

Washington State Operating Budget

Briefing Book

January 2011
Office of Program Research

Table of Contents

House Operating Budget Committees.....	3
Ways & Means.....	4
Education Appropriations.....	5
General Government Appropriations.....	6
Health & Human Services Appropriations.....	7
WAYS/APPs Committee Staff and Assignments.....	8
 Budget Overview.....	 10
 Operating Budget History	 20
 Functional Areas.....	 35
General Government.....	37
K-12 Public Schools	40
Higher Education	45
Human Services	51
Natural Resources	76
 Other Budget Items	 79
Expenditure Limit	80
Restrictions on Legislation that Raises Taxes and Fees	84
Debt Service.....	87
Pensions	90
Legal and Other Budget Considerations.....	98
 FY 2011 and 2011-13 Biennium Operating Budget Outlook.....	 101
 Appendix 1	 104
<i>GF-S Revenue Projections for 2011-13 (Based on November 2010 Forecast)</i>	
 Appendix 2	 106
<i>Glossary of Budget Terms</i>	

House Operating Budget Committees

House Ways & Means Committee

2011 Roster of Members

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Ross Hunter (D), Chair	7936	MOD C 105	Marilyn Pedersen
Jeannie Darneille (D), Vice Chair - Appropriations	7974	LEG 436B	Nancy Ryan
Bob Hasegawa (D), Vice Chair - Finance	7862	MOD B 201	Marissa Chavez
Gary Alexander (R) Ranking Minority Member	7990	LEG 425A	Barb Peters
Bruce Dammeier (R) Asst. Ranking Minority Member	7948	MOD D 205	Brian Hardtke
Ed Orcutt (R) Asst. Ranking Minority Member	7812	LEG 122F	Amber York
Barbara Bailey (R)	7914	LEG 122A	Adam McCrow
Reuven Carlyle (D)	7814	MOD E 104	Bryan Bissell
Bruce Chandler (R)	7960	LEG 427B	Melinda Woods
Eileen Cody (D)	7978	MOD F 101	Holly Mortlock
Mary Lou Dickerson (D)	7860	LEG 439	Kari Boiter
Kathy Haigh (D)	7966	MOD F 108	Kim Moores
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Bill Hinkle (R)	7808	MOD G 104	Vicki Angelini
Zack Hudgins (D)	7956	LEG 438A	Wendy Cho Ripp
Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Ruth Kagi (D)	7910	MOD F 102	McKinzie Strait
Phyllis Kenney (D)	7818	MOD F 110	Liz Merrick
Timm Ormsby (D)	7946	LEG 122F	Shannon Waechter
Kevin Parker (R)	7922	MOD G 110	Ben Oakley
Eric Pettigrew (D)	7838	LEG 434B	Alexandria Lewis
Charles Ross (R)	7856	LEG 425B	Tawnya Smith
Joe Schmick (R)	7844	MOD A 103	Pam Kentner
Larry Seaquist (D)	7802	LEG 132C	Terra Rose
Larry Springer (D)	7822	LEG 132E	Kelly Rider
Pat Sullivan (D)	7858	LEG 122G	Lesley Roberts
J.T. Wilcox (R)	7912	MOD G 103	Jen Trent

House Education Appropriations & Oversight Committee 2011 Roster of Members

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Kathy Haigh (D), Chair	7966	MOD F 108	Kim Moores
Tim Probst (D), Vice Chair	7994	MOD E 103	Peter Sterr
Glenn Anderson (R), Ranking Minority Member	7876	LEG 122C	Kathie Davies
Bruce Dammeier (R), Asst. Ranking Minority Member	7948	MOD D 205	Brian Hardtke
Cathy Dahlquist (R)	7846	MOD D 203	Kathleen Michael
Susan Fagan (R)	7942	MOD C 204	Melanie Hisaw
David Frockt (D)	7886	MOD D 104	Samantha Kersul
Mark Hargrove (R)	7918	MOD D 202	Roy Atwood
Mike Hope (R)	7892	MOD C 203	Teri Jo Countryman
Marcie Maxwell (D)	7894	MOD D 103	Robert Knoll
Terry Nealey (R)	7828	MOD C 202	Meagan Allen
Tina Orwall (D)	7834	MOD E 201	Mary Soderlind
Chris Reykdal (D)	7940	MOD C 104	Justin Montermini
Christine Rolfes (D)	7842	MOD D 105	Sarah Miller
Sharon Tomiko Santos (D)	7944	MOD F 107	Tia Durham
Larry Seaquist (D)	7802	LEG 132C	Terra Rose
Mike Sells (D)	7840	LEG 132B	JoAnn Chapman
Shelly Short (R)	7908	MOD A 204	Jacqueline Maycumber
Derek Stanford (D)	7928	MOD E 204	Ehsan Aleaziz

*House General Government Appropriations & Oversight Committee
2011 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Zack Hudgins (D), Chair	7956	LEG 438A	Wendy Cho Ripp
Mark Miloscia, Vice Chair (D)	7898	LEG 437A	Leanne Horn
Jim McCune (R), Ranking Minority	7824	MOD G 109	Amy Cruver
Mike Armstrong (R), Assist Ranking Minority	7832	LEG 425B	Wanda Brosey
John Ahern (R)	7962	MOD G 102	Josh Kerns
Brian Blake (D)	7870	MOD F 105	Barb Westrick
Joe Fitzgibbon (D)	7952	MOD E 202	Shelly McDonald
Connie Ladenburg (D)	7906	MOD B 204	Annette Swillie
Luis Moscoso (D)	7900	MOD B 202	Michele Meaker Pin
Jamie Pedersen (D)	7826	MOD B 102	Katy Buck
David Taylor (R)	7874	MOD A 205	Stephanie Pishue
Kevin Van De Wege (D)	7916	LEG 339A	Linda Barnfather
J.T. Wilcox (R)	7912	MOD G 103	Jennifer Austin

*House Health & Human Services Appropriations & Oversight
Committee
2011 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Mary Lou Dickerson (D), Chair	7860	LEG 439	Kari Boiter
Sherry Appleton (D), Vice Chair	7934	LEG 132F	Donna Bezon
Norm Johnson (R), Ranking Minority Member	7844	JLOB 419	Michele Smith
Joe Schmick (R), Assistant Ranking Minority Member	7850	JLOB 416	Keith Bundy
Eileen Cody (D)	7978	MOD F 101	Holly Mortlock
Tami Green (D)	7958	LEG 122H	Michelle Butler
Paul Harris (R)	7976	MOD D 204	Jonah Barnes
Ruth Kagi (D)	7910	MOD F 102	McKinzie Strait
Jason Overstreet (R)	7980	MOD A 102	Jon Roth
Eric Pettigrew (D)	7838	LEG 434B	Alexandria Lewis
Maureen Walsh (R)	7836	MOD G 107	Marge Plumage

WAYS/APPs COMMITTEE STAFF

Coordinator:	Charlie Gavigan	7340	LL-43
Asst. Coord.:	Dave Johnson	7154	LL-42
Counsel:	Kristen Fraser	7148	LL-41
Leg. Asst.:	Lisa McCollum	7155	LL-34
Leg. Asst.:	Kate O’Looney	7204	LL-33

Compensation/Pensions

Pension Counsel:	David Pringle	7310	LL-36
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Education

Fisc. Analyst:	Wendy Polzin	7137	LL-65
Fisc. Analyst:	Ben Rarick	7349	LL-63
Fisc. Analyst:	Trista Zugel	7157	LL-64

Finance

Coordinator:	Rick Peterson	7150	LL-39
Counsel:	Jeffrey Mitchell	7139	LL-45
Fisc. Analyst:	Jeff Olsen	7175	LL-67

Government Operations

Fisc. Analyst:	Alex MacBain	7288	LL-60
Fisc. Analyst:	Jeff Olsen	7175	LL-67
Fisc. Analyst:	Wendy Polzin	7137	LL-65
Fisc. Analyst:	Andy Toulon	7178	LL-72
Fisc. Analyst:	Michael Bennion	7118	LL-73

Human Services

Fisc. Analyst:	Erik Cornellier	7116	LL-71
Fisc. Analyst:	Carma Matti-Jackson	7140	LL-70
Fisc. Analyst:	Melissa Palmer	7388	LL-66
Fisc. Analyst:	Amy Skei	7109	LL-61
Fisc. Analyst:	Andy Toulon	7178	LL-72

Natural Resources

Fisc. Analyst:	Owen Rowe	7391	LL-62
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Session Staff

Leg. Asst.	Joshua Cole	7063	LL-35
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Clerk:	Lexi Wright	7068	JLOB B2
Clerk:	Zoë Knutson-Bradac	7067	JLOB B1
Clerk:	Greg Cook	7067	JLOB B1

HOUSE WAYS/APPs BUDGET STAFF ASSIGNMENTS

Charlie Gavigan Staff Coordinator 786-7340

WAYS Committee Scheduling
APPE Budget Facilitation

David Johnson Asst. Coordinator 786-7154 Budget Development

Kristen Fraser 786-7148

WAYS Committee Counsel
APPE Committee Counsel
Sundry Claims

Rick Peterson Finance Coordinator 786-7150

Tax Issues
Business and Occupation Tax
Cigarette and Tobacco Taxes
Department of Revenue (policy)
Energy Taxes
History and General Tax Policy

Lisa McCollum Legislative Asst. 786-7155

Kate O'Looney Legislative Asst. 786-7204

Tanya Carter Computer Analyst 786-7619

Erik Cornellier 786-7116

APPH Committee Counsel
DSHS - Medical Assistance
Health Care Authority (excluding employee health benefits)

Carma Matti-Jackson 786-7140

DSHS - Developmental Disabilities
DSHS - Long Term Care
DSHS - Vocational Rehabilitation
Home Care Quality Authority
Services for the Blind, Department of
Veterans Affairs, Department of

Andy Toulon 786-7178

Health/Human Services
DSHS - Alcohol & Drug Programs (DASA)
DSHS - Mental Health

General Government
Commerce, Department of
General Administration, Department of

Amy Skei 786-7109

APPH Committee Scheduling & Budget Facilitation
DSHS - Admin & Support Services
DSHS - Information Services
DSHS - Juvenile Rehabilitation Administration (JRA)
DSHS - Payments to other Agencies
Health, Department of (DOH)
Industrial Insurance Appeals, Board of
Labor & Industries, Department of
Special Appropriations (APPH)

Melissa Palmer 786-7388

DSHS - Children & Family Services
DSHS - Economic Services
DSHS - Special Commitment Center
Employment Security, Department of

Special Appropriations (WAYS)
Agency Loans
Bond Retirement & Interest
Treasurer's Transfers

Ben Rarick 786-7349

K-12 Public Schools (OSPI)*
Education Legacy Trust Account
Health Benefits K-12
*excluding Pupil Transportation and Levy Equalization

Trista Zugel 786-7157

Central Washington University
Community & Technical Colleges
Eastern Washington University
Higher Education Compensation
Higher Education Coordinating Board
Spokane Intercollegiate Resrch&Tech Inst.(SIRTI)
The Evergreen State College
University of Washington
Washington State University
Western Washington University

Wendy Polzin 786-7137

Education
Early Learning, Department of
K-12 Levy Equalization
K-12 Pupil Transportation
School for the Blind
School for the Deaf
Special Appropriations (APPE)

General Government
Auditor, State
Attorney General
Governor, Office of the
Joint Legislative Audit and Review Cmte (JLARC)
Office of Financial Management (OFM)
Performance Audits
Secretary of State (including State Library)
Special Appropriations (APPG)
State Patrol, Washington

Alex MacBain 786-7288

APPG Cmte. Scheduling & Budget Facilitation
Corrections, Department of
Criminal Justice Training Commission (CJTC)
Indeterminate Sentencing Review Board (ISRB)
Sentencing Guidelines Commission (SGC)

Administrator for Courts
Court of Appeals
Judicial Conduct Commission
Law Library
Office of Civil Legal Aid
Office of Public Defense
Supreme Court

Michael Bennion 786-7118

Accountancy, Board of
Administrative Hearings Office
African-American Affairs, Commission on
Arts Commission
Asian-Pacific American Affairs, Commission on
Caseload Forecast Council
Elected Officials Salaries
Financial Institutions, Department of
Forensic Investigations Council
Gambling Commission
Hispanic Affairs, Commission on
Historical Society, Eastern Washington
Historical Society, Washington State
Horse Racing Commission
House of Representatives
Human Rights Commission
Indian Affairs, Office of
Insurance Commissioner
Leg Evaluation & Accountability Program
Legislative Service Center
Licensing, Department of
Lieutenant Governor, Office of the
Military Department
Minority/Women's Business Enterprise, Office of
Public Disclosure Commission
Redistricting Commission
State Printer
Statute Law Committee
Tax Appeals
Treasurer, State
Utilities and Transportation Commission

David Pringle 786-7310

Pension Counsel
APPG Committee Counsel
Actuary, State
Compensation, State Employees
Health Benefits, State Employees (PEBB)
LEOFF 2 Board
Pension Contribution Rates
Pension Policy
Personnel, Department of
Public Employees Relations Commission
Retirement Systems, Department of
State Investment Board
Vol. Firefighters & Reserve Officers, Board for

Owen Rowe 786-7391

Agriculture, Department of
Columbia River Gorge Commission
Conservation Commission
Ecology, Department of
Environmental Hearings Office
Fish & Wildlife, Department of
Growth Management Hearings Board
Natural Resources, Department of
Parks & Recreation, State
Pollution Liability Insurance Agency
Puget Sound Partnership
Recreation and Conservation Funding Board

Jeff Olsen 786-7175

Tax Issues
Economic Development Related Taxes
Gambling Taxes and Lottery
Liquor, Beer, and Wine Taxes
Property Tax
Timber Tax

General Government
Archeology & Historic Preservation, Dept. of
Convention & Trade Center, State
Economic & Revenue Forecast Council
Information Service, Department of
Information Technology Policy and Portfolios
Liquor Control Board
Lottery
Revenue, Department of

Jeffrey Mitchell 786-7139

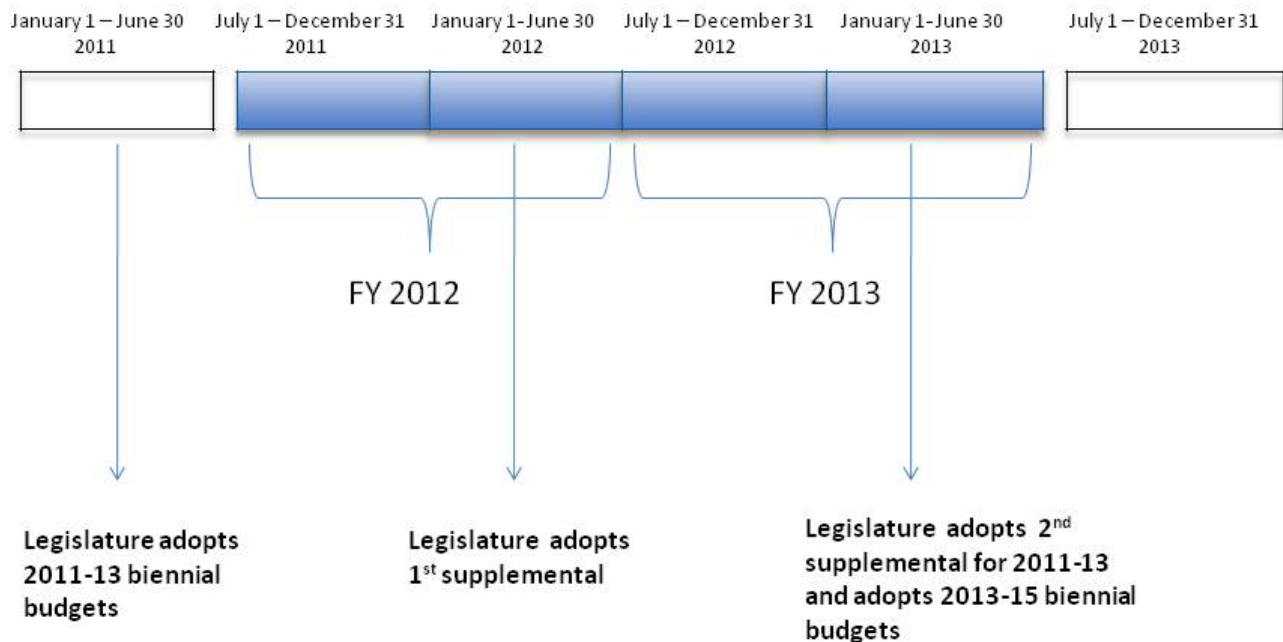
Finance Counsel
Tax Issues
Appeals, Audits and Legal Issues
Local Government Taxes
Real Estate Excise Tax
Sales and Use Taxes
Tax Appeals, Board of
Utility and Other Excise Taxes

Budget Overview

Background

Washington State typically adopts three budgets and is on a biennial budget cycle. The Legislature authorizes expenditures for operating, transportation, and capital purposes for a two-year period. The budgets for the 2011-13 biennium cover the period from July 1, 2011 through June 30, 2013. (The biennium is Fiscal Year 2012, from July 1, 2011 through June 30, 2012, and Fiscal Year 2013, from July 1, 2012 through June 30, 2013.) The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget almost always is passed during the even-numbered years (and sometimes a 2nd or 3rd supplemental budget is enacted).

2011-13 Biennial Budget Calendar



Operating Budget - The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Apportionments to school districts, leases, goods and services, employee salaries and benefits, and medical assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other dedicated funding sources. The major sources of General Fund-State revenues (for the 2009-11 biennium) are the Retail Sales Tax (48%), the Business and Occupation Tax (19%), property taxes (13%), and the Real Estate Excise Tax (3%).

Funding from the Operating Budget:

- K-12 Education – *for nearly 990,000 students*
- Higher Education – *for about 235,000 students*
- Health Care – *for more than 1,100,000 children and low income adults*
- Social Services – *for children, adults and families*
- Public Safety – *including prison for more than 17,000 inmates and community supervision for nearly 20,000 offenders*
- Natural Resource and Recreation Programs
- Government Operations
- Debt Service on bonds for capital projects

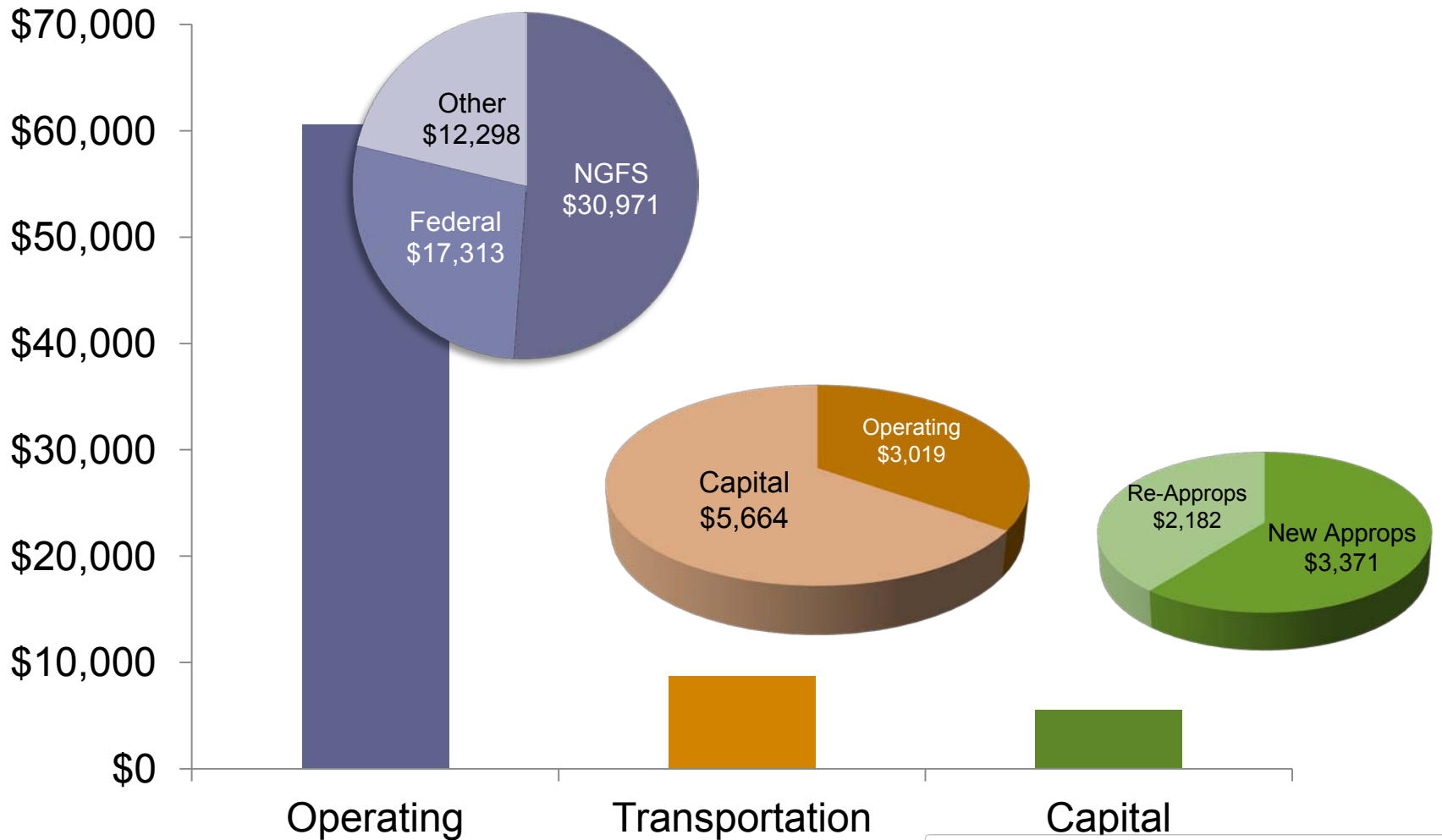
Capital Budget - The capital budget includes appropriations for the construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, and for other capital facilities and programs. Nearly half the capital budget typically is financed by state-issued bonds while the rest is funded by dedicated accounts, trust revenue, and federal funding sources. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take four or more years to design and construct. While the proceeds of bond sales are spent under the capital budget, the operating budget pays for the debt service on the bonds. Operating budget decisions can affect the capital budget and vice versa.

Transportation Budget - The transportation budget includes the operating (20%) and capital (80%) costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 76% of the 2009-11 transportation budget is funded by state resources (29% from bonds), 1% from local sources, and about 23% from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget.

Note: 2009-11 Near General Fund-State dollar amounts throughout the briefing book are through the 2010 Supplemental operating budget adopted in April 2010 unless otherwise noted. (Not included is the \$490 million in reductions enacted in HB 3225 in December 2010.)

Operating is One of Three Washington State Budgets (Data is 2009-11 after 2010 supplemental)

(\$ in millions)



Note: 1) \$1.7 billion in federal funds;
2) \$2.5 billion in state bonds.

Note: 1) Debt Service paid in operating budget;
2) Of new appropriations, \$2 billion funded by state bonds.

Budget Development Process

Agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). OFM evaluates these budget requests during the fall and makes recommendations to the Governor. The Governor publishes his or her budget proposals in December and submits them to the Legislature in January as an executive request bill. The Legislature holds hearings, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for consideration.

Maintenance Level and Policy Items

A new operating budget generally is accomplished through incremental changes to the current budget. The maintenance level budget is the estimated cost of providing currently authorized services in the new budget period. It is calculated using current appropriations, any bow wave (costs or savings), and adjustments for caseload/enrollment changes to **mandatory** programs. The maintenance level budget for some of the largest programs are calculated using what is effectively a zero-based approach. The caseload forecast (prepared by the independent Caseload Forecast Council) projects the number of persons expected to meet entitlement requirements for services including the K-12 public school system, long-term care, medical assistance, foster care, and adoption support. The mandatory per client costs by fund source (and before any change to statutes or vendor rates) are then calculated for each caseload. Maintenance level then reflects this level of funding.

Once the maintenance level is estimated, the Governor and Legislature focus on policy changes to the maintenance level budget. These policy level decisions can add funding for new or expanded services/programs or reduce funding for existing services/programs. While the net policy changes (policy additions and reductions combined) can be relatively small, the absolute value of the policy additions and reductions is typically significant. These policy level decisions generally are made after reviewing the activities of agencies and programs in the base budget.

Here is a brief outline of the budget development process for a new biennial budget:

- **Start with previous biennial budget**
 - Adjust for one-time adds or reductions in the previous biennium.
 - Adjust (biennialize) for adds or reductions enacted part way through the previous biennium.
 - Adjust for mandatory caseload or per cap (costs per client) changes (per statutory/constitutional entitlements).
 - Adjust for mandatory items that by statute had a delayed effective date or are reactivated (after being suspended in the previous biennium) in the new biennium.
- **Results in the Maintenance Level budget for new biennium**
- **Make Policy Level decisions (changes to Maintenance Level)**
 - Create and fund new program?
 - Enhance existing program and increase its funding?
 - Eliminate existing program and its funding?
 - Reduce existing program and its funding?
 - Make changes to structure of agencies or programs and related funding implications?
- **Results in the new biennial budget**

In the end, the Legislature adopts only a single funding level for any given program. Previous expenditures, carryforward, maintenance and policy steps are simply a way of communicating both how the budget was calculated and how it changes previous policy decisions.

Budget Overview

(Estimated 2011-13, NGF-S and Opp. Pathways)



Reviewed By:

Members (By definition, changes to the base budget)

Staff technical review
(non-technical items moved to policy)

Staff technical review
(non-technical items moved to policy)

Legislative Activities:

Member Questions/Requests For Information
(Note: any changes are then shown as policy changes)
Staff Zero Base Costs of True Entitlements
Informal Briefings
Staff Research (review models, Q&A with agencies, etc.)
Potential Reductions Lists
Policy Comm. (bills amend current law, work sessions)
Review Activity lists (prepared by agencies/OFM)
Review All Programs/Services Provided by Agencies

Audit & Performance Review Activities:

SAO Performance Audits
SAO Financial/Compliance Audits
JLARC Performance Audits
GMAP Process

OFM & Agency Activities:

Strategic Planning Process + IT Strategic Plans
Budget Building Process (Agency and Gov.)
Agency/Gov Request Legislation Process
POG (Activity Based) Process
Allotment Process, Including Performance Measures

Appropriations, Funds and Accounts

Appropriations in the operating budget are authorizations to spend up to a specific amount from a specified state fund or account (legally a fund and account are the same). The appropriations are by agency, or by program in the case of the Department of Social and Health Services and K-12 Public Schools, rather than by specific activity/service/benefit provided or by object of expenditure (salaries, travel). The Legislature does place some specific limitations on appropriations through budget provisos, and expects agencies to implement the general appropriations based on the activities required by statute or that are ongoing activities in the maintenance level budget adjusted for policy level decisions in the new budget.

If a fund or account is located within the state treasury, an appropriation is required for expenditures from that fund/account. Under the constitution, tax revenues must be deposited in appropriated treasury funds/accounts.

Some funds and accounts are nonappropriated; they are deemed in the custody of the State Treasurer, rather than in the treasury itself, and are generally restricted to a particular purpose. In that event, no appropriation is required although the budget documents may still suggest a funding level.

The largest fund/account is the general fund. Revenues not directed otherwise are deposited in the general fund. The General Fund-State account, the Pension Funding Stabilization Account, and the Education Legacy Trust Account are commonly referred to as Near-General Fund (NGFS) accounts. Most other funds and accounts are for much more specific purposes.

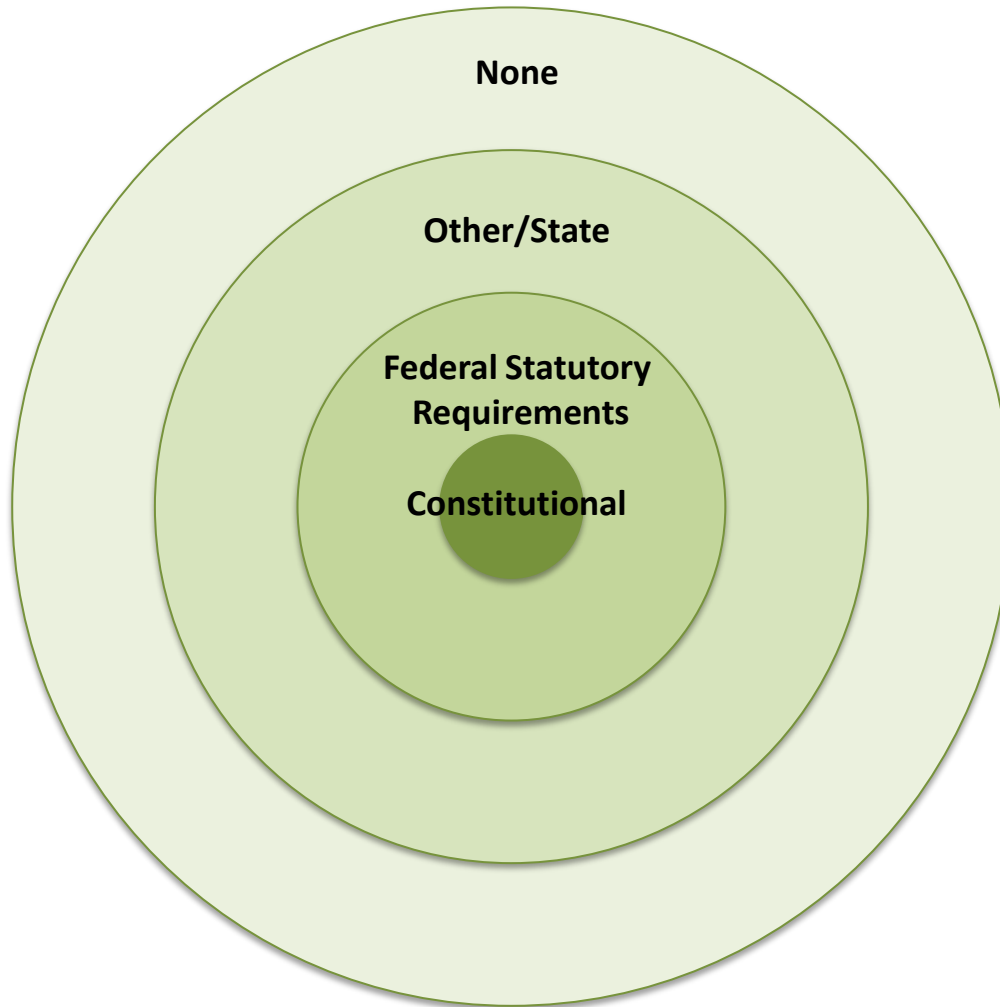
Mandatory Funding Obligations

A substantial portion of the operating budget must be funded by the Legislature as a result of constitutional or contractual requirements. Areas of the budget with little or no funding discretion include K-12 basic education, debt service, and pension contractual obligations. To the extent the state agrees to participate in Medicaid (a joint state-federal health care program), the Legislature has limited discretion in several entitlement or caseload driven programs in the Department of Social and Health Services such as medical assistance, long-term care, and developmentally disabled services. The state must house prisoners and juveniles subject to rehabilitation provisions when state laws direct their confinement.

Arguably the Legislature must fund some amount for constitutionally created agencies such as certain state-wide elected officials, the Legislature, and the judicial system. In addition, while natural resources is an area that the Legislature has discretion, there are federal requirements that the state must comply with. Although higher education is an area that the Legislature generally is not mandated to fund under constitutional or contractual requirements, the state historically has allocated a significant portion of the operating budget to higher education.

The percentage of the budget considered to be mandatory obligations depends on one's perspective and the caveat that the Legislature could change the underlying requirements in some cases (such as redefine basic education or not participate in Medicaid). For example, if one assumed that the 2009-11 budget funding for K-12 basic education, debt service, pensions, and mandatory Medicaid related provisions were 100% mandatory at that level, that institutional corrections juvenile rehabilitation, and child protective/welfare services were 75% mandatory at that level, that the judiciary, Legislature and state-wide elective offices were 50% mandatory at that level, and everything else was discretionary, then roughly two-thirds of the 2009-11 Near General Fund-State budget would be considered mandatory funding obligations of the state.

What restrictions are there in reducing the budget?



Concentric circles are illustrative only and not to scale.

* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

** Contracts may be renegotiated. Also, some contracts have termination – and/or fiscal shortfall clauses that may be invoked.

*** Can be changed via legislation.

Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs*
- Approved Collective bargaining agreements & other contracts**

Federal Statutory Requirements

- If the state participates in Medicaid:
 - Core populations & core services
 - Health Reform (and ARRA) eligibility MOE
 - Other requirements (i.e. rate issues being litigated)
- TANF/Maintenance of Effort (MOE)
- Other ARRA MOE (Higher Ed; 2011 Only)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

State Statutory and Other Requirements

- State-created statutory entitlements (kids' health, Disability Lifeline, etc.)***
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other Statutory Programs

Discretionary

- Programs without a statutory or case law requirement

FTEs (Full Time Equivalent)

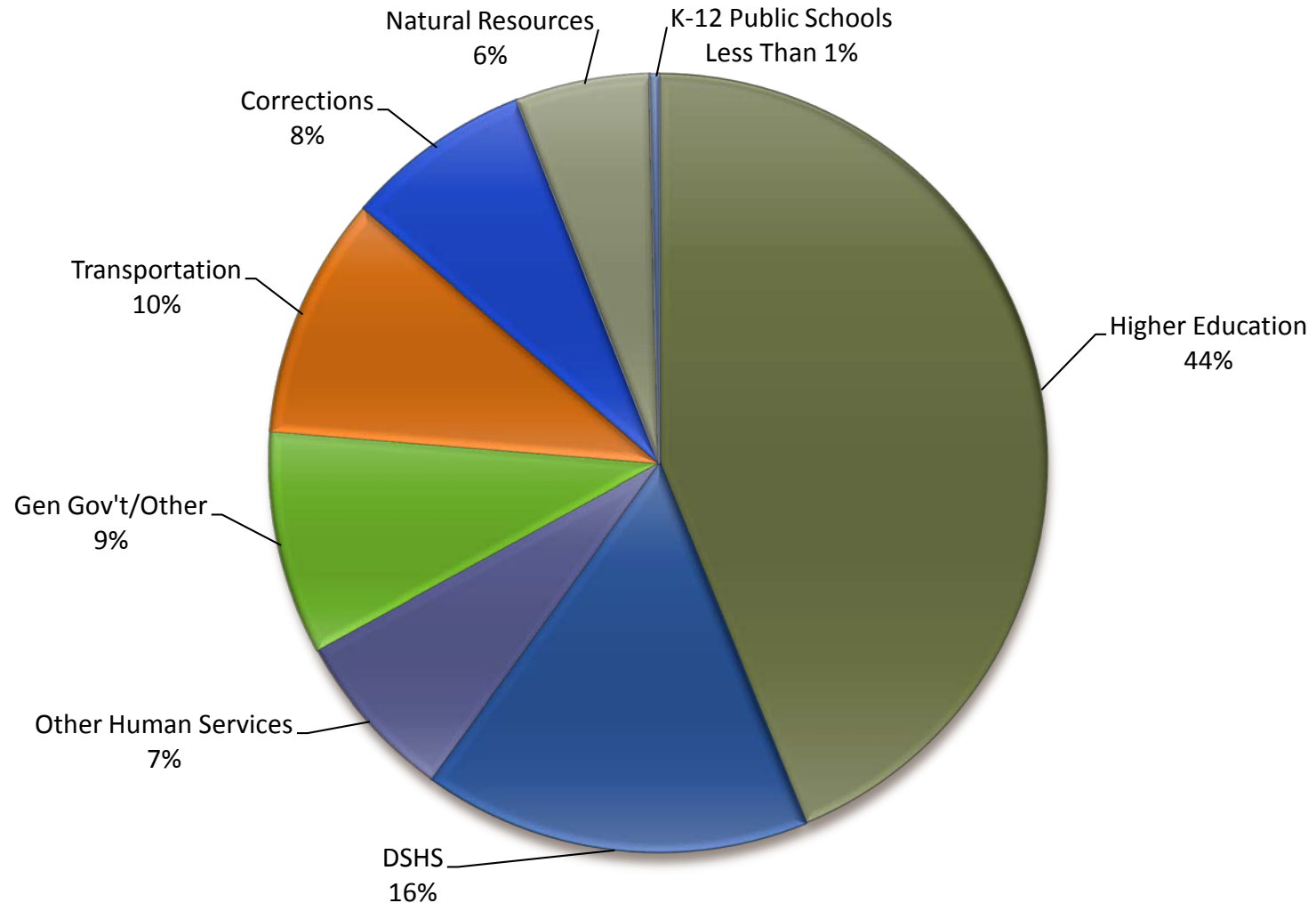
Full Time Equivalent (FTE) is a unit of measurement that relates to state employees and students. For state employees, FTE refers to one person working full time for one year. This equates to working approximately 2,088 hours of paid staff time. Two persons working half time count as one FTE. For K-12 and higher education students, FTE refers to the equivalent of one student attending class full-time for one school year based on fixed hours of attendance (which vary depending on grade level).

State FTEs include employees working for state agencies and public higher education institutions. K-12 employees are not state employees; they are employed by the local school district. State funding for K-12 is apportioned to the school districts who then pay the salaries and benefits of K-12 employees.

Total budgeted state FTE's for FY 2011, which includes those funded by the operating, capital, and transportation budgets, is 108,755.

FY 2010: Actual FTEs

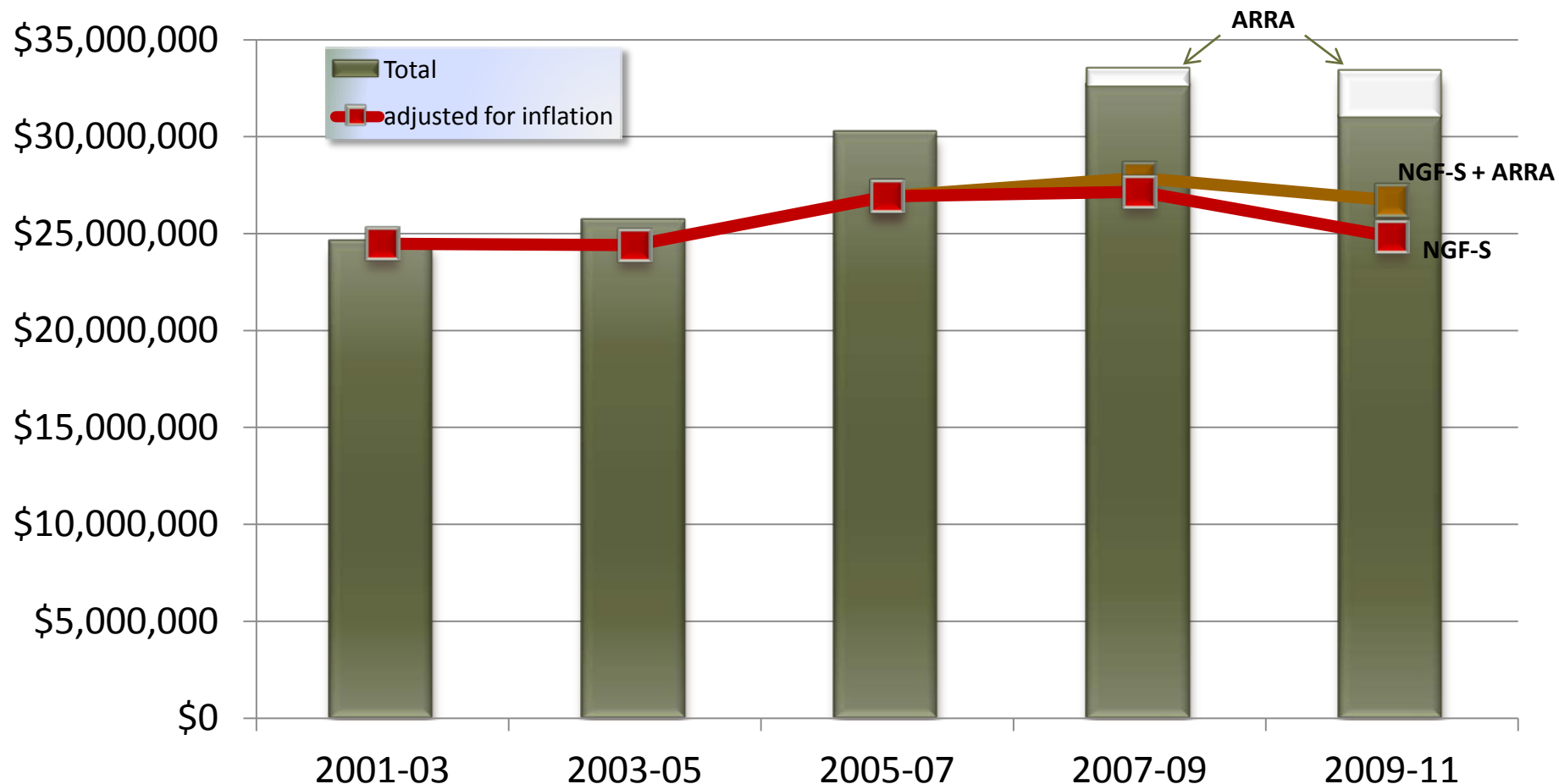
(Operating, Capital, and Transportation)



Operating Budget History

Near General Fund-State*

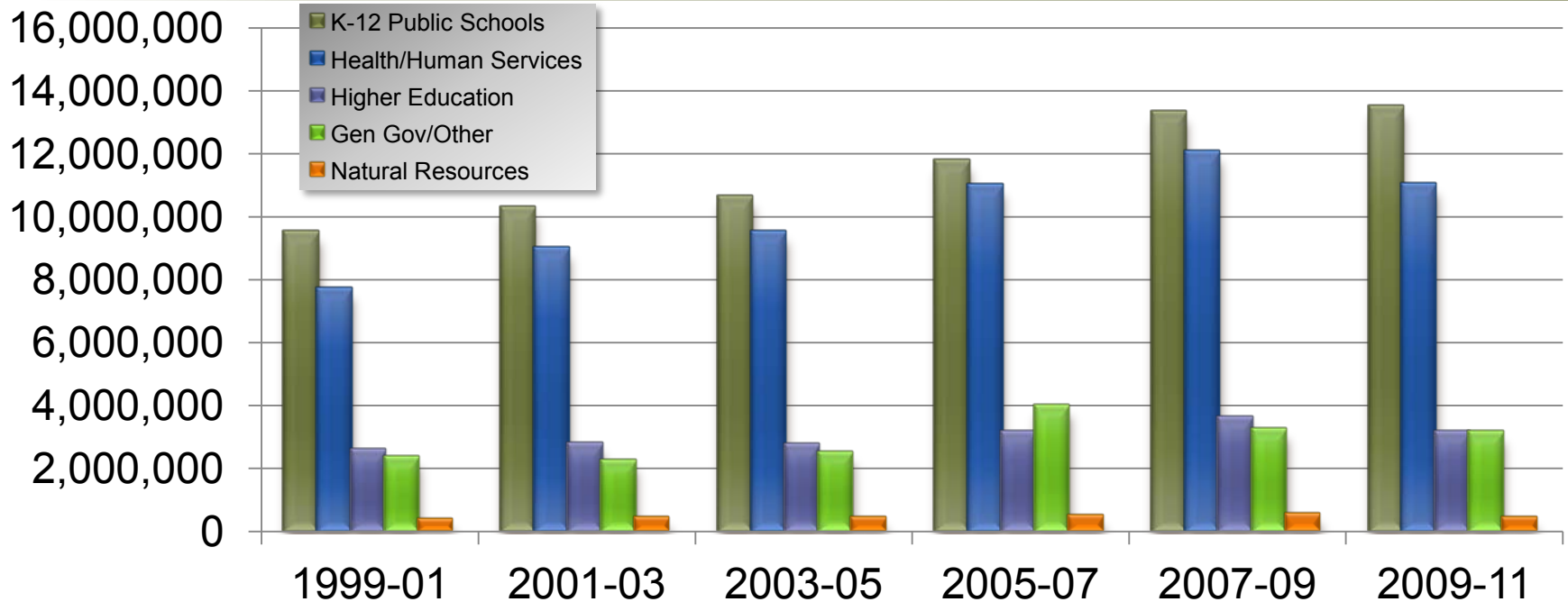
(\$ in thousands)



*Note: In 2007-09 and 2009-11, federal stimulus funds (ARRA) temporarily replaced some NGF-S expenditures (\$0.9 billion for 2007-09, \$2.3 billion for 2009-11).

NGFS Functional Area History

(\$ in thousands)



NGFS Functional Area History (\$ in millions)

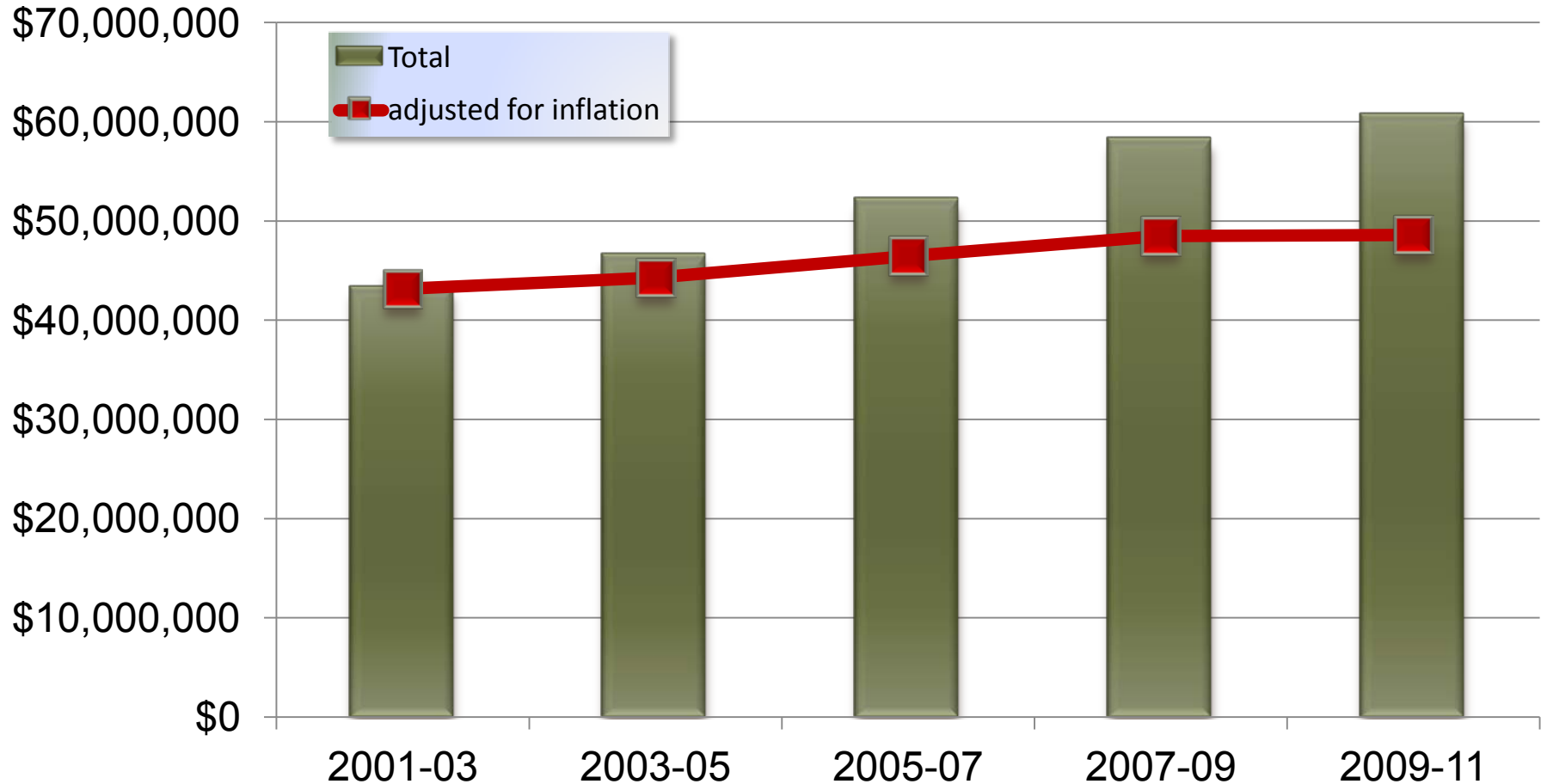
	1999-01	2001-03	2003-05	2005-07	2007-09	2009-11
K-12 Public Schools	9,447,098	10,242,272	10,579,634	11,720,356	13,284,455	13,442,302
Health/Human Services	7,662,759	8,942,097	9,468,491	10,950,187	12,008,059	10,976,045
Higher Education	2,543,226	2,733,469	2,700,516	3,096,363	3,577,553	3,094,912
Gen Gov/Other	2,300,573	2,188,799	2,455,491	3,933,478	3,184,066	3,085,656
Natural Resources	334,385	375,440	375,054	451,622	508,652	372,107
Total	22,288,041	24,482,077	25,579,186	30,152,006	32,562,785	30,971,022

Functional Areas as Percent of Total Budget

	1999-01	2001-03	2003-05	2005-07	2007-09	2009-11
K-12 Public Schools	42%	42%	41%	39%	41%	43%
Health/Human Services	34%	37%	37%	36%	37%	35%
Higher Education	11%	11%	11%	10%	11%	10%
Gen Gov/Other	10%	9%	10%	13%	10%	10%
Natural Resources	2%	2%	1%	1%	2%	1%

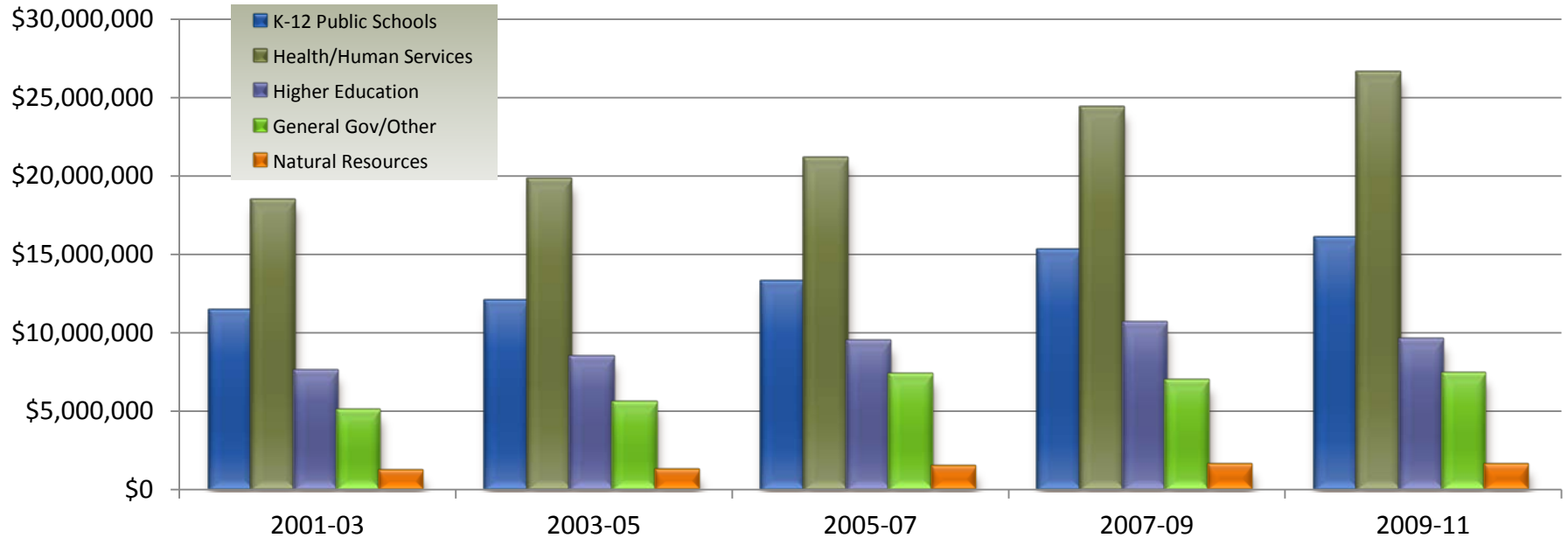
Total Budget

(\$ in thousands)



Total Budget Functional Area History

(Expenditures in thousands)

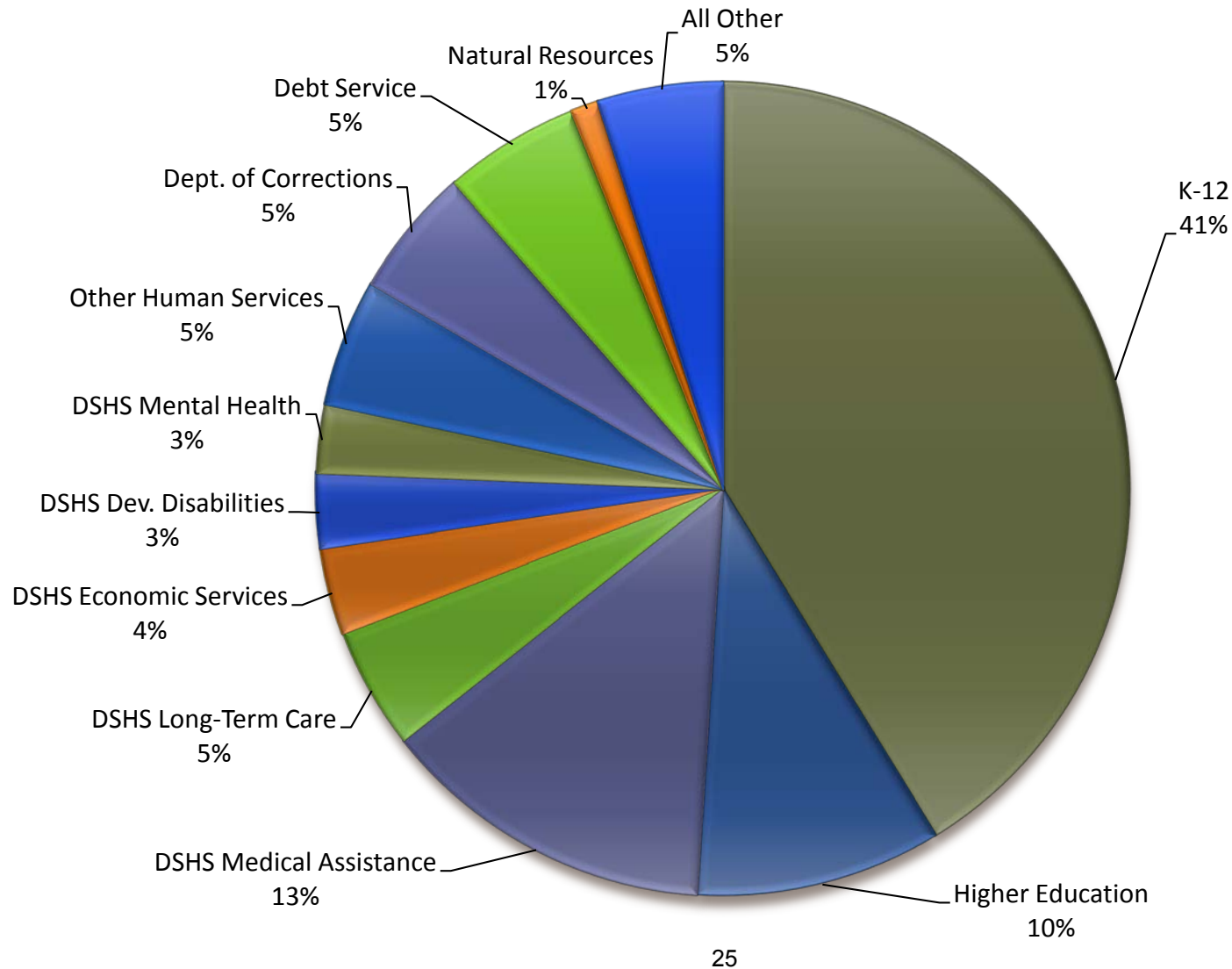


Total Budget Functional Area History (\$ in thousands)	2001-03	2003-05	2005-07	2007-09	2009-11
K-12 Public Schools	11,315,120	11,921,853	13,173,860	15,158,080	15,909,596
Health/Human Services	18,355,203	19,659,560	21,012,855	24,253,015	26,450,440
Higher Education	7,454,235	8,326,862	9,323,007	10,504,250	9,453,410
General Gov/Other	4,935,688	5,423,538	7,211,559	6,789,627	7,272,472
Natural Resources	1,092,504	1,106,533	1,318,763	1,440,917	1,494,562

Functional Areas as Percent of Total Budget	2001-03	2003-05	2005-07	2007-09	2009-11
K-12 Public Schools	26%	26%	25%	26%	26%
Health/Human Services	43%	42%	40%	42%	44%
Higher Education	17%	18%	18%	18%	16%
General Gov/Other	11%	12%	14%	12%	12%
Natural Resources	3%	2%	3%	2%	2%

2009-11 Operating Budget

(Near General Fund-State, Federal Stimulus, and Opp. Pathways)



2009-11 Operating Budget

Near General Fund-State, Federal Stimulus, and Opp. Pathways

(\$ in thousands)

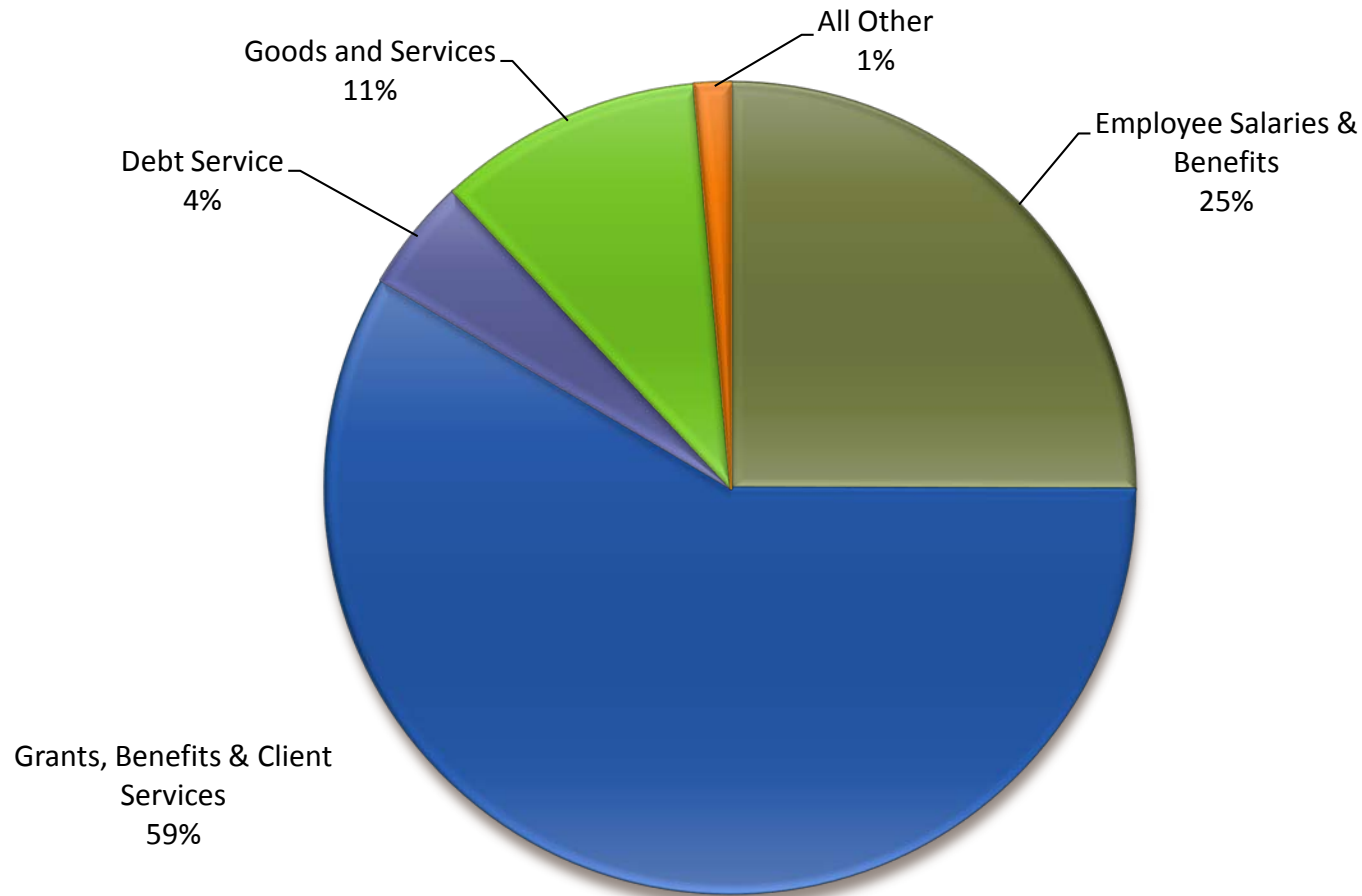
Legislative	153,900
Judicial	228,493
Governmental Operations	464,535
DSHS Medical Assistance	4,458,315
DSHS Long-Term Care	1,620,532
DSHS Economic Services	1,145,701
DSHS Developmental Disabilities	996,062
DSHS Mental Health	911,284
DSHS Children & Family Services	638,274
DSHS Alcohol/Subst Abuse	174,380
DSHS Juvenile Rehabilitation	202,199
Department of Corrections	1,729,389
Other Human Services	670,090
Natural Resources	372,107
Transportation	77,996
Public Schools	13,779,640
Higher Education	3,269,074
Other Education	165,446
Debt Service	1,793,797
Other Appropriations	544,076

Statewide Total:

33,415,288

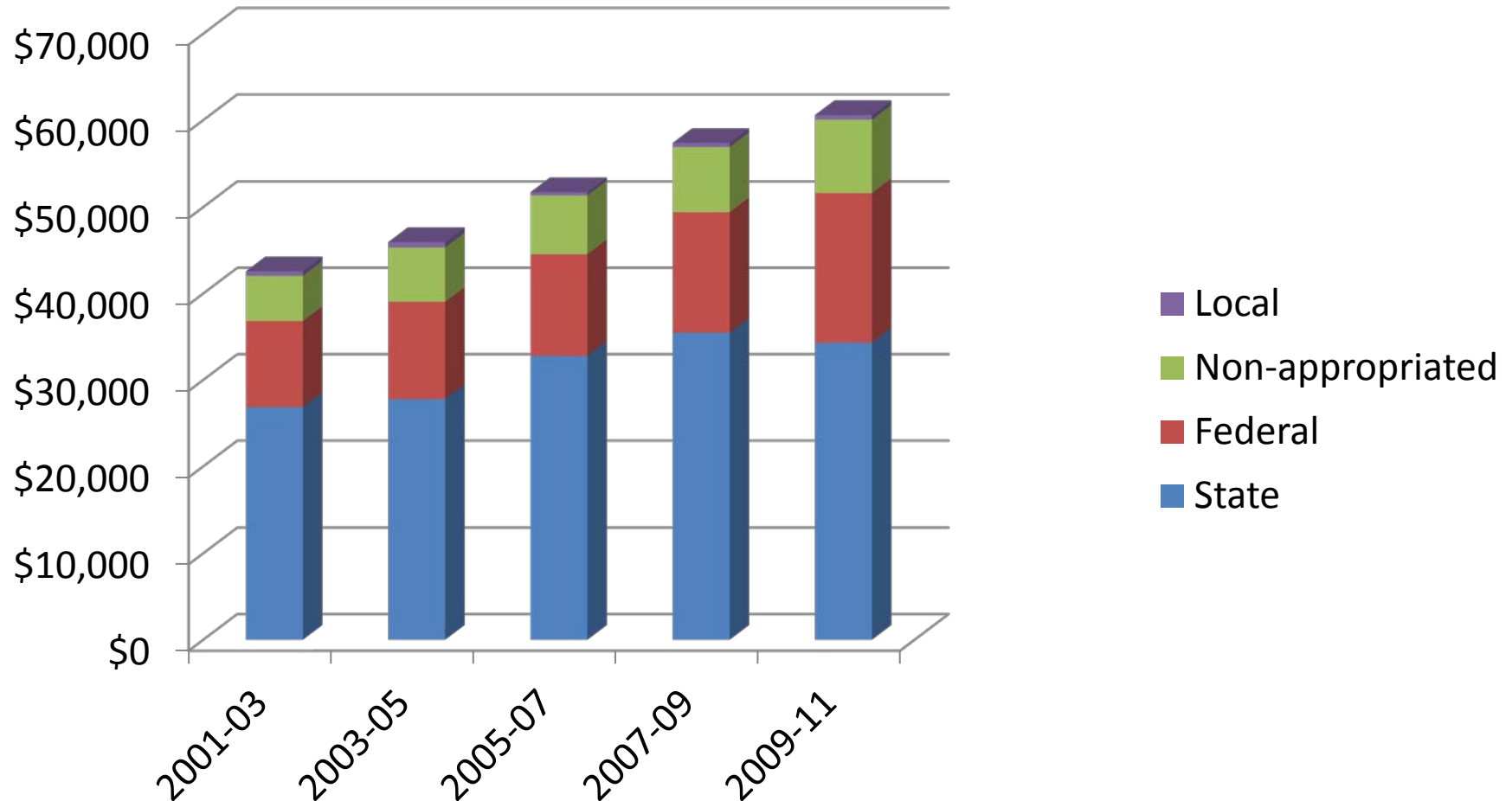
FY 2010: Objects of Expenditure

Total Operating Funds



Operating Budget Funding History

(\$ in thousands)



A Brief History of the Budget (With Apologies to Stephen Hawking)

2001-03 Biennium

The 2001-03 budget adopted in 2001 was \$25.1 billion Near General Fund-State (the final 1999-01 budget was \$22.6 billion). As the Legislature deliberated in 2001, revenue was forecasted to grow a modest 3.8% over the previous biennium. (Average revenue growth historically has been about 9% per biennium.) The maintenance level budget, the cost to continue existing state services, was \$1.6 billion above the previous budget, due in large part to increased health care costs and the passage of I-728 (\$470 million for the biennium) and I-732 (\$348 million for the biennium). Responding to the Nisqually earthquake was also a consideration for the 2001 Legislature.

The 2002 Legislature faced a significant budget challenge in the 2001-03 budget from reduced revenue (9/11 and other economic related issues) and increased caseload related costs in K-12 and health care. In the 2002 Supplemental Budget, the Legislature addressed an approximately \$1.5 billion shortfall (\$1.2 billion in revenue forecast reductions and \$300 million in additional costs) by:

- Making budget reductions of \$332 million;
- Increase ongoing revenue by \$88 million;
- Selling a portion of the state's tobacco settlement generated \$450 million for deposit into the General Fund; and
- Transferring \$325 million from the Emergency Reserve Account to the General Fund.

In the 2003 supplemental budget for the 2001-03 biennium, appropriations were increased by \$130 million GF-S. The final biennial appropriations level was \$24.6 billion.

2003-05 Biennium

In the 2003 session, the 2003-05 maintenance level budget, the cost to continue existing state services into the new biennium, was \$1.2 billion higher than available forecasted revenue. The problem statement included a number of policy level options the Legislature typically considers, which brought the total problem statement to \$2.7 billion. The Legislature solved the budget problem by:

- Approximately \$1.3 billion in reductions to maintenance level in all areas of the budget;
- Foregoing various compensation-related policy items made the problem statement \$1 billion less;
- \$131 million in new revenue;
- \$78 million in additional nursing home fees; and
- \$302 million in various transfers.

The enacted budget appropriation level was \$25.1 billion NGF-S (\$23.1 billion GF-S).

In 2004, revenue was stronger than expected, and with \$62 million in fund transfers, the 2004 supplemental budget increased the appropriation level for 2003-05 by \$190 million NGF-S. The expected GF-S ending fund balance was \$279 million.

The 2005 supplemental budget increased appropriations for 2003-05 by \$314 million NGF-S.

2005-07

Revenue was forecasted to increase by \$1.6 billion (7%) for the biennium, while the maintenance level budget increased by \$2 billion; the Legislature chose to fund a number of policy enhancements (COLAs, additional higher education capacity, etc.), resulting in a total increased projected spending level of \$3.4 billion, \$1.8 billion above projected revenue. The Legislature addressed this by:

- Increased revenue of \$482 million (including revenue going into the new Education Legacy Trust Account from the re-enacted estate tax and an increase to the cigarette tax);
- Budget reductions of \$557 million; and
- Using \$774 million of fund balances, fund transfers, and budget driven revenue.

The maintenance level cost increases were primarily driven by medical assistance (over \$650 million), pensions (\$513 million), and K-12 student enrollment (\$354 million). One of the policy level items was \$306 million for negotiated collective bargaining agreements; 2005-07 was the first biennium for consideration of these agreements under the new law.

Revenue increased \$1.4 billion from March 2005 (forecast used to develop the 2005-07 biennial budget) to February 2006 (forecast used to develop the 2006 supplemental). The 2006 supplemental operating budget increased NGF-S appropriations by \$1.3 billion, including setting aside \$350 million to the new Pension Funding Stabilization Account, \$275 million to the Student Achievement Account, and \$200 million into the Health Services Account for future use.

The 2007 supplemental budget increased biennial appropriations by \$541 million NGF-S, with all but \$16 million being set aside for use in the 2007-09 biennium.

2007-09

Forecasted revenues continued to be stronger than anticipated going into the 2007 session, primarily due to the construction and real estate sectors. The 2007-09 biennial budget appropriation level was approximately \$3.1 billion more than the final 2005-07 budget, about \$1 billion in maintenance level increases and \$2.1 billion in net policy enhancements. Approximately half of the policy enhancements went for early learning and K-12 public schools. \$440 million went to increasing enrollments and financial aid, among other things, in higher education.

The budget assumed \$105 million in savings from the repeal of gain-sharing (ESHB 2391). This currently is being litigated.

The 2008 supplemental budget increased the biennial NGF-S appropriations by \$103 million and left \$850 million in reserves (GF-S and Budget Stabilization Account).

Economists determined that the recession officially began in December 2007, although unemployment did not significantly begin to increase in Washington State until June 2008. In 2008 and March 2009, negative revenue forecast changes reduced the FY 2009 and biennial 2009-11 revenue forecasts by a combined \$5.7 billion.

The 2009 supplemental budget shortfall facing the 2009 Legislature was \$1.7 billion for the last 6 months of FY 2009. Three bills enacted during the 2009 session made the 2009 supplemental changes to the 2007-09 biennial budget (ESHB 1694 - relating to fiscal matters,

ESSB 5460 - relating to administrative costs of state government, and a portion of ESHB 1244 - the operating budget). The supplemental changes including use of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of about \$900 million, budget reductions of about \$300 million, and fund transfers (including the Budget Stabilization Account) of about \$500 million, leaving an ending GF-S fund balance of \$595 million (plus \$31 million in the Budget Stabilization Account).

2009-11

The March 2009 revenue forecast for 2009-11 was \$30.4 billion. The NGF-S maintenance level budget was \$37 billion, \$6.4 billion above the forecasted revenue for the biennium. This, in addition to \$300 million in policy additions and leaving \$500 million in unrestricted reserves, meant the 2009 Legislature faced a 2009-11 budget problem of approximately \$7.4 billion. The Legislature addressed this by:

- Using \$2 billion in federal stimulus (ARRA)
- Making \$3.6 billion in maintenance level reductions
- Using \$700 million in capital budget funds
- Modifying pension laws saved \$450 million
- Fund transfers and revenue enhancements.

\$739 million was left in reserve (GF-S and Budget Stabilization Account projected ending balances).

After the 2009 session, revenue declined by about \$1.8 billion. The 2010 Legislature faced a \$2.8 billion budget problem when maintenance level increases (\$660 million) and policy additions selected by the Legislature (\$369 million) are added to the reduced revenue. The Legislature addressed this in the 2010 supplemental by:

- \$618 million in additional federal funds
- \$721 million in maintenance level budget reductions
- \$761 million in various revenue increases
- \$690 million in fund transfers and use of reserves.

After the 2010 session, forecasted revenue declined by \$1.4 billion in the June and November forecasts, leaving a \$1.1 billion budget problem for FY 11 when maintenance level changes are included. In a one day special session on December 11th, the Legislature enacted \$490 million in reductions (including \$208 million using federal education jobs funding), \$54 million in fund transfers, and \$44 million in budget driven and other revenue, cutting the FY 11 shortfall in half and leaving the remainder to be dealt with in the 2011 session.

Very general speaking, the Legislature addressed a 3-year budget problem (fiscal years 2009-11) of lower revenue, maintenance level increases, and some policy additions through:

- About \$5.3 billion in budget reductions
- About \$3.8 billion in additional federal funds
- About \$900 million in increased revenue
- About \$2.2 billion in fund transfers and use of reserves.

After the December 11, 2010 special session, there remains a budget problem of about \$538 million in FY 11 to be solved by the 2011 Legislature.

2011-13 Outlook

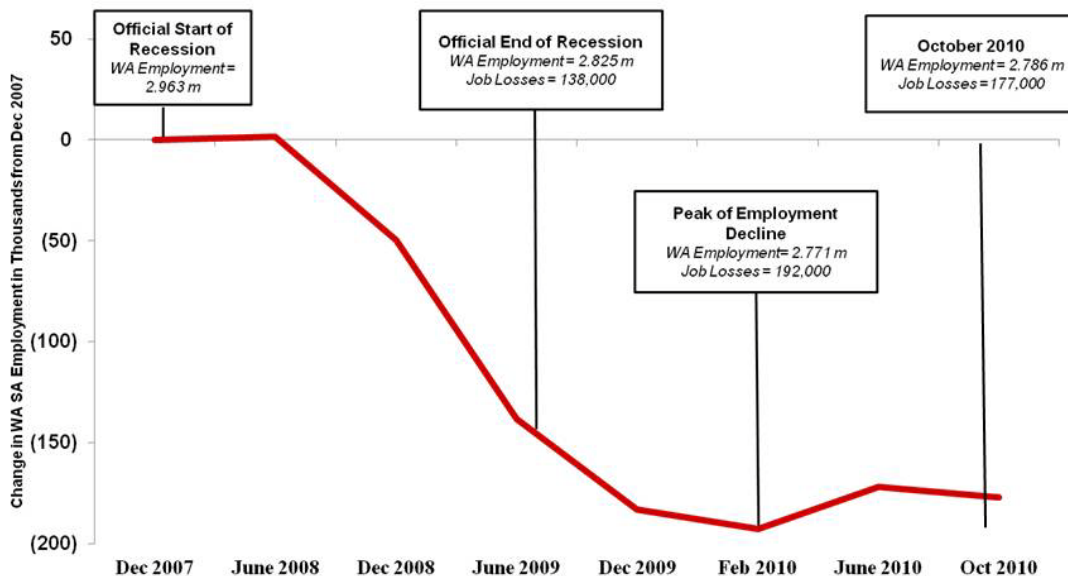
See the FY 11 and 2011-13 budget outlook near the end of this briefing book.

Economists have termed this economic downturn as the “Great Recession” because of its impact and duration.

Recession	<u>Peak to Trough % Decline</u>		Recession Duration
	Real GDP	Employment	
	<i>Percent</i>	<i>Percent</i>	<i>Months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

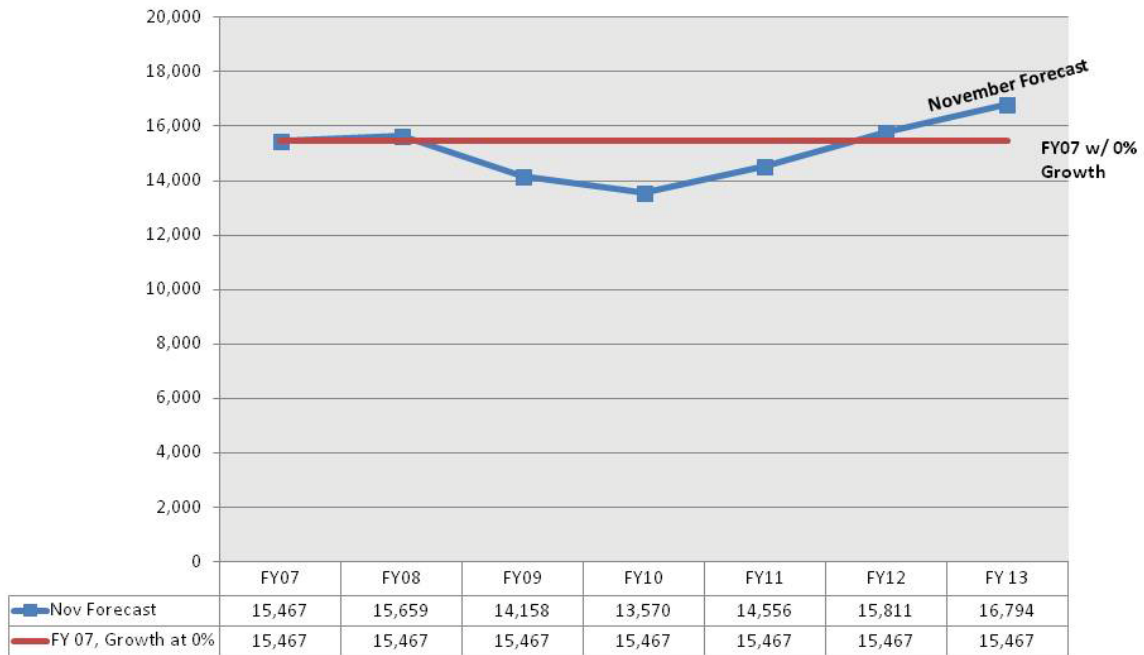
Source: Economic and Revenue Forecast Council

In the recession, Washington state lost 192,000 jobs and has only regained about 15,000 so far.



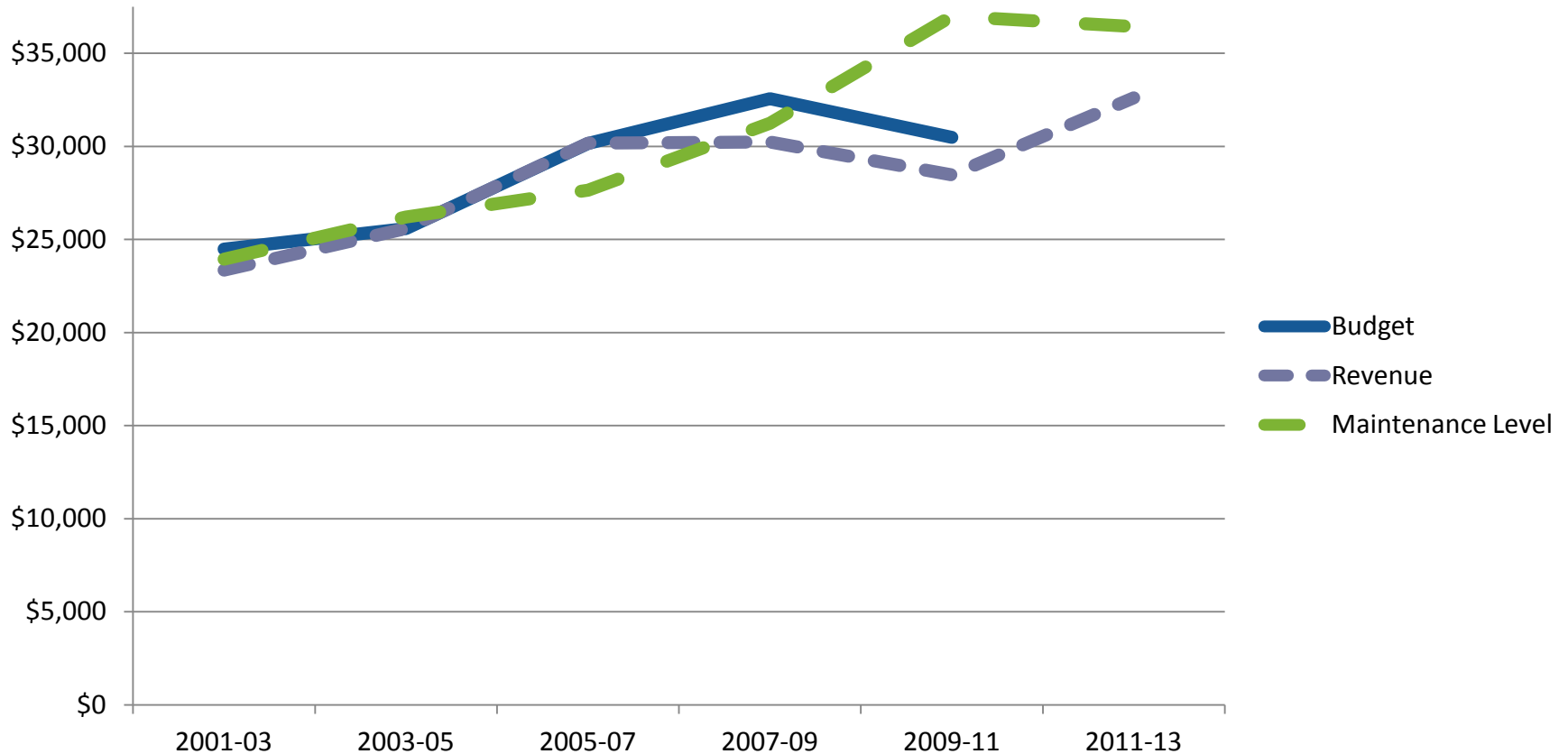
Source: Employment Security Department seasonally adjusted non-farm employment. Totals may differ slightly due to rounding.

From FY07 to FY11, total GFS and related funds revenues have declined.



Revenue and Budget History

Near General Fund-State (\$ in millions)



2009-11 is after HB 3225 enacted in December 2010 special session.
Revenue is estimated for FY 10 - 13.

*Maintenance level is the cost to continue existing services, including adjustments for mandatory caseloads.
Shown above is the maintenance level used to develop the original biennial budget.

Functional Areas

Overview

State agencies have traditionally been categorized into one of several functional areas for budgeting purposes. While appropriations are made to specific agencies rather than to functional areas, functional areas provide a useful tool for understanding the allocation of state resources and analyzing trends. Functional areas currently used in the operating budget include:

- Legislative includes the state House of Representatives, the Senate, and other legislative agencies. Judicial includes the Supreme Court, the Court of Appeals, and other state judicial agencies. Governmental operations includes most of the state-wide elected officials and a conglomeration of agencies that do not fit neatly into the other functional areas. The largest governmental operations agencies are the Department of Commerce and the Department of Revenue.
- Human Services includes those agencies charged with serving the health and safety needs of the state's population, such as the Departments of Social and Health Services, Corrections, Veterans Affairs, and Health. The Department of Social and Health Services is often treated as a separate functional area because of its size.
- Natural Resources includes those agencies responsible for overseeing environmental quality or resources efforts (e.g., Department of Ecology and Department of Fish and Wildlife), promoting outdoor recreational opportunities (e.g., State Parks and Recreation Commission), and managing state lands and waters for resource production and other benefits (e.g., Department of Natural Resources).
- Transportation is part of the Washington State Patrol and the Department of Licensing. The majority of these agencies' budgets are appropriated in the Transportation Budget.
- Public Schools is state support for public schools, including the Office of the Superintendent of Public Instruction and funds apportioned to local school districts. Other Education includes the state historical societies, the state schools for deaf and blind children, the Washington State Arts Commission, and the Workforce Training and Education Coordinating Board.
- Higher Education includes support for the state's six four-year institutions and the 34 colleges that make up the community and technical college system, as well as the Higher Education Coordinating Board.
- Special Appropriations includes debt service on state bonds (issued for capital budget projects and programs), sundry claims, special appropriations to the Governor, LEOFF and Judicial pensions, and various adjustments. Global items, things that apply to all of state government such as pensions and health care benefits, typically are considered as one item during budget discussions and then distributed among the state agencies in the budget itself or the allotment process.

GENERAL GOVERNMENT

General Government/Governmental Operations

General government agencies include legislative agencies, judicial agencies, and a number of executive agencies. This section will highlight a few of the larger general government executive agencies.

The Office of the Attorney General (AG) - The AG serves as legal counsel to state agencies and higher education institutions, and represents the state when it is sued. The office also assists local prosecuting attorneys in some investigations and prosecutions. The AG includes a Consumer Protection Division, Anti-Trust Division, Medicaid Fraud Unit, and the Public Counsel Section (which represents the public in utility rate cases). Approximately 5% of the AG's operating budget is appropriated directly to the AG from the State General Fund (GF-S), but a significantly larger amount of GF-S moneys are appropriated to state agencies that then pay the AG for legal services.

Office of the State Auditor - The Auditor conducts financial audits of state agencies and local governments. The Auditor also administers the State Employee Whistleblower Act. Legislation and Initiative 900 give the Auditor authorization to conduct performance audits of state agencies and local governments.

Office of the Secretary of State - Primary duties include supervising state and local elections, filing and verifying initiatives and referendums, producing the state voters pamphlet, registering corporations and charities, and managing the State Archives. The State Library and TVW are also funded through the Secretary of State's office.

Office of the State Treasurer - The Treasurer is the primary administrator of the state financial resources as directed by the Legislature. The Treasurer administers issuances and payment of state debt (the agency provides staff assistance to the State Finance Committee and the Treasurer serves on the committee), and manages the state funds and accounts and payment of warrants.

The Department of Commerce - Formally the Department of Community, Trade, and Economic development (CTED), its name was changed in 2009 (ESB 2242) and mission refocused in 2010 (2SHB 2658). Six divisions providing services were consolidated into four: (1) Local Government and Infrastructure; (2) Community Services and Housing; (3) Business Services; and (4) Innovation and Policy Priorities, including energy policy. In restructuring the department, a number of programs and services were transferred to other state agencies.

The Department of Financial Institutions (DFI) and the Office of the Insurance Commissioner (OIC) - These agencies oversee the financial and insurance industries in Washington State. The DFI focuses on state chartered banks and credit unions, securities transactions, and regulates a variety of other consumer lending/financial industries and services. OIC focuses on supervision of insurance companies, insurance rates and forms, and consumer protection.

The **Department of General Administration (GA)** – Services provided include capitol campus building and grounds management, real estate services for state agencies (i.e. leasing), purchasing goods and services and a central buying source for supplies, disposing of surplus property, and operating the state motor pool.

The **Department of Information Services (DIS)** - Provides information technology services to state agencies, local governments, education organizations, tribes, and qualifying non-profits. DIS also provides staff support to the Information Services Board, created by the Legislature to provide coordinated planning and management of state information technology investments and services.

The **Military Department** - Houses the Washington Army National Guard, the Washington Air National Guard, the State Emergency Management Division, and coordinates homeland security for the state.

The **Department of Personnel (DOP)** - Provides human resource related services to state agencies, including recruitment and assessment services and compensation services. DOP also provides training, employee and leadership development programs, organizational development and improvement services, and employee assistance programs. DOP administers the personnel and payroll computer systems that support statewide human resources administration and processes.

The **Department of Revenue (DOR)** - The state's principle tax collection agency, collecting 94% of general fund tax revenues and all local sales tax revenues. In addition to providing a variety of services related to taxes and revenue, DOR handles unclaimed property in Washington.

K-12 PUBLIC SCHOOLS

Introduction

Under the state constitution, it is the state's paramount duty to make ample provision for the education of all children and to provide for a general and uniform system of public schools. The state has delegated much operational authority to 295 local school districts who are governed by elected school boards. State funding is distributed to local school districts thorough a variety of formulas and grants. State funding is supplemented with federal and local funding.

Basic Education Programs

Court decisions interpreting the state constitutional provisions have established several funding principles, including:

- It is the responsibility of the Legislature to define and fully fund a basic education.
- Basic education must be funded from "regular and dependable" resources (excess levies are not a regular/dependable tax source and can only be used for enrichment programs).
- The Legislature can periodically review and update its definition of basic education.

Under the Basic Education Act, the state funds basic education primarily through funding formulas:

- **General Apportionment** - School districts receive funding primarily based on the number of students (FTEs). A student-to-staff ratio for certified instructional staff (such as teachers), certified administrators, and classified staff calculates the number of basic education staff the state will fund. The staff ratios (number and type of staff) and the staff mix (education and experience levels) generate the salaries and benefits funded by the state. A flat amount is provided per certified staff unit for non-employee related costs (NERC). This translates to a basic education (general allocation) amount per student. This amount per student may differ by school district depending on staff mix (education and experience) and salary grandfathering provisions, among other factors. Additionally, as a result of ESHB 2261 and SHB 2776, the general apportionment formulas will change September 1, 2011.
- **Special Education** - In addition to general apportionment funding, school districts receive funding for special education based on the headcount of students who qualify for special education programs. The district receives an allocation per special education student that is a percentage of the basic education (general apportionment) allocation in addition to the basic education allocation for that student. The current special education allocation is 1.15% of the basic education allocation for students through age 4, and 93% of the allocation for students age 5 through 21. There is also a safety net process for districts that demonstrate extraordinary special education costs.
- **Transportation** - Each school district electing to provide transportation to students is entitled to state pupil transportation funding at the rate provided by the state (state formula).

- **Other Basic Education Funding** - The other basic education programs defined and funded by the state are the learning assistance program, the transitional bilingual program, and programs for children housed in state institutions.

Non-Basic Education Programs

In addition to funding mandatory basic education programs, the state funds a variety of non-basic education programs. These include:

- The Student Achievement Fund - I-728 to reduce class size, provide additional professional development funds, and early learning and extended learning programs (suspended for 2009-11).
- Levy equalization - Because of uniformity concerns, a district's local levy revenues are limited to a percentage of the district's state and federal revenues. For districts with low assessed property values (and thus high tax rates), the state Local Effort Assistance program (LEA) helps equalize local tax rates.
- Other non-basic education programs include K-4 enhanced staffing ratios, I-732 COLAs (suspended for 2009-11), and education reform programs.

Current Developments/Issues

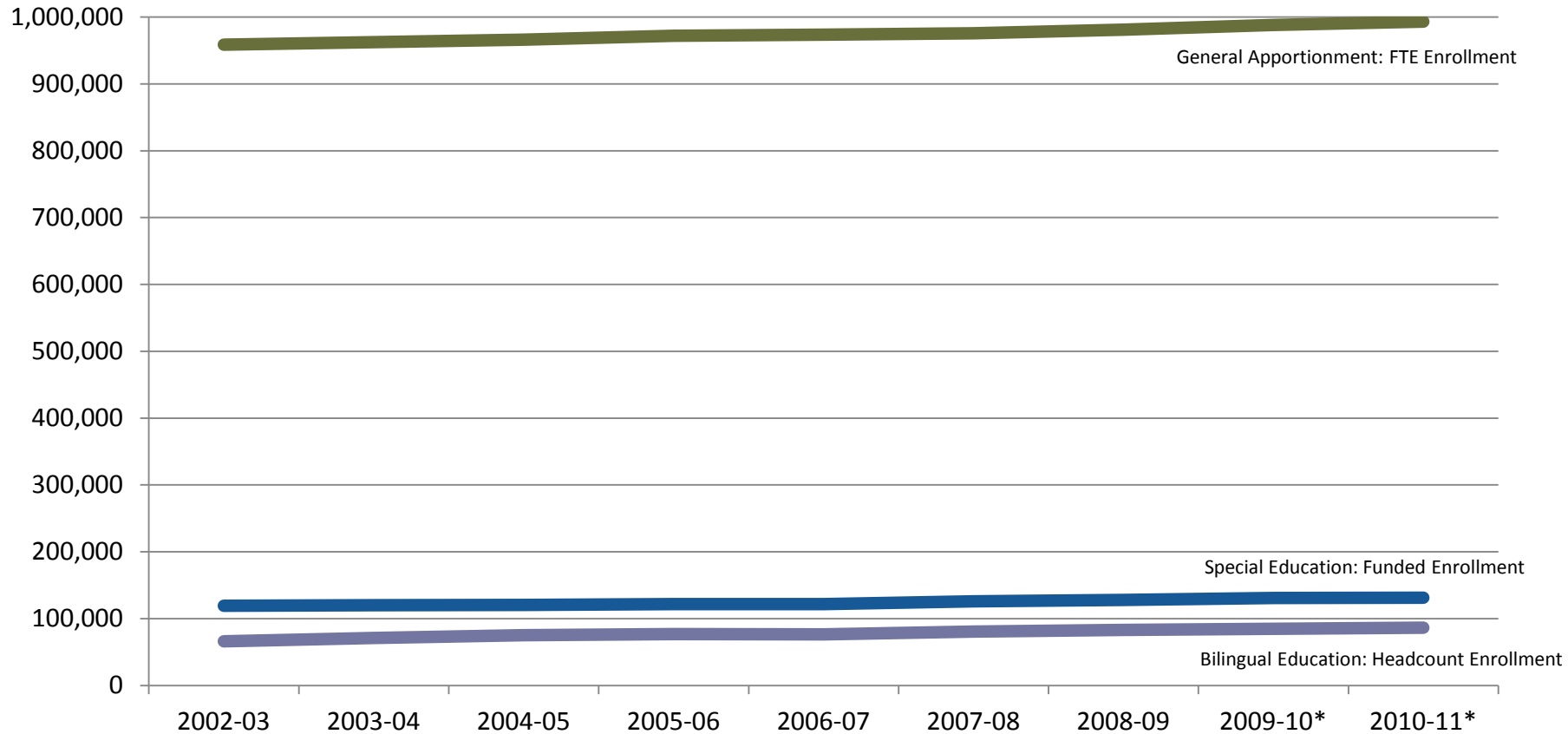
- **Redefining Basic Education** In 2009, the legislature embarked on redefining basic education and related funding formulas by enacting ESHB 2261. This legislation provided a framework for developing and implementing the new definition by the 2018-19 school year. ESHB 2261 adopted the prototype school funding model, provided for a new pupil transportation formula to begin by 2012, created a roadmap for workgroups to define the details of the funding formula, and established the Quality Education Council to recommend a phase-in plan to the legislature.

In 2010, the legislature enacted SHB 2776 that adopted a number of numerical values for the prototype school funding formulas related to allocations for classroom teachers, building-level staff, health and social services staff, and administrative staff for elementary, middle, and high schools. The legislation also moved up implementation of the new pupil transportation formula.

- **McCleary vs State.** This lawsuit relates to the general adequacy of the state's definition and funding of basic education. In February 2010, the trial court (King County Superior Court) ruled that the state has not met its obligation to provide ample funding for basic education and directed the legislature to establish the cost of providing all children with a basic education and how it will fully fund it with stable and dependable resources. The court indicated that ESHB 2261 may be a means to accomplish this. The trial court ruling is being appealed by the state.
- **School Districts Coalition vs State.** This lawsuit relates to the plaintiff's claim that the state is underfunding its special education obligations. In March 2007, the Thurston County Superior Court ruled largely in favor of the state. In December 2010, the state Supreme Court ruled in favor of the state.

2011-13 BASIC EDUCATION PROGRAMS			
Initial November Maintenance Level Estimates - Near Gen. Fund State			
(Dollars in Millions)			
GENERAL APPORTIONMENT (RCW 28A.150.260)***	\$10,765.5	68.6%	
SPECIAL EDUCATION (RCW 28A.150.370)	\$1,404.7	9.0%	
TRANSPORTATION (RCW 28A.160.150)	\$653.1	4.2%	
LEARNING ASSIST. PROGRAM (RCW 28A.165)	\$307.7	2.0%	
BILINGUAL (RCW 28A.180)	\$184.7	1.2%	
INSTITUTIONS (RCW 28A.190)	\$33.4	0.2%	
SUBTOTAL: BASIC EDUCATION PROGRAMS	\$13,349.0	85.1%	
2011-13 NON-BASIC EDUCATION PROGRAMS			
(Dollars in Millions)			
INITIATIVE 728 RESTORATION	\$860.2	5.5%	
LEVY EQUALIZATION (LEA)	\$627.9	4.0%	
EDUCATION REFORM**	\$291.3	1.9%	
INITIATIVE 732 COLA & RESTORATION	\$270.8	1.7%	
K-4 ENHANCED STAFFING RATIO	\$174.2	1.1%	
OSPI STATE OFFICE, PESB, & SBE	\$37.7	0.2%	
OSPI STATEWIDE PROGRAMS/ALLOCATIONS	\$23.4	0.1%	
HIGHLY CAPABLE*	\$19.4	0.1%	
EDUCATIONAL SERVICE DISTRICTS	\$17.4	0.1%	
SUMMER VOC & SKILLS PROGRAMS	\$7.3	0.0%	
FOOD SERVICES	\$6.3	0.0%	
PUPIL TRANSPORTATION COORDINATORS	\$1.6	0.0%	
Subtotal: Non-Basic Education Programs	\$2,337.5	14.9%	
TOTAL - STATE FUNDS	\$15,686.5	100.0%	
* Highly capable programs are set to become part of the State's program of Basic Education beginning September 1, 2011, per RCW 28A.185.020			
** The Full Day Kindergarten program funded in Education Reform budget is set to become part of the State's program of Basic Education beginning September 1, 2011, per RCW 28A.150.220 (2)(b)			
*** Students attending school more than full-time (e.g., student FTEs exceeding 1.0 through enrollment at skill centers, running start programs, or similar dual enrollment programs) represent instructional costs not considered a basic education program entitlement within the General Apportionment program.			

Public Schools Workload History



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10*	2010-11*
General Apportionment: FTE Enrollment	958,846	962,294	966,246	972,079	973,612	975,540	980,955	988,282	993,246
Special Education: Funded Enrollment	119,272	119,887	120,673	121,678	121,612	126,053	127,867	130,813	131,391
Bilingual Education: Headcount Enrollment	66,258	70,908	75,255	76,716	76,505	80,689	82,916	84,802	86,453

HIGHER EDUCATION

Introduction

Washington has six public baccalaureate institutions (4-year) and 34 public community and technical colleges (2-year). Each institution has a board of trustees or directors appointed by the Governor and confirmed by the Senate. While each baccalaureate institution is treated as a separate entity for budget purposes, with assistance from the Higher Education Coordinating Board (HECB), the budget for the community and technical colleges goes through the State Board for Community and Technical Colleges (also assisted by the HECB). In addition, Washington has approximately 33 private 4-year institutions, several out-of-state institutions authorized to offer courses in Washington, and a number of private career institutions.

Tuition, state support per budgeted student FTEs, and financial aid

The two primary sources of funding at public institutions for the cost of instruction is tuition and state support. Since 1995, tuition is set by the institutions within limits established by the Legislature in the operating budget up to statutory limits (the governing boards decide the tuition rate for students other than resident undergraduates). By statute, residential tuition may not be increased by over 7%.

In 2007-09, resident undergraduate tuition increases were authorized of 7% per year at the research institutions, 5% at the regional/comprehensive institutions, and 2% at the community & technical colleges (CTC)s. At the community & technical colleges, the operating budget provided \$5.4 million to cover the difference between the 2.0% authorized increase and the operating cost of inflation at 3.5% per year. The Legislature amended the limit on tuition increases for the 2009-11 biennium and authorized increases of up to 14% per year at the 4-year schools and up to 7% per year at the CTCs.

In addition to tuition the institutions receive, which is not appropriated by the Legislature, the state provides a set amount of support per budgeted student. This typically ranges from 50% to over 60% of the cost of instruction depending on the institution, although this support has decreased somewhat as a result of budget shortfalls and made up in part with higher tuition.. For 2009-11 the state support per budgeted FTE ranges by academic discipline, institution and student type (undergraduate/graduate). General enrollment state support ranged from \$5,300 for lower division undergraduates to \$15,000 for graduate enrollments. Generally, freshman and sophomores are the least expensive to educate and graduate students are the most expensive.

There are a variety of financial aid programs available to students. The largest state financial aid program is the state need grant. This grant provides assistance to students from families with incomes below 70% of the state's median family income. This was increased from 65% of median family income by the 2005 Legislature. Financial aid is administered by the HECB and totaled \$533 million in 2009-11 (after the 2010 supplemental), \$431 million Near General Fund-State.

Budgeted versus actual enrollments

Higher education institutions have significant discretion over how they spend the tuition and state funds they receive. The state generally appropriates funds in the state operating budget to institutions on a per student basis for a specified number of students, for facility operating and maintenance expenses based on certain assumptions, and for other purposes. The

institutions may choose to allocate these funds for different priorities as determined by the institutions. For instance, actual student enrollments often exceed budgeted enrollments. This is illustrated as follows:

Actual and Budgeted FTE Enrollments

	FY 2011	
	2010-11	
	Projected	
4-Years	Actual	Budgeted
UW (all branches)	42,680	37,162
WSU (all branches)	24,184	22,250
EWU	9,662	8,734
CWU	9,821	8,808
TESC	4,526	4,213
WWU	12,674	11,762
TOTAL 4-Years	103,546	92,929
CTC's	165,431	143,046
Other		
4-yr & 2-yr partnership*	126	165
Total Higher Education	268,977	235,975

University of Washington (UW) and Washington State University (WSU)

The two research universities are UW and WSU. In addition to the traditional academic programs, these two schools also focus on research. UW is budgeted for over \$1.4 billion in research in 2009-11 funded by public and private sponsors, particularly the federal government. WSU is budgeted for over \$350 million in research for the biennium. Other institutional programs for the UW include two hospitals (UW Medical Center, owned by UW, and Harborview Medical Center, owned by King County and managed by UW); for WSU, a priority is community outreach with roots in its land grant status, primarily through the Cooperative Extension Program and Small Business Development Center.

Comprehensive/regional universities

There are four comprehensive institutions in different regions of the state, Central Washington University (Ellensburg), Eastern Washington University (Cheney), The Evergreen State College (Olympia), and Western Washington University (Bellingham). These four year schools focus on academic/instructional programs. These schools also have community outreach and research programs, but generally on a scale much smaller than the research universities.

Community and Technical Colleges (CTCs)

The 34 CTCs each have their own Board, but, unlike the 4-year schools, their budget is administered by the State Board of Community and Technical Colleges at the state level. CTCs are two-year schools, providing Associate Degrees in Arts and Sciences and transfer programs to allow students to obtain a baccalaureate degree at a four-year institution. CTCs also provide vocational training, basic skills education, workforce education and training, student-funded programs, applied baccalaureate degrees, and community services/contract funded courses.

Major Policy and Fiscal Issues

Some of the major policy and fiscal issues in higher education include:

- The traditional question regarding the number of student FTEs the legislature will fund in the budget and at what funding level, and related questions regarding planning for future enrollments (participation rate), accommodating high demand programs, and encouraging pursuit of under-represented degrees.
- Balancing the autonomy of the individual 4-year institutions with an integrated state higher education system and developing and implementing the higher education performance agreements.
- Providing access to higher education through student recruitment & retention, enrollments and financial aid opportunities for current and future students.
- Connecting higher education with employer demands, providing worker training and re-training opportunities as well as discussing the general role of higher education in relation to workforce demands.
- Implementing potential budget reductions in 2009-11.
- Maintaining the financial stability of the GET tuition program over time given recent larger than average tuition increases and negative investment returns in the financial markets.

2009-11 (\$ in millions)	<u>UW</u>	<u>WSU</u>	<u>CWU</u>	<u>EWU</u>	<u>TESC</u>	<u>WWU</u>	<u>CTCs</u>	<u>HECB</u>	<u>WFTECB</u>	<u>SIRTI</u>
Total Budgeted Funds	\$ 4,296	\$1,158	\$258	\$232	\$107	\$332	\$2,512	\$553	\$57	5
Instruction	\$ 1,123	\$ 650	\$ 191	\$191	\$91	\$202	\$1,469			
Research	\$ 1,469	\$369	\$64	\$33	\$8	\$ 55				
Hospitals	\$ 931									
Workforce Education and Skills Training							\$679		\$ 54	
Financial Aid								\$532		

Historical Summary of Selected Higher Education Budget Items

(\$ in millions)

	<u>1999-2001</u>	<u>2001-03</u>	<u>2003-05</u>	<u>2005-07</u>	<u>2007-09</u>	<u>2009-11</u> (w/2010 supp)
Tuition Revenue	805	953	1,179	1,351	1,575	1,858
% change from previous biennium		18%	24%	15%	17%	18%
State support with Fin Aid	2,543	2,733	2,753	3,164	3,645	3,351
% change from previous biennium		7%	1%	15%	15%	-8%
State Financial Aid	222	258	307	382	458	500
% change from previous biennium		16%	19%	24%	20%	9%
State support without Fin Aid	2,321	2,475	2,446	2,782	3,187	2,851
% change from previous biennium		7%	-1%	14%	15%	-11%

Note: State support includes NGF-S, Opportunity Pathways, Opportunity Express, ARRA federal stimulus, and selected M&O funding.

Budgeted FTE enrollments (2nd year of the biennium)						
4-year institutions	84,855	85,290	87,639	91,686	95,670	92,928
2 year institutions	123,762	128,222	128,885	133,304	139,237	143,047
Total	<u>208,617</u>	<u>213,512</u>	<u>216,524</u>	<u>224,990</u>	<u>234,907</u>	<u>235,975</u>

Note: Budgeted enrollments based on Legislative Budget Notes.

HUMAN SERVICES

➤ *Department of Corrections*

Overview

The Department of Corrections is responsible for the incarceration of felons with sentences longer than one year and for community supervision of offenders convicted in superior courts who have been released from prison or are required to be supervised by court order. In accordance with the 1984 Sentencing Reform Act, the determinate sentencing model provides that offenders are sentenced based on the seriousness level of their crimes and prior convictions (although judges can depart from the standard sentencing range for aggravating or mitigating factors). The department's operating budget appropriation for the 2009-11 biennium is \$1.55 billion Near General Fund-State.

Confine Felony Offenders

As of June 30, 2009, there are 15 state prisons throughout the state housing 16,220 offenders, with another 688 in work release facilities, 1,196 in rented local facilities, and 523 in rented out-of-state beds, for a total offender population of 18,629. The majority of resources are allocated for custody activities such as transportation of offenders, operation and security of offender housing units, perimeter and access control, and other security related activities. Other items include food, laundry, clothing, and janitorial services. The average annual cost per inmate is approximately \$35,000. Approximately \$840 million NGF-S is expended for confining offenders in 2009-11.

The department also provides a correctional industries program to help offenders obtain job skills and re-entry programs targeted to reduce recidivism.

Health Care Services for Offenders

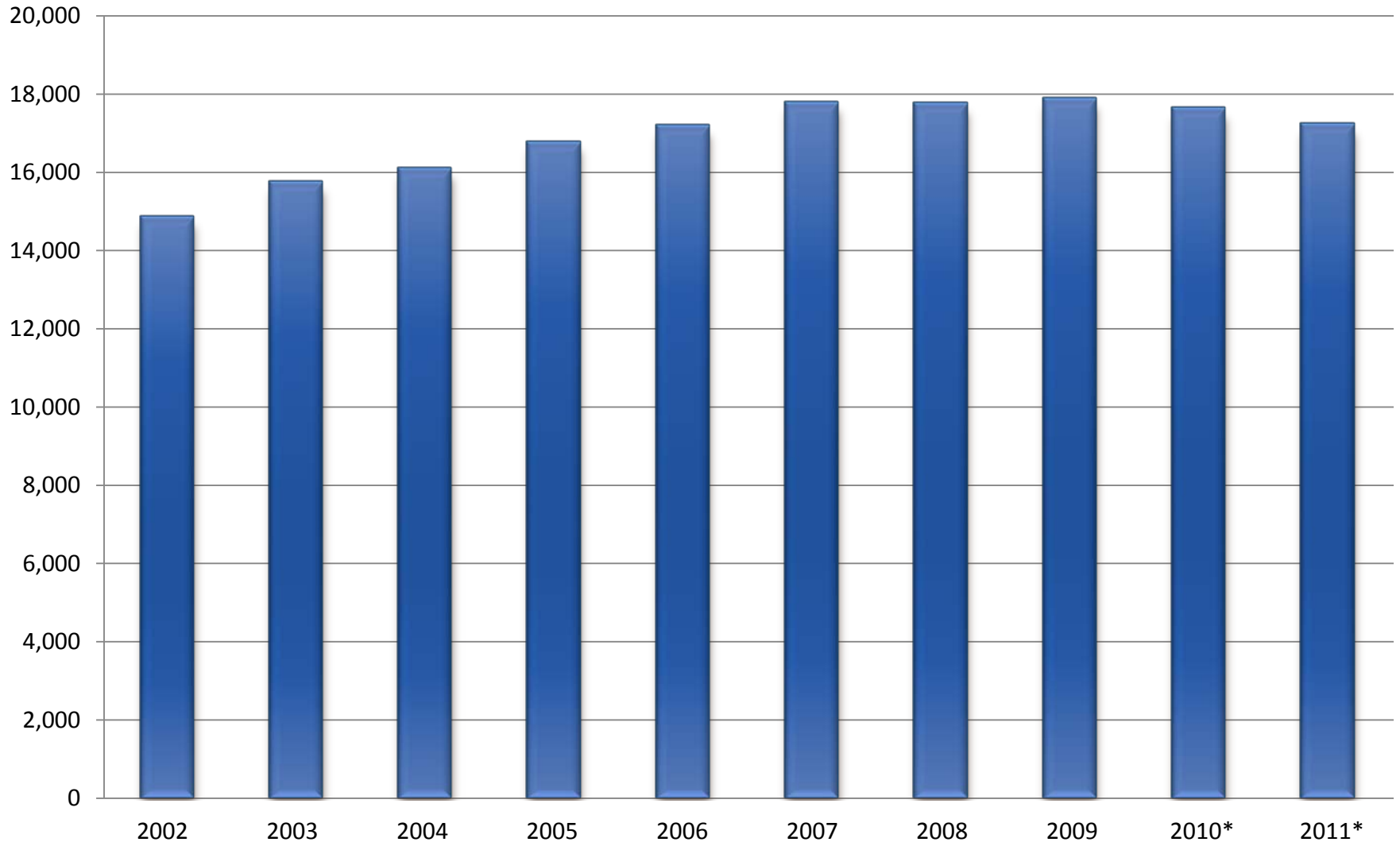
The department is required to provide medical and dental services for the incarcerated offender population. About \$319 million NGF-S is expended for these services for the 2009-11 biennium.

Supervising Offenders in the Community

DOC monitors felony and gross misdemeanor offenders in the community who have been released from confinement or are required to be supervised by court order. About 15,000 per day are classified as high risk, about 8,000 medium risk offenders, and about 5,000 low risk offenders. About \$284 million NGF-S is for these activities in 2009-11.

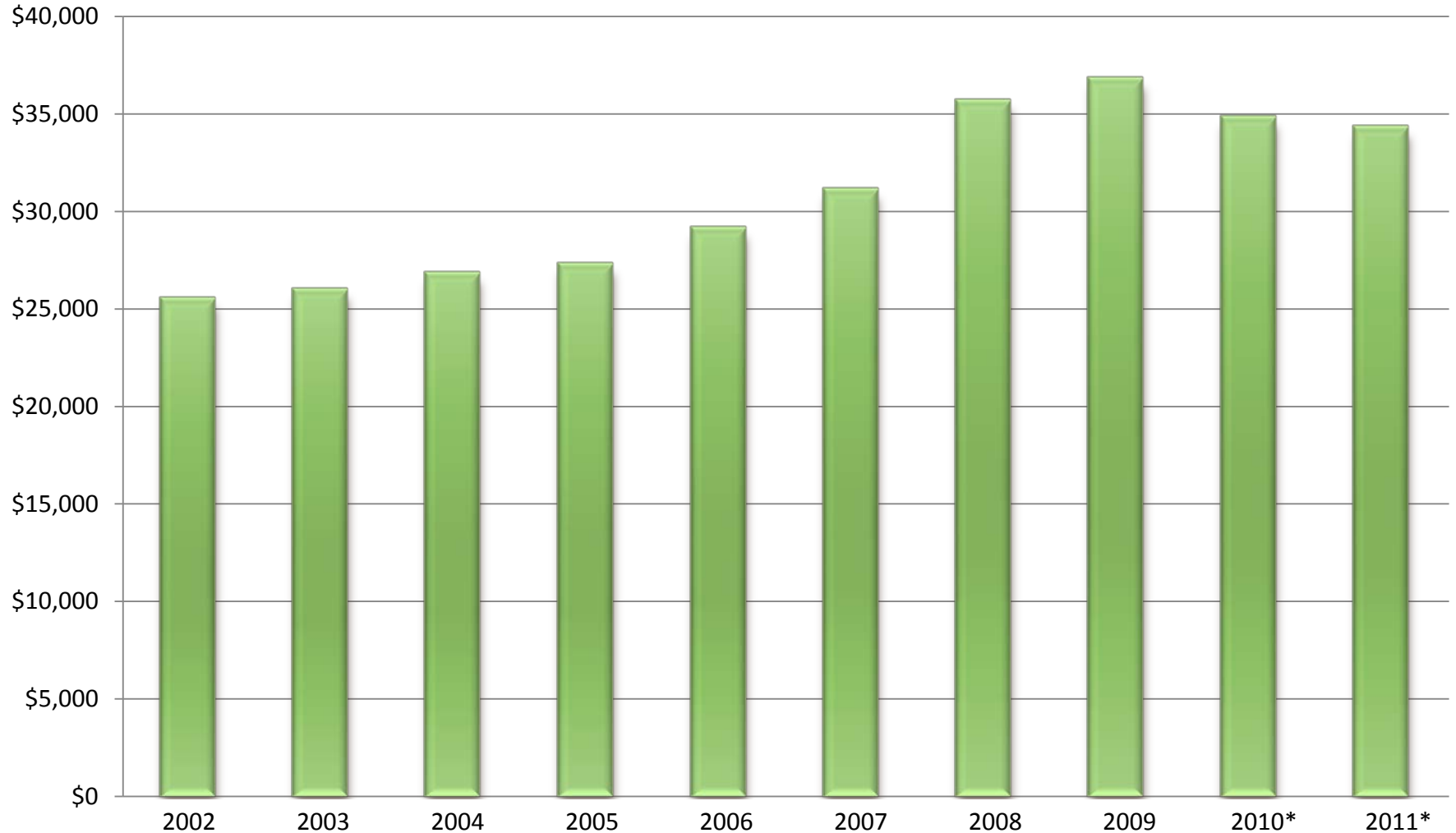
DOC Incarcerated Offenders

Average Daily Population



DOC Incarcerated Offenders

Average Annual Cost Per Inmate



➤ *Department of Social and Health
Services*

Overview

The Department of Social and Health Services (DSHS) is 28% of the Near General Fund-State appropriation for the 2009-11 biennium, and 35% of total budgeted funds. A substantial portion of DSHS's budget provides health care to low income or qualifying persons, much of it in partnership with the federal government through the Medicaid program. Medicaid services generally are funded half by the federal government and half by the state, although the federal stimulus funding provided an enhanced federal match rate for fiscal years 2009-2010, and 2011.

DSHS Programs 2009-11 (after 2010 supp)

	<u>Near General Fund-State</u>	<u>Total Budgeted Funds</u>
Medical Assistance	\$3.5 billion	\$9.9 billion
Long-Term Care	\$1.3 billion	\$3.2 billion
Economic Services	\$1.1 billion	\$2.4 billion
Developmental Disabilities	\$0.8 billion	\$1.9 billion
Mental Health	\$0.8 billion	\$1.6 billion
Children & Family Services	\$0.6 billion	\$1.1 billion
Alcohol/Substance Abuse	\$0.2 billion	\$0.3 billion
Juvenile Rehabilitation	\$0.2 billion	\$0.2 billion
Other	<u>\$0.3 billion</u>	<u>\$0.5 billion</u>
DSHS Total	\$8.8 billion	\$21.3billion

Clients often receive services from a variety of programs. Although Medical Assistance is the primary health services program/division, medical services are also funded in many other programs including Long-Term Care, Developmental Disabilities, and Mental Health. While Children and Family Services focuses on protecting children from neglect and abuse and providing foster care and adoption services, children also receive services through Medical Assistance, Developmental Disabilities, Mental Health, and other DSHS divisions/programs. There are 3 divisions/programs that are primarily non-medical: Children and Family Services, Economic Services, and Juvenile Rehabilitation. A summary of selected DSHS activities is listed below.

Note that beginning with the 2011-13 biennium, the Governor is proposing to combine DSHS Medical Assistance with Health Care Authority and form a new agency.

Children and Family Services

Child Protective Services (CPS) - Provides intake, screening, and investigative services for reports of suspected child abuse and neglect. (\$197 million total budgeted for 2009-11, \$92 million NGF-S.)

Family Reconciliation Services (FRS) - Provides voluntary services targeted to maintaining the family as a unit and preventing out-of-home placement of adolescents. If more intensive services are necessary, they are contracted through Family Support Services. (The FRS total for 2009-11 is \$45 million, \$20 million NGF-S.)

Family Support Services - Assistance to children and families in crisis and at risk of disruption. Early intervention services are provided to address abuse and neglect, avoid out-of-home placement, and promote healthy development of children. (\$54 million total for 2009-11, \$48 million NGF-S.)

Child Welfare Services (CWS) - Provides permanency planning and intensive treatment services to children and families who need help with chronic problems related to abuse and neglect. CWS generally is applicable when services are needed beyond CPS and Family Reconciliation Services. (\$229 million total for 2009-11, \$108 million NGF-S.)

Medicaid Treatment Child Care (MTCC) - Provides families with young children at serious risk of abuse or neglect with intensive child development services and interventions to promote parenting skills (formerly called Therapeutic Child Development). (\$13 million total for 2009-11, \$7 million NGF-S.)

Crisis Residential Centers (CRC) - Provides temporary housing for children who run away from home or are in severe conflict with their parents (stays range from four hours to five days). (\$6 million total in 2009-11).

Secure Crisis Residential Centers (SCRC) - Provides short-term placement of up to five days for runaways placed by law enforcement. SCRCs have locked doors and windows and fenced grounds, but otherwise operate as CRCs with emphasis on assessment of needs and family reunion. (\$3 million NGF-S in 2009-11.)

Family Foster Home Care (FFH) - Provides 24-hour care for children who need temporary out-of-home placement due to child abuse, neglect, or family conflict. FFH services are intended to be short term while a more permanent solution is found. (\$197 million total for 2009-11, \$137 million NGF-S.)

Other Foster Care - Provides receiving home care, foster care client support services, pediatric interim care for medically fragile infants, and out-of-home placement recoveries. (\$26 million total for 2009-11, \$14 million NGF-S.)

Behavioral Rehabilitation Services (BRS) - Contracts with community agencies for rehabilitation services for children with serious emotional, behavioral, or medical disabilities who cannot be adequately served in family foster care. BRS provides a higher level of care for children with the most severe needs. (\$128 million total in 2009-11, \$72 million NGF-S.)

Adoption Services and Support - Provides permanent placement and support services for children in foster care where parental rights have been voluntarily relinquished or terminated due to abuse, neglect, or abandonment. (\$191 million budgeted for 2009-11, \$94 million NGF-S.)

Juvenile Rehabilitation

Institutional Services for Juvenile Offenders - The Juvenile Rehabilitation Administration (JRA) maintains four secure residential facilities for youth committed to state custody in the 2009-11 biennium. Services focus on rehabilitation, and include counseling, academic education, medical and dental, and vocational training. (\$123 million total in 2009-11, \$117 million NGF-S.)

Parole Transition Services for State Committed Juvenile Offenders - JRA coordinates regional services that include state and county-contracted diagnostic services for committable offenders. (\$31 million total in 2009-11, \$25 million NGF-S.)

Community Facility Transitional Services for Juvenile Offenders - Includes seven state-operated and for adjudicated youth who are transitioning back to the community. (\$12 million total in 2009-11, \$11 million NGF-S)

Community Services for Locally Committed Juveniles - Funds programs on a statewide basis to reduce recidivism for juvenile offenders. These programs target youth who are on county probation and are at moderate to high risk for reoffending. The focus is on programs demonstrated by research to reduce recidivism (\$42 million NGF-S in 2009-11)

Economic Services

Child Support Enforcement - The Division of Child Support (**DCS**) helps collect child support payments for children. DCS collects and distributes over \$50 million each month in child support payments. (\$287 million total in 2009-11, \$73 million NGF-S.) This is partially offset by the state's TANF share returned by the state (\$105 million total, \$52 million NGF-S).

The TANF Box - When the Legislature established the Workfirst program in 1997, it put all related revenues into the "TANF box". These are federal Temporary Assistance for Needy Families (TANF), federal Child Care Development Fund (CCDF), state CCDF match, and state TANF funds (called Maintenance of Effort or MOE). The governor manages the TANF box. Programs included in the TANF box are TANF cash grants, Working Connections Child Care, support services, and WorkFirst employment services.

Temporary Assistance to Needy Families (TANF) - Provides monthly cash assistance to needy families with children and to low income pregnant women. Eligibility is determined by comparing the family's countable income to the grant payment standard for the applicant's household size. Funding for the program is shared by the state and federal governments. (\$724 million total for 2009-11, \$262 million NGF-S.)

WorkFirst Employment and Training - Provides job search assistance, subsidized employment, job readiness training, basic education, career counseling, and non-salaried work experience to TANF-eligible clients. The program also provides support for vocational education once a client is working 20 hours per week. (\$232 million total in 2009-11, \$77 million NGF-S.)

Working Connections Child Care Program (WCCC) - Provides payments for child care services to all TANF clients, WorkFirst participants and non-TANF low income parents who participate in employment, work activities, and training. (WCCC's total budget is \$473 million for 2009-11, \$232 million NGF-S.)

Food Stamp Administration - Determines eligibility for federal food stamp benefits. (\$88 million total in 2009-11, \$33 million NGF-S.)

Disability Lifeline (formerly General Assistance-Unemployable and General Assistance Interim SSI) - Provides cash grants to low income individuals and couples whose physical, mental, or emotional illness prevents them from working. Some recipients appear to meet SSI disability criteria and should be eligible for Medicaid health coverage; DSHS requires and helps these recipients apply for SSI benefits. (\$217 million total in 2009-11, \$215 million NGF-S.)

Medical Eligibility Determination Services -The Economic Services Administration determines eligibility of medical programs. (\$91 million total for 2009-11, \$54 million NGF-S.)

Medical Assistance

Mandatory Medicaid Program for Children and Families - Provides Medicaid services for families and children eligible for TANF, persons no longer on TANF for certain reasons, eligible pregnant women and their newborns, individuals receiving SSI or state supplements, and children in foster care or adoption support. Mandatory services for eligible persons include inpatient and outpatient hospital care, rural health clinic services, laboratory and X-ray services, nursing home services for those over age 21, EPSDT services (Early and Periodic Screening Diagnosis, and Treatment) for children, family planning, physician care, and home health. (\$6.7 billion total in 2009-11, \$2.4 billion of which is NGF-S.)

Medicaid for Optional Children - Provides Medicaid services for children who do not qualify under federal mandatory guidelines, but live in families with income less than 133 percent of the poverty level. (\$1.9 billion total, \$645 million NGF-S for 2009-11)

Medicaid Program for Aged, Blind, and Disabled - Medically Needy (MN) is a federal and state Medicaid program for aged, blind, or disabled individuals with income or resources (assets) that exceed standard eligibility levels (categorically needy). (\$233 million total in 2009-11, \$82 million NGF-S.)

Optional Medicaid Health Benefits (Dental, Vision, and Hearing) - Washington covers optional Medicaid dental, vision, and hearing services. (\$74 million total in 2009-11, \$30 million NGF-S).

State Children's Health Insurance Program (SCHIP) - Provides health coverage to about 12,000 children up to age 19 who live in households with income between 133 and 300 percent of the federal poverty level. (\$64 million total in 2009-11).

Medical Care for Disability Lifeline (formerly General Assistance Unemployable) and ADATSA - State-funded program provides limited medical care to persons who are physically and/or mentally incapacitated and unemployable for more than 90 days. Limited medical care is also provided for people participating in the state-funded Alcoholism and Drug Addiction Treatment and Support Act (ADATSA) which provides cash and/or medical benefits, treatment, and support for persons who are unemployable due to drug or alcohol abuse. (\$349 million total in 2009-11, \$251 million NGF-S.)

Disproportionate Share Hospital (DSH) – Program focuses on continued operation of hospitals most heavily impacted by charity and Medicaid caseloads, and certified public expenditure programs focus on maximizing federal revenue (\$294 million total in 2009-11, \$63 million NGF-S)

Long-Term Care

Adult Day Health Community Services - Provides rehabilitative and other services to delay the need for entrance into a 24-hour care setting, or reduce the length of stay in 24-hour care settings. Persons must meet Medicaid eligibility criteria and have a skilled nursing or rehabilitation need. (\$28 million total in 2009-11, \$15 million NGF-S.)

In-Home Services - Medicaid eligible individuals may receive care in their homes through contracted services with Agency Providers (APs) and Individual Providers (IPs). Services include assistance with activities of daily living such as meal preparation, shopping, laundry, housekeeping, and transportation. Services may also include personal care such as eating, bathing, personal hygiene, toileting, and dressing. The nurse delegation program allows distribution of prescription medications as ordered, the testing of blood sugar levels, and simple wound care. Other DSHS programs besides Long-Term Care also contract with APs and IPs for services. (\$1.45 billion total in 2009-11, \$555.6 million NGF-S.)

Adult Family Home Community Services - Providers are private homes that may serve up to six residents. They provide room, board, laundry, residential supervision, assistance with activities of daily living, personal care, and nurse delegation services. Some providers also offer skilled nursing or special care. Persons must meet financial and functional eligibility criteria for either the Medicaid Personal Care (MPC) program or the Community Options Program Entry System (COPES) system waiver. (\$198 million total in 2009-11, \$75 million NGF-S.)

Residential Home Community Services - Providers are licensed to care for seven or more residents. Service settings include Adult Residential Care (ARC), Enhanced Adult Residential Care (EARC), and Assisted Living facilities. Boarding Homes provide shared and private rooms, meal service, some assistance with activities of daily living, some residential supervision, and nurse delegation. Persons must be eligible for MPC or COPEs programs. ARCs work with clients who are receiving state-provided adult protective services. EARCs require intermittent skilled nursing and some provide specialized dementia care. (\$184 million total in 2009-11, \$91 million NGF-S.)

Nursing Home Services - Skilled nursing facility health care is provided to Medicaid-eligible persons who need post-hospital recuperative care, nursing services, or have chronic disabilities necessitating long-term habilitation and/or medical services. Nursing homes provide 24-hour supervised nursing care, personal care, therapy, and supervised nutrition. (\$1.0 billion total for 2009-11, \$382 million NGF-S.)

Investigations/Quality Assurance Services - Reviews licensed facilities, staff, and others that come in contact with vulnerable adults requiring provision of appropriate services and quality care (\$84 million total in 2009-11, \$24 million GF-S.)

Developmental Disabilities

Employment and Day Programs - Provides services to developmentally disabled persons through contracts with county governments. Services from birth to three include specialized therapeutic and educational services. Services for adults include training, placement, and follow-up services to help clients obtain and maintain employment, as well as personal growth programs to help clients participate in community activities. (\$145 million total in 2009-11, \$69 million NGF-S.)

Personal Care - Funding for personal care services for children and adults with developmental disabilities (Title XIX) in their homes, licensed adult family homes, and boarding homes. Assistance is provided for bathing, feeding, and dressing. (\$530 million total in 2009-11, \$203 million NGF-S.)

Family Support Program for Developmentally Disabled Clients - Services are provided primarily by the family or to assist the family in the home, reducing the need for out-of-home residential placement. Services include respite care, attendant care, nursing specialized equipment and supplies, physical therapy, behavior management, and communication therapy. (\$12 million NGF-S in 2009-11.)

Residential Program - Services are provided through contracts with private community providers. These services include residential care, supervision, habilitation training, therapies, medical and nursing care, and recreation. (\$568 million total in 2009-11, \$208 million NGF-S.)

Infant Toddler Early Intervention Program - A multi-disciplinary program for early intervention services to infants and toddlers with disabilities and their families. The program contracts with local organizations and local governments for direct services. (\$10 million total in 2009-11.)

Residential Habilitation Facilities – The state operates five habilitation centers that serve developmentally disabled persons by providing assessment, treatment, training, habilitative programs, and activities. (\$360 million total in 2009-11, \$127 million NGF-S.)

Other programs include:

1. State Operated Living Alternatives (SOLAs) is similar to Residential Services except staffing supports are provided the state employees (\$27 million total in 2009-11, \$11 million NGF-S)
2. Public Safety Services funds residential placements of DD clients with community protection issues (\$106 million total in 2009-11, \$52 million NGF-S);
3. Professional Services (\$13 million in 2009-11, \$4 million GF-S); and
4. Other community programs including background checks, diversion beds, and crisis intervention services to assist the community in supporting DD clients experiencing a mental health crisis (\$50 million total in 2009-11, \$26 million NGF-S.)

Mental Health

Community Mental Health Services – Medicaid - Provides financial support and program direction for community mental health programs delivered by Regional Support Networks (RSN) and prepaid health plans. Services are provided to Medicaid clients who meet medical necessity standards. Services include outpatient, inpatient, acute care, emergency, day treatment, consultation and education, employment services, and Medicaid transportation. (\$763 million total in 2009-11, \$253 million NGF-S).

Community Mental Health Services - Non-Medicaid - Provides financial support and program direction to RSNs for community health programs for non-Medicaid eligible persons and for services that do not qualify for funding under Medicaid. These programs provide services for both voluntary and involuntary populations (through the Involuntary Treatment Act). Services are similar to the Community Mental Health Services program described above. (\$238 million NGF-S for 2009-11.)

State Mental Health Facilities - State psychiatric hospitals include Eastern and Western State Hospitals and the Child Study and Treatment Center. Services include inpatient psychiatric services for acutely and chronically mentally ill persons, mentally ill legal

offenders, geriatric patients at Eastern and Western State Hospitals, and inpatient psychiatric services for severely disturbed children and adolescents at the Child Study Treatment Center. (\$462 million total in 2009-11, \$243 million NGF-S.)

Other Community Mental Health Services - Include Children's Long-Term Inpatient Services (CLIP), the Clark County school project, Community Transition Support Services for former state hospital patients, and federal Mental Health Block Grant programs. (\$62 million total in 2009-11, \$44 million NGF-S.)

Mental Health Services to Jails - Services are provided to offenders with mental health disorders while they are confined in county or city jails. (\$10 million NGF-S in 2009-11.)

Dangerously Mentally Ill Offender Program (formerly the Offender Reentry Community Safety Program) - Provides mental health services for dangerous mentally ill offenders scheduled to be released from state prisons into the community. This is a joint program between the Department of Corrections and DSHS. (\$3 million NGF-S in 2009-11.)

Childrens Long-term Treatment Programs (CLIP) - Provides long-term treatment, primarily inpatient services, to children under 18 years of age with severe psychiatric impairment who require intensive services in a restricted setting. There are non-profit CLIP facilities in Tacoma, Seattle, and Spokane; the Child Study and Treatment Center is also considered a CLIP facility (funded under State Mental Health Facilities). (\$16 million total in 2009)

Alcohol and Drug Abuse

Community Based Drug and Alcohol Treatment Services - DSHS contracts with counties and tribes for outpatient treatment services. Counties contract with provider networks in their communities to provide services including assessment, outpatient treatment, triage services including non-hospital detoxification services, outreach, intervention, referral, and opiate substitution treatment. Medicaid matching funds are used to maximize available services. (\$163 million total in 2009-11, \$92 million NGF-S.)

Residential Drug and Alcohol Treatment - Residential treatment services are provided to indigent and low-income individuals and their families who are experiencing a range of abuse and addiction problems. (\$90 million total in 2009-11, \$51 million NGF-S.)

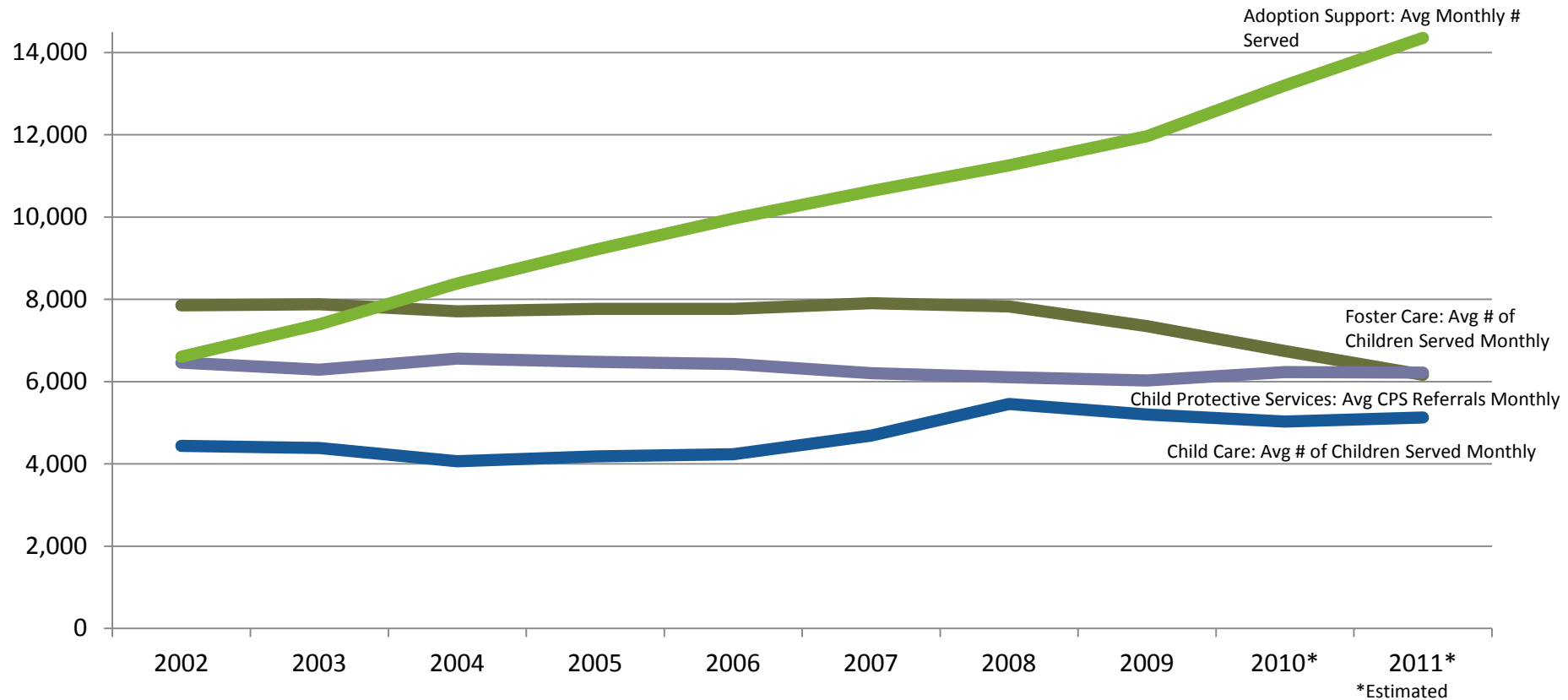
Other Programs

Other programs include various administrative/support services and vocational rehabilitation.

Administrative/support services include payments to other state agencies for human resources, information technology, and legal services (\$123 million NGF-S in 2009-11.)

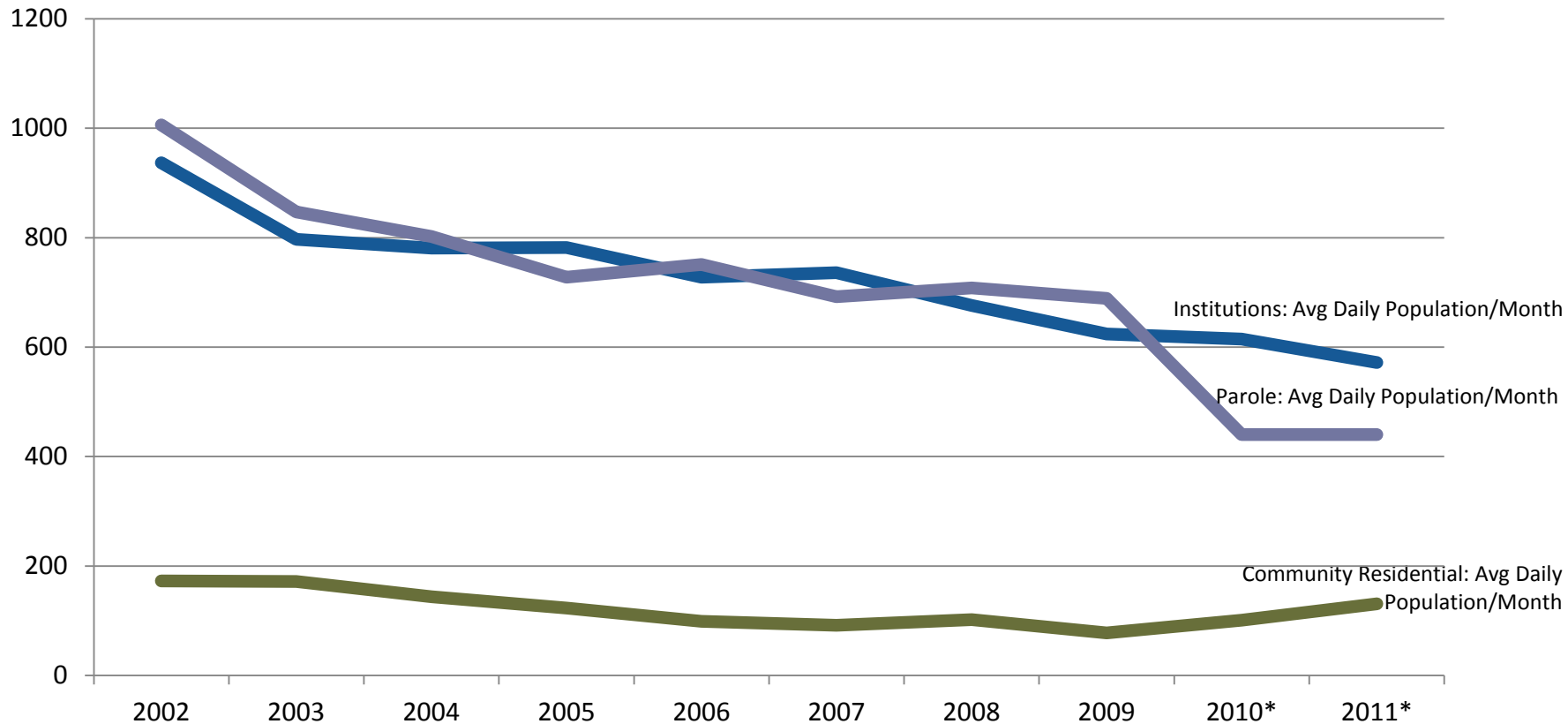
Vocational rehabilitation includes counseling and guidance (\$84 million in 2009-11) and direct client services (\$46 million in 2009-11.)

DSHS Children & Family Services Workload History



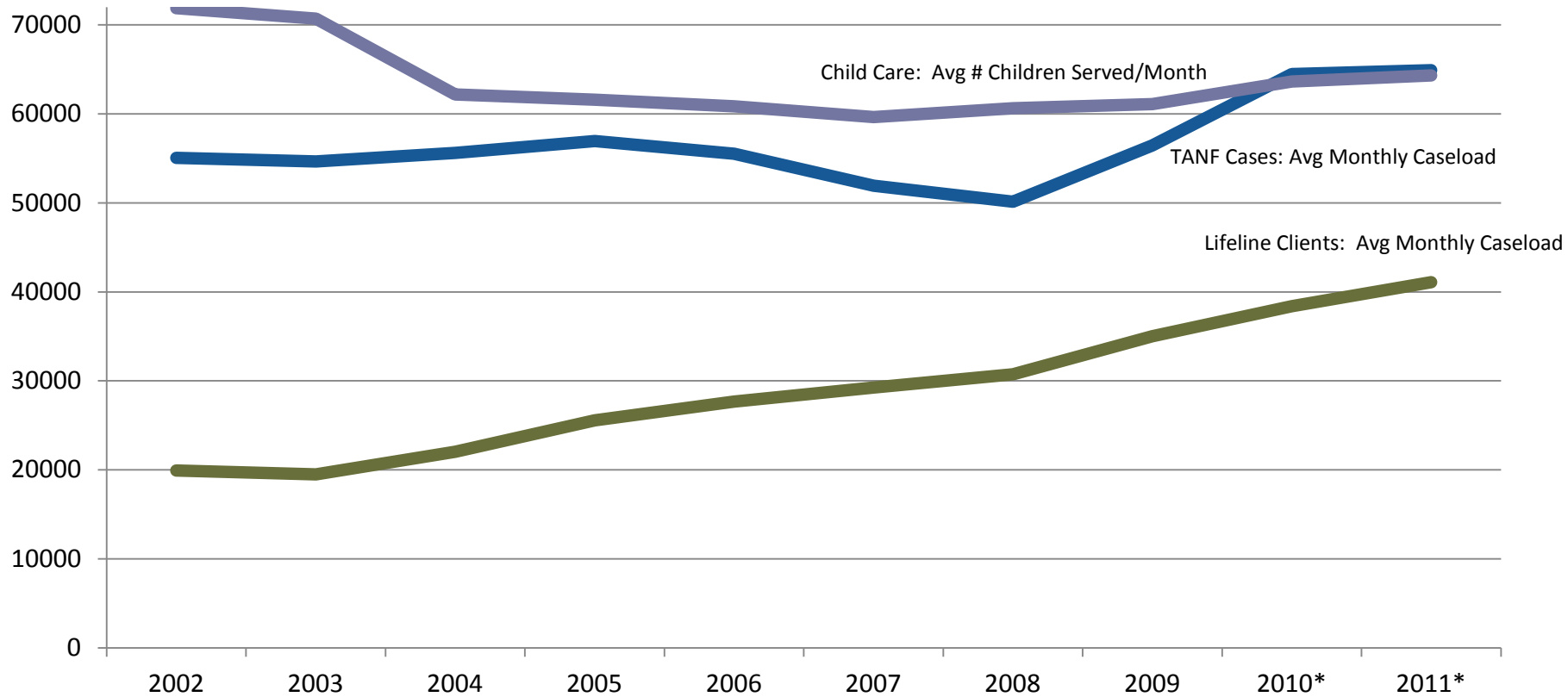
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Foster Care: Avg # of Children Served Monthly	7853	7880	7713	7769	7769	7909	7829	7347	6747	6169
Child Care: Avg # of Children Served Monthly	4441	4389	4064	4182	4235	4687	5457	5202	5032	5131
Child Protective Services: Avg CPS Referrals Monthly	6461	6288	6558	6481	6426	6206	6109	6028	6234	6222
Adoption Support: Avg Monthly # Served	6603	7392	8387	9208	9964	10632	11254	11964	13199	14355

DSHS Juvenile Rehabilitation Workload History



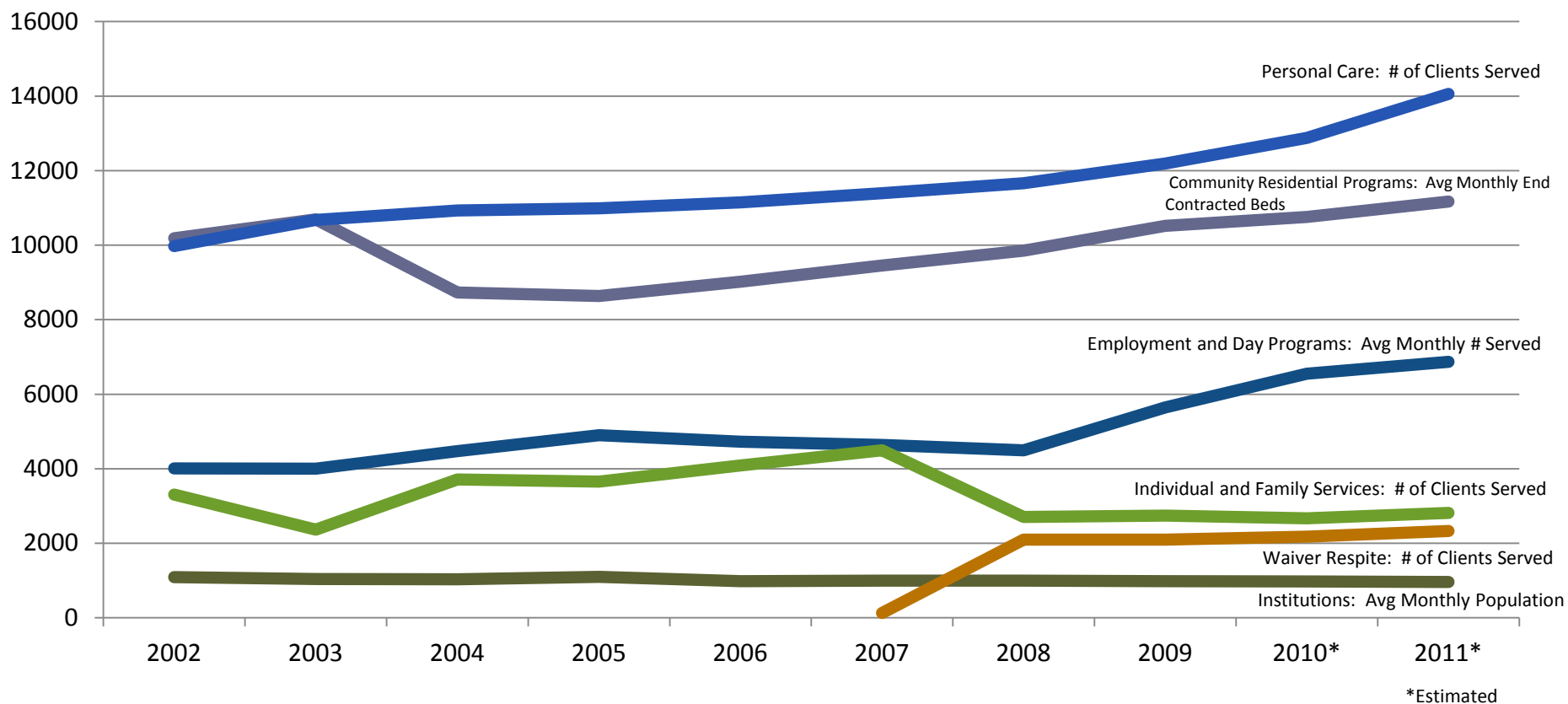
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Community Residential: Avg Daily Population/Month	173	172	144	123	99	92	102	78	101	131
Institutions: Avg Daily Population/Month	937	797	781	782	728	736	676	624	615	572
Parole: Avg Daily Population/Month	1006	847	802	728	751	692	708	689	440	440

DSHS Economic Services Administration Workload History



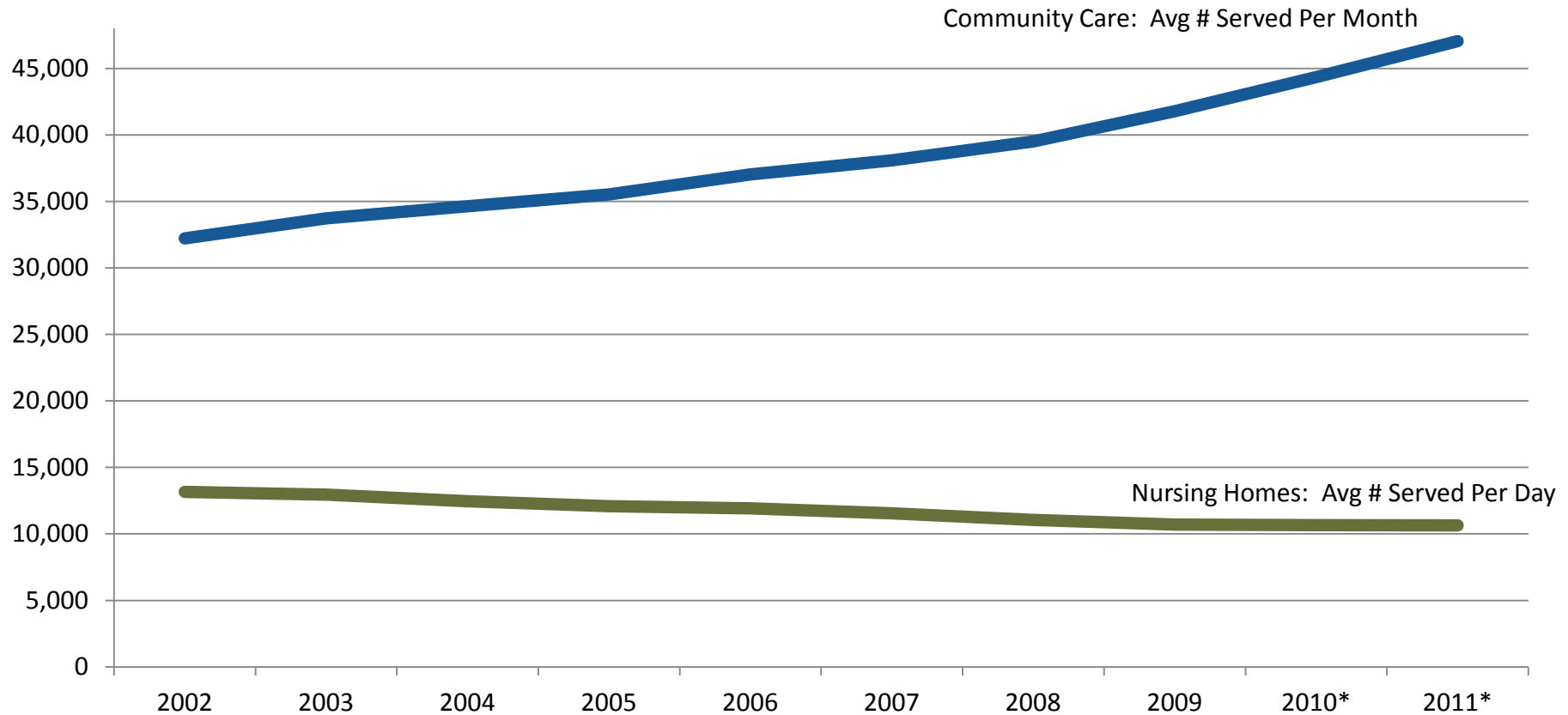
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Lifeline Clients: Avg Monthly Caseload	19,933	19,483	22,028	25,578	27,676	29,239	30,726	35,001	38,381	41,098
TANF Cases: Avg Monthly Caseload	55,043	54,641	55,609	56,949	55,520	51,936	50,119	56,458	64,474	64,914
Child Care: Avg # Children Served/Month	71,890	70,709	62,189	61,606	60,860	59,646	60,620	61,111	63,639	64,323

DSHS Developmental Disabilities Workload History



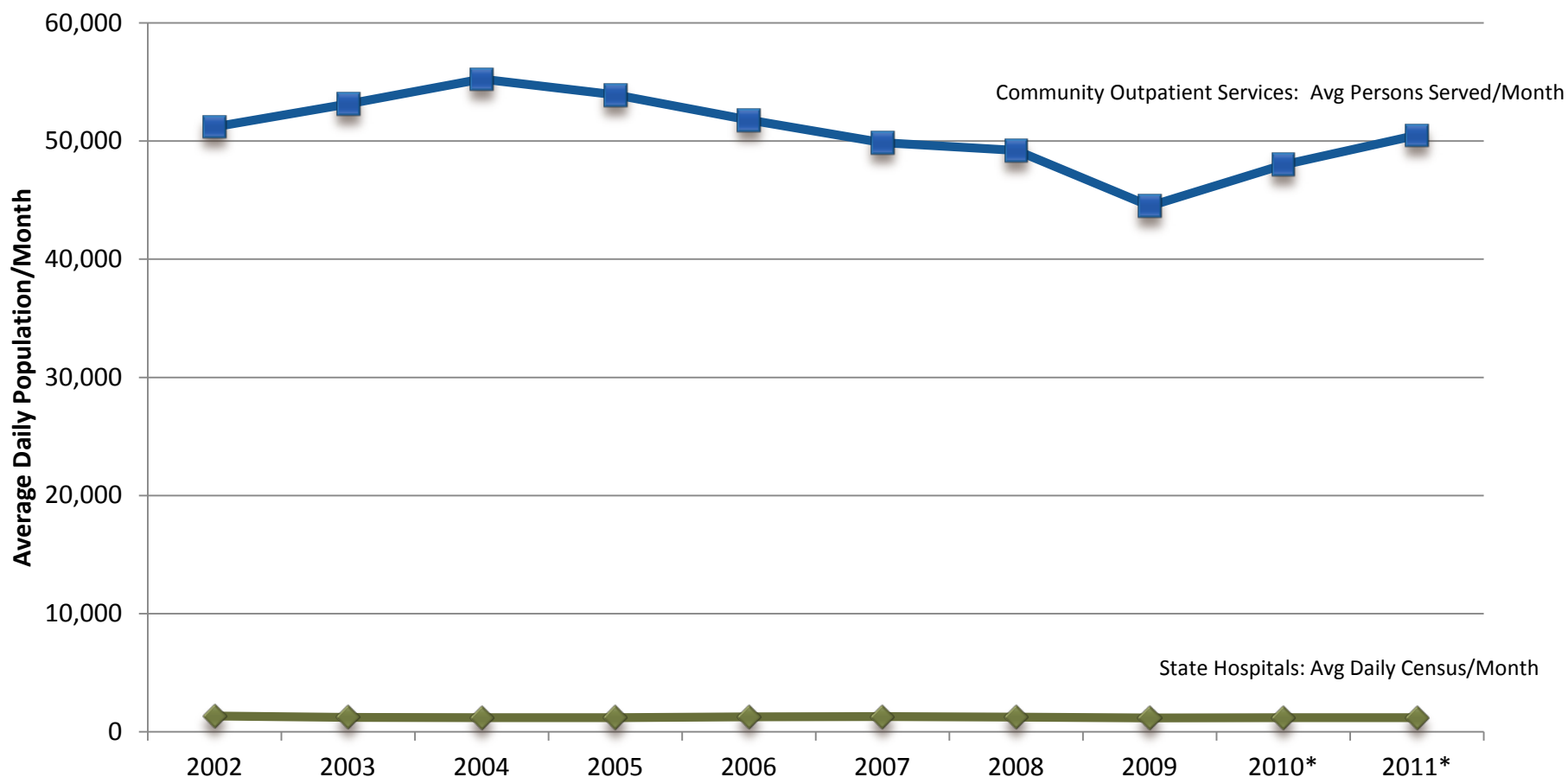
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Institutions: Avg Monthly Population	1,093	1,044	1,035	1,101	982	996	997	982	976	960
Community Residential Programs: Avg Monthly End Contracted Beds	4,010	4,005	4,469	4,903	4,723	4,637	4,493	5,645	6,554	6,872
Employment and Day Programs: Avg Monthly # Served	10,186	10,693	8,731	8,636	9,021	9,454	9,853	10,515	10,757	11,167
Individual and Family Services: # of Clients Served	3,307	2,368	3,710	3,655	4,089	4,493	2,708	2,742	2,669	2,811
Waiver Respite: # of Clients Served							129	2,097	2,098	2,330
Personal Care: # of Clients Served	9,972	10,677	10,933	10,986	11,150	11,391	11,662	12,192	12,876	14,058

DSHS Long-Term Care Workload History



	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Nursing Homes: Avg # Served Per Day	13,154	12,943	12,446	12,088	11,928	11,546	11,057	10,699	10,657	10,630
Community Care: Avg # Served Per Month	32,213	33,727	34,635	35,514	37,041	38,094	39,506	41,780	44,343	47,056
Combined Total:	45,367	46,670	47,080	47,602	48,969	49,611	50,400	51,226	50,400	51,226

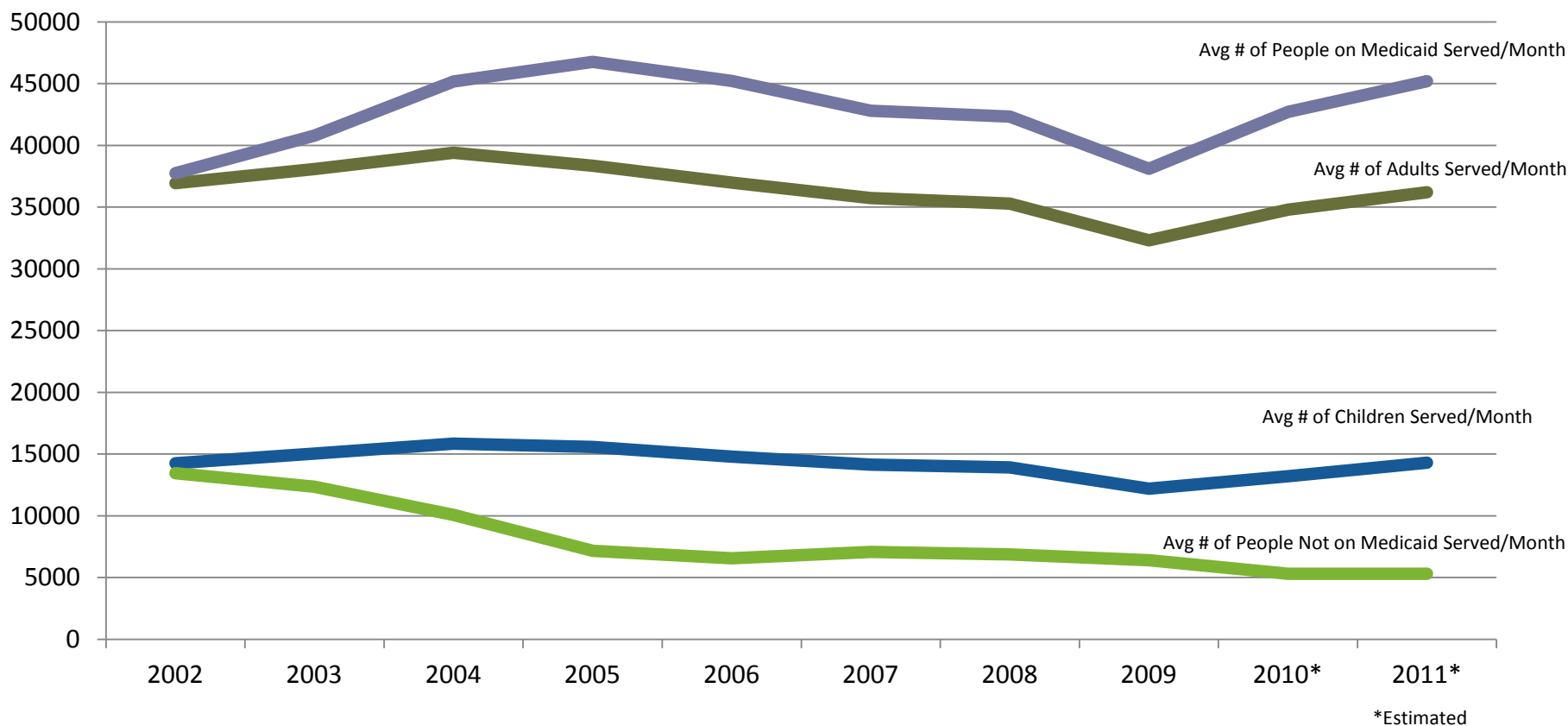
DSHS Mental Health – State Hospitals and Community Outpatient Services Workload History



*Estimated

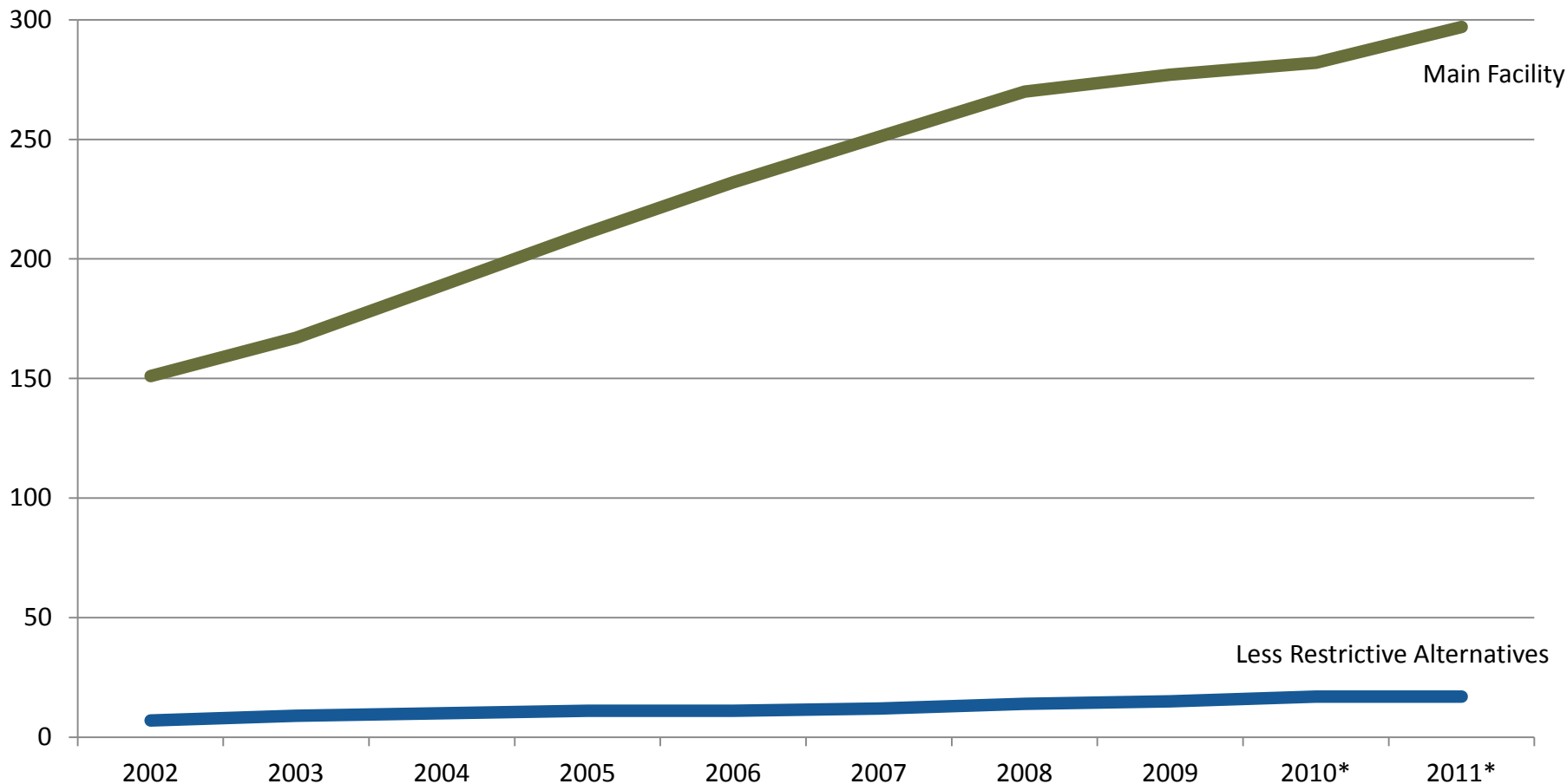
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
State Hospitals: Avg Daily Census/Month	1,328	1,231	1,192	1,207	1,262	1,292	1,251	1,172	1,197	1,189
Community Outpatient Services: Avg Persons Served/Month	51,206	53,141	55,252	53,918	51,779	49,874	49,203	44,500	48,000	50,500

DSHS Mental Health and Community Outpatient Services Workload History



	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Avg # of Adults Served/Month	36,938	38,091	39,402	38,340	36,979	35,738	35,278	32,300	34,800	36,200
Avg # of Children Served/Month	14,268	15,050	15,849	15,578	14,800	14,136	13,925	12,200	13,200	14,300
Avg # of People on Medicaid Served/Month	37,750	40,782	45,174	46,752	45,219	42,802	42,322	38,100	42,700	45,200
Avg # of People Not on Medicaid Served/Month	13,456	12,358	10,078	7,166	6,560	7,072	6,881	6,400	5,300	5,300

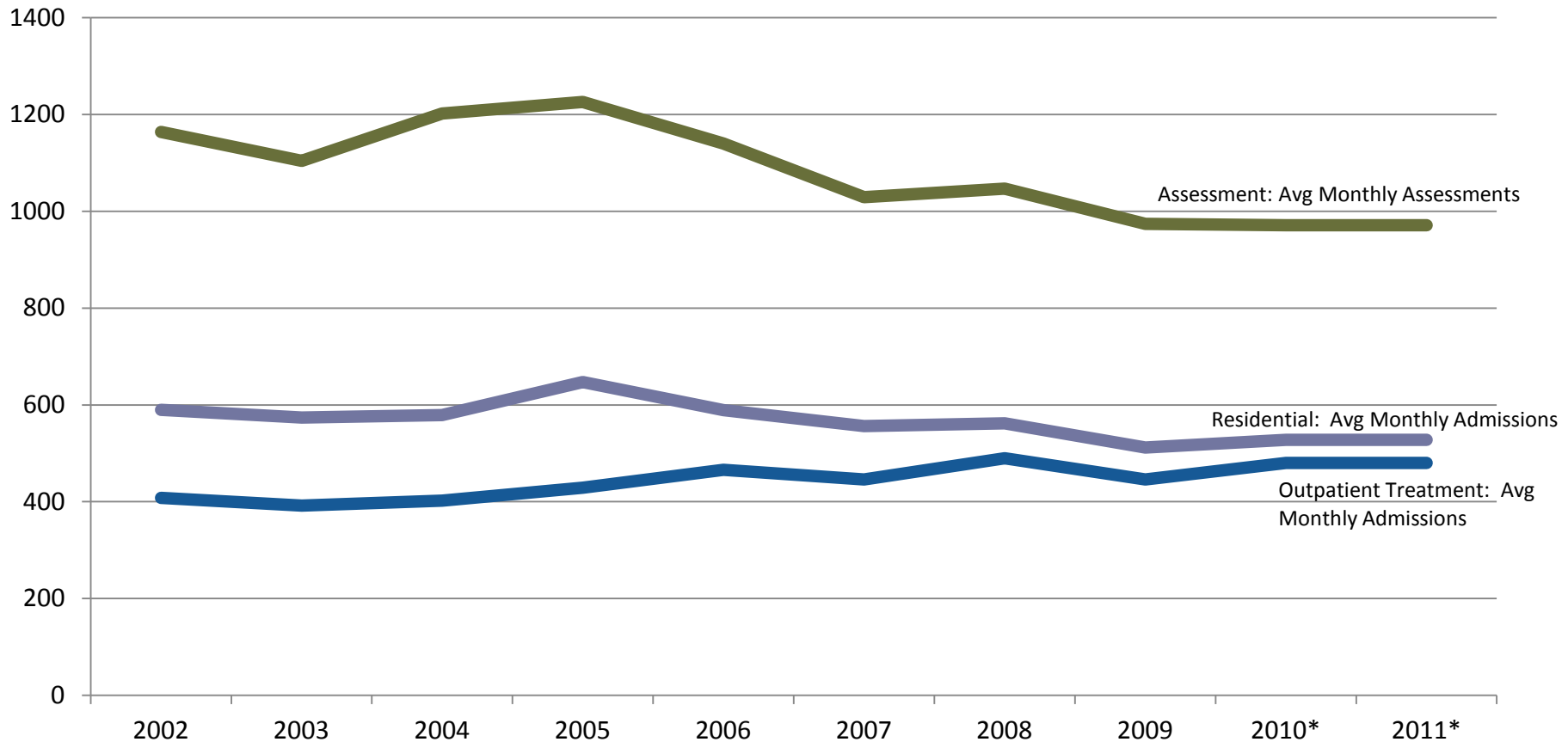
DSHS Special Commitment Center Workload History



*Estimated

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Main Facility	151	167	189	211	232	251	270	277	282	297
Less Restrictive Alternatives	7	9	10	11	11	12	14	15	17	17

DSHS Alcohol & Drug Addiction Treatment & Support Act (ADATSA) Workload History



*Estimated

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Assessment: Avg Monthly Assessments	1,164	1,104	1,202	1,226	1,140	1,029	1,047	974	971	971
Outpatient Treatment: Avg Monthly Admissions	408	392	402	429	466	446	490	446	480	480
Residential: Avg Monthly Admissions	590	574	579	647	589	556	562	512	528	528

DSHS Medical Assistance Program

History

*Estimated

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Categorically Needy	788,862	823,222	815,257	810,363	840,971	843,163	878,541	937,136	1,028,370	1,104,892
Medically Needy	14,528	15,949	16,972	17,849	16,536	13,594	13,566	13,023	12,032	11,912
Children's Health Insurance Program	6,049	7,320	9,516	13,303	11,786	11,409	11,974	14,476	18,604	20,658
Lifeline Cases	11,671	10,169	11,651	14,109	15,982	17,137	17,917	19,685	21,135	19,274
State Medically Indigent	3,331	3,997	0	0	0	0	0	0	0	0
Refugees	933	677	684	685	754	738	673	754	1,019	1,198

“Categorically needy” is a Medicaid program that covers health and long-term care for certain categories of low-income people.

“Medically needy” is a Medicaid program that allows individuals with resources above “categorically needy” limits to spend down excess resources and qualify for Medicaid.

NATURAL RESOURCES

Overview

\$1.49 billion is budgeted for natural resources in 2009-11; \$0.37 billion of this is NGF-S. The natural resources budget includes funding for the following agencies and activities:

The Department of Ecology administers environmental laws covering:

- Air Quality
- Water Quality and Water Resources
- Hazardous, Toxic, and Nuclear Waste
- Shoreline and Wetlands Protection
- Oil and Hazardous Material Spills
- Solid Waste Management

The Department of Fish and Wildlife manages the state's fish and wildlife resources, which include:

- Operation of 87 fish hatcheries (there are an additional 51 tribal and 12 federal hatcheries)
- Fishing, hunting, and shellfish licensing
- Conservation including fish and wildlife management and research
- Habitat preservation
- Fish and wildlife law enforcement
- Land management

Department of Agriculture activities include:

- Commodity Inspection
- Food Safety
- Pesticide Management
- Plant Protection
- Market Development for state agriculture products

Department of Natural Resources activities include:

- Upland and Aquatic Lands
- Forest Practice Standards
- Fire Prevention and Suppression
- Recreation & Natural Areas
- Geology

The Parks and Recreation Commission has about 50 million visits per year through operation of:

- 120 parks

- 4,000 miles of trails, including 700 miles of hiking trails, mountain biking trails in nearly 3 dozen parks, equestrian trails in 10 parks and many ocean beaches, and a few water trails
- 140 boat launches covering over 40 parks
- Manages over 250,000 acres

Smaller Agencies/Boards/Commissions

- **Conservation Commission:** Provides non-regulatory outreach and grants to landowners for conservation and environmental restoration
- **Columbia River Gorge Commission:** Sets land use policy in the Columbia River Scenic Area.
- **Recreational Conservation Office:** Administers grant programs for outdoor recreation, habitat, and farmland protection, provides administrative support for five boards, and provides policy and planning for development of outdoor recreation for the state.
- **Growth Management Hearings Boards:** Resolves land disputes related to the Growth Management Act with three independent boards that reflect regional diversity (Eastern, Western and Central Boards).
- **Washington Pollution Liability Insurance Agency:** Provides secondary insurance for oil/gas tanks
- **Environmental Hearings Office:** Supports five independent and impartial boards that resolve appeals related to natural resources regulations.
- **Puget Sound Partnership:** Coordinates State efforts to protect water quality of Puget Sound and efforts to restore Hood Canal.

Other Budget Items

EXPENDITURE LIMIT

Overview of the State Expenditure Limit

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund (GF-S). The initiative has been amended several times since then. (I-601 also enacted restrictions on legislation raising taxes and fees, which are covered in the next briefing section.)

Expenditure limit is based on the fiscal growth factor

The annual growth in state expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. Previously, the fiscal growth factor was the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years. Beginning with the 2007-09 biennium, the fiscal growth factor is based on a 10-year average of state personal income growth.

Funds the expenditure limit applies to

The expenditure limit originally applied only to the GF-S. Beginning with the 2007-09 biennium, the state expenditure limit applies to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account (including the Equal Justice Sub Account); Water Quality Account; and Student Achievement Fund). These related funds merged with the General Fund-State effective July 1, 2009, so the limit again applies only to the GF-S.

Adjustments to the expenditure limit

The expenditure limit is adjusted downward annually to reflect the extent to which actual expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit are required when program costs or moneys are shifted out of the State General Fund or related accounts to other dedicated accounts. Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund or related accounts from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the GF-S.

Beginning with the 2007-09 biennium, transferring money to funds subject to the limit will not increase the state expenditure limit, and the shift of program costs to funds subject to the limit the General Fund will not raise the limit unless the necessary revenues are also transferred. However, federal and local shifts would continue to impact the limit.

The Expenditure Limit Committee

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee consists of the Director of Financial Management, the Attorney General or designee, the chairs of the Senate Ways & Means and the House Ways &

Means Committees, and the ranking minority members of the Senate Ways & Means Committee and the House Ways & Means Committee of the Legislature.

Expenditure Limit Summary

FY 2010*	\$15.79 billion
FY 2011*	<u>\$15.90 billion</u>
2009-11 biennium*	\$31.69 billion
FY 2012**	\$16.59 billion
FY 2013**	<u>\$17.36 billion</u>
2011-13**	\$33.94 billion

*Actual GF-S spending for FY 10 (\$15.04 billion) is used to calculate the limit for FY 2011

**Estimated/preliminary. The expenditure limit is subject to change based on rebasing and legislative actions.

Additional information can be found on the Expenditure Committee internet site at www.elc.wa.gov.

*RESTRICTIONS ON
LEGISLATION THAT RAISES
TAXES AND FEES*

History

In 1993 voters enacted Initiative 601. Among other things, I-601 required a two-thirds vote of both houses in the Legislature to increase state revenue. The Legislature temporarily suspended the super-majority requirement from March 2002 through June 2003 and again from April 2005 through June 2006.

Initiative 960, enacted by the voters in 2007, restated the super-majority requirement to increase taxes, and stated that the Legislature may refer tax increases to the voters through the referendum process. I-960 also required prior Legislative approval of new or increased fees. It established publicity and cost projection requirements for legislation that increased taxes or fees, and required an advisory vote for legislation that raises taxes without appearing on the ballot as a referendum.

In 2010, the Legislature suspended until July 1, 2011, the two-thirds vote requirement for tax increases and the requirement for an advisory vote.

In 2010, voters enacted Initiative 1053, which reinstates the statutory requirement that any action by the Legislature that increases taxes must be approved by at least two-thirds of the members in both houses or by referral to the voters. I-1053 also restates the requirement that new fees or fee increases must be approved by a majority legislative action both houses.

Summary of Current Tax and Fee Restrictions

Tax vote requirements. A two-thirds vote of both houses is required for legislation that increases taxes. Legislation that raises state taxes is subject to the publicity and cost projection requirements.

Advisory votes. Legislation that raises taxes must appear on the ballot for a non-binding advisory vote if the legislation is not otherwise placed on the ballot for voter approval.

Fee increases. New fees or fee increases imposed by a state agency require prior legislative approval. A two-thirds vote is not required for fee increases. Legislation that imposes or increases state fees is subject to the publicity and cost projection requirements.

Publicity and cost projection requirements. When legislation that increases or creates taxes or fees is introduced, OFM must prepare 10-year cost projections, and it must publicize this information to legislators, news media, and the public, along with contact information regarding the legislators sponsoring the legislation. When this legislation is scheduled for a committee hearing or voted out of committee, OFM must update and re-publicize the cost projection, along with committee members' contact information and votes on the bill. Likewise, when a bill passes off the floor of either chamber, OFM must update and re-publicize the cost projection, along with legislators' contact information and votes on the legislation.

Examples of when these tax and fee restrictions do not apply. These provisions do not apply to local government taxes or fees, or to governmental charges that are neither taxes nor fees (for example, fines and penalties, or charges for commercial transactions).

Related Constitutional Provisions

Within two years of the enactment of an initiative, the Legislature is prohibited from repealing that initiative and it may only amend the initiative with a two-thirds vote of both houses of the Legislature or referred to the voters.

Except for certain constitutional exceptions, amending initiatives within two years of enactment, and for bond bills not referred to the voters, enactment of legislation requires approval by a majority of members elected to both houses of the Legislature, subject to veto provisions.

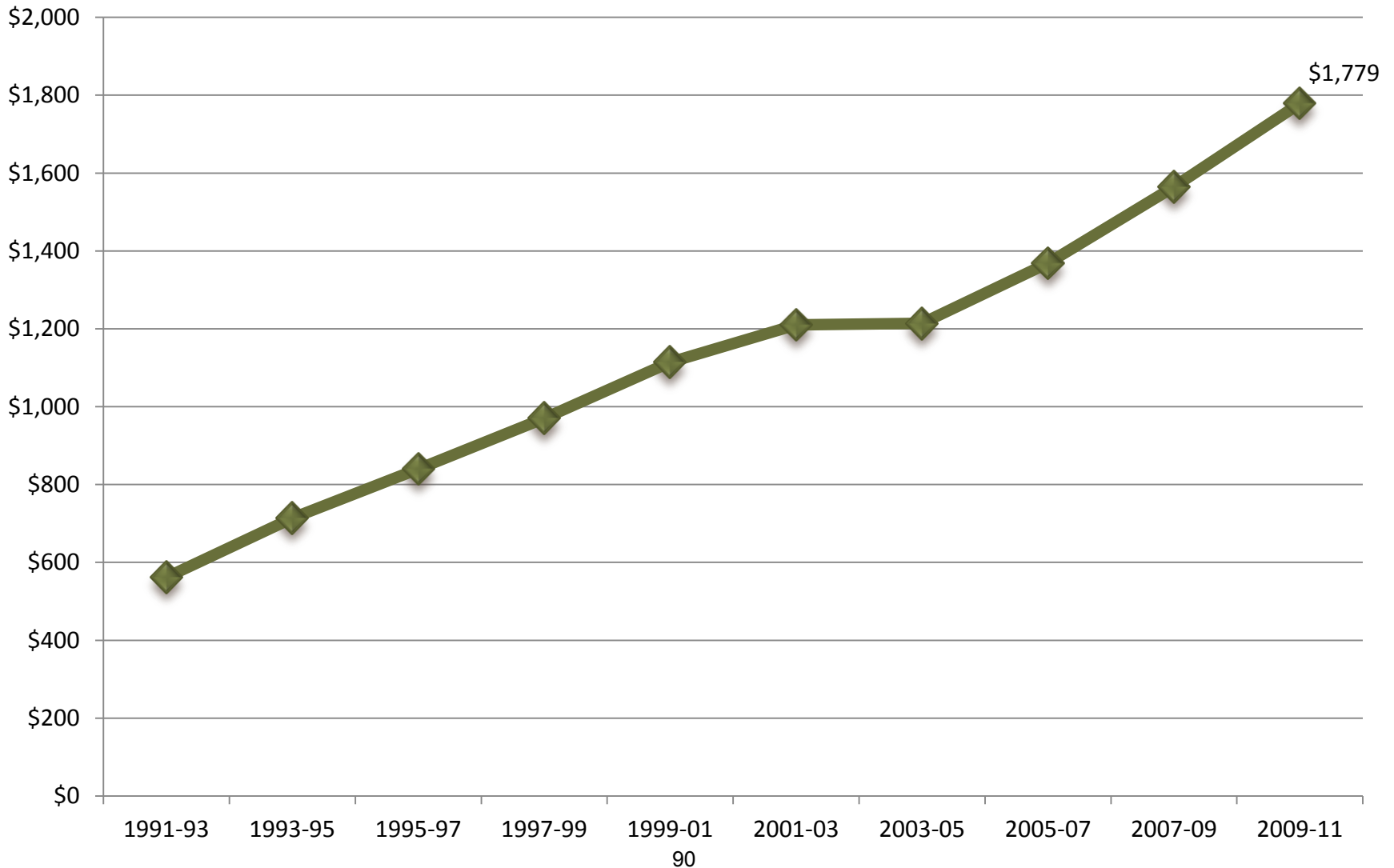
DEBT SERVICE

Debt Service Paid by the Operating Budget

- **Bonds** to finance the capital budget are issued as needed as projects are completed over about a 4-6 year period.
- The **debt limit** restricts the amount of bonds that can be issued. The Treasurer cannot issue any bonds that would cause the debt service on the new plus existing bonds to exceed the constitutional limit of 9% of general state revenue averaged over 3 years. There is a statutory debt limit as well.
- **Bond capacity** for a given biennium is the amount of new appropriations that can be authorized by the Legislature for which the Treasurer can issue bonds to finance without exceeding the debt limit in the future given forecasted variables and a stable capital budget level in future biennia.
- Interest rates, revenue, and other factors affect bond capacity.

Debt Service Paid By the Operating Budget

(\$ in millions)



PENSIONS

Summary of the State Pension System

Pension Funding – The primary goal of a pension system is to accumulate enough money during a member's working career to pay retirement benefits after the member retires. Actuaries use actuarial funding methods to determine how much employers and employees need to contribute to pensions currently to pay for future retirement benefits. Investment returns play an important role in pension funding and impact the necessary contribution amount of employers and employees over time. Pension funds are invested by the State Investment Board.

The actuarial status or soundness of pension plans depends over time on appropriate employer and employee contribution rates which are impacted by investment returns and future plan/benefit provisions.

Retirement systems - The state retirement system is made up of a number of separate systems based primarily on area of employment, with combined assets of approximately \$50 billion, providing or promising retirement benefits to about 480,000 persons (2009). Following is a brief summary of each of the retirement systems:

- The Public Employees Retirement System (PERS) was created in 1947 and includes most state, city, and county employees (about 260,000 members and beneficiaries in 2009). There are three plans under this system, PERS 1 (closed), PERS 2, and PERS 3.
- The Teachers Retirement System (TRS) was created in 1937 and includes certified school employees including teachers and certified administrators (about 116,000 members and beneficiaries in 2009). There are three plans under this system, TRS 1 (closed), TRS 2, and TRS 3.
- The School Employees Retirement System (SERS) was created in 2000 and covers non-certified school employees (about 66,000 members and beneficiaries in 2009). There are two plans under this system, SERS 2 and SERS 3.
- The Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) was created in 1969 and covers full-time police, deputy sheriffs, and firefighters (about 27,000 members and beneficiaries in 2009). There are two plans under this system, plan LEOFF 1 (closed) and LEOFF 2.
- The Washington State Patrol Retirement System was created in 2003 and covers commissioned officers of the Washington State Patrol (about 2,050 members and beneficiaries in 2009). There are two plans under this system, WSPRS 1 (closed) and WSPRS 2.
- The Public Safety Employees Retirement System (PSERS) was created in 2004 and took effect in 2006. It currently has about 4,300 members. There is one plan under this system, PSERS 2.
- Other systems included in the state system are the Higher Education Retirement Plan (primarily a defined contribution plan open to many college and university employees

often referred to as TIAA/CREF), the Judicial Retirement Systems, Judges Retirement System, the First Class Cities (Seattle, Tacoma, Spokane), and the Volunteer Firefighters and Reserve Officers' Relief and Pensions.

Actuarial status

While the state retirement plans that are currently open to new members (Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the present value of the plan liabilities, in the form of members' earned benefits to date, exceed the present value of the plan assets. As of the most recent actuarial valuation, the UAAL for PERS 1 and TRS 1 combined is \$5.8 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified within the actuarial funding chapter. The payments towards the Plan 1 UAAL are included in employer (state) rates and are not shared by members.

The most recent actuarial evaluation by the State Actuary finds that Washington State has an actuarially sound pension system given the fully funded open plans and the statutory plan to address the UAAL in PERS 1 and TRS 1. The significant negative investment returns in recent years will put upward pressure on contribution rates even as these losses are smoothed over 8 years based on the asset valuation method used by the state.

Gain-sharing lawsuit

Gain-sharing lawsuit - Gain-sharing was created in 1998 as a mechanism to increase member benefits in several retirement plans by sharing extraordinary investment gains. Gain-sharing was not expected to impact contribution rates. Language was included when gain-sharing was created to reserve the right of the Legislature to amend or repeal gain-sharing benefits. There have been three gain-sharing distributions which resulted in combined benefit improvements costing roughly \$2.0 billion. In 2004, gain-sharing was determined to be material liability and to be included in the calculation of basic contribution rates recommended by the State Actuary to the Pension Funding Council. In 2007, the Legislature repealed gain-sharing. This repeal is being challenged in court; a recent trial court decision on the main gain-sharing question ruled largely against the state. Related issues in the case are still before the trial court.

Plans - The major Washington State retirement systems generally have had 3 types of plans. Here is a summary of the major plan designs:

	PLAN 1	PLAN 2	PLAN 3
PERS	<p>Closed in 1977</p> <p>Retirement after 30 years of service (yos) or age 55 with 25 yos</p> <p>Members pay fixed 6% of pay</p> <p>Benefit is 2% per yos based on highest consecutive 2 years of pay up to 30 yos</p>	<p>Opened in 1977</p> <p>Normal retirement age is 65</p> <p>Early retirement beginning at age 55 with 20 yos</p> <p>Members pay 50% of actual cost of plan</p> <p>Benefit is 2% per yos based on highest 5 consecutive years, no maximum</p>	<p>Beginning in 2002, option of plan 2 or 3</p> <p>Normal retirement age is 65</p> <p>Early retirement beginning at age 55 with 10 yrs</p> <p>Members choose 5 - 15% contribution rate at employment start date deposited into individual member account</p> <p>Benefit, in addition to individual member account, is employer-funded 1% defined benefit on highest 5 consecutive years</p>
TRS	Similar to PERS 1	Closed in 1996 and reopened in 2007	<p>Mandatory for new TRS members</p> <p>Retirement age/yos, member contribution and benefits very similar to as PERS 3</p>
SERS	None	Closed in 2001 and reopened in 2007	Mandatory for new SERS members
LEOFF	Closed in 1977	<p>Only open plan</p> <p>Retirement age 53</p>	None
WSPRS	Closed at end of 2002	Only open plan	None
PSERS	None	Opened in 2006	None

State Pension Governance

Prior to 1976, the major state retirement systems were under the oversight of boards of trustees that had such functions as the investment of the retirement funds, hiring the executive director, contracting for actuarial services, and proposing legislation to improve benefits for members and retirees.

In 1976, following a period of rapid increases in pension benefits and costs, the Legislature created the Department of Retirement Systems (DRS), with a director appointed by the Governor, to assume most of the oversight duties of the various retirement boards. The Office of the State Actuary (OSA) was also created in 1976 to provide all retirement system actuarial services for both DRS and the Legislature, including all studies used for setting contribution rates and determining the cost of proposed legislation. The OSA was established as an office in the legislative branch.

In 1981, the State Investment Board (SIB) was created to manage the investment of the assets of the state retirement systems. The SIB has nine voting members and four non-voting members who are investment professionals.

In 1987, the Joint Committee on Pension Policy (JCPP) was created to study pension benefit and funding policies and issues, and to appoint or remove the State Actuary by a two-thirds vote. The JCPP consisted of eight members of the Senate and eight members of the House of Representatives, split evenly between the two largest caucuses of each body. The OSA provided staffing to the JCPP.

In 1998, the Pension Funding Council was created to adopt the long-term economic assumptions and employer contribution rate for most of the state's retirement systems. The PFC also administers audits of the actuarial analysis produced for the PFC by the State Actuary.

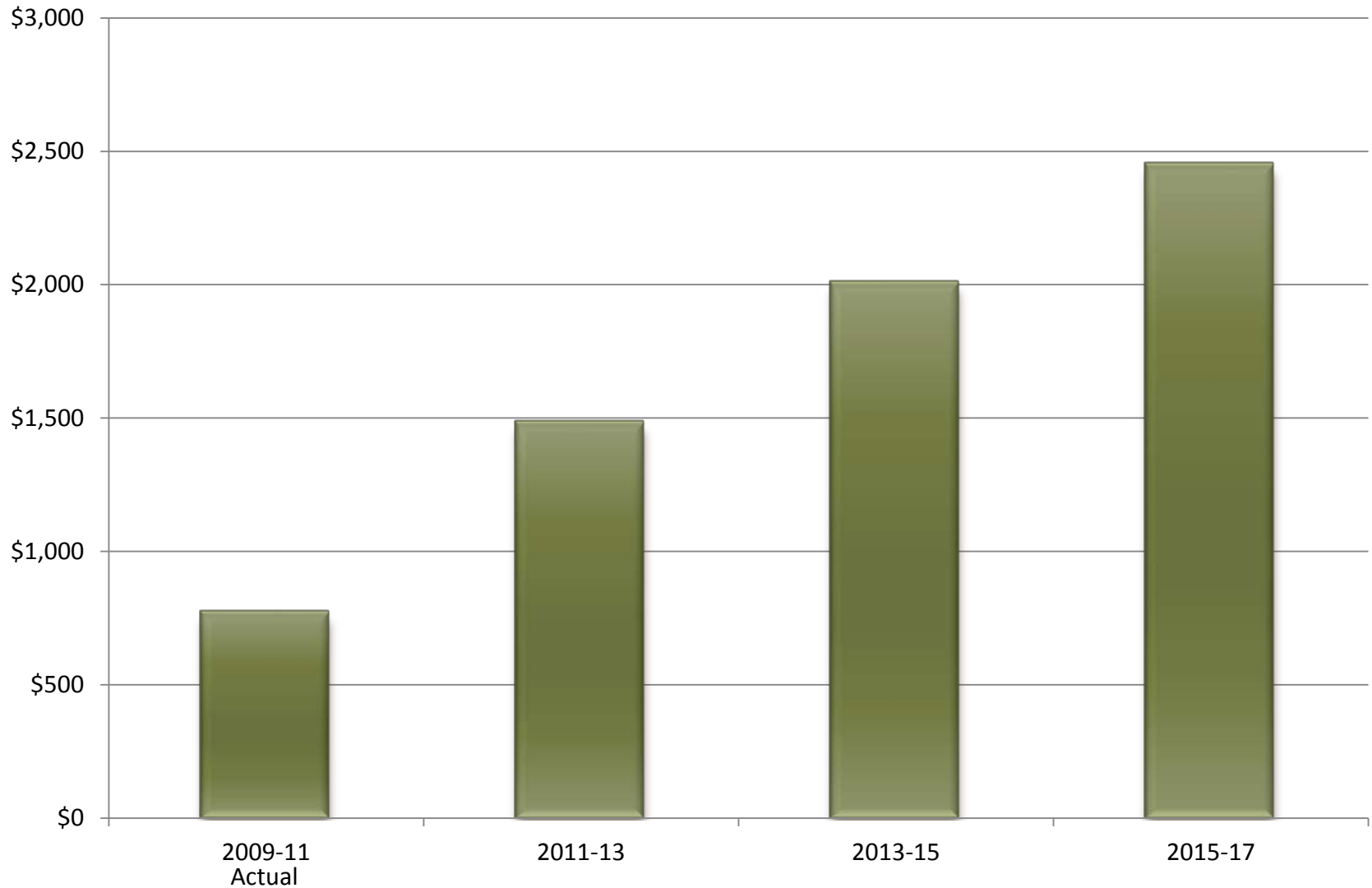
In 2002, the voters passed Initiative 790, creating a Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) board of trustees. The LEOFF 2 Board replaced the functions of the JCPP and the PFC with respect to LEOFF 2.

The 2003 Legislature changed the JCPP to the Select Committee on Pension Policy (SCPP), and changed its makeup to one-half legislative representatives, and one-half employer, employee, and retiree representatives. The SCPP retained all of the functions of the JCPP, except those relating to the appointing and removing of the State Actuary - those functions were vested in a State Actuary Appointment Committee, which convenes upon the request of the chairs of the House Ways & Means Committee and the Senate Ways and Means Committee whenever there is a vacancy or on request of four members of the Appointment Committee.

The SCPP has a statutorily-created executive committee that is composed of six members of the SCPP; the chair and co-chair of the SCPP, who are members of the House and Senate; one member representing active members of the state retirement systems; one member representing state retirement system employers; one member representing retired members; and the Director of the Department of Retirement Systems. (In 2005, the Legislature added the sixth member to the executive committee of the SCPP from among the committee members representing retired members of the state retirement systems. The Director of the

Office of Financial Management no longer serves on the executive committee in alternate years, instead the Director of the Department of Retirement Systems serves on the SCPP executive committee every year.)

Projected General Fund State (GF-S) Pension Contributions (\$ in millions)



Source: Office of the State Actuary

LEGAL AND OTHER BUDGET CONSIDERATIONS

Other Considerations in Writing the Operating Budget

Major applicable state constitutional provisions

One subject rule - Article 2, section 19 requires that a bill contain one subject and that subject be embraced in its title. The first part of the test requires a rational unity between the subparts of a bill; the second part requires that the subject be expressed in the bill title to give legislators notice of what the bill is about. Since budget bills have broad titles, such as "an act related to adopting a capital budget" or "an act relating to fiscal matters," courts traditionally have given the Legislature a significant amount of latitude in this area and generally allow any subject reasonably germane to the budget to be included in the bill. However, this constitutional provision also restricts the Legislature from making or amending "substantive law" in the budget bill. (The courts generally consider three things when determining if a budget provision is substantive law: (1) whether it affects rights or liabilities; (2) whether it has been included in other legislation; and (3) whether it appears to outlast the biennium covered by the budget.)

Appropriation requirement - Article 8, section 4 requires an appropriation in legislation before money from funds and accounts in the state treasury may be expended. There are three parts to this requirement: (1) it prohibits expenditures out of the state treasury without an appropriation; (2) it makes an appropriation temporary in nature (for that biennium including a 25th month); and (3) it requires each appropriation to specify an amount and a purpose. A few processes permit state agencies to make expenditures without an appropriation. Some accounts are in the custody of the state treasurer and generally do not require an appropriation if the Legislature establishes the account in that manner. Also, a statutory "unanticipated receipts" process permits expenditure of some non-state moneys without an appropriation if not anticipated in the budget and the Legislature is notified and given an opportunity to comment.

Lending of credit prohibition - Article 8, sections 5 and 7 prohibit the state and local governments from making gifts, loans, or otherwise providing credit or guarantees to or on behalf of individuals or non-government entities, with the exceptions for assistance of the poor or infirm. These provisions are in addition to the Article 7, section 1 requirement that tax receipts be spent for a public purpose. When public funds go to non-government entities for purposes other than assisting the poor or infirm, the spending: (1) must be for a fundamental government purpose (such as the welfare of children); or (2) if not for a fundamental government purpose, the expenditure cannot be a gift, loan, or guarantee. To avoid being a gift, the public expenditure must have adequate consideration in the form of a benefit to the public. Any private benefit must be incidental to the larger public benefit. Expenditures that have a clear purpose, address a clear need, choose a reasonable fiscal and policy approach, and include safeguards to ensure the public purpose is accomplished are more likely to withstand a lending of credit challenge. Legislative acts, including appropriations in budget bills, are presumed to be constitutional by the courts.

Governor's veto - Article 3, section 12 outlines the Governor's veto only power. Generally, for substantive/policy bills, the Governor may veto an entire section. For budget bills, the Governor has an item veto power, but cannot veto less than an entire

proviso or subsection. If the Governor vetoes a proviso that earmarks funds within a lump sum appropriation, the overall appropriation may be reduced.

Other Items

Revenue and Caseload Forecasts - Two councils provide regular revenue and caseload forecasts/updates on which operating budgets are based. The Economic & Revenue Forecast Council provides various economic and revenue forecasts, while the Caseload Forecast Council forecasts caseloads for public assistance, state prisons, correctional non-institutional supervision, juvenile rehabilitation institutions, public schools, long-term care, medical assistance, foster care, and adoption support. The Economic & Revenue Forecast Council's November revenue forecast is used for the Governor's biennial or supplemental operating budget request, and the November Caseload Forecast Council's report is used to estimate the mandatory programs and entitlements funded in the budget. The Legislature uses the March forecasts in odd-numbered years and the February forecasts in even-numbered years to write its budget.

Tort and Sundry Claims Against the State - The Self Insurance Liability Program covers tort claims (employment and negligence) against the state for all agencies except the University of Washington and the ferry system (they have their own program/coverage). Premiums for claims and defense costs are charged to state agencies based on a formula that considers agency accountability. Sundry Claims are either judgments against the state for which there are no provisions in law for payment, or miscellaneous claims against the state.

Fiscal Notes - Fiscal notes are an estimate of the revenue and expenditure impact of a bill or amendment. They are prepared by executive branch agencies and approved by the Office of Financial Management (OFM). The Department of Community, Trade and Economic Development (CTED) prepares estimates of local government impacts.

The fiscal note processes and requirements are laid out in statute and in instructions prepared by OFM. Fiscal notes represent the best estimate that can be prepared within the time available. The fiscal note should clearly articulate any/all assumptions, be objective, and be prepared without regard to language that directs an agency to absorb the costs of implementation. A fiscal note *does not* include ripple effects into other programs. It *does not* prevent the Legislature from making budget decisions like directing an agency to absorb the cost of implementing a bill or assuming different implementation approaches.

Fiscal notes help clarify expectations on what bills do and conversely what they don't do. Fiscal notes are important (but not definitive) considerations in the bill referral process. Fiscal notes estimate the costs and/or revenue of various bills over three biennia (10 years for I-960 revenue bills). Fiscal notes are not a cost-benefit analysis.

Accountability measures include review by legislative staff (can reject fiscal notes) and members (raise questions on fiscal notes).

In the 2008 legislative session, fiscal notes were requested on 67% of bills introduced. Of these, 44% were finished within 5 working days and 78% within 10 working days.

FY 2011 and 2011-13 Biennium Operating Budget Outlook

Outlook for 2011 Supp (2009-11): When the Legislature adopted the 2010 Supplemental Operating Budget, it left \$457 million in reserves. Since then, projected available revenues for the current biennium decreased by over \$1.3 billion.

(\$ in millions)

	Projected GFS Ending Balance	Projected BSA Ending Balance	Total Reserves
Enacted 2010 Supplemental Budget*	451	6	457
June Revenue Forecast Change	(203)		(203)
September Revenue Forecast Change	(768)	(2)	(770)
Initiative 1107 (certain tax laws)	(64)	0	(64)
November Revenue Forecast Change	(315)	(7)	(322)
Estimated Ending Balances	(899)	(3)	(902)

*After Governor's vetoes and adjustments.

December 2010

Office of Program Research

8

Outlook for 2011 Supp (2009-11): In addition to revenue changes, other items make the deficit worse. Legislative and executive actions may improve the deficit.

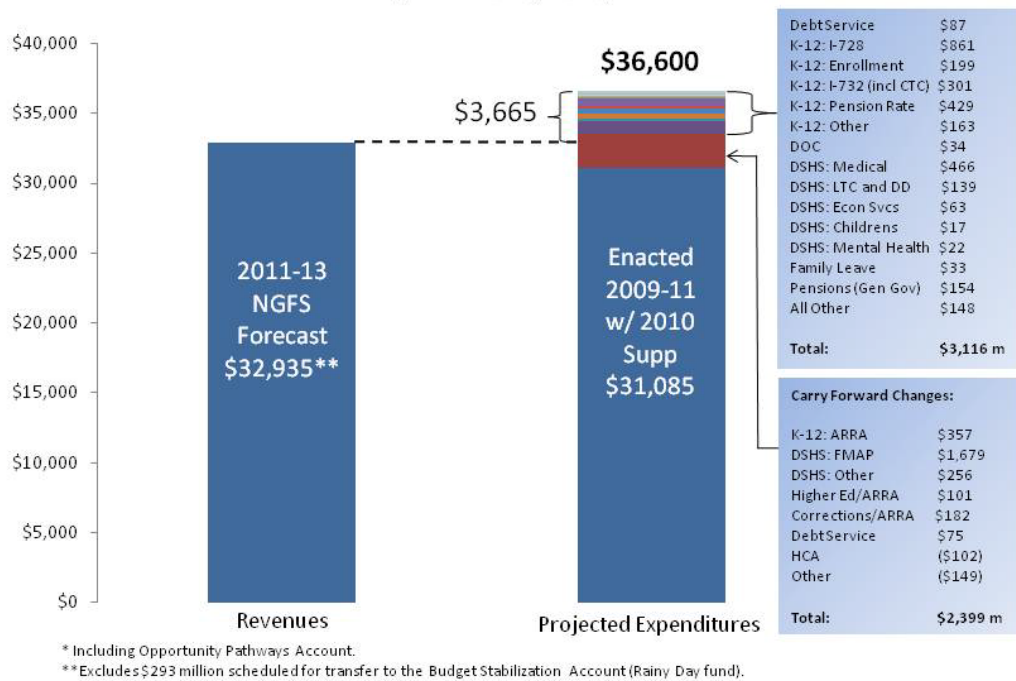
(\$ in millions)

2010 Supplemental Budget w/ Updated Revenues (GF-S)	(899)
Budgeted vs. Actual FMAP Extension	(123)
Increased Caseload Costs (Net)*	(51)
Shortfalls in Related Accounts (OFM Estimate)	(53)
Estimated 2011 Supp Budget Issue	(1,126)**
2010 Special Session Budget Items (HB 3225 et al.)	
DOR Tax Compliance and Budget Driven Revenue	44
Fund Transfers	54
Budget Reductions	490
Estimated Remaining (Supplemental Budget Issue)	(538)

*All information is preliminary and likely will change. In their estimates, the Office of Financial Management is including some policy level increases and use of agency reversions and therefore their projected shortfall differs slightly from the amount depicted here. Estimates do not include a projected FY 2011 shortfall in the TANF box.

**Assume zero ending balance for GF-S and BSA.

In 2011-13, the cost of maintaining current NGFS* programs is estimated to exceed the Revenue Forecast by \$3.7 billion.
(\$ in millions, NGFS)

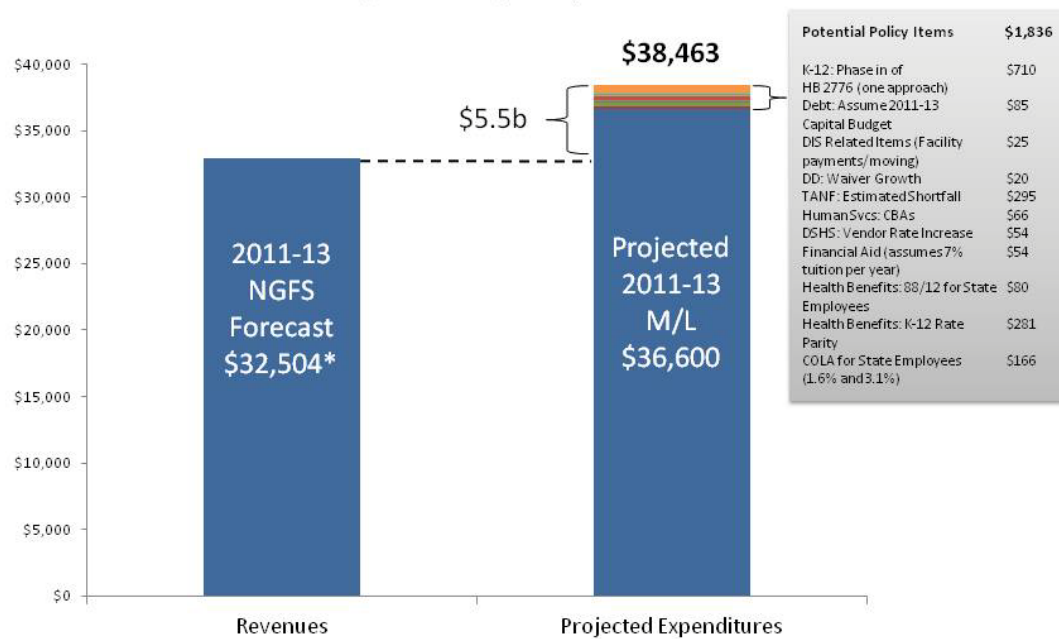


December 2010

Office of Program Research

12

If selected policy items such as compensation increases are included, projected costs increase.
(\$ in millions, NGFS)



* Excludes \$263 million that will be transferred to the Budget Stabilization Account (Rainy Day fund).

** Assumes and includes parity.

December 2010

Office of Program Research

14

Appendix 1:

GF-S Revenue Projections for 2011-13 (Based on November 2010 Forecast)

General Fund Taxes

Forecast By Source		2011-13 Biennium	
Tax	Amount (Millions)	Percent of GF	
Retail Sales	16,333.81	50.1%	
Business and Occupation	7,062.32	21.7%	
Property (State School Levy)	3,779.55	11.6%	
Real Estate Excise	1,035.55	3.2%	
Insurance Premiums	894.29	2.7%	
Cigarette and Tobacco Products	798.62	2.4%	
Public Utility	794.16	2.4%	
Liquor, Beer, Wine, and Profits	681.62	2.1%	
Public Utility District	90.61	0.3%	
Boat Excise	27.88	0.1%	
Timber Excise	4.52	0.0%	

Appendix 2:

Glossary of Budget Terms

Budget Terms

Appropriation – The legislative authorization in a bill to make expenditures and incur obligations from a particular fund. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium – A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year. (The 2011-13 biennium begins on July 1, 2011 and ends June 30, 2013.)

Budget Notes – A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. The publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal force as appropriation bill language.

Bow Wave – Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not in place for the entire biennium. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a bow wave of \$300,000.

Caseloads – Caseload means the number of persons expected to meet entitlement requirements and utilize the services of state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the public schools (K-12), long-term care, medical assistance, foster care, and adoption support. Entitlement program caseloads are forecasted by the Caseload Forecast Council.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and that may only be spent for a specific purpose.

Entitlement – A service or payment that, under state or federal law, must be provided to all applicants who meet the eligibility requirements.

Fiscal Year – The state fiscal year is the 12-month period from July 1 through the next June 30. Fiscal Year (FY) 2011 begins July 1, 2010 and ends June 30, 2011. The federal fiscal year runs October 1 through September 30.

Fiscal Note – A statement of the estimated fiscal impact of proposed legislation. This cost estimate is developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Governor's Office of Financial Management.

Full-Time Equivalent (FTE) – *As a unit of measure of state employees:* refers to the equivalent of one person working full-time for one year (approximately 2,088 hours of paid staff time). Two persons working half-time also count as one FTE. *As a unit of measure of students in K-12 or higher education:* refers to the equivalent of one student attending class full-time for one school year (based on fixed hours of attendance, depending on grade level).

Fund – An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations and reserves.

Fund Balance – In budget terminology, the difference between estimated resources and budgeted expenditures.

General Fund-State – The general fund represents all financial resources and transactions not required by law to be accounted for in other funds. General Fund-State (GF-S) refers to the basic account that receives revenue from Washington’s sales, property, business and occupation, and other general taxes; and is spent for operations such as public schools, social services, and corrections.

Maintenance Level – A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses.

Nonappropriated Funds – Funds where expenditures can be made without legislative appropriation. Only funds specifically established in state law and that are outside the state treasury may be exempt from appropriation (one notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies, typically in a bill providing for the administrative and service functions of state government, including K-12, higher education, and human services.

Performance Measure – A quantitative indicator of how programs or services are directly contributing to the achievement of an agency’s objectives. These indicators may include measure of inputs, outputs, outcomes, productivity, and/or quality.

Proviso – Language in budget bills that places a specific condition on the use of appropriations. Example: “\$500,000 of the General fund-State appropriation is provided solely for five additional inspectors in the food safety program.”