

The 2015–17 Budget Undercard: Capital Appropriations

Briefly

- The House and Senate have both passed 2015–17 capital budgets, but a final version has not yet been agreed to.
- The House would appropriate \$3.769 billion.
- The Senate would appropriate \$3.623 billion.
- Both chambers would reduce 2013–15 capital appropriations by \$113.6 million.
- Debt service would account for 5.88 percent of the Senate 2015–17 operating budget and 5.73 percent of the House operating budget.
- The Legislature has transferred significant amounts from the public works assistance account to the general fund in recent years.
- The Senate would make additional transfers from the PWAA to the general fund in the operating budget.
- The House would appropriate funds for PWAA loans to local governments in the capital budget.
- The Senate has also passed SB 6080, which appropriates \$280 million in bonds for school construction related to class size reduction.

Washington has three budgets:

- The operating budget funds day-to-day operations.
- The capital budget funds acquisition and maintenance of buildings, public lands, etc.
- The transportation budget funds construction and maintenance of transportation projects.

Budgets are adopted on a biennial basis. Supplemental budgets make changes to the adopted biennial budget to account for caseload or economic changes.

The nearly \$40 billion 2015–17 operating budget has been the main event for this year’s regular and two special legislative sessions. But both chambers of the Legislature have also passed capital budget proposals, which appropriate funds for construction and repairs. The Legislature has not yet agreed on a final capital budget.

Appropriations in the adopted 2013–15 capital budget totaled \$3.611 billion. As passed by the House, the 2015–17 capital budget (EHB 1115) would appropriate \$3.769 billion (of which \$2.164 billion would be financed by general obligation bonds). The Senate-passed version of EHB 1115 would appropriate \$3.623 billion (of which \$2.101 billion would be financed by general obligation bonds). EHB 1115 is accompanied by a bond bill, SHB 1166, which authorizes \$2.187 billion in bonds for 2015–17. SHB 1166 has been passed by the House but not by

the Senate. Additionally, the Senate passed SB 6080, which would appropriate additional funds for new classrooms.

The two versions of EHB 1115 also include identical supplemental capital budgets for 2013–15. As passed by both the House and the Senate, total appropriations would be reduced by \$113.6 million, and state bonds would be reduced by \$28.6 million.

2015–17 Appropriations

The House would appropriate \$144.9 million more than the Senate (not including the separate classroom bill). Of that difference, \$107.0 million occurs in governmental operations. These numbers include alternative finance projects.

Governmental Operations. The House would appropriate \$896.4 million and the Senate would appropriate \$789.4 million. Loans for drinking water projects total \$120.0 million in the House budget

- General obligation (GO) bonds are backed by the full faith, credit, and taxing power of the state.
- Certificates of Participation (COPs) are debt instruments similar to bonds, but they are not a general obligation of the state; instead, COPs are backed by agency appropriations. They are an alternative financing method and are not subject to the state debt limit.

Table 1: 2015–17 Capital Appropriations (Including Alternative Finance Projects, Dollars in Thousands)

	Senate-Passed		House-Passed	
	Debt Limit		Debt Limit	
	Bonds	All Funds	Bonds	All Funds
Governmental Operations	561,404	789,445	454,717	896,425
Human Services	131,751	177,630	148,284	202,622
Natural Resources	386,629	1,043,835	568,953	1,053,305
Higher Education	558,701	923,706	529,482	910,384
Other Education	462,207	689,373	462,936	706,172
Total	2,100,692	3,623,989	2,164,372	3,768,908

Table 2: Comparing Items of Interest in the Proposals (Dollars in Millions)

	Senate-Passed	House-Passed
Drinking water projects	135.0	120.0
Local and community projects	112.0	71.8
Affordable housing projects	65.0	80.0
Clean energy technology and energy efficiency	45.0	105.4
DSHS	77.4	84.9
Department of Ecology	511.3	438.6
State Parks and Recreation Commission	63.7	57.6
Salmon recovery projects	66.5	100.0
Washington Wildlife and Recreation Program	53.4	75.0
UW's Burke Museum	46.0	26.0

and \$135.0 million in the Senate budget. For local and community projects, the House would appropriate \$71.8 million, and the Senate would appropriate \$112.0 million. Affordable housing projects would be funded with \$80.0 million in the House budget and \$65.0 million in the Senate. The House would appropriate \$105.4 million for clean energy technology and energy efficiency grants, compared to \$45.0 million in the Senate budget. The House would also appropriate \$69.7 million from the public works assistance account for loans to local governments for sewer, water, and other projects. The Senate would provide \$30.0 million for community behavioral health beds.

Human Services. The House would appropriate \$202.6 million and the Senate would appropriate \$177.6 million. Department of Social and Health Services institutional improvements would be funded with \$84.9 million in the House budget and \$77.4 million in the Senate.

Natural Resources. The House would appropriate \$1.053 billion and the Senate would appropriate \$1.044 billion. The Department of Ecology would receive \$438.6 million in the House budget and \$511.3 million in the Senate budget for water projects, toxic waste cleanup and other projects. The State Parks and Recreation Commission would get \$57.6 million in the House budget and \$63.7 million in the Senate budget. Salmon recovery projects would be funded by \$100.0 million in the House budget and by \$66.5 million in the Senate budget. Additionally, the House budget would appropriate \$75.0 million and the Senate would appropriate \$53.4 million for Washington Wildlife and Recreation Program grants for "habitat conservation, outdoor recreation, riparian protection, and farmland preservation projects."

Higher Education. The House would appropriate \$910.4 million and the Senate would appropriate \$923.7 million. The University of Washington's Burke Museum would get \$26.0 million in the House

budget and \$46.2 million in the Senate budget. The House budget would provide \$54.6 million and the Senate budget would provide \$50.3 million for Washington State University's Everett University Center. Central Washington University's Samuelson Communication and Technology Center would be funded by the House with \$58.7 million and by the Senate with \$56.0 million. Western Washington University's Carver Academic Facility would receive \$65.2 million in the House budget and \$70.0 million in the Senate budget. The community and technical college system would receive \$366.4 million in the House budget and \$364.0 million in the Senate budget.

Other Education. The House would appropriate \$706.2 million and the Senate would appropriate \$689.4 million. The House would spend \$627.5 million and the Senate would spend \$612.6 million on K–12 School Construction Assistance grants. The House would provide \$10.0 million in full day kindergarten capacity grants, while the Senate would appropriate \$10.0 million for STEM facility improvement grants.

Connection with the Operating Budget

The main linkage between capital budget appropriations and the operating budget is through debt service; however, there are also connections through the public works assistance account and school construction.

Debt Service. Debt service on bonds authorized in the capital budget is paid in the operating budget. Both the House- and Senate-passed 2015–17 operating budgets include \$2.233 billion for bond retirement and interest. In 2013–15, debt service accounted for 5.47 percent of near general fund–state plus opportunity pathways (NGFS+) spending. That percentage would increase under both legislative proposals for 2015–17, to 5.88 percent in the Senate and 5.73 percent in the House.

Public Works Assistance Account. In recent years, the Legislature has transferred significant funds from the public works assistance account (PWAA) to the general fund–state (GFS) and the education legacy trust account (ELTA). The PWAA funds loans to local governments for public works projects. Revenues flow to the PWAA from various taxes:

- 6.1 percent of the real estate excise tax (REET) imposed on the sale of real property;
- 20 percent of the public utility tax (PUT) revenues from water utilities;
- 60 percent of the PUT revenues from sewer utilities; and
- 100 percent of the solid waste collection tax (SWCT) imposed on garbage utilities. (OPR 2015)

But, the Legislature has recently transferred funds from the PWAA and redirected some of its revenues. For 2013–15, \$277 million in PWAA loan repayments was transferred to the ELTA. Additionally, through June 30, 2019:

- 4.1 percent of the REET revenues were redirected to the ELTA;

Chart: Debt Service Appropriations as a Percent of the NGFS+ Operating Budget

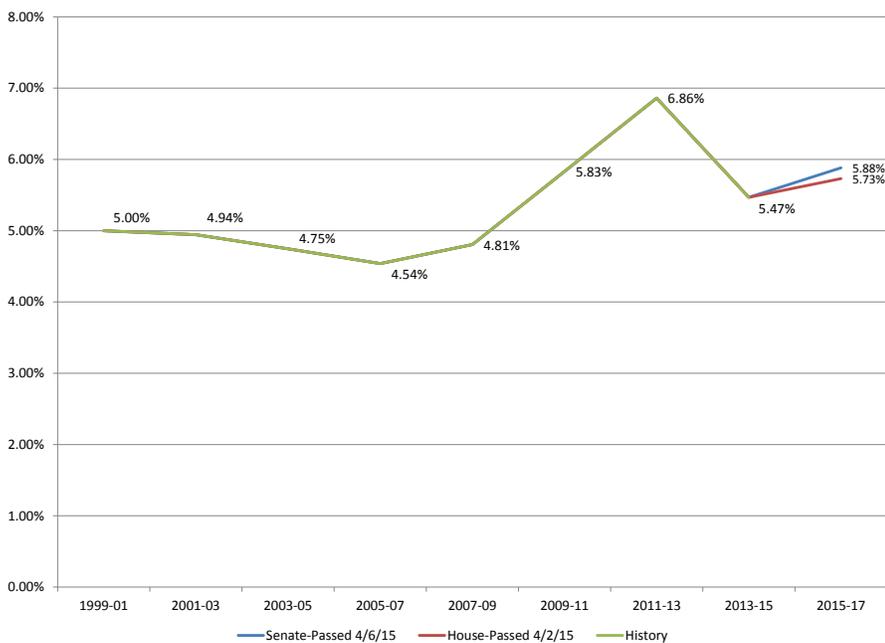


Table 3: 2013–15 Operating Budget Impact to Public Works Assistance Account (Dollars in Millions)

	2013-15	2015-17	2017-19
Transfer to ELTA	(\$277.2)		
Redirection of REET Revenues	(\$51.8)	(\$55.5)	(\$61.0)
Redirection of PUT Revenues	(\$35.1)	(\$37.9)	(\$40.5)
Suspension of SWCT Deposit	(\$75.5)	(\$80.5)	(\$88.6)
Total	(\$439.6)	(\$173.9)	(\$190.1)

Source: Office of Program Research

- The PUT revenues were redirected to the ELTA; and
- The deposit of SWCT revenues was suspended.

According to the Office of Program Research, “Between 1985 and 2014, the PWAA has funded 2,003 loans totaling \$2.8 billion” (OPR 2015). But, due to the revenue redirections, no new PWAA loans were approved in 2013–15, and

to meet projected local government draw downs on existing PWAA loan contracts during the 2013-15 biennium, the Legislature backfilled \$158 million of the cash transfer with state general obligation bonds. (OPR 2015)

As noted above, for 2015–17, the House capital budget would appropriate \$69.7 million for PWAA loans; the Senate would make no new appropriations for this purpose. The Senate’s operating budget (as passed by the Ways and Means Committee May 28) would transfer \$100 million from the PWAA to the GFS. (The previous

version of the Senate’s operating budget would have transferred \$200 million.) The House would not make such a transfer.

School Construction. In addition to the capital budget bill, the Senate passed SB 6080. As part of the McCleary decision, class sizes in grades K–3 must be reduced. The operating budget provides funding for the reduction, but school districts may not have enough classrooms to support the additional classes. This bill would appropriate \$280 million in GO bonds in order to build new classrooms for this purpose.

Comment

The two 2015–17 capital budget proposals are fairly close to each other in terms of total proposed spending, but there are some significant differences. These include usage of the public works assistance account and funds for clean energy projects.

Though there is much less to fight over in the capital than the operating budget, a quick resolution of the chambers’ capital budget differences will depend on whether time can be spared from operating budget negotiations. The capital budget must also vie with a potential transportation package for legislators’ time.

Reference

Office of Program Research (OPR). 2015. [“Washington State Capital Budget: 2015 Briefing Book.](#) January.