



PB 11-06
April 6, 2011

BRIEFLY

The 2011-13 budget proposal from the House Ways and Means Chair is a good start. Recognizing fiscal reality, it takes a responsible approach to reserves and avoids tax increases.

HOUSE DEMOCRATS' BUDGET PLAN IS A GOOD STARTING POINT

This week, House Ways and Means Committee Chair Ross Hunter proposed a budget for 2011–13 (and a final 2009–11 supplemental). The budget starts with the House this year, and this looks like a good start to us. The proposal takes a responsible approach to reserves, relies relatively little on gimmicks, and avoids tax increases.

The 2011–13 Problem

By Rep. Hunter's reckoning, budget writers face a \$5.1 billion problem. The current forecast for 2011–13 Near General Fund–State plus Opportunity Pathways (NGFS+) revenue is \$32.5 billion, which would be a healthy 14 percent gain from the current biennium's expected \$28.5 billion. During the course of the 2009–11 biennium, however, NGFS+ revenue was supplemented by \$1.5 billion in transfers from other state accounts. Additionally, the state was able to cover \$2.3 billion in program costs that would normally have been funded from the NGFS+ with one-time federal funds.

Using as a baseline the supplemental budget enacted in spring 2010, maintenance level spending for 2011–13 comes to \$36.3 billion. Included in this are \$861 million for allocations to school districts under Initiative 728 and \$299 million for public school, and community and technical college pay increases under Initiative 732 (both I-728 and I-732 were suspended for the 2009–11 biennium). Maintenance level spending also includes \$566 million in pension costs beyond what was funded in the 2009–11 budget.

In addition to maintenance level spending, Rep. Hunter's \$5.1 billion figure includes \$235 million for payments to school districts delayed from June 30 to July 1 in order to balance the 2009–11 budget, \$103 million for the state need grant program to offset tuition increases for grant recipients, \$19 million to offset changes in average per-student funding K-12 due to the implementation of the new school funding formula and an \$800 million reserve.

Balance Sheet

Table 1 presents a balance sheet for the NGFS+ accounts.

2009-11. Following the March forecast, expected revenue for the biennium is \$28.493 billion. Of this, \$70 million is the result of two bills enacted during the December special session. HB 3225, an early action supplemental budget, provided funding for the Department of Revenue to audit out-of-state companies, while SB 6892 created a temporary amnesty program for payment of several taxes.

Prior to the 2011 legislative session, transfers to the NGFS+ netted to \$1.351 billion. This includes \$54 million transferred in by the December early action budget. The February early action budget transferred in \$125 million, and the House W&M Chair's proposal would transfer in an additional \$23 million.

The December and February early action supplemental budgets reduced 2009–11 appropriations by a total of \$726 million. The House W&M Chair’s proposal would reduce spending by another \$93 million, leaving an ending balance of \$36 million.

2011–13. Following the March forecast, expected revenue for the biennium is \$32.527 billion.

The \$30 million loss due to the December legislation reflects the amnesty program, which is expected to pull \$30 million of revenue into FY 2011 that would otherwise be collected in FY 2012 or FY 2013. The \$3 million listed as “budget driven” is from the liquor control board. Of the \$134 million in net new revenue due to 2011 legislation, \$124 million is due to the consolidation into the general fund of certain revenues currently going to the Fair Fund, the Life Sciences Discovery Fund and the Public Works Assistance Account.

Table 1: 2011–13 Balance Sheet
General Fund–State
(Dollars in Millions)

	2009-11	2011-13
Beginning Balance	310	36
Revenue		
November Revenue Forecast	28,566	33,211
December 2010 Revenue Legislation	70	(30)
March Forecast Change	(143)	(654)
2011 Budget Driven Revenue	-	3
2011 Revenue Legislation	-	134
Total Revenue	28,493	32,664
Other Resource Changes		
Transfers To Budget Stabilization Account	(246)	(290)
Prior Use of Budget Stabilization Account	273	-
Prior Adjustments	19	-
Other Previously Enacted Fund Transfers	1,251	(204)
HB 3225 and ESHB 1086 Transfers	179	-
Privatize Liquor Distribution	-	300
Use of Budget Stabilization Account	-	290
Transfers & Approps To NGFS	23	418
Total Other Resource Changes	1,499	514
Total Resources	30,302	33,214
Spending		
2009-11 Enacted Budget w/2010 Supp	31,085	-
Early Action (HB 3225 and HB 1086)	(726)	-
2011 Supplemental & 2011-13 Spending	(93)	32,419
Total Spending	30,266	32,419
Ending Balance & Reserves		
Unrestricted Ending Fund Balance	36	795
Budget Stabilization Account Balance	-	-
Total Reserves	36	795

The House W&M Chair’s proposal anticipates gaining \$300 million from privatizing the distribution of liquor, a plan that is still a work in progress. The constitutionally required annual transfers from the general fund to the budget stabilization account (forecast to total \$290 million for the biennium) would be offset by equal transfers from the budget stabilization account back to the general fund.

Net transfers to the NGFS+ total to \$418 million. The largest items here are \$204 million saved by suspending the required transfer from the general fund to the education construction account, \$85 million gained from the liquor revolving account due to the continuation of higher liquor markups, \$45 million saved by not depositing reversions to the educational savings account and \$25 million transferred to the general fund from the treasurers service account.

Altogether, under the House W&M Chair’s proposal, 2011–13 resources total \$33.214 billion. Proposed spending is \$32.419 billion, leaving an expected ending balance of \$795 million.

2011-13 Highlights

Legislative. The proposal would provide \$443,000 in one-time support for the Redistricting Commission.

Judicial. The proposal would eliminate the Becca/Truancy program (saving \$14 million). Also, the Administrative Office of the Courts would be able to use funds from the Judicial Stabilization Trust Account (saving \$7.3 million from NGFS+), and information services division funding would shift from the general fund to the Judicial Information System Account (saving \$6 million from NGFS+).

Governmental Operations. The 2012 presidential primary would be cancelled, saving \$10 million. The Department of Commerce would receive \$83.2 million in funding to provide grants to counties and non-profits for housing and essential needs of Disability Lifeline-Unemployable (DL-U) clients. (Under current law, DL-U clients receive cash

grants.) Tourism development funding would be eliminated (saving \$3.9 million), as would funding for Innovation Research Teams (saving \$3.8 million) and State Drug Task Forces (saving \$2.6 million). The Department of Revenue would receive \$3.2 million for additional staff to collect tax revenues, but its tax collection activities funding would also be reduced by \$3.7 million (by cutting positions that indirectly affect revenue collections). Also, the department would receive \$105,000 to develop a tracking system for Business and Occupation tax credits for businesses donating to the Washington Pledge Endowment Fund, as recommended by the Higher Education Funding Task Force.

Other Human Services. The Medicaid Purchasing Administration would be transferred from DSHS to the Health Care Authority (HCA) on July 1, 2011. This consolidation was also proposed by the governor, and it would increase HCA funding by \$4.4 billion. The House W&M Chair’s proposal would reduce community health care clinic grants by 50 percent. It would also limit enrollment in the Basic Health Plan (BHP) to those who are eligible for services under the Medicaid waiver, effective March 1, 2011. Enrollment

would not be allowed to increase after June 30, 2011. These BHP enrollment changes would reduce spending by \$107.9 million. Also, the HCA would receive \$250,000 to study ways to reform the school employees’ health benefits system.

In the Department of Health, spending would be decreased by \$7.5 million due to a 38 percent reduction in Blue Ribbon Commission Act public health grants. The Indeterminate Sentence Review Board and the Sentencing Guidelines Commission would be merged with the Department of Corrections. The Corrections appropriations incorporate closure of McNeil Island Corrections Center, as well as \$26.6 million in savings from eliminating staff positions and not filling vacant positions. A policy reduction of \$26 million comes from releasing certain offenders early. The proposal would suspend the implementation (by the Employment Security Department) of the Family Leave Insurance Program, under which eligible

persons are currently scheduled to begin receiving benefits in October 2012. The suspension would save \$33.3 million.

Department of Social and Health Services (DSHS). The proposal incorporates savings from the October 2010 closure of a Western State Hospital ward. It would reduce funding for mental health Regional Support Networks (which serve non-Medicaid eligible, low income individuals) by 4 percent and Regional Support Networks Medicaid rates by 3 percent. In developmental disabilities, the adult working policy would be reformed to save \$30.3 million (by allowing clients to choose work, community access or a day program). Additionally, a day program would be established (\$22 million).

Basic training would be provided to certain providers in developmental disabilities and long-term care, but for other long-term care providers, the training would be delayed until 2013-15 (this saves a total of \$22.1 million). Also, personal care hours (assistance with daily living) in developmental disabilities and long-term care would be reduced, saving a total of \$97.5 million.

In long-term care, reducing nursing home rates (for lowest acuity clients and the financing rate) and delaying the “rebased” of nursing home rates (using

Table 2: 2011-13 Expenditures
(Dollars in Thousands)

	NGFS+	All Funds
Legislative	149,567	153,907
Judicial	202,396	254,471
Governmental Operations	497,876	3,771,850
Other Human Services	6,466,204	15,274,404
DSHS	5,783,781	11,219,054
Natural Resources	303,849	1,536,902
Transportation	81,325	180,829
Public Schools	14,289,578	16,364,690
Higher Education	2,809,059	11,235,496
Other Education	162,339	479,667
Special Appropriations	1,673,478	1,639,166
Statewide Total	32,419,452	62,110,436

NGFS+

In recent years, legislative fiscal committee staffs have based budget presentations on the near general fund–state (NGFS), a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with other smaller accounts from which the state funds general government programs, because they believe that the NGFS better reflects the entire budget situation. They are now using a broader rollup, the NGFS+.

On July 1, 2009, six accounts that had been part of the NGFS (the health services account, the student achievement account, the public safety and education account and its equal justice sub-account, the violence reduction and drug enforcement account, and the water quality account) were consolidated into the GF–S. The NGFS and GF–S now differ only by the inclusion of the education legacy trust account (ELTA) in the NGFS.

In 2010 the legislature established a new account, the opportunity pathways account, and dedicated proceeds from the lottery to this account with the stipulation that the funds be spent for education.

The NGFS+ combines the NGFS and the opportunity pathways account.

more recent cost reports to establish Medicaid payment rates) until July 1, 2013 would reduce spending by \$32.3 million.

The DL-U cash grant program would be eliminated under the proposal, effective September 30, 2011 (this saves \$83.2 million). Further, Disability Life-line grants for all clients would be reduced by an average of 42.11 percent (saving \$100.3 million). State Food Assistance funding would be reduced by \$30.3 million.

The transfer of the Medicaid Purchasing Authority to HCA accounts for most of the medical assistance payments policy reductions in DSHS. Additionally, DSHS would limit (to 3 per year) reimbursements for non-emergency emergency room visits (saving \$33 million). Hospital inpatient and outpatient rates for Prospective Payment System hospitals would be reduced by 8 and 7 percent, respectively (saving a total of \$110.5 million). General fund expenditures would be reduced due to the use of \$30 million from the Hospital Safety Net Assessment program. The proposal eliminates adult dental services, except for pregnant women (saving \$37.4 million). A new methodology for payments to federally-qualified and rural health centers would save \$89.5 million.

Natural Resources. The Department of Ecology’s funding would see policy reductions of \$21.3 million. This includes fund shifts to local and state Toxics Control Accounts (\$9.5 million), a reduction in water rights processing (\$2.9 million), and a reduction of watershed planning technical assistance and grants for local governments (\$6.15 million). Additionally, all funding (\$1.8 million) for the Climate Policy Group would be suspended.

To transition the State Parks and Recreation Commission to a fee-based agency, the proposal provides \$20 million. With the ability to charge access fees to state parks, NGFS+ funding would be reduced by \$67.1 million. (Revenues from the fees would go to the Parks Renewal and Stewardship Account.)

The proposal assumes that other legislation will fund the Animal Health Program, the Food Safety Program, the Dairy Nutrient Management Program and the microbiology laboratory through fees rather than the state general fund. Consequently, the proposal assumes a \$10.8 million reduction to Department of Agriculture funding.

Public Schools. The K-4 class size reduction would be eliminated, saving \$166.4 million. Additionally, due to the June 2011 apportionment shift that reduced 2009-11 spending by \$253 million, that same amount would be spent in 2011-13. For levy equalization, \$611.8 million would be appropriated—a maintenance level increase of \$231.7 million. Initiative 728 (class size reduction) would be suspended for the biennium (saving \$860.7 million). The proposal would make changes to the National Board for Professional Teaching Standards bonus program, saving \$60 million. It would also reduce math and science assessment requirements for graduation (HB 1412 and 1410), saving \$22.6 million.

Public schools compensation adjustments would reduce spending by a total of \$325.7 million. The salary schedule for certificated staff would be frozen as of August 31, 2010, saving \$56.4 million. Also, Initiative 732 (cost-of-living adjustments) would be suspended for the biennium, saving \$269.3 million. I-732 was suspended in 2009-11 as well, with the stipulation that catch-up cost-of-living adjustments be paid in the 2011-13 biennium. This proposal would also suspend those catch-ups.

Higher Education. The proposal would appropriate \$2.8 billion for higher education. \$103.1 million would be provided to maintain the State Need Grant in the face of higher tuition. Other changes are made to the State Need Grant that would save \$19.3 million: awards to students at private schools would be reduced and the award amount would be linked to tuition and fees at CWU, EWU and Evergreen instead of at UW. Funding for the state work study program would be suspended, saving \$45 million.

Appropriations for the six public four-year institutions would be reduced by continuing the 4.2 percent reduction applied to each in the 2011 Supplemental, reducing state support (to be offset by tuition increases), and capping state funding of higher education retirement plans. The proposal would support enrollment in science, technology, engineering and math.

These policy changes would reduce funding of the University of Washington by \$180.4 million, Washington State University by \$94.8 million, Eastern Washington University by \$22.6 million, Central Washington University by \$23.1 million, Western Washington University by \$30.9 million, and Evergreen State College by \$12.9 million. The Community and Technical College System's funding would be reduced by \$186.3 million.

Special Appropriations. \$1.7 billion would be appropriated under this area. Debt service costs total \$1.97 billion. State employee compensation would be reduced by \$540.8 million. Compensation savings are achieved by ending future automatic benefit increases in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 and by reducing employee salaries by three percent (for those earning at least \$2500 per month) in 2011-13.

Other. A number of agency moves would occur under the proposal, including the transfer of the Department of Archaeology and Historic Preservation, the Arts Commission, the Washington State Historical Society and the Eastern Washington State Historical Society to a new Department of Heritage, Arts, and Culture. The Department of Information Services IT functions would be transferred to the Consolidated Technology Services Agency (SHB 1841). Certain functions of the Department of Personnel, the Office of Financial Management, and Department of Information Services would move to the Department of Enterprise Services (DES). The Department of General Administration and the State Printer would move to DES as well.

Additionally, the bill includes a number of fees. According to the Office of Financial Management, receipts would total \$139.4 million in 2012, \$265.6 million in 2013, and \$2.5 billion over 2012-2021. Those numbers do not include anticipated revenue from fees in other legislation.

Rep. Hunter's proposal accepts the collective bargaining agreements that have been negotiated by the governor and state employees. That said, Rep. Hunter said that he would have preferred that state employees pay more toward the cost of their health benefits.

Discussion

Recognizing fiscal reality, Rep. Hunter's proposal is not overly-reliant on gimmicks, nor does it expect taxpayers to agree to increase taxes. It makes real spending cuts and leaves a healthy ending balance. Drafting a budget that will get majority approval from both chambers will be a challenge this year. It's good to see that the first legislative proposal takes a responsible approach to identifying funding priorities within existing revenues.