

2010 SUPPLEMENTAL OPERATING BUDGET

OVERVIEW

AS PASSED LEGISLATURE

**SENATE WAYS & MEANS COMMITTEE
APRIL 13, 2010**

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2010 SUPPLEMENTAL OPERATING BUDGET SOLUTION

STATE FISCAL PICTURE FOR 2010

In the last legislative session, the Legislature and the Governor addressed a projected budget problem of approximately \$9 billion over the three year time period between fiscal years 2009 and 2011. To solve this \$9 billion budget problem, the 2009-11 enacted budget made program and compensation reductions totaling approximately \$3.8 billion, used federal stimulus and capital budget resources, and utilized a variety of other funds to balance the operating budget.

Since last spring, economic conditions have worsened and state revenue collections have been lower than anticipated when the Legislature passed the biennial budget. In the revenue forecasts since the last legislative session, the Economic and Revenue Forecast Council has lowered their General Fund-State revenue projections for this biennium by approximately \$1.8 billion including the \$154 million loss from the DOT Foods v. Department of Revenue court decision.

Partially related to overall economic conditions, caseloads and some costs associated with maintaining current programs and services have also increased beyond the level assumed in the Legislative budget adopted last spring. Additionally, due to lawsuits and a variety of other reasons, the amount of the savings actually realized from some of the Legislative budget reductions in the enacted budget are less than originally anticipated. The maintenance level increases associated with these items total \$660 million.

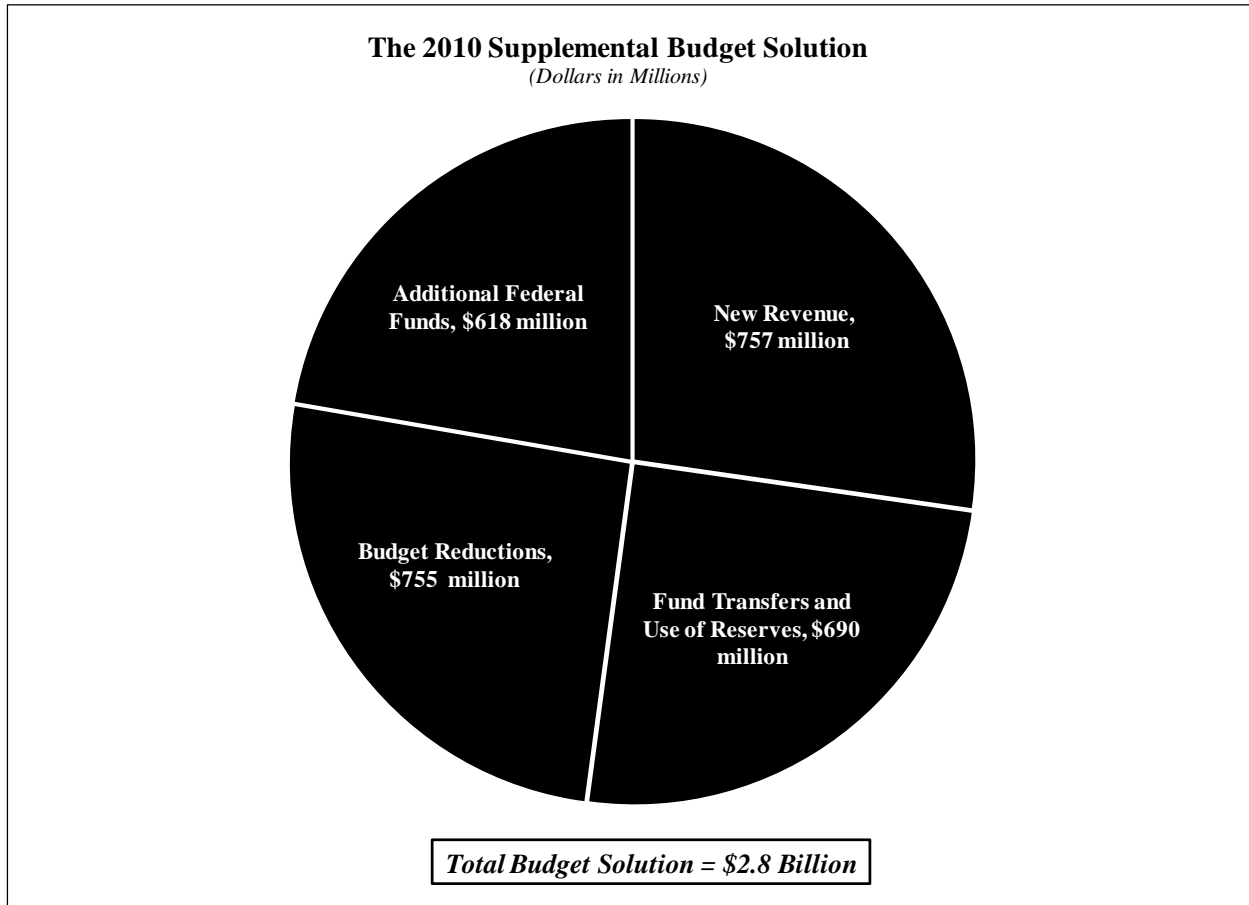
Finally, the Legislative budget also includes \$403 million in policy level increases. While some of these items are depicted at policy level because they are considered to be changes from previous legislative fiscal policy, many of these increases are also associated budget reductions that could not be achieved or additional impacts of court decisions. The three largest true enhancements in the Legislative budget are: \$65 million for additional inflation in employee health benefit costs; \$30 million for an enhancement to K-12 levy equalization; and \$18 million for additional worker retraining slots at community and technical colleges.

The combination of all these factors created a gap between the amount of available resources and current services spending projections. Based on the assumptions used in the development of the 2010 supplemental operating budget, including some selected policy level additions, this new budget problem is approximately \$2.8 billion between now and the end of fiscal year 2011.

SOLVING THE \$2.8 BILLION BUDGET PROBLEM

As depicted on the chart on the next page, the Legislative budget solution to this \$2.8 billion budget gap involves four main components. First, additional budget reductions are made totaling approximately \$755 million. Second, the Legislative budget incorporates approximately \$618 million of approved or anticipated additional federal relief to Washington state. Third, the Legislative budget transfers \$690 million in the Budget

Stabilization Account and other funds to the state general fund. Finally, the Legislative budget assumes \$757 million in net new resources from legislation raising revenue.



BUDGET REDUCTIONS -- \$755 MILLION

Some of the major reductions include: (1) the elimination of the remaining \$79 million in Initiative 728 per student allocations to school districts; (2) \$73 million from reducing funding to institutions of higher education to near the minimum level required for the receipt of federal stimulus funds; (3) \$67 million in savings from legislation imposing an additional assessment on hospitals and leveraging federal match; (4) \$49 million reduction to all areas of state government based on legislation requiring temporary layoffs or salary savings; (5) \$46 million from correctional facility capacity reductions; (6) \$30 million from reducing the grade 4 class size enhancement; (7) \$30 million from information technology savings; (8) \$28 million from reform of the Security Lifeline programs (formerly GA-U); and (9) \$15 million in savings by eliminating the learning improvement day for teachers.

FEDERAL STIMULUS FUNDS -- \$618 MILLION

The federal American Recovery and Reinvestment Act (ARRA) and other federal assistance provided approximately \$3 billion in resources that helped to solve the budget problem last year. One of the largest sources of federal assistance came in the form of an enhancement to

the Federal Medical Assistance Percentage (FMAP), which is the share of Medicaid costs that is paid by the federal government. Under current law, the FMAP enhancement is set to end in December 2010. Based on the provisions of legislation that is being considered by Congress, the Legislative budget anticipates \$480 million in additional resources based on the FMAP enhancement being extended by an additional six months through June 2011.

Additionally, based on a recent U.S. Department of Health and Human Services reversal of a decision to disallow state savings from reduced Medicare Part D "clawback" payments for prescription drugs, it is estimated that the state will receive \$87 million in additional federal resources beyond the level assumed in the maintenance level budget. The Legislative budget also directly offsets \$39.5 million in the Security Lifeline (formerly GA-U) and Basic Health programs based on receiving a waiver allowing a portion of those state costs to be supported with federal funds. Also, the Legislative budget assumes additional federal resources of approximately \$12 million from two smaller sources of federal aid.

FUND TRANSFERS & USE OF RESERVES -- \$690 MILLION

The Legislative budget makes \$461 million in additional transfers from various funds to increase General Fund-State resources. Some of the largest transfers include: \$141 million from the Public Works Account; \$101 million from the Education Savings Account; \$21 million from the Job Development Account; \$18 million from the Education Construction Account; \$16 million from the Life Science Discovery Fund; \$16 million from State and Local Toxics Account; \$15 million from the Performance Audit Fund; \$15 million from the Public Service Revolving Account; \$12 million from the Treasury Service Account; \$10 million from the Savings Incentive Account; and \$10 million from the Streamlined Sales Tax Account.

In fiscal years 2010 and 2011, the Legislative budget also transfers a total of \$229 million from the Legislative budget Stabilization Account (aka "Rainy Day Fund") to the state general fund. After these transfers, there will be no ending fund balance in the Rainy Day Fund.

NET NEW REVENUE -- \$757 MILLION

The revenue section of the highlights beginning on page 6 summarizes the \$794 million of new revenue identified in the conference report on revenue. This includes \$15 million from additional lottery revenues and \$10 million from the Convention and Trade Center Account which is shown in other sections of this document. With \$12 million in legislation that decrease revenue, the net increase is \$757 million.

Passed Legislature (General Fund-State & Ed Legacy) Balance Sheet
(Dollars in Millions)

	<u>2009-11</u>
Beginning Balance	310
 Revenue	
November Revenue Forecast	29,224
February Forecast Change	14
Transfer to Budget Stabilization Account	(252)
Transfer of Related Fund Balances	89
DOT Foods, Inc. v. Dept. of Revenue	(154)
Revenue Increase (w-o \$15 M lottery & \$10 M Convention Center)	769
Revenue Decrease Legislation	(12)
Total Revenue	29,679
 Other Resource Changes	
Enacted Fund Transfers & Other Adjustments	831
Use Budget Stabilization Account (\$45 million assumed in enacted budget)	274
Budget Driven Revenue	(1)
2010 Capital Related Transfers	187
2010 Transfers from Near GF-S	(108)
2010 Fund Transfers Into Near GF-S	274
Other Resource Changes	1,457
<hr/>	
Total Resources	31,446
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Spending	
Enacted Budget (includes Ed Legacy)	31,389
2010 Maintenance Level Changes	660
ESHB 2921 - Early Action	(45)
Policy Level Reductions	(710)
Policy Level Increases	403
Federal Funds	(618)
Opportunity Pathways	(114)
Total Spending	30,964
<hr/>	
Ending Balance & Reserves	
<i>Unrestricted Ending Fund Balance</i>	482
<i>Budget Stabilization Account Balance</i>	0
Total Reserves	482
<hr/>	

New Revenue

SOURCE	09-11
<u>2ESSB 6143</u>	
Dot Foods	\$ 155.00
Nexus	\$ 84.70
Sales tax applied to candy and gum with B&O credit for jobs	\$ 30.50
Tax avoidance	\$ 8.50
Property Mgmt. B&O (non-profit exemption)	\$ 6.90
Agrilink	\$ 4.10
Homestreet fix	\$ 3.60
Corp. Dir. B&O	\$ 2.10
Bad debt	\$ 1.70
Livestock nutrients	\$ 1.30
PUD clarification	\$ 1.20
Tax debts corp.	\$ 1.10
TEMPORARY	
Services B&O to 1.8% with hospitals exempted and sm. bus. credit doubled (<u>credit permanent</u>)	\$ 241.90
Beer Tax increase of 50 cents per gallon, microbreweries exempt - 28 cent increase/six pack	\$ 59.00
Pop tax increase exempting bottlers under \$10 million in sales - 2 cents per 12 oz. bottle	\$ 33.50
Sales tax applied to bottled water (exemption for prescription water and unavailable pot able water)	\$ 32.60
OTHER	
Cigarettes/OTP (ESHB 2493)	\$ 101.40
Convention center	\$ 10.00
Lottery marketing	\$ 15.00
TOTAL	\$ 794.10

Other Revenue Legislation

Bill	Subject	09-11
ESHB 3014	Rural co. investmnt projects	(\$7.8)
SSB 6504	Crime victims	(\$2.7)
SHB 2620	Excise taxation	(\$1.0)
SB 6206	Tax incentive accountability	(\$0.3)
SSB 6614	Bonneville power admin	(\$0.3)
SSB 6339	Wax and ceramic materials	(\$0.2)
SSB 6712	Extending expiring tax incentives	(\$0.2)
E2SHB 1597	Tax programs administration	\$0.0
SHB 2402	Farmers market/property tax	\$0.0
SHB 2525	Public facilities districts	\$0.0
EHB 2672	Aluminum smelters/tax relief	\$0.0
SHB 2758	Wholesale sales/excise tax	\$0.0
SHB 2990	Water-sewer districts	\$0.0
SHB 3066	Tax reporting surveys	\$0.0
ESHB 3179	Local excise tax provisions	\$0.0
ESSB 6130	Initiative measure no. 960	\$0.0
E2SSB 6609	Local govt infrastructure	\$0.0
SSB 6727	Health sciences and services	\$0.0
ESSB 6737	Air ambulance tax exemption	\$0.0
ESSB 6789	Equipment in data centers	\$0.0
SSB 6831	Estates and trusts	\$0.0
SB 6855	Community center taxation	\$0.0
SSB 6846	E-911	\$0.2
Total		(\$12.3)

FUNCTIONAL AREAS OF GOVERNMENT

STATEWIDE CHANGES

TEMPORARY LAYOFF AND MANAGEMENT REDUCTION SAVINGS - \$48.0 MILLION GENERAL FUND-STATE SAVINGS

Pursuant to Engrossed Substitute Senate Bill 6503 (agency closures), as amended, funding is reduced to reflect savings achieved from mandatory and voluntary leave without pay, reduced work hours, voluntary retirements and separations, layoffs, and other methods. State agencies and institutions of higher learning will either develop approved savings plans or will be subject to closure on ten specified days over fiscal year 2011. Exemptions to closure requirements are provided for a variety of public safety, instructional, and other critical state services. In addition, state agencies will reduce expenditures on salaries for Washington Management Service and at-will management staff for a General Fund-State savings of \$10 million. In implementing the compensation reduction plans, agencies are encouraged to preserve family wage jobs.

INFORMATION TECHNOLOGY (IT) EFFICIENCIES - \$30 MILLION GENERAL FUND-STATE

Agencies will achieve savings through strategies such as buying wireless service from master contracts, deferring replacement of IT hardware, and consolidation of email and phone services, outlined in Engrossed Substitute House Bill 3178 (state government technology use). Of the savings, \$15 million is achieved from reducing the rates state agencies pay to the Department of Information Services for IT services.

PRINTING EFFICIENCIES - \$1.5 MILLION GENERAL FUND-STATE

The Office of Financial Management will work with the Department of Information Services and the Department of Printing to develop an analysis of the state's printing processes to identify areas of potential savings. Strategies to be examined in this analysis include standardizing envelopes, utilizing print management and allowing select state agencies to directly acquire printing services. These strategies and others will result in \$1.5 million in savings to the state general fund.

K-12 PUBLIC SCHOOLS

OVERVIEW

In the 2009-11 biennium, the state is estimated to spend approximately \$15.9 billion (\$13.4 billion state, \$2.5 billion other funds) for the support of K-12 public schools.

General Fund-State costs for 2009-11 for public schools increased \$252.1 million between enactment of the Legislative budget in April 2009 to the February 2010 revenue and caseload forecast updates, contributing to the overall deficit that is addressed in the Legislative 2010 supplemental budget.

The Legislature incorporates these additional costs and, at the same time, protects spending on all programs considered "basic education." In addition, the Legislative budget enhances the local levy program by lifting the local levy lid from 24 to 28 percent and lifting the local effort

assistance (LEA) percentage from 12 to 14 percent. Local effort assistance is fully funded. The Legislative budget continues to fully fund important non-basic education programs such as the highly-capable, or gifted, program; all-day kindergarten for the 20 percent of schools with the highest poverty levels; and children's food programs.

Reductions in the K-12 area needed to balance the overall budget net to \$120.0 million, or 0.9 percent of the public schools' maintenance-level budget.

MAJOR INCREASES

LEVY CHANGES - \$29.8 MILLION GENERAL FUND-STATE

The Legislative budget lifts the local levy lid by four percent through 2017, retaining above the new lid the grandfathered districts' additional increment. In addition, \$21.8 million in additional state payments to school districts would be generated by lifting the LEA percentage from 12 percent to 14 percent. The Legislative budget provides these additional funds to districts, with passage of Substitute House Bill 2893 (changing school levy provisions). The Legislative budget funds the per-pupil inflator at 4 percent, rather than 1 percent - further increasing local school district levy capacity and increasing state payments to school districts by an additional \$8.0 million. In addition to the state payment increases totaling \$29.8 million, the bill and the Legislative budget policies will increase local levy capacity — for example, by \$151.8 million in calendar year 2011.

EDUCATION REFORM - \$5.1 MILLION GENERAL FUND-STATE

Targeted increases in the Legislative budget include \$2.4 million in General Fund-State funds for implementation of Engrossed Second Substitute Senate Bill 6696 (regarding education reform). Engrossed Second Substitute Senate Bill 6696 is designed to help the state compete for federal Race to the Top funds through identifying low-performing schools, creating new state authority to help turn those schools around, and supporting evaluation of teachers and principals in classrooms and schools.

The Legislative budget funds the ongoing implementation of last year's education reform bill that restructured the formulas that fund public schools in a way that is more transparent and understandable to parents, educators, school boards, and the general public. The Legislative budget includes \$2.5 million to reprogram the state's payment systems for general payments and for a new pupil-transportation funding system to match the new funding structure, as enacted into law under Substitute House Bill 2776 (funding distribution formulas for K-12 education).

MAJOR SAVINGS

REDUCE INITIATIVE 728 ALLOCATIONS - \$79 MILLION GENERAL FUND-STATE SAVINGS

The Legislative budget achieves the necessary levels of reduction by decreasing support for non-basic education programs. Initiative 728, approved by voters in 2000, created allocations for school districts to reduce class sizes, offer extended learning opportunities, provide early learning programs, or provide professional development. In the 2010-11

school year, per-student allocations are \$99 per student. The Legislative budget eliminates these per-student allocations.

REDUCE OR CLASS SIZE ENHANCEMENTS FOR GRADE 4 - \$30 MILLION GENERAL FUND-STATE SAVINGS

State law requires certain levels of staffing per FTE student. Currently, the law requires: 49 certificated instructional staff (CIS) to 1,000 annual average FTE students enrolled in grades kindergarten through three; 46 CIS to 1,000 annual average FTE students in grades four through twelve; 4 certificated administrative staff to 1,000 annual average FTE students in grades kindergarten through twelve; and 16.67 classified personnel to 1,000 average FTE students enrolled in grades kindergarten through twelve.

The enacted budget provides enhancements over these levels to reduce class sizes — funding 53.17 CIS per 1,000 average annual FTE students in grades kindergarten through four.

The Legislative budget decreases these enhancements for Grade 4 from the current ratios of 53.17 staff per 1,000 student FTEs to 47.4 staff per 1,000 student FTEs —decreasing costs by \$30.0 million.

BUS DEPRECIATION - \$22 MILLION GENERAL FUND-STATE SAVINGS.

The Office of the Superintendent of Public Instruction provides payments to school districts over a period of years, based on a depreciation schedule, to build up funding required to replace school buses. The Legislative budget reduces funding for these payments, providing funding to cover the sales tax cost of replacement in the final year of the bus's expected life cycle, rather than providing a portion of these funds to districts each year.

LEARNING IMPROVEMENT DAY - \$16 MILLION GENERAL FUND-STATE SAVINGS.

The Legislative budget eliminates funding for the learning-improvement day for teachers and other certificated instructional staff, decreasing costs by \$15.6 million.

REDUCE OR ELIMINATE GRANTS AND STATEWIDE PROGRAMS - \$10 MILLION GENERAL FUND-STATE SAVINGS

A number of grants and statewide programs are reduced or eliminated, decreasing costs by \$9.9 million. These include reduction of career and technical education grants and Building Bridges grants, reduction of several teacher-preparation loan and stipend programs administered through the Professional Educator Standards Board, and a 50 percent reduction in the state-funded focused assistance program, among others.

EARLY LEARNING & CHILD CARE

OVERVIEW

The Legislative budget preserves all early learning and child care programs. Reductions and savings are realized through administrative reductions, small programmatic reductions, and the use of the Opportunity Pathways Account as created in Senate Bill 6409 (opportunity pathways account).

MAJOR INCREASES

PRESERVE WORKING CONNECTIONS CHILD CARE PROGRAM (WCCC)

The Temporary Assistance For Needy Families (TANF) program, which includes child care, is facing a \$108 million deficit. The economy is increasing the number of working poor and creating a larger contingent of families who need to participate in work activities in order to receive cash benefits. The Legislative budget achieves \$500,000 in savings through consolidating child care policy operation functions in the Department of Early Learning (DEL) and DSHS. Child care policy operations are transferred to DSHS to be closer to eligibility determinations. The Legislative budget further assumes cost avoidance in child care through reduced work requirements in the TANF program. The Legislative budget fully funds WCCC subsidies.

MAJOR SAVINGS

SMALL PROGRAM REDUCTIONS - \$428,000 GENERAL FUND-STATE SAVINGS

Savings are achieved through reducing state funding for Child Care Resource and Referral (\$212,000), maximizing Head Start funding (\$193,000) and administrative reductions.

HIGHER EDUCATION

OVERVIEW

The Legislative budget provides increased opportunities for unemployed workers to build new skills; maintains the full range of ways in which state government provides financial assistance to citizens pursuing higher education; and minimizes further reductions to the public colleges and universities to the extent possible.

As provided in the original biennial budget, the average state need grant award will increase to \$4,000 per full-time student next year in order to keep pace with anticipated tuition increases. Grants will be awarded to approximately 650 additional students, bringing the total number of FTE recipients to over 57,000.

INCREASES

WORKER RETRAINING - \$17.6 MILLION OPPORTUNITY EXPRESS ACCOUNT-STATE

Funding is provided for an additional 3,800 full-time equivalent (FTE) unemployed workers to train at community and technical colleges for new jobs in high-demand fields.

OPPORTUNITY GRANTS - \$1.0 MILLION OPPORTUNITY EXPRESS ACCOUNT-STATE

Financial aid is provided for additional community and technical college students who are pursuing training in high-demand fields.

MAJOR SAVINGS

PUBLIC COLLEGES & UNIVERSITIES - \$73.1 MILLION GENERAL FUND-STATE SAVINGS

Direct appropriations to each of the state's six public universities and 34 community and technical colleges are reduced by an additional 6 percent in fiscal year 2011. This 6 percent adjustment is after accounting for the \$17.2 million that the public colleges and universities, like all state agencies, are expected to achieve through furloughs, reductions in hours worked, and other temporary compensation reductions.

As with implementation of the reductions in the original biennial budget, colleges and universities are expected to focus first on achieving savings through: purchasing efficiencies; reduced energy use; administrative reductions; and program consolidations. However, additional reductions in course offerings, increases in class sizes, and reduced student support services are also likely.

STATE WORK STUDY PROGRAM - \$7.4 MILLION GENERAL FUND-STATE SAVINGS

Funding is reduced by approximately 30 percent in the second year of the biennium. These savings are to be achieved through a combination of actions, such as maintaining average student earnings at the current level rather than increasing them to keep pace with the estimated costs of attendance; increasing the required employer share of wages to approximately 50 percent for proprietary employers and to 30 percent for non-profits (from 35 percent and 20 percent now, respectively); and discontinuing non-resident student eligibility for the program.

HEALTH PROFESSIONAL LOANS & SCHOLARSHIPS - \$4.4 MILLION GENERAL FUND-STATE SAVINGS

Funding is suspended for the health professional conditional scholarship and loan re-payment program. Because of this suspension, approximately 100 applicants will not receive scholarships or loan re-payments while preparing for or practicing in a health professional shortage area. Funding continues to be available for scholarships and three-year loan re-payment commitments awarded in previous years.

EDUCATIONAL OPPORTUNITY GRANTS - \$2.6 MILLION GENERAL FUND-STATE SAVINGS

Funding is suspended for a program that provides additional financial assistance for community and technical college graduates who would otherwise be unable to complete their studies at a distant public baccalaureate institution because of work or financial obligations in their home community. Funding continues to be available to complete scholarship commitments to current recipients, but no new applicants will be selected.

FUTURE TEACHERS SCHOLARSHIP - \$1.0 MILLION GENERAL FUND-STATE SAVINGS

Funding is suspended for the future teacher conditional scholarship program. Consequently, approximately 25 new applicants will not receive scholarships while preparing for a teaching career. Funding continues to be available for current recipients who were awarded scholarships in previous years to complete their studies.

WASHINGTON SCHOLARS AND WASHINGTON AWARD FOR VOCATIONAL EXCELLENCE - \$900,000 GENERAL FUND-STATE SAVINGS

Each year, three outstanding high school graduates from each legislative district are selected as Washington Scholars, and three outstanding vocational/technical graduates receive the Washington Award for Vocational Excellence. During the 2010-11 academic year, only one student will be awarded scholarships equivalent to at least 90 percent of full tuition and fees at a Washington public college or university, rather than all three. Funding continues to be available for current recipients who were awarded scholarships in previous years to complete their studies.

GENERAL ASSISTANCE REFORM

OVERVIEW

The General Assistance Program is a state-funded program that provides cash and medical benefits for persons who are physically and/or mentally incapacitated and unemployable for 90 days from the date of application. The Security Lifeline Act modified the program including changing the name. The bill places a 24-month limit within a 5-year period for participation in the "Unemployable" portion of the program but does not affect the "Expedited" portion of the program. The bill further creates a housing voucher program, expands the linkage to the Division of Vocational Rehabilitation, and expands drug treatment for those with co-occurring chemical dependency.

MAJOR INCREASES

TRANSITION TO MANAGED CARE - \$23.9 MILLION GENERAL FUND-STATE

The 2009 legislature approved the transition of Lifeline clients to a medical managed care system. This added a mental health benefit and care coordination to the program, resulting in an additional cost of \$72 per member per month.

CASELOAD GROWTH ABOVE APPROPRIATIONS - \$22.2 MILLION GENERAL FUND-STATE; \$4.6 MILLION FEDERAL

The 2009 Legislature capped the Lifeline program appropriations but caseloads have grown above the levels supported by this limit. The 2010 supplemental budget funds this caseload growth at about 7 percent per year.

CASH CASELOAD GROWTH ABOVE APPROPRIATIONS - \$5.3 MILLION GENERAL FUND-STATE

The cash grant caseload is projected to increase by more than 7 percent each year this biennium. Funding is provided for these additional costs at maintenance level.

MAJOR SAVINGS

MEDICAL - \$15.9 MILLION GENERAL FUND-STATE SAVINGS

Funding is provided for a reformed Lifeline program. Appropriations assume that effective September 1, 2010, DSHS will implement a time limit of 24 months in a 60 month period. This results in a caseload reduction of approximately 2,350 clients

resulting in a 13 percent reduction in the average annual caseload from 18,160 to 15,810 for fiscal year 2011.

CASH SAVINGS - \$12.3 MILLION GENERAL FUND-STATE SAVINGS

The program achieves savings through implementation of the 24-months within a 5-year period time limit, faster transition from Unemployable to Expedited, and stricter chemical dependency requirements. This results in a caseload reduction of approximately 2,828 clients resulting in a 13 percent reduction in the average annual caseload from 21,907 to 19,079 for fiscal year 2011.

HEALTH CARE

OVERVIEW

The Legislative budget for low-income health care emphasizes preserving eligibility for programs such as the Basic Health Plan and preserving access to the full array of Medicaid optional and mandatory services under federal law. The budget also seeks to maximize federal matching funds and restore reductions made to hospitals in the enacted 2009-11 budget.

MAJOR INCREASES

HOSPITAL SAFETY NET ASSESSMENT - \$188 MILLION HOSPITAL SAFETY NET ACCOUNT

Additional funding to hospitals of \$188 million (net of assessments paid) is provided via a Hospital Safety Net Assessment, pursuant to House Bill 2956 (hospital safety net). Hospitals pay assessments which leverage federal match and are returned to the hospitals in the form of rate increases ranging from 4 percent to 17 percent for inpatient services and from four to 41 percent for outpatient services. The assessment amounts and payment increases vary by hospital type and number of non-Medicare inpatient days, and increase over four phases from July 2009 through June 2013. The sum of \$66.8 million from these assessments is provided to the state to fund other health care programs. See related savings item.

FQHC / COMMUNITY CLINIC RATE INCREASE - \$39.9 MILLION GENERAL FUND-STATE; \$54.4 MILLION FEDERAL

In response to a 2006 federal CMS audit, the reimbursement rate to ensure that Federally Qualified Health Centers (FQHCs) are paid at their cost for Healthy Options (HO) managed care clients was reduced to be consistent with the fee-for-service encounter rate upon which it is intended to be based. In order to offset this reduction, a new Washington state specific inflationary index will be used to replace the Medicare Economic Index (MEI) in determining the FQHC fee-for-service encounter rates. Effective January 2009, encounter reimbursement rates are increased by 3.8 percent annually compared to 1.2 percent under the MEI for the 2009-11 biennium. This increase is projected to offset the reductions taken as a result of the lower HO enhancement rates and also increase utilization rates. Total expenditures in combined encounters and enhancements are projected to increase by over 38 percent from FY 2008 through FY 2011.

RESTORATION OF ADMINISTRATIVE REDUCTIONS - \$19.1 MILLION GENERAL FUND-STATE; \$19.1 MILLION FEDERAL

Administrative funding for the Medical Assistance (MAA) program is increased to offset reductions in the biennial budget. MAA will make every effort to maintain current employment levels and achieve administrative savings through vacancies and employee attrition. MAA will also implement a management strategy that minimizes disruption of service and negative impacts on employees. Functions to be maintained include the employer-sponsored insurance program staff, coordination of benefits unit staff, the payment integrity team, and family planning nursing.

FAMILY PLANNING FUNDING - \$3.0 MILLION GENERAL FUND-STATE

Funding is provided for a variety of services including: education and counseling; birth control; and STD testing and treatment.

MAJOR SAVINGS

HOSPITAL SAFETY NET ASSESSMENT - \$66.8 MILLION GENERAL FUND-STATE SAVINGS

Pursuant to House Bill 2956 (hospital safety net), after leveraging federal match and returning funding to the hospitals in the form of rate increases, the sum of \$66.8 million from these assessments is available to the state to offset costs for other health care programs.

MAINTAINING BASIC HEALTH PLAN ENROLLMENT--\$12.9 MILLION GENERAL FUND-STATE

The cost of covering an additional 4,000 Basic Health Plan (BHP) enrollees above the 2009-11 enacted budget level of 65,000 is shifted from state to federal funds upon the anticipated approval of a federal Section 1115 waiver from the Centers for Medicare and Medicaid Services (CMS). If federal funding is not received then BHP enrollment will be reduced from 69,000 to 65,000 enrollees.

REDUCTION OF DENTAL ENHANCEMENTS - \$2.5 MILLION GENERAL FUND-STATE SAVINGS; \$3.9 MILLION FEDERAL SAVINGS

Savings in dental expenditures are achieved by focusing reductions on the fastest growing cost areas of dental care. Reductions in preventive care and particularly preventive care for children will be avoided if possible.

ELIMINATION OF THE PURCHASE OF VACCINES - \$8.3 MILLION GENERAL FUND-STATE SAVINGS

In the 2009-2011 biennial budget, state funding for the universal purchase of vaccines was eliminated. The Department of Health has achieved an additional \$8.3 million in unanticipated savings related to eliminating this program. The universal purchase of vaccines will be continued through a public/private partnership established by Engrossed Senate Bill 6263 (WA vaccine association). The vaccines will be purchased using funds from private insurance carriers and federal funds.

LONG TERM CARE, DEVELOPMENTAL DISABILITIES

OVERVIEW

The Aging and Disability Services Administration (ADSA) administers the Long Term Care (LTC) and [Division of] Developmental Disabilities (DDD) programs. These two programs combined account for approximately \$2.1 billion in General Fund-State expenditures for the 2009-11 biennium.

Several savings items in the 2009-11 Biennial Appropriations Act were subsequently impacted by court action including case decisions and temporary restraining orders. The specific savings items and the relevant litigation are detailed below and the total amount of lost savings is \$41.3 million:

- Nursing Home rates--*WHCA v. Dreyfus*
- In Home Hours Reduction--*Koshelnik-Turner v. Dreyfus* and *Faith Freeman v. Dreyfus*
- Adult Day Health--*LTC Ombudsman v. Dreyfus*
- Implement Substitute House Bill 2361 (in home care/state payments)--*Carter v. Gregoire*

The Legislative budget reflects a policy that no budget area is held harmless from reductions. However, as a result of the 2009-11 Appropriations Act litigation, the reductions in ADSA programs are less than their respective share of the DSHS budget. For example, the ADSA programs are approximately 23 percent of the DSHS total maintenance level General Fund-State budget but they are less than 19 percent of all DSHS policy level reductions, not including the impact of the federal stimulus extension.

MAJOR INCREASES

The Legislative budget provides funding for increased caseloads and per client per service cost increases. Specifically, funding is provided for:

- Skilled nursing facility placements for over 10,000 residents;
- In home services (agency and individual provider) for over 33,000 elderly and disabled individuals;
- Residential (adult family home and boarding home) placements for over 16,000 individuals;
- Medicaid personal care services, which provide assistance with activities of daily living such as bathing, grooming, and toileting, for nearly 13,000 developmentally disabled adults and children who reside in their homes or in community residential facilities;
- Supported employment and day services for an additional 1,400 high school seniors graduating in fiscal years 2010 and 2011;
- The Children's Intensive In-home Behavioral Supports waiver; and
- Adult Day Health services, including transportation, are restored for over 1,500 clients.

MAJOR SAVINGS

NURSING HOME VENDOR RATE REDUCTIONS - \$10.7 MILLION GENERAL FUND-STATE SAVINGS

The Legislative budget assumes changes in the nursing home vendor rate methodology pursuant to Senate Bill 6872 (Medicaid nursing facility payments).

MEDICAID PERSONAL CARE REDUCTIONS - \$1.5 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved by using individual client assessments to allocate hours for laundry and meal preparation (\$5.1 million in savings). However, the Legislative budget also restores \$3.5 million of the reduction to Medicaid personal care hours from the 2009-11 Biennial Appropriations Act.

ADMINISTRATIVE AND OTHER REDUCTIONS - \$6.0 MILLION GENERAL FUND-STATE SAVINGS

Savings are assumed from reductions to ADSA administration, including consolidating printing and human resources functions and taking reductions in the operations of the residential habilitation centers.

RESIDENTIAL FACILITY LICENSE FEES - \$3.0 MILLION GENERAL FUND-STATE SAVINGS

The Legislative budget assumes increases in the annual license fee for nursing homes and boarding homes such that the fees are increased to fully recover the costs of the licensure program. Accordingly, the Legislative budget assumes \$700,000 in nursing home and boarding home rate enhancements to reimburse Medicaid providers for the costs of the increased license fee.

MENTAL HEALTH

MAJOR SAVINGS

STATE PSYCHIATRIC HOSPITAL STAFFING - \$4.5 MILLION GENERAL FUND-STATE SAVINGS

Staffing at the state psychiatric hospitals is reduced by approximately 1.3 percent from the level originally budgeted for the biennium. These reductions, which have been in process since July 2009 in accordance with the Governor's directive, are being accomplished primarily by holding open positions vacant and implementing scheduling efficiencies to reduce overtime costs.

LABOR & INDUSTRIES RATE CHANGES - \$1.6 MILLION GENERAL FUND-STATE SAVINGS

The state psychiatric hospitals, like other state institutional programs, are expected to identify and implement sufficient efficiencies in their operations to cover the January 2010 increases in workers' compensation costs. At the hospitals, such rates increased an average of 8 percent in January.

MEDICAID MATCH ON PACT SERVICES - \$1.3 MILLION GENERAL FUND-STATE SAVINGS

Program for Assertive Community Treatment (PACT) teams provide evidence-based, intensive, and multi-disciplinary community mental health services to individuals at demonstrated risk of repeated and long-term psychiatric hospitalization. The department is to implement strategies by January 2011 to incorporate most of the services provided into Medicaid managed care rates, while maintaining service quality and consistency with evidence-based practice.

OTHER HUMAN SERVICES

DSHS - ECONOMIC SERVICES ADMINISTRATION

OVERVIEW

The Legislative budget focuses on ensuring that access to low income benefit programs continues. The Legislative budget maintains full access to child care, food stamps, and other programs. Of particular concern is addressing the \$108 million shortfall in the TANF program. The Legislative budget adds revenue and makes expenditure reductions in order to maintain the program without large caseload reductions.

MAJOR INCREASES

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES - \$16.8 MILLION GENERAL FUND-STATE

The Legislative budget provides additional state funding and \$62 million in additional federal funding to maintain TANF services through January 2011. The additional funding is designed to keep the program balanced until the legislative and executive branch can work together to structure a long-term, sustainable program.

MAJOR SAVINGS

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM - \$24.0 MILLION GENERAL FUND-STATE SAVINGS

The Legislative budget suspends the Community Works Program which has an annual participation of 5,000 clients. Other savings are found through leveraging increased federal dollars at WorkSource offices, decreasing Washington's job search policy and work requirements from 32 hours per week to 20 hours per week to align with the more lenient federal rules, and less child care expenditures as a result of the rule changes. The Legislative budget assumes savings from sanctioning participants who repeatedly do not comply with program rules.

ADMINISTRATIVE REDUCTIONS - \$5.8 MILLION GENERAL FUND-STATE

Savings are achieved through a variety of administrative reductions.

DSHS - CHILDREN'S ADMINISTRATION

OVERVIEW

The Legislative budget focuses on preserving as many of the current programs as possible. Reductions that are made to Children's Administration are balanced across each of the agency's missions so that none are disproportionately affected. The Legislative budget also leverages alternate funding sources to offset General Fund-State expenditures.

MAJOR INCREASES

FOSTER CARE AND ADOPTIONS - \$14.5 MILLION GENERAL FUND-STATE AND OTHER FUNDS

Foster care caseloads are continuing to decrease while adoptions are increasing. The Legislative budget continues to invest in services that allow legally free children to move from foster care to adoption faster and evidence-based prevention services aimed at lowering entry into foster care.

MAJOR SAVINGS

ADOLESCENT SAVINGS - \$2.8 MILLION GENERAL FUND-STATE SAVINGS

Funding for Secure Crisis Residential Centers and HOPE beds is transferred from the General Fund-State to the Home Security Fund. Neither program is reduced.

FOSTER CARE SAVINGS - \$4.3 MILLION GENERAL FUND-STATE SAVINGS

Savings are achieved through increasing Supplemental Security Income facilitation for children who are eligible for social security benefits. The Legislative budget assumes changing methodologies for reimbursing supervised visits for additional savings. The Legislative budget further reduces foster care recruitment and other overhead costs related to a decreasing foster care caseload.

CORRECTIONS & OTHER CRIMINAL JUSTICE

OVERVIEW

In response to excess capacity in adult and juvenile correctional institutions and slowing or declining demand for incarceration, state institution facilities can be closed or restructured to generate savings through more efficient use of existing prison capacity.

MAJOR SAVINGS

FACILITY CLOSURE -- DEPARTMENT OF CORRECTIONS - \$49 MILLION GENERAL FUND-STATE SAVINGS

The final recommendations of the facilities closure study were used as a base for developing a facilities closure implementation plan which generates savings through more efficient use of existing prison capacity. The Department of Corrections is directed to: (1) downsize McNeil Island Corrections Center from 1,250 medium and minimum custody offenders to 256 minimum custody offenders; funding is provided for one-time

and transition costs from the State Efficiency & Restructuring Account; (2) downsize the Larch Corrections Center in Yacolt from 480 to 240 beds; (3) close the Pine Lodge Corrections Center for Women in Medical Lake and (4) close the Ahtanum View Corrections Center in Yakima. The savings includes additional funds to shift offender capacity to newer, more efficient facilities at the Coyote Ridge Corrections Center in Connell and the Mission Creek Corrections Center for Women in Belfair. With the restoration of \$12 million savings from the 2009-11 biennial budget, the total savings are \$49 million.

FACILITY CLOSURE -- DSHS JUVENILE REHABILITATION ADMINISTRATION - \$5.8 MILLION GENERAL FUND-STATE SAVINGS

Juvenile Rehabilitation Administration (JRA) is to close Maple Lane School by the end of the 2011-13 fiscal biennium. Funding is provided for transition costs from the State Efficiency and Reorganization Account. The capital budget provides \$760,000 in state bonds and \$15.8 million in certificate of participation authority for renovation and construction of specialized housing and treatment facilities to accommodate the closure of the Maple Lane School.

INSTITUTIONAL AND ADMINISTRATIVE STAFF REDUCTION - \$7.6 MILLION GENERAL FUND-STATE SAVINGS

Staff reductions are made at JRA institutions, other than Maple Lane School, as well as at JRA headquarters and regional offices.

JUVENILE COURT REDUCTION - \$2.5 MILLION GENERAL FUND-STATE SAVINGS

County pass-through funding for juvenile courts is reduced by 10 percent. The reduction is in non-evidence based, non-sex offender disposition alternative funding and will not affect the future demand for prison beds.

CRIMINAL JUSTICE TRAINING COMMISSION (CJTC) -- FEWER BASIC LAW ENFORCEMENT ACADEMIES - \$1.6 MILLION GENERAL FUND-STATE SAVINGS

Reflecting actual academies in fiscal year 2010 and anticipated diminished demand from local law enforcement agencies, the number of Basic Law Enforcement Academies is reduced to 10 in each fiscal year. In addition, savings of \$537,000 is taken in a 20 percent reduction in administration at the CJTC.

GENERAL GOVERNMENT

MAJOR INCREASES

ECONOMIC DEVELOPMENT - \$764,000 GENERAL FUND-STATE

Funding is provided for: Innovation Partnership Zones (\$250,000); entrepreneurial development (\$50,000); Small Business Development Center (\$100,000); Small business export finance assistance (\$100,000); a Federal Way medical device incubator (\$100,000); the Washington Technology Center (\$164,000); Washington Quality Award (\$50,000); and Manufacturing Innovation and Modernization (\$50,000).

GLOBAL HEALTH TECHNOLOGY - \$1.0 MILLION GENERAL FUND-STATE

Funding is provided to implement the provisions of Chapter 13, Laws of 2010 (2SSB 6675).

HOUSING - \$7.4 MILLION HOME SECURITY FUND AND COMMUNITY AND ECONOMIC DEVELOPMENT FEE ACCOUNT

Included is: the Washington Families Fund (\$1.0 million); Housing Trust Fund operations and maintenance (\$2,600,000); Housing Trust Fund portfolio management (\$800,000); foreclosure counseling and support (\$500,000); and the Homeless Grant Assistance Program (\$2.0 million).

WORKING FAMILIES TAX EXEMPTION FUNDING - \$1.2 MILLION GENERAL FUND-STATE

Funding is provided for the Department of Revenue to make the necessary preparations to implement the working families tax exemption in 2012. The exemption will provide families that qualify for the federal earned income tax credit a rebate of sales taxes paid that is based on a percentage of the earned income tax credit they receive.

MAJOR SAVINGS

INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT PROGRAMS - \$2.8 MILLION GENERAL FUND-STATE SAVINGS

Reductions are made in several programs in the International Trade and Economic Development Division, including: Tourism Development (\$500,000); Regional Services (\$788,000); and International Trade (\$765,000).

LOCAL GOVERNMENT PROGRAMS - \$4.4 MILLION GENERAL FUND-STATE SAVINGS

Reductions are made in the growth management programs in the Local Government Division pursuant to Substitute Senate Bill 6611 (comprehensive land use plans) which delays plan updates by cities and counties. Reductions include Growth Management Grants (\$3.8 million) and Growth Management Administration (\$500,000).

COMMUNITY SERVICES PROGRAMS - \$1.5 MILLION GENERAL FUND-STATE SAVINGS

Reductions are made in several programs in the Community Services Division, including Community Mobilization (\$1.0 million).

NATURAL RESOURCES

OVERVIEW

The 2009-11 biennial budget for natural resources is approximately \$1.5 billion and represents 2.5 percent of the overall budget. Of this \$1.5 billion, the general fund accounts for 26 percent or approximately \$383 million. Some of the primary activities funded with these resources include environmental protection; water quality; fish, shellfish, and game harvest; food safety and commodity control; land and resource management; operation and maintenance of camp sites; and forest fire protection.

In the 2009 legislative session, the general fund budget for natural resources was reduced by 25.3 percent and the overall budget was reduced by 5.6 percent. The supplemental budget reduces the general fund by an additional 2.5 percent, but achieves an increase of 1.6 percent to the overall budget which is due in part to the addition of federal funds for Puget Sound cleanup and restoration and for agricultural and land management activities.

Although the ongoing fiscal situation required additional reductions in the natural resource agencies, the Legislative budget was crafted to achieve the following goals: (1) protect and preserve the health of the state's natural resources; (2) safeguard, to the extent possible, public access to the state's natural resources; and (3) achieve efficiencies by restructuring processes and consolidating common functions.

MAJOR INCREASES

PUGET SOUND CLEANUP AND RESTORATION - \$7.9 MILLION OTHER FUNDS

A total of \$7.9 million is provided for activities that support the ongoing cleanup and restoration of Puget Sound. Approximately \$2.2 million will be spent for mitigation activities in Commencement Bay as a result of a settlement received for contamination caused by the Asarco smelter plant. In addition, investments are made in the capital budget for projects that will benefit Puget Sound.

WATER AND LAND MANAGEMENT - \$0.2 MILLION GENERAL FUND-STATE; \$14.5 MILLION OTHER FUNDS

Funding is provided for managing water right processing, which includes an increase in the use of cost reimbursement agreements and establishing a new expedited process, and to support land management activities, including continuation of the forest practices adaptive management process and reforestation and habitat restoration pursuant to agreements with local governments and other private entities. In addition, \$4.2 million is provided for emergency drought response.

FIRE SUPPRESSION - \$11.7 MILLION GENERAL FUND-STATE

A total of \$11.7 million is provided for incurred costs associated with fire suppression activities during fiscal year 2010.

TRANSFER OF EMERGENCY FOOD PROGRAMS - NO IMPACT

Pursuant to Chapter 68, Laws of 2010 (SSB 6341), the Legislative budget transfers the Emergency Food Assistance Programs from the Department of Commerce and the Department of General Administration to the Department of Agriculture.

MAJOR SAVINGS

ADMINISTRATION AND GENERAL EFFICIENCIES - \$13.0 MILLION GENERAL FUND-STATE SAVINGS; \$4.3 MILLION OTHER FUND SAVINGS

Savings are achieved via the following: consolidating the back-office functions of the Puget Sound Partnership and the Recreation and Conservation Office; modifying the structure of the Growth Management Hearings Board (Board) and consolidating the Board and the Environmental Hearings Office into the Environmental and Land Use

Hearings Office; reducing the general fund subsidization of fee-based programs; requiring small agencies to consolidate their back-office functions within Small Agency Client Services; one-time fund shifts; and other administrative reductions.

**WATER AND LAND MANAGEMENT - \$2.2 MILLION GENERAL FUND-STATE SAVINGS;
\$2.4 MILLION OTHER FUND SAVINGS**

Savings are achieved by reducing outreach and education activities; reducing data collection and stream flow measurement and management activities; reducing activities that support wetland mitigation, including follow-up compliance and technical assistance; reducing forestry activities in state parks and long-range park planning; and reducing grants and technical assistance to conservation districts.

**FISH AND WILDLIFE MANAGEMENT - \$1.0 MILLION GENERAL FUND-STATE SAVINGS;
\$1.0 MILLION OTHER FUND SAVINGS**

Savings are achieved by reducing outreach and education activities, monitoring of diseases in wildlife, and scientific monitoring and technical assistance; and by using partnerships to fund hatcheries.

OTHER CHANGES

EMPLOYEE COMPENSATION

HEALTH BENEFIT INCREASES - \$64.8 MILLION GENERAL FUND-STATE; \$53.2 MILLION OTHER FUNDS

Additional funding is provided to cover cost increases for state employee health benefits. State employer contribution rates for fiscal year 2011 are increased from \$768 per employee per month to \$850 per employee per month, an increase of \$105 per employee per month over contribution levels for fiscal year 2010.

APPENDIX A

2010 Legislative Fund Transfers

(Dollars in Millions)

	Total
Capital Related Transfers to GF-S	
¹ Public Works Assistance Account (Partial Bond Backfill)	141.2
² Job Development Account	20.9
³ Education Construction Account	17.9
⁴ Thurston County Capital Facilities Account	5.8
⁵ Energy Freedom Account	1.1
⁶ Water Quality Capital Residual Balance	0.3
Capital Related Transfers to GF-S	187.1
Other Fund Transfers to GF-S	
⁷ Education Savings Account	100.8
⁸ Life Science Discovery Fund	16.2
⁹ Performance Audits of Government Account	15.0
¹⁰ Public Service Revolving Account	15.0
¹¹ Local Toxics Control Account	12.8
² State Treasurer's Service Account	12.0
¹³ Savings Incentive Account	10.1
¹¹ Convention & Trade Center	10.0
² Insurance Commissioner Regulatory Account	10.0
¹³ Distinguished Professorship Endowments	5.8
¹⁴ Technology Pool Account	5.6
¹⁵ Future Teacher Conditional Scholarship	4.3
¹⁶ Institutional Welfare Betterment Account	4.0
¹⁷ Financial Services Regulation Account	4.0
¹⁸ Community College Faculty Awards	3.6
¹⁹ Aquatic Lands Enhancement Account	3.5
²⁰ State Toxics Control Account	3.4
²¹ Waste Reduction, Recycling, and Litter Control Account	2.0
²² Graduate Fellowship Trust Account	1.9
²³ GET Ready for Math/Science	1.7
²⁴ Streamline Sales Tax Mitigation Account	1.6
²⁵ Judicial Information Systems Account	1.5
²⁶ Criminal Justice Access Fees from Transportation	1.3
²⁷ Department of Retirement Systems Expense Account	1.0
²⁸ Fair Account	0.9
²⁹ Fingerprint Identification Account	0.8
Other Fund Transfers to GF-S	248.6
<i>Transfer of GF-S to School Construction Fund - Lottery (SSB 6409,</i>	<i>(102.0)</i>
<i>Transfer of GF-S to Liquor Revolving</i>	<i>(5.5)</i>
Net Fund Transfers to and from GF-S	328.3
Fund Transfers To & From Ed Legacy	
³⁰ State Lottery Account	19.0
³¹ Shared Game Lottery Account	6.0
Fund Transfers To & From Ed Legacy	25.0

APPENDIX B

REVENUE ADJUSTMENTS

PRESERVING FUNDING FOR PUBLIC SCHOOLS, COLLEGES, AND UNIVERSITIES, AND OTHER PUBLIC SAFETY, SECURITY AND HEALTH SERVICES - \$667.7 MILLION GENERAL FUND-STATE INCREASE

Second Engrossed Substitute Senate Bill 6143 (preserving funding for public schools, colleges, and universities, and other public safety, health, and security programs) increases revenue by narrowing tax preferences, establishing economic nexus standards, and imposing new taxes. See the "New Revenue" chart for further detail on the various measures contained in the bill.

TAXATION OF CIGARETTES AND OTHER TOBACCO PRODUCTS - \$101.4 MILLION GENERAL FUND-STATE INCREASE

Engrossed Substitute House Bill 2493 (concerning the taxation of cigarettes and other tobacco products) increases taxes on cigarettes by \$1 per pack. Also, it increases taxes on tobacco products, with some exceptions, from 75 percent to 95 percent of the taxable sales price. The tobacco products tax rate on moist snuff is to be based on a single unit package. The tax rate is the greater of 95 percent of the taxable sales price or 83.5 percent of the per pack tax on cigarettes (\$2.526 per unit). For units larger than 1.2 ounces, the tax rate is increased proportionally based on the package size. The tobacco products tax rate on large cigars is 95 percent of the taxable sales price but not to exceed 65 cents per cigars.

CHANGING THE BENEFICIARY OF THE STATE LOTTERY TO HIGHER EDUCATION - \$15 MILLION GENERAL FUND-STATE INCREASE

Second Substitute Senate Bill 6409 (Washington Opportunity Pathways Account) creates the Washington Opportunity Pathways Account and deposits into the account all net revenues from lottery games that are not otherwise dedicated. In general, Washington Opportunity Pathways Account funds higher education programs, such as the state need grant, state work study programs, scholarships, and early learning. Based on market research by the Lottery Commission, revenue is estimated to increase because of additional ticket sales.

MODIFYING THE GOVERNANCE AND FINANCING OF THE WASHINGTON STATE CONVENTION AND TRADE CENTER - \$10 MILLION GENERAL FUND-STATE INCREASE

Substitute Senate Bill 6889 (concerning governance and financing of the Washington state convention and trade center) authorizes the creation of an additional public facilities district (PFD) to acquire, own and operate the Washington State Convention and Trade Center (Center). The Center will be transferred to the new PFD when provision has been made for all outstanding debt of the Center to be redeemed, prepaid or defeased, transfer of the Center accounts, settlement of a lawsuit related to the transfer of convention center funds and the payment to the state the amount equal to that received from the credit against the state sales tax, approximately \$10 million.

RURAL COUNTY INVESTMENT PROJECTS - \$7.8 MILLION GENERAL FUND-STATE DECREASE

Engrossed Substitute House Bill 3014 (modifying the sales and use tax deferral program for investment projects in rural counties) extends the rural county sales and use tax deferral program from July 1, 2010 to July 1, 2020. Two types of areas qualify for the program: counties with an unemployment rate which is at least 20 percent above the state average for three years and community empowerment zones (CEZ). The definition of "manufacturing" is clarified retroactively to include computer programming and other related services, but the service or activity must produce a new, different, or useful substance or article of tangible personal property for sale.

CREATING THE CRIME VICTIMS' COMPENSATION ACCOUNT - \$2.7 MILLION GENERAL FUND-STATE DECREASE

Senate Bill 6504 (reducing crime victims' compensation benefits and eligibility) establishes a new dedicated account for a portion of monies deposited into inmate accounts and the proceeds from certain criminal profiteering recovery actions for the crime victims compensation program. The revenue was previously deposited into the general fund.

CLARIFYING THE TAX TREATMENT OF DIGITAL GOODS- \$1 MILLION GENERAL FUND-STATE DECREASE

Substitute House Bill 2620 (clarifications of tax treatment of digital goods) clarifies ambiguities and corrects unintended consequences related to the passage of ESHB 2075 (2009), which related to the taxation of digital goods and products).

EXTENSION OF FILING DEADLINE FOR TAX ACCOUNTABILITY REPORTING - \$0.3 MILLION GENERAL FUND-STATE DECREASE

Senate Bill 6206 (due dates for tax incentive reports and surveys) allows a 90-day extension of the filing date for annual accountability reports or surveys for taxpayers who have timely filed all earlier annual reports and surveys.

CLARIFYING THE TAXABILITY OF CERTAIN CONSERVATION PROGRAMS - \$0.3 MILLION GENERAL FUND-STATE DECREASE

Substitute Senate Bill 6614 (clarifications of B&O liability of Bonneville Power Administration (BPA) conservation programs) provides a business and occupation tax exemption for funds or credits provided by the BPA for the purposes of implementing energy conservation programs or demand-side management programs.

SALES AND USE TAX EXEMPTIONS FOR WAX AND CERAMIC MOLDS - \$0.2 MILLION GENERAL FUND-STATE DECREASE

Substitute Senate Bill 6339 (sales and use tax exemptions for wax and ceramic molds) provides a sales and use tax exemption for wax and ceramic materials used to make molds for creating ferrous and nonferrous investment castings used in industrial applications.

EXTENDING THE EXPIRATION OF TAX INCENTIVES CLEAN VEHICLES, BIOFUELS, AND FAR PART 145 REPAIR STATIONS - \$0.2 MILLION GENERAL FUND-STATE DECREASE

Substitute Senate Bill 6712 (extending expiring tax incentives for certain clean alternative fuel vehicles, producers of certain biofuels, and Federal Aviation Regulation (FAR) part 145 certificated repair stations) extends the expiration date for FAR part 145 certified repair stations from July 1, 2011 to July 1, 2024. The sales and use tax exemptions for new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel are extended from January 1, 2011, to July 1, 2015. The application deadline for the six-year property tax and leasehold excise tax exemptions for new or expanded manufacturing facilities producing alternative fuels is extended from December 31, 2009, to December 31, 2015.

STATE AND LOCAL TAX ADMINISTRATION - NO IMPACT TO GENERAL FUND-STATE

Engrossed Second Substitute House Bill 1597 (improving the administration of state and local tax programs) provides technical corrections and statutory clarifications to various provisions related to excise, estate, and property tax laws.

PROPERTY TAX EXEMPTION FOR NONPROFIT PROPERTY USED FOR FARMERS' MARKETS - NO IMPACT TO GENERAL FUND-STATE

Substitute House Bill 2402 (property tax exemption for nonprofit property used for farmers' markets) allows nonprofit organizations operating public assembly halls or meeting places and churches to retain their exemption from property taxation if used by qualifying farmers markets for not more than 53 days each year. The exemption expires in 2020.

MODIFYING THE PROVISIONS OF PUBLIC FACILITIES DISTRICTS - NO IMPACT TO GENERAL FUND-STATE

Substitute House Bill 2525 (public facilities districts) limits the authority to create new multi-city public facilities districts (PFDs). These PFDs may only be created by a group of at least three contiguous cities with a combined population of at least 160,000, each of which must have already established a PFD. A new multi-city PFD may, in addition to developing recreational facilities, develop regional centers including special events centers. A new multi-city PFD must specify the recreational facility or regional center to be funded in a sales and use tax proposal sent to the voters. No proposals may be submitted to the voters prior to January 1, 2011.

EXTENDING TAX RELIEF FOR ALUMINUM SMELTERS - NO IMPACT TO GENERAL FUND-STATE

Engrossed House Bill 2672 (tax relief for aluminum smelters) extends the following tax incentives for aluminum smelters until January 1, 2017: the reduced B&O rate from 0.484 percent to 0.2904 percent for manufacturers of aluminum; the sales and use tax credit against the state portion of the tax for personal property, construction materials, and labor and services performed on buildings and property at an aluminum smelter; and the exemption from the brokered natural gas use tax on gas delivered through a pipeline. The B&O tax credit for the amount of property taxes paid on an aluminum smelter is extended through 2017 property taxes.

UPDATES TO THE SELLER'S PERMIT PROGRAM FOR WHOLESALE PURCHASES - NO IMPACT TO GENERAL FUND-STATE

Substitute House Bill 2758 (documenting wholesale sales for excise tax purposes) makes several changes and updates to the seller permit legislation adopted in 2009, SSB 6173, placing limitations on the use of resale certificates.

PILOT PROGRAM FOR CITY WATER-SEWER DISTRICT TAXING AUTHORITY - NO IMPACT TO GENERAL FUND-STATE

Substitute House Bill 2990 (addressing alternative city assumption and tax authority provisions pertaining to water-sewer districts) allows the City of Renton to impose a tax upon the gross revenues of a water-sewer system operating within its boundaries in a pilot program expiring January 1, 2015.

CREATING UNIFORMITY IN ANNUAL TAX REPORTING - NO IMPACT TO GENERAL FUND-STATE

Substitute House Bill 3066 (annual tax reporting uniformity) amends various tax incentive statutes that require recipients to file an annual survey or an annual report with the Department of Revenue (DOR) and creates a uniform annual survey and report.

PROVIDING LOCAL EXCISE TAX FLEXIBILITY - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute House Bill 3179 (local excise tax provisions for counties and cities) allows cities to impose, with voter approval, the public safety sales and use tax at a rate not to exceed 0.1 percent. The non-supplant language in the public safety sales and use tax and the criminal justice sales and use tax is eliminated. Cities with a population over 30,000 and located in a county with a population over 800,000 are allowed to impose the mental health/chemical dependency sales and use tax if the county has not imposed it by January 1, 2011. The brokered natural gas use tax is imposed at the location where the gas is consumed or stored by the customer. It also allows local gambling revenue to be used for general public safety programs.

TEMPORARY SUSPENSION OF INITIATIVE 960 - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute Senate Bill 6130 (amending Initiative 960) suspends the two-thirds majority necessary to approve raising taxes and the tax advisory vote provisions until July 1, 2011.

LOCAL GOVERNMENT INFRASTRUCTURE FINANCING - NO IMPACT TO GENERAL FUND-STATE

Engrossed Second Substitute Senate Bill 6609 (concerning infrastructure financing for local governments) increases the total state contribution for the Local Revitalization Financing (LRF) program by \$1.95 million beginning in fiscal year 2013 and dedicates the increase to six demonstration projects. Jurisdictions with Local Infrastructure Financing Tool (LIFT) projects may receive a state contribution less than the project award.

EXPANDING HEALTH SCIENCES AND SERVICES AUTHORITIES - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 6727 (health sciences and services authorities) makes changes to the health science and service authority enacting statutes; specifically, it allows a health science and service authority to incur debt and no more than 10 percent of their revenues may be used for personnel costs. The bill also provides that one more authority may be created in eastern Washington.

EXEMPTION FROM PROPERTY TAX FOR AIRCRAFT USED TO PROVIDE AIR AMBULANCE SERVICES - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute Senate Bill 6737 (exemption from property tax for aircraft used to provide air ambulance services) provides a property tax exemption and an aircraft excise tax exemption for aircraft owned by a nonprofit exempt from federal income tax and used exclusively to provide emergency medical transportation services.

SALES AND USE TAX EXEMPTIONS FOR EQUIPMENT IN DATA CENTERS - NO IMPACT TO GENERAL FUND-STATE

Engrossed Substitute Senate Bill 6789 (sales and use tax exemptions for certain equipment and infrastructure contained in data centers) creates a sales and use tax exemption for servers and power equipment in certain datacenters built in rural counties prior to July 1, 2011. The exemption is allowed until April 1, 2018.

ESTATES AND TRUSTS - NO IMPACT TO GENERAL FUND-STATE

Substitute Senate Bill 6831 (estates and trusts) provides that a will or trust of an individual who dies during 2010, and who uses a formula clause using terms referring to the federal estate tax, will be deemed to be referencing the federal estate tax as it was in 2009. This provision relates to provisions in federal estate tax code which expire for the year 2010.

COMMUNITY CENTER PROPERTY TAX EXEMPTION - NO IMPACT TO GENERAL FUND-STATE

Senate Bill 6855 (exempting community centers from property taxation and imposing leasehold excise taxes on such property) provides a property tax exemption for certain community centers. The property tax exemption is in effect for 40 years from the time of acquisition. The leasehold excise tax applies to the rental of property from a community center that is otherwise exempt from property taxation under this law. Property eligible for the exemption are buildings surplus by a school district and purchased by a nonprofit organization for conversion into community facilities.

ENHANCED EMERGENCY 911 (E-911) - \$0.2 MILLION GENERAL FUND-STATE INCREASE

Substitute Senate Bill 6846 (enhanced 911 emergency communications services) increases the maximum rates of the E-911 tax on telephone lines for the state and counties by 5 cents and 20 cents respectively. The bill also requires DOR to collect the tax for the counties and allows DOR to retain an administrative fee of up to 2 percent of the collections.

APPENDIX C

2009-11 Revised Omnibus Operating Budget (2010 Supp)**NGF-S + Opportunity Pathways**

(Dollars in Thousands)

	Senate Floor Passed	House Floor Passed	Striking Amd to 6444
<i>Additional Federal Resources</i>			
Use Federal Funds for Food Stamp Admin	-4,740	0	-4,740
CHIPRA Bonus Payment	-7,461	-7,461	-7,461
Medicare Part D Stimulus FMAP	-86,901	-86,901	-86,901
Stimulus FMAP Extension	-483,328	-483,403	-479,827
Lifeline Bridge Funding	0	-14,441	-26,531
Basic Health Program Bridge	0	-56,488	-13,000
Additional Federal Resources Total	-582,430	-648,694	-618,460
<i>K-12 Education</i>			
K-4 Staffing Levels	-102,932	-11,234	-30,000
Classified Staff Ratio	-15,323	0	0
Per Pupil Inflator	0	7,230	7,973
LASER	-1,579	0	-1,184
Other Increases	1,183	1,463	1,272
Other	-4,302	-4,253	-4,655
Highly Capable Program	0	0	55
Student Achievement Program	-78,519	-78,519	-78,519
Learning Improvement Day	-15,276	-15,650	-15,578
Levy Equalization	25,767	25,331	21,808
Changes to Levy Base	1,533	0	0
Juveniles in Adult Jails	1,747	0	1,747
Basic Education Legislation	5,475	2,718	5,075
National Board Changes	0	-5,678	-1,611
Grant Programs	-6,044	-12,837	-6,321
Bus Depreciation	0	-22,090	-22,090
K-12 Education Total	-188,270	-113,519	-122,028
<i>Higher Education</i>			
Institutional Reductions	-69,441	-43,801	-73,065
Small Grant and Loan Programs	-11,701	-2,487	-9,738
Aerospace Training	0	2,000	1,750
Other Increases	111	1,522	1,525
Other	-1,136	-756	-887
Work Study	-7,379	-7,722	-7,379
College Bound Scholarship	1,000	0	1,000
Worker Retraining - Opportunity Express	27,834	3,039	18,556
Higher Education Total	-60,712	-48,205	-68,238
<i>Early Learning & Child Care</i>			
Other	-2,134	-145	-944
Other Increases	232	348	221
Thrive by Five Changes	0	0	200
Single Parent Participation	0	-11,000	-11,000
Working Connections Cap	0	-30,137	0
Early Learning & Child Care Total	-1,902	-40,934	-11,523

2009-11 Revised Omnibus Operating Budget (2010 Supp)**NGF-S + Opportunity Pathways**

(Dollars in Thousands)

	Senate Floor Passed	House Floor Passed	Striking Amd to 6444
Health Care			
Primary Care Pilot Projects	0	5,864	2,495
Reduce Dental Enhancements	-4,935	0	-2,500
Pause ProviderOne Phase 2 and 3	-4,656	0	0
Correcting Medical Asst Admin Base	6,964	10,750	16,839
Tobacco Prevention Program Support	0	2,649	0
HO Administrative Adjustment	-2,523	0	-2,523
Other	-7,756	-5,804	-11,680
Hospital Safety Net Assessment	-33,379	-32,000	-66,800
Reduce Oral Health Program	-1,154	0	-154
ProviderOne	0	209	209
Other Increases	283	481	506
FQHC: Encounter Rate Increase	39,902	39,902	39,902
Maintain Current BHP Enrollment	0	0	-12,906
Family Planning Grants	3,500	3,000	3,000
AIDS Related Programs	-370	-4,242	-1,370
DSH Related Items	-10,973	-17,279	0
Universal Vaccination Savings	-1,800	-9,000	-8,250
Health Care Total	-16,897	-5,470	-43,232
Long Term Care, DD, and Mental Health			
Nursing Home Rate Savings	-22,294	-6,646	-10,747
Other Mental Health Reductions	-10,236	-4,531	-7,524
Home Care Agency Reductions	-3,662	-626	-626
DD Employment & Day	-107	2,699	2,699
Close DDD Institutions	-2,123	0	0
Civil Detention & Commitment	60	1,775	60
PALS Community Alternatives	-1,250	0	0
Other Long-Term Care Reductions	-7,555	-6,346	-7,130
Reduce Senior Citizens Services Act	-1,000	0	0
Adult Day Health (TRO + Revised)	7,736	8,452	8,094
DD Residential Services	1,041	1,468	1,041
RSN Actuarial Rates	0	285	0
Nursing Home Rates (WHCA v. Dreyfus)	38,247	38,451	38,247
Eliminate Home Care Quality Authority	-202	0	-221
RHC Transition Effort	0	200	200
Other Developmental Disabilities Reductions	-3,545	-3,545	-3,545
Reduce IP/AP Hours	-5,111	-5,111	-5,111
Other	-396	-426	-396
Other Increases	460	312	620
Increase Residential License Fees	-4,704	-5,182	-3,024
Reduce DD Institutional Funding	0	-1,998	-890
Restore Home Care Hours (Partial)	3,578	0	3,578
Long Term Care, DD, and Mental Health Total	-11,063	19,231	15,325
Corrections and Other Criminal Justice			
DOC: Facility Openings/Closings	-38,433	-8,960	-46,081
JRA: Facility/Capacity Related	-5,833	-2,161	-5,833
CJTC Reductions	-3,524	-400	-2,595
Sentencing Changes	-2,768	-141	-1,182

2009-11 Revised Omnibus Operating Budget (2010 Supp)**NGF-S + Opportunity Pathways**

(Dollars in Thousands)

	Senate Floor Passed	House Floor Passed	Striking Amd to 6444
Other	-10,115	-8,386	-8,897
DOC: Tolling for Violators	-1,190	0	0
DOC: Reduce Work Release Capacity	-4,166	-4,166	-4,166
JRA: Juvenile Court Reduction	-2,513	-2,513	-2,513
JRA: Reinstate Closure Funding	12,000	12,000	12,000
Minimum Camp Capacity Reduction	-944	-944	-944
Reduce Offsite Medical Costs	-2,192	-2,192	-2,192
JRA Administrative Staff Reduction	-3,186	-3,742	-3,742
JRA: Reduce Institution Staffing	-3,899	-4,859	-3,899
Release Offenders Closer to Release Date	0	-1,000	0
Offender Deportation	-1,692	-4,062	0
Other Increases	4,539	1,867	2,285
WSP: Eliminate Staff Positions	-636	-3,771	-1,810
Corrections and Other Criminal Justice Total	-64,552	-33,430	-69,569
Security Lifeline (GAU/ADATSA)			
Security Lifeline Act Cash	-49,675	-3,907	-12,317
Security Lifeline Act Medical	-35,280	528	-15,869
Security Lifeline Act Drug Treatment	0	3,786	2,247
Security Lifeline Act	0	92	0
Lifeline Managed Care	23,892	23,892	23,892
Elim. Disability Lifeline Admin Rvw Team	0	-2,982	0
Lifeline Medical Caseload	22,248	8,000	22,248
Security Lifeline (GAU/ADATSA) Total	-38,815	29,409	20,201
Other Human Services			
TANF Rateable	-12,729	0	0
State Food Assistance Program	-4,331	0	0
Child Support Pass-Through Payments	-3,746	0	0
Redistribution of Fed Tax Intercept	-3,015	0	-3,015
Crime Victims Compensation	-3,579	-1,154	-3,473
Special Commitment Related	-11,928	-10,580	-10,965
Family Preservation Services	-1,145	0	0
Foster Home Payments	-771	0	0
Crisis Family Intervention	-574	0	-287
Council on Childrens/Family Policy Council	-300	0	-300
Supervised Visits	-1,045	-1,013	-1,045
BRS - Underexpenditure	0	0	-2,076
ESA: Reduction of Mandatory Workload	-6,416	-6,416	-6,416
Maintain TANF Program	0	0	16,783
Reduce Job Search	-2,363	-2,363	-2,363
Other Increases	1,041	660	1,491
Educational Advocacy Coordinators	0	-466	-466
Other	-17,161	-18,333	-23,611
Reduce DASA Treatment	0	-2,000	0
Behavioral Rehabilitative Services	0	-4,151	0
Central Service Adjustment	21,148	11,148	16,148
Other TANF Changes	0	-10,369	-10,369
Other Human Services Total	-46,914	-45,037	-29,964

2009-11 Revised Omnibus Operating Budget (2010 Supp)**NGF-S + Opportunity Pathways**

(Dollars in Thousands)

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<i>Natural Resources</i>			
Pollution Activities Fund Shift	-5,017	0	-5,017
Other	-12,309	-8,571	-9,191
Fish Program Fund Shift	-3,658	0	-3,658
Other Increases	536	586	488
DFW: Use Dedicated Accounts	-1,500	-1,500	-1,500
DNR: Use Dedicated Accounts	-5,000	-5,000	-5,000
Fire Suppression	11,727	11,727	11,727
Parks: Use Dedicated Accounts	-1,200	-1,200	-1,200
Eliminate Columbia River Gorge Comm	0	-300	0
Charge Fees for HPAs	-1,883	-3,060	0
Natural Resources Total	-18,304	-7,318	-13,351
<i>Agency Reorganizations and Transfers</i>			
Youthful Offenders	-239	0	-239
ERFC, Caseload, and SGC Merger	-148	0	0
Drug Prosecution Assistance	0	24	0
Transfer Crime Victims Assistance	0	0	0
ISRB to Dept of Corrections	14	0	0
Agency Reorganizations and Transfers Total	-373	24	-239
<i>All Other</i>			
Temporary Layoffs	-49,400	0	-48,636
Judicial Fund Shift	-8,651	0	0
Implement Tax Administration Change	2,613	4,476	4,379
Judicial Reductions	-2,453	-1,166	-1,390
Legislative Reductions	-1,142	-100	0
Commerce: Local Government	-4,903	-3,903	-4,403
Commerce: Community Services	-1,453	-535	-633
Community Mobilization	-1,258	-629	-1,000
Health Insurance Funding	21,949	22,340	64,979
Use Small Agency Accounting	-191	-48	-191
Commerce: Econ Development	-3,598	-3,554	-2,594
Eliminate Boards and Commissions	0	-173	0
Historical: Shared Services	0	-400	0
Global Health Technology	1,000	0	1,000
Water Pollution Control Revol Acct	1,400	0	0
Other	-16,093	-17,919	-17,534
Other Increases	8,066	6,126	7,446
Criminal Records Fund Shift	-800	-2,800	-2,800
State Printer Efficiencies	0	-3,081	-1,500
Working Families	5,250	0	1,200
IT Reform	0	-30,000	-30,000
Reduce Compensation Expenditures	0	-48,648	0
All Other Total	-49,664	-80,014	-31,677
Grand Total	-1,079,896	-973,957	-972,755