



BRIEFLY

The General Fund budget for 2001-2003 uses transfers of funds to substantially boost the Initiative 601 spending cap. Appropriations exceed current revenues by \$667 million and projected reserves at the end of the biennium are only 2.7 percent of biennial spending, raising serious questions of sustainability.

At Last a Budget

It took a closely divided legislature two special sessions beyond the 105-day regular session to pass a General Fund budget for the 2001-2003 biennium. As signed by Gov. Locke on June 26th the budget sets the state on course to spend \$22.8 billion from the General Fund for the biennium. Gov. Locke did veto several minor sections of the budget, decreasing expenditures by \$3.6 million and revenues by \$2.5 million.

Fiscal conservatives will not be pleased with this budget. It uses transfers of funds to substantially boost the Initiative 601 spending cap. Appropriations exceed current revenues by \$667 million and projected reserves at the end of the biennium are only 2.7 percent of biennial spending, raising serious questions of sustainability.

The governor also signed a \$2.5 billion capital budget and a \$3.4 billion transportation budget. The “current law” transportation budget does not provide a long-term funding solution for the state’s transportation problems. Gov. Locke has called the legislature back for a third special session, which will begin July 16, to try again on transportation.

General Fund Balance Sheets

Table 1 presents the General Fund-State balance sheets for the 1999-2001 and 2001-2003 biennia.

Revenues and Appropriations.

For the 2001-2003 biennium, revenues are now forecast to be \$22,116 million, an increase of \$831 million, or 3.9 percent, from 1999-2001 revenues of \$21,285 million.

The June 15 revenue forecast reduced expected revenues by \$27 million for the 1999-2001 biennium and by \$109 million for the 2001-2003 biennium. Loss of estate taxes as a result of recent federal legislation accounts for \$20 million the \$109 million. Bills passed by the legislature reduce revenues by \$19 million for 2001-2003. Several Department of

TABLE 1
General Fund-State Balance Sheet
(millions of dollars)

	1999-01	2001-03	Change
Revenues			
March Forecast	21,312	22,216	
June Update	(27)	(109)	
Tax Reductions	(0)	(19)	
Department of Revenue Collection Initiatives		28	
Total Current Revenue	21,285	22,116	831
Appropriations			
1999-01 Appropriations	20,851		
2001 Supplemental	195		
2001-03 Appropriations		22,783	
Total Appropriations	21,046	22,783	1,737
General Fund Balance			
Beginning Balance	462	601	
Current Revenue less Appropriations	239	(667)	
Transfers			
From Health Services Account	121	150	
From Multimodal Transportation Account		70	
From Treasurer's Service Account		8	
To Emergency Reserve Fund	(222)		
Ending Balance	601	161	(440)
Emergency Reserve Fund			
Beginning Balance	536	485	
Transfers			
From General Fund	222		
To Education Construction Account	(241)		
To Multimodal Transportation Account	(35)	(70)	
Earthquake/Drought/Energy	(58)	(25)	
Interest	61	56	
Ending Balance	485	446	(39)

Source: Research Council compilation from Office of Financial Management and House and Senate Fiscal Committees balance sheets



Revenue initiatives to improve collections are expected to provide an additional \$28 million to the General Fund.

Appropriations for 2001-2003 totaled \$22,783 million. This is an increase of \$1,737, or 8.3 percent, from the \$21,046 appropriated for 1999-2001.

Spending for the biennium is \$67 million below the Initiative 601 spending limit.

General Fund Balance. The General Fund is projected to begin the 2001-2003 biennium with a balance of \$601 million. Appropriations exceed projected current revenues by \$667 million. The General Fund will receive transfers of \$150 million from the Health Services Account, \$70 million from the Multimodal Transportation Account, and \$8 million from the Treasurer’s Service Account. With these transfers the projected ending balance for the General Fund is \$161 million.

Emergency Reserve Fund. The Emergency Reserve Fund is projected to begin the 2001-2003 biennium with a balance of \$485 million. Forecast interest earnings are \$56 million. Twenty million dollars are appropriated from the Emergency Reserve for repairs from the Nisqually earthquake, and \$5 million dollars are appropriated for drought response. Seventy million dollars is transferred from the Emergency Reserve to the Multimodal Transportation Account. The projected ending balance is \$446 million.

The Initiative 601 Limit. The Initiative 601 spending limit for the biennium is \$22,850 million, an increase of \$528 million above the figure initially published by the expenditure limit committee last December, \$22,322 million.

Much of this increase is the product of the “two-way street” introduced into the limit by the 2000 legislature. Under this provision, “If the cost of any state program or function is shifted to the state General Fund on or after January 1, 2000, from another source of funding, or if moneys are transferred to the state General Fund from another fund or account, the state expenditure limit committee, acting pursuant to RCW 43.135.025(5), shall increase the state expenditure limit to reflect the shift.” (See *I-601 Not Dead Until Legislature Declares It So*, ePB 01-3 February 21, 2001.)

The 2001 supplemental budget transferred \$121 million to the General Fund from the Health Services Account. This allowed an additional \$121 million in spending in FY 2001 and consequently raised the spending limit for the 2001-

2003 biennium (FYs 2002 and 2003) by \$254 million. (The I-601 limit is actually an annual limit. The spending cap for each year is based on actual spending in the preceding year with an increase proportional to inflation and population growth.)

Further adjustments resulting from the 2001-2003 budget are detailed in Table 2. In total, these raise the limit by \$252 million for the biennium.

TABLE 2

The Initiative 601 Spending Limit for 2001-2003

		Percent Increase over 1999-01 Appropriations
Limit After 2001 Supplemental Appropriations	\$22,598	7.4%
Transit	(188)	
Ferries	(41)	
Multimodal Account Transfer	142	
FMAP	41	
Health Services Account Transfer	284	
Miscellaneous Budget Adjustments	14	
Adjusted Limit	\$22,850	8.6%

Source: Senate Ways and Means Committee



The supplemental budget enacted by the 2000 legislature provided money from the General Fund in FY 2001 for ferries and transit to partially offset losses due to the elimination of the motor vehicle excise tax. This increased the FY 2001 spending cap as a result of the “two-way street.” The 2001-2003 budget does not continue that support and so the spending limit is reduced by \$229 million. The transfers of money to the General Fund from the Health Services Account and the Multimodal Transportation Account increase the limit by \$426 million. A decrease in the federal match for medical assistance (FMAP) increases the limit by \$41 million. Finally, the net effect of a large number of other budget adjustments is to increase the limit by \$14 million.

Spending Highlights

K-12 Education. General Fund-State appropriations for K-12 education total \$9,903 million for the 2001-2003 biennium, 43.5 percent of the total. In addition, public schools benefit from a new source of state funding outside of the General Fund as a result of Initiative 728.

Initiative 728 reduced General Fund revenues by about \$510 million for the 2001-2003 biennium, with the money diverted to the Student Achievement Fund and the Education Construction Account. Under the provisions of the initiative, \$393.3 million will go to school districts from the Student Achievement Fund to pay for class size reductions, extended learning opportunities, professional development, and other specific enhancements.

The budget includes \$318.0 million to provide Initiative 732 mandated cost-of-living increases for state-funded teachers and staff. The raise for the 2001-2002 school year is 3.7 percent. The raise for the 2002-2003 school year will be set by the 2002 legislature. Initiative 732 requires that the increase equal the rate of increase in the Seattle Consumer Price Index. The budget sets aside moneys sufficient to fund a 3.1 percent increase.

Initiative 732 mandates cost-of-living increases for all teachers and staff, not just those who are state funded. The budget contains funds for increases for the state-funded positions only. The legislature and governor have taken the position that this is all that is required of the state by Initiative 732, that pay increased for locally-funded positions should come from local funds and increases for federally funded positions should come from federal funds. This interpretation is being challenged by a lawsuit.

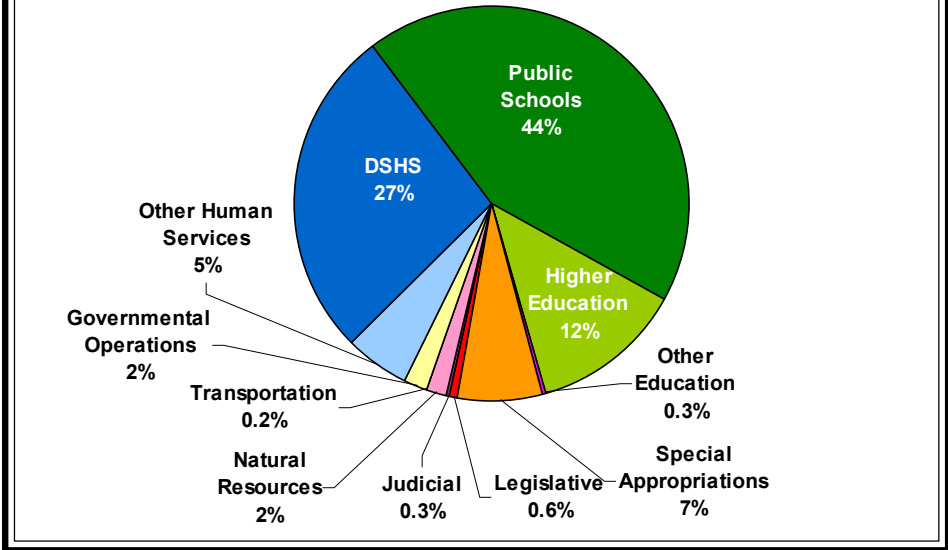
At a cost of \$80.6 million, the budget increases the monthly health benefit allocation for state-funded K-12 employees from \$425.89 to \$455.27.

The 2000 legislature, anticipating some of the provisions of I-728, established the Better Schools Program. The budget provides \$85.7 million to continue the class-size reduction and extended learning components of this program. The staff development component is ended, for a savings of \$40.2 million.

Among other enhancements, the budget provides \$7.8 million for Reading Corps grants to schools where significant numbers of students underperform on reading assessments, \$6.1 million to increase school safety, and \$2.9 million to raise the maximum percentage of a school district’s enrollment that can be funded as special education.



The Distribution of the \$22.8 billion in General Fund-State Spending for 2001-2003



A reduction in pension funding rates saves \$140.4 million. The block grant allocation, which provides discretionary funds to school districts, is reduced by \$10.33, for a \$17.6 million savings. The state subsidy for drivers' education is ended, for a savings of \$8.1 million.

Higher Education. Higher education receives 12.3 percent of General Fund spending, \$2,800 million.

The budget funds an additional 3,575 enrollments at the state's public colleges and universities at a cost of \$31 million from the General Fund-State and \$12.5 million from tuition. The vast majority of these enrollments, 3,140, are at the community and technical colleges.

Attendance at Washington State University's Pullman campus and at Central Washington University fell short of targets for the 2000-2001 school year; consequently enrollments for those two institutions have been reduced by 277 and 397 respectively. The enrollment at the University of Washington's Tacoma branch campus increases by 198. Half of the additional students are expected to be associated with a new Technology Institute to be operated from the Tacoma campus. An additional 140 students will be associated with the Institute through partnering two-year colleges.

Funding for financial aid increases with \$17.8 million added to the State Need Grant, \$11.2 added to the Washington College Promise Scholarship, and \$3 million added to the state Work Study program.

The budget includes \$106.7 million General Fund-State for cost-of-living increases. Most employees are to receive a 3.7 percent increase for the 2001-2002 school year. The increase for the 2002-2003 school year will be determined by the 2002 legislature. The funds included in the budget would be sufficient to cover a 2.6 percent increase. The budget includes \$7.5 million to reduce the gap between part-time and full-time faculty pay levels at the community and technical colleges and \$3.5 million for merit pay increments at the community and technical colleges.

Institutions are allowed to raise tuition for most resident undergraduates and graduate students by up to 6.7 percent for the 2001-2002 school year and up to 6.1 percent for 2002-2003. Tuition for law students may go up by 12 percent each year. Graduate-level business may rise by 15 percent per year at the University of Washington and 12 percent per year at other schools.

Institutions are expected to find efficiencies to offset the effects of inflation on their costs and to further reduce non-instructional costs by 2 percent, for a total cost saving of \$33.0 million.



Human Services. Human services are 32.6 percent of General Fund-State spending for the biennium, \$8,419 million. Of this, \$6,186 million goes to the Department of Social and Human Services (DSHS). When federal and other funds are included, spending for human services totals \$18.9 billion.

Medical assistance accounts for nearly \$6 billion of the \$18.9 billion, and spending for this purpose is projected to be up by more than \$1 billion over the 1999-2001 biennium, a General Fund-State increase of \$570 million and an increase of \$457 million in federal matching funds. The expenditure per person is expected to increase 7.5 percent, while the number of persons served is expected to increase 13 percent.

DSHS, however, is directed to improve its efforts to manage utilization and costs in the medical assistance program. The budget provides the department \$3.7 million for additional staffing for this effort, which is expected to save \$50.1 million General Fund-State.

Enrollment in the state's basic health plan is to be reduced through attrition, to an average of 125,000 people. (Only two new enrollees will be admitted to the program for each three that leave.) This is expected to save \$26.5 million from the Health Services Account.

General Fund-State spending on nursing homes and other long-term care is up 14.3 percent to \$1,057 million. The number of people expected to receive these services is up 6.8 percent. The budget provides \$19.3 million for nursing home rate increases, \$17.6 million for vendor rate increases, and an additional \$13.7 million to increase the wages of low-wage long-term care workers.

I-695 Assistance. The budget provides \$143 million General Fund-State and \$48 million from the Health Services Account to public health districts, cities and counties to backfill losses in motor vehicle excise tax revenue resulting from Initiative 695

Compensation. The budget includes \$115 million General Fund-State for state employee pay increases. Employees received a 3.7 percent cost-of-living increase on July 1, 2001. An additional increase is intended for July 1, 2002, with the size to be specified by the 2002 legislature. The budgeted funds would allow a 2.6 percent 2002 increase.

The budget includes \$27.5 million for salary increases in specific classifications where the state pay levels have been found to be below market. In addition, it includes \$6.2 million (\$3.1 million General Fund-State) for pay increases for assistant attorneys general.

The budget includes \$28.8 million for state employee health benefit increases. The monthly state contribution per employee for health benefits increases from \$436.16 in FY 2001 to \$447.29 in 2002 and \$497.69 in 2003.

Changes in the economic assumptions used to calculate state pension funding results in \$34.7 million General Fund-State savings.

LEOFF 1

The Law Enforcement Officers and Fire Fighters Plan 1 is a state-run defined benefit plan that provides pensions to retired municipal police officers

108 S. Washington St., Suite 406

Seattle WA 98104-3408

PH 206-467-7088

FX 206-467-6957

www.researchcouncil.org



and fire fighters. This plan stopped accepting new members in 1977. At the end of 1999, the plan's assets exceeded its actuarial liabilities by about \$1 billion.

The Senate passed a bill (2ESSB 6166) to restructure LEOFF 1. This bill did not pass the House, although it could be revived in the third special session. Under the restructuring plan, 12 percent of the excess reserves would have been distributed to plan beneficiaries. Another 12 percent of the excess reserves would have gone into the LEOFF medical benefits risk pool to help local governments pay for retirees' medical care. The remainder would have gone into a newly created State Surplus Assets Reserve Fund (SSARF).

The failure to enact the LEOFF restructuring leaves a gap of \$125 million in spending plans for the 2001-2003 biennium. The \$70 million transfer from the Multimodal Transportation Account to the General Fund (described earlier) was to be backed up by a \$70 million transfer from SSARF to the Multimodal Transportation Account. Ferry operations were to receive a \$30 million appropriation from SSARF, while \$25 million was to cover tort liability.

Transportation Budget

The transportation budget that the legislature passed and the governor signed is described as a "current law" transportation budget. The governor has called the legislature back for a third special session, beginning July 16, to work on a long-term transportation funding plan.

The current law budget spends \$3,466 million in the 2001-2003 biennium, up 2.9 percent from the \$3,369 million spent in 1999-2001. However, the \$3,466 includes \$100 million in transfers of LEOFF 1 surplus, which is not currently available.

The budget for the Department of Transportation is \$2.75 billion. State highways receive \$1.84 billion. Of this, \$922 million goes to improvements (construction projects that add capacity); \$578 million goes to preservation (construction projects that repave, repair, and rebuild existing capacity); and \$335 goes for maintenance and operations.

Also in the Department of Transportation, the ferry system is budgeted \$509 million, with \$322 million for operations and \$187 million for vessel and terminal preservation. Hikes in ferry fares are projected to raise \$30 million in additional revenue. Existing passenger rail services are retained, at a cost \$54 million.

The Washington State Patrol receives \$243.5 million; the Department of Licensing, \$166 million; the Transportation Improvement Board, \$213.3 million; and the County Road Administration Board receives \$80.6 million.

Capital Budget

The capital budget approves projects and grants totaling \$2.7 billion. Funding includes \$879 million in General Fund-State supported bonds.

K-12 construction receives \$441 million, which fully funds the state match for projected local school construction projects. Higher education receives \$651 million. Of this, \$263 million is provided to the community and technical colleges, reflecting an increased emphasis to be placed on these institutions.



Natural resources receive \$617 million. Of this, \$98 million will be spent on salmon recovery and hatchery improvements.

Discussion

Transfers of moneys into the General Fund in the 2001 supplemental budget and the 2001-2003 biennial budget raised the I-601 spending limit by a total of \$680 million for the 2001-2003 biennium. Appropriations for the biennium exceed current revenues by \$667 million, while reserves are projected to fall from \$1,086 million on June 30, 2001 to \$607 million on June 30, 2003.

In April and May, the Research Council analyzed budgets offered by the Senate and the House and warned against making spending commitments that could not be sustained in future biennia. (See *2001 Projections Reveal Budget Challenges Ahead*, ePB 01-12 April 4, 2001, and *With House Budget Sustainability Challenges Lessen Only Slightly*, ePB 01-15, May 3, 2001.) With a greater margin between appropriations and revenues and lower reserves, the adopted budget is less sustainable than either of those proposals.

The liberal use of the “two way street” has made the Initiative 601 spending limit irrelevant. Unless revenue for the 2003-2005 biennium comes in above forecast, budget writers for the 2003-2005 biennium will find resources to be a tighter constraint than the I-601 limit.



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