

**BRIEFLY**

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Bipartisan Budget Clears House

In an unusual display of bipartisan cooperation, the House Appropriations Committee on a vote of 30-2 passed a supplemental budget. After weeks of negotiation between the committee co-chairs, Rep. Tom Huff (R-Gig Harbor) and Rep. Helen Sommers (D-Seattle), agreement was reached on a compromise budget that House members hope will bring the special session to a close. (The partisan House budget plans produced earlier in the session are reviewed in ePB 00:9 and ePB 00:12.)

FIGURE 1

1999-2001 General Fund-State 2000 Supplemental Budget (Dollars in Millions)		
Resources	1999-2001	2001-03
Unrestricted Beginning Balance	462	336
February Revenue Forecast	20,843	22,534
Sales Tax Transfer to Transportation	(40)	(84)
Treasurer Transfers to Sound Transit	0	(40)
Treasurer Transfers for Ferries	(20)	(42)
Lottery to Better Schools	(58)	(232)
Treasurer Transfers for Shorelines	0	(40)
Senior Property Tax Credit	(32)	(120)
Other Tax Legislation	(5)	(5)
Net Revenue	20,689	21,970
Total Resources	21,151	22,306
Spending Limit and Appropriations		
Official 601 Spending Limit	20,651	
Net Adjustments to the Limit	219	
Revised 601 Expenditure Limit	20,870	21,911
Operating Budget, ESSB 5180	20,573	
2000 Supplemental	(67)	
Ongoing Local Government Assistance	147	
Transit Assistance (including liability)	130	
Total GFS Appropriations	20,782	21,911
Emergency Reserve Appropriations	17	
Spending (GFS & ERF) Compared to Limit	(71)	0
Source: House of Representatives Office of Program Research		

Overall, direct appropriations from the General Fund-State (GFS) increase by \$209 million, with \$277 million in new spending offset by \$67 million in supplemental reductions. Revenue transfers account for an additional \$118 million, for a total of \$395 million in new or increased spending, exclusive of the reductions. (See Figure 1.)

The bipartisan budget mixes elements of the earlier budgets. As did the previous Republican budget, it transfers a slice of sales tax revenue to support transportation bonds. Lottery funds are transferred to a new "Better Schools" Fund, as was the case in the House Democrats' budget.

The spending limit established by Initiative 601 is raised by \$219 million to reflect transfers of program costs from local governments and transit districts to state government. (See Figure 2.)

As a result of the revenue transfers and increased spending, unrestricted general fund reserves are reduced by \$126 million. (See Figure 3.)

The budget also reduces the emergency reserve fund to \$519 million. It assumes the ERF is capped at 5 percent of *annual* rather than *biennial* revenues. This amendment to Initiative 601 is incorporated in HB



Adjustments to 601 Spending Limit	
(Dollars in Millions)	
Official 601 Spending Limit	20,651
Local Government Costs	106
Transit Assistance	80
Budget Driven Adjustments	<u>33</u>
Net Adjustments to Limit	219
Revised 601 Spending Limit	20,870

Source: House of Representatives Office of Program Research

FIGURE 2

Changes in Reserve Funds		
(Dollars in Millions)		
	1999-2001	2001-03
Unrestricted General Fund Reserves		
Beginning Balance	462	336
Change in Reserves	(126)	(79)
Unrestricted Ending Balance	336	257
Emergency Reserve Fund		
Beginning Balance	536	519
New Deposit (Revenue>Limit)	33	138
Rail & K-12 Transportation	(17)	0
Interest Earnings	<u>68</u>	<u>61</u>
Emergency Reserves (5% Annual Threshold)	519	562
Deposit to Education Construction	101	156
Total Reserves	855	819

Source: House of Representatives Office of Program Research

FIGURE 3

Committee of special education and levy equalization.

Higher Education. Increased funding is provided for the Promise Scholarships established last year, for technology programs, and for grants to workforce development councils.

Public Safety. Appropriations are made to fund drug courts, meth lab cleanup, bear and cougar management, pipeline safety and sexual assault resource centers, among other programs.

Human Services and Health Care. The budget provides \$141,000 in GFS funds and \$167,000 in other funds to support the Patients' Bill of Rights passed earlier in the session. In addition, \$635,000 in GFS funds and \$1.5 million in other funds are appropriated to implement provisions in legislation passed earlier to restore the individual health insurance market. As part of I-695 mitigation,

3169, which passed the House with the budget March 22. The House appropriates \$4 million of the ERF for one-time grants to school districts in recognition of increased fuel costs. An additional \$13 million is appropriated from the ERF to a new "Multimodal Transportation Account" for rail programs. With the transfers and with expected deposits to the account and interest earnings, the ERF would stand at \$620 million. The lowered threshold, however, caps it at \$519 million allowing for a \$101 million deposit in the education construction fund established by I-601. This is the first such deposit, as the ERF had never attained 5 percent of biennial revenues.

Key Budget Elements

Education. With the transfer of \$58 million of lottery funds, the House provides funding for class size reductions, extended learning opportunities, and other supplements to the regular "basic education" funding provided from the GFS. The transfer is made through HB 3171 and is made exempt from the I-601 requirement that the expenditure limit be lowered. Money is also appropriated for a variety of programs, including: an increase in the rate of pay for substitute teachers, funding to assist schools in accommodating large enrollment declines, and studies by the Joint Legislative Audit and Review

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\$33.2 million is provided to local public health districts from the Health Services Account.

Local government. The budget provides \$36 million in ongoing funding to counties for public safety, mitigating some of the effect of I-695 on county budgets. Cities receive about \$66 million in ongoing I-695 replacement dollars. The House also requires a legislative task force to identify a better mechanism for allocating ongoing local government funding. The budget provides \$5 million to settle a lawsuit filed by 20 counties with respect to the costs of implementing Becca legislation for runaway youth and commits an additional \$6 million in ongoing assistance.

Transportation and Transit. The budget dedicates the sales and use tax associated with transactions related to motor vehicles (e.g., car sales, parts and maintenance) to transportation. The revenues from this earmarking will support \$625 million in new bond-funded transportation projects. The House also transfers \$20 million annually from the GFS to the ferry system. Transit districts receive \$80 million in one-time direct appropriations, plus the \$50 million in distributions from the last quarter of 1999. The House also provides \$20 million per year to Sound Transit, for four years beginning in 2002.

Property Taxes. Homeowners aged 65 and older receive exemptions of up to \$200 each from the state property tax. Beginning at age 62, individuals with incomes below \$30,000 receive an exemption of up to \$500.

Discussion. Compromises are invariably unsatisfactory. Aspects of the budget agreement are questionable: Funds are appropriated directly from the emergency reserve account; the lottery transfer creates a new dedicated account outside the general fund to increase spending on education, already the state's largest general fund expenditure; spending is increased and reserves are reduced; the I-601 expenditure cap is lifted more than we would like; privatization and contracting out are not used to reduce costs.

There are some very good elements in the budget as well. The House provides substantial I-695 mitigation to local governments, keeps public health programs intact, maintains some transportation capital and avoids local option tax credits. It adequately addresses the immediate challenges posed by I-695.

With the budget, the House adopted HB 3169, making several significant amendments to I-601. In addition to changing the reserve level, the bill creates an expenditure limit committee consisting of the director of the office of financial management (OFM), the state treasurer and the chairs of the Senate Ways and Means Committee and House Appropriations Committee. This body, rather than solely OFM, would be responsible for making adjustments to the limit. The bill also makes clear that the requirement that fund transfers trigger changes in the limit applies to revenue transfers as well, closing the loophole created by the local option tax credit mechanism. (See PB 00:1, *Fiscal Proposals Threaten Spending Limit.*) The transfer language kicks in after July 1, 2000, exempting transfers made this session.

Initiative 695 created major problems for the 2000 legislature. The loss of \$750 million in annual revenues is substantial, and the presence of a sizable reserve made mitigation possible. Arguably, given the prominence of the reserve during the I-695 campaign, voters expected some of those funds to be used to



preserve services. Dealing with I-695 almost inevitably required some finagling with I-601.

Given the 49-49 split in the House, passage of a bipartisan budget represents a considerable diplomatic achievement. As the budget moves to the Senate, where the initial response has been chilly, diplomacy will again be required as the two chambers are sharply divided, especially on property tax relief.



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