

2013–15 OPERATING BUDGET MOSTLY AVOIDS NEW TAXES, PRIORITIZES EDUCATION

BRIEFLY

The 2013-15 operating budget increases both spending and resources by about \$2 billion over 2011-13 and leaves reserves totaling \$630 million.

Table 1: NGFS+ Balance Sheet (Dollars in Millions)

	2011-13	2013-15
Beginning Balance	(60)	95
Revenue		
March 2013 Revenue Forecast	31,009	33,025
Bracken Decision (estate tax)	(3)	(160)
June 2013 Forecast Update	109	123
Estate Tax Clarification (EHB 2075)		159
Communications Services Reform (2E2SHB 1971)		110
Omnibus Tax Preference Legislation (ESSB 5882)		(11)
Other Budget Driven Revenue		10
Total Revenue	31,115	33,255
Other Resource Changes		
Transfer to Budget Stabilization Acct.	(269)	(309)
Previously Enacted Fund Transfers	379	
Adjustment to Working Capital Reserve	238	
Alignment to Comprehensive Financial Statements	(5)	
Public Works Assistance Acct. Transfer		277
Reduction of Local Share of Liquor Excise Tax		25
Other Transfers	2	197
Total Other Resource Changes	345	190
Total Resources	31,400	33,540
Spending		
Enacted Budget	31,249	33,627
Projected Reversions	(166)	(140)
2013 Supplemental	221	
Total Spending	31,305	33,487
Unrestricted Ending Fund Balance	95	53
Budget Stabilization Account Beginning Balance	-	269
Transfer from GFS	269	309
Total Reserves	364	630

On June 28, during its second special session, the legislature finally agreed on a 2013–15 operating budget and a final 2011–13 supplemental (3ESSB 5034). Governor Inslee signed the legislation June 30, the last day of the 2011–13 biennium. In the end, basic education was enhanced by about \$1 billion without increasing general taxes. This is a highly education-focused budget, though there is still a long way to go in meeting pro-

jected spending obligations under the *McCleary* decision.

Balance Sheet

Revenue. In a considerable boon to legislators (who had spent the majority of the session debating tax increases), the June revenue forecast update provided an additional \$109 million in 2011–13 and \$123 million in 2013–15. Legislators did, however, add to the coffers by enacting two tax bills:

- EHB 2075 is a response to the *Brackeen* decision, in which “the state Supreme Court held that property passing to heirs through a qualified terminable interest property trust (QTIP trust) is not subject to the state’s estate tax as it is currently codified. The federal estate tax does apply to these transfers” (WRC 2013). Under the bill, those transfers are subject to state estate tax, and the bill applies retroactively to estates of those who died on or after May 17, 2005. This is expected to increase revenues by \$159 million in 2013–15.
- 2E2SHB 1971 makes all residential telephone service subject to sales tax. Previously, “landline” service was not subject to sales tax, while cell phone service was. This is expected to increase 2013–15 revenues by \$110 million.

Additionally, the legislature enacted ESSB 5882, which creates or extends several tax preferences, reducing revenues by \$11.4 million. These include extending a sales and use tax exemption for machinery and equipment used in solar energy facilities to June 30, 2018;

expanding the blood bank activities that are exempt from certain taxes; and making large private airplanes sold to non-residents exempt from sales and use tax.

Fund Transfers. Of the \$499 million in transfers to the near general fund–state plus opportunity pathways (NGFS+), \$387 million is from capital budget funds. Those include a transfer of \$277 million from the public works assistance account (PWAA) to the education legacy trust account (ELTA). Also, under a separate bill (ESHB 2051) a portion of the real estate excise tax is redirected from the PWAA to the ELTA through June 30, 2019 (\$43.9 million in 2013–15) and public utility tax collections that used to go to the PWAA are now redirected to the ELTA through June 30, 2019 (\$33.4 million in 2013–15).

Additionally, although solid waste tax collections generally go to the PWAA, for fiscal years (FY) 2012 through 2015, those collections were redirected to the general fund–state (GFS). Previous law also specified that for FY 2016 through 2018, half of the collections would go to the GFS and half to the PWAA. ESHB 2051 redirects the half going to the PWAA to the ELTA, and it redirects all solid waste tax collections to the ELTA for FY 2019. This provision has no budgetary impact in 2013–15, but in 2015–17 it would increase ELTA revenues by \$42 million. Lastly, previous law had required a transfer of \$102 million per year from the GFS to the education construction fund (in the capital budget). This transfer was previously repealed for 2013–15. ESHB 2051 repeals the transfer going forward. This provision has no impact for 2013–15, but it would increase revenues in the NGFS+ by \$204 million in 2015–17.

There are also \$112 million in transfers to the NGFS+ from other operating funds. These include \$24.7 million from redirecting 82.5 percent of certain liquor excise tax collections to the GFS for the biennium. (Under previous law, they would have all gone to the liquor excise tax fund and then been distributed to local governments. For FY 2013, 100

percent of the collections went to the GFS.) Additionally, \$34.0 million would be transferred from the life sciences discovery fund and \$20.2 million would be transferred from the state treasurer’s service account.

In all, total resources available increased by \$2.141 billion (6.8 percent) over 2011–13.

Spending. NGFS+ maintenance and policy level spending in 2013–15 is \$33.627 billion; accounting for estimated reversions, the total spending level is \$33.487 billion. (Separate legislation includes additional appropriations of about \$5 million, increasing total spending to \$33.632 billion.) According to the legislature, of the \$33.627 billion, \$156.1 million is net policy changes. Overall, the spending in the 2013–15 budget bill represents an increase of about \$2.2 billion, 7 percent, over 2011–13 (including the 2013 supplemental).

Reserves. The 2013–15 budget leaves an unrestricted ending fund balance of \$53 million and total reserves of \$630 million (including the budget stabilization account).

Spending Details

Education is the focus of this budget. NGFS+ spending on public schools, higher education, and the department of early learning together increased by 12.0 percent over 2011–13 (including the 2013 supplemental). Spending on everything else increased by only 1.15 percent. For 2013–15, public schools, higher education, and the department of early learning make up 54.9 percent of the budget.

Public Schools. Spending increases by \$1.611 billion. Of that, about \$1 billion is policy level basic education and related enhancements. That includes \$374.0 million for materials, supplies and operating costs; \$143.1 million for the learning assistance program; \$131.7 million for pupil transportation; \$103.6 million for reducing class size for kindergarten and first grades in high poverty schools; \$97.0 million for increased instructional

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.

	2011-13 Appropriations (2013 Supplemental)		Change		2013-15 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	139,294	146,551	2,106	8,904	141,400	155,455
Judicial	223,047	281,697	14,804	17,493	237,851	299,190
Governmental Operations	441,631	3,686,442	17,483	(187,194)	459,114	3,499,248
Other Human Services	5,993,492	14,644,538	123,108	2,120,034	6,116,600	16,764,572
DSHS	5,413,717	10,993,345	372,960	923,921	5,786,677	11,917,266
Natural Resources	301,567	1,532,618	(38,887)	54,823	262,680	1,587,441
Transportation	79,784	179,723	(10,202)	1,214	69,582	180,937
Public Schools	13,598,052	15,675,672	1,610,825	1,421,655	15,208,877	17,097,327
Higher Education	2,734,640	11,095,250	338,842	1,108,784	3,073,482	12,204,034
Other Education	161,147	525,777	43,527	62,847	204,674	588,624
Special Appropriations	2,385,801	2,559,291	(319,827)	(336,760)	2,065,974	2,222,531
Total Budget Bill	31,472,172	61,320,904	2,154,739	5,195,721	33,626,911	66,516,625
Appropriations in Other						
Legislation	(1,500)	(1,346)	6,491	7,815	4,991	6,469
Total Appropriations	31,470,672	61,319,558	2,161,230	5,203,536	33,631,902	66,523,094

Table 2: NGFS+ and All Funds Appropriations (Dollars in Thousands)

hours for students in grades 7–12; and \$89.8 million for expanding full day kindergarten from 22 percent of kindergarten enrollment to 44 percent.

Higher Education. Spending increases by \$338.8 million, and the budget assumes no resident undergraduate tuition increases for the biennium. The University of Washington receives \$40.0 million in institutional funding, \$6.0 million to create a Clean Energy Institute, and \$8.9 million for expanding computer science and engineering enrollments. Washington State University receives \$15.0 million in institutional funding, \$6.0 million to expand medical education and biomedical research, and \$5.7 million for expanding computer science and engineering enrollments. Western Washington University receives \$10.5 million in institutional funding and \$3.0 million for expanding computer science and engineering enrollments. Central Washington University receives \$7.7 million, Eastern Washington University receives \$6.2 million, and the Evergreen State College receives \$2.9 million in institutional funding. The Community and Technical College System receives \$37.1 million in institutional funding and \$10.5 million for the Student Achievement Initiative (to increase education attainment). College Bound Scholarships are funded with \$36.0 million.

Department of Early Learning. Spending increases by \$32.8 million. Of that, \$22.4 million is for expanding preschool by 350 slots in school year (SY) 2013–14 and by 1,350 slots in SY 2014–15.

Department of Social and Health Services. Spending increases by \$373.0 million. \$146 million is for in-home and agency provider compensation (pursuant to an arbitration award). TANF/Working Connections Child Care spending is reduced by \$156.1 million due to forecasted caseload savings. In mental health, \$17.7 million is provided for involuntary commitment. The budget increases child care provider subsidies (\$14.8 million) and increases state food assistance (\$9.4 million).

Other Human Services. Spending increases by \$123.1 million, most of which occurred in the Health Care Authority. Washington will expand Medicaid under the federal Affordable Care Act, which is estimated to save \$351 million. The Hospital Safety Net Assessment program is extended for the biennium, saving \$272.4 million. Dental services for Medicaid adults are funded with \$23.3 million. The paid family leave program (enacted in 2011 and never funded) is suspended for the biennium, saving \$13.6 million.

Governmental Operations. Spending increases by \$17.5 million. In the Department of Commerce, Housing and Essential Needs program funding is reduced by \$20.0 million due to under expenditures. General fund support for Innovate Washington is eliminated, saving \$5.6 million.

Natural Resources. Spending is reduced by \$38.9 million. Funding for essential parks activities is increased by \$8.4 million.

Special Appropriations. \$36.4 million is provided for debt service on new capital projects. Lean management implementation is estimated to save \$30.0 million, consolidated savings efficiencies are estimated to save \$5.0 million, and information technology efficiencies are estimated to save \$5.0 million.

Employee Compensation. Initiative 732 (cost-of-living adjustments for teachers) is again suspended for the biennium, saving \$320 million. State contributions for employee health insurance are reduced from \$800 per month per employee to \$782 in FY 2014 and \$791 in FY 2015, saving \$16.9 million. A \$50 surcharge is imposed for Public Employees' Benefits Board (PEBB) members who cover a spouse when the spouse is eligible for coverage under his own employer health plan, saving \$15.0 million. A \$25 surcharge is imposed for PEBB members who use tobacco, saving \$2.5 million. By coordinating publicly provided health insurance benefits with the ACA, the budget assumes savings of \$10.0 million.

Temporary salary reductions (furloughs) for public school employees and state and higher education employees are restored, increasing spending by \$166 million and \$171 million, respectively. Also, the budget approves 2013–15 collective bargaining agreements, including a new salary step (\$39 million).

Outlook

In May 2012, the legislature enacted a requirement that, beginning with the 2013–15 biennium, operating budgets

must be balanced over four years. (For more information, see “Balancing the Operating Budget.”) According to a Senate Ways and Means preliminary budget outlook, the budget balances in 2015–17, and there would be total reserves of \$1.321 billion in that biennium. (W&M)

Importantly, though, the balanced budget requirement explicitly leaves out any costs associated with enhancing the funding of basic education as required under the *McCleary* Supreme Court decision. In *McCleary*, the Court did not specify an amount of money that would satisfy the state’s duty “to make ample provision for the education of all children.” The Joint Task Force on Education Funding estimated that in order to comply, the state would need to increase spending by some \$4.4 billion by 2017–19. So, although the estimated 2015–17 reserve is a healthy amount, it does not provide the cushion required to manage projected education spending.

Comment

The legislature prioritized education spending in 2013–15, but it will have to ramp up the funding in the years ahead. And although the budget balances on paper over four years, it relies heavily on transfers from the public works assistance account. Altogether, this budget is probably the best compromise possible this year, but long-term sustainability is far from assured.

References

- Joint Task Force on Education Funding. 2012. “[Final Report](#).” December.
- Senate Ways & Means Committee (W&M). 2013. “[2013–15 Operating Budget Overview: Striking Amendment to 2ESSB 5034](#).” June 27.
- Washington Research Council (WRC). 2012. “[Balancing the Operating Budget](#).” PB 12-11. May 14.
- . 2013. “[House Finance Committee Considers Tax Increases](#).” PB 13-08. April 22.