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BRIEFLY

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A First Look at the Supplemental Budget

The legislature adjourned on time at midnight March 12th. This brief provides a first look at the supplemental budget that the legislators passed. We will publish a more detailed examination in several weeks, after the governor has finished signing and vetoing bills.

Last June, the legislature adopted a \$22.8 billion budget for the 2001-03 biennium. This spending was to be paid for with \$22.1 billion in revenues, \$440 million in general fund reserves, and \$228 million in reserves transferred from other state accounts to the general fund.

That spending plan was blown apart by the national recession. Downward revisions to the revenue forecast in September, November and February erased more than \$1.1 billion in revenues, while increased school enrollments, welfare caseloads, prison populations, and healthcare costs, as well as other necessary spending increases added, by the senate ways and means committee's tally, \$386 million to state costs.

The legislature's response is outlined in the balance sheet shown at the left.

Revenues

The February forecast for the biennium is \$20,962 million. Actions taken by the legislature would add \$90.2 million to this. The largest impacts are due to increased audit activity by the Department of Revenue, \$46.6 million; elimination of several exemptions to the use tax, \$27.2 million; and introduction to Washington of the Big Game multi-state lottery, \$24.4 million.

Budget writers had been counting on receiving \$39.5 million from an additional 5 percent sale tax on liquor. This did not pass, however. A cut in the estate tax also did not pass.

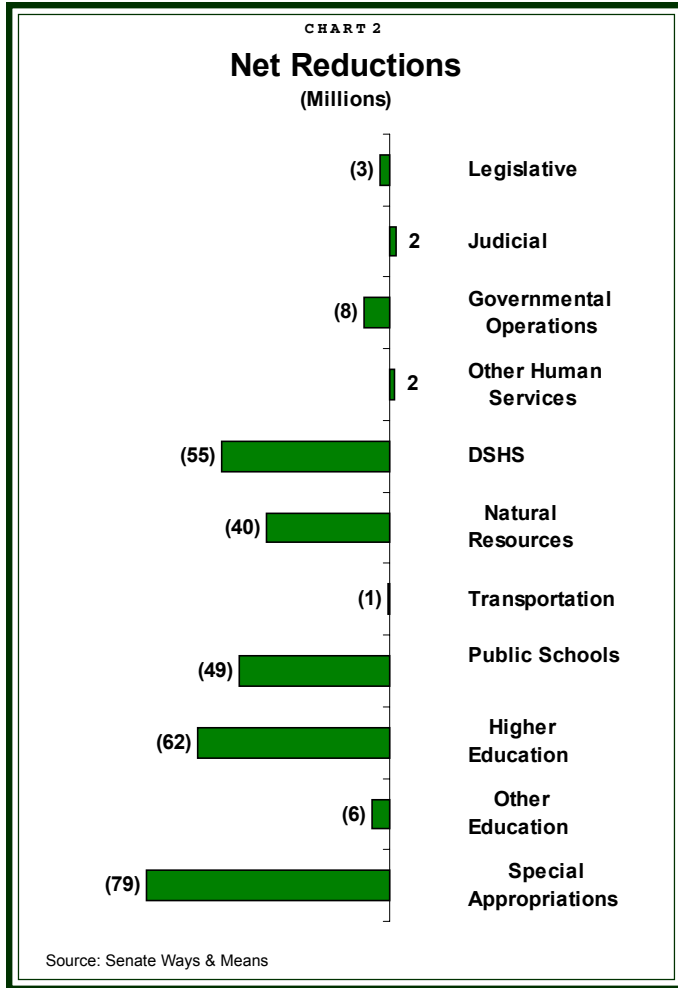
All totaled, expected revenue for the biennium is now \$21,052 million.

CHART 1

2001-03 General Fund State Balance Sheet (millions of dollars)

Revenues	
February Forecast	20,961.9
DOR Auditors	46.6
Repeal Use Tax Exemptions	27.2
Big Game Lottery	24.4
Other Changes	(8.3)
Total Current Revenue	21,051.8
Appropriations	
2001-03 Appropriations	22,783.2
2002 Supplemental	(298.0)
Total Appropriations	22,485.2
General Fund Balance	
Beginning Balance	599.7
Current Revenue less Appropriations	(1,433.4)
Transfers	
From Various Accounts, 2001 Session	228.0
From Various Accounts, 2002 Session	51.6
Tobacco Securitization	450.0
From Emergency Reserve Fund	325.0
Ending Balance	220.9
Emergency Reserve Fund	
Beginning Balance	462.1
Transfers	
To Multimodal Transportation Account	(70.0)
To General Fund	(325.0)
Appropriations for Earthquake/Drought/Energy	(25.0)
Interest	10.6
Ending Balance	52.7
Total Reserves	273.6

Source: Research Council compilation from Senate Ways and Means balance sheet



Expenditures

The budget results in a net reduction in appropriations of \$298 million. Chart 2 shows the distribution of these reductions across broad budget categories.

Special Appropriations absorbed the largest cuts. These cuts included the elimination of funding to cities and counties to offset the loss of motor vehicle excise tax moneys and the elimination of cost-of-living increases for state workers.

Higher education was the category with the second largest reduction, followed by the department of social and health services, public schools, and natural resources.

Of the five categories, public schools received the smallest percentage reduction.

With these reductions, biennial appropriations now total \$22,485 million.

General fund balance

Appropriations exceed revenues by \$1,433 million. This shortfall is covered by drawing down reserves and transferring additional money to the general fund.

The budget adopted last June transferred a total of \$228 million to the general fund from three accounts: the health services account, the multimodal account and the treasurer's service account. The new budget sweeps an additional \$51.6 million into the general fund from 15 separate accounts.

The largest transfer, \$450 million, involves funds to be raised by selling off a share of the state's proceeds from the tobacco lawsuit. (See our policy brief, *An Insecure Plan for Tobacco Fund Securitization*, PB 02-5 March 7, 2002.)

Finally, \$325 million is transferred to the general fund from the emergency reserve.

The projected ending balance in the general fund is \$220.9 million, while the projected ending balance in the emergency reserve account is \$52.7 million.

Discussion

Budget writers had wanted the ending balances of the general fund and the emergency reserve account to total to about \$300 million. The legislature, however, failed to pass the liquor tax increase. Gov. Locke may veto specific appropriations in the budget get reserves back to this level.

With expenditures \$1.4 billion greater than revenues, this supplemental budget is a short-term patch, not a long-term solution. Unless Santa Claus is very, very, very good to the state, the legislature will reconvene next January to act out the sequel of this session's crisis. Preliminary projections show the budget for the 2003-05 biennium \$1 billion out of balance.

