

GOVERNOR GREGOIRE'S 2013–15 BUDGET PROPOSAL

BRIEFLY

Governor Gregoire's 2013–15 budget proposal would increase policy level spending by \$284.7 million. Including maintenance level increases, near general fund–state plus opportunity pathways appropriations would total \$34.060 billion. The proposal also includes over \$1 billion in new and extended taxes.

Governor Chris Gregoire released her final budget plan last month, with the state again facing a near-term budget deficit. The Economic and Revenue Forecast Council estimates that Washington faces a \$900 million shortfall in 2013–15. In addition, the state must respond to the Supreme Court's *McCleary* decision on school funding and fund commitments for basic education enacted in HB 2261 (2009) and HB 2776 (2010), which total an estimated \$3.4 billion by 2017–19. Estimates vary regarding how much will be required in 2013–2015 to satisfy the court's expectations. Most analysts believe the required down payment begins at a billion dollars.

State law requires that the governor present a budget balanced with existing revenue. Gregoire complied, presenting a “book 1” budget plan that makes policy reductions totaling \$829.3 million. Near

general fund–state plus opportunity pathways (NGFS+) appropriations would total \$32.946 billion. That spending level exceeds that of 2007–09 (\$32.563 billion).

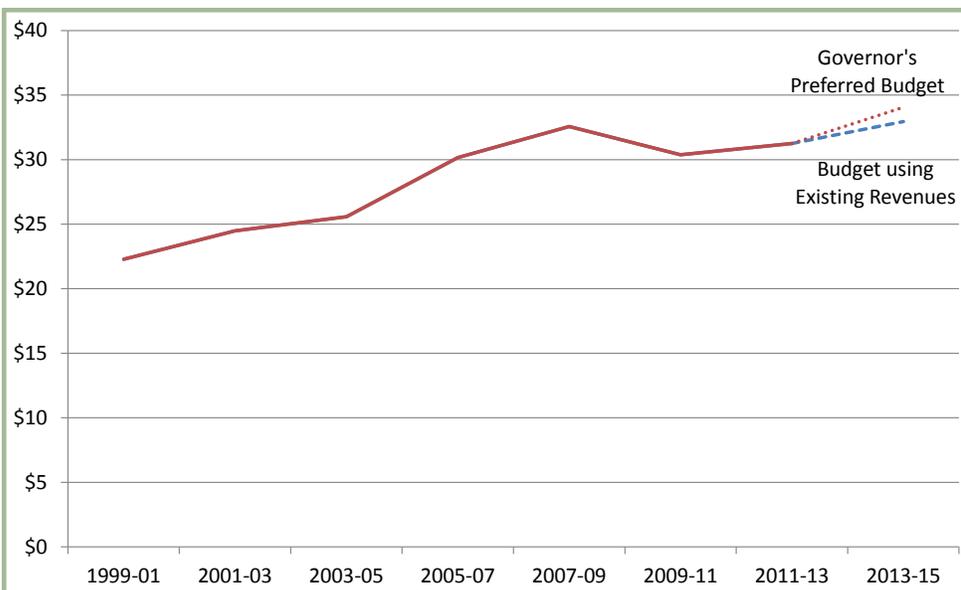
But, as expected, Gregoire rejects the current revenues approach. Saying that such a budget would “jeopardize essential services” and “hinder our economic recovery” (Office), the governor also presented a budget that incorporates new revenues, including \$1 billion for basic education. As she considers this “book 2” budget her actual proposal, this report focuses on it. Although Gov.-elect Jay Inslee is expected to present his own budget in the coming weeks, it's instructive to consider the options Gregoire presents. In what is expected to be a lengthy budget session, all ideas are likely to remain in play until legislative majorities find a compromise sometime next spring.

Under Gregoire's book 2 proposal, NGFS+ expenditures would total \$34.060 billion, with a projected ending balance of \$306.4 million. (This is an NGFS+ increase of \$2.811 billion over 2011–13.)

Spending Detail

Maintenance level changes (the cost of extending current programs) increase spending by \$2.526 billion for 2013–15, and policy increases would total \$284.7 million. The only budget areas to see net policy reductions would be legislative, other human services, and natural resources. Public schools would receive most of the policy increases. The numbers noted below in the various budget

Chart: Near General Fund–State plus Opportunity Pathways Spending (Dollars in Billions)



	2013-15 Biennium					
	2011-13 Biennium		Maintenance Level		Governor's Proposal	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	139,294	146,552	148,665	157,094	146,884	155,313
Judicial	222,206	281,385	248,899	280,938	252,575	303,084
Governmental Operations	454,099	3,695,661	504,356	3,432,476	530,630	3,518,456
Other Human Services	5,913,419	14,507,703	6,613,494	14,837,975	6,143,367	15,996,411
DSHS	5,481,543	11,071,210	5,847,739	11,587,898	5,857,506	11,808,203
Natural Resources	266,925	1,510,349	309,182	1,553,647	274,455	1,590,384
Transportation	70,182	170,160	73,420	174,857	73,910	179,418
Public Schools	13,647,219	15,620,413	14,605,536	16,494,323	15,248,985	17,137,976
Higher Education	2,734,754	11,175,481	2,943,946	12,100,635	2,967,603	12,119,937
Other Education	161,566	525,451	176,103	557,485	230,170	610,605
Other Appropriations	<u>2,158,004</u>	<u>2,330,805</u>	<u>2,303,934</u>	<u>2,460,491</u>	<u>2,333,885</u>	<u>2,490,442</u>
Total	31,249,211	61,035,170	33,775,274	63,637,819	34,059,970	65,910,229

Table 1: Gov. Gregoire's Book 2 Proposal (Dollars in Thousands)

areas are policy changes (cost increases associated with new legislation) only and are in terms of NGFS+.

Governmental Operations. Spending for the Department of Revenue would increase by \$11.0 million to replace tax collection systems and by \$4.1 million to implement the first phase of a single portal for interactions between business and state agencies.

Department of Social and Health Services (DSHS). WorkFirst funding would be reduced by \$40.0 million, and the enrollment limit for subsidized childcare would be reduced to save \$14.4 million. Incapacity evaluations, which will no longer be required for determining Medicaid eligibility for certain people under the Affordable Care Act (ACA), would be eliminated, saving \$17.0 million.

Other Human Services. The Health Care Authority would save \$275.7 million by extending the hospital safety net assessment through the biennium. (This is a way to generate more federal Medicaid dollars, thereby saving state dollars.) Additionally, the proposal estimates that implementing the ACA's Medicaid expansion would save the state \$194.5 million. Funds for safety improvements (increased staffing) in the Department of Corrections would total \$2.5 million. The proposal would suspend all implementation of the Family Leave Insurance Program for the biennium, saving \$13.6 million. (Paid Family Leave was enacted in 2007 without a funding mechanism—benefits have never been paid under the

program, and they are currently delayed until October 1, 2015.)

Natural Resources. \$18.7 million would be provided to the State Parks and Recreation Commission for state park operations.

Public Schools. The proposal would reduce K–2 class sizes in high poverty schools (\$193.4 million) and expand full day kindergarten in high poverty schools (\$121.0 million). It would increase maintenance, supplies and operating costs (MSOC) spending by \$401 million. Funding would also be provided to train teachers in the state's new evaluation system and to give principals time to evaluate them (\$79 million). Pupil transportation spending would increase by \$209.1 million to fully implement the new funding formula.

Other Education. The proposal would expand preschool, increasing spending by \$50.0 million.

Higher Education. \$35.0 million would be provided to fund College Bound scholarships. The community and technical college system (CTCS) would receive \$5.0 million to expand aerospace and science, technology, engineering and math (STEM) enrollment. The University of Washington and Washington State University would each receive \$2.0 million to expand the number of engineering degrees awarded.

Special Appropriations. Given the new debt that would be issued to fund the proposed 2013–15 capital budget, \$27.1

million is included in the operating budget for debt service. Additionally, \$11.0 million would be provided for a competitive enrollment pool in which the public universities could compete for state funds for STEM degrees.

State Employee Compensation

In 2010, general government employees agreed to a temporary 3 percent pay cut in the form of unpaid leave (furloughs). (Higher education funding was also reduced.) As part of the 2013–15 contract negotiations, that pay cut was restored, and the governor’s budget proposal includes \$171 million to pay for it. Additionally, in 2008 and 2010, a new salary step had been negotiated but delayed. The budget proposal includes \$38.6 million to fund it.

State allocations for pay for teachers and other public school staff were reduced in 2011–13 (by 1.9 percent and 3 percent respectively). The proposal includes \$166 million to restore those cuts. Initiative 732 (the cost-of-living-adjustment for teachers adopted in 2000), however, would again be suspended, saving \$360.3 million. Suspending I-732 has become common in tight budget years.

An arbitrator has awarded state-funded home care individual providers a 5 percent wage increase each year, a 25 percent increase at the top step, and increased health care funding. The governor’s office estimates this will cost \$124.8 million in 2013–15. Further, under state law, the wage increase for individual providers must be incorporated into the vendor rate for agency providers, which would cost \$29.7 million in 2013–15. The budget proposal would suspend the law requiring the wage increase to be incorporated in the vendor rate for agency providers, and it would fund the wage increase by levying a new tax on carbonated beverages and applying the sales tax to candy and gum. A similar beverage tax and sales tax on candy and gum were adopted by the legislature in 2010 but repealed by the voters the following November with passage of Initiative 1107.

Taxes

First, Gov. Gregoire would repeal the extracted fuel use tax exemption. This exemption is for fuel produced and then used in the same extracting or manufacturing activity. According to the Joint Legislative Audit & Review Committee, oil refineries are the main beneficiaries (JLARC). Repealing the exemption would yield \$62.6 million over 2013–15.

Second, the governor proposes to levy a wholesale excise tax on gasoline and diesel fuel to pay for pupil transportation. Beginning July 1, 2013, the tax would be 1.85 percent; in 2015–17, it would be 2.91 percent; and in 2017–19, it would be 4.62 percent. It is expected to raise \$368 million in 2013–15.

Third, to help pay for pupil transporta-

Table 2: NGFS+ Balance Sheet (Dollars in Millions)

	2011-13	2013-15
Beginning Balance	(60)	192
Revenue		
November 2012 Revenue Forecast	30,936	33,044
Governor's Proposal		
New and Extended Revenues		1,129
Reductions to Local Government Distributions		57
Budget Driven Revenue & Other		87
<i>Total Revenue</i>	<i>30,936</i>	<i>34,316</i>
Other Resource Changes		
Transfer to Budget Stabilization Acct.	(267)	(307)
Other Enacted Fund Transfers	379	(6)
Alignment to the Comprehensive Financial Statement	(5)	
Adjustment to Working Capital (HB 2822)	238	
Governor's Proposal		
Fund Balance Transfers	2	172
<i>Total Other Resource Changes</i>	<i>346</i>	<i>(142)</i>
<i>Total Resources</i>	<i>31,222</i>	<i>34,367</i>
Spending		
2011-13 Appropriations	31,249	
Actual 2012 Reversions	(106)	
Actual 2013 Reversions	(60)	
Governor's Proposal		
2013 Supplemental	(67)	
Adjustment to 2013 Reversion	14	
2013-15 Appropriations		34,060
<i>Total Spending</i>	<i>31,030</i>	<i>34,060</i>
Unrestricted Ending Fund Balance	192	307
Budget Stabilization Account Balance	268	576
<i>Total Reserves</i>	<i>460</i>	<i>882</i>

tion until the wholesale excise tax is fully phased in, the proposal would extend the beer tax surcharge (50 cents per gallon) and business and occupation tax surcharge (0.3 percent) on services that were enacted in 2010. Currently due to expire June 20, 2013, they would be extended through December 31, 2016. These extensions would yield \$101.0 million and \$534.0 million, respectively, in 2013–15.

Lastly, in order to pay for the home care worker arbitration award, the governor proposes imposing a tax on carbonated beverages (0.19 cents per ounce), which would yield \$57.0 million, and applying the sales tax to candy and gum, which would yield \$68.6 million.

Other Resources

A total of \$171.6 million would be transferred to the general fund–state from other accounts, including \$100.0 million from the public works assistance account.

Also, the state would not make \$56.5 million in distributions to local governments. Of that, the state would eliminate liquor excise tax revenue sharing with local governments, retaining \$50.5 million. Additionally, municipal criminal justice funds, streamlined sales tax mitigation funds, and distressed city-county assistance funds would each be reduced by 3.4 percent.

Alternate Expenditure Reductions under Existing Revenue (Book 1) Scenario

Under the governor’s existing-revenues-only scenario, NGFS+ policy reductions would total \$829.3 million. This would represent a budget increase of \$1.697 billion over 2011–13. Budget areas that would receive net policy reductions are legislative, other human services, DSHS, natural resources, public schools, higher education, and other education.

Some of the major policy differences from the governor’s preferred budget are:

- The Department of Revenue would

not go ahead with either the single business portal or the new tax-collection system.

- The hospital safety net assessment would expire as scheduled on July 1, 2013.
- Safety improvements would not be made within the Department of Corrections.
- The State Food Assistance Program would be eliminated, saving \$25.2 million (but funding for food banks would be increased by \$5.0 million).
- Subsidized childcare would be more significantly reduced, saving a total of \$34.3 million.
- Individual family services for developmental disabilities would be suspended, saving \$11.1 million.
- State-only employment for developmental disabilities would be eliminated, saving \$8.8 million.
- Funding for state parks operations would not be provided.
- The grades K–2 class size reduction, the full day kindergarten expansion, the MSOC increases, and the new pupil transportation funding formula would not be funded.
- Levy equalization would be reduced by \$100.0 million.
- Preschool would not be expanded.
- Budgets would be reduced for the University of Washington (saving \$11.0 million), Washington State University (saving \$7.3 million), Eastern Washington University (saving \$1.4 million), Central Washington University (saving \$1.3 million), the Evergreen State College (saving \$836,000), Western Washington University (saving \$1.9 million), and CTCS (saving \$28.2 million).
- No funding would be available for the STEM competitive enrollment pool, CTCS aerospace and STEM enrollment, or the UW and WSU engineering funding.

- Liquor profit sharing with local governments would end, saving \$49 million.

Comment

Gov. Gregoire's book 2 budget does more to fund basic education and represents her tentative solution to the *McCleary* problem. It also retains many social service programs cut in her current revenues budget. Gregoire has contended since the end of the last legislative session that meeting the state's obligations to K-12 education without unacceptable cuts in social service programs will require new revenues.

The senate majority coalition and Gov.-elect Inslee have indicated initial opposition to tax increases. And, voters re-

tained the two-thirds majority requirement for tax increases by passing Initiative 1185 last November. We now have the first look at a set of alternatives. Many more will be presented in the next several months, which will also see a new state revenue forecast for 2013-15.

References

Joint Legislative Audit & Review Committee (JLARC). 2011. "[2011 Tax Preference Performance Reviews: Preliminary Report](#)." August 1.

Office of Governor Chris Gregoire. 2012. "[Gov. Gregoire proposes 2013-15 budget](#)." December 18.