



BRIEFLY

The sustainability of the House's proposed budget is modestly better than that of the Senate's budget.

With House Budget, Sustainability Challenges Lessen Only Slightly

In a previous policy brief, the Research Council examined the sustainability of the spending included Senate's proposed budget for the 2003-2005 biennium (see ePB 01-12, *Projections Reveal Budget Challenges Ahead*, April 4, 2001). This brief provides a parallel analysis of the House budget.

Sustainability

General Fund spending can be paid for either from current revenues to the General Fund, from transfers of funds from other state accounts into the General Fund, or by drawing down reserves. For example, the House has proposed 2001-03 General Fund spending of \$22.72 billion. Of this, \$22.28 billion is projected to come from current revenues, \$135 million from transfers to the General Fund from other accounts, and \$332 million from reserves. General Fund reserves are limited. A spending pattern where expenditures exceed current revenues is not sustainable in the long run.

Over time, however, General Fund revenue tends to grow more rapidly than the I-601 spending limit. For that reason, the General Fund can grow out of deficits (defined as a situation where expenditures exceed current revenues) if they are not too large.

To explore the sustainability of the 2001-03 House budget, we project General Fund current revenues and expenditures for the 2003-05 biennium using three alternate assumptions on the growth of expenditures and three alternate assumptions on the growth of revenue. These same assumptions were employed in our previous analysis of the Senate budget.

Alternate Revenue Assumptions

- ❑ The baseline revenue forecast of \$24,300 million assumes 5 percent annual growth for FY 2004 and FY 2005.
- ❑ The optimistic forecast increases the baseline by 3.5 percent, to \$25,141 million.
- ❑ The pessimistic forecast reduces the baseline 4.2 percent to \$23,277 million.

Alternate Spending Assumptions

- ❑ The estimated I-601 growth factor would permit expenditures to grow by 3.1 percent for FY 2004 and 3.25 percent for FY 2005, to \$24,201 million.
- ❑ The alternate 90 percent of personal income growth factor provides for growth 4.93 percent for FY 2004 and 4.10 percent for FY 2005, allowing biennial spending to reach \$24,733 million. (As a result of an editing error, the

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TABLE 1
General Fund Net Income (Loss) Under Nine Scenarios
(Dollars in Millions)

		Revenues		
		Baseline \$24,286	Optimistic \$25,127	Pessimistic \$23,264
Expenditures	I-601 \$24,201	\$85	\$926	(\$937)
	90% PI \$24,733	(\$448)	\$393	(\$1,470)
	Maintenance \$24,547	(\$261)	\$580	(\$1,283)

Source: WRC

brief on the Senate budget incorrectly stated the revenue growth rates to be 5.48 percent and 4.55 percent respectively. These are actually the growth rates in personal income. The spending calculations reported in the brief were correct.)

□ The maintenance spending estimate provides for overall budget growth of about eight percent, lifting spending to \$24,547 million.

Combining these sets of assumptions gives nine scenarios the 2003-05 biennium. Table 1 shows the difference between current revenues and expenditures for each of these cases.

The scenario with the baseline revenue forecast and spending at the 601 limit is arguably the one that deserves the greatest attention. For this scenario, the projection based on the House budget has revenues exceeding expenditures by \$99 million.

In contrast, under the same scenario expenditures exceeded revenue by \$30 million for the Senate budget. However, the inflation forecast used by the Senate budget predicts that teachers and others covered by Initiative 732 will get a 3.1 percent pay raise in FY 2003, while the House’s forecast yields a 2.6 percent increase. (The difference between these forecasts is less than the typical error in forecasting inflation in the Seattle consumer price index.) Had the Senate used the 2.6 percent figure, its budgeted expenditures in FY 2003 would have been \$17 million lower. Our projections of spending for the 2003-05 biennium under the Senate budget would be reduced \$34 million, and projected 2003-05 revenues would exceed expenditures by \$4 million.

In only three other scenarios do revenues exceed expenditures in the 2003-05 biennium. These are the scenarios based on the optimistic revenue forecast.

In all nine scenarios, the House budget does moderately better than the Senate budget. The differences, however, are not that great, ranging from \$102 million to \$203 million (adjusted to remove the effects of the different assumptions on I 732 pay raises), and may well be within the margin of error of an exercise of this sort.

Transfers

The budgets of both the Senate and the House propose to use transfers to help bridge the gap between revenues and expenditures for the 2003-05 biennium.

The bulk of the Senate transfers come from pension reserves. The most recent annual report of the state Department of Retirement Systems showed that the Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1) retirement program had about \$1 billion more in assets than will be necessary to cover its obligations. The Senate would claim 75 percent of this surplus for the state and divide the remainder among local governments and employees. Of the state share,



\$250 million would be transferred to the General Fund to be spent during the 2001-03 biennium, while the remainder would be held in special reserve fund.

The House transfers a total of \$135 million. The largest share of this, \$127 million, comes from the Health Services Account (HSA). House budget writers propose restricting enrollment in the basic health plan. They project this will save HSA \$103 million over the biennium, paying for most of the transfer.

Senate budget writers anticipate transferring another \$250 million to the General Fund from excess pension reserves during the 2003-05 biennium, which would provide two additional years to grow out of the deficit. However, the \$1 billion dollar value that the Senate budget placed on the LEOFF 1 surplus reflected asset values as of December 31, 1999. Recently State Actuary Gerald Allard has indicated that, as a result of the extraordinary drop in the stock market and continuing market volatility, the surplus available to the state might be considerably less.

House budget writers argue that as a result of limiting BHP enrollment, the transfers from the HSA to the General Fund will themselves be sustainable in future budgets. However, if health care costs continue to escalate sharply, future transfers from HSA may prove difficult.

Discussion

The present analysis shows the sustainability of the House budget is modestly better than that of the Senate budget.

The projected balance between current revenue and spending in the 2003-05 biennium is better. Since the House budget does not touch LEOFF 1, that fund's surplus—whatever its value—will remain fully available to be tapped in the future. The transfer that the House makes from the HSA is substantially paid for by a cut in BHP spending.



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