

2014 SUPPLEMENTAL OPERATING BUDGET

OVERVIEW

Conference Proposal

**SENATE WAYS & MEANS COMMITTEE
MARCH 13, 2014**

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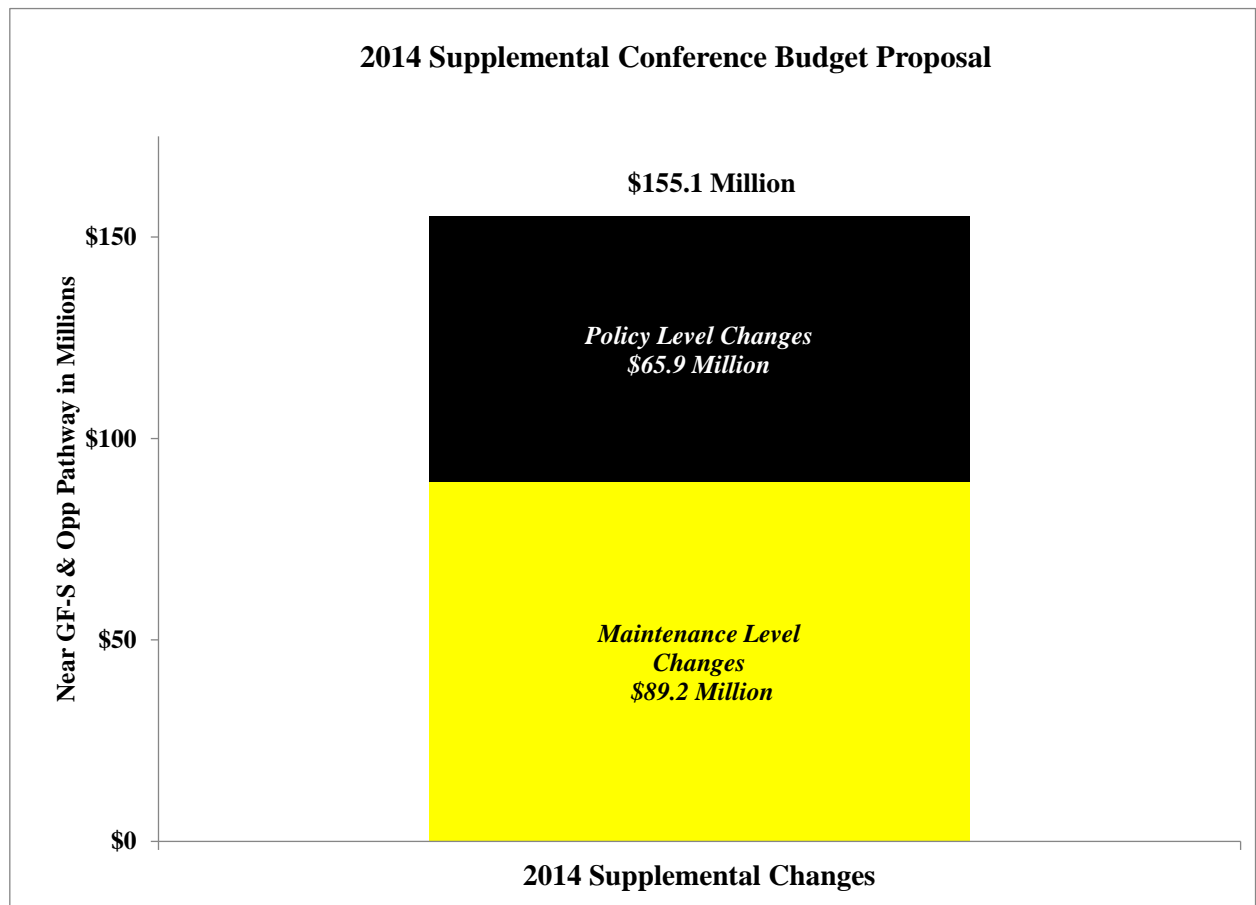
INTRODUCTION

In their quarterly updates since the budget was enacted last June, the Economic and Revenue Forecast Council increased its projections for Near General Fund-State and Opportunity Pathways revenue for the 2013-15 biennium. Combined with other changes, this meant that for the first time in a number of years, the anticipated fiscal situation going into the 2014 legislative session was more positive than when the previous budget was enacted. This positive news was partially offset by increased projections for caseloads and other budget cost drivers from enacted levels.

In February, the Economic and Revenue Forecast Council increased their projections for Near General Fund-State and Opportunity Pathways revenue for the 2013-15 biennium by another \$60 million. Additionally, February 2014 caseload and other maintenance level budget drivers were down slightly from when the Governor prepared his budget in December.

OVERVIEW OF CONFERENCE SUPPLEMENTAL PROPOSAL

The conference supplemental operating budget increases Near General Fund-State and Opportunity Pathways spending by \$155.1 million. Of the \$155.1 million, \$89.2 million is associated with maintenance level changes for caseload and other adjustments based on current law requirements. The conference supplemental budget then provides \$65.9 million in net policy enhancements and increases.



POLICY LEVEL SPENDING CHANGES

In addition to funding the maintenance level changes, the proposed budget provides a net policy level increase of \$66 million. These policy level changes include:

- \$58 million in for K-12 materials, supplies, and operating costs (MSOC).
- \$25 million for Opportunity Scholarships.
- \$23.2 million in funding for the early learning and child care collective bargaining agreement with family home providers and a rate increase for child care centers, including quality pilots.
- \$20.3 million in community mental health funding increases, including \$7 million for the children's mental health settlement.
- \$5.4 million for prison capacity changes to address needs for male and female offenders incarcerated in the Department of Corrections.
- \$5.2 million for the foster children permanent placement initiative.
- \$61.4 million in savings in state employee health benefits costs (achieved by improving claim experience and the use of a one-time PEBB fund balance).
- \$10.7 million in holding managed care rates at current levels.
- \$10 million in additional savings from implementing LEAN management strategies.
- \$3 million in savings from the state Health Care Innovation Plan (HB 2572 & SB 6312)

RESOURCE CHANGES

The conference supplemental budget proposal also makes a variety of resource changes. First, the proposal assumes \$2 million in decreased revenue in the 2013-15 biennium from passage of 3SSB 5887 which merges medical and recreational marijuana. The decreased revenue impacts are offset by: (1) SB 6505 which increases 2013-15 revenue by \$2.8 million clarifying that marijuana does not qualify for a variety of agricultural and other tax preferences; (2) \$9.2 million from increased budget driven revenue from lower operating costs of the Liquor Control Board; and (3) EHB 1287 which increases state tax collections of \$0.6 million in the 2013-15 biennium. Finally, the conference supplemental budget proposal includes \$27 million in various fund transfers, including \$20 million from the Life Science Discovery Fund. See Appendix A for a list of all the resource changes.

ENDING FUND BALANCE & 4 YEAR OUTLOOK

Based on all the proposed changes, the supplemental budget proposal estimates leaving \$315 million in unrestricted ending fund balance and \$583 million in the Budget Stabilization Account at the end of the 2013-15 biennium.

Following the methodology adopted by the Economic and Revenue Forecast Council pursuant to the four year balanced budget provisions of Chapter 8, Laws of 2012, 1st Special Session (SSB 6636), this budget proposal meets that requirement leaving projected unrestricted ending fund balance of \$32 million at the end of the 2015-17 biennium. At the end of the 2015-17 biennium, the Budget Stabilization Account is also projected to have a balance of \$942 million. See Appendix B for more information.

Conference Budget Proposal

(Near GF-S & Opp Pathways in Millions)

	2013-15
Beginning Balance	156
Revenue	
November Revenue Forecast	33,576
February 2014 Forecast Change	60
Total Revenue	33,637
Other Resource Changes	
Transfers To The Budget Stabilization Account	(312)
Other Previously Enacted Fund Transfers	421
Prior Period Adjustments (formerly in revenue)	41
Other Resource Changes	150
2014 Session Changes	
Technical Updates/Corrections	(10)
Fund Transfers	27
Revenue Changes	1
Budget Driven Revenue	9
2014 Session Changes	28
Total Resources	33,971
Spending	
2013 Enacted Budget Including Nov 2013 Special Session	33,642
2014 Maintenance Level Changes	89
2014 Policy Level Changes	66
Actual/Projected Reversions	(140)
Total Spending	33,657
Ending Balance & Reserves	
<i>Unrestricted Ending Fund Balance</i>	<i>315</i>
<i>Budget Stabilization Account Balance</i>	<i>583</i>
Total Reserves	897

Summary of Conference Proposal

(Near GF-S & Opp Pathway in Millions)

Maintenance Level Changes	<u>2013-15</u>
Health Care Authority	99.1
Dept of Corrections	35.3
DSHS Developmental Disabilities	18.7
College Bound Scholarships	12.3
DSHS Economic Services	(60.3)
DSHS Long-Term Care	(15.6)
K-12 Public Schools - Reduced Enrollment/Staff Mix	(6.7)
All Other	6.5
Maintenance Level Changes	89.2

Policy Level Increases	
K-12 Materials, Supplies, & Op. Costs	58.0
Opportunity Scholarship Program	25.4
Early Learning and Child Care CBA & Quality Enhancements	23.2
Restore Health Care Savings	10.0
Mental Health Enhancements	7.3
Children's Mental Health Lawsuit	7.1
Emergency Fire Suppression	6.2
Prison Capacity Changes	5.4
Foster Children Permanent Placement Initiative	5.2
Real Hope Act	5.0
Therapeutic Child Care	3.0
Rate Increase for Developmental Disabilities Residential Providers	3.0
Mental Health Non-Medicaid RSN Support	3.0
Mental Health - State Hospital Overtime	2.6
DES - Electricity Purchasing	2.3
Medical Marijuana Legislation	2.1
Computer Science & Engineering Enrollments	2.0
New Teacher Mentoring Program	2.0
K-12 Forest Deductible Revenues	2.0
Provider 1 Phase 2 Funding	1.9
SCC - New Hepatitis C Treatment	1.7
Attorney General Recruitment & Retention	1.6
Tobacco and Marijuana Prevention	1.5
Transitional Non-Medicaid RSN Support	1.5
Electronic Medical Records-Mental Health	1.5
ACES - IT Disaster Recovery - Econ Svcs	1.5
Fish Passage Barriers	1.4
ACA Client Eligibility System - Econ Svcs	1.4
Family Assessment Response - Children's Admin	1.2
UW - Institute for Protein Design	1.0
Child Dependency Representation	1.0
All Other Additions/Increases	22.2
Policy Level Increases	214.0

Summary of Conference Proposal

(Near GF-S & Opp Pathway in Millions)

Policy Level Decreases	<u>2013-15</u>
State Employee Health Savings	(61.4)
Hospital Safety Net Assessment Adjustments	(25.0)
Maintain Managed Care Rates	(10.7)
Lean Management Savings	(10.0)
WorkFirst One-time Funding Shift	(10.0)
Employment Services Fund Shift - Admin Contingency	(5.0)
Refinance Breast and Cervical Treatment	(4.3)
Delayed Provider Compensation System	(3.2)
Disaster Response Account - Unused Balance	(3.0)
Health Care Innovation	(2.8)
DD One-time Under Expenditures	(2.2)
DOC Program Under-Expenditures	(2.1)
Fingerprint ID Fund Shift	(1.5)
DOC Violator Policy Change	(1.5)
Electronic Time Keeping Debt Svc Adjustment	(1.1)
ABD Disability Standard Change	(0.9)
Incapacity Exam Savings	(0.6)
All Other Decreases/Savings	(2.9)
Policy Level Decreases	(148.1)

Total Policy Level Changes	65.9
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Total Conference Supplemental Proposal	155.1
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APPENDIX A

2014 Conference Proposal Resource Changes
(Fund Transfers, Revenue Legislation & Other Adjustments)
(Dollars In Millions)

	2013-15 Biennium	2015-17 Biennium
Fund Transfers		
Life Science Discovery Fund	20.0	52.7
Lottery Excess Prize Account	4.0	-
Business and Professions Account	2.0	-
Energy Freedom Account	1.0	-
Fund Transfers	27.0	52.7
Revenue Decreases		
SB 5887 - Merging Medical and Recreational Marijuana	(2.0)	(4.1)
Revenue Decreases	(2.0)	(4.1)
Budget Driven Revenue		
Liquor Control Board	9.2	-
CCJAA Correction	0.1	-
Budget Driven Revenue	9.3	-
Revenue Increases		
SB 6505 - Marijuana Tax Preferences	2.8	5.5
EHB 1287 - Tribal Property Tax	0.6	-
Revenue Increases	3.4	5.5
Technical/Other Changes		
DNR PILT Adjustment	(0.2)	-
Correct Liquor Excise Tax for Locals	(9.4)	-
Technical/Other Changes	(9.6)	-
Total	28.1	54.1

APPENDIX B

Conference Budget Proposal: 4-Year Outlook
(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

	FY 2014	FY 2015	2013-15	FY 2016	FY 2017	2015-17
Beginning Balance	156.4	416.4	156.4	314.5	(19.7)	314.5
Current Revenues						
February 2014 Forecast	16,594.6	17,042.2	33,636.8	17,781.1	18,547.8	36,328.8
Additional Revenue Based on 4.5% Growth Rate Assumption				28.0	62.7	90.7
	16,594.6	17,042.2	33,636.8	17,809.1	18,610.5	36,419.5
Other Resource Changes						
Transfer to BSA	(143.7)	(168.5)	(312.2)	(175.6)	(183.3)	(358.9)
Enacted Fund Transfers (Net)	59.7	83.8	143.6	-	-	-
Capital Budget Transfers	138.6	138.6	277.2	-	-	-
Prior Period Adjustments	20.7	20.7	41.4	20.4	20.4	40.8
Supplemental Budget						
Technical Updates/Corrections	(4.8)	(4.8)	(9.6)	-	-	-
Other Tax Preferences	-	(2.0)	(2.0)	(2.0)	(2.1)	(4.1)
Fund Transfers	2.1	24.9	27.0	26.4	26.4	52.7
Budget Driven Revenue	5.0	4.3	9.3	-	-	-
Revenue Increases	-	3.4	3.4	5.0	5.0	10.1
Total Revenues and Resources (Including Beginning	16,828.7	17,559.0	33,971.3	17,997.7	18,457.2	36,474.6
Enacted Appropriations	16,465.2	17,166.1	33,631.3			
EHB 2088 Aerospace Appropriations	0.8	9.8	10.5			
Continue FY 2015 Appropriation Level				17,174.6	17,174.1	34,348.6
Adjustments To FY 2015 Baseline				607.2	1,029.2	1,636.5
Actual/Estimated Reversions	(70.0)	(70.0)	(140.0)	(70.0)	(70.0)	(140.0)
Maintenance Level	8.7	80.5	89.2	97.9	105.3	203.2
Policy Level	7.7	58.2	65.9	207.7	186.7	394.4
K-12 Education	(0.4)	5.3	4.8	5.878	5.892	11.8
K-12 MSOC	-	58.0	58.0	72.800	73.164	146.0
Higher Ed	0.6	5.0	5.7	5.047	5.047	10.1
Real Hope Act (SB 6523)	-	5.0	5.0	5.000	5.000	10.0
Opportunity Scholarship	25.0	-	25.0	-	20.000	20.0
Mental Health/Dev. Disabilities/Long Term Care	1.2	1.9	3.1	2.344	2.391	4.7
Community First Choice/VIP (SB 6387)	-	0.4	0.4	(24.500)	(24.500)	(49.0)
Children's Mental Health Lawsuit	0.3	8.0	8.2	16.000	24.000	40.0
Mental Health Enhancements	-	11.8	11.8	11.405	11.405	22.8
Corrections/JRA/SCC	(0.7)	5.3	4.6	5.359	5.466	10.8
Children's/ Economic Services	2.7	1.8	4.5	1.820	1.856	3.7
WorkFirst Program Changes	(5.0)	(10.0)	(15.0)	10.000	10.000	20.0
Low Income Health Care	(0.0)	(9.8)	(9.8)	(10.179)	(10.618)	(20.8)
Safety Net Adjustment	(25.0)	-	(25.0)	-	-	-
Health Care Innovation	0.6	(3.4)	(2.8)	(18.900)	(38.100)	(57.0)
Low Income Health Care BHP Account	-	-	-	(15.070)	(46.049)	(61.119)
Dept. of Early Learning	0.3	5.0	5.3	2.859	2.859	5.7
DEL Electronic Child Care Savings	-	-	-	(12.500)	(12.500)	(25.0)
Family Home Childcare CB & Agency Parity	-	20.5	20.5	25.600	26.700	52.3
Prepay Debt Service	-	-	-	-	-	-
LEAN Management	-	(10.0)	(10.0)	(10.000)	(10.000)	(20.0)
All Other	8.2	24.8	33.0	22.830	22.830	45.7
Health Benefit Changes	-	(61.4)	(61.4)	111.900	111.900	223.8
Revised Appropriations	16,412.4	17,244.5	33,656.9	18,017.4	18,425.3	36,442.7
Projected Unrestricted Ending Balance	416.4	314.5	314.5	(19.7)	31.9	31.9
Budget Stabilization Account						
Beginning Balance	269.7	413.6	269.7	582.5	758.5	582.5
Transfer From GFS	143.7	168.5	312.2	175.6	183.3	358.9
Interest Earnings	0.3	0.4	0.7	0.4	0.4	0.8
Ending BSA Balance	413.6	582.5	582.5	758.5	942.2	942.2
Combined Near GF-S Unrestricted & BSA Ending Bal	830.0	897.0	897.0	738.9	974.1	974.1

APPENDIX C

2013-15 Revised Omnibus Operating Budget (2014 Supp)
NGF-S + Opportunity Pathways
(Dollars in Thousands)

March 13, 2014
8:40 am

	Senate Passed	House Passed	Conference Proposal
<i>Employee Compensation</i>			
Initiative 732 COLA	0	55,498	0
State Employee Health Insurance	-36,469	-63,828	-61,396
Employee Compensation Total	-36,469	-8,330	-61,396
<i>K-12 Education</i>			
Materials, Supplies & Operating Costs	38,275	58,008	58,008
Enhancement			
All Other Increases	1,764	5,176	2,388
Federal Forest Deductible Revenues	0	1,991	1,991
New Teacher Mentoring Program	0	0	2,000
Other Savings	-167	-703	-750
K-12 Education Total	39,872	64,472	63,637
<i>Higher Education Institutions</i>			
Engineering & Computer Science	2,000	0	2,000
Institute for Protein Design	1,000	1,000	1,000
All Other Increases	810	1,210	1,160
Jet Fuels Center	750	750	750
Public Records	0	50	0
Higher Education Institutions Total	4,560	3,010	4,910
<i>Higher Education Financial Aid</i>			
Opportunity Scholarship Program	25,354	0	25,354
HE Opportunities (SB 6523)	5,000	5,000	5,000
All Other Increases	220	188	0
Higher Education Financial Aid Total	30,574	5,188	30,354
<i>Early Learning & Child Care</i>			
Child Care Rate Increase	25,482	20,482	23,180
All Other Increases	1,044	944	994
Early Start Act	0	13,511	0
Maintain MTCC Program	0	3,018	3,018
Other Savings	-1,078	-1,078	-1,078
Administrative Reductions	-1,150	0	0
Early Learning & Child Care Total	24,298	36,877	26,114
<i>Health Care</i>			
All Other Increases	4,846	2,113	2,853
Tobacco and Marijuana Prevent	1,000	0	1,500
Other HCA Increases	4	0	4
DOH: Tobacco Use Prevention	0	2,000	0
HBE Cost Allocation	0	1,157	803
Health Care Innovation Planning	-2,808	-8,087	-2,808
Facility Fees	-3,856	0	0
Other Savings	-4,548	-4,322	-4,435
Maintain Managed Care Rates	-10,671	0	-10,671
Hospital Safety Net Assessment	-24,975	-24,975	-24,975
Health Care Total	-41,008	-32,114	-37,729

2013-15 Revised Omnibus Operating Budget (2014 Supp)
NGF-S + Opportunity Pathways
(Dollars in Thousands)

March 13, 2014
8:40 am

	Senate Passed	House Passed	Conference Proposal
<i>Corrections and Other Criminal Justice</i>			
Increased Capacity For Adult Offenders	4,978	6,628	5,413
All Other Increases	3,315	7,679	2,129
New Hepatitis C Treatment	1,729	1,729	1,729
Violator Policy Changes	-1,459	-1,460	-1,460
Other Savings	-4,193	-322	-4,193
Corrections and Other Criminal Justice	4,370	14,254	3,618
Total			
<i>Long Term Care, DD, and Mental Health</i>			
Children's Mental Health Settlement	8,241	8,241	8,241
Mental Health Enhancements	4,639	11,851	7,620
State Hospital Overtime	2,688	2,600	2,600
All Other Increases	2,456	3,346	2,705
RHC Compliance	738	5,000	738
Community First Choice Option	301	296	364
Behavioral Health Redesign	180	2,032	781
Community Residential Rates	0	3,000	3,000
Health Integration Actuarial Study	0	0	900
Non Medicaid Restorations	0	0	3,000
Provider Compensation System (Net)	-1,298	-605	-1,298
Other Savings	-2,686	-1,500	-2,686
Long Term Care, DD, and Mental Health	15,259	34,261	25,965
Total			
<i>Other Human Services</i>			
Child Permanency Initiative	5,151	0	5,151
All Other Increases	3,210	1,972	2,549
ACA Client Eligibility System	1,418	1,418	1,418
Family Assessment Response	1,200	0	1,200
Child Dependency Representation	1,004	0	1,004
Food & Related	1,000	1,000	1,000
TANF Related Changes	0	2,796	521
WorkFirst One-time Funding Shift	0	0	-10,000
Other Savings	-6,467	-18	-6,468
Other Human Services Total	6,516	7,168	-3,625
<i>Natural Resources</i>			
Fire Costs	6,717	9,717	6,717
Fish Passage Barriers	1,432	1,432	1,432
All Other Increases	1,328	1,814	1,702
Natural Resources Total	9,477	12,963	9,851
<i>Maintenance Level</i>			
HCA: Other Low Income Hlth Care	54,949	54,949	54,949
HCA/DSHS: Medicaid Expansion Adj	30,517	30,517	30,517
HCA/DSHS: Presumptive SSI Federal Match	23,574	23,574	23,574
Dept. of Corrections	18,993	19,091	19,091
Higher Ed: College Bound	12,261	12,261	12,261
Workers Comp	4,661	12,538	12,538

2013-15 Revised Omnibus Operating Budget (2014 Supp)
NGF-S + Opportunity Pathways
(Dollars in Thousands)

March 13, 2014
8:40 am

	Senate Passed	House Passed	Conference Proposal
Debt Service	3,407	3,406	1,042
Central Services Adjustments (Incl. Self Ins.)	-928	7,600	7,600
K-12	-8,309	-7,984	-7,665
DSHS: All Other	-11,155	-10,741	-10,741
DSHS: TANF & WCCC	-89,507	-62,787	-62,787
Other	6,631	8,853	8,826
Maintenance Level Total	45,094	91,277	89,205
<i>All Other Policy Changes</i>			
All Other Increases	9,100	7,138	5,500
Attorney General Legal Services	1,559	1,988	1,558
Other Judicial Increases	584	692	919
IT Related Judicial Increases	280	0	0
AG Recruitment & Retention	182	0	182
Reduce Assumed Hlth Care Savings	0	10,000	10,000
Lean Management	0	0	-10,000
Pacific Tower Lease	-460	0	0
Debt Service	-695	-2,067	0
Disaster Response Account	-3,000	0	-3,000
Other Savings	-4,581	-216	-970
All Other Policy Changes Total	2,969	17,535	4,189
Grand Total	105,512	246,561	155,093