



2016 Supplemental Operating Budget Doesn't Increase Taxes But Does Tap the Rainy Day Fund

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 the education legacy trust account, because they believed that the NGFS better reflected the entire budget situation. They are now using a broader rollup, the NGFS+.

In 2010 the Legislature established 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.

In 2012 legislation was enacted requiring four-year balanced operating budgets. A positive ending balance is required in the current biennium on an NGFS+ basis. Additionally, projected resources must be sufficient to cover projected maintenance level expenditures in the second biennium.

Briefly

- 2015–17 NFGS+ spending will increase by \$190.9 million.
- Biennial spending increases to \$38.223 billion.
- The supplemental does not increase taxes.
- It appropriates \$189.5 from the rainy day fund for wildfire costs.
- It balances over four years.
- In 2017–19, \$227.4 million will be transferred from the public works assistance account to the NGFS+.

On the 20th day of the special session, the Legislature enacted a 2016 supplemental operating budget. The budget increases 2015–17 near general fund-state plus opportunity pathways (NGFS+) appropriations by \$190.4 million; an additional \$500,000 is appropriated in other legislation. It does not increase taxes, but it does appropriate funds from the budget stabilization account (the rainy day fund) for fire costs.

Balance Sheet

Revenues. The supplemental does not increase taxes. Revenue legislation (ESHB 2540, SHB 2539, ESSB 6328, and E3SHB 1713) reduce revenues by a net of \$2.5 million. Budget driven revenues are increased by \$77.9 million. That includes \$46.1 million from instituting a royalty payment amnesty (penalties will be waived if back taxes on royalty income are paid by Oct. 1, 2016) and \$33.8 million from expected audit payments.

Other Resource Changes. The supplemental would transfer \$29.4 million to the NGFS+ from other funds in 2015–17. That includes \$16.0 million from the

public works assistance account (PWAA).

Spending. The supplemental increases 2015–17 NGFS+ appropriations by \$190.4 million. Appropriations in other legislation (SSB 6195) increase spending by an additional \$500,000, for a total of \$190.9 million. Of that, maintenance level changes (the costs of maintaining current services) increase spending by \$203.3 million. Net policy level changes reduce spending by \$12.5 million. The supplemental assumes reversions (authorized spending that is not expected to occur) of \$187.5 million. Altogether, these changes increase biennial NGFS+ spending to \$38.223 billion.

Reserves. The supplemental leaves an unrestricted ending fund balance of \$577.5 million. Pursuant to ESHB 2988, \$189.5 million from the budget stabilization account (BSA) will be used for 2015 fire season costs. After these appropriations, the BSA ending balance will be \$700.7 million. Together with the unrestricted ending fund balance, reserves total \$1.278 billion.

Table 1: NGFS+ Balance Sheet as Passed by the Legislature (Dollars in Millions)

	<i>2015-17</i>
Beginning Balance	1,011
Revenue	
Feb. 2016 Revenue Forecast	37,837
2016 Proposal	
Budget Driven Revenue	78
Revenue Legislation	(3)
<i>Total Revenue</i>	<i>37,913</i>
Other Resource Changes	
Transfers to Budget Stabilization Acct.	(436)
Transfer from BSA	64
Transfers in Original Budget and Other Adjustments	219
2016 Proposal	
Fund Transfers to GFS	29
<i>Total Other Resource Changes</i>	<i>(124)</i>
<i>Total Resources</i>	<i>38,800</i>
Spending	
Enacted 2015-17 Budget	38,219
2016 Proposal	
Net Maintenance Level Changes	203
Net Policy Changes	(12)
Assumed Reversions	(188)
<i>Total Spending</i>	<i>38,223</i>
Reserves	
Unrestricted Ending Fund Balance	578
Budget Stabilization Account Balance	890
2016 Proposal	
Fire Costs	(190)
BSA Ending Balance	701
<i>Total Reserves</i>	<i>1,278</i>

Spending Details

Public Schools. The supplemental includes \$3.9 million for public charter schools. The Legislature enacted E2SSB 6194, which addressed the state Supreme Court's decision that charter schools were unconstitutional. E2SSB 6194 directs that charter schools be funded through the opportunity pathways account. The supplemental also provides \$3.5 million for the Beginning Educator Support Team program and \$1.75 million for paraeducator profes-

sional development.

Additionally, the supplemental attempts to provide some certainty to school districts regarding levy policy. Under current law, the amount school districts may raise from local levies is capped. Most districts can levy 28 percent of revenues from other sources. In 2018, that percentage reverts to 24 percent (SW&M 2015). The Legislature enacted E2SSB 6195, which establishes the education funding task force to help the Legislature comply with its basic education obligations. The bill states, "Legislative action shall be taken by the end of the 2017 session to eliminate school district dependency on local levies for implementation of the state's program of basic education." For school districts' planning purposes, the supplemental budget includes a provision requiring the education funding task force to determine that legislative action around school staff compensation and local levies will be completed by April 30, 2017 or introduce legislation by April 30, 2017 extending current levy policy.

Higher Education. Funding for the state need grant will increase by \$18.0 million. Additionally, \$7.9 million will be provided to the public colleges and universities to continue backfilling tuition (related to the College Affordability Program that was enacted last year).

Department of Social and Health Services (DSHS). The supplemental provides \$29.4 million for individual provider homecare worker overtime pursuant to E2SHB 1725 and in response to a federal rule change. It appropriates \$11.0 million for transitional support for Western State Hospital related to the "emergent and imminent jeopardy determination" that was made by the Centers for Medicare and Medicaid Services, \$9.5 million for increased compensation for mental health workers, and \$6.8 million to add 51 registered nurses at Western State Hospital. The supplemental saves \$41.3 million by using the WorkFirst Fund balance instead of the state general fund,

\$17.0 million by using the administrative contingency account in lieu of the general fund for WorkFirst (Washington's welfare reform program) activities, and \$11.1 million by using Southwest Washington Regional Support Network reserves.

Other Human Services. The supplemental increases spending for the Health Care Authority (HCA) by \$132.7 million. That number consists of net maintenance level increases and net policy level decreases. Maintenance level changes increase spending by a net of \$159.1 million. (For more on this, see our report, "Supplemental Maintenance Level Changes Are Driven By the Health Care Authority.") Meanwhile, net policy level changes reduce spending by \$26.4 million. At the policy level, NGFS+ HCA spending is reduced by \$45.9 million by using marijuana tax revenue in lieu of the general fund for low-income health care and community health centers. The supplemental also saves \$13.3 million by maintaining managed care rates at 2016 levels. Because anticipated savings from the Healthier Washington program did

not materialize and a federal waiver that would have reduced state spending was not approved, the supplemental increases spending by \$28.1 million. Additionally, Medicaid forecasting and administration of the managed care actuarial rate-setting contract will be transferred from the HCA to the Office of Financial Management.

Other. The supplemental increases spending by \$32.0 million to settle claims in the Moore v. HCA lawsuit (which was related to employee health insurance benefits). NGFS+ spending for the Department of Revenue is reduced by \$10.0 million; instead, its audit functions this biennium will be funded from the performance audits of government account. In the Department of Natural Resources, NGFS+ funding is reduced by \$21.1 million because 2015 fire suppression costs are funded by the BSA. An additional \$5.5 million is saved because fire costs will be funded by the disaster response account instead of the general fund going forward.

The non-NGFS+ appropriations in other legislation (see Table 2) occur in the De-

Table 2: NGFS+ and All Funds Appropriations As Passed By the Legislature (Dollars in Thousands)

	Original 2015-17 Appropriations		2016 Supplemental		Revised 2015-17 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	153,796	173,930	2,551	2,524	156,347	176,454
Judicial	267,132	337,921	1,525	2,485	268,657	340,406
Governmental Operations	510,107	3,792,924	(36,811)	71,671	473,296	3,864,595
Other Human Services	5,952,628	21,333,537	155,516	(133,455)	6,108,144	21,200,082
DSHS	6,381,151	13,932,885	24,254	252,810	6,405,405	14,185,695
Natural Resources	308,873	1,713,043	(21,766)	34,998	287,107	1,748,041
Transportation	80,612	195,359	2,726	6,344	83,338	201,703
Public Schools	18,156,830	20,008,166	40,604	102,359	18,197,434	20,110,525
Higher Education	3,525,134	13,826,980	32,690	75,374	3,557,824	13,902,354
Other Education	347,928	736,946	(5,788)	3,253	342,140	740,199
Special Appropriations	2,534,988	2,836,614	(5,148)	59,731	2,529,840	2,896,345
Total Budget Bill	38,219,179	78,888,305	190,353	478,094	38,409,532	79,366,399
Appropriations in Other Legislation	0	0	500	189,986	500	189,986
Statewide Total	38,219,179	78,888,305	190,853	668,080	38,410,032	79,556,385

partment of Natural Resources (\$155.0 million), Washington State Patrol (\$34.4 million), and Department of Fish and Wildlife (\$155,000). They are all appropriations from the BSA for wildfire season costs (ESHB 2988).

Outlook

The Legislature is required to enact budgets that balance over four years (RCW 43.88.055). If appropriations are made from the BSA (the rainy day fund) in the current biennium, however, the four-year balanced budget requirement does not apply. Even though the supplemental appropriates funds from the BSA for fire costs this biennium, the supplemental still balances over four years. The projected unrestricted ending balance for 2017–19 is \$9 million.

For 2017–19, the supplemental notes that “the legislature intends to continue the policy since 2013 of not authorizing new loans from the [PWAA].” In the enacted biennial budget, the Legislature intended to allocate (in 2017–19) \$73 million of future loan repayments made to the PWAA “to support basic education.” The supplemental increases that amount by an additional \$154.4 million, to total \$227.4 million.

Comment

At the beginning of the session it seemed that the Legislature would not have much trouble coming to an agreement on a supplemental budget. In the end, it took 20 days of a special session before they were able to do so. While we don’t know exactly what the sticking points were, some of the major differences between the February House- and Senate-passed proposals were taxes, teacher salaries, use of the BSA, and the

four-year balanced budget requirement. (For more, see our reports, “House-Passed Supplemental Operating Budget Would Increase Spending, Increase Taxes, and Tap the Rainy Day Fund” and “Senate-Passed Supplemental Operating Budget Would Modestly Increase Spending Within Existing Revenues.”)

The end result (pending the governor’s signature) is a fairly modest supplemental (policy level spending is negative, on net) that adheres to the four-year balanced budget requirement. The Legislature will face significant budget challenges next session as they complete work on basic education funding pursuant to the state Supreme Court’s McCleary decision.

References

- Senate Ways & Means Committee (SW&M). 2015. “[A Citizen’s Guide to Washington State K-12 Finance.](#)”
- Washington Research Council (WRC). 2016a. “[House-Passed Supplemental Operating Budget Would Increase Spending, Increase Taxes, and Tap the Rainy Day Fund.](#)” PB 16–03. February 26.
- . 2016b. “[Senate-Passed Supplemental Operating Budget Would Modestly Increase Spending Within Existing Revenues.](#)” PB 16–04. February 29.
- . 2016c. “[Supplemental Maintenance Level Changes Are Driven By the Health Care Authority.](#)” PB 16-05. March 7.
- Washington State Public Works Board (PWB). 2016. “[Construction Loan Program.](#)” Accessed April 4, 2016.

Public Works Assistance Account

The PWAA is “used to make loans and to give financial guarantees to local governments for public works projects” (RCW 43.155.050). Those projects include water and sewer infrastructure and roads and bridges, for example. Projects eligible for the construction loan program “must improve public health and safety, respond to environmental issues, promote economic development, or upgrade system performance” (PWB 2016).