level budget drivers are the costs of low-income health care under the state's medical assistance program and K-12 education, which includes the cost of mandatory Seattle Consumer Price Index (CPI) cost-of-living adjustment (COLA) for teachers as required by Initiative 732.

While COLA's for state government and higher education employees and vendors not covered by Initiative 732 as well as the cost to maintain current health care benefits are not treated as part of the maintenance level budget calculations, they have typically been included in budgets passed by the Legislature. If these items were fully funded, the estimated general fund cost in the 2003-05 biennium would require an appropriation of \$234 million for COLA's and \$315 million for health care benefits, increasing the total budget problem to \$1.8 billion.

The Senate budget does add \$342 million in the operating budget for new spending items. Some of the most significant include \$48 million for beginning teacher and classified staff salary increases; \$46 million for nursing home reimbursements resulting from a new quality maintenance fee; \$32 million for an increase in the state need grant; \$22 million for the state's liability account, and \$20 million for new high demand college enrollments. With these policy enhancements, the total size of the Senate's general fund budget problem increases to \$2.1 billion.

NEW ISSUES MAKE THE BUDGET PROBLEM WORSE

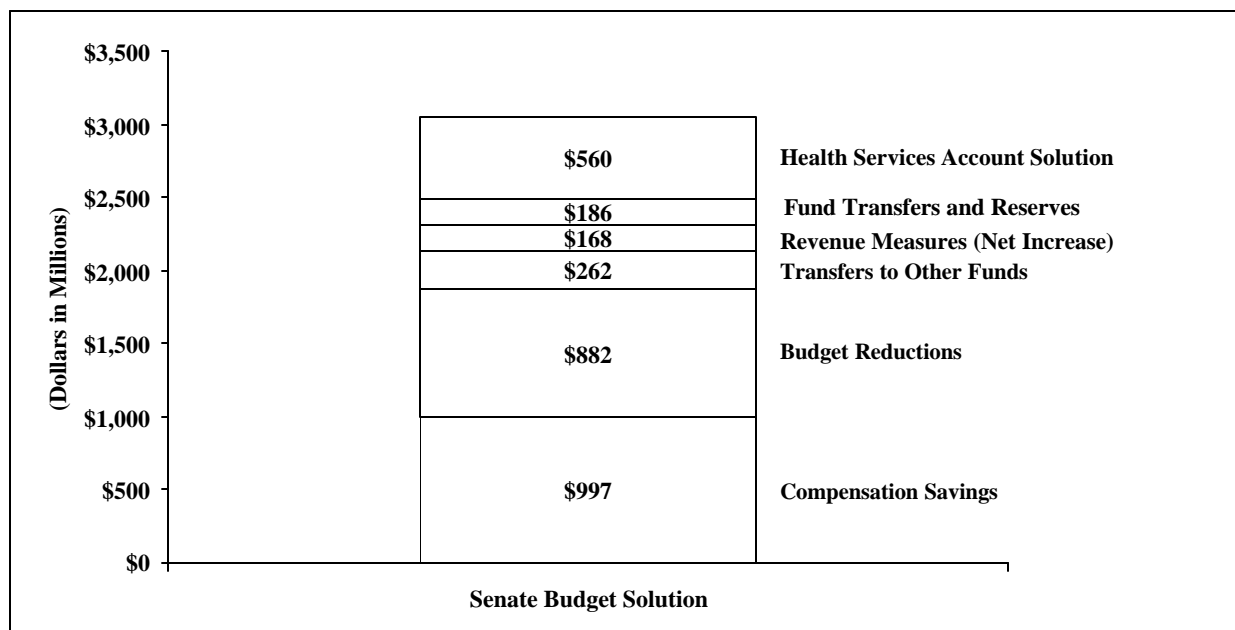
Since the Governor’s budget proposal was introduced in December 2002, the Washington State Supreme Court ruled in the case of *McGowan v. State* that all K-12 employees are entitled to receive the COLA required by Initiative 732 and that the state is required to provide “state” dollars to fund it. Although the court did not compel the Legislature to appropriate money for the COLA’s the potential cost of compliance could require an additional \$283 million to the 2003-05 maintenance level budget (\$207 million is already included in the maintenance budget for the cost of state-funded positions). This would increase the size of the state’s budget problem to \$2.4 billion.

In addition, under the provisions of Initiative 775 (enacted by the voters in November 2001) a Home Care Quality Authority (HCQA) was established to collectively bargain with home care workers (individuals who contract with the state to provide in-home services for persons with disabilities). In December, the Authority reached an agreement with the Service Employees International Union (SEIU) to increase wages and benefits for home care workers during the 2003-05 biennium. The state cost to implement the agreement is \$98 million, which would increase the size of the state’s general fund budget problem to \$2.5 billion.

Finally, the state’s health services account (which supports funding for the Basic Health Care Plan and the state share of Medicaid coverage for low-income children) has a projected 2003-05 deficit of \$560 million. Solving this deficit increases the size of the state’s total budget problem to about \$3.0 billion.

SOLVING THE \$3.0 BILLION BUDGET PROBLEM

The proposed \$22.8 billion Senate 2003-05 biennial operating budget takes a six-part approach to solving the state’s \$3.0 billion budget problem as shown in the chart below:



COMPENSATION SAVINGS -- \$997 MILLION

The proposed Senate budget does not include funding for general cost of living adjustments (COLAs). Initiative 732 (as clarified by a recent Supreme Court decision) requires the state to provide a 2.0 and 1.9 percent increase during the next biennium to all state, local and federally funded K-12 staff and certain community college personnel at a cost of \$399 million. In addition, the state could potentially be required to pay an additional \$91 million for current biennium salary costs for levy and federally funded staff. The Senate proposes to follow the Governors recommendation to amend Initiative 732 to suspend these COLAs for the 2003-05 biennium and to clarify that the state budget is responsible to pay salaries for only state funded public school employees. These actions avoid the need to add \$490 million to the operating budget.

The Senate budget does not provide a comparable 2.0 and 1.9 percent COLA for state employees, higher education employees and private social service contractors (vendors) avoiding \$234 million in general fund costs. In addition, no funding is provided for the recently ratified home care worker collective bargaining agreement avoiding \$98 million in general fund costs.

The Senate budget also reduces the projected cost of maintaining state employee and K-12 health care benefits by \$175 million by requiring state employees to pay an average of 20 percent of the cost of their health care benefits (from the average of 14 percent currently), and by increasing office visit co-payments from \$10 to \$15 per visit.

BUDGET REDUCTIONS -- \$884 MILLION

Major reductions in the Senate budget include \$154 million in various administrative and efficiency savings which reduce state FTEs, travel, equipment, personal services contracts, and agency legislative liaison positions. A total of \$111 million is reduced in the medical assistance budget by restructuring the medically indigent hospital reimbursement program. Adopting a projected unit credit method for funding state pensions plans 2 and 3 saves another \$101 million.

Elimination of the K-12 Flexible Education Fund and Better Schools programs saves \$41 million and \$32 million respectively. Limiting the state's tort liability as prescribed in Senate Bill 5728 reduces the amount of funding need for the state's liability account by \$40 million. Putting a six-month time limit on general assistance-unemployable program benefits saves \$41 million. Reducing community supervision of low and moderate risk offenders and proposed changes in corrections earned early release policies conserves \$40 million in general fund resources.

TRANSFERS TO OTHER FUNDS -- \$262 MILLION

The Senate budget transfers the cost of a number of general fund programs and activities to other funds, both in the operating budget and the capital budget. For example, shifting higher education preservation and maintenance spending from the operating budget to the capital budget conserves a total of \$53 million General Fund-State. The Senate budget also offsets

\$123 million in general fund expenditures by increasing tuition by 9 percent per year during the 2003-05 biennium. Schools would be permitted to retain 1 percent of the value of this increase (\$17 million) to support their academic missions. Other significant fund transfers include \$23 million to shift some youth programs to the public safety and education account and make greater use of increased federal funds in public education for a savings of \$14 million.

RESERVES AND FUND TRANSFERS -- \$186 MILLION

A total of \$158 million of transfers from various dedicated funds and accounts are made to help balance the proposed Senate budget. The most significant transfers include \$57 million from the emergency reserve account; \$50 million from the health services account and \$14 million from the Department of Social and Health Services disputed funds account. In addition, \$29 million of current biennium reserves will be used to help finance operating budget expenditures.

REVENUE MEASURES -- \$168 MILLION (NET INCREASE)

The Senate budget proposes enactment of several measures that will increase general fund revenues. The most significant is a proposal to modify the diversion of state collected property tax revenues as prescribed in Initiative 728. Under that measure, school district allocations are scheduled to increase from the current \$220 per student to \$450 per student beginning in the 2004-05 school year, which would result in a reduction in general fund revenues of \$221 million. As an alternative, the Senate will enact legislation that permits the per student diversion to increase from \$220 per student to \$254 per student. This results in an increase in general fund revenues of \$188 million in the 2003-05 biennium, and an increase in revenue to school districts of \$33 million beginning in the 2004-05 school year.

Other measures to increase general fund revenues are a proposal to enact a nursing home quality maintenance fee that will raise \$82 million for nursing home reimbursement purposes; a proposal to relocate state liquor stores to more marketable locations and increase the number of stores which is expected to raise \$6 million in revenue; and a measure which shifts the payment date for state excise taxes from the 25th of the month to the 20th of the month which will raise \$7 million. In total, Senate revenue increase measures total \$284 million.

The Senate budget also proposes the enactment of several measures that will reduce general fund revenues by a total of \$116 million. The most significant items are the continuation of both the high tech sales and use tax exemption and high tech research and development business and occupation tax credit which reduce state revenues by a combined \$75 million in the 2003-05 biennium. Other major revenue reduction measures are the extension of the rural county sales tax exemption program (\$15 million) and a correction to the tax rate paid by staffing service businesses (\$20 million).

HEALTH SERVICES ACCOUNT DEFICIT -- \$560 MILLION

BACKGROUND

Approximately \$1.1 billion will be expended from the Health Services Account during the 2001-03 biennium to provide medical care for approximately 500,000 low-income Washingtonians. Since passage of Initiative 773 in November 2001, the Health Services Account must function as two separate accounts:

- A "core" or general purpose account which pays for Medicaid coverage for 350,000 low-to moderate income children, support to county public health programs, and Basic Health Plan (BHP) coverage for up to 125,000 people; and
- The I-773 account, which receives approximately \$115 million per year of tobacco taxes raised by the initiative. Under the terms of the Initiative, these revenues may only be used to pay for BHP enrollments, provided 125,000 have first been funded from the "core" account.

The "core" Health Services Account would be \$560 million in deficit by June 2005 if it were to subsidize 125,000 BHP enrollments through the end of the 2003-05 biennium, while continuing to provide Medicaid coverage for low to moderate-income children, and the current level of support for public health programs. This deficit has developed for three primary reasons:

- Medical costs, both for BHP enrollees and for Medicaid children, are growing much faster than the tobacco and other revenues, which fund the Health Services Account.
- Federal "pro-share" transfer payments will be over \$250 million less than anticipated during 2001-03 budget development.
- The 2002 "securitization" of revenues from the national tobacco settlement has reduced such revenues by approximately \$40 million per year.

SENATE BUDGET SOLUTION

As summarized in the following table, the Senate budget would resolve this deficit by:

- Amending Initiative 773, so that \$395 million of revenues generated by that tax may be used to support "core" Health Services Account programs.
- Reducing projected BHP expenditures by \$175 million by limiting new admissions to the program through the end of 2003; and then subsidizing enrollment from January 2004 forward for approximately 93,000 enrollees, under a revised benefit packaged with higher co-pays and deductibles.
- Reducing children's Medicaid expenditures approximately \$122 million by charging monthly co-premiums for families with incomes over the poverty level; discontinuing coverage for families with incomes over 175% of the poverty level (Washington would still provide higher coverage than Oregon, Idaho, or Montana); limiting managed care rate increases to an average of around 4.7% per year; and increasing efforts to verify that families are eligible for subsidized coverage.

These strategies, as well as the \$62 million of new spending, are discussed in more detail in section 5 of this document.

| SENATE BUDGET SOLUTION TO THE HEALTH SERVICES ACCOUNT DEFICIT | |
|--|----------------|
| (Dollars in Millions) | |
| "Core Account" Deficit | (\$565) |
| I-773 Amendment | 395 |
| Basic Health Plan Reductions | |
| Limit Admissions through 12/03 | 20 |
| Restructure Program 1/04 | 155 |
| Children's Medicaid Reductions | |
| Charge Co-Premiums | 51 |
| Lower Eligibility to 175% of Poverty | 40 |
| Limit Managed Care Rate Growth | 17 |
| Verify Eligibility | 14 |
| Other Reductions | |
| Disabled Worker Medicaid | 3 |
| Hospital Reporting Subsidy | 1 |
| New Spending | |
| Hospital Grants | (55) |
| Clinic Pre-Natal Grants | (5) |
| Senior Drug Assistance | (2) |
| Transfer to the General Fund | (50) |
| Ending Fund Balance | \$19 |

2003-05 General Fund-State Balance Sheet

(Dollars in Millions)

RESOURCES

| | |
|----------------------------------|-------------------|
| Beginning Fund Balance | \$280.2 |
| March 2002 Revenue Forecast | \$22,451.5 |
| Reduce I-728 Diversion | 188.2 |
| Tax Reduction Measures | (116.4) |
| Revenue Increase Measures | 91.6 |
| Budget Driven Revenue | 6.8 |
| Transfers to the General Fund | 157.5 |
| Total Resources Available | \$23,059.4 |

SPENDING LIMIT AND APPROPRIATION

| | |
|--|-------------------|
| 2003-05 Appropriation | \$22,800.4 |
| Other Appropriations | <u>7.0</u> |
| Total 2003-05 Appropriations | \$22,807.4 |
| 2003-05 Original Spending Limit | \$23,820.8 |
| Adjustments to Limit | <u>49.4</u> |
| 2003-05 Spending Limit | \$23,870.3 |

UNRESTRICTED ENDING BALANCE

| | |
|------------------------------------|----------------|
| Unrestricted Ending Balance | \$252.0 |
|------------------------------------|----------------|

Transfers to the General Fund

(Dollars in Thousands)

| Fund Name | 2003-05 |
|--------------------------------------|------------------|
| Emergency Reserve Transfer | \$57,046 |
| Health Services Account | 50,000 |
| Disputed Funds Account | 14,000 |
| State Convention & Trade Center | 10,000 |
| State Treasurer's Service Account | 10,000 |
| Electrical License Account | 7,000 |
| Financial Service Regulation Account | 1,632 |
| Public Service Revolving Account | 1,600 |
| Dept of Retirement Systems Expense | 1,500 |
| Gambling Revolving Account | 1,500 |
| Insurance Commisioner's Regulatory | 1,500 |
| Industrial Insurance Premium Refund | 577 |
| Pressure Systems Safety Account | 500 |
| Municipal Sale/Use Tax Equalization | 374 |
| Asbestos Account | 200 |
| County Sale/Use Tax Equalization | 74 |
| TOTAL | \$157,503 |

Appropriations in Other Legislation

(General Fund-State, Dollars in Thousands)

| | | |
|---------|----------------------------|----------------|
| SB 5990 | Supervision of Offenders | \$7,000 |
| SB 5011 | Promoting Wildlife Viewing | 45 |
| | TOTAL | \$7,045 |

Expenditure Limit Adjustments

(Dollars in Thousands)

| | 2004 | 2005 | 2003-05 |
|-------------------------------------|-------------------|-------------------|-------------------|
| Beginning Expenditure Limit | \$11,724 | \$12,097 | \$23,821 |
| <u>Program Cost Shifts</u> | | | |
| Preserve Youth Programs w/PSEA \$ | (\$11,500) | (\$11,866) | (\$23,366) |
| Construction of Affordable Housing | (496) | (512) | (1,008) |
| Developmentally Disabled Endow Fund | (236) | (244) | (480) |
| Facility Operations & Maintenance | (281) | (290) | (571) |
| Military Records Management | (143) | (148) | (291) |
| Provide Shelter to the Homeless | (324) | (334) | (658) |
| Real Property Management | (67) | (69) | (136) |
| Fund Becca with PSEA | (3,566) | (3,680) | (7,246) |
| Program Transfers | 493 | 509 | 1,002 |
| 401 Cert: Shift to WQA | (80) | (83) | (163) |
| Eliminate Warm Water Assessment | (275) | (284) | (559) |
| Fire Control: Fund Shift to FFPA | (1,000) | (1,032) | (2,032) |
| Fund Shift to FFPA | (55) | (57) | (112) |
| Fund Shift to NRCA Stewardship | (24) | (25) | (49) |
| Spartina Control: Shift to ALEA | (91) | (94) | (185) |
| Suppression: Shift to Disaster Acct | (6,200) | (6,397) | (12,597) |
| Summer Institutes | (480) | (495) | (975) |
| Investigative Assist: Drug Enforce | (2,253) | (2,325) | (4,578) |
| Program Transfers | (825) | (851) | (1,676) |
| Program Cost Subtotal | (\$27,403) | (\$28,275) | (\$55,678) |
| <u>Money Transfers</u> | | | |
| Health Service Account Transfer | - | 50,000 | 50,000 |
| Other FY 2004 Transfers | 27,131 | 27,995 | 55,126 |
| Money Transfer Subtotal | \$27,131 | \$77,995 | \$105,126 |
| Total Adjustments | (\$272) | \$49,719 | \$49,447 |
| Ending Spending Limit | \$11,724 | \$12,147 | \$23,870 |

FUNCTIONAL AREA HIGHLIGHTS

STATEWIDE CHANGES

EFFICIENCY REDUCTIONS

1,865 FTES, \$155.3 MILLION GENERAL FUND STATE SAVINGS, \$155.1 MILLION OTHER FUND SAVINGS.

All state agencies are required to become more efficient, regardless of the agencies funding source. Savings from across state government are applied to the state budget problem.

Several types of reductions are made:

- Staff reductions and operating efficiencies are taken in all agencies with 40 FTEs or more. State institutions including prisons, juvenile rehabilitation centers, the state mental hospitals, and the residential habilitation centers are exempted. The Senate budget adopted savings proposed in the Governor's budget for cabinet agencies and applied similar reductions to all other agencies.
- \$22.5 million funding for the cost of inflation for goods and services are eliminated.
- Personal service contracts, travel and equipment purchases are reduced by 10 percent.
- Funding for legislative liaisons is eliminated. Each separately elected official is allowed to have one legislative liaison.

Details on these changes are found in Appendices 1, 2, and 3.

EMPLOYEE COMPENSATION

STATE EMPLOYEE, RETIREE AND K-12 HEALTH BENEFITS — \$138.7 MILLION GENERAL FUND — STATE INCREASE, \$71 MILLION OTHER FUNDS.

Premiums for state and higher education employee health insurance benefits are projected to increase by 15 percent per year in 2003-05. The state's cost of this increase is partially offset by: (1) increasing office visit co-pays from \$10 to \$15; and (2) requiring employees to pay an average of 20 percent of the cost of the benefit, compared to 14 percent this calendar year.

At the 20 percent employee share, the state will pay an average of \$508 per month for the average employees individual and family health benefit coverage in 2003-05, compared to an average of \$448 this year. The average employee will pay \$127 per month, compared to an average of \$72 per month now. The 20 percent share is comparable to the average paid by all employees nationwide for their health benefit coverage in 2002. The K-12 allocation for monthly employer contribution rates is increased from \$457.07 in the 2002-03 school year to \$506.80 in the 2003-05 biennium, consistent with the percentage increases in state employer contribution rates per employee.

PROJECTED UNIT CREDIT METHOD ACTUARIAL FUNDING — \$101 MILLION GENERAL FUND-STATE SAVINGS, \$14 MILLION OTHER FUND SAVINGS

As a result of the adoption of the projected unit credit (PUC) funding method for Plans 2 and 3 of the Public Employees', Teachers', and School Employees' Retirement Systems, contribution rates for these plans are reduced for the 2003-05 biennium. Employer rates will be reduced from 2.05 percent to 1.21 percent in PERS, from 2.22 percent to 0.80 percent in TRS, and from 1.74 percent to 1.16 percent in SERS. Employee rates will be reduced from 1.41 percent to 0.54 percent in PERS, from 1.50 percent to 0.00 percent in TRS, and from 1.10 percent to 0.49 percent in SERS.

PUBLIC SCHOOLS

INCREASES

BEGINNING TEACHER SALARY INCREASE — \$29.9 MILLION GENERAL FUND-STATE, \$94,000 GENERAL FUND-FEDERAL

The state uses a salary schedule to allocate funds to school districts for certificated instructional staff salaries. This schedule provides increments for additional experience and education. For the 2002-03 school year, the state-funded annual salary for a beginning teacher is \$28,300. In the 2003-04 school year, funding is provided to increase beginning teachers and second year teacher salaries by an average of 3 percent, 2.5 percent for third year teachers, 1.5 percent for fourth year teachers, 1 percent for fifth year teachers, and 0.5 percent for sixth and seventh year teachers. In the 2004-05 school year, additional salary increases of the same percentages will be provided. An estimated 32 percent of the teachers will receive salary increases as a result of these salary schedule adjustments. By the second year of the biennium, a teacher with a BA in their first year of teaching will be making \$30,023.

CLASSIFIED STAFF SALARY INCREASE — \$17.7 MILLION GENERAL FUND-STATE, \$48,000 GENERAL FUND-FEDERAL

The budget provides funding for a salary increase for classified school employees. The amount is calculated based on providing a 1 percent increase for the 2003-04 school year and an additional 1 percent increase for the 2004-05 school year. In terms of dollars, this equates to providing approximately \$280 in the 2003-04 school year and \$560 in the 2004-05 school year to every state-funded classified FTE staff.

READINESS TO LEARN — \$7.2 MILLION GENERAL FUND-STATE *MAINTAINED AT CURRENT LEVEL*

Funding is maintained for the Readiness-to-Learn program. The program is a competitive grant program that funds collaborations among schools and community agencies to link education and human service providers together to support school attendance.

CHARTER SCHOOLS — \$1.7 MILLION GENERAL FUND-STATE

Funding is provided for the implementation of Substitute Senate Bill 5012 (charter schools), which provides for the establishment of a limited number of charter schools. Most of the fiscal impact comes from an anticipated increase in funded enrollment due to home-schooled and students currently in private schools enrolling in public charter schools.

REDUCTIONS

INITIATIVE 732 — \$473 MILLION GENERAL FUND-STATE SAVINGS, \$580,000 GENERAL FUND-FEDERAL SAVINGS (\$17 MILLION ADDITIONAL GENERAL FUND-STATE SAVINGS IN THE HIGHER EDUCATION BUDGET)

Initiative 732, approved by voters in November 2000, requires an annual cost-of-living increase (COLA) for school employees and certain community and technical college staff based on the Seattle Consumer Price Index (CPI) for the prior calendar year. These cost-of-

living increases are estimated at 2.0 percent for the 2003-04 school year and 1.9 percent for the 2004-05 school year. Legislation is proposed to remove the annual COLA for the 2003-05 biennium. This saves approximately \$190.4 million for state-funded K-12 staff. Additionally, the legislation eliminates the language of I-732 which directed the state to provide funding for all staff of the school district rather than just those included in state formula staff allocations. Not including state funding for cost-of-living increases for K-12 staff funded from federal and local levies for the 2001-03 biennium, as well as a new cost-of-living increase during the 2003-05 biennium, saves an additional \$283 million.

INITIATIVE 728 — \$188.2 MILLION GENERAL FUND-STATE REVENUE INCREASE

The Student Achievement Fund was authorized by voter approval of Initiative 728 in November 2000. Districts use funds to lower class sizes by hiring more teachers, create extended learning opportunities for students, provide professional development for educators, and provide early childhood programs. Under Initiative 728, Student Achievement Funds to school districts are scheduled to increase in the 2004-05 school year through changes to property tax transfers into the account. These changes would increase the school district allocation from \$220 per FTE student to \$450 per FTE student. Legislation is proposed to lower the level of state property tax transfer into the Student Achievement Fund in the 2004-05 school year to \$254 per FTE student. This change lowers the General Fund-State revenue transfers to the Student Achievement Fund by \$188.2 million.

FLEXIBLE EDUCATION FUNDS — \$41.4 MILLION GENERAL STATE-STATE SAVINGS

The Senate budget eliminates the flexible education block grant funding to school districts. In the 2002-03 school year, the funds were provided at a rate of \$21.55 per student, based on school districts' prior year FTE student enrollment and were designed to supplement basic education.

BETTER SCHOOLS CLASS SIZE ENHANCEMENT — \$31.8 MILLION GENERAL FUND-STATE SAVINGS

Beginning with the 2003-04 school year, the Better Schools K-4 staffing ratio enhancement is eliminated. The enhancement provides 0.8 certificated instructional staff per 1,000 students and is in addition to basic education staffing ratios.

LEVY EQUALIZATION — \$17.3 MILLION GENERAL FUND-STATE SAVINGS

For calendar years 2004 and 2005, the state local effort assistance (levy equalization) allocations are reduced by 6.3 percent. Because the 2003-05 biennium is comprised of three calendar years, these changes result in a 5 percent reduction of levy equalization funding for the biennium.

INTEGRATING FEDERAL FUNDS — \$14.4 MILLION GENERAL FUND-STATE SAVINGS, \$40 MILLION GENERAL FUND-FEDERAL

Federal funds to Washington for special education will increase by over \$20.0 million in the 2003-04 school year and an additional \$20.0 million in the 2004-05 school year. The budget incorporates a portion of the federal funds to pay for some of the increased costs of the special education program.

TRANSPORTATION BUS REPLACEMENT — \$10.7 MILLION GENERAL FUND-STATE SAVINGS

Provisions included in the Senate budget require each school bus receiving replacement funding to have been competitively bid based on the lowest solicited price quotes from bus dealers for school buses meeting state and local standards. As a result of these changes, it assumed that state depreciation payments would be reduced by \$10.7 million in the 2003-05 biennium.

OTHER NON-BASIC EDUCATION REDUCTIONS — \$19.8 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget makes a variety of reductions in non-basic education programs. Many of the reductions focus on reducing administrative costs or eliminating lower priority programs or activities. Some examples include: assumed administrative efficiencies in the Office of Superintendent of Public Instruction and Educational Service Districts; policy changes to the Washington Assessment of Student Learning; reducing the amount of enrollment eligible for funding in the highly capable program from 2 percent to 1.75 percent; lowering the per individual amounts for those involved in the alternative routes to certification program; and reducing state funding for various K-12 training programs.

Senate Budget for Public Schools
(GF-S & Student Achievement Funds in Thousands)

| | Amount |
|---|-------------------------|
| 2001-03 Spending Level (Before '03 Supp) | \$10,282,308 |
| <i>Maintenance Level Changes</i> | 679,416 |
| Total Policy Changes: | |
| Health Benefit Rate Increase | 82,967 |
| Beginning Teacher Salary Increase | 29,937 |
| Classified Staff Salary Increase | 17,683 |
| Charter Schools | 1,646 |
| I-732 Cost of Living Increases* | (190,432) |
| I-728 Student Achievement Fund | (188,168) |
| Pension Rate Change | (75,845) |
| State Flexible Education Funds | (41,369) |
| Better Schools Enhancement | (31,783) |
| Levy Equalization Changes | (17,255) |
| Integrating Federal Funds | (14,432) |
| School Bus Depreciation Changes | (10,700) |
| Educational Service Districts | (3,030) |
| Staff Reductions & Efficiencies | (2,998) |
| Alternative Certification Routes | (2,314) |
| WASL - Changes Mandatory Testing | (2,078) |
| Highly Capable Student Education | (1,458) |
| Pacific Science Center | (1,224) |
| LASER - Science Education | (1,080) |
| Summer Institutes | (960) |
| Leadership Internships/Assistance | (626) |
| Paraprofessional Training | (548) |
| Teacher Training Coord (ESDs) | (486) |
| Student Teacher Centers (ESDs) | (486) |
| Anti-Bullying/Harassment Training | (486) |
| Sexual Abstinence Program | (388) |
| Civil Liberties Education | (292) |
| World War II Oral History Project | (292) |
| School Safety Training | (200) |
| Odyssey of the Mind | (180) |
| General Inflation | (165) |
| Employee/Internal Svc Cost Adjust | (90) |
| Cispus-Environmental Learning | (62) |
| Total Policy Changes (Net) | (\$457,194) |
| Total 2003-05 Budget | \$10,504,530 |
| <i>Dollar Increase from 2001-03</i> | 222,222 |
| <i>Percentage Increase 2001-03</i> | 2.2% |

* The amounts depicted as Initiative 732 savings reflect only the costs associated with providing a new cost-of-living increase to state funded K-12 staff in the 2003-05 biennium. Not including state funding for cost-of-living increases for K-12 staff funded from federal and local levies for the 2001-03 biennium as well as a new cost-of-living increase during the 2003-05 biennium saves an additional \$282.6 million. In addition to the savings amount depicted in this item, an additional \$16.8 million is saved in the higher education section of the budget.

HIGHER EDUCATION

NEW ENROLLMENTS

HIGH –DEMAND/COST PROGRAMS — \$20.1 MILLION GENERAL FUND-STATE INCREASE

The Senate affirms the Governor's recommendation and proposes to create not one but two lump sum appropriations, pooling new enrollment support and distributing that on a competitive basis to colleges and universities. The objective is to fund access and production of specific graduates who are in short supply from an employment-demand perspective, yet also pay for offerings that from an educator's perspective cost more than average to deliver and as such have a dampening effect on access for interested students. Under the Senate proposed budget, the State Board for Community & Technical Colleges receives \$5 million and would distribute for **250 full-time equivalent (FTE) students** starting Fall of 2003. The Higher Education Coordinating Board receives \$15.1 million and would distribute for **1,050 FTE students** starting Fall of 2004.

JOB SKILLS PROGRAM — \$4.1 MILLION ADMINISTRATIVE CONTINGENCY ACCOUNT INCREASE; \$1.1 MILLION GENERAL FUND-STATE SAVINGS

The Senate proposes to triple its investment to expand a grant program for job training that is matched dollar for dollar by employers. Administered by the two-year college board, a firm, industry association or hospital district (for example) could elect to partner with a public college, university, vocational arts center, or proprietary career school to address specific workplace shortcomings and ask the state to enlist its money to help retrain employees whose responsibilities are increasing or duties changing. Grants also go to firms planning to expand manufacturing or service operations and intend to hire new employees (some of whom might be recently "dislocated").

ENGINEERING AND SCIENCE INSTITUTE AND REGIONAL PARTNERSHIP — \$2.7 MILLION GENERAL FUND-STATE INCREASE

The Senate provides funds for allocation to Clark and Lower Columbia Colleges to prepare a total of **168 FTE associate degree students** for direct transfer into baccalaureate programs in applied science and engineering at Washington State University-Vancouver. The University receives funds in the Senate proposed budget to support the Institute and the regional partnership formed to leverage economic development opportunities and interests of employers and industries based in southwest Washington.

CWU ENROLLMENT RECOVERY— \$2.1 MILLION GENERAL FUND-STATE INCREASE

The Senate provides funds to Central Washington University (CWU) in consideration of base support lost a few years back when its student population dipped below budget authorized levels. Partial restoration at this level can support 134 FTE more undergraduates starting next Fall.

WINE INDUSTRY EDUCATIONAL PARTNERSHIP — \$1 MILLION GENERAL FUND-STATE; \$150,000 CAPITAL PROJECT FUND INCREASE

The Senate provides bridge funding so that Washington State University (WSU) can proceed without delay to make new faculty appointments, and permanent funding to dedicate field Extension staff services to support the State's grape growing (viticulture) and wine making

(enology) industry. Three regional education partners: Walla Walla, Yakima Valley and Wenatchee community colleges also receive funds in the Senate proposed budget to purchase equipment and supplies they need to adapt or expand burgeoning associate degree programs that enable residents to pursue careers without having to go out of state to find specialized training. Capital funds are made available to renovate a wet lab for related research at the WSU TriCities branch campus.

VETERINARY SCHOOL — \$979,000 GENERAL FUND-STATE; \$1.3 MILLION TOTAL INCREASE (TUITION)

The Senate provides funds to increase the size of entering classes for veterinary medicine at Washington State University in Pullman. This money will ease the transition for this School and partially replace the loss of support fees paid by Oregon State University given the impending departure of 63 of its own doctoral students by the Fall of 2005.

FINANCIAL AID

STATE NEED GRANT — \$32.3 MILLION GENERAL FUND-STATE INCREASE

The Senate proposed budget provides support for newly funded enrollment and in order to hold qualifying State Need Grant recipients harmless from higher undergraduate tuition charges expected next biennium.

WASHINGTON SCHOLARS AND VOCATIONAL EXCELLENCE AWARDS — \$1.9 MILLION GENERAL FUND-STATE INCREASE

The Senate proposed budget restores state merit and vocational excellence scholarships to full-tuition grants. The Higher Education Coordinating Board expects to support more recipients next biennium as increasingly those recognized by the State for their high school achievements are choosing to stay in Washington state for college, more so than was the experience last biennium.

COMPENSATION

INITIATIVE 732 COST-OF-LIVING ADJUSTMENT — \$16.8 MILLION GENERAL FUND-STATE REDUCTION

Initiative 732, approved by voters in 2000, requires an annual cost-of-living increase for school employees and certain community and technical college staff based on the Seattle Consumer Price Index (CPI) for the prior calendar year. These cost-of-living increases are estimated at 2.0 percent for the 2003-04 school year and 1.9 percent for the 2004-05 school year. Legislation is proposed to remove the annual cost-of-living requirement for the 2003-05 biennium saving \$16.8 million for state-funded two-year college staff.

RECRUITMENT & RETENTION — \$10 MILLION GENERAL FUND-STATE INCREASE

New money in the Senate proposed budget provides flexible resources enabling state four-year institutions to recruit and retain faculty and professional staff. Institutions may supplement this salary pool with tuition funds at their own discretion.

COMMUNITY COLLEGE FACULTY INCREMENTS — \$3.5 MILLION GENERAL FUND-STATE INCREASE

State funds and salary turnover savings authority would be combined to help community and technical colleges meet, in part, the increased expense of salary next biennium, cost pressure attributable to increments earned and awarded to full-time faculty this biennium.

PART-TIME FACULTY PAY — \$1.5 MILLION GENERAL FUND-STATE INCREASE

Resources would be provided under the Senate-proposed budget to address salary equity for part-time instructors employed by the state's 34 community and technical colleges.

TUITION

Governing boards will decide the appropriate level of tuition for most students, except resident undergraduates. This authority is delegated for the next six academic years under **ENGROSSED SUBSTITUTE SENATE BILL 5448**, leaving the decision about undergraduate rates to budget writers. The Senate budget proposes, therefore, to limit increases to 9 percent a year over rates charged undergraduates at that institution during the prior academic year.

An exception is made for undergraduates who accumulate more than 125 percent of the credit hours required to graduate. Pursuant to **ENGROSSED SECOND SUBSTITUTE SENATE BILL 5135**, students with excess credits would pay the full, non-subsidized rate designed to create incentives to not take classes beyond that required for the major. It is expected that this change will take pressure off enrollments that squeeze incoming freshman and upper classmen seeking to transfer from two-year colleges. More are expected in the years ahead.

The budget policy objective is to see all public-supported student progress efficiently towards graduation. Last year, more than 4,000 undergraduates received their diploma having reached or crossed the proposed credit threshold. Bringing tuition policy in line with financial aid policy for Washington State, this change is expected to yield revenue to support **1,648 FTE** more student enrollments than levels authorized and subsidized by the General Fund in the Senate's proposed biennial budget.

RESTRICT TUITION WAIVERS — \$16.6 MILLION GENERAL FUND-STATE REDUCTION; OFFSET BY TUITION OR LOCAL FUNDS

Insisting that college must, for budget reasons, become more selective in granting tuition relief, the Senate proposes to lower the aggregate, gross value of "waivers" backed by the General Fund during the 2003-05 biennium. The Senate budget exercises a financial lever that has existed on the "books" for tuition waivers since 1993. Today, public universities and colleges provide \$160 million a year worth of classes without collecting "full tuition" taking their cue from the Legislature who sets policy to identify which kinds of students should receive special dispensation when it comes to tuition. Governing boards decide for whom and how much operating fee shall be waived but these "discounts" would be backed to a greater degree with local funds rather than state funds next biennium.

ADULT BASIC EDUCATION — \$7 MILLION GENERAL FUND-STATE REDUCTION; OFFSET BY TUITION, OR LOCAL FUNDS

The Senate-proposed budget reduces general funds that can be replaced by charging \$5.00 a credit hour for adult basic education. Adult basic education encompasses English-as-a-

Second Language, G.E.D. preparation, and other pre-college or remedial classes delivered or hosted for residents by the state's two-year colleges.

REDUCTIONS

UNIVERSITY AND COLLEGE OPERATING COSTS — \$122.3 MILLION GENERAL FUND-STATE REDUCTION; OFFSET BY TUITION

The Senate budget assumes tuition goes up by 9 percent per academic year. Contrasting the Governor's budget, the Senate assumes 88 percent rather than the full 9-percent "authority" is available to pay for current and new education spending. About \$17 million, or 1- percent revenue "capacity" remains, and if this tuition is levied, that which is collected from enrolled students would stay with the school to support its academic mission. This difference is important as it could raise the State's "instructional" capacity by **1,215 FTE** enrollments over the 2003-05 biennium; resources needed to help meet college access demands given the increasing size of high school graduating classes in Washington.

FACILITY PRESERVATION — \$52.7 MILLION GENERAL FUND-STATE REPLACED BY CAPITAL FUNDS WITH A \$10.2 MILLION GENERAL FUND-STATE INCREASE

Routine and preventive inspections, mechanical adjustments and minor work to replace or repair building systems, surfaces or materials has heretofore been apportioned by trustees of the state's colleges and universities out of the appropriations granted by lawmakers for general operations. Responding to findings and recommendations of the Joint Legislative Audit & Review Committee, the Senate budgets (as proposed) will sharpen the focus on building preservation needs for higher education. Facility operating funds are enhanced with general funds and a portion of building maintenance expense will be met with capital funds instead of state general funds starting with the 2003-05 biennium. **SENATE BILL 6049** creates a new treasury account for this purpose and will receive by transfer \$52.7 million--a portion of what colleges and universities now spend to preserve state buildings. Given the advanced age of college facilities, the Senate seeks greater assurance that investments will optimize the useful life of facilities that are presently in "superior" to "good" condition so that for lack of attention or resources, the State does not inadvertently compound today's \$1.3 billion preservation backlog for higher education moving forward in time.

"NON-INSTRUCTIONAL" PROGRAM REDUCTIONS — \$44.6 MILLION GENERAL FUND-STATE SAVINGS

In order to attain administrative efficiencies, base support for programs other than "Instruction, Research and Plant" are reduced for FTE staff years, salaries, benefits and other operating costs. As the Senate does not assume colleges and universities can sustain actual enrollment levels for long beyond that supported by the State budget, it is important to footnote that this proposal does not assume this cut can be offset by tuition or local funds. Schools are encouraged to take necessary steps to bring student populations back in line with budgeted levels to avoid over-reaching and compromising what the state can reasonably provide by way of support at this time.

Senate Budget for Higher Education

(Total Appropriated Funds in Thousands)

Policy Changes:

| | |
|---|--------------------|
| State Need Grant Increase | \$32,328 |
| Health Benefits & FICA Savings | 21,676 |
| High Demand Enrollment Pools | 20,160 |
| Facility Maintenance and Operations | 10,551 |
| Recruitment and Retention | 10,000 |
| Full-Time Faculty Compensation | 3,500 |
| Self-Insurance Premiums | 3,229 |
| Job Skills Program | 3,015 |
| Revolving Funds | 2,856 |
| CWU Enrollment Stabilization & Recovery | 2,100 |
| Part-Time Faculty Compensation | 1,500 |
| Washington Scholars | 1,400 |
| Vancouver Engineering & Science Institute | 1,350 |
| Pipeline to BS-Engineer & Sci-Technology | 1,350 |
| Wine Industry Education Partnership | 1,184 |
| WSU Veterinary Student Enrollment | 979 |
| E2SSB 5135 Supports Enrollment | 579 |
| Wash. Award for Vocational Excellence | 533 |
| Pension Reduction Correction | 440 |
| Jefferson County Pilot Project | 350 |
| Alliance for Corporate Education | 250 |
| Senior Drug Assistance Study | 75 |
| Charter Schools Study | 50 |
| Juvenile Offender Sentencing Study | 26 |
| Standards for Release of Offenders Study | 24 |
| Labor Education & Research Center | (120) |
| HEC Board Reduction | (232) |
| Pension Unit Credit Method Change | (4,300) |
| Adult Basic Education | (7,066) |
| General Inflation | (7,670) |
| Restrict Tuition Waivers | (16,655) |
| Initiative 732 COLA | (16,791) |
| Reduction to "Non-Instruction" Programs | (44,848) |
| Building Maintenance to Capital | (52,750) |
| Reduction Offset by Tuition | (122,721) |
| Total Policy Changes (Net) | (\$153,648) |

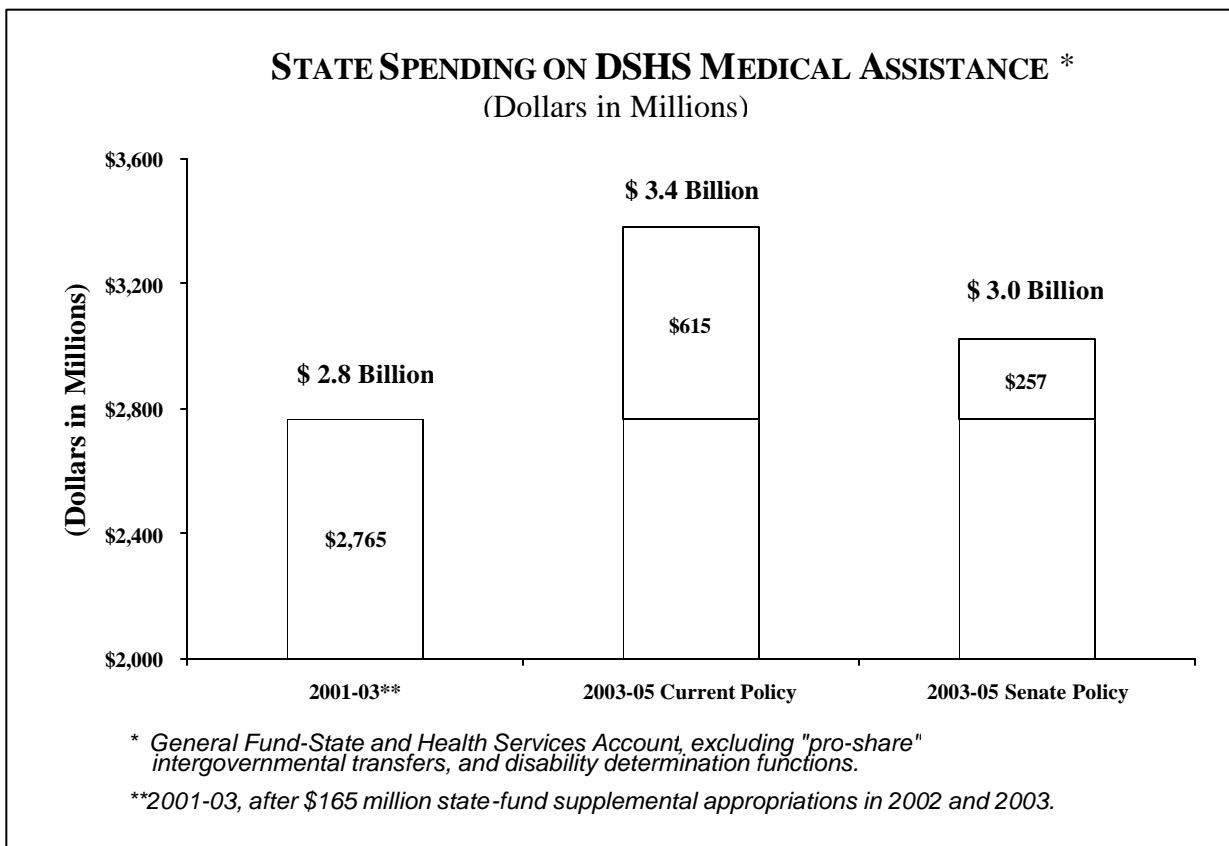
| | |
|-------------------------------|--------------------|
| Total 2003-05 Biennium | \$2,621,685 |
|-------------------------------|--------------------|

HEALTH CARE

REDUCING THE GROWTH IN THE MEDICAL ASSISTANCE PROGRAM

After K-12 education, the single largest function of state government is the Medical Assistance Program in the Department of Social and Health Services. Medical Assistance will pay for medical, dental, and vision care for an average of 870,000 low-income Washingtonians each month this year. These include 1 of every 3 children in the state; 4 of every 10 pregnant women; 1 of every 10 senior citizens; and 1 of every 16 other adults.

As illustrated below, such coverage will cost approximately \$2.8 billion during the current 2001-03 biennium, paid out of the state general fund and state Health Services Account. A roughly equal amount will be expended from federal Medicaid matching funds.



If there were no changes in current service eligibility and coverage policies, the state cost of the Medical Assistance program would be at least \$3.4 billion next biennium. That is a state-fund increase of \$615 million, or 22 percent, from the final 2001-03 spending level. (It is an increase of \$780 million from the level originally budgeted for 2001-03, but state Medical Assistance appropriations have been increased by \$165 million over the course of the 2001-03 biennium in response to unanticipated increases in caseloads and service costs.) By way of context, the \$615 million increase in projected state Medical Assistance expenditures exceeds the entire amount of state general fund support provided during the current biennium for operation of Eastern, Western, and Washington State universities.

The Senate budget proposes a number of changes in eligibility practices and service coverage policies in order to reduce the projected growth in Medical Assistance expenditures. As illustrated below, these changes would reduce the projected growth in state expenditures by \$358 million. After these changes, rather than growing by 22 percent next biennium, state expenditures on Medical Assistance will grow by \$257 million, or 9 percent. These proposed savings and efficiencies are summarized below.

| 2003-05 Increases in State Funding For DSHS Medical Assistance (Dollars in Millions) | | |
|--|----------------------|-----------------------|
| | State Funding | Percent Change |
| Current Policy | \$615 | 22.2% |
| Senate Policy | \$257 | 9.3% |
| Change | (\$358) | -12.9% |

REDUCTIONS

RESTRUCTURE MEDICALLY INDIGENT PROGRAM— \$110.6 MILLION GENERAL FUND-STATE SAVINGS, \$23.1 MILLION HEALTH SERVICES ACCOUNT INCREASE, \$23.1 MILLION GENERAL FUND-FEDERAL INCREASE

The medically indigent program, which has provided partial compensation to hospitals for care they provide to low-income uninsured persons, will no longer operate as an open-ended state-funded entitlement program. It will instead be replaced by two lidded grant programs, one totaling \$3.1 million per year specifically reserved for rural hospitals, and the other totaling \$20 million per year for all other hospitals. The funding level for the rural program is sufficient to protect these particularly vulnerable hospitals from financial impact. Under both programs, hospitals that bear a larger share of the total medically indigent cost burden and those which are relatively less profitable, receive a relatively larger share of the available resources.

PREMIUMS FOR CHILDREN’S MEDICAL COVERAGE — \$50.6 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$54.5 MILLION GENERAL FUND-FEDERAL SAVINGS

Beginning in January 2004, families with incomes over the federal poverty level will be required to pay monthly premiums for their child's medical, dental, and vision coverage. Premiums will average about \$25 per child per month for families with income between 100-150 percent of poverty (\$1,300 - \$1,900 per month for a family of three); and \$35 per child per month for families with incomes up to 175 percent of poverty (\$1,900 - \$2,300 per month for a family of three). In order to assure that no families are required to pay more than 5 percent of income – the maximum consistent with federal guidelines – premiums will be capped at three children per household.

PRE-NATAL COVERAGE FOR ILLEGAL IMMIGRANTS — \$46.5 MILLION GENERAL FUND-STATE SAVINGS; \$5.0 MILLION HEALTH SERVICES ACCOUNT INCREASE

Each month, over 6,500 women who are not in the country legally receive state-funded pre-natal care through Washington's medical assistance program, at a cost to state taxpayers of over \$23 million per year. Beginning July 1, Washington will join the 37 other states that do not provide such coverage, which is not an allowable service under the federal Medicaid program. Illegal immigrants will continue to be eligible for Medicaid coverage of emergency services and deliveries, and \$5.0 million of increased grant funding is provided for community clinics to assist with their pre-natal care.

DISCONTINUE MEDICAL COVERAGE FOR CHILDREN OVER 175 PERCENT OF POVERTY — \$40 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$5.8 MILLION GENERAL FUND-STATE SAVINGS, \$60 MILLION GENERAL FUND-FEDERAL SAVINGS

Effective July 2003, Washington will no longer cover children whose family incomes exceed 175 percent of the federal poverty level under Medicaid or the State Children's Health Insurance (SCHIP) Program. As a result, Washington will pay for coverage for an average of about 540,000 children each month during the 2003-05 biennium, about 40,000 fewer than would be covered if this change were not made.

LIMIT MANAGED CARE RATE INCREASES — \$15.5 MILLION GENERAL FUND-STATE SAVINGS, \$17.3 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$32.5 MILLION GENERAL FUND-FEDERAL SAVINGS

Funding is provided to increase managed care payment rates by an average of 4.7 percent per calendar year, rather than by the average of 8 to 9 percent per year by which they have increased in recent years

INCREASED ELIGIBILITY VERIFICATION — \$9.9 MILLION GENERAL FUND-STATE SAVINGS, \$13.8 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$23.9 MILLION GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is to increase efforts to assure that recipients of publicly funded medical assistance meet the applicable income, residency, and other eligibility requirements. These changes are expected to result in approximately 4,800 (1.9 percent) fewer persons qualifying for publicly-funded medical assistance in Fiscal Year 2004, and in approximately 19,000 (3.4 percent) fewer receiving such assistance in Fiscal Year 2005.

CONSOLIDATED DRUG PURCHASING — \$25.2 MILLION GENERAL FUND-STATE SAVINGS, \$0.4 MILLION HEALTH SERVICES ACCOUNT INCREASE, \$32.7 MILLION MEDICAL AID ACCOUNT SAVINGS, \$21.9 MILLION GENERAL FUND-FEDERAL SAVINGS

As proposed by the Governor, the Medical Assistance Administration, the Health Care Authority, and the Department of Labor and Industries will consolidate their drug purchasing by jointly developing a list of preferred drugs in each of at least sixteen therapeutic classes. This will reduce the rate of growth in state drug expenditures by prioritizing purchase of the less costly safe and effective brand, and by creating a financial incentive for manufacturers of more expensive brands to provide price discounts. Drugs not on the preferred list are expected to be authorized approximately one-third of the time, in order to assure recipients have access to the drugs best-suited to their particular medical condition.

REDUCE ADULT DENTAL COVERAGE — \$13.0 MILLION GENERAL FUND-STATE SAVINGS, \$12.2 MILLION GENERAL FUND-FEDERAL SAVINGS

As an alternative to the Governor's proposal to eliminate non-emergency dental services for adults, the Senate budget provides that the scope of such coverage is to be reduced by approximately one-third. The department is directed to work with dental providers and recipient representatives to select the highest priority populations and procedures to include in the reduced benefit package. Examples might include continuation of full-scope dental coverage for persons eligible for federal financial participation because of their nursing home residency or participation in community-based waiver programs; support for programs providing specialized care for persons with disabilities; dentures for those in need; and preventative coverage.

DISCONTINUE MEDICAID BUY-IN COVERAGE — \$2.5 MILLION HEALTH SERVICES ACCOUNT SAVINGS, \$2.5 MILLION GENERAL FUND – FEDERAL SAVINGS

In light of the substantial deficit in the Health Services Account, the new "ticket to work" program, which allows disabled persons with incomes up to approximately 450 percent of the federal poverty to purchase, subsidized Medicaid coverage is discontinued. Approximately 200 persons are enrolled in the program at this time. The large majority will qualify for coverage, at a somewhat higher cost to the enrollee, under the state's "medically needy" Medicaid program.

REQUIRE CO-PAYS FOR MEDICAL EQUIPMENT AND OPTICAL SERVICES — \$0.9 MILLION GENERAL FUND-STATE SAVINGS, \$0.9 MILLION GENERAL FUND-FEDERAL SAVINGS

As an alternative to the proposal to eliminate adult vision and hearing services, the Senate budget requires recipients to pay a nominal part of the cost for medical supplies, equipment, and optical services. The co-pay will be \$2 for items and services costing \$25 - \$50, and \$3 for those costing more than \$50. These are the maximum co-pays allowed by federal Medicaid rules.

BASIC HEALTH PLAN

As discussed in the opening sections of this summary document, the Senate budget addresses the substantial deficit in the Health Services Account by amending Initiative 773, so that \$395 million of tobacco tax revenues raised by the initiative may be used to support existing Basic Health Plan and children's Medicaid enrollment levels; and by limiting new admissions to the Basic Health Plan through June 2003. The Senate budget makes the following additional changes to resolve the deficit in 2003-05.

LIMIT NEW BHP ENROLLMENTS THROUGH DECEMBER 2003 — \$10.4 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The Senate budget directs the agency to continue limiting admissions to the program through the end of calendar year 2003. All persons currently enrolled -- including childless adults -- will continue to be covered, but new enrollments will be limited to the following groups: women who have temporarily left the program due to a Medicaid-covered pregnancy; children not eligible for Medicaid due to their immigration status; enrollees who become current on their account after losing a month's coverage due to late payment; and new dependents of existing enrollees. Under this policy, subsidized enrollments are expected to decrease to approximately 105,000 by December 2003.

RESTRUCTURE THE BASIC HEALTH PLAN — \$154.5 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The Senate budget provides sufficient funding for approximately 93,000 persons per month to receive state-subsidized health insurance coverage through the Basic Health Plan during January 2004 - June 2005. As provided in Substitute Senate Bill 5807, the Basic Health Plan is to be restructured, in order to afford coverage for as many low-income persons as possible. The restructured plan is budgeted to include a re-designed benefit package comparable to the one proposed by the Governor in February (\$200 deductibles for persons under 100 percent of poverty, \$500 deductibles for those over the poverty level, 20 percent co-insurance, and financial incentives for access to prevention services). Other key changes include elimination of subsidies for persons with incomes in excess of 175 percent of the federal poverty level; and a \$30-\$60 annual increase, depending upon income, in the minimum premium charged to enrollees whose incomes are below 125 percent of the poverty level. Childless adults will continue to be eligible for coverage.

PUBLIC HEALTH

INCREASES

AIDS PRESCRIPTION DRUG ASSISTANCE — \$4.8 MILLION GENERAL FUND-STATE INCREASE

The Department of Health pays for prescription medications, insurance premiums, and limited medical care for persons with HIV disease and incomes below 300 percent of poverty (about \$27,000 per year for a single person, and \$36,000 for a couple). Program expenditures are projected to grow at 15 percent per year in 2003-05. To partially offset these increased costs, without denying access to life-sustaining medications by lowering eligibility levels or establishing program waiting lists, the Senate budget anticipates that

recipient cost sharing is increased to the maximum allowed under the federal Ryan White CARE Act. Recipient cost-sharing would average 5-10 percent of family income, compared to 2-4 percent now, though the agency is authorized to develop alternative ways to accomplish the same level of cost control.

INTERNET-BASED DEATH CERTIFICATE SYSTEM — \$2.4 MILLION GENERAL FUND-STATE SAVINGS, \$7.1 MILLION GENERAL FUND-PRIVATE/LOCAL INCREASE

As provided in Substitute Senate Bill 5545, the fee for certified copies of birth, death, marriage, and divorce certificates is to be increased from \$13 to \$17. This is expected to generate approximately \$600,000 per year of additional revenue for local health departments, and \$2.9 million of additional revenue per year for the state Center for Vital Statistics. The Center for Vital Statistics will use approximately \$3.0 million of the additional revenue to develop and begin statewide implementation of an internet-based system, which will enable physicians, coroners, and funeral directors to prepare and retrieve death certificates electronically.

ADDITIONAL NEWBORN SCREENING TESTS — \$400,000 GENERAL FUND-STATE, \$1.9 MILLION GENERAL FUND-PRIVATE/LOCAL

As recommended by the State Board of Health, all newborns will be screened by the state public health laboratory for five additional disorders that can cause mental or motor retardation, blindness, hearing loss, physical abnormalities, and/or death if undetected. Washington is the only state which does not screen for one of the disorders, and among the roughly half which presently do not screen for the other four. Almost half of the testing cost will be borne by the state's Medical Assistance program, which pays for 43 percent of all births in the state. The balance will be paid by fees charged to private payers.

REDUCTIONS

FAMILY PLANNING GRANTS — \$6 MILLION GENERAL FUND-STATE SAVINGS

Under a Medicaid waiver implemented in July 2001, the federal government now pays 90 percent of the cost of providing free family planning services for any legal resident with family income below 200 percent of the poverty level. As a result, total state and federal funding for low-income family planning services increased by \$45 million (136 percent) during the 2001-03 biennium, and is expected to increase by another \$16 million (20 percent) in 2003-05 after accounting for this adjustment. In light of these substantial increases, state grant support for family planning clinics is reduced.

CHILD DEATH REVIEWS — \$1 MILLION GENERAL FUND-STATE SAVINGS

Since 1999, the state Department of Health has provided financial assistance for local health department staff to review the circumstances surrounding unexpected child deaths, and has collected, analyzed, and disseminated the result of the teams' findings. State funding for this activity is discontinued. Unusual circumstances will continue to be investigated by local health and law enforcement officials. Patterns and factors associated with avoidable deaths will likely continue to be analyzed and disseminated by private organizations, such as the Sudden Infant Death Syndrome (SIDS) Foundation.

DISCONTINUE HOSPITAL REPORTS SUBSIDY — \$1.1 MILLION HEALTH SERVICES ACCOUNT SAVINGS

The Comprehensive Hospital Accounting and Reporting System (CHARS) system has since its inception been funded by a statutory assessment on hospital revenues. During 1992-2000, this assessment averaged .033% of hospital revenues. During the 2000 legislative session, the system received a public subsidy for the first time, from the Health Services Account. Because that account is in deficit, the subsidy is eliminated. As a result, the assessment is expected to need to be increased to approximately .018% of hospital revenues, about 60 percent of the average rate charged during the 1990's.

HUMAN SERVICES

AGING AND DISABILITY SERVICES

INCREASES

FUNDING FOR THE CLOSURE OF FIRCREST SCHOOL — \$1.5 MILLION GENERAL FUND-STATE, \$1.5 MILLION GENERAL FUND-FEDERAL

As an alternative to cuts in employment services for persons with developmental disabilities, the Senate budget provides a one-time increase in funding to accomplish the closure of Fircrest School under ESB 5971. The closure will result in an estimated savings in the 2005-07 biennium of \$43 million (total funds) after paying for the added cost to serve Fircrest residents in other state institutions (RHCs) and in community settings for residents who choose community placements. The plan provides \$7.9 million (total funds) for the Fircrest closure and transition plan (partially offset with \$4.8 million savings at Fircrest) and an additional \$10 million in capital budget funding for added capacity at Rainier School, Yakima Valley School and Lakeland Village. The added capacity at Rainier School includes the construction of a new 60 bed skilled nursing facility. The eventual savings achieved by consolidating vacancies in the state institutions and by the disposal of surplus land are intended to support the needs of persons with developmental disabilities living with elderly parents, transitioning from high school to employment, and living with families who need respite care.

FUNDING FOR MEDICAID PERSONAL CARE CASELOAD INCREASE — \$9.3 MILLION GENERAL FUND-STATE, \$12 MILLION GENERAL FUND-FEDERAL – *MAINTENANCE LEVEL INCREASE*

The Senate budget provides funding for Medicaid Personal Care services to an average of 11,847 adults and children with developmental disabilities during the 2003-05 biennium. This is an increase of 16 percent in caseload from Fiscal Year 2003 to Fiscal Year 2005, and includes additional staff to manage the increased workload.

LONG-TERM CARE ENTITLEMENT GROWTH — \$42.1 MILLION GENERAL FUND-STATE, \$41.8 MILLION GENERAL FUND-FEDERAL — *MAINTENANCE LEVEL INCREASE*

If there were no changes to current program policies or operations, an average of 49,000 persons per month would receive publicly-funded care in nursing homes, community residential facilities, and their own homes during 2003-05, a 6.4 percent increase over the average of 46,000 persons per month who received such services during the 2001-03 funding period. The number of persons receiving publicly-funded nursing home care is expected to continue to decrease by approximately 225 persons per year (1.6 percent), while the number of persons receiving publicly-funded assistance in their own homes is projected to grow by over 5 percent (1,300 persons) per year.

NURSING HOME QUALITY MAINTENANCE — \$46.1 MILLION GENERAL FUND-STATE, \$46.1 MILLION GENERAL FUND-FEDERAL

To help maintain the quality of nursing home care in the state, Medicaid payment rates will be increased by 3.0 percent effective July 1, 2003. The cost of this rate increase will be covered by a fee of \$6.50 per patient day, which will be applied to most nursing home care delivered in the state. In accordance with Substitute Senate Bill 5341, the Department of Social and Health Services will seek a federal waiver to exempt facilities that would not benefit from the rate increase from the cost of the fee.

SENIOR AND DISABLED DRUG ASSISTANCE — \$1.9 MILLION HEALTH SERVICES ACCOUNT

In accordance with Substitute Senate Bill 5904, funding is provided to implement a variety of strategies to assist elderly and disabled state residents cope with the high cost of prescription drugs. These strategies include funding for a university-based “pharmacy connection” program which will link state residents to the manufacturer-sponsored drug discount program best suited to their particular situation; grants for Area Agencies on Aging to organize training programs that will help seniors learn to use prescription medications more safely and effectively; start-up funding for a purchasing pool that will enable moderate income persons who are disabled or aged 50 and older to benefit from the discount prices generated by the state’s purchasing power; and funding for a study of the potential costs and benefits of alternative designs for providing drug benefits under a federal Medicaid waiver.

REDUCTIONS

REDUCE FUNDING FOR THE ARC LAWSUIT — \$6.0 MILLION GENERAL FUND-STATE SAVINGS, \$6.0 MILLION GENERAL FUND-FEDERAL

The federal court did not accept the proposed settlement of the ARC lawsuit. The lawsuit sought increased funding for additional services for persons on the developmental disabilities Medicaid waiver and to increase the number of persons served by the waiver. The 2002 supplemental budget funded the proposed settlement at a level that carried forward into the 2003-05 biennium at a cost of \$26.8 million general fund-state. Funding that is not yet committed to enhanced services is eliminated.

REDUCE SPOUSAL RESOURCE LIMITS — \$7.1 MILLION GENERAL FUND-STATE SAVINGS, \$7.1 MILLION GENERAL FUND-FEDERAL SAVINGS

Under federal Medicaid rules, when a spouse applies for publicly funded long-term care in a nursing home or in the community, the other spouse is able to retain, at the state's discretion, between about \$18,000 and \$91,000 in savings or other liquid assets. Like approximately half the states, Washington presently sets the spousal resource limit at the federal maximum. Under the Senate budget, the liquid asset limit would be reduced to \$40,000 effective October 2003. Spouses of new applicants for nursing home and community-based care would need to "spend down" all savings over \$40,000 before the state will pay for their long-term care. In addition to the \$40,000, the spouse will continue to be able to retain the home, furnishings, an automobile, and income of up to about \$2,100 per month. As a result of this change, by the end of the 2003-05 biennium, approximately 500 persons per month are expected to cover more of the cost of their long-term care before qualifying for public assistance.

LIMIT “COPEES” ENROLLMENT GROWTH — \$7.9 MILLION GENERAL FUND-STATE SAVINGS, \$7.9 MILLION GENERAL FUND-FEDERAL SAVINGS

The Department of Social and Health Services is directed to limit growth in the number of persons receiving in-home and community residential care through the Community Options Program Entry System (COPEES) waiver program to 1.1 percent per year, which is the projected growth in the total state population aged 75 and older. This will allow an average of about 24,375 people to receive such services during the 2003-05 biennium. That is 1,000 more people than are receiving such services during the current year, but approximately 700 fewer than would be served if the program continued to grow without limits. To manage within these enrollment limits, the department may need to establish waiting lists for services, as is done in most other states. If waiting lists are established, the department is directed to prioritize access to service for persons with the greatest care needs, and who are at greatest risk of requiring nursing home or other out-of-home placement.

INCREASE LONG-TERM CARE ELIGIBILITY STANDARDS — \$5.3 MILLION GENERAL FUND-STATE SAVINGS, \$7.8 MILLION GENERAL FUND-FEDERAL SAVINGS

The amount of care which people must require before qualifying for publicly funded long-term care is to be increased. Persons who require only minimal assistance with three activities of daily living will no longer be eligible under the COPEES program, and those who require minimal assistance in only two areas will no longer be eligible for personal care. This is expected to result in an average of approximately 825 fewer persons receiving publicly funded assistance in their own homes. However, after the change, Washington will still have one of the eight most generous eligibility standards in the nation. Persons currently receiving care in community residential settings who do not meet the higher eligibility standard will continue to be served, without the benefit of federal matching funds, but no new applicants with such lower levels of care will be admitted to residential care.

ECONOMIC SERVICES

REDUCTION

GENERAL ASSISTANCE — UNEMPLOYABLE (GA-U) PROGRAM MODIFIED — \$19.9 MILLION GENERAL FUND-STATE SAVINGS

Under Second Substitute Senate Bill 6017, income and medical assistance provided under the GA-U program is limited to six months in any twenty-four consecutive months. This change will reduce the caseload by 3,360 in FY 2005, which is 40 percent of the projected caseload for GA-U. This does not affect recipients of general assistance who are applicants of federal Supplemental Security Income (SSI). In addition to the income assistance savings of \$19.9 million, this change will lower state requirements for medical assistance by \$20.7 million.

CHILDREN & FAMILIES

INCREASES

FUNDING FOR FOSTER CARE — \$14.5 MILLION GENERAL FUND-STATE, \$4.2 MILLION GENERAL FUND-FEDERAL — MAINTENANCE LEVEL INCREASE

The number of foster children in state supported care is projected to rise slightly from 8,183 in Fiscal Year 2002 to 8,202 in both years of the 2003-05 biennium. The additional funding for foster care provides for an increase in the average cost per month per foster child from \$1,443 in Fiscal Year 2002 to \$1,635 in Fiscal Year 2005.

FUNDING FOR INCREASED ADOPTIONS — \$7.8 MILLION GENERAL FUND-STATE, \$5.0 MILLION GENERAL FUND-FEDERAL — MAINTENANCE LEVEL INCREASE

The Senate budget increases funding to support the adoption of children out of foster care. The number of children in the Adoption Support program is projected to rise 27 percent from 8,049 in Fiscal Year 2002 to 10,190 Fiscal Year 2005. The average cost per month per child is projected to rise from \$506 in Fiscal Year 2002 to \$539 in Fiscal Year 2005.

PRESERVE YOUTH PROGRAMS WITH PSEA — \$23 MILLION GENERAL FUND-STATE SAVINGS, \$23 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT INCREASE

The Senate budget preserves funding for programs that help youth and families in crisis by providing \$23 million in additional PSEA funding. Programs that are preserved include Family Reconciliation Services, Crisis Residential Centers, Secure Crisis Residential Centers, Hope Beds, and the Street Youth Program. Increases in fines charged for traffic infractions under SSB 6023 provide \$16 million of this increase.

FUNDING FOR FOSTER PARENT TRAINING — \$1.0 MILLION GENERAL FUND-STATE, \$400,000 GENERAL FUND-FEDERAL

The Senate budget provides funding in response to the Braams lawsuit. Along with other improvements already implemented, the increase covers the foster parent training initiative. Improved foster parent training reduces attrition of foster parents by helping them respond to the complex needs of their foster children. Training also reduces the number of times foster children need to move from one foster home to another.

FUNDING FOR CROSSWALK PROGRAM — \$100,000 GENERAL FUND-STATE

Funding is provided for the Crosswalk program in Spokane. The program serves run away youth living on the streets. The program seeks to help these youth complete their education, and if possible return to a family setting.

REDUCTIONS

ADOPTION SUPPORT TAX CREDIT — \$2.5 MILLION GENERAL FUND-STATE SAVINGS

The Senate budget assumes a savings in the Adoption Support program due to the new \$10,000 federal tax credit for the adoption of special needs children. The reduction would only affect adoption support benefits for families with incomes sufficient to actually benefit from the tax credit and only to the extent of the amount of the credit.

MENTAL HEALTH

INCREASES

RSN FUNDING FOR INCREASED MEDICAID ELIGIBILITY — \$25.8 MILLION GENERAL FUND-STATE, \$25.8 MILLION GENERAL FUND-FEDERAL – *MAINTENANCE LEVEL INCREASE*

The Senate budget provides funding for Regional Support Networks (RSNs) to provide mental health coverage for the projected increase in the number of persons eligible for Medicaid. RSNs provide community mental health and inpatient psychiatric coverage under a managed-care arrangement for all persons eligible for Medicaid.

REDUCTIONS

REDUCE CHILDREN’S MEDICAID ELIGIBILITY LEVEL — \$5.8 MILLION GENERAL FUND-STATE SAVINGS, \$5.8 MILLION GENERAL FUND-FEDERAL

The Senate budget saves \$11.6 million (total funds) in the cost of mental health coverage by restricting Medicaid eligibility for children to families with incomes below 175 percent of the federal poverty level.

CHILDREN’S MEDICAL PREMIUMS — \$1.4 MILLION GENERAL FUND-STATE SAVINGS, \$1.4 MILLION GENERAL FUND-FEDERAL

The Senate budget saves \$2.8 million (total funds) in the cost of mental health coverage due to a projected decrease in the number of persons eligible for Medicaid. The drop in eligible persons is a result of imposing a monthly premium for medical coverage for families above 100 percent of the federal poverty level.

INCREASED MEDICAID ELIGIBILITY VERIFICATION — \$2.1 MILLION GENERAL FUND-STATE SAVINGS, \$2.1 MILLION GENERAL FUND-FEDERAL

The Senate budget saves \$4.2 million (total funds) in the cost of mental health coverage due to a projected decrease in the number of persons eligible for Medicaid as a result of increase in the verification of eligibility.

ALCOHOL AND SUBSTANCE ABUSE

INCREASES

INCREASED FUNDING FOR OFFENDERS — \$9.0 MILLION CRIMINAL JUSTICE TREATMENT ACCOUNT

The Senate budget increases county managed drug and alcohol treatment funding for offenders, as intended by Chapter 290, Laws of 2002 which revised sentencing for drug crimes.

INCREASE FUNDING FOR ADATSA — \$3 MILLION GENERAL FUND-STATE

The Senate imposes time limits on the receipt of General Assistance cash and medical benefits. These restrictions are projected to save \$40 million General Fund-State. In anticipation of an increased demand for drug and alcohol treatment as a result of these

changes, the Senate budget provides an additional \$3 million for treatment of an additional 1,250 people.

REDUCTIONS

ELIMINATION OF TASC — \$6.6 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT- STATE SAVINGS

The Senate budget eliminates funding for the Treatment Alternatives for Street Crimes program, while preserving funding for Drug Courts.

PUBLIC SAFETY

DEPARTMENT OF CORRECTIONS

INCREASES

DRUG TREATMENT FUNDING — \$2.9 MILLION VIOLENCE REDUCTION & DRUG ENFORCEMENT ACCOUNT

Additional funding for treatment of drug offenders in prison is provided pursuant to the Drug Reform Act of 2002. The legislation specified that savings from reducing drug offender sentences would be reprogrammed for treatment for offenders in prison and drug courts in the community. (Funds for counties appear in the Department of Social and Health Services, Division of Alcohol and Substance Abuse budget as pass-through grants and distributions.)

REDUCTIONS

INCREASE EFFICIENCY & SHIFT LEGAL FINANCIAL OBLIGATION BILLING & COLLECTION — \$1.7 MILLION NET GENERAL FUND-STATE SAVINGS (NET AFTER PROGRAM TRANSFER TO COURTS)

Billing and collection of outstanding legal financial obligations for offenders under supervision or who have completed their supervision is shifted from the Department of Corrections to the Office of the Administrator for the Courts (OAC). The total reduction to the Department of Corrections is \$5.1 million, however \$3.4 million is transferred to OAC and the clerks. Billing will be handled by OAC, and collection duties will be handled by the county clerks and funded by pass-through grants.

SENTENCING & SUPERVISION REDUCTIONS FOR NON-VIOLENT AND/OR LOW-RISK OFFENDERS — \$40.1 MILLION GENERAL FUND-STATE SAVINGS (NET OF APPROPRIATION)

Funding is reduced pursuant to Senate Bill 5990 (Changing times and supervision standards for release of offenders), which implements three new policies: (1) implementing the new drug sentencing grid established under the Drug Reform Act of 2002 one year early; (2) expanding earned early release (EER) for non-violent and non-sex offenders and reducing EER for sex and serious violent offenders; and (3) reducing the number of low and moderate-risk offenders subject to supervision. Together, these policies save \$47.1 million General-Fund State. SB 5990 appropriates \$7 million of this savings to increase supervision of high-risk offenders.

JUVENILE REHABILITATION

INCREASES

RESEARCH-BASED THERAPIES — \$943,000 GENERAL FUND-STATE

Funding is increased for research-based therapies for parolees and youth transitioning out of institutions, such as aggression replacement training (ART), mentoring, and functional family therapy (FFT). All of these programs have been shown to reduce recidivism by the Washington State Institute for Public Policy (WSIPP), and produce in excess of \$6 dollars in benefits in crime reduction for every dollar spent. This funding level will allow the extension of research-based therapies to youth who do not currently receive them.

REDUCTIONS

RESEARCH-BASED INTENSIVE PAROLE ADJUSTMENT — \$1.9 MILLION GENERAL FUND-STATE SAVINGS, \$629,000 GENERAL FUND-FEDERAL SAVINGS

Funding is reduced for intensive parole consistent with the Washington State Institute for Public Policy's (WSIPP) 2002 findings on intensive parole services. Savings is achieved by increasing the size of intensive parole caseloads to the same level as for enhanced and sex offender parole. Recent WSIPP studies show intensive parole to be ineffective in reducing recidivism. \$943,000 of the state savings from this reduction is reinvested in research-based therapies shown to reduce recidivism, see "Increases" above.

LOCAL JUVENILE DISPOSITION ALTERNATIVES — \$8.8 MILLION GROSS GENERAL FUND-STATE GROSS SAVINGS, \$2 MILLION NET GENERAL FUND-STATE SAVINGS

Pursuant to Substitute Senate Bill 5903 (juvenile offender sentencing), funding is reduced to reflect savings from sentencing youth to local sanctions who would otherwise be committed to the Juvenile Rehabilitation Administration (JRA). An estimated average daily population of 102 youth for the biennium will receive the new disposition alternatives established by the bill. The total reduction to JRA is \$8.8 million; after compensating counties for serving the youth locally the net savings to the state is \$2 million.

MENTAL HEALTH-CIVIL COMMITMENT PROGRAM

INCREASES

MCNEIL ISLAND FERRY — \$1.2 MILLION GENERAL FUND-STATE

One-time funding is provided for the purchase of a used passenger vessel to support additional staffing due to the new construction at the Special Commitment Center on McNeil Island.

OFF-ISLAND SECURE COMMUNITY TRANSITION FACILITY — \$2.4 MILLION GENERAL FUND-STATE

Consistent with direction from the federal court, funding is provided for the operational and staffing costs for the first phase of a Secure Community Transition Facility (SCTF) located off of McNeil Island that can house up to twelve residents. The funding level is based on expected occupancy by October 1, 2003, and a projection of 6 residents by the end of the biennium. Staffing ratios for this facility will be one staff per resident during waking hours and two staff per three residents during sleeping hours.

REDUCTIONS

ON-ISLAND SECURE COMMUNITY TRANSITION FACILITY CHANGES — \$2.2 MILLION GENERAL FUND-STATE SAVINGS

Funding is reduced pursuant to Senate Bill 5991 (secure community transition facilities), which reduces staffing ratios and State Patrol support to reflect the level of isolation and security at the McNeil Island Secure Community Transition Facility (SCTF). (No changes are made in the legislation to proposed off-island SCTFs.) Staffing is reduced to one staff

per three residents during normal waking hours, and one staff per four residents during normal sleeping hours; however, in no case shall the staffing ratio permit fewer than two staff per housing unit. Also, one-to-one staffing will remain when residents leave the facility for therapy, etc. DSHS currently has agreements with the Department of Corrections McNeil Island Corrections Center Emergency Response Team to provide responses to emergencies or escapes, so the roving patrol car provided by the Washington State Patrol is removed.

WASHINGTON STATE PATROL

REDUCTIONS

DRUG ENFORCEMENT — \$4.5 MILLION GENERAL FUND-STATE SAVINGS; \$500,000 NET SAVINGS

General Fund-State support for the Narcotics Section of the Investigative Assistance Bureau is eliminated (\$4.5 million), and partially replaced with \$4 million in Public Safety and Education Account-State funds.

NATURAL RESOURCES

DEPARTMENT OF ECOLOGY

REDUCTIONS

PERSISTENT BIOACCUMULATIVE TOXIC CHEMICAL STRATEGY — \$800,000 STATE TOXICS CONTROL ACCOUNT SAVINGS

The Persistent Bioaccumulative Toxic Chemical (PBT) strategy is a coordinated effort across Department of Ecology programs to reduce the release of toxins that can significantly affect the health of humans, fish and wildlife. Funding for the strategy is eliminated and the Department is directed to implement the strategy within existing statutory authority and within its appropriation. The Department is required to adopt by rule the list of compounds subject to the PBT strategy.

FLOOD CONTROL ASSISTANCE GRANTS — \$2.0 MILLION FLOOD CONTROL ASSISTANCE ACCOUNT SAVINGS

A state general fund transfer to the Flood Control Assistance Account is reduced by one-half for the 2003-05 biennium. The Department of Ecology will distribute grants totaling \$2.0 million to local governments.

DELAY WATER RIGHTS DECISIONS — \$1.0 MILLION GENERAL FUND-STATE SAVINGS

The reduction will extend the time required to eliminate the backlog of water applications for changes and transfers. Elimination of the 2000-application backlog will be delayed by approximately five months from fiscal year 2005 to fiscal year 2006.

THE FOSS WATERWAY CLEAN-UP — \$1.0 MILLION AQUATIC LANDS ENHANCEMENT ACCOUNT

One-time funding is provided for clean up of contaminated sediments in the Thea Foss waterway in Tacoma. This clean up will fulfill the state's obligations under its agreement with the Environmental Protection Agency for the Thea.

STATE PARKS AND RECREATION COMMISSION

INCREASES

OPERATING IMPACTS OF EXISTING CAPITAL PROJECTS — \$1.4 MILLION GENERAL FUND-STATE

State Parks receives funding in the capital budget to upgrade its facilities each biennium. Some of the projects, when complete, require resources in the operating budget to operate and maintain the facilities.

PARKING FEE IMPLEMENTATION — \$4.0 MILLION PARKS RENEWAL AND STEWARDSHIP ACCOUNT

Funding and staffing are increased to implement the system-wide parking fee that went into effect January 1, 2003. State Parks projects revenues of \$10 million per biennium from the fee. Revenues exceeding the costs to collect the fee are provided for facility preservation in the capital budget.

MAINTENANCE BACKLOG REDUCTION — \$750,000 PARKS RENEWAL AND STEWARDSHIP ACCOUNT

Funding is provided to reduce the State Park facility maintenance backlog. State Parks estimates the backlog at \$41 million.

REDUCTIONS

2003 PARK CLOSURE SAVINGS — \$163,000 GENERAL FUND-STATE SAVINGS

Additional savings are taken to reflect the closure of Lyons Ferry, Crow Butte, Lake Cushman, Central Ferry and Chief Timothy state parks.

CAMA BEACH STATE PARK — \$1.9 MILLION GENERAL FUND-STATE SAVINGS

Except for a day use area, the opening of Cama Beach State Park is postponed until the 2005-07 biennium.

INTERAGENCY COMMITTEE FOR OUTDOOR RECREATION

INCREASES

SALMON MONITORING STRATEGY — \$500,000 GENERAL FUND-STATE

Funding is provided to implement the priority recommendations of the Monitoring Oversight Committee to include improved watershed health monitoring and increased data coordination and access.

LEAD ENTITIES AND REGIONAL RECOVERY BOARDS — \$1.65 MILLION GENERAL FUND-STATE, \$5 MILLION GENERAL FUND-FEDERAL

Funding is provided to continue the operation of lead entities and to make grants to regional recovery boards. Lead entities are local watershed-based entities that recommend salmon recovery projects for consideration by the Salmon Recovery Funding Board. Regional recovery boards represent multiple watersheds and will recommend recovery strategies to the federal agencies implementing the Endangered Species Act.

DEPARTMENT OF FISH AND WILDLIFE

INCREASES

HATCHERY SCIENCE REVIEW GROUP — \$450,000 GENERAL FUND STATE; \$550,000 WILDLIFE FUND-STATE

Funding is provided to implement the HSRG recommendations to reform hatchery programs for the benefit of recovering wild salmon populations and providing sustainable fisheries.

LANDS STEWARDSHIP AND MAINTENANCE — \$850,000 WILDLIFE FUND-STATE

Funding is provided for stewardship and maintenance needs on lands managed by the Department, including water access sites.

MIGRATORY WATERFOWL — \$900,000 WILDLIFE FUND-STATE

Wetland restoration and landowner incentives to create or maintain habitat for migratory waterfowl are funded. These activities are supported by revenue from an increase in the migratory waterfowl stamp, authorized by SB 5363 in 2002.

REDUCTIONS

REDUCED CUSTOMER SERVICE — \$850,000 GENERAL FUND STATE SAVINGS

Reductions to administrative activities for the Department include elimination of customer service staff within each regional office. The public will no longer be able to purchase hunting and fishing licenses at regional offices – relying instead on private sector vendors.

ENFORCEMENT VACANCY SAVINGS — \$1.0 MILLION GENERAL FUND-STATE SAVINGS

The Enforcement Program will continue to hold open five vacancies. Maintaining vacancies of field officers reduces the overall ability of the Department to respond to damage complaints, dangerous wildlife, and to protect fish and wildlife resources and the public.

HATCHERY CLOSURE — \$1.2 MILLION GENERAL FUND-STATE SAVINGS

Fish hatchery operations at the Hurd Creek hatchery near Sequim, Coulter Creek hatchery near Belfair and the Naselle hatchery in Willapa Bay will be eliminated.

DEPARTMENT OF NATURAL RESOURCES

INCREASES

DERELICT VESSEL REMOVAL — \$1.0 MILLION DERELICT VESSEL REMOVAL ACCOUNT

The Derelict Vessel Removal Program oversees the disposal of derelict vessels and provides matching dollars for vessel removal. The 2002 Legislature passed Engrossed Substitute House Bill 2376, which gives authorized public entities the authority to seize, remove, and dispose of derelict vessels. Funding is provided for costs associated with removing derelict vessels

FOREST AND FISH INFORMATION SYSTEM — \$1.2 MILLION GENERAL FUND-STATE

Funding and staffing are provided to maintain and update computer systems that support the state's Forest and Fish Report, forest practices rules, and salmon recovery.

NATURAL AREA OPERATING IMPACTS — \$176,000 GENERAL FUND STATE

DNR acquires acreage for Natural Area Preserves and Natural Resources Conservation Areas through the Trust Land Transfer Program and purchases from the Washington Wildlife and Recreation Program. Funding and staff are provided to support the basic maintenance and operation of 4,700 new acres designated as Natural Area Preserves and Natural Resources Conservation Areas.

REDUCTIONS

FOREST STEWARDSHIP — \$920,000 GENERAL FUND STATE SAVINGS

The Department provides advice, assistance, and educational opportunities to non-industrial private forest owners to enhance stewardship of their lands. General Fund-State funding and associated staffing are eliminated for this activity on an on-going basis. This will result in about one-third fewer educational and technical assistance contacts with non-industrial private forest owners.

GEOLOGY LIBRARY PUBLIC INFORMATION — \$730,000 GENERAL FUND STATE SAVINGS

The Department's Geology library's educational activities include support for special events, one-on-one interactions, and group visits. These activities are eliminated. Customers can pursue this information from federal, university, and private-sector sources. However, \$900,000 funding in the capital budget will allow the Department to digitize its geology library collections, ensuring the availability of products in easily-accessible formats.

DEPARTMENT OF AGRICULTURE

REDUCTIONS

AGRICULTURAL STATISTICS SERVICE — \$350,000 GENERAL FUND-STATE SAVINGS

Funding and staffing are reduced for a cooperative program with the U.S. Department of Agriculture that collects and publishes statistical data on the state's agricultural industry. As a result, fewer county-level crop analyses will be produced, while state-level analyses will be retained.

DEPARTMENT OF HEALTH

REDUCTIONS

SHELLFISH TESTING FEES — \$900,000 GENERAL FUND-STATE SAVINGS

The Department of Health inspects and tests shellfish from public beaches for the presence of bacteria and biotoxins to ensure that contaminated shellfish are not consumed by the public. The cost of this inspection and testing function is currently paid by all state taxpayers, through the state General Fund. The Senate budget proposes that the fee for recreational shellfish licenses issued by the Department of Fish and Wildlife be increased by an average of \$2.00, so that lab testing and on-site inspection of recreationally-harvested shellfish will be fee-supported rather than state-subsidized.

WATER RECLAMATION ASSISTANCE — \$600,000 GENERAL FUND-STATE SAVINGS

During the 1999-01 biennium, the state's Drinking Water Program expanded efforts to promote water conservation and re-use by providing technical assistance and training to local water systems, and by promoting improved coordination among state and local agencies. Because a solid foundation has now been laid for continuation of such efforts locally, and because this is a lower priority activity of government, state funding for this expanded effort is discontinued.

SHELLFISH RESTORATION PLANNING — \$400,000 GENERAL FUND-STATE SAVINGS

A number of state and local agencies and groups are working to restore commercial and recreational shellfish beds which have been closed or threatened due to pollution. Because private and local groups are working on these matters, and because this is a lower public health priority, funding for the Department of Health's active participation in these efforts is discontinued.

TRANSFERS

TRANSFER DAIRY NUTRIENTS MONITORING TO THE DEPARTMENT OF AGRICULTURE — \$640,000 WATER QUALITY ACCOUNT

The Dairy Nutrient Management program is transferred from the Department of Ecology to the Department of Agriculture, to reflect passage of SSB 5889.

OTHER

COLUMBIA RIVER GORGE COMMISSION — \$224,000 GENERAL FUND-STATE SAVINGS

Funding is reduced for the Commission. Matching funds from Oregon will be reduced proportionately.

GENERAL GOVERNMENT

COMMUNITY, TRADE, AND ECONOMIC DEVELOPMENT

INCREASES

ECONOMIC DEVELOPMENT — \$2.5 MILLION GENERAL FUND-STATE INCREASE

Enhanced funding is provided for tourism (\$400,000); foreign offices (\$800,000); business retention and expansion (\$600,000); business development (\$400,000); and manufacturing services (\$300,000); to further support the state's economic development efforts. This increased funding will allow targeted marketing to improve the state's visitor revenues, expand its operations in foreign countries to assist Washington exporters, conduct business recruitment efforts, and provide technical assistance to its businesses to increase their competitiveness.

REDUCTIONS

GROWTH MANAGEMENT — \$4.6 MILLION GENERAL FUND-STATE SAVINGS

Funding is reduced to reflect decreased technical assistance and grants attributable to the passage of ESSB 5680. This bill exempts counties with a population density of fewer than fifty-five persons per square mile from updating their comprehensive plans and development regulations.

ELIMINATE THE GROWTH MANAGEMENT HEARINGS BOARDS — \$3.0 MILLION GENERAL FUND-STATE SAVINGS

Funding for the Growth Management Hearings Boards (GMHB) is eliminated to reflect the passage of SB 5282. The venue for parties appealing local government actions on comprehensive plans and ordinances will shift from the GMHB to Superior Court.

MILITARY DEPARTMENT

INCREASES

ENHANCED 911 PROGRAM — \$11.2 MILLION ENHANCED 911 ACCOUNT

Funding is provided to assist local governments with meeting enhanced 911 (E911) services, which allow responders to automatically determine a caller's location. An increased level of support for 33 counties is required due to new federal requirements that mandate that E911 systems work with wireless calls, and to update equipment for wireline calls. These counties are collecting the maximum local taxes permitted by law to cover E911 expenses, but are not able to cover minimum service requirements. The \$11.2 million total includes \$2.2 million for one-time equipment purchases.

HOMELAND SECURITY FUNDING — \$53.5 MILLION GENERAL FUND-FEDERAL, \$200,000 GENERAL FUND-STATE

Based on recent congressional action and the President's budget proposals, \$53.5 million in total federal funding is expected to be available to assist Washington State in improving homeland security, with no state or local matching fund requirements. The funding is available for prescribed equipment, exercises, training, and competitive grants. Over 80

percent of the total federal funds are for distribution to local governments. State uses of funding include providing additional security at the state capital, Terrorism and Consequence Management, Community Emergency Response Training (CERT)/Citizen Corps and possible support to the Washington State Patrol. The Military Department will receive the funds and distribute them as required as determined by the Adjutant General and the Governor's Homeland Security Executive Group in conjunction with federal requirements and approval.

LIQUOR CONTROL BOARD

INCREASES

ENFORCEMENT OFFICER TRAINING — \$44,000 GENERAL FUND-STATE, \$176,000 LIQUOR REVOLVING ACCOUNT

Legislation passed during the 2001 session required Basic Law Enforcement Academy (BLEA) training for all newly hired Tobacco and Liquor Enforcement Officers. Additional funding will expand the training to all existing officers, and will implement the recommendation of the 1999 Governor's Citizens' Review Panel to improve professional standards and the clarity of operational procedures.

MAINTAIN MERCHANDISING BUSINESS SYSTEM — \$1.3 MILLION LIQUOR REVOLVING ACCOUNT

In the 2001-03 biennium, the Legislature appropriated funding for new point-of-sale technology, the Merchandising Business System (MBS). Additional funding is provided to purchase MBS software licenses, provide training, and hire technical staff to support the system. The MBS system will allow tracking of all state store retail sales, and include forecasting and data analysis that should encourage more effective purchasing and business practices.

OPEN FIVE NEW LIQUOR STORES AND RELOCATE LIQUOR STORES — \$2.6 MILLION LIQUOR REVOLVING ACCOUNT

Funding is provided for the Liquor Control Board to open five new liquor stores in areas that are underserved due to rapid population growth, and to relocate 13 existing liquor stores to more convenient and marketable locations. For the 2003-05 biennium, projected net General-Fund State revenue from liquor profits and taxes is \$5.9 million, and projected net revenue to local governments from liquor profits is \$1.1 million.

MAINTAIN STORE HOURS — \$3.1 MILLION LIQUOR REVOLVING ACCOUNT

Funding is provided to allow adequate staffing to prevent the closure of eleven state liquor stores and to reinstate hours that were cut due to previous budget reductions. These reductions were implemented through a decrease in store hours and proposed store closures, and resulted in a decline in revenues. Refunding these stores will prevent a \$1.2 million net reduction in state general fund revenues for the 2003-05 biennium.

OFFICE FOR THE ADMINISTRATOR OF THE COURTS

INCREASES

JUDICIAL INFORMATION SYSTEM IMPROVEMENTS — \$9.9 MILLION JUDICIAL INFORMATION SYSTEMS ACCOUNT

Building on investments by the Legislature in the 2001-03 biennium, funding is provided to migrate the Judicial Information System (JIS) to a web-based system, provide juvenile parole case management, and other improvements. These projects will assist courts statewide and prevent the need for local courts to develop stand-alone systems.

OFFICE OF PUBLIC DEFENSE

INCREASES

DEPENDENCY & TERMINATION PROGRAM — \$1.6 MILLION GENERAL FUND-STATE

The Senate budget continues the Dependency and Termination Parents' Representation Pilot in Benton-Franklin and Pierce County Juvenile Courts. Early results show the program improves family reunification and reduces the time children spend in foster care before dependency cases are resolved.

GOVERNMENTAL LIABILITY REFORM

REDUCE PAYMENT FOR TORTS — \$40 MILLION GENERAL FUND-STATE SAVINGS

Substitute Senate Bill 5728 enacts omnibus liability reform measures, including changes to the tort liability of state and local governments and their agencies and employees. In tort actions against the state or local governments, all judgments and settlements above \$1 million per claimant (\$2 million per incident) are subject to appropriation by the Legislature or the local legislative authority. In addition, savings are realized from changes in joint and several liabilities in tort actions and in modifications to post-judgment interest rates. Based on historical patterns of state tort claims, the estimated savings is \$40 million General Fund-State.

LOCAL GOVERNMENT ASSISTANCE

SMALL COUNTY ASSISTANCE — \$3.0 MILLION GENERAL FUND-STATE

\$1.5 million of assistance per year is provided for the 11 smallest counties. (Garfield, Columbia, Wahkiakum, Ferry, Okanogan, Asotin, Stevens, Douglas, Lincoln, Pend Oreille, Skamania.)

ONE YEAR ASSISTANCE FOR CITIES — \$3.5 MILLION GENERAL FUND-STATE

Funds are provided directly to those cities determined to be “hardest hit” by the elimination of the motor vehicle excise tax (MVET).

PUBLIC HEALTH DISTRICT BACKFILL — \$49 MILLION HEALTH SERVICES ACCOUNT

\$24.5 million of funding per year is continued for Public Health Districts that lost revenue from the elimination of the MVET.

COURT ASSESSMENTS AND PENALTIES — \$3.0 MILLION NET REVENUE INCREASE; PUBLIC SAFETY AND EDUCATION ACCOUNT

Senate Bill 6023 raises traffic infractions and court to provide increased funding to state and local governments through the Public Safety and Education Account. Local governments are expected to receive an additional \$3.0 million in net revenue from the passage of this measure.

COUNTY LEGAL-CLERK — \$13.9 MILLION GENERAL FUND-FEDERAL INCREASE

Costs associated with filing child-support pleadings continue to increase for County Prosecutors/Clerks who provide this service on behalf of the state. The increased funding provided through the Senate budget allows County Prosecutors/Clerks to better ensure that children receive their proper level of child support. This increase in funding comes solely from federal receipts and is state general fund neutral.

OTHER

PERFORMANCE AUDITS — \$2.0 MILLION GENERAL FUND-STATE

The Senate budget provides \$2 million GF-State to fund the Priorities of Government performance audits and activity assessments mandated by Senate Bill 5909. With direction provided by the Office of Financial Management, the State Auditor, and the new Priorities of Government Oversight Board, the performance audits and activity assessments will improve the efficiency, effectiveness, and accountability of state government.

FEDERAL "HELP AMERICA VOTE ACT" — \$13 MILLION GENERAL FUND-FEDERAL

The Senate budget appropriates \$13 million in new federal funding to implement the federal election reform law known as the "Help America Vote Act." The federal law and the related funding is the first step in the process to update election machinery and procedures used to conduct local, state, and federal elections. The state's thirty-nine counties will be the primary recipients of the new federal funding, to be administered by the Secretary of State.

HUMAN RESOURCE INFORMATION SYSTEM DEVELOPMENT — \$22 MILLION DATA PROCESSING REVOLVING ACCOUNT (NON-APPROPRIATED)

The Department of Personnel will contract with a private developer for the purchase, development, and installation of a new statewide payroll and human resource information system. As part of this project, the Department of Personnel is authorized to enter into a financing contract for up to \$30,700,000, plus necessary financing expenses. The total cost of the project is estimated to be \$48,000,000, with approximately \$22,000,000 to be spent in the 2003-2005 biennium. A surcharge will be added to client agencies' revolving fund assessments to fund debt service and other project costs.

REVENUE ADJUSTMENTS

This section summarizes revenue legislation that the Senate intends to pass during the 2003 legislative session. These measures are not included in the operating budget and must be voted on separately. Because they impact the amount of general fund revenue available to support the operating budget, they are discussed in this section.

TAX REDUCTION MEASURES

REMOVING THE EXPIRATION DATE FOR THE HIGH-TECHNOLOGY RESEARCH AND DEVELOPMENT SALES AND USE TAX DEFERRAL PROGRAM — \$62.9 MILLION GENERAL FUND-STATE REVENUE DECREASE

2SSB 5531 extends the high-technology sales and use tax deferral program indefinitely. Businesses involved in research in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology and in pilot-scale manufacturing may defer sales and use taxes on buildings, machinery and equipment, and installation labor. These taxes do not need to be repaid unless the project is used for a non-qualifying purpose during the eight years after the project is operationally complete.

REMOVING THE EXPIRATION DATE ON THE RESEARCH AND DEVELOPMENT BUSINESS AND OCCUPATION (B&O) TAX CREDIT — \$12.1 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5529 removes the expiration date for the B&O tax credit for high-technology research and development. The tax credit is available to high-technology entities in Washington engaged in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology that expend at least 0.92 percent of their gross income on research and development. The amount of the credit is 0.484 percent of eligible research expenditures for nonprofit institutions and 1.5 percent for other firms, with a \$2 million maximum annual credit per firm.

EXTENDING THE EXPIRATION DATE ON THE RURAL COUNTY SALES AND USE TAX DEFERRAL PROGRAM — \$14.9 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5614 extends the sales tax deferral program for persons engaged in manufacturing, research and development, or computer service businesses in rural counties from July 1, 2004, to July 1, 2008. Persons engaged in manufacturing, research and development, or computer service businesses in rural counties may receive a sales and use tax deferral on buildings, machinery and equipment, and installation labor. The taxes deferred do not need to be repaid unless the business fails to maintain operations for eight years or fails to submit required reports.

PROVIDING A B&O TAX FOR STAFFING SERVICES BUSINESSES — \$19.7 MILLION GENERAL FUND-STATE REVENUE DECREASE

Temporary staffing agencies currently pay a B&O tax rate of 1.5% and have for years deducted the amounts they received for wages and benefits paid to the temporary workers from their gross receipts. In 2002, the Department of Revenue and the Washington Supreme Court issued decisions both concluding that temporary staffing agencies are not entitled to the B&O deduction. ESSB 6011 reduces the B&O tax rate for temporary staffing agencies

from 1.5% to 0.484%, thereby bringing the agencies' state-wide B&O tax liability to approximately the same level as when agencies were entitled to the deduction.

PROVIDING SALES AND USE TAX EXEMPTIONS FOR CALL CENTERS IN DISTRESSED AREAS — \$4.6 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5319 establishes a sales and use tax exemption for call centers with more than 25 employees, located in rural counties, community empowerment zones, and Island County. The exemption is on the purchase, installation, and repair of new and used equipment, the construction and renovation of buildings, and telephone toll services.

PROVIDING TAX INCENTIVES TO SUPPORT THE STATE'S SEMICONDUCTOR CLUSTER — \$0 GENERAL FUND-STATE REVENUE IMPACT (\$9 MILLION GENERAL FUND-STATE REVENUE DECREASE BEGINNING IN THE 2005-07 BIENNIUM)

SB 5725 provides five tax incentives to semiconductor manufacturers from July 1, 2005, through July 1, 2017: a B&O tax rate of 0.138 percent; a sales and use tax exemption for gases and chemicals used in manufacturing; a sales and use tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings; a B&O tax credit of \$3,000 per position; and a property tax exemption on machinery and equipment, starting in 2006.

PROVIDING AN ONGOING FUNDING SOURCE FOR THE COMMUNITY ECONOMIC REVITALIZATION BOARD'S FINANCIAL ASSISTANCE PROGRAM — \$0 GENERAL FUND-STATE REVENUE IMPACT (\$1.8 MILLION GENERAL FUND-STATE REVENUE DECREASE IN THE 2005-07 BIENNIUM)

Effective July 1, 2005, SB 5363 re-directs interest earnings generated in the Public Works Assistance Account from the General Fund-State Account to the Public Facilities Construction Loan Revolving Account to provide an ongoing funding source for the Community Economic Revitalization Board's Financial Assistance Program which funds new infrastructure development through loans and grants.

REVISING B&O TAXATION FOR CERTAIN AVIATION BUSINESSES — \$1.0 MILLION GENERAL FUND-STATE REVENUE DECREASE

SB 5071 reduces the B&O tax rate from 0.484 percent to 0.275 percent through July 1, 2006, on the sale and repair of equipment used in interstate or foreign commerce by persons classified by the Federal Aviation Administration as a FAR part 145 certificated repair station with an airframe class 4 rating and limited capabilities in instruments, radio equipment, and specialized services.

EXTENDING THE EXPIRATION DATE FOR THE RURAL COUNTY INFORMATION TECHNOLOGY TAX CREDIT — \$534,000 GENERAL FUND-STATE REVENUE DECREASE

SSB 5182 extends the B&O tax credit that is offered to businesses in rural counties that provide information technology help desk services to third parties from December 31, 2003, to January 1, 2008.

EXTENDING ECONOMIC DEVELOPMENT TAX CREDITS AND EXEMPTIONS TO ISLAND COUNTY — \$268,000 GENERAL FUND-STATE REVENUE DECREASE

SB 5583 extends all economic development tax incentives that currently apply to counties with fewer than 100 people per square mile to counties smaller than 225 square miles, which includes Island County.

CLARIFYING THE APPORTIONMENT OF B&O TAXES ON CERTAIN BUSINESSES CONDUCTED BOTH WITHIN AND OUTSIDE THE STATE — \$114,000 GENERAL FUND-STATE REVENUE DECREASE

ESB 5517 authorizes travel agents and tour operators to apportion their income in determining B&O tax liability using a three-factor apportionment formula.

MODIFYING THE B&O TAXATION OF MANUFACTURING FLAX SEED PRODUCTS — \$64,000 GENERAL FUND-STATE REVENUE DECREASE

SSB 6028 lowers the B&O tax rate on manufacturing flax seed into flax oil, flax seed meal, or flax seed byproducts from 0.484 percent to 0.138 percent.

PROVIDING TAX INCENTIVES FOR BIODIESEL AND ALCOHOL FUEL RETAIL SALES — \$50,000 GENERAL FUND-STATE REVENUE DECREASE

2SHB 1241 establishes two tax incentives through June 30, 2009 for the retail sale of non-petroleum alcohol fuels and biodiesel fuels: a B&O tax deduction; and a sales and use tax deferral on equipment, machinery, structures, vehicles, and services where used for the retail sale or distribution of fuels blended with at least 20 percent biodiesel or 85 percent non-petroleum alcohol fuel.

EXTENDING THE EXPIRATION DATE ON THE TAX CREDIT FOR SOFTWARE COMPANIES IN RURAL COUNTIES — \$15,000 GENERAL FUND-STATE REVENUE DECREASE

SSB 5181 extends the B&O tax credit for computer software job creation in rural counties from December 31, 2003, to January 1, 2008.

LIMITING THE TAXABILITY OF CERTAIN INTERNET TRANSACTIONS — \$20,000 GENERAL FUND-STATE REVENUE DECREASE

SSB 5690 provides that a remote seller making sales in Washington is not liable for B&O tax or required to collect sales or use tax if the remote seller's activities are conducted through a 3rd-party Internet Service Provider in this state and the activities are limited to: (1) storage or display of advertising; (2) taking of orders; or (3) processing of payments.

PROVIDING PROPERTY TAX EXEMPTIONS FOR NONPROFIT ORGANIZATIONS SUPPORTING ARTISTS -- \$0 GENERAL FUND-STATE REVENUE IMPACT

SB 5836/HB 2001 exempts from property taxation the real and personal property owned or used by a nonprofit organization to solicit funds for grants, fellowships, information services, and educational resources to support individual artists if the organization is organized and conducted for nonsectarian purposes, is exempt from federal income taxes, and is governed by a volunteer board of directors of at least 8 members.

PROVIDING A LIMITED PROPERTY TAX EXEMPTION FOR THE USE OF FACILITIES BY ARTISTIC, SCIENTIFIC, AND HISTORICAL ORGANIZATIONS -- \$0 GENERAL FUND-STATE REVENUE IMPACT

HB 1905 provides an exception to the prohibition on the rental of property-tax-exempt property to entities that would not be eligible for a property tax exemption if they owned the property. Non-profit associations engaged in the production and performance of musical, dance, artistic, dramatic, or literary works for the benefit of the general public may rent to entities not eligible for a property tax exemption for up to fifteen days a year if the property is used for the production and performance of musical, dance, artistic, dramatic, or literary works or for community gatherings or assembly, or meetings. The property may be used by the lessee for pecuniary gain or to promote business activities for seven of the fifteen days.

PROVIDING PROPERTY TAX RELIEF FOR SENIOR CITIZENS AND DISABLED RETIREES — \$0 GENERAL FUND-STATE REVENUE IMPACT

SB 5034 increases the income threshold and exemptible portion of property value for the various tiers and provisions of the senior and disabled retirees property tax deferral program.

PREVENTING BUSINESSES FROM TAKING MULTIPLE TAX CREDITS ON THE SAME EMPLOYMENT POSITIONS — \$0 GENERAL FUND-STATE REVENUE IMPACT

SB 5149 extends indefinitely the prohibition against taking a tax credit for job creation in rural counties if a tax credit is taken for international services job creation or computer software job creation.

PROVIDING TAX INCENTIVES FOR BIODIESEL AND ALCOHOL FUEL PRODUCTION — INDETERMINATE IMPACT

2SHB 1240 establishes four new tax incentives through 2009 for the manufacture of non-petroleum alcohol fuels, biodiesel fuels, and biodiesel feedstock: a sales and use tax deferral on investment projects in rural and distressed counties and areas; a six-year property tax exemption for land and manufacturing property; a leasehold excise tax exemption; and a B&O tax reduction from 0.484 percent to 0.138 percent.

REVENUE INCREASE MEASURES

NURSING HOME QUALITY MAINTENANCE — \$82.2 MILLION GENERAL FUND-STATE

To help maintain the quality of nursing home care in the state, a fee of \$6.50 per patient day will be applied to most nursing home care delivered in the state. Revenues generated by the fee will be used to provide a 3.0% increase in the state payment rate for nursing home services. In accordance with Substitute Senate Bill 5341, the Department of Social and Health Services will seek a federal waiver to exempt facilities, which would not benefit from the rate increase from the cost of the fee.

DECREASING THE PAYMENT PERIOD FOR EXCISE TAXES — \$6.5 MILLION GENERAL FUND-STATE REVENUE INCREASE

SSB 6051 requires taxpayers with total tax liability greater than \$4,800 in a calendar year to report and pay taxes by the 20th of the month rather than the 25th.

IMPLEMENTING THE STREAMLINED SALES AND USE TAX AGREEMENT — \$2.3 MILLION GENERAL FUND-STATE REVENUE INCREASE

SB 5783 brings Washington State into alignment with all but one provision of the multi-state Streamlined Sales and Use Tax Agreement. Most provisions change definitions and methods of collecting the taxes and result in several minor changes to what is subject to the sales and use taxes and what is not. A study of potential impacts to local governments is required for the sourcing provision, which is not implemented by this bill.

MODIFYING EXCISE TAX INTEREST PROVISIONS — \$614,000 GENERAL FUND-STATE REVENUE INCREASE

SB 5424 makes technical adjustments to the Department of Revenue's method of computing interest owed on late tax payments and interest due on tax overpayments.

BUDGET DRIVEN REVENUE

OPEN FIVE NEW LIQUOR STORES AND RELOCATE LIQUOR STORES — \$5.9 MILLION GENERAL FUND-STATE REVENUE INCREASE

Additional expenditure authority is provided for the Liquor Control Board to open five new liquor stores to areas that are under served due to rapid population growth, and to relocate 13 existing liquor stores to more convenient and marketable locations. For the 2003-05 biennium, projected net general fund revenue from liquor profits and taxes is \$5.9 million, and projected net revenue to local governments from liquor profits is \$1.1 million.

INCREASE MARRIAGE LICENSE FEE FOR CHILD ABUSE PREVENTION--\$840,000 GENERAL FUND-STATE REVENUE INCREASE

The Senate increases the current marriage license fee that supports the Washington Council for the Prevention of Child Abuse and Neglect from \$5 to \$15. This new amount covers the General Fund—State cost for the council.

OTHER REVENUE MEASURES (NON-GENERAL FUND-STATE)

COURT ASSESSMENTS AND PENALTIES — \$16 MILLION PUBLIC SAFETY AND EDUCATION ACCOUNT-STATE REVENUE INCREASE

Traffic infractions and court fines are increased in Senate Bill 6023 to provide \$16 million in additional funding to the state Public Safety and Education Account (PSEA). These additional revenues are used in the Senate budget to preserve funding for programs that assist youth and families in crisis. (See the Human Services Section, DSHS-Children's Administration for more detail).

Senate Revenue Adjustments

(Dollars in Thousands)

| Bill | Title | 2003-05 | 2005-07 |
|---|--|--------------------|--------------------|
| <u>Tax Reduction Measures</u> | | | |
| SSB 5531 | Extension of high tech sales and use tax | (\$62,900) | (\$150,000) |
| SB 5529 | Extension of high tech B&O R&D credit | (12,100) | (63,500) |
| SB 5614 | Extension of rural county sales tax | (14,942) | (36,787) |
| ESSB 6011 | B&O staffing service business correction | (19,677) | (22,722) |
| SSB 5319 | Call center sales tax exemption | (4,616) | (6,424) |
| SB 5725 | Tax exemption for semi-conductor industry | 0 | (9,008) |
| SSB 5423 | Physical fitness services taxation | 0 | (5,989) |
| SSB 5364 | EDGE/TIF | 0 | (5,000) |
| SB 5363 | Funding source for CERB | 0 | (1,800) |
| SB 5071 | Aviation B&O tax | (1,021) | (571) |
| SB 5182 | Information technology tax credit | (534) | (985) |
| SB 5583 | Rural county economic development tax credits | (268) | (77) |
| ESB 5517 | B&O tax apportionment | (114) | (130) |
| HB 1858 | Chemical dependency services | (65) | (69) |
| SSB 6028 | B&O tax on flax | (64) | (71) |
| 2SHB 1241 | Biodiesel retail sales tax incentives | (50) | (78) |
| SB 5181 | Tax credit on software | (15) | (27) |
| SSB 5690 | Internet taxation | (20) | (0) |
| SB 5836/HB 2001 | Property tax exemption for the arts | 0 | 0 |
| HB 1905 | Performing arts center property tax | 0 | 0 |
| SB 5034 | Senior/disabled property tax relief | 0 | 0 |
| SB 5149 | Business employee tax credits | 0 | 0 |
| 2SHB 1240 | Biodiesel production tax incentives | 0 | 0 |
| Subtotal | | (\$116,385) | (\$303,238) |
| <u>Revenue Increase Measures</u> | | | |
| SB 5341 | Nursing home quality maintenance fee | \$82,200 | \$82,200 |
| SSB 6051 | Excise tax payment period | 6,548 | 11,487 |
| SB 5783 | Streamlined sales tax agreement | 2,280 | 5,304 |
| SB 5424 | Excise tax interest | 614 | 1,014 |
| Subtotal | | \$91,642 | \$100,005 |
| <u>Budget-Driven Revenue</u> | | | |
| SB 5404 | Add five new liquor stores/relocate other stores | \$5,931 | \$9,200 |
| SB 5404 | Increase marriage license surcharge | 840 | 840 |
| Subtotal | | \$6,771 | \$10,040 |
| <u>Non-General Fund State Measures</u> | | | |
| SB 6023 | Increase court assessments and penalties | 16,000 | 16,000 |

Appendix 1

2003-05 Omnibus Operating Budget

Administrative Reductions

LEAP Document 2003-31, April 2, 2003

(Dollars in Thousands)

| | <u>ETEs</u> | <u>GF-S</u> | <u>Total Funds</u> |
|--------------------------------------|--------------|------------------|--------------------|
| Legislative | | | |
| House of Representatives | (19) | (2,851) | (2,851) |
| Senate | (15) | (2,294) | (2,294) |
| Total Legislative | (34) | (\$5,145) | (\$5,145) |
| Judicial | | | |
| Supreme Court | (2) | (226) | (226) |
| State Law Library | (1) | (98) | (98) |
| Court of Appeals | (4) | (527) | (527) |
| Commission on Judicial Conduct | (1) | (100) | (100) |
| Office of Administrator for Courts | (53) | 0 | (7,489) |
| Total Judicial | (60) | (\$951) | (\$8,440) |
| Governmental Operations | | | |
| Office of the Governor | (9) | (676) | (1,036) |
| Office of the Lieutenant Governor | (0) | (54) | (54) |
| Public Disclosure Commission | (1) | (330) | (330) |
| Office of the Secretary of State | (13) | (1,008) | (1,388) |
| Office of the State Treasurer | (2) | 0 | (1,012) |
| Office of the State Auditor | (27) | (416) | (5,670) |
| Comm Salaries for Elected Officials | 0 | (7) | (7) |
| Office of the Attorney General | (69) | (238) | (5,048) |
| Dept of Financial Institutions | (4) | 0 | (257) |
| Dept Community, Trade, Econ Dev | (12) | (552) | (800) |
| Office of Financial Management | (7) | (648) | (680) |
| Office of Administrative Hearings | (4) | 0 | (375) |
| Department of Personnel | (8) | 0 | (659) |
| State Lottery Commission | (7) | 0 | (670) |
| Personnel Appeals Board | (0) | 0 | (6) |
| Department of Retirement Systems | (10) | 0 | (827) |
| State Investment Board | (5) | 0 | (1,032) |
| Department of Revenue | (34) | (3,710) | (3,833) |
| Board of Tax Appeals | (1) | (81) | (81) |
| Department of Information Services | (14) | 0 | (676) |
| Office of Insurance Commissioner | (12) | 0 | (1,192) |
| State Board of Accountancy | 0 | 0 | (6) |
| WA State Liquor Control Board | (39) | 0 | (3,179) |
| Utilities and Transportation Comm | (9) | 0 | (1,092) |
| Board for Volunteer Firefighters | 0 | 0 | (6) |
| Military Department | (6) | (290) | (639) |
| Public Employment Relations Comm | (0) | (10) | (99) |
| Total Governmental Operations | (293) | (\$8,020) | (\$30,654) |

| | | | |
|-------------------------------------|----------------|-------------------|-------------------|
| DSHS | | | |
| Children and Family Services | (72) | (5,485) | (6,858) |
| Juvenile Rehabilitation | (31) | (2,392) | (2,451) |
| Mental Health | (65) | (3,427) | (3,817) |
| Developmental Disabilities | (18) | (1,325) | (2,178) |
| Long-Term Care | (35) | (1,316) | (2,439) |
| Economic Services Administration | (175) | (7,375) | (18,437) |
| Alcohol & Substance Abuse | (5) | (518) | (549) |
| Medical Assistance Payments | (36) | (840) | (1,714) |
| Administration/Support Svcs | (46) | (2,820) | (4,516) |
| Total DSHS | (\$483) | (\$25,498) | (\$42,959) |
| Other Human Services | | | |
| WA State Health Care Authority | (12) | 0 | (1,112) |
| Human Rights Commission | (2) | (140) | (219) |
| Bd of Industrial Insurance Appeals | (5) | 0 | (562) |
| Criminal Justice Training Comm | (3) | 0 | (350) |
| Department of Labor and Industries | (94) | (333) | (10,070) |
| Indeterminate Sentence Review Board | 0 | (16) | (16) |
| Department of Health | (26) | (442) | (1,108) |
| Department of Veterans' Affairs | (22) | (304) | (1,070) |
| Department of Corrections | (56) | (5,681) | (5,738) |
| Dept of Services for the Blind | (4) | (52) | (212) |
| Sentencing Guidelines Commission | (1) | (214) | (214) |
| Department of Employment Security | (80) | 0 | (8,451) |
| Total Other Human Services | (\$305) | (\$7,182) | (\$29,122) |
| Natural Resources | | | |
| Columbia River Gorge Commission | (0) | (6) | (12) |
| Department of Ecology | (42) | (1,382) | (5,053) |
| WA Pollution Liab Insurance Program | (2) | 0 | (272) |
| State Parks and Recreation Comm | (49) | (3,008) | (4,484) |
| Interagency Comm for Outdoor Rec | (1) | 0 | (136) |
| Environmental Hearings Office | 0 | (158) | (158) |
| State Conservation Commission | (0) | (2) | (10) |
| Dept of Fish and Wildlife | (63) | (3,418) | (6,952) |
| Department of Natural Resources | (87) | (2,278) | (8,602) |
| Department of Agriculture | (32) | (431) | (2,868) |
| Total Natural Resources | (\$276) | (\$10,683) | (\$28,547) |
| Transportation | | | |
| Washington State Patrol | (12) | (865) | (1,730) |
| Department of Licensing | (8) | (272) | (518) |
| Total Transportation | (\$20) | (\$1,137) | (\$2,248) |

| | | | |
|---|------------------|--------------------|--------------------|
| Superintendent of Public Instruction | (34) | (2,998) | (3,410) |
| Higher Education | | | |
| Higher Education Coordinating Board | (1) | (232) | (232) |
| University of Washington | (90) | (10,562) | (10,858) |
| Washington State University | (66) | (7,406) | (7,406) |
| Eastern Washington University | (14) | (1,532) | (1,532) |
| Central Washington University | (11) | (1,468) | (1,468) |
| The Evergreen State College | (14) | (1,508) | (1,508) |
| Western Washington University | (22) | (2,628) | (2,628) |
| Community/Technical College System | (133) | (19,448) | (19,448) |
| Total Higher Education | (\$351) | (\$44,784) | (\$45,080) |
| Other Education | | | |
| State School for the Blind | (2) | (248) | (248) |
| State School for the Deaf | (4) | (368) | (368) |
| Work Force Trng & Educ Coord Board | (1) | (32) | (50) |
| Washington State Arts Commission | (0) | (28) | (28) |
| Washington State Historical Society | (2) | (666) | (666) |
| East Wash State Historical Society | (1) | (50) | (50) |
| Total Other Education | (\$11) | (\$1,392) | (\$1,410) |
| Special Approps to the Governor* | 0 | (23,408) | (23,408) |
| Statewide Total (net) | (\$1,866) | (\$131,198) | (\$220,423) |
| *Details are provided in Appendices 2 and 3. | | | |

Appendix 2

2003-05 Omnibus Operating Budget Reductions to GF-S Personal Service Contracts, Travel, and Equipment

LEAP Document 2003-32, April 2, 2003

(Dollars in Thousands)

| | <u>GF-S</u> |
|--------------------------------------|------------------|
| Legislative | |
| House of Representatives | (234) |
| Senate | (126) |
| Joint Leg. Audit & Review Committee | (88) |
| Leg Evaluation & Account Prog Comm | (35) |
| Office of State Actuary | 0 |
| Joint Legislative Systems Committee | (199) |
| Statute Law Committee | (3) |
| Redistricting Commission | (9) |
| Legislative Total | (\$695) |
| Judicial | |
| Supreme Court | (23) |
| State Law Library | (2) |
| Court of Appeals | (18) |
| Commission On Judicial Conduct | (24) |
| Office of Administrator for Courts | (25) |
| Judicial Total | (\$92) |
| Governmental Operations | |
| Office of the Governor | (19) |
| Office of Lieutenant Governor | (6) |
| Public Disclosure Commission | (10) |
| Office of the Secretary of State | (63) |
| Governor's Office of Indian Affairs | (17) |
| Comm on Asian Pacific Amer Affairs | (1) |
| Office of State Auditor | (22) |
| Comm on Salaries Elected Officials | (2) |
| Office of Attorney General | (39) |
| Caseload Forecast Council | (5) |
| Community, Trade & Economic Develop | (815) |
| Economic & Revenue Forecast Council | (1) |
| Office of Financial Management | (241) |
| Wa State Comm On Hispanic Affairs | (4) |
| Wa St Comm African-American Affairs | (3) |
| Department of Revenue | (1,083) |
| Board of Tax Appeals | (23) |
| Dept of General Administration | (2) |
| Liquor Control Board | (22) |
| Military Department | (98) |
| Public Employment Relations Comm | (28) |
| Growth Management Hearings Board | (19) |
| Governmental Operations Total | (\$2,525) |

| | |
|-------------------------------------|------------------|
| DSHS | |
| Children and Family Services | (334) |
| Juvenile Rehabilitation | (178) |
| Mental Health | (596) |
| Developmental Disabilities | (414) |
| Long-Term Care | (562) |
| Economic Services Administration | (2,080) |
| Alcohol And Substance Abuse | (30) |
| Medical Assistance Payments | (307) |
| Vocational Rehabilitation | (55) |
| Administration/Supporting Services | (180) |
| Information System Services | (579) |
| Total DSHS | (\$5,315) |
| Other Human Services | |
| Human Rights Commission | (25) |
| Department of Labor and Industries | (79) |
| Indeterminate Sentence Review Board | (6) |
| Home Care Quality Authority | (1) |
| Department of Health | (525) |
| Department of Veterans Affairs | (112) |
| Department of Corrections | (2,637) |
| Dept of Services for the Blind | (64) |
| Sentencing Guidelines Commission | (29) |
| Other Human Services | (\$3,479) |
| Natural Resources | |
| Columbia River Gorge Commission | (3) |
| Department of Ecology | (504) |
| State Parks and Recreation Comm | (334) |
| Interagency Comm for Outdoor Rec | (15) |
| Environmental Hearings Office | (4) |
| State Conservation Commission | (20) |
| Department of Fish and Wildlife | (557) |
| Department of Natural Resources | (576) |
| Department of Agriculture | (204) |
| Natural Resources Total | (\$2,216) |
| Transportation | |
| Washington State Patrol | (277) |
| Department of Licensing | (30) |
| Transportation Total | (\$307) |
| Supt of Public Instruction | (836) |

| | |
|-------------------------------------|-------------------|
| Higher Education | |
| Higher Education Coordinating Board | (46) |
| University of Washington | (1,344) |
| Washington State University | (345) |
| Eastern Washington University | (209) |
| Central Washington University | (56) |
| Spokane Intercollege R&T Institute | (51) |
| Community/Technical College System | (2,210) |
| Higher Education Total | (\$4,262) |
| Other Education | |
| State School for the Blind | (38) |
| State School for the Deaf | (44) |
| Work Force Train & Educ Coord Board | (276) |
| State Library | (36) |
| Washington State Arts Commission | (14) |
| Washington State Historical Society | (6) |
| East Wash State Historical Society | (9) |
| Other Education Total | (\$423) |
| Statewide Total (net) | (\$20,150) |

Appendix 3

2003-05 Omnibus Operating Budget Legislative Liaisons Reductions LEAP Document 2003-34, April 3, 2003 (Dollars in Thousands)

| | <u>GF-S</u> | <u>Total Funds</u> |
|---|-------------|--------------------|
| Judicial | | |
| Office of Administrator for Courts | 0 | -173 |
| Judicial Total | 0 | -173 |
| Governmental Operations | | |
| Dept of Financial Institutions | 0 | -173 |
| Dept Community, Trade, Econ Dev | -87 | -173 |
| Office of Financial Management | -200 | -200 |
| Department of Retirement Systems | 0 | -173 |
| State Investment Board | 0 | -141 |
| Department of Revenue | -173 | -173 |
| Dept of General Administration | 0 | -138 |
| Department of Information Services | 0 | -173 |
| Office of Insurance Commissioner | 0 | -151 |
| WA State Liquor Control Board | 0 | -162 |
| Utilities and Transportation Comm | 0 | -164 |
| Governmental Operations Total | -459 | -1,821 |
| Dept of Social and Health Services | -93 | -185 |
| Other Human Services | | |
| WA State Health Care Authority | 0 | -186 |
| Department of Labor and Industries | 0 | -285 |
| Department of Health | -71 | -354 |
| Department of Veterans' Affairs | -123 | -123 |
| Department of Corrections | -177 | -177 |
| Department of Employment Security | 0 | -173 |
| Other Human Services Total | -372 | -1,299 |
| Natural Resources | | |
| Department of Ecology | -54 | -173 |
| State Parks and Recreation Comm | -95 | -173 |
| Interagency Comm for Outdoor Rec | 0 | -165 |
| Dept of Fish and Wildlife | -66 | -173 |
| Department of Agriculture | -93 | -309 |
| Natural Resources Total | -307 | -993 |
| Transportation | | |
| Washington State Patrol | 0 | -201 |
| Department of Licensing | -17 | -173 |
| Transportation Total | -17 | -374 |

| | | |
|-------------------------------------|---------------|---------------|
| Higher Education | | |
| Higher Education Coordinating Board | -207 | -207 |
| University of Washington | -437 | -437 |
| Washington State University | -251 | -251 |
| Eastern Washington University | -199 | -199 |
| Central Washington University | -173 | -173 |
| The Evergreen State College | -181 | -181 |
| Western Washington University | -207 | -207 |
| Community/Technical College System | -216 | -216 |
| Higher Education Total | -1,870 | -1,870 |
| Other Education | | |
| Work Force Trng & Educ Coord Board | -140 | -140 |
| Other Education Total | -140 | -140 |
| Statewide Total (net) | -3,258 | -6,855 |

