JAY INSLEE
Governor

STATE OF WASHINGTON
Office of the Governor

**FOR IMMEDIATE RELEASE: Dec. 17, 2013**

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# Governor proposes hold-steady supplemental budget, big challenges loom next year

**OLYMPIA —** Governor Jay Inslee today proposed modest adjustments to the state's 2013–15 operating budget, primarily to cover mandatory cost increases and meet key obligations.

The governor's supplemental budget also includes small, targeted investments aimed at continuing his Working Washington agenda to revitalize the state's economy, create jobs and ensure we have workers with the knowledge and skills to fill those jobs.

Inslee noted that by sticking to a minimal supplemental budget, the state will be better positioned a year from now to begin tackling the significant fiscal challenges that loom in the 2015–17 biennium.

"The good news is, our economy continues its slow, steady recovery from the worst recession in generations," Inslee said. "Unfortunately, the economy and our revenue collections are not growing fast enough to keep pace with the costs of maintaining current services, let alone provide the billions of dollars still needed to meet our court-mandated basic education obligations. This is a hold-steady budget that keeps us whole the remainder of the biennium, but we'll have to make some tough decisions again next year. "

The bulk of the added spending in the governor's supplemental budget covers a variety of mandatory cost increases, meets legal or contractual obligations and continues delivering services at current levels. About one-third of those mandatory cost increases are driven by rising school enrollment and program caseloads. The budget also includes:

- $8 million to begin complying with a legal settlement requiring the state to significantly expand mental health services for children;
- $10 million to fund a collectively bargained rate increase for family home child care providers; and
- $11 million to cover wildfire costs, primarily last season's.

The budget also addresses several high-priority needs such as almost $7 million to increase prison capacity, most of which will be used to open a medium-security unit at the Washington State Penitentiary.

It also funds key elements of the governor's plan to invest in the state's aerospace future and, ultimately, convince The Boeing Company to assemble its new 777X jetliner — and the plane's carbon fiber wing — here in Washington.

The governor is proposing several small but important investments in education, such as $3 million for a new teacher mentoring program, $300,000 to develop new career and technical education curricula that will provide students multiple paths to meet math and science graduation requirements and $250,000 for an early warning dropout prevention program. The budget also makes targeted investments to enhance science, technology, engineering and math, or STEM education in the K-12 and community college systems.

Inslee urged the Legislature to adopt the budget in timely fashion, noting that the state must soon turn its attention to the next biennial budget.

The governor last spring proposed extending expiring taxes and closing tax loopholes to help solve the 2013–15 budget shortfall and fund basic education. But instead, the budget that was passed relies heavily on one-time fixes, unspecified reductions and assumed savings.

"This approach is simply not sustainable in the next biennium," Inslee said.

Barring an unforeseen increase in revenue collections, the state will face a sizable shortfall when work begins on the 2015–17 budget. Besides having to patch holes left by the one-time fixes in the current budget and address a backlog of needs, the state must make another large investment — between $1 billion to $2 billion — toward meeting basic education obligations.

"We cannot — and will not — meet all these needs and obligations by cutting services to vulnerable children and adults, higher education and communities," Inslee said. "I fully expect we'll continue our rigorous discussion about closing tax loopholes and using those resources to fund our children's education."

# # #

Proposed 2014 Supplemental

# Budget & Policy Highlights

December 17, 2013

Governor Jay Inslee

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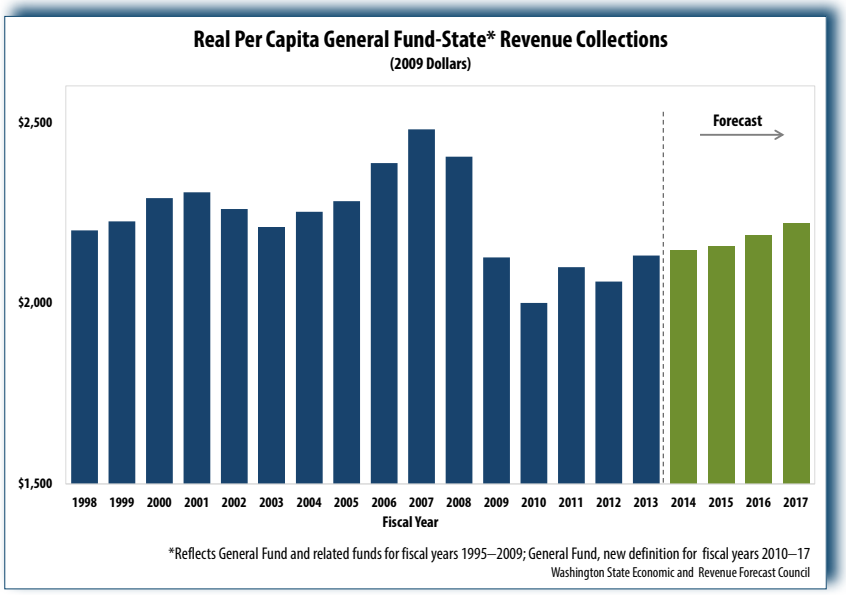
# Overview

## State budget stabilizes, but major challenges loom

After five years of weathering a turbulent economy, Washington's budget situation has stabilized. But there are significant challenges on the near horizon. While our economy continues its slow recovery, that growth is not generating enough revenue to keep pace with rising mandatory costs and the ever-increasing number of people the state serves — let alone fund our court-mandated basic education obligations over the next two biennia.




In light of these realities, Governor Jay Inslee is proposing only modest adjustments to the 2013–15 budget — primarily to address mandatory spending increases, cover costs or fill holes that were not anticipated when the budget was approved six months ago, and meet a small number of high-priority needs.

By sticking to a minimal supplemental budget, we will be better positioned to address the much greater challenges of the 2015–17 budget.

### Slow recovery means slow revenue growth

There are encouraging signs in Washington's economy. Home sales are up. In 2014, the state's personal income is expected to grow at a slightly faster pace than for the nation as a whole. And reliance on unemployment compensation is expected to decline by more than 12 percent.

Still, Washington continues to climb out of the Great Recession at a much slower pace than it did from previous economic downturns. It's been nearly six years since the start of the downturn and we still have not recovered all the jobs that were lost. By comparison, it took the state about three years to regain the jobs lost during the recession of the early 1980s.

As a state largely dependent on sales tax revenues, Washington has been particularly hard hit by the recession's lingering effect on consumer confidence. In fact, as of this fall, real per capita state revenue collections remain well below where they were prior to the recession.

The slow pace of our recovery is expected to continue. Indeed, over the next four years, total state revenue collections are projected to grow at a significantly slower rate than during previous recoveries.

### Caseloads, costs eat up revenue gains

The $33.6 billion 2013–15 budget was signed into law on June 30, just in time to avoid a state government shutdown. Besides addressing a projected $1 billion shortfall, the budget put nearly $1 billion into K-12 education to begin meeting the state's constitutional obligation to adequately fund basic education.

It also protects funding for programs that serve the most vulnerable citizens and ensures public safety. And it tackles critical shortfalls in a few areas, such as for state parks.

At the time it was passed, however, the budget was projected to leave only about $50 million in unrestricted reserves. (The rest of the projected reserves — about $580 million — are in the state's constitutionally protected rainy day fund.)

Revenue projections for the biennium have since grown slightly. But so have the state's costs. Governor Inslee's proposed supplemental budget includes $150 million in General Fund-State "maintenance level" spending to cover a variety of mandatory cost increases and continue delivering services at current levels.

About one-third of the mandatory cost increases are driven by rising caseloads and school enrollment. For example, by the end of the biennium we are expected to have about 10,200 more K-12 students than initially projected, and 900 more students than previously forecast will qualify for the state's College Bound scholarship program. Meanwhile, the state's prison system — which is already at capacity — is projected to have 336 more inmates than were forecast at the start of the biennium.

The mandatory increases also include nearly $11 million to cover wildfire costs, primarily last season's. And, as is typical with a new budget, the 2013–15 spending plan relied on some assumptions that are not panning out. For example, the budget assumed that the state would qualify for a 100 percent federal match to cover 20,000 individuals in one of the state's Medicaid programs. But the state has since been informed that it will instead get a 75 percent match, which means the state's share will now be $26 million.

Besides covering the mandatory increases, the Governor's supplemental budget would increase General Fund spending by a net $55 million to meet other state obligations or address high-priority needs in several areas. It includes nearly $7 million for our prison capacity problem, most of which will be used to open a medium-security unit at the Washington State Penitentiary and $8.2 million to begin complying with a legal settlement requiring the state to significantly expand mental health services for children.

It also includes $13 million for critical information technology infrastructure upgrades, including $737,000 to continue building the state's Business One-Stop Portal that will provide a single, online resource to make it easier for small businesses to apply for permits, licenses, make payments and handle all other interactions with state government.

The budget makes several small but important education investments, such as $3 million for a new teacher mentoring program, $300,000 to develop new curricula that will provide students multiple paths to meet math and science graduation requirements, and $250,000 for an early warning dropout prevention program. It also enhances STEM education in our K-12 and community college systems.

### A new strategy on high tech R&D investment

Governor Inslee proposes a temporary, one-year extension of two tax preferences aimed at encouraging private sector investment in high tech research and development (R&D). During the period of the extension, the Governor will convene a work group of industry experts and higher education leaders to make recommendations on prioritizing state investment in the high tech sector.

The work group will discuss the tax treatment of high tech companies — with the dollars currently provided in tax incentives — and develop strategies for future tax incentives and/or ways to invest directly in higher education institutions to produce engineering, computer science and other majors to support our high tech future.

The current tax preferences promote investment in advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology. Both — a business and occupation tax credit on R&D spending up to $2 million annually and a sales/use tax deferral on the construction of R&D facilities — are scheduled to expire Jan. 1, 2015.

## Finding a more sustainable approach for future budgets

The Governor originally proposed to extend expiring taxes and close tax loopholes to help solve the 2013–15 budget shortfall and fund basic education. But instead, the budget that passed relies on one-time fixes, unspecified reductions and assumed savings, including:

- $387 million in transfers from capital funds and one-time General Fund cost shifts to dedicated funds;
- $320 million by again suspending Initiative 732 teacher cost-of-living raises;
- $190 million in unspecified spending reductions and assumed savings, including $140 million in assumed "reversions"; and
- $94 million in one-time fund balance transfers from dedicated accounts.

Unfortunately, more one-time solutions are needed to balance the proposed supplemental budget. This approach is not sustainable. Barring an unforeseen dramatic rise in economic activity and revenue collections, we will face another sizable shortfall next year when work begins on the 2015–17 budget.

For starters, we will have to fill holes left by the one-time fixes used to balance the 2013–15 budget. Meanwhile, caseloads, enrollments and demands for services will continue to grow. We face a backlog of compensation issues — the state has not funded cost-of-living raises for teachers or state employees since 2008. And there is a growing need to provide resources for certain local law enforcement and firefighter pensions and increase payment rates for those who care for our most vulnerable residents.

On top of this, we will need to take another big — and expensive — step toward meeting our basic education obligations, as required by the State Supreme Court in its 2012 McCleary decision. The Legislature in 2009 and 2010 passed measures that committed the state to increase public school funding by $3.7 billion or more between now and 2019.

Governor Inslee proposed making a $1.3 billion down payment in the current budget. The Legislature, however, pared that down to slightly less than $1 billion. To stay on track toward meeting our obligation, the state will need to make a substantially larger basic education investment during the next biennium while also protecting vital services to vulnerable children and adults, higher education and communities.

### Investing in Washington's aerospace future

Governor Inslee's proposed supplemental budget funds key elements in his plan to invest in the state's aerospace future and, ultimately, convince The Boeing Company to assemble its new 777X jetliner — and its carbon fiber wing — here in Washington.

During a special session the Governor called in November, lawmakers overwhelmingly approved legislation to expand the state's investment in aerospace-related education and workforce development. That legislation — and the Governor's operating and capital supplemental budgets — provide funds to:

- Create 1,000 additional community college enrollment slots in high-demand aerospace fields such as composite materials manufacturing, machine maintenance and pre-engineering.
- Complete construction of the Central Sound Aerospace Training Center in Renton.
- Develop composites fabrication training programs at the Washington Aerospace Training and Research Center at Edmonds Community College.
- Design a new School of Advanced Manufacturing and Aerospace at Washington State University's Everett campus.
- Support the University of Washington's business operations plan for an advanced manufacturing and product development facility in conjunction with local municipalities and private industry.

## Results Washington: A more efficient, effective and transparent state government

World-Class Education

Prosperous Economy

Sustainable Energy and a Clean Environment

Healthy and Safe Communities

Efficient, Effective and Accountable Government

Earlier this year, Governor Inslee launched Results Washington. This initiative uses Lean performance management tools to focus state government and its partners on five key goals: 1. World-class education; 2. A prosperous economy; 3. Sustainable energy and a clean environment; 4. Healthy and safe communities; and 5. Efficient, effective and accountable government.

Each goal includes implementation strategies and specific, measurable indicators of progress.

Washington has long been a national leader in adapting proven private-sector methods and tools to measure and improve state government performance. Results Washington builds on the best of those efforts, creating a framework for continuous improvement. The Governor intends to hold state agency leadership accountable for the performance of their groups and to communicate the results — positive, middling or sub-par — to the public in a clear, timely manner. He wants to make it easier for Washingtonians to see for themselves how well state government and its many partners, such as school districts, are delivering services.

Already the effort is yielding results:

- The Office of the Chief Information Officer brought together frontline employees from 11 agencies to develop a centralized addressing system that's estimated to save at least $1.6 million as well as reduce taxing and billing errors.
- Working together, the Department of Social and Health Services and the Health Care Authority refined the process to recover overpayments to providers, cutting processing time in half.
- The Health Care Authority's Medical Assistance Customer Service Center has used Lean process improvements to slash a backlog of approximately 400 unresolved client complaints about billing or services from providers by more than 70 percent.

A key part of this effort is aligning budget and policy with the goals. The Governor will use the Results Washington priorities and outcome measures to inform his decisions for the 2015–17 biennial budget.

# Balance Sheet

## 2013–15 Enacted Budget Balance Sheet with Governor's 2014 Supplemental

General Fund-State (GFS), Education Legacy Trust Account (ELTA), Opportunity Pathways Account (OPA) and Budget Stabilization Account

| Dollars in millions | General Fund–State | ELTA and OPA | Total |
|---|---|---|---|
| **Resources** | | | |
| **Beginning fund balance** | **$167.5** | **$(11.1)** | **$156.4** |
| September 2013 forecast | 33,007.2 | 588.4 | 33,595.6 |
| November 2013 forecast | | | |
| Non-economic changes | | | |
| Reclassification of prior period adjustments | (40.8) | | (40.8) |
| Tobacco settlement arbitration | 10.5 | | 10.5 |
| Revenue update (economic change) | 5.5 | 5.5 | 11.1 |
| **Current revenue totals** | **32,982.4** | **593.9** | **33,576.4** |
| Transfer to Budget Stabilization Account | (311.8) | | (311.8) |
| Enacted fund transfer | 128.3 | 289.3 | 417.7 |
| Prior period adjustments | 40.8 | | 40.8 |
| Governor's proposed 2014 supplemental resource changes | (35.8) | 138.9 | 103.1 |
| **Total resources (including beginning fund balance)** | **32,971.5** | **1,011.0** | **33,982.5** |
| **Expenditures** | | | |
| Enacted budgets | | | |
| Enacted 2011–13 and 2013–15 budgets | 32,795.5 | 835.8 | 33,631.3 |
| HB 2088 (aerospace appropriations) | 10.5 | | 10.5 |
| Assumed reversions in 2013–15 | (140.0) | | (140.0) |
| Governor's proposed 2014 supplemental | 80.4 | 171.5 | 252.0 |
| **Total expeditures** | **32,746.5** | **1,007.3** | **33,753.8** |
| **Reserves** | | | |
| **Projected ending GFS, ELTA & OPA balances** | **225.0** | **3.7** | **228.7** |
| Budget Stabilization Account | | | |
| Budget Stabilization Account beginning balance | 269.7 | | 269.7 |
| Transfer from General Fund and interest earnings | 312.5 | | 312.5 |
| **Projected Budget Stabilization Account ending balance** | **582.2** | | **582.2** |
| **Total reserves (including Budget Stabilization Account)** | **$807.2** | **$3.7** | **$810.9** |

## 2013–15 Enacted Budget Balance Sheet with Governor's 2014 Supplemental

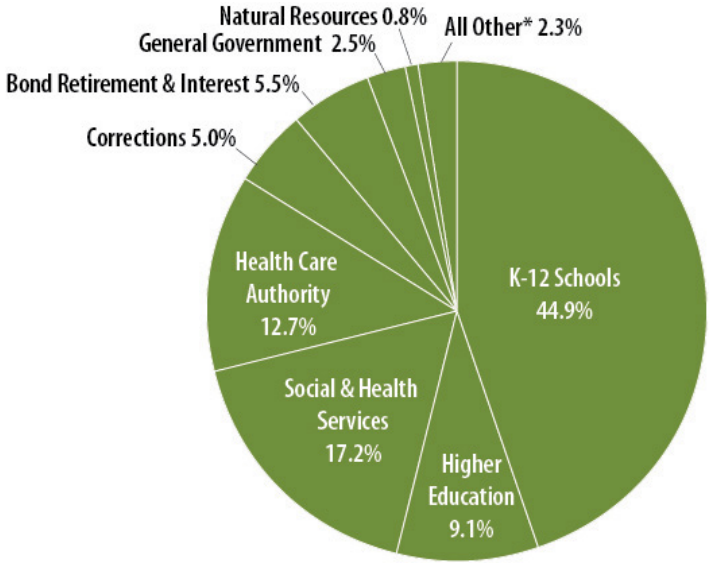
Revenue Legislation and Budget Driven Revenue – NGFS

| Dollars in millions | General Fund-State | ELTA and OPA | Total |
|---|---|---|---|
| **Tax Incentives Extensions** | | | |
| R&D tax preferences | $(26.2) | | $(26.2) |
| Increase B&O tax filing threshold | (3.4) | | (3.4) |
| **Total** | **(29.6)** | | **(29.6)** |
| **Revenue Transfers** | | | |
| State toxics to ELTA | | 41.9 | 41.9 |
| Local toxics to ELTA | | 67.4 | 67.4 |
| Revised Child/Family Reinvestment Account | 3.2 | | 3.2 |
| Deposit appropriation from GF | | 23.5 | 23.5 |
| **Total** | **3.2** | **132.7** | **135.9** |
| **Budget Driven Revenue** | | | |
| LCB budget driven revenue | 0.4 | | 0.4 |
| Lottery kiosk at SeaTac Airport | | 0.01 | 0.01 |
| **Total** | **0.4** | **0.01** | **0.4** |
| **Technical and Other Changes** | | | |
| Adjust OPA for CAFR adjustment | | 6.1 | 6.1 |
| DNR PILT adjustment | (0.2) | | (0.2) |
| Correct liquor excise tax for locals | (9.6) | | (9.6) |
| **Total** | **(9.7)** | **6.1** | **(3.6)** |
| **Total** | **$(35.8)** | **$138.9** | **$103.1** |

# Proposed Budget Expenditures

## Near General Fund-State and Opportunity Pathways Account: Operating

Distribution of General Fund-State Expenditures after the 2014 Supplemental Budget

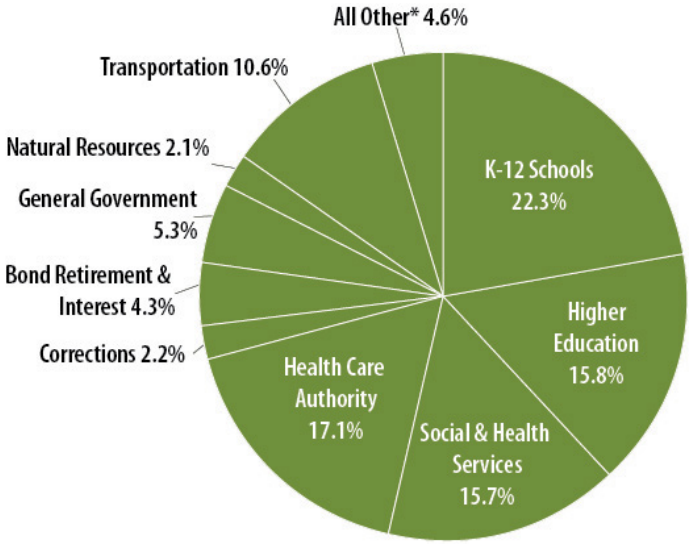



| | Dollars in millions |
|---|---|
| K-12 Schools | $15,228 |
| Higher Education | 3,079 |
| Social & Health Services | 5,830 |
| Health Care Authority | 4,292 |
| Corrections | 1,699 |
| Bond Retirement & Interest | 1,852 |
| General Government | 856 |
| Natural Resources | 276 |
| All Other* | 782 |
| **Total** | **$33,894** |

**All other includes Other Human Services, Other Education, Transportation, Contributions to Retirement Systems and Other Appropriations*

## All Funds: Operating Plus Transportation Capital

Distribution of All Funds Expenditures after the 2014 Supplemental Budget




| | Dollars in millions |
|---|---|
| K-12 Schools | $17,153 |
| Higher Education | 12,193 |
| Social & Health Services | 12,084 |
| Health Care Authority | 13,189 |
| Corrections | 1,723 |
| Bond Retirement & Interest | 3,326 |
| General Government | 4,029 |
| Natural Resources | 1,613 |
| Transportation | 8,144 |
| All Other* | 3,529 |
| **Total** | **$76,983** |

**All other includes Other Human Services, Other Education, Contributions to Retirement Systems and Other Appropriations*

## Preschool, K-12 & Higher Education

### College Bound Scholarships

$7.2 million Education Legacy Account

Accommodate higher costs for the College Bound Scholarship program. Funding covers summer awards and policy savings assumed in the 2013–15 budget that will not be achieved until fiscal year 2015, one year later than assumed. Funding is in addition to $4.0 million in maintenance level to cover nearly 900 additional awards not assumed in the 2013–15 budget.

### Increase preschool access

$4.0 million General Fund-State

Increase the number of Early Childhood Education and Assistance Program preschool slots by 500, to 10,591 in fiscal year 2015.

### New teacher mentoring program

$3.0 million GF-S

Support new teachers with mentoring programs that link them with experienced peers who share best practices for instruction and classroom management.

### STEM Alliance

$1.0 million GF-S

Support the work of the STEM Alliance for regional networks that connect businesses in the science, technology, engineering and math industries with school districts to drive relevant curriculum and real-world learning. Funding will also be used to develop technology-based teacher training materials in math and science.

### Science and math curriculum support

$495,000 GF-S

Coordinate state curriculum support for district implementation of the math Common Core State Standards and the Next Generation Science Standards, including environmental responsibility.

### STEM for under-represented students

$410,000 GF-S

Continue the Mathematics and Science Achievement (MESA) Community College Program at six campuses. MESA provides education support for traditionally under-represented students majoring in STEM fields.

### Pre-apprenticeship grants

$400,000 GF-S

Support Running Start for the Trades by offering grants of up to $10,000 to districts for student pre-apprenticeship programs.

### Math and science equivalencies curriculum

$300,000 GF-S

Develop math and science equivalency curricula for Career and Technical Education courses, which will give students multiple pathways for meeting math and science course requirements for graduation.

### Early warning dropout prevention

$250,000 GF-S

Implement or improve district early warning dropout systems. Grants will allow districts to share best practices for improving outcomes for students at risk of dropping out of high school.

## Investing in our aerospace future

### School of Advanced Manufacturing

$500,000 GF-S

Develop the cornerstone of Washington State University's programs at the University Center campus in Everett with design funds for a School of Advanced Manufacturing and Aerospace. In conjunction with the aerospace industry, WSU will begin program design in 2014 and offer classes in the 2015–16 academic year.

### Advanced materials manufacturing

$500,000 GF-S

Develop University of Washington business operation plans for a new, advanced manufacturing and product development facility in conjunction with private industry, Snohomish County, the city of Everett and the Port of Everett.

## Investing in promising research

### Institute for Protein Design

$1.0 million GF-S

Support the Institute of Protein Design at the University of Washington, which is designing proteins to serve as vaccines and therapeutic tools with the goal of developing Washington companies that will further advance and commercialize these products.

### Jet Fuels Center of Excellence

$750,000 GF-S

Develop alternative jet fuels at Washington State University. The Federal Aviation Administration provided WSU with funding for the Air Transportation Center of Excellence for Alternative Jet Fuels and the Environment. State funds are a match for a portion of administration and graduate research assistant expenses.

# Natural Resources and the Environment

### Wildland fire suppression
$10.8 million General Fund-State

Cover wildland fire suppression costs incurred during summer 2013 and anticipated for spring 2014 by the Department of Natural Resources and the Department of Fish and Wildlife.

### Support visitors and maintain State Parks
$3.0 million GF-S and other funds

Enhance park maintenance and retain staff to continue delivering services to visitors. A 29-year-old snowblower that keeps the road open to the summit at Mt. Spokane State Park will also be replaced.

### Increase toxic cleanups
$1.4 million other funds

Speed up toxic cleanups across the state by adding site managers and developing standardized plans for remediating less-complex sites.

### Fish passage barriers
$1.4 million GF-S

Implement the mandates of a federal court injunction requiring correction of fish passage barriers on lands owned by State Parks and the departments of Natural Resources and Fish and Wildlife by 2016.

### Teanaway Community Forest Management
$982,000 GF-S

Fund staff to manage public access and enforce state fish, wildlife and habitat laws at the Teanaway Community Forest.

### Reduce oil spill risk from rail and vessels
$652,000 other funds

Reduce the likelihood of oil spills by assessing risks from greater use of rail and outbound vessels, and developing preparedness and response plans along cross-state rail routes.

### Consumer product toxics testing
$611,000 other funds

Test products to ensure compliance with state laws limiting toxic substances in consumer products.

### Parks and Outdoor Recreation Task Force
$100,000 GF-S; $100,000 other funds

Support the Governor's Blue Ribbon Task Force on Parks and Outdoor Recreation in developing recommendations to boost outdoor recreation tourism and the number of visitors, provide stable funding for State Parks and other state recreation lands, and promote student environmental education.

# Human Services, Health and Public Safety

## Human Services

### Nursing home rate increase

$29.2 million other funds

Increase the nursing home assessment fee from 3.8 percent of costs to 6 percent. Additional revenues and federal matching funds will increase the daily Medicaid nursing home rate. Twenty percent of this increase will be directed to low-wage workers.

### Improve WorkFirst participation

$14.8 million other funds

Change the WorkFirst program to meet federal participation rules and avoid a $13.6 million penalty. Clients who meet the requirements of their plan will be eligible for an incentive award.

### Family home child care rate increase

$10.3 million General Fund-State

Fund the family home child care collective bargaining agreement. This includes a 4 percent increase effective July 1, 2014, a 4 percent increase effective Jan. 1, 2015, and funding for a pilot project to evaluate the effectiveness of provider incentives to improve the quality of care.

### Children's mental health settlement

$8.2 million GF-S; $7.2 million other funds

Provide high-needs youth with intensive mental health services as identified in the children's mental health legal settlement.

### Vulnerable adults incident tracking

$5.4 million other funds

Finish development of the Tracking Incidents among Vulnerable Adults system to improve tracking of abuse and other incidents for vulnerable clients who are aged or disabled.

### Parental termination Attorney General costs

$3.2 million GF-S; $958,000 other funds

Increase funds to the Attorney General's Office to reduce the backlog of parental termination and adoption cases in the child welfare system.

### Developmental and autism screenings

$2.7 million GF-S; $3.5 million other funds

Add reimbursement for developmental and autism screenings to the Medicaid plan to assure that children with developmental issues are identified as soon as possible. Evidence shows that early identification and treatment can improve outcomes for families and children.

### Supported living investigations

$1.8 million other funds

Set a certification fee for supported living providers who assist clients needing long-term care. Fee revenue will be used to hire additional Residential and Community Services investigators to respond to reports of suspected abuse, neglect or financial exploitation in supported living facilities.

### Veterans benefits database

$360,000 other funds

Complete a feasibility study to determine how best to coordinate veterans benefits available at the local, state and federal levels to ensure veterans receive all the benefits to which they are entitled.

### Community First Choice option

$296,000 GF-S; $296,000 other

Develop a viable Medicaid waiver, which would result in the state receiving an additional 6 percent federal match for services provided to individuals with developmental disabilities and the elderly. Savings could be re-invested in additional client services.

## Health

### Tobacco use prevention

$2.0 million GF-S

Continue the Tobacco Quitline and tobacco cessation services to reduce the incidence of chronic disease and overall health care costs.

### State Health Care Innovation Plan

$1.2 million GF-S; $1.5 million other funds

Develop and implement a five-year innovation plan to transform public and private health purchasing and health care delivery to cut costs and improve health.

### Federal basic health planning

$500,000 GF-S

Develop a plan for offering a federal basic health program. The plan would identify if federal funds could be used to cover legal residents not currently eligible for Medicaid coverage.

### Healthiest Next Generation initiative

$500,000 GF-S

Add project staff in the departments of Health and Early Learning and the Office of Superintendent of Public Instruction to develop and execute strategies of a comprehensive childhood obesity prevention project.

## Public Safety

### New prison capacity

$5.1 million GF-S

Open a 256-bed medium security unit at the Washington State Penitentiary to meet the demands of a rising male offender caseload and reduce crowding.

### Female offender jail beds

$1.5 million GF-S

Contract with a county jail for 64 beds for female offenders at a rate no more than $65 per day to meet the demands of a rising female offender caseload and reduce crowding.

# General Government

### Marijuana regulation and enforcement
$4.9 million other funds

Continue implementation at the Washington State Liquor Control Board of a regulatory structure for recreational marijuana. Funding will also cover related IT systems and new staff for marijuana licensing, enforcement and auditing.

### Economic development and job creation strategies
$3.8 million General Fund-State

Expand business recruitment and retention opportunities to boost jobs. Funds will restore capacity to support trade missions and export assistance, complete a new index to cut time and cost for regulatory compliance, and provide technical assistance for business startups. The Entrepreneurs-in-Residence program that aids in commercialization of research and development projects at higher education institutions is partially funded. Funds will also maximize federal, local and private funding partnerships for developing technology-based industries.

### Local government planning support
$982,000 GF-S

Provide additional technical staff support at the Department of Commerce to assist local governments with Growth Management Act planning requirements.

### Business One-Stop Portal
$737,000 GF-S

Continue implementation of the Business One-Stop Portal at the Office of the Chief Information Officer that will provide a single, online resource for small businesses to interact with state government. When fully implemented, business owners will be able to apply for registrations, licenses and permits, and view the status of these applications online; file quarterly and annual reports; make payments and manage accounts; and make changes to their account once instead of having to make the same changes separately with each agency.

### L&I claims expediters
$665,000 other funds

Hire seven claims processors to expedite workers' compensation claims to get employees back to work more quickly.

# Capital and Transportation

## Capital

Over the current biennium, capital construction projects funded through all sources will create or sustain about 23,300 jobs as part of a total construction budget of $3.8 billion.

### Department of Commerce

#### Public Works Pre-construction Loan Program

$10.0 million

Provide loans to local governments for preconstruction activities that ensure access to grants, low-interest federal loans and other construction funding sources. A portion of this funding is for Puget Sound restoration.

#### Renton Aerospace Training Center

$5.0 million

Design and construct a new building at the Renton Aerospace Training Center and provide equipment.

#### High-efficient housing demonstration

$5.0 million

Develop high-efficient, affordable housing projects with funds awarded on a competitive basis.

### Department of Corrections

#### Prison capacity predesign

$1.8 million

Complete predesign studies on capacity issues for male and female prison populations.

### Office of Financial Management

#### Catastrophic flood relief

$5.0 million

Develop flood hazard mitigation measures throughout the Chehalis Basin.

### Department of Social and Health Services

#### Fircrest School electrical service repairs

$2.5 million

Replace a failing electrical system.

#### Lakeland Village chiller replacement

$1.4 million

Replace a failed cooling system and save energy costs.

### Department of Ecology

#### Water Pollution Control Revolving Loan Program

$70.5 million

Provide low-interest loans to public entities for the design, acquisition and construction of water pollution control facilities. A portion of this funding is for Puget Sound restoration.

#### Increase toxics cleanups

$27.3 million

Fund projects in the Puget Sound area and Eastern Washington that remediate contaminated sites.

#### Low-level nuclear waste disposal trench closure

$3.4 million

Complete closure of trenches used for disposal of commercial, low-level radioactive waste at the Hanford Nuclear Reservation.

### Department of Fish and Wildlife

#### Marblemount hatchery culverts

$1.1 million

Replace a 120 foot-long culvert near the Marblemount hatchery that has been designated as a fish passage barrier and construct a new channel.

### Department of Natural Resources

#### Replace barrier culverts on Department of Natural Resources land

$3.3 million

Replace 55 fish passage barriers to bring the department's forest road infrastructure up to salmon recovery and Clean Water Act standards. A portion of this funding is for Puget Sound restoration.

#### Teanaway Community Forest Trust

$1.6 million

Correct fish passage barriers, meet road maintenance and abandonment planning responsibilities and perform other activities in the Teanaway Community Forest.

### Recreation and Conservation Funding Board

**Boating Facilities Program**

$2.0 million

Provide grants to acquire, develop and renovate facilities for motorized recreational boating.

### Central Washington University

**Buried oil storage tank remediation**

$2.0 million

Remove, clean and dispose of two underground diesel oil tanks.

### The Evergreen State College

**Tacoma campus acquisition**

$12.5 million

Purchase the facility now leased for Evergreen's Tacoma campus through a certificate of participation.

### Western Washington University

**Carver academic renovation**

$5.0 million

Renovate the Carver Academic Center to address urgent seismic, life safety and preservation issues and educational program needs.

### Centralia Community College

**Student services**

$3.2 million

Acquire land and follow permitting requirements for construction of a student services building.

## Transportation

Over the current biennium, transportation construction projects funded by all transportation fund sources — not just the 2003 Nickel and 2005 Transportation Partnership Act packages — will create or sustain about 20,580 jobs as part of a total construction budget of $4.0 billion.

### Programs we continue

**State Route 520 Evergreen Floating Bridge replacement**

Total project cost not to exceed $4.6 billion;
2013–15 funding: $950.1 million multiple fund sources

The new bridge is scheduled to open in late 2015 or early 2016.

**Alaskan Way Viaduct**

Total support over time: $3.1 billion multiple fund sources;
2013–15 commitment: $875.0 million

The funding commitment of $3.1 billion is maintained. Up to $200 million in tolls may be generated. The tunnel is on schedule to open to traffic in 2015.

**Interstate 405 corridor improvements**

Total project cost: $1.7 billion multiple fund sources;
2013–15 commitment: $234.1 million

Congestion will be relieved in the state's busiest commute route by widening I-405 from Kirkland to Bellevue and beginning preliminary engineering and right-of-way acquisition on a direct connector between SR 167 and I-405.

**Interstate 5 Tacoma high-occupancy vehicle lanes**

Total project cost over time: $1.5 billion multiple fund sources;
2013–15 commitment: $193.0 million

Construction continues on the high-occupancy toll lanes between Highway 16 and the Nalley Valley, M Street to Portland Avenue, and Portland Avenue to Port of Tacoma Road northbound. Most of the construction will be completed in 2017.

**North Spokane Corridor**

Total project cost: $608.0 million multiple fund sources;
2013–15 commitment: $88.1 million

Funding completes the Francis Avenue Bridge, relocates 7.5 miles of BNSF railroad mainline,

builds two structures, starts construction of noise walls along I-90 and purchases right-of-way property to complete the corridor.

### Interstate 90 Snoqualmie Pass – East

Total project cost: $551.4 million Transportation Partnership Account;
2013–15 commitment: $133.6 million

Work on I-90 east of Snoqualmie Pass includes constructing bridges, which will allow sufficient clearance for snow to pass underneath. It also calls for widening I-90 and replacing concrete pavement.

### Washington State Ferries liquid natural gas conversion

$526,000 Puget Sound Capital Construction Account-State and Federal

Conversion design continues for the six Issaquah class ferries from ultra-low sulfur diesel fuel to liquefied natural gas. When conversion is completed, which will require more funding, fuel costs and emissions will be reduced, including nitrogen oxides by 85 percent and carbon dioxide by 25 percent. Sulfur oxides and particulate emissions will be eliminated.

### Washington State Ferries Olympic class vessels

Total project cost: $260.6 million multiple fund sources;
2013–15 funding: $140.0 million

Washington State Ferries will take delivery of two Olympic class vessels. The first vessel is expected to be delivered in February 2014 and the second vessel in November 2014.

## Clean economy initiatives

### Energy efficiency modeling

$7.5 million Multimodal Transportation Account

Community energy efficiency modeling will aid local governments, including cities, counties and ports, in prioritizing investments related to fleet electrification and business development that increase transportation energy efficiency. Energy efficiency will reduce transportation costs and help ensure our ports and other commerce hubs remain globally competitive.

### Fast-charging network for electric vehicles

$5.0 million Multimodal Transportation Account

Doubling the number of state highway miles that can be traveled by electric vehicles will cut greenhouse gas emissions. The expansion of Washington's electric highway fast-charging network will leverage public-private partnerships, a model that was successful in setting up 12 public charging locations along I-5, U.S. 2 and I-90 in 2012.

## Other priorities

### Stormwater

$25.0 million Motor Vehicle Account-State

With this funding, the Washington State Department of Transportation will be in full compliance with the National Pollutant Discharge Elimination System permit requirements to trap and treat polluted waters throughout the state transportation system, helping to ensure cleaner waterways.

### IT system improvements

$9.1 million multiple fund sources

A new fuel tax-filing system that lets customers file electronically; a new, more secure system to issue driver licenses and ID cards; and initial improvements to the registered vehicle and driver databases to prepare them for upgraded systems are funded at the Department of Licensing.

### Firearms backlog

$409,000 General Fund-State

The backlog of records on pistol transfers in the firearms program will be eliminated at the Department of Licensing, providing law enforcement with accurate, up-to-date information.

### Disadvantaged businesses

$258,000 Motor Vehicle Account

WSDOT will conduct outreach activities to disadvantaged businesses across the state to ensure that an expanded pool of businesses have more opportunities to compete for, and contract with the department.

# Supplemental Budget Summary

## Governor's 2014 Supplemental Budget Policy Items

| Employee Compensation | Near GFS | Other |
|---|---|---|
| Merit Increments | $272,000 | |
| Recruitment and Retention | 182,000 | $ 3,220,000 |
| Salary Step/Merit Increments | 69,000 | |
| Additional Salary Step | 4,000 | |
| State Employee Health Insurance | (36,469,000) | (39,513,000) |
| **Employee Compensation Total** | **(35,942,000)** | **(36,293,000)** |
| **K-12 Education** | | |
| New Teacher Mentoring Program | 3,000,000 | |
| New Instructional Hours Correction | 1,965,000 | |
| STEM Alliance | 1,000,000 | |
| Science and Math Curriculum Support | 495,000 | |
| Pre-Apprenticeship Grants | 400,000 | |
| Math and Science Equivalencies | 300,000 | |
| Program Compliance | 264,000 | |
| Early Warning Dropout Prevention | 250,000 | |
| **K-12 Education Total** | **7,674,000** | |
| **Higher Education Institutions** | | |
| Institute for Protein Design | 1,000,000 | |
| Jet Fuels Center of Excellence | 750,000 | |
| Advanced Materials Manufacturing | 500,000 | |
| School of Advanced Manufacturing | 500,000 | |
| STEM for Under-Represented Students | 410,000 | |
| Federal Economic Development Grant | | 588,000 |
| **Higher Education Institutions Total** | **3,160,000** | **588,000** |
| **Higher Education Financial Aid and Other** | | |
| College Bound Scholarship Award Levels | 4,039,000 | |
| College Bound – Summer Attendance | 3,206,000 | |
| Private/Local Grant Authority | | 300,000 |
| **Higher Education Financial Aid and Other Total** | **7,245,000** | **300,000** |
| **Early Learning and Child Care** | | |
| Child Care Family Home Rate Increase | 10,343,000 | 70,000 |
| Increase Preschool Access | 4,000,000 | |
| Child Care Center Quality Pilot | 1,000,000 | |
| Electronic Time System | 944,000 | |
| Local Grant for Early Achievers | | 50,000 |
| **Early Learning and Child Care Total** | **16,287,000** | **120,000** |
| **Low-Income Health Care** | | |
| Implement Affordable Care Act Savings | 10,000,000 | |
| Developmental and Autism Screenings | 2,742,000 | $3,453,000 |
| ProviderOne Phase 2 Funding | 1,923,000 | 7,109,000 |
| Affordable Care Act Client Eligibility System | 1,418,000 | 15,263,000 |
| State Health Care Innovation Plan | 1,201,000 | 1,540,000 |
| ProviderOne ACA Enhancements | 1,120,000 | 2,365,000 |
| Cost Allocation Update for Health Benefit Exchange | 711,000 | 4,906,000 |
| ProviderOne Phase 2 Operations and Maintenance | 693,000 | 1,698,000 |
| Federal Basic Health Planning | 500,000 | |
| Medicaid Plan Choice | 390,000 | 3,510,000 |

## Governor's 2014 Supplemental Budget Policy Items

| Low-Income Health Care (cont.) | Near GFS | Other |
|---|---|---|
| Centers for Medicare & Medicaid Services "Lock-Out" for CHIP | 347,000 | 644,000 |
| ProviderOne Operating Rules | 197,000 | 1,056,000 |
| Maintain Managed Care Rates | (10,291,000) | (10,700,000) |
| **Low-Income Health Care Total** | **10,951,000** | **30,844,000** |
| Long -Term Care, Developmental Disabilities, Mental Health | | |
| Children's Mental Health Settlement | 8,241,000 | 7,221,000 |
| Workplace Violence Prevention | 2,161,000 | |
| Residential Habilitation Centers Medicaid Compliance | 1,880,000 | 2,363,000 |
| Behavioral Health Redesign | 2,032,000 | 1,166,000 |
| Retirement Actuarial Study | 500,000 | |
| Community First Choice Option | 296,000 | 296,000 |
| Health Path Washington | 269,000 | 3,387,000 |
| Nursing Home Rate Increase | | 29,178,000 |
| Provider Compensation System | (3,221,000) | (9,970,000) |
| Vulnerable Adults Incident Tracking | | 5,388,000 |
| Supported Living Investigations | | 1,806,000 |
| **Long-Term Care, DD, Mental Health Total** | **12,158,000** | **40,835,000** |
| Corrections and Other Criminal Justice | | |
| New Prison Capacity | 5,119,000 | |
| Female Offender Jail Beds | 1,496,000 | |
| Statewide Jail Study | 300,000 | |
| **Corrections and Other Criminal Justice Total** | **6,915,000** | |
| Other Human Services | | |
| Parental Termination Attorney General Costs | 3,205,000 | 5,121,000 |
| Tobacco Use Prevention | 2,000,000 | |
| Information Technology Disaster Recovery | 1,461,000 | 1,879,000 |
| Confidential Data Compliance | 759,000 | 166,000 |
| Healthiest Next Gen Initiative | 500,000 | |
| Marijuana Education | 472,000 | |
| Adoption Incentive Grant | (70,000) | 70,000 |
| Complete Next Generation Tax System | | 23,585,000 |
| Improve WorkFirst Participation | | 14,809,000 |
| Temporary Assistance for Needy Families Contingency Funds | | 13,732,000 |
| Electrical Program Workload Adjustment | | 3,004,000 |
| Improvements to Prevailing Wage | | 1,098,000 |
| Online Licensing Project | | 848,000 |
| Claims Expeditors | | 665,000 |
| Veterans Benefits Database | | 360,000 |
| Kinship Care Income Disregard | | 298,000 |
| Develop New UI Benefits System | | 251,000 |
| Veterans Innovation Program | | 104,000 |
| Walla Walla Veterans Home Delay | | (6,729,000) |
| **Other Human Services Total** | **8,327,000** | **59,261,000** |
| Natural Resources | | |
| Fish Passage Barriers | 1,432,000 | |
| Teanaway Community Forest Trust | 982,000 | |

## Governor's 2014 Supplemental Budget Policy Items

| Natural Resources (cont.) | Near GFS | Other |
|---|---|---|
| Outdoor Recreation Task Force | 100,000 | 100,000 |
| Contracts Management System | 48,000 | 218,000 |
| Sustainable Trust Land Revenue | | 7,100,000 |
| Increase Toxic Cleanups | | 1,441,000 |
| Water Quality Data Systems Upgrade | | 815,000 |
| Reduce Oil Spill Risk from Rail and Vessels | | 652,000 |
| Consumer Product Toxics Testing | | 611,000 |
| Major Equipment Replacement | | 500,000 |
| Increase Hanford Compliance | | 312,000 |
| Biosolids Permitting | | 299,000 |
| Sustaining Hunter Education | | 272,000 |
| Yakima Adjudication Support | | 260,000 |
| Records Management | | 247,000 |
| Coordinate Hanford Permit Revision | | 224,000 |
| Vancouver Region Office Relocation | | 218,000 |
| Wildlife Disease Management | | 200,000 |
| Federal Funding Adjustment | | (2,000,000) |
| **Natural Resources Total** | **2,562,000** | **11,469,000** |
| All Other Items | | |
| Education Legacy Trust Account | 23,500,000 | |
| Efficiency Savings Offset | 15,000,000 | |
| Disaster Response Account | 11,308,000 | |
| Attorney General Legal Services | 3,211,000 | 4,968,000 |
| Innovation Contract | 1,950,000 | |
| DSHS Permanency Initiative (Courts) | 1,946,000 | |
| Local Government Planning Support | 982,000 | |
| Thurston County Impact Fee | 977,000 | |
| Entrepreneurs-in-Residence | 750,000 | |
| Business One-Stop Portal | 737,000 | |
| Startup Washington 365 | 500,000 | |
| Firearms Workload | 409,000 | |
| U.S. Open Security | 400,000 | |
| Data Center Relocation Funding | 365,000 | 2,338,000 |
| Strategic Growth Expansion | 300,000 | |
| Telecommunication Systems Replacement | 280,000 | |
| Private Sector Retirement Savings | 250,000 | |
| Regulatory Process Improvement | 250,000 | |
| Appellate Indigent Funding – Death Penalty | 225,000 | |
| 2014 Supplemental Debt Service | 191,000 | |
| Sundry Claims | 133,000 | |
| Immigration Consequences | 100,000 | |
| Washington State CASA | 75,000 | |
| Office of Chief Information Officer Services | 67,000 | 122,000 |
| Administrative Hearings | 52,000 | 152,000 |
| Community Energy Efficiency | | 7,500,000 |
| Superior Court Case Management System | | 5,306,000 |
| Business and Technology Modernization | | 5,286,000 |

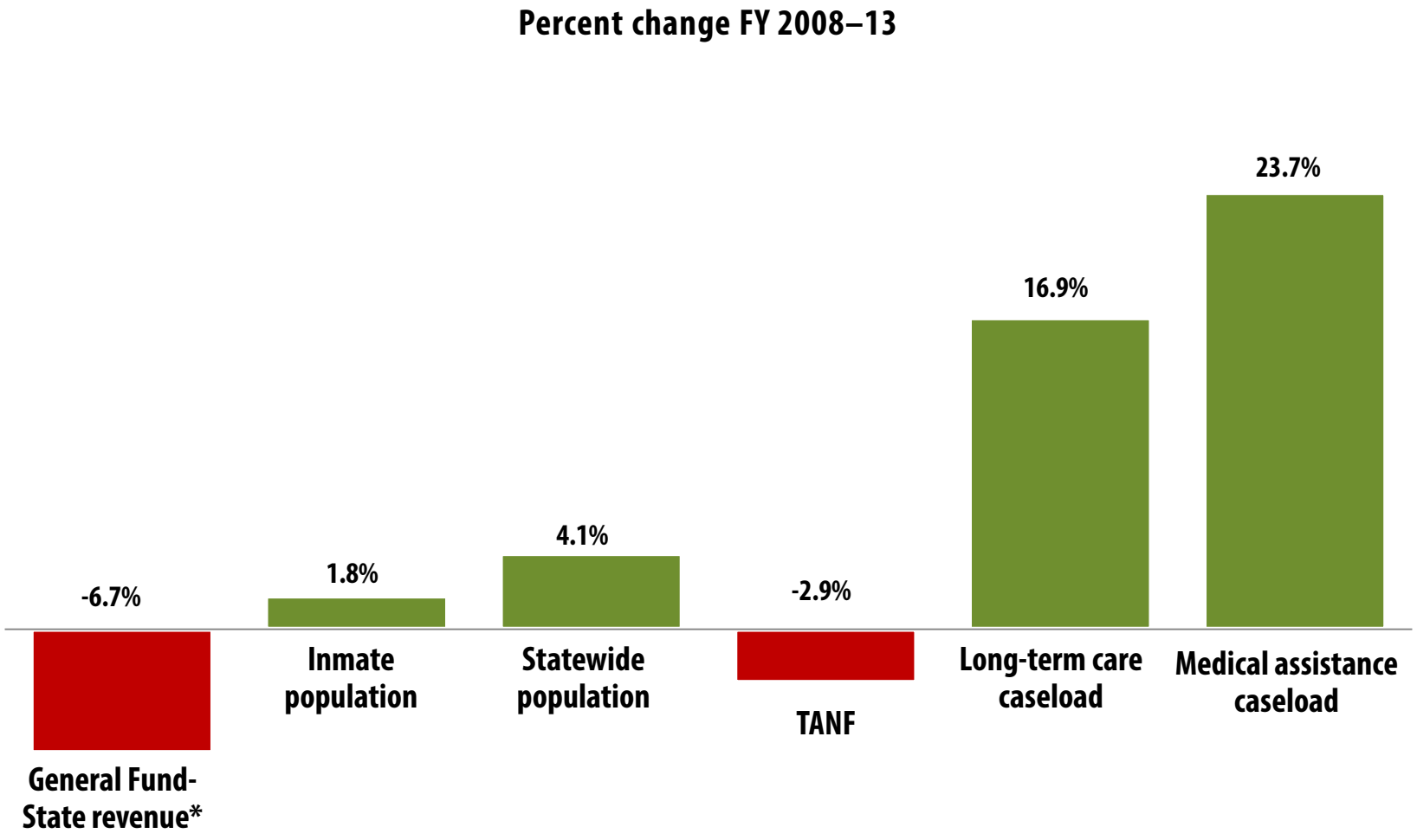
## Governor's 2014 Supplemental Budget Policy Items

| All Other Items (cont.) | Near GFS | Other |
|---|---|---|
| Increased Legal Services to Agencies | | 5,075,000 |
| Electric Highway Infrastructure | | 5,000,000 |
| Customer Service Center Procurement | | 3,881,000 |
| Additional Staffing | | 3,486,000 |
| Moore vs. HCA | | 2,414,000 |
| Prorate and Fuel Tax System | | 2,355,000 |
| Commercial Insurance | | 2,278,000 |
| I-405 Express Toll Lanes | | 2,019,000 |
| Driver's License Issuance System | | 1,491,000 |
| Enterprise Content Case Management Sysyem | | 1,093,000 |
| Marijuana Traceability System | | 782,000 |
| Information Technology Security Enhancements | | 750,000 |
| Reservation System Implementation | | 714,000 |
| SeaTac Airport Kiosk | | 623,000 |
| Increase Airport Aid Grants | | 565,000 |
| Antitrust Litigation Increase | | 528,000 |
| Liquid Natural Gas Conversion | | 526,000 |
| Marijuana Tax System | | 378,000 |
| Everett Weigh Station Reconstruction | | 350,000 |
| Security Guards | | 327,000 |
| Education Research Data Center | | 316,000 |
| Tacoma Narrows Bridge Cashless Study | | 300,000 |
| Disadvantaged Business Enterprise Engagement | | 258,000 |
| Pavement Preservation | | 250,000 |
| Infrastructure Information Portal | | 250,000 |
| Master Address Services | | 189,000 |
| State Ferries Trades Apprenticeship Program | | 188,000 |
| Project Quality Assurance Reform | | 185,000 |
| State Records Center Stockpickers | | 162,000 |
| Federal Grant Authority | | 152,000 |
| Community Economic Revitalization Board Support | | 149,000 |
| Equipment Replacement | | 137,000 |
| Kelso Roof Replacement | | 110,000 |
| Assistant State Physical Anthropologist | | 109,000 |
| Aviation Emergency Services | | 102,000 |
| Continuity of Operations Plan Coordinator | | 89,000 |
| Administrative Cost Increases | | 80,000 |
| McNeil Island Boundary Survey/Appraisal | | 75,000 |
| OMWBE Support | | 67,000 |
| Replace HVAC – Kennewick Detachment | | 50,000 |
| Emergency and Disaster Training | | 50,000 |
| Archives Vehicle Replacement | | 38,000 |
| **All Other Total** | **63,958,000** | **63,613,000** |
| **Grand Total All Categories** | **$103,295,000** | **$170,737,000** |

More information available in the agency recommendation summaries: *www.ofm.wa.gov/budget14/recsum/default.asp*

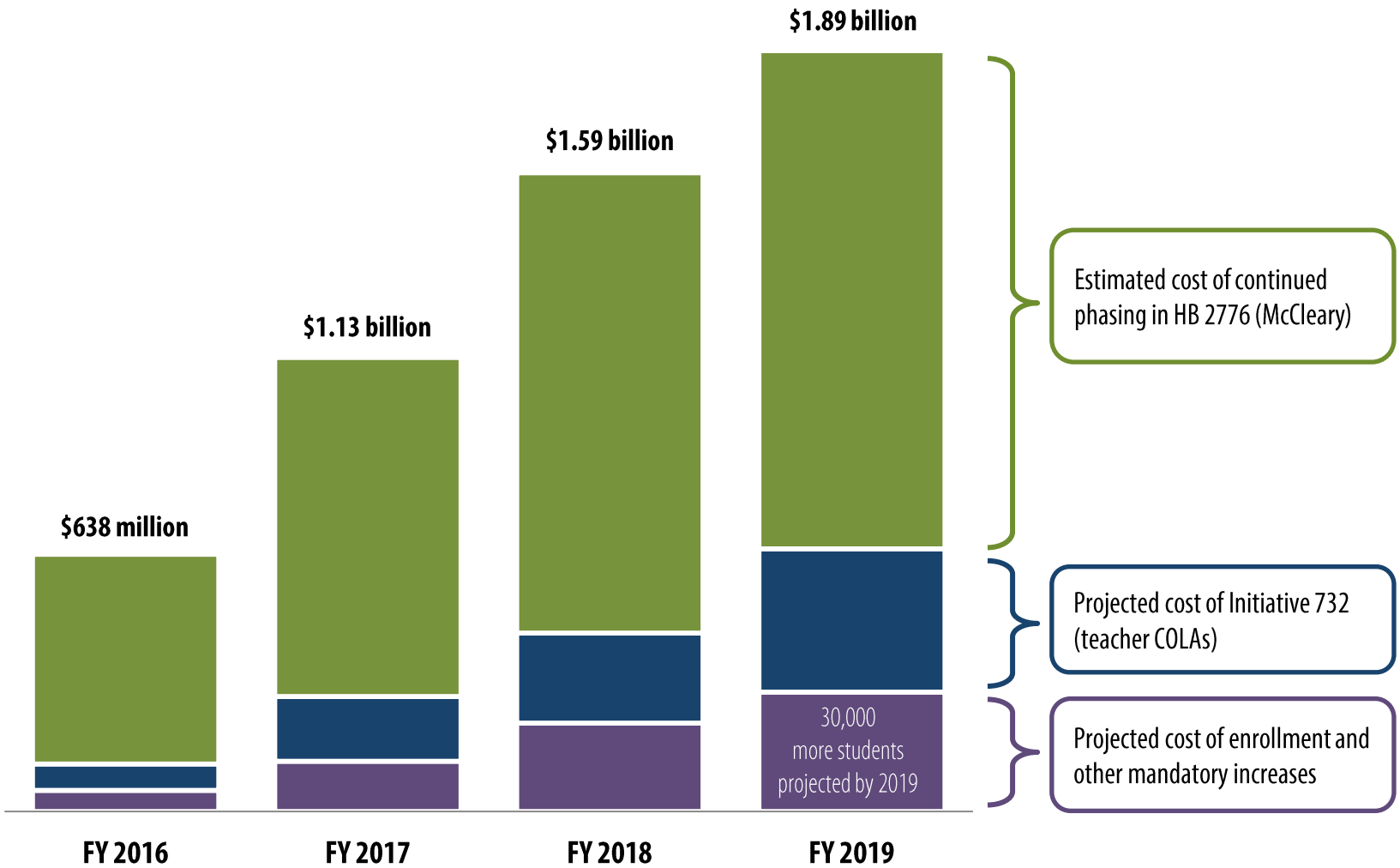
Washington State Office of Financial Management
Insurance Building * PO Box 43113
Olympia, WA 98504-3113 * 360-902-0555 * Fax 360-664-2832

# Demand for services outpaces state revenue collections



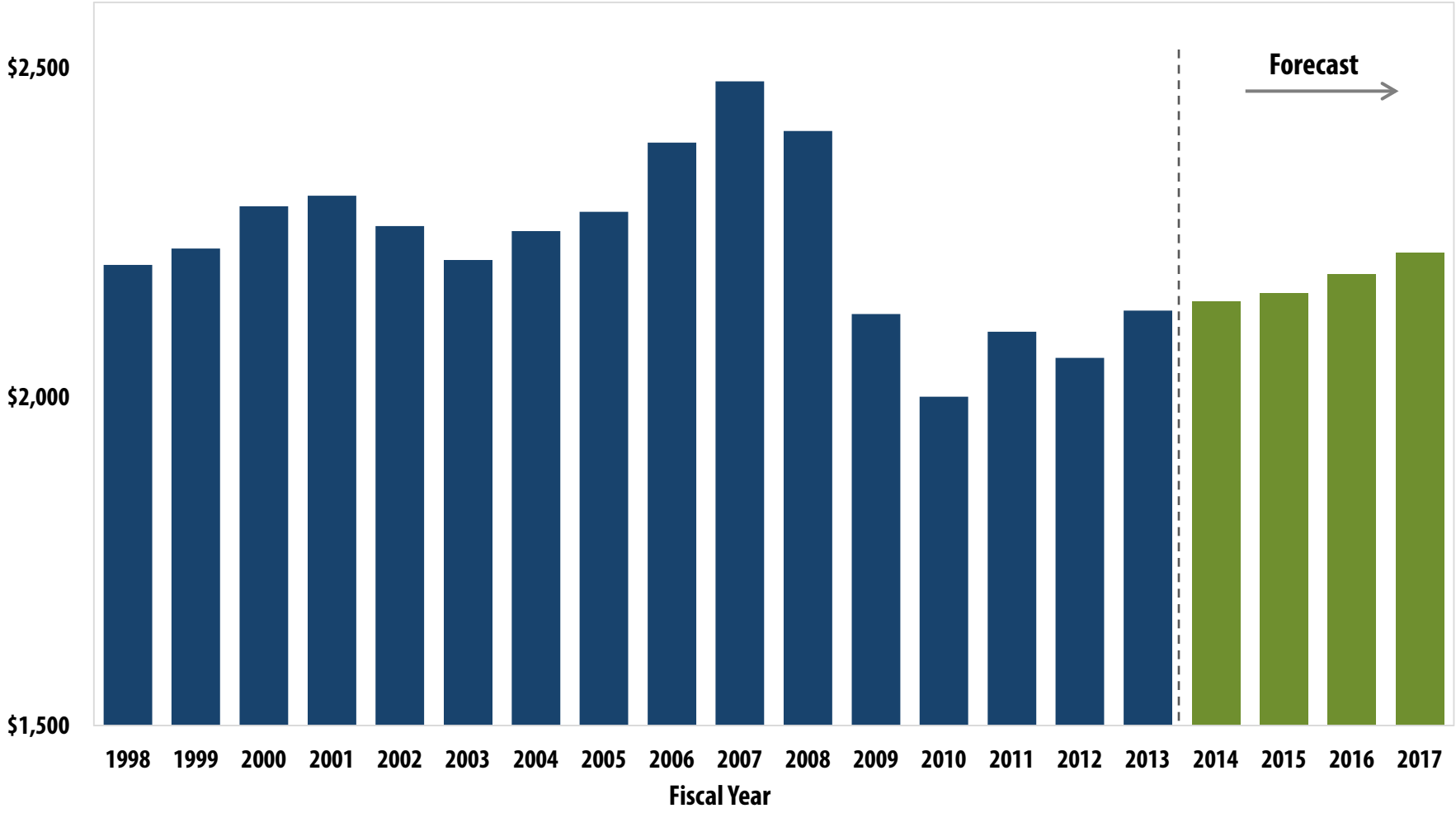

*Current definition of GF-S adjusted for inflation

# More than $5 billion needed over next 2 biennia to meet statutory K-12 requirements



# Real Per Capita General Fund-State* Revenues Remain Well Below Pre-Recession Levels

**(2009 Dollars)**

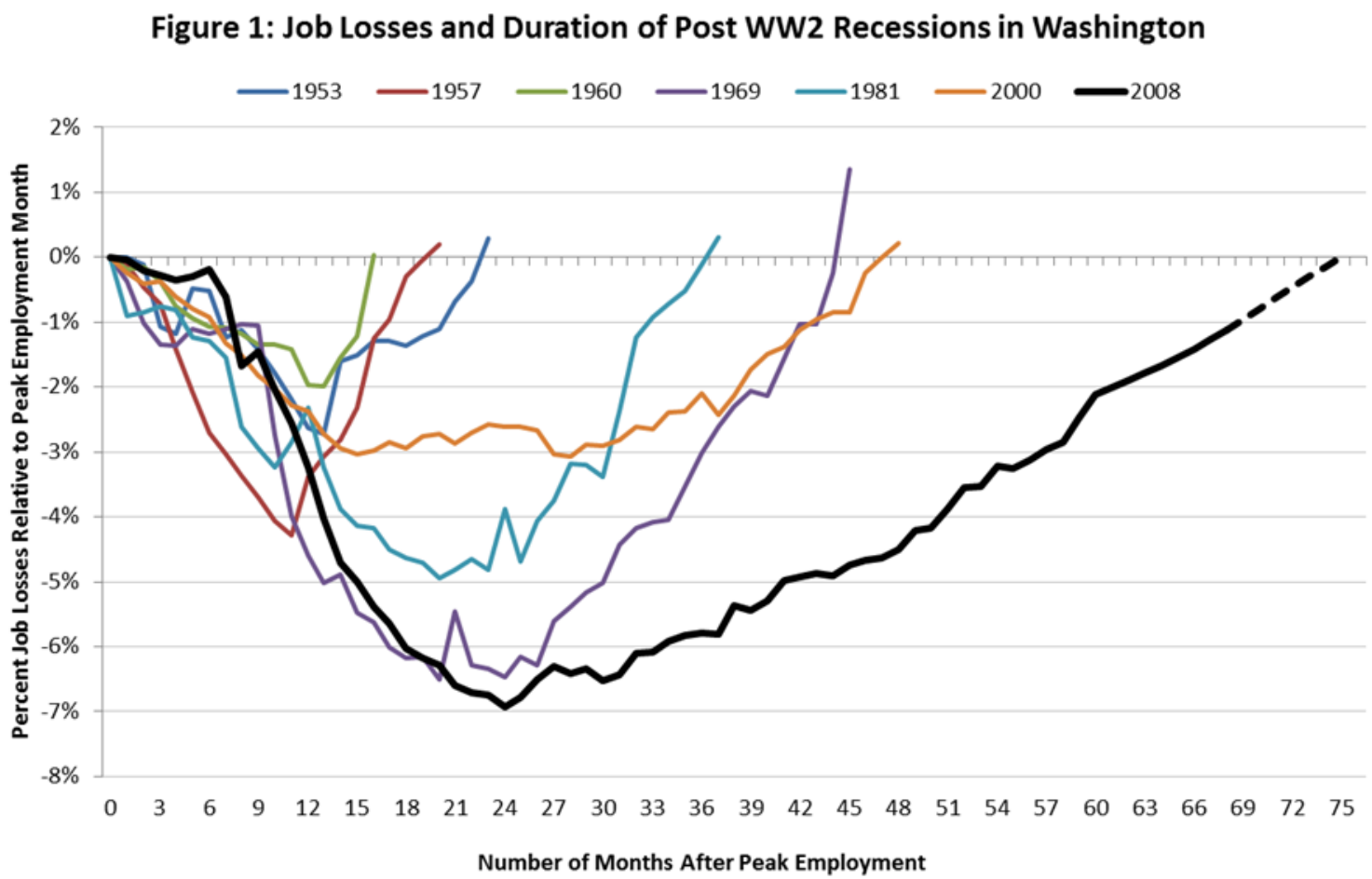


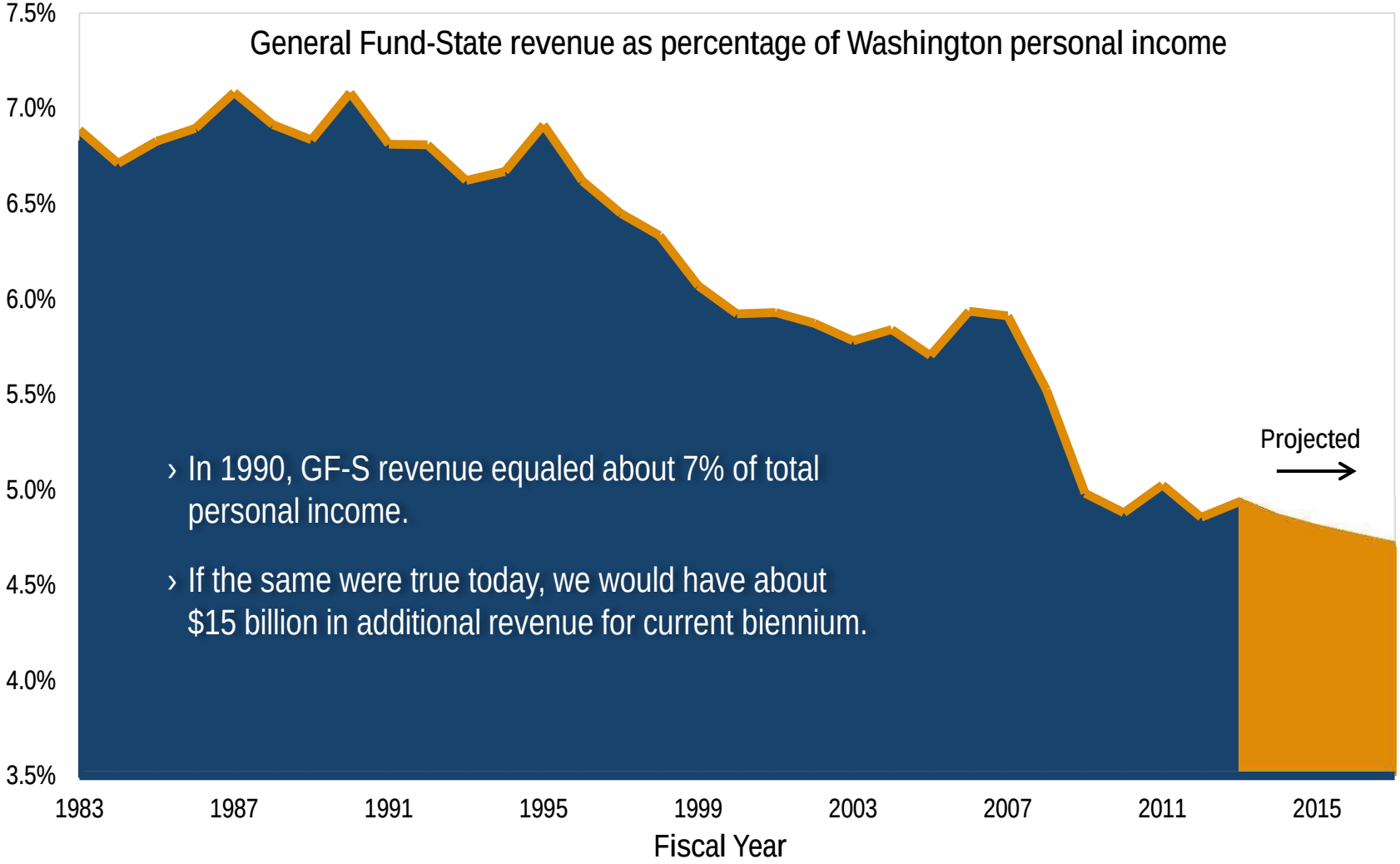

*Reflects General Fund and related funds for fiscal years 1995—2009; General Fund, new definition for fiscal years 2010—17

Washington State Economic and Revenue Forecast Council

***December 16, 2013***

# *Our economy is rebounding, but at very slow pace*




*Major labor management disputes are removed for clarity*

# *Revenue collections are at historically low levels when compared to overall economy*